



**SCHOOL OF ECONOMICS
AND MANAGEMENT**
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The EU audit reform in Sweden

A study of the perceptions and reactions of the key Swedish stakeholders in relation to the measures of mandatory audit firm rotation and prohibition of NAS

by

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Abstract

Title	The EU audit reform in Sweden - A study of the perceptions and reactions of the key Swedish stakeholders in relation to the measures of mandatory audit firm rotation and prohibition of NAS
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Key words	EU audit reform, perceptions of auditor independence, mandatory audit firm rotation, Non-audit services, Sweden
Purpose	To contribute to the academic and policy discussion on whether there are sufficient grounds to believe that auditor independence will be enhanced by the EU audit reform in Sweden.
Method	This thesis has been conducted with a qualitative research method tending towards a positivist spirit.
Theoretical perspective	Previous studies on the perceptions of auditor independence have been used to position the findings of this study.
Empirical foundation	Data from 13 conducted interviews with different key Swedish stakeholders and a survey to private investors, financial analysts, fund managers, top management and auditors. The following main groups are identified as key Swedish stakeholders; Financial market actors, PIEs and the audit profession.
Conclusions	The findings of this study suggest that the EU has not based the audit reform on entirely groundless assumptions as indications has been found that the perceptions of financial market actors are affected by long audit-client relationships and NAS. However, market reactions may be absent as the results of this study suggests that these actors might not evaluate the auditor's independence. Therefore, the EU might not be able to achieve the objectives of the audit reform.

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1. Introduction

Mautz and Sharaf (1961) identify auditor independence as a cornerstone in the structure of auditing theory. By referring to Wilcox (1952), they argue that the independence of the auditor is the ultimate condition for the value of an audit opinion, and without it, the opinion will be worthless. The International Auditing and Assurance Standards Board (IAASB) has developed a framework to map the key elements argued to promote audit quality. Much attention is directed towards the importance of auditor independence, and the board points out how impaired independence may compromise the professional judgement, integrity and objectiveness of the team involved and thereby lead to biased evaluation and bad decision-making (IAASB, 2013). According to Securities and Exchange Commission (SEC), the requirement of auditor independence is based on two goals. First, it is essential for the quality of the audit that the auditor is free from any external factors that may influence the auditor's opinion. Secondly, the independent auditor is a condition for the reliability of an audit, and investors' confidence in the financial statements is highly dependent on the auditor's ability to remain objective (SEC, 2000). Despite being among the most widely discussed aspects of the audit profession, there still seems to be variations in the perception of what it means for an auditor to be independent, and furthermore how to ultimately regulate this independence.

A number of corporate scandals uncovered during the last decades have triggered a broad social debate on the role of the auditor in business today. The global response to the audit failure and lacking independence in the 2001 Enron scandal has proven an important basis for the development in this field. In the U.S the collapse of Enron led to the establishment of the Sarbanes-Oxley Act in 2002 and in Europe the 8th directive on Statutory Audit was subsequently issued in 2006. Auditor independence has increasingly become a subject to governmental control in the aftermath of these regulatory changes, rather than self-regulation.

In the wake of the 2008 financial crisis the independence of auditors was again up to debate. In a green paper discussing audit policies, the European Commission suggested that auditors had failed to fulfill their societal role as they had given unqualified audit opinions to struggling banks (2010a). Therefore, it was believed that auditors had contributed to the crisis and were partially responsible for the associated costs to society. The Commission stated that they wished to reinforce auditor independence as this would enhance auditors' possibilities of fulfilling their societal role and it was suggested that mandatory audit firm rotation and further restrictions of non-audit services (NAS) could help achieve this.

The green paper about audit policy was criticized by the audit profession, academics, preparers and users in the years following, and many expressed doubts that these measures would help achieve the objective of enhanced auditor independence (European Commission, 2011a). Despite the critique these suggestions made it into European Union legislation when both a directive and a regulation was passed in 2014. These will begin to apply in all member states on the 17th of June 2016 (Regulation (EU) No 537/2014). The regulation imposes mandatory audit firm rotation for all public-interest entities (PIEs) after ten years with the same firm (art. 17) as well as the prohibition of certain non-audit services (art. 5).

As a member state of the European Union, Sweden is obligated to incorporate the new directive and regulation into the national legislation. The responses to the green paper from Swedish institutions and organizations, as well as the Swedish auditing profession suggest a mixed feel towards the reform with many actors questioning the effectiveness of mandatory audit firm rotation and NAS restrictions in a Swedish context (e.g. The Swedish Shareholder's Association, 2010; Confederation of Swedish Enterprise, 2010; The Swedish Institute of Authorised Public Accountants, 2010). Further, the debate has been extensively covered in the media, highlighting the differences and common grounds on which the Swedish stakeholders review the reform.

In a recent radio debate, Dan Brännström from the Swedish Institute of Authorised Public Accountants, and Albin Ränner from the Swedish Shareholder's Association met to share and discuss their views on the EU audit reform. Audit firm rotation, conflict of interest and the impact non-audit services may have on auditor independence were critically discussed - and disagreed on. Ränner emphasized the importance of the soon-to-be implemented regulation, indicating a strong need for improved control of auditor independence. On the link between NAS and independence, he pointed out the problematic aspect of good client relations, stating that "when corporate scandals are revealed, it is rarely the auditor that discloses this information". Brännström, on the other hand, did not express any concerns that NAS impair auditor independence, and requested evidence to underpin this argument. When discussing the effects of mandatory audit firm rotation, Brännström argued that the auditor-client relationship and the company knowledge is of great importance to the audit quality; "It is irrational to allow the clock to decide when the auditors should rotate [...] It takes time to become acquainted with new companies". In response to this, Ränner concluded that regardless of these supporting arguments "the auditor is not independent after 10 years. That is impossible" (Sveriges Radio, 2016).

1.1 Problem formulation

The amount of research on auditor independence is, as the theory chapter will illustrate, comprehensive. One may argue that the level of research is a reflection of the rather subjective basis auditor independence is perceived and evaluated on. Authors have argued that auditor independence is a socially constructed phenomenon (Mautz, 1975; Kouakou et al., 2013), indicating that how it is perceived will vary depending on background, social norms and other contextual factors. Furthermore, the link between auditor independence and the level of regulation is another aspect to consider, especially in light of the move away from self-regulation towards statutory regulation. The positive effects increased regulation is set to have on auditor independence can be questioned and according to a study of Windsor and Warming-Rasmussen (2009) there is not sufficient evidence to state that additional rules in the professional code of ethics will result in strengthened auditor independence, neither in mind nor appearance.

With the aim to enhance auditor independence, the new EU audit directive and regulation will soon be implemented in all member states. While the EU has mandated that mandatory audit firm rotation and prohibition of certain NAS be implemented in the national legislation of each member state, the regulation (EU) No 537/2014 also contains a number of member state options giving the individual member states a high degree of flexibility in the enforcement of this regulation. As a consequence, each country will arguably implement and react to it differently. The implementation of these rules are therefore unlikely to be uniform as the individual member states will apply them in a way considered to be most suitable for their own national context. Moreover, the impact of contextual variations has become evident in a number of studies, indicating that the perception of Swedish actors on auditor independence and thus the effectiveness of these measures in enhancing auditor independence in appearance may differ substantially from other countries. In the U.S., a number of studies found that the provision of other services is perceived as independence impairing (e.g. Shockley, 1981; Schleifer & Shockley, 1990; Lowe et al., 1999), while a New Zealand study came to the opposite conclusion (Gul, 1989). Contradictions like these confirm the assumption that contextual differences could impact the perception of auditor independence. This indicates that both the implementation and perception of the EU audit reform will differ depending on country.

The audit reform implies that the EU perceives auditor independence as severely influenced by long audit tenure and non-audit services. This is, on the other hand, only the perceptions of one actor and may not represent the views of other affected groups. Humphrey et al. (2011) have criticized the EU audit reform for being based largely on assumptions. It can therefore be questioned if there are sufficient grounds to believe that enhanced auditor independence will in fact trigger the objective of increased market stability. In order to foresee the possible impacts of the EU audit reform in Sweden, it is necessary to determine how the key Swedish stakeholders perceive these regulatory changes. Based on the contextual differences emphasized above, it could be argued that the stakeholders identified in Sweden will differ from that of other member states. Additionally, the view on auditor independence may not be in line with those of the European Commission, something that could compromise the effectiveness of the reform.

1.2 The scope of this thesis

This thesis investigates the perception of auditor independence in relation to the EU audit reform. However, some demarcations are necessary to limit the scope of this study. When discussing the EU audit reform, it is only the measures intended to strengthen auditor independence that are included. Moreover, the regulations pertaining to the strengthening of audit committees will not be investigated further. Therefore, this study will only include mandatory audit firm rotation and prohibition of NAS, and consequently the effects these measures may have on the perceptions of the key Swedish stakeholders.

1.3 Purpose and research questions

The purpose of this study is to contribute to the academic and policy discussion on whether there are sufficient grounds to believe that auditor independence will be enhanced by the EU audit reform in Sweden. We thus aim to answer the following main research question:

Based upon the findings of our research, are there sufficient grounds to believe that auditor independence will be enhanced by the EU audit reform?

As additional guidance in our research, we have developed the following sub-questions:

What is the key Swedish stakeholders' perception of auditor independence in relation to the measures of mandatory audit firm rotation and prohibition of NAS, and which consequences could this have on the effects of the independence regulations in EU's audit reform?

And finally, what are the key Swedish stakeholders' reactions to the implementation of mandatory audit firm rotation and the prohibition of NAS in Sweden?

These research questions will contribute to a discussion on the possible impacts of the EU audit reform in Sweden. The findings will also enable a discussion on the effects these regulatory changes may have on the financial market and furthermore reveal if the reform could have any unforeseen consequences.

This study will contribute to the research as no previous study, to the best of our knowledge, has attempted to determine the views of the key Swedish stakeholders. The study will thus shed light on how the Swedish national context may affect different stakeholder's perceptions of auditor independence and how this may impact the effectiveness of EU's audit reform.

1.4 Disposition

This thesis began with a short introduction of the research topic which culminated in a set of research questions. The next chapter will explain how these research questions will be answered and which research approach this thesis adheres to. Chapter 3 contains previous research on auditor independence with an emphasis on studies on stakeholders' perception of auditor independence. The Swedish context and the current national auditor regulations will be presented in chapter 4, which also contains the EU audit reform and a segment on the regulatory changes that will come from the implementation in Sweden. The results and analysis of our data collection will further be presented in chapter 5 and 6, before being combined for discussion in chapter 7. Finally, the thesis ends with conclusions and suggestions for future research in chapter 8.

2. Method

2.1 Research approach

In order to answer our research questions we consider it to be important to establish an understanding of the beliefs of our key stakeholders. According to Myers (2013, p. 5) a qualitative research method will help us achieve this and we therefore believe that this is the most suitable research approach for this thesis. Power and Gendron (2015) separate between qualitative research conducted with a positivist spirit and a constructivist spirit. Although this thesis will encompass both breadth and depth, we identify that our research approach tends towards a positivist spirit. According to Power and Gendron (2015, p 154) the focus of such studies is to describe behavior on average. Similarly, the aim of this thesis is to determine the average perceptions in the groups later defined as key stakeholders. The implications our research approach has on our data collection and analysis will be discussed throughout this method chapter.

2.2 Research strategy

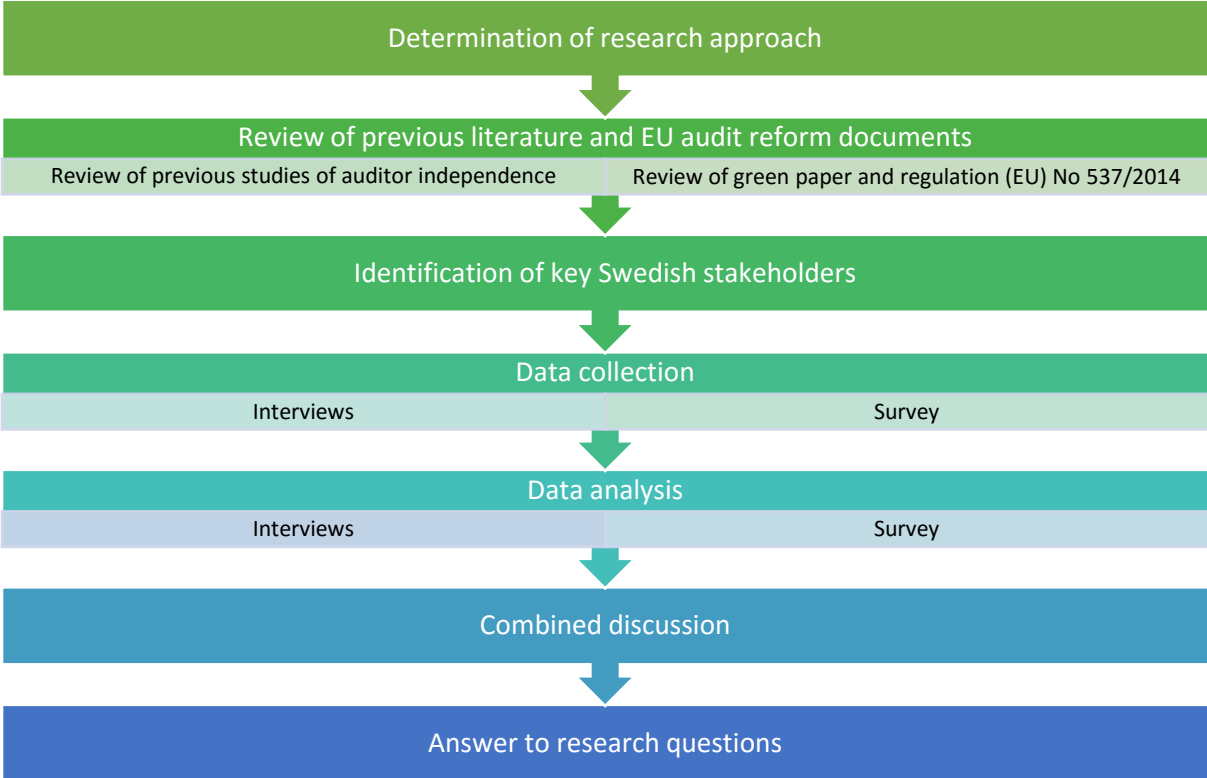


Figure 2.1: Research strategy – the process of answering our research questions

The process of answering our research questions was initiated by the determination of a suitable research approach and the subsequent execution of two different data collection methods, namely interviews and a survey. As this thesis adheres to the qualitative research tradition of using empirical observations to create knowledge (Bryman & Bell, 2013, p. 49), the literature presented may at large be considered a way to position our research in regard to previous studies and to present our findings in light of these.

Previous research was gathered by searching in Ebscohost and Google scholar for a combination of the terms auditor independence, in mind, in appearance, the EU audit reform, perceptions of auditor independence, non-audit services, NAS, audit firm rotation and audit tenure. In order to establish a broad understanding of the previous research on auditor independence and furthermore detect a large number of studies, the reference lists of well-cited articles were much used. The literature review detailing previous survey studies on the perceptions of auditor independence can also be regarded as an attempt to fulfill the transferability aspect of trustworthiness (Eriksson & Kovalainen, 2008).

Before the collection of data was initiated, key documents of the EU audit reform were reviewed. The green paper on audit policy and the regulation (EU) No 537/2014 was thereafter used as a basis for interview and survey questions. The step of reviewing literature and documents of the EU audit reform was followed by an identification of key Swedish stakeholders which was crucial in order to initiate the collection of data.

As the figure illustrates the collection of data through interviews and a survey was conducted in parallel and the results was thereafter analyzed separately before being combined in the discussion. In order to achieve the transferability aspect of trustworthiness, the analysis and discussion will be seen in light of previous studies to allow the reader to determine whether the results can be transferred to other contexts or not.

Following the tendency towards a positivist spirit in this qualitative study the aim has been to maintain objective (Power & Gendron, 2015, p. 154) something that has been considered essential throughout the entire process. In an attempt to demonstrate these efforts and thus show that the results and analysis of our study has not knowingly been influenced by our own personal valuations the data collection and analysis process will be described thoroughly in the following paragraphs. This will also contribute to the conformity aspect of trustworthiness (Eriksson & Kovalainen, 2008).

2.3 The identification of key Swedish stakeholders

Freeman defines a stakeholder as “any group or individual who can affect or is affected by the achievement of the activities of an organization” (1984, p. 46). For the benefit of this thesis a stakeholder can thus be defined as a group or individual who can affect or is affected by the achievement of the legislative activities in regard to auditor independence of the EU. An important stakeholder group is clearly identified in the green paper, namely financial market actors such as investors. Since one of the main objectives of the EU audit reform was stated to be increased financial market stability (EU Commission, 2010a, p. 3), financial market actors are considered crucial to the achievement of this objective as it largely depends on the assumed impact perceptions of auditor independence may have on investment decisions.

The EU Commission received 688 responses to the green paper, and those of these that were authorized for publication can be found in CIRCABC (EU Commission, 2011c). From these we recognize three groups that we consider key stakeholders; the users, the preparers and the audit profession. In the following, the responses from these groups in Sweden will be reviewed and used as a basis to identify the key Swedish stakeholders. Moreover, organizations invited to comment on the Swedish legislative preparation of implementing the EU audit reform will also be addressed.

2.3.1 The users

Only one response authorized for publication was sent in by a Swedish organization representing the users. This response was sent in by the Swedish Shareholder's Association which acts in the interest of Swedish private investors. This organization was also invited to submit comments to the Swedish implementation of the audit reform (Ministry of Justice, 2015).

2.3.2 The preparers

The European Commission received three responses authorized for publication by Swedish preparers. No response can be found from individual Swedish companies which may be explained by the response sent by the Confederation of Swedish Enterprise, an organization that represents almost all of the Swedish Multi-National corporations (Confederation of Swedish Enterprise, 2016). The Swedish Corporate Governance Board, another Swedish organization in the preparer group, is an organization with the purpose of promoting good corporate governance in listed Swedish corporations. The active participation of these two groups in the public debate on the EU audit reform suggest that listed companies are a key Swedish stakeholder.

The third Swedish response to the green paper from the preparer group came from the Swedish Bankers' Association (2010). This organization represents Swedish banks which can be identified as key stakeholders' as they at large will also be affected by the audit reform in capacity of financial institutions. All of the Swedish preparer organizations that responded to the green paper were also invited to comment on the Swedish implementation (Ministry of Justice, 2015).

2.3.3 The audit profession

By far the highest number of responses to the green paper came from the audit profession. Of these only one represent the Swedish auditors, namely the Swedish Institute of Authorised Public Accountants, who was also one of the organizations invited to comment on the implementation of the reform in Sweden (Ministry of Justice, 2015). Although no other responses were sent from the Swedish audit profession most of the well-known audit firms submitted replies on the behalf of their entire organization (e.g Ernst & Young Global Limited, 2010; KPMG International, 2010; PricewaterhouseCoopers International Limited, 2010; BDO international, 2010; Grant Thornton International ltd, 2010). Therefore, these responses imply that audit firms in Sweden are affected by the audit reform and thus are key stakeholders.

2.3.4 The key Swedish stakeholders

Above we have identified actors of the financial market actors as a key Swedish stakeholder as they could benefit from the regulations and are imperative for the success of the reform. Moreover, the response of the Swedish Shareholder's Association has identified the private investors as an important financial market actor. Further, the financial analysts are also identified as an important actor, partly since they are assumed to be affected by the reform, but also since they may have an impact on investment decisions through their analyst reports with recommendations on whether to buy, hold or sell shares of listed companies (Healy & Palepu, 2001, p. 416). How financial analysts perceive auditor independence and the degree to which they include an evaluation of the auditor in their reports may therefore also affect the achievement of EU's objective. Furthermore, the Swedish Society of Financial Analysts were also amongst the organizations invited to comment on the Swedish implementation (Ministry of Justice, 2015). Apart from private investors there are also institutional investors which can be defined as "specialized financial institutions that manage savings collectively on behalf of small investors toward a specific objective in terms of acceptable risk, return maximization, and maturity of claims" (Davis & Steil, 2004). Examples of institutional investors are pension funds, life insurance companies and mutual funds. Fund managers may therefore be expected to have an interest in the reliability of financial reports and thereby the independence of auditors. If this assumption is correct, fund managers' perceptions of auditor independence is also crucial for the effectiveness of the EU audit reform as they govern significant amounts of money invested in the financial market.

The responses of the Confederation of Swedish Enterprise and the Swedish Banker's Association have identified the individual listed companies and banks as groups that are affected by the audit regulation. The restricted rights to decide if and when to change audit firm, as well as which services allowed will impact the Swedish PIE's. Moreover, they could also benefit from the audit reform if the objective of increased financial market confidence is achieved, which may reduce their costs of capital. The reduction of the costs of capital is naturally beneficial to both the board of directors who are often involved in the strategy formulation of companies (Tricker, 2012, p. 173) as well as the top management. As company management have frequent contact with the auditors it is assumed that important information on the possible consequences of the reform can shed light on the advantages and disadvantages of the new regulations from a company perspective. Further, in Sweden, it is common for large shareholders to be involved in the appointment of auditors through membership in the nomination committee, giving them the opportunity to influence the decision to a larger degree (The Swedish Corporate Governance Code, p. 7). This group is assumed to be interested in the independence of the auditor as it may determine the reliability of the financial reports.

Finally, the large number of responses from the audit profession certainly suggest that this group have a substantial interest in the reform. As experts in the field of auditing, it is assumed that these actors hold crucial knowledge of the possible consequences of the soon-to-be implemented audit reform.

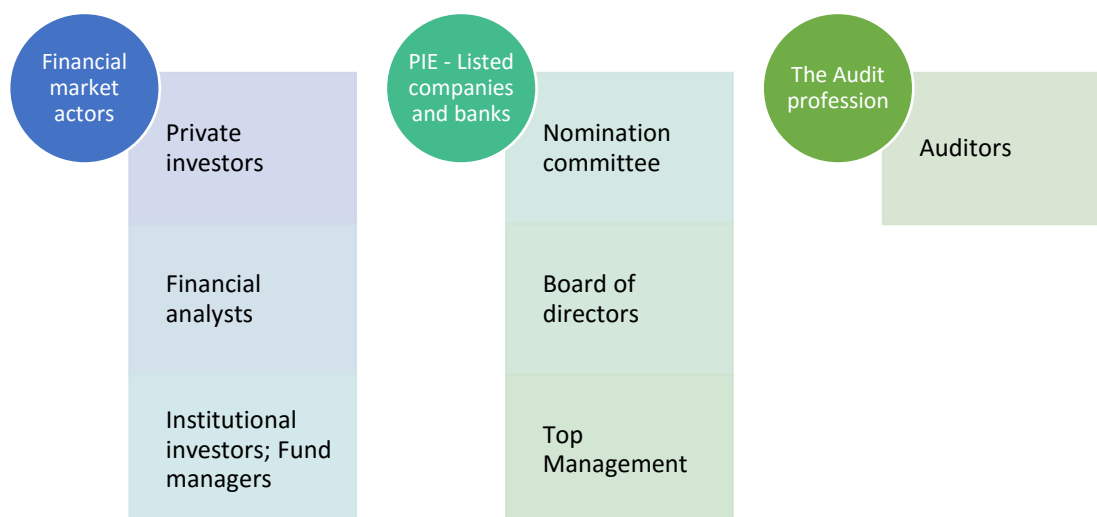


Figure 2.2: Identified key Swedish stakeholder groups

Three sub-groups that are key Swedish stakeholders have now been identified and are illustrated in the figure above. The aim of this thesis is to conduct interviews with representatives from all of the identified groups and to furthermore map their perceptions of auditor independence with support from a survey.

2.4 Data collection

Following the advice of Myers (2013, p. 9), more than one research method for data collection will be used to capture a fuller picture. This is often referred to as triangulation and allows the researcher to combine data that has been collected in different ways. As this thesis has a positivist spirit we are interested in collecting data from large number of respondents, making it suitable to collect data through a questionnaire survey. However, through a triangulation of this research method and interviews we believe that it will be possible to achieve a more complete representation of the perceptions of auditor independence in the key stakeholder groups. This will enable us to achieve both breadth and depth as the interviews allow the respondents to elaborate their thoughts. Moreover, according to Bryman and Bell (2013, p. 248) it is common for researchers to triangulate these data collection methods to combat the limitations of an eventual low response rate to the survey. Bryman and Bell (2013, p. 403) also note that a triangulation of interviews and survey can enhance the credibility of a study. If similar results are reached in both of our data collection methods this may therefore have a positive effect on the credibility of our research leading to an enhanced trustworthiness.

Due to the limited time scope of this thesis, the data collection methods was conducted simultaneously. These methods are considered as complements to each other were one alleviates the weaknesses of the other and vice versa. The data collection methods were thereby not selected on the premise that one is only supposed to strengthen the results of a main method, and we consider them as equally important in order to answer our research questions. Although these data collection methods were conducted in parallel, they will be presented separately below to give a better overview.

2.5 Interviews

Representatives from the key Swedish stakeholder groups have been interviewed to obtain experience based information. These interviews can thus be identified as systematizing expert interviews. According to Bogner et al. (2009, pp. 46-47), the focus of such interviews is to obtain exclusive knowledge of experience that the interviewee possesses. To obtain such experience based knowledge is also the objective of all conducted interviews, although not all interviewees may be regarded as experts. Furthermore, the aim of systematizing expert interviews is to collect data that is comparable (Bogner et al., 2009, p. 47), which is also in line with a positivist spirit in qualitative research (Power and Gendron, 2015, p. 154). This naturally has an effect on the design of our interview guides.

The collection of easily comparable data would certainly be facilitated by conducting structured interviews with a set research guide of detailed questions to which no deviations are allowed (Bryman & Bell, 2013, p. 474). According to Power and Gendron (2015, p. 154) this is also most common in studies of a positivist spirit. However, we believe that an important element in the interview process is to allow the respondents to elaborate their thoughts, making it necessary to allow the interview to develop in somewhat different directions. Therefore, we regard the semi-structured interview as most suitable for this thesis. In a semi-structured interview, the interviewer follows a detailed interview guide of questions but it is allowed to stray from the ordering of these and ask follow-up questions if something sparks the interviewers interest (Bryman & Bell, 2013, p. 475). While the use of semi-structured interviews is not mentioned by Power and Gendron (2015) when discussing a qualitative research of a positivist spirit, it is to our understanding that such interviews can be conducted to collect comparable data as well.

2.5.1 Development of interview guides

To mitigate the risk of collecting data that is difficult to compare, interview guides are developed with similar questions to all respondents. However, as a natural consequence of having diverse groups of respondents with different background and knowledge, some questions have been developed specifically to the different stakeholder groups. One example of this is the interviews with the CFOs of listed companies. While some had the experience of long working relationships with their auditors, others had experience with the process of changing audit firm. Since we were interested to find out more about these experiences, the questions asked differed slightly. Furthermore, we allowed the conversation to progress naturally and the exact order of questions in our interview guide was therefore not maintained in all interviews.

The questions of our interview guide was developed with basis in the EU audit regulation of auditor independence, particularly the measures of mandatory audit firm rotation and prohibition of non-audit services. However, when gaining additional insights during the interview process, some questions were added to obtain the opinions of other respondents on those matters. The interview guides can be found in the appendix 1.

2.5.2 Conducting interviews

As evident from the table below detailing our interviews, some interviews were conducted over the telephone. There are a few disadvantages of performing telephone interviews, including that it is easier for the respondent to finish the interview prematurely, the lacking ability to read the respondents body-language, and finally, technical issues such as bad phone reception (Bryman & Bell, 2013, p. 495). It is to our understanding that during the later stages of our data collection process, it was also necessary to conduct interviews over the telephone to persuade respondents to participate with shorter notice. We believe this enabled us to conduct more interviews than we would have if keeping to personal interviews.

Interviewee	Type of interview	Time
<i>Financial market actors</i>		
Secretary general of the Swedish Society of Financial Analysts, Nils Liliedahl	Telephone	21 minutes
Fund Manager	Telephone	18 minutes
Director of market surveillance of the Swedish Shareholder's Association, Albin Rännar	Telephone	44 minutes
<i>Public Interest entities</i>		
CFO CellaVision	In person	24 minutes
CFO Active BioTech	In person	38 minutes
CFO Probi AB	In person	44 minutes
Expert in accounting of the Confederation of Swedish enterprise, Claes Norberg	Telephone	34 minutes
<i>The Audit profession</i>		
Audit partner of PwC	In person	29 minutes
Audit partner of PwC	In person	27 minutes
Audit partner of PwC	In person	24 minutes
Audit partner of KPMG	In person	32 minutes
Audit partner of Grant Thornton	Telephone	20 minutes
Chief legal counsel of Swedish Institute of Authorised Public Accountants and partaking in the Swedish assessment of the reform, Helene Agélii	Telephone	28 minutes

Figure 2.3: table of conducted interviews

Of all the disadvantages of performing telephone interviews, the only one being noticeable to us was the technical issues. In some instances, bad telephone connection led to some difficulties hearing the answers clearly on the voice recorder in the subsequent transcription process. However, this has not been considered any significant issue and we still believe that the benefits of telephone interviews outweighed the disadvantages in our case. The concern of being unable to read the respondents body-language was not prominent to us as we did not intend to extend the analysis in that direction. Moreover, as evident from the table showing time spent on each interview, our telephone interviews do not differ significantly in time from those performed in person. The average interview time of all interviews were 29 minutes. Some interviews conducted over the telephone were shorter than the average, but some also surpassed this time significantly. It is to our belief that the time of our interviews was more determined by the interviewees interest in the research topic than anything else. In the longer interviews the respondents were eager to share their opinions and experiences while in some of the shorter interviews the respondents were less interested.

The selection of respondents was mainly driven by the experience driven knowledge they were assumed to possess. In some cases, we found that the knowledge we wanted to acquire was only present in that specific individual, explaining why we chose to conduct telephone interviews with respondents in varying locations. Since some of the stakeholder groups have large and outspread populations, we chose to contact individuals located in the southern parts of Sweden, mainly the cities of Lund and Malmö. The choice to contact potential interviewees in these areas was partially driven by convenience, but we also noticed that individuals in these areas were more willing to contribute to our thesis because of the local connection to Lund university. To exemplify, one stakeholder group was first contacted without consideration of location, receiving no responses. When we eventually refocused our endeavors to Malmö and Lund, the response rate was significantly improved.

When conducting the interviews, we were aware of the phenomenon of ‘social desirability’, i.e. that respondents answer questions in a way that they think will reflect nicely on them (Bryman & Bell, 2013, p. 241). Such behaviour could result in the interviewees not divulging their actual perceptions if they, for some reason, believe that another answer is more socially desirable. The different professions may also have an interest in maintaining the image of that profession and therefore answer questions with careful considerations. Bryman and Bell (2013, p. 242) mentions that one way of reducing this behaviour is to ask questions in a way that allows the respondent to distance themselves from the answer, by for example asking how a colleague would act. Similarly, we allowed the respondents to answer questions in general terms when they seemed to be flustered on how to answer. However, such a measure would naturally not be able to mitigate the risk of wanting to maintain the image of the profession. Another measure taken to reduce this kind of behavior was to only send the interviewees a topic guide before the interview. This served as an assurance that no socially desirable answers had been prepared in advance. If such tendencies made it into the answers despite these measures they arguably constitute a limitation but according to Bryman and Bell (2013, p. 242), one should not be overwhelmed by this phenomenon as it is unknown how common it is. The risk of these tendencies in our collected interview data will of course be considered in the data analysis.

In an attempt to strengthen the credibility of this study, respondent validation has been performed to confirm the correctness of the data (Bryman & Bell, p. 403). This means that the interviewees of this study was sent quote checks for approval.

2.5.3 Interview data analysis

All interviews were recorded and transcriptions were made. As all interviews were performed in Swedish, the native language of the respondents, complete transcriptions of these interviews are deemed to be unnecessary to include in this thesis. Rather segments regarded as important for the analysis will be translated and presented. To only include relevant passages is also most common according to Bogner et al. (2009, p. 35). This does not, on the other hand, mean that parts of the interview data are left outside the analysis as the complete transcriptions have been uploaded into the qualitative data analysis programme Nvivo. This programme allowed the researchers to more effectively perform a coding of the interview data (Bryman and Bell, 2013, p. 594). According to Bryman and Bell (2013, p. 579), coding is the process of breaking data into smaller pieces and naming them.

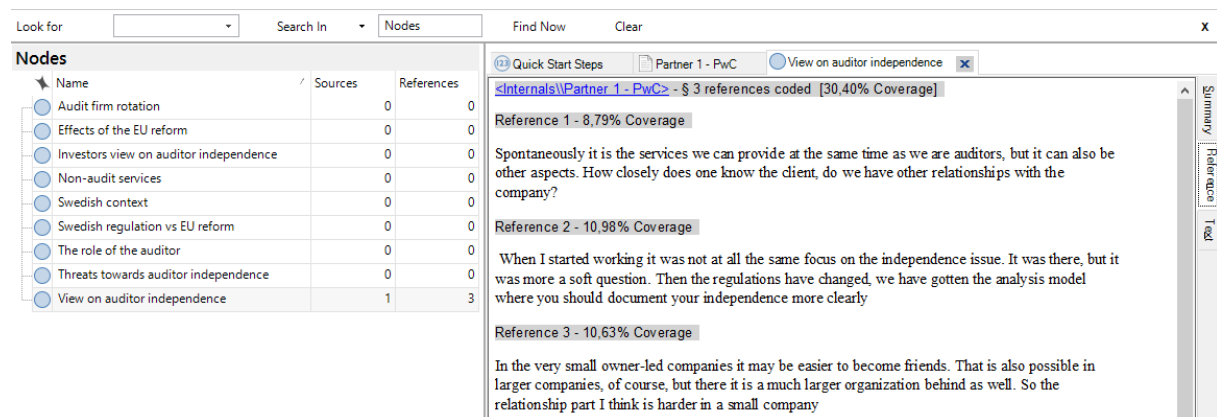


Figure 2.4: Example of Nvivo coding

When the interview data was being processed and coded it was necessary to determine areas of focus for the subsequent analysis. In order to decide the key aspects, the research questions were used as basis. Nine codes were then formulated and used to analyse how the interviewees responded to the different elements of the reform and the assumptions on which it has been developed on. When the coding was completed, the process of detecting trends and contradictions between the interview subjects was the next step. This process has been conducted with an objective eye, which has been perceived crucial for the conformity aspect of trustworthiness in this thesis and in keeping with the positivist spirit.

2.6 Survey

The aim of this thesis is also to conduct a survey study into the perceptions of auditor independence of the groups defined as key stakeholders. The survey was intended to reach far more of the individuals of the key stakeholder populations and enable us to say something about the perceptions of the group as a whole. However, as will be discussed under limitations below, the results of our survey will only serve as an indication of the perceptions of these groups as we struggled to secure a sufficient amount of participants. This is not uncommon for qualitative studies with a positivist spirit as Power and Gendron (2015) explain that even though the aim of such studies is to be generalizable this is hard to achieve due to the constraint that only a limited amount of observations can be made.

2.6.1 Development of survey questions

A low response rate is also one of the most important limitations of a survey study according to Bryman and Bell (2013, p. 248). As we are fully aware that the individuals of our key stakeholder groups are people with hectic work schedules, this was taken into consideration when developing and distributing our survey. One group in particular are notorious for having a massive workload especially during this time of the year, namely auditors. Therefore, we wanted to keep the amount of questions at a minimum to motivate these to take the time to respond. Much like the interview guides discussed above, some questions were added that were specific for the stakeholder group the survey was designed for. For example, in regard to financial market actors we wanted to know if they included the independence of auditors when evaluating an investment. In order to enable comparisons most questions included in the different surveys were standardized and thus asked in all surveys.

Bryman and Bell (2013, pp. 249-250) describe several measures to increase the response rate of a survey, measures which have all been considered in developing this survey. First, we have kept the survey as short as possible and the different stakeholder surveys contain 5-7 questions. Moreover, Bryman and Bell (2013) state that the survey should also have as few open questions as possible because the requirement to write many comments may discourage respondents from answering. Out of our five standardized questions only one is open, namely the concluding question opening up for respondents to share other thoughts about the topic. In that commentary respondents are free to elaborate on their answers in the closed questions if they feel the need or desire to do so. The standardized questions can be found in appendix 2 and include both yes/no questions and questions with a likert scale. As with our interview questions the main inspiration for the questions asked were the EU audit regulation in regard to the independence measures.

The first two questions were designed to determine the different stakeholder groups' opinion of the measures imposed by the EU. The purpose of question three was instead to make the respondents reveal their standpoint in regard to audit tenure and NAS. These questions will give us the opportunity to determine if and to what degree the different stakeholders perceive auditor independence to be threatened by audit tenure and NAS. Moreover, we included a statement about partner rotation to see if the different stakeholders perceived a difference between the independence of the audit firm and the individual auditor. Question four lists the different non-audit services prohibited by the EU and has the purpose of determining the stakeholder groups' perceptions about their auditor independence impairing effects.

How respondents are contacted is also of importance to enhance the possibilities to receive responses to the survey (Bryman & Bell, 2013, p. 249). Therefore, careful considerations have been made on the wording of the introduction mail to motivate respondents to help with our research. The purpose of the study has been explained and respondents have been made aware that their answers are completely anonymous. We believe that this may also help in combating the phenomenon of social desirability discussed above, although Bryman and Bell claim that such behavior is less prominent in surveys (2013, p. 247). The introduction letter is also addressed so that the respondent gets the impression that it is directed to them personally and the letter is signed with the researchers' names. According to Bryman and Bell (2013, p. 250) this may enhance the response rate.

2.6.2 Respondents and response rate

The respondents to our survey were at large determined by the identified key stakeholder groups for which it was possible to collect a sufficient number of email addresses to. A great effort was put into searching for contact details and to begin with the aim was to encompass all identified stakeholders. However, limitations were detected as it proved difficult to access email addresses to members of companies' board of directors and nomination committees. Therefore, the only representative from the key stakeholder group of listed companies are members of the top management. Contact information to CFOs and CEOs of Swedish listed companies were gathered by following lists of all such companies (Affärsvärlden, 2016a; Affärsvärlden, 2016b; Affärsvärlden, 2016c) and searching for information on those companies' web pages. This resulted in a list of 333 CFOs and CEOs that were all sent the survey. According to a recent study, there are 275 listed companies in Sweden (The AllBright report, 2016). The population of CFOs and CEOs may thus be assumed to be 550 individuals and we were hence able to reach approximately 60 percent of this population.

In regard to the stakeholder group of auditors we also searched for contact details for authorized auditors on the web. According to the Supervisory Board of Public Accountants (2015) there were 3495 authorized Swedish auditors in the end of 2015, and of these we were able to gather 665 email addresses, making our sample of this population 19 percent. It would have been possible to collect contact information for a larger fraction of this population, but since this task is highly time-consuming, we decided to limit these efforts at this point. Furthermore, the survey was sent to auditors of all the prominent audit firms in Sweden, i.e. PwC, KPMG, E&Y, Deloitte, Grant Thornton, BDO and Mazars SET and were collected from offices in the three Swedish metropolitan regions Stockholm, Gothenburg and Malmö.

The contact information gathered for the financial analysts was retrieved from public online lists of analysts following Swedish listed companies. This process resulted in a total list of 111 email addresses, and if one could regard the members of the Swedish Society of Financial Analysts as a rough estimate of population, this would represent 10 percent of the population. Further, by searching the webpages of Swedish fund companies we were able to gather a list of 65 fund managers.

Private investors were much more difficult to reach, our initial plan was to gain the assistance of the Swedish Association of Shareholders and to send our survey to a sample of their members. However, this turned out to be impossible. Therefore, we proceeded to another plan which was to spread the survey on forums for private investors. This means that we have no way of knowing how many private investors that were reached by the survey. As will be discussed below we recognize that this is one of the biggest limitations of our thesis.

The surveys to corporate management, auditors, financial analysts and fund managers were sent out on a Monday morning. When we sent out reminders the following Wednesday morning, 4 percent of auditors had responded, 20,7 percent of top management, 11,7 percent of financial analysts and 6,15 percent of fund managers. Much like Bryman and Bell (2013, p. 249) claims, reminders do work and the response rates were subsequently improved to the following:

<i>Stakeholder</i>	<i>Sample</i>	<i>Respondents</i>	<i>Response rate</i>
Auditors	665	40	6 percent
Top management	333	80	24 percent
Financial analysts	111	16	14,4 percent
Fund managers	65	12	18,5 percent

Figure 2.5: Sample and response rates for auditors, top management, financial analysts and fund managers

Bryman and Bell (2013, p. 249) recommended that reminders be sent out two weeks after the initial distribution. Partially driven by the limited time scope of this thesis, we sent out a reminder after two days. We do not, however, believe that this was a disadvantage as we noticed that most of the replies came directly after the respondents received the survey, with nearly no responses the following day. The short timespan between the first distribution and the reminder also means that the survey was fresh in the consciousness of those that had not yet responded and we believe that this is the reason behind our significant increase of response rate, particularly in regard to the for fund managers.

The response rate of all of our stakeholder groups would thus be deemed unacceptable in accordance to Mangione's categorisation of response rates (as referred to in Bryman & Bell, 2013, p. 249). It is therefore important to note that we only regard this data as an indication as we cannot assure that the responses are representative for the population. Unfortunately, our efforts of reaching private shareholders was not very fruitful either, only resulting in thirteen responses.

2.6.3 Survey data analysis

In keeping with our positivist spirit the main objective of the survey analysis is to make comparisons and to present the data in numerical terms. As the standard deviation can be used as a measure of the degree of variation in the answers (Bryman & Bell, 2013, p. 352) this value will allow us to determine how much the respondents agreed in the different questions. That means that questions with a low standard deviation is more likely to give a good indication of the perceptions of the stakeholder group. In combination with the median the standard deviation will therefore be presented in the analysis as an indication of the agreement within the stakeholder groups. The median may also be perceived as a rough estimation of the average perceptions in that stakeholder group. In the questions of a likert scale the answer options have been assigned a number from 1-5 where 1 represents strongly agree, 3 is neutral and 5 represents strongly disagree. That the average perception in a group is agreeing with an assertion may thus be indicated when the median is below 3 and vice versa. However, the median is not regarded to be a strong indication of the perceptions of the stakeholder groups and must therefore be analyzed in combination with the standard deviation and the percentage of each answer option.

In the presentation of the survey findings, some of the comments given by the respondents are also included. We have, however, refrained from providing deep analyzes these as it is important to remain objective and the reader is therefore allowed to make their own judgement of the presented comments.

Moreover, the correlation between the different question answers will be calculated using Spearman's rank correlation (ρ). This correlation will serve as a basis for an analysis of the connection between different questions. As this survey contains questions of diverse scales it would be unsuitable to correlate using Pearson's r (Bryman & Bell, 2013, p. 352) and correlation will instead be calculated on the ranks of answers. This calculation will be performed in excel using the following formula (Djurfeldt et al., 2010, p. 150):

$$\rho = 1 - \frac{6 \sum d^2}{n(n^2 - 1)}$$

Where d is the difference between two ranks and n is the number of observations. The rank has been established using the function RANK.AVG in excel in which answers of the same value is ranked with the average. The process of calculating Spearman's rank correlation is depicted in the table below.

var3	var4	rank3	rank4	d	d^2
4	4	3,5	6	-2,5	6,25
2	3	11,5	8,5	3	9
2	5	11,5	3	8,5	72,25
2	2	11,5	12,5	-1	1
3	2	6	12,5	-6,5	42,25
5	5	1,5	3	-1,5	2,25
4	5	3,5	3	0,5	0,25
2	5	11,5	3	8,5	72,25
2	3	11,5	8,5	3	9
2	2	11,5	12,5	-1	1
2	2	11,5	12,5	-1	1
0	0	16	15,5	0,5	0,25
5	3	1,5	8,5	-7	49
3	3	6	8,5	-2,5	6,25
3	5	6	3	3	9
2	0	11,5	15,5	-4	16
					297
6 \sum d^2	1782				
n(n^2-1)	4080				
Divided	0,436765				
ρ	0,563235				

Figure 2.6: Example of the calculations of Spearman's rank correlation in excel

2.7 Ethical considerations

When conducting our research, we have followed the research ethical principles of Vetenskapsrådet, a Swedish authority under the ministry of education and research. This code contains four ethical demands on research which can be translated into English as the information demand, the consent demand, the confidentiality demand and the utilization demand.

The first demand is that the respondent shall be informed about their participation and that they participate on a voluntary basis (Vetenskapsrådet, 2002, p. 7). As a part of meeting this demand all interviews and the introduction letter of the survey opened with a description of the purpose of this thesis. Moreover, the purpose of the thesis was also presented when establishing contact with the interviewees. The second demand, the consent demand, means that all respondents must be given the opportunity to agree or disagree to participate in the study (Vetenskapsrådet, 2002, p. 9). Naturally we did not force participation and was clear in all our communications with eventual respondents that they were completely free to decline. According to Vetenskapsrådet it is not necessary to collect consent before a survey is sent out, and by providing the purpose of the research as discussed above, consent can be said to be given when responses are sent back. Participants in both interviews and the survey study were, of course, free to terminate their participation at any time.

Further, the confidentiality demand states that individuals should not be able to be identified through the information presented or by obtaining other details about the individuals stored by the researchers (Vetenskapsrådet, 2002, p. 12). This demand is perhaps most prominent in the cases where our participants have responded that they wish to remain anonymous. In order to secure their identity from being revealed we have therefore kept the describing attributes to a minimum. Of course, no information about respondents was shared to outside parties in any way, shape or form. Finally, the utilization demand states that information about participants may only be used for research (Vetenskapsrådet, 2002, p. 14).

In this thesis we have also followed the recommendations of Vetenskapsrådet (2002, p. 15) and sent a quote check to all interviewees for approval before publication. According to Bryman and Bell (2013, p. 137), other ethical codes for research usually contains the four demands discussed above. However, they also note a fifth common demand, namely that the researchers should not give the participants false or misleading information about the study. All participants of this study has been informed that the purpose of the study is to investigate the perceptions of auditor independence of different groups, and no attempts have thus been made to deceive the respondents.

2.8 Limitations

We recognize two major limitations in the conduction of this thesis. First, for various reasons we were unable to encompass all of the key Swedish stakeholders. As mentioned above contact information to members of the board of directors and nomination committees were scarce and we were thus unable to send a survey to this group. However, when trying to contact those few individuals for which contact details were available in the hope of an interview no interest in participation was found. Since we were unable to include board members nor management in the banking industry, the top management in this study are thus all from listed companies.

All other identified key stakeholders have been included in this research either through the survey, interviews or a combination of the two. Unfortunately, it proved to be impossible to persuade a private investor to participate in an interview as these claimed to have too little knowledge about the topic. Therefore, the interview with the chief of market surveillance of the Swedish Shareholder's Association is the only representative of this group in the interview data. This is especially unfortunate since the survey responses from this group was limited. However, it is to our understanding that the chief of market surveillance, Albin Rännar, is a good source of knowledge about private investors, being in frequent contact with the members of the Swedish Shareholder's Association.

A low response rate to our survey is naturally the second big limitation of this study and it was especially difficult to motivate capital market actors to responding. In part we suspect that the low rate could be explained by the perception of auditor independence as a rather insignificant issue, especially for the financial market actors. This was also suggested by the interviewed capital market actors and various such individuals when refusing to participate in interviews. Moreover, in regard to private investors, we believe that the survey could have attained a better response rate, but that the significant loss may derive from these being unacquainted with the research topic and thus unmotivated to contribute. In hindsight we believe that the process of designing and distributing this survey should have been even more carefully thought through and perhaps an included explanation of the term auditor independence could have increased the response rate somewhat.

2.9 Chapter summary

This thesis is based upon a qualitative research method with a tendency towards a positivist spirit. A triangulation of data collection methods has been conducted in order to achieve both breadth and depth and furthermore strengthen the subsequent findings of the study. Although the research method chosen has a number of limitations, mostly deriving from respondents being reluctant to participate, we believe that such a triangulation of interview data and survey data will give us the ability to answer our research questions.

3. Auditing

3.1 The audit function

According to Hayes et al. (2014, pp. 10-11), the audit function involves the evaluation of information and assertions from a company in regard to their reliability. Moreover, the auditor shall also evaluate if the financial statements have been prepared in accordance to applicable regulations and standards. The role of the auditor is thus to provide an expert opinion on the reliability of financial statements and this function is claimed to be important to increase the confidence of investors (Hayes et al., 2014, p. 43). When conducting an audit, the auditor is only responsible for finding material misstatements, i.e. those that may affect decisions taken with the statements as a basis (Hayes et al., 2014, p. 12).

An audit engagement is often conducted in teams where the opinion given by the partner is based upon the work of other employees of the audit firm and according to Herrbach (2001), these team members have a large impact on audit quality. Professional scepticism is also regarded to be important to reduce the risk of audit failure and according to a study by Payne and Ramsay (2005) these other team members might even be more sceptical towards the truthfulness of financial statements.

3.2 Auditor independence

Limperg (1985) developed a dynamic theory on the link between the society's need for reliable financial information and the methods in which auditors use to meet such needs. At the centre of his work is the social responsibility of the independent auditor, and the author emphasizes that the confidence society places in the effectiveness of an audit is the condition for the existence of the audit function. Flint (1988) identifies seven basic postulates to map the foundation of auditing. The importance of audit independence is stressed in the third postulate, stating that in order for any parties to have confidence in the audit report, the auditor must not only be independent, but also be seen as independent. The auditor must therefore be free of direction, influence, intimidation and economic interest.

Independent auditors are also claimed to play an essential role in a corporate governance system in providing reassurance to external parties about the correctness of the financial reports prepared by managers and directors (Tricker, 2012, pp. 479-481). In order to fulfil this role, Tricker states that it is important that auditors remain independent from the company, which can be challenging due to the fact that auditors have frequent contact with management. The need for auditor independence can therefore be seen to be connected to the concern that individuals are self-interested and that managers having the control of the company would use this power to the disadvantage of owners (e.g. Fama & Jensen, 1983).

Many definitions of auditor independence are based upon the concern that auditors may be influenced by the self-interest of management. Nichols and Price (1976) connected auditor independence to the ability to resist management pressure while Watts and Zimmerman (1979) identified it as the propensity to report detected breaches. Similarly, Antle (1984) claimed that auditors cannot be regarded to be independent if they collude with management. DeAngelo (1981) emphasized the importance of auditor independence, stating that it serves as a fundamental cornerstone for the level of audit quality. She argued that the quality of auditing is determined by the probability that the auditor will report violations or findings that are not in line with the national GAAP, and concluded that this probability will decline if the auditor lacks independence and objectivity. The academic definition of auditor independence can thus be claimed to revolve around the resistance to management pressure.

When discussing auditor independence, Antle (1984) assumes that, much like management, auditors are also affected by self-interest. This indicates that an auditor would act independently and report all breaches only when this option pays more than the opposite. One way that management could make it worthwhile for auditors to deviate from the righteous path is to make side-payments, and Antle even believes that the debate over Management Advisory Services has its origin in the concern that managers could use these services as a way to pay off their auditors. However, Antle also notes that collusion could have a negative effect in the long run as the auditor might incur a bad reputation leading to lost clients. From this viewpoint, maintaining independence would be in the auditor's self-interest as it could be essential for the ability for the going concern of the firm.

3.3 Previous research of auditor independence in mind

3.3.1 Audit tenure

The auditor-client relationship is a recurring concern when discussing the independence of the auditor and has been highlighted by both regulators and standard-setters as a potential threat. Bamber and Iyer (2007) emphasized the difficult balance in this relationship, arguing that in order to conduct a good audit, the auditor must know and understand the client and their business. Instead of examining the auditor independence from a financial perspective, Bamber and Iyer investigated the auditor behaviour from a social perspective. The findings suggested that the auditors do relate to their clients, however, with significant variations depending on the level of experience and professionalism. The findings suggest that client identification could compromise the objectiveness of the auditor, and furthermore reduce the level of critical judgement by acquiescing certain client-preferred solutions. The results thereby confirmed the regulators' concern that client identification could compromise the level of independence.

Studying long audit tenure in Belgium Knechel and Vanstraelen (2007) did not find evidence that the independence of auditors was impaired as the propensity to issue going concern audit opinions was not influenced. On the other hand, their results did not show that audit quality benefited from long tenure either, as auditors did not get better at distinguishing struggling companies over time. Conducting a similar study in the U.S Geiger and Raghunandan (2002) found the opposite, as they argued against mandatory audit firm rotation. They found evidence that audit reporting failures were more prominent the first years of an audit tenure and that the auditor was thus better equipped to audit a company after a longer relationship. Their results were also supported by research conducted by Johnson et al. (2002). Even though neither of these studies referred to auditor independence they indicate that audit tenure has little impact on auditor independence as defined as the propensity to report all breaches.

Further, when examining the suitability of audit firm rotation in combating impaired auditor independence Carcello and Nagy (2004) came to a negative conclusion. They studied the relationship between audit tenure and fraudulent financial reporting, but found that this was more likely to appear in the beginning of an auditor-client relationship.

Frequent contact with the accounting and finance department of a client company was found to be a possible threat to auditor independence in a Swedish study by Hellman (2006). He suggested that the auditor could have been too dependent on this department as the management letter, which otherwise contained no praise, included many positive comments about the accounting and finance department and no criticism. In his case study this department was also in charge of all fee negotiations and thus in effect remunerated the auditor.

3.3.2 Non-audit services

According to Defond et al. (2002), the prohibition of NAS in the Sarbanes-Oxley act was based on the assumption that auditors are ready to compromise their independence if it leads to clients buying additional non audit services (NAS). They conducted empirical research into the impact of NAS fees on auditor independence and found this assumption to be groundless as no significant association was detected between NAS and going concern audit opinions. Kinney et al. (2004) also conducted empirical research to evaluate the assumption that NAS impair independence by investigating the relationship between NAS fees and restatements. A positive association between these was stated to indicate that independence was damaged whereas a negative relationship could even indicate that NAS improves the audit quality because the auditor has more information about the company. In regard to unspecified non-audit services, where the authors did not know what the services actually consisted of, a positive association was found giving support to the notion that NAS could impair independence. On the other hand, they also found that tax service fees had a negative association with restatements. This was stated to suggest that any potential independence impairing effects of these fees were compensated by increased audit quality. According to this research a ban on tax services could therefore have negative consequences on audit quality that the enhanced independence cannot make up for.

In Australia, Craswell (1999) did not find any evidence that NAS impair auditor independence as the decision to give a qualified audit opinion did not appear to be influenced by this. Another Australian study by Sharma and Sidhu (2001) found that auditors are influenced by the economic dependency on NAS provision in issuing going concern audit opinions. However, in New Zealand Hay et al. (2006) found the opposite as NAS provision did not appear to have an impact on the auditor's propensity to issue qualified opinions. Ruddock et al. (2006) argued that news-based conservatism, i.e. a reduction of the timeliness of bad news being reflected in earnings, could be an indicator of impaired auditor independence, but did not find any association between this and NAS. They therefore concluded that the prohibition of NAS in the U.S was unlikely to enhance auditor independence in mind.

Studies into auditor independence in mind has thus reached differing results, where some suggests that NAS and long audit tenure has a negative effect and others the contrary.

3.4 Previous research of auditor independence in appearance

Flint (1988) argues that what society accepts tend to form the development of audit practices and how different individuals perceive auditor independence is therefore of importance. Furthermore, Mautz (1975) states that the auditing practice is a socially constructed phenomenon, and that the role of the auditor is continuously modified by the dynamics of social norms and requirements indicating that when society changes auditing practices will follow. The auditor independence in appearance is thus of great importance and studies investigating this will be presented below. These studies are also of the highest relevance to this thesis as it will provide similar results.

Auditor independence in appearance has been studied extensively in the past. These studies can be divided into two groups with different approaches, archival data studies based on capital market reactions and survey studies.

3.4.1 Market reactions

Audit tenure

Audit tenure and rotation was investigated by Azizkhani et al. (2006) and Ghosh and Moon (2005). Both of these studies came to the conclusion that investors do not perceive audit firm tenure as a significant threat to the audit quality. Azizkhani et al. (2006) also found that Australian investors were not influenced by audit partner rotation. In a Taiwan study the opposite was found as the findings of Chi et al. (2005) suggested that Taiwan investors became more confident in auditor independence after partner rotation became mandatory. They examined market reactions to audit partner rotation before and after it was required by law, providing results that suggested that the positive reactions to voluntary partner rotation were lower than the reactions to mandatory rotation. This indicated that the new regulation had drawn attention to the potential impact of long audit-client relationships, influencing the perceptions of investors.

Non-audit services

The issue of Management advisory services (MAS) and non-audit services (NAS) has been the focus of many studies, but the results have varied significantly. Already in 1985, Glezen and Millar investigated how disclosures of non-audit fees affected investors decisions. In 1978 it had become mandatory for public companies in the U.S to include information about non-audit fees in their financial statements and investors therefore, for the first time, had the opportunity to use such information in their decision-making. Glezen and Millar (1985) studied auditor-approval ratios as they believed that investors would become more sceptical of the auditors but did not find that these had altered significantly, leading to the conclusion that investors did not perceive auditor independence differently. They also examined if the type of non-audit service impacted the auditor-approval ratios and for one of the two years studied found that services related to taxes affected the investors negatively. This indicates that investors may perceive these services as a threat to auditor independence.

The requirement to include fee information in financial statements was removed in 1982 because the SEC did not believe that the information was used by investors (Glezen & Millar, 1985). As a consequence of the the substantial growth in the non-audit industries during the 1990s, SEC saw a renewed need for expanded regulation mandating fee disclosures (Francis & Ke, 2006). The 2001 regulation triggered a new wave of studies and research on the impact disclosure levels may have on auditor independence (e.g. Ashbaugh et al. 2003; Krishnan et al., 2005; Francis & Ke, 2006; Khurana & Raman, 2006; Lai & Krishnan, 2009; Ghosh et al., 2009). Negative market reactions to non-audit fees was found by Krishnan et al. (2005) and Francis and Ke (2006) who both studied the earnings response coefficient. When using cumulative abnormal returns, Ashbaugh et al. (2003) came to another conclusion as they did not find a significant change. Furthermore, Lai & Krishnan (2009) even found that NAS fees could have a positive effect, depending on the services provided. Their results suggested that the provision of financial information system services by auditors were so valuable to the company that it outweighed any concerns about the auditor's independence. Therefore, the impact NAS may have on auditor independence in appearance in the US remain unclear. Further, in an Australian study by Gul et al. (2006), support was given to the notion that NAS have a negative influence on the perceptions of auditor independence.

Krishnan et al. (2005) also concluded that investors did not appear to be concerned about high audit fees. On the contrary Ghosh et al. (2009) found that it was the audit firm's dependence on audit fees that impaired independence in appearance. Moreover, the study by Khurana & Raman (2006) found that the perception of auditor independence is impaired by both audit and non-audit fees.

It is thus not possible to determine how investors are affected by NAS and audit tenure based on previous archival data studies of market reactions. These studies show large variations in results which may be related to the research design. For example, it was noticed by Ashbaugh et al. (2003) that the factors influencing market reactions are numerous.

3.4.2 Survey studies of the perceptions of auditor independence

Whereas the market reaction studies above can only investigate the capital market actors' perceptions of auditor independence in appearance, survey studies can be designed to investigate the perceptions of multiple groups. In the beginning, these studies were concentrated to Anglo-Saxon countries such as the U.S and the UK (e.g. Firth, 1980; Schleifer & Shockley, 1990; Bartlett, 1993), but more recent studies have expanded the research to continental European countries such as Germany and Denmark as well (Quick & Warming-Rasmussen, 2015; Quick & Warming-Rasmussen, 2005). Moreover, to the best of our knowledge, no previous survey study has been conducted in Sweden and the perception of Swedish stakeholders therefore remain uncertain.

Some of these studies have compared the perceptions of different groups. In the UK, Firth (1980) found that those that used financial statements thought that auditors were not independent in more circumstances than auditors. That auditors have a different view on independence than other groups were also found in the studies of Bartlett (1993), Beattie et al. (1999), Quick & Warming-Rasmussen (2005) and Shockley (1981). Another group that was found to perceive fewer threats to auditor independence was managing directors of companies issuing financial statements (Quick & Warming-Rasmussen, 2005). Although managing directors were also found to be more skeptical of the auditors' ability to remain independent than the auditors. Additionally, Beattie et al. (1999) also sent out a survey to finance directors in companies and found a difference in perceptions. These two studies are among few studies to our knowledge that have investigated the perceptions of those that prepare financial statements.

Audit tenure

Long before the financial crisis Firth (1980) found that the perception of auditor independence was insignificantly affected by long relationships. Respondents were asked to judge if an auditor that had worked with the same client for more than ten years was still independent and between 78-94 percent of all groups responded positively. In another pre-crisis study Shockley (1981) also found an insignificant effect of long relationships, suggesting that audit tenure was not viewed as a threat at that time. More recently the impact of audit tenure on the perception of auditor independence has been investigated by Daniels and Booker (2011), Gates et al. (2007) and Kaplan and Mauldin (2008) in the US as well as by Dart (2011) in UK. Daniels and Booker (2011) found that bank loan officers perceived auditor independence to be strengthened when a company had a policy of rotating audit firms. However, they did not find a significant difference in the perception of independence when an audit firm conducted their first audit of a company in comparison to the sixth one. Moreover, they did not find evidence that bank loan officers questioned the audit quality when they thought that auditors were dependent due to long relationships, indicating that this did not impact their decisions. Both Gates et al. (2007) and Kaplan and Mauldin (2008) studied the perceptions of business students. While Kaplan and Mauldin (2008) found that students were unaffected by long audit partner as well as audit firm relationships, the study by Gates et al. (2008) suggests that perceptions of auditor independence are enhanced by audit firm rotation.

According to Dart (2011), the provision of NAS and economic dependency are perceived as far greater threats than lengthy relationships. When institutional investors in the UK were being asked if a relationship of more than five years was a threat to auditor independence, these mostly disagreed as only 18 percent found this statement to be true. The percentage of private investors that found this to be a threat was slightly bigger at 26,4 percent, but the majority still disagreed or was neutral. Moreover, Dart (2011) found that the majority of both institutional and private investors believe that partner rotation is enough to protect auditor independence. The opinions on mandatory audit firm rotation were more varied as the majority of institutional investors did not welcome the regulation, while 49,4 percent of the private investors thought it would be good to implement it.

Non-audit services

In regard to the provision of NAS, Dart (2011) found that 42,9 percent of institutional investors and 42,1 percent of private investors believed that an auditor's independence was impaired when NAS was also provided to an audit client. However, her results also showed that the majority of both groups did not think that the provision of NAS should be banned altogether, but that audit personnel should not be allowed to provide it. Many other studies have found that users of financial statements perceive the provision of NAS as a threat to auditor independence (e.g. Schleifer & Shockley, 1990; Bartlett, 1993; Beattie et al., 1999; Canning & Gwilliam, 1999; Quick & Warming-Rasmussen, 2005; Colbert et al., 2008; Quick & Warming-Rasmussen, 2015; Shockley, 1981; Lowe et al., 1999; Swanger & Chewing, 2001; Quick & Warming-Rasmussen, 2009). On the contrary, when conducting a study of the perception of bankers in New Zealand, Gul (1989) found that the perception of auditor independence was strengthened when the audit firm also provided the client with Management advisory services. When attempting to explain this result, Gul referred to a study by Coreless and Parker (1987) which suggested that auditors came to question clients they also consulted to a larger degree leading to strengthened independence. These results were also affected by Gul's research design as respondents judged the independence in a case where another department in the audit firm provided the non-audit services.

Some of the studies investigated to what degree different types of NAS affected the perception of auditor independence. Quick and Warming-Rasmussen (2005) found that perceptions of auditor independence in Denmark was negatively affected by the provision of NAS and that accounting-related services had the largest influence. They found this surprising as they believed that the self-review threat should be bigger when the NAS resembled auditing to a high degree. According to Quick and Warming-Rasmussen (2005), their findings suggested that the further away from auditing the NAS provided is, the less of an impact it has on the perception of auditor independence. In a U.S study, Colbert et al. (2008) compared the impact on independence of two types of NAS and found that the provision of tax services had a negative effect while the impact of financial information system design and implementation services was limited or non-existent.

Quick and Warming-Rasmussen (2015) also investigated the impact of NAS in Germany and found that the provision of internal control services had the most significant impact on perceptions. As they found that the provision of different types of NAS had differing affects, they concluded that there should not be a general prohibition of these services. However, they expressed support for the limitation of non-audit fees in the EU audit reform as they found that the self-interest threat affected perceptions of auditor independence to a high degree. Moreover, their study suggested that the limitation set at 70 percent of the audit fees was too high as the private investors that responded perceived threats to auditor independence when the economic dependency was much lower.

The provision of internal audit services was also found to impair independence in appearance by Lowe et al. (1999) and Swanger and Chewing (2001) and by Quick and Warming-Rasmussen (2009) in a previous German study. However, it was found that as long as personnel from outside the audit team provided the internal audit services, both Lowe et al. (1999) and Swanger and Chewing (2001) documented increased confidence in the auditors' ability to remain independent. The study by Quick and Warming-Rasmussen (2009) investigated how members of an academic investment club perceived various non-audit services and a part from internal audit services, it was found that tax services and bookkeeping had a negative effect while services related to the accounting information systems had limited effect.

Much like the study by Quick and Warming-Rasmussen (2015), the studies of Beattie et al. (1999) and Dart (2011) also highlighted economic dependency as a negative influence on the perception of auditor independence. In the study of Beattie et al. (1999) it was found that it is the dependence of an individual partner and not the firm that reduces independence in appearance the most. Dart's (2011) findings suggested that investors' confidence in financial statements decreases significantly when an auditor is perceived to be economically dependent on the company as 53,1 percent of institutional investors and 68,3 percent of private investors stated that they would not invest in a company under those circumstances. This indicates that the limitation on non-audit fees in the audit reform could actually contribute in increasing the stability of the financial market.

Survey studies have also been conducted to compare the perceptions in different countries. Dyxhoorn & Sinning (1981) found significant differences between the perceptions of German auditors and those of the U.S SEC, presenting evidence that German auditors perceived the threats towards auditor independence as less critical and compromising than those of the U.S. That view on the ethical issue of independence differs between countries was also found by Patel and Psaros (2000) in a comparative analysis including British, Australian, Malaysian and Indian students.

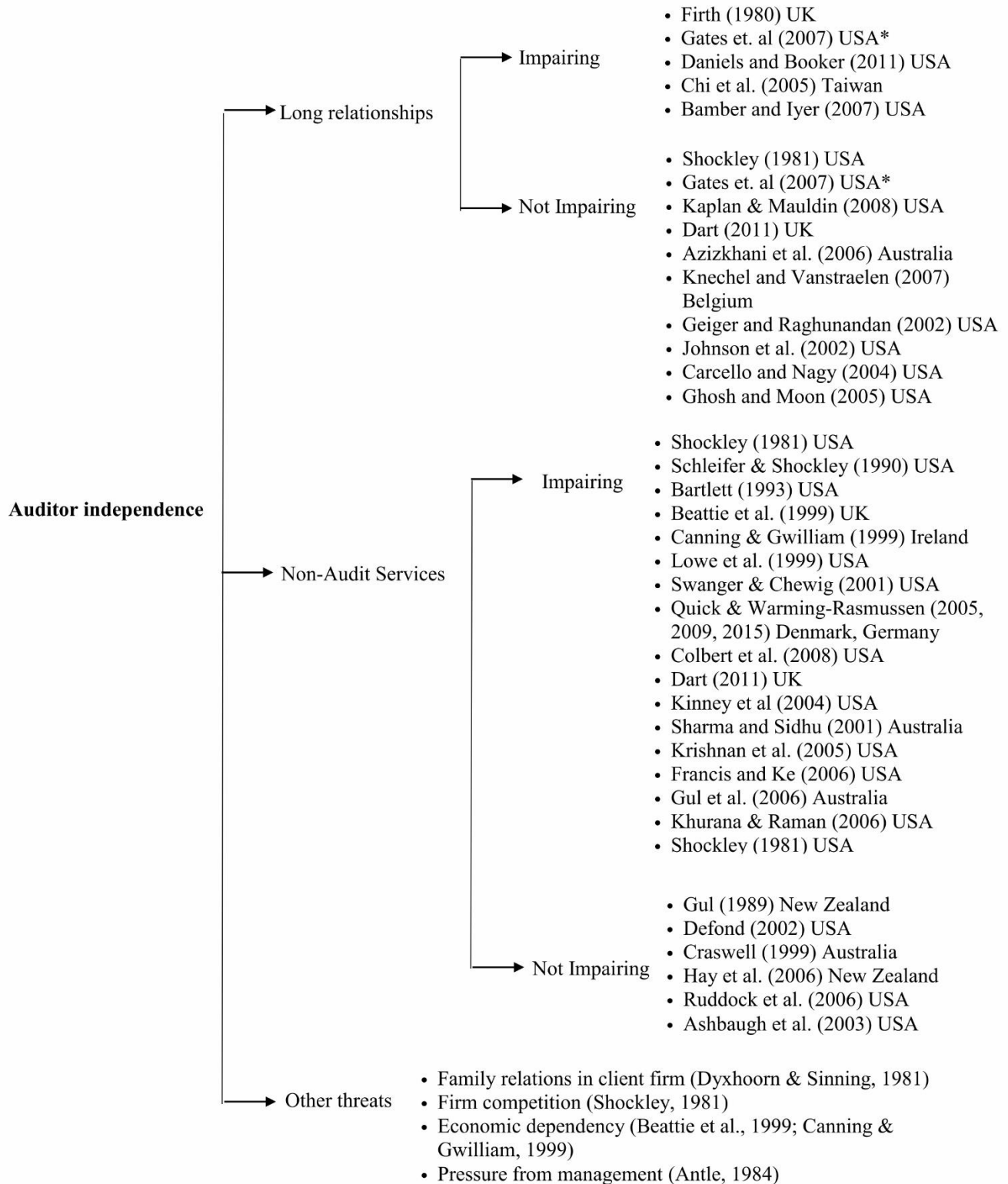
Previous survey studies have thus also found contradicting results of the impact of audit tenure and NAS. As the survey studies are of particular relevance for this thesis a summary of these can be found in the table below.

Summary of previous survey studies on perceptions of auditor independence

	<i>Country</i>	<i>Research design</i>	<i>Findings</i>
Firth (1980)	UK	Survey sent to chartered accountants, financial analysts and loan officers	Financial analysts and loan officers were found to be more sceptical than accountants. The experience of financial analysts was not found to have an impact. Some responses suggested that impaired independence could enhance the prospect of an investment
Dyxhoorn & Sinning (1981)	Germany	Survey investigating perception of independence in various auditor-client relationships was sent to German auditors. Results was then compared with SECs independence requirements in the U.S.	The position of the SEC was found to be much stricter than the perceptions of German auditors. In situations where German auditors were in consensus they only agreed with SEC in one, namely that auditor independence was impaired by family relations to the client firm.
Shockley (1981)	US	Examined the perceptions of certified public accountants, financial analysts and bank loan officers through an experimental case survey.	Length of auditor-client relationship had an insignificant effect on perceptions. Competition among audit firms and provision of Management advisory services (MAS) was thought to be a threat to independence. Perceptions differed the most in regard to MAS as auditors had a less sceptical view.
Dyxhoorn & Sinning (1982)	Germany	Survey sent to directors of loan departments and directors of investment departments of large banks	Auditors are thought to be more independent by experienced bankers. Auditor independence had no positive effect on investment decisions, but perceived dependence did.
Gul (1989)	New Zealand	An experimental case survey was sent to loan officers at two large banks	Bankers did not think that auditor independence was impaired when the audit firm provided Management advisory services as well. They also viewed independence as strengthen when the audit firm experienced high competition.
Schleifer & Shockley (1990)	USA	Survey sent to accountants, bank loan officers and financial analysts to determine their standpoint on independence policies in the Cohen Commission Report	Bank loan officers and financial analysts was found to be positive to policies restricting the provision of non-audit services.
Bartlett (1993)	USA	Survey sent to lending officers at banks and certified public accountants	Bankers found the provision of Management advisory services as a bigger threat than auditors.
Beattie et al. (1999)	UK	Survey sent to finance directors of listed companies, audit partners and financial journalists as a proxy for sophisticated users of financial statements.	Economic dependence and NAS was found to be the biggest threats. The economic dependence of an individual partner was thought to be a bigger threat than that of the firm. Finance directors found the provision of NAS as a bigger threat than auditors.
Canning & Gwilliam (1999)	Ireland	Survey sent to corporate lenders, investment managers and financial analysts combined with semi-structured interviews	Threats to independence was perceived to be lowest when the audit firm did not provide NAS at all, but respondents did not support the prohibition. NAS was thought to be a threat to independence because of the audit firm's dependency on these fees.
Lowe et al. (1999)	USA	An experimental case survey sent to bank loan officers	The perceptions of auditor independence were affected when the auditor provided internal audit services as well, leading to a revision of loan decisions. This effect was

			especially strong when the auditor assumed management functions. Threats to auditor independence was regarded to be smaller when other personnel provided the non-audit services.
Patel & Psaros (2000)	UK, Australia, India and Malaysia	Final year accounting undergraduates were asked to answer a survey by judging different scenarios during class.	Found that perceptions on auditor independence varied between the different countries. The two Anglo-Saxon countries showed larger similarities. For example, the level of fees was only found to be a big threat by UK and Australian students.
Swanger & Chewing (2001)	USA	An experimental case survey where financial analysts made judgements on different scenarios.	Found that the perceptions of auditor independence are damaged when the auditor also provides internal audit services. When these services are performed by separate personnel financial analysts did not perceive threats to independence.
Quick & Warming-Rasmussen (2005)	Denmark	Survey sent to authorized auditors, managing directors, bank loan officers, private shareholders and business journalists	Management advisory services was found to be a big threat by private shareholders and business journalists while only 39,3 % of managing directors agreed that consulting services impaired independence. Accounting-related services was found to negatively impact the perception of auditor independence the least.
Gates et al. (2007)	USA	Business and law students were asked to answer an experimental case survey.	Audit partner rotation did not increase the students' confidence in financial statements, but firm rotation did.
Colbert et al. (2008)	USA	Loan officers was asked to make judgments on a hypothetical case through a survey.	The provision of financial information system services was not found to affect perceptions negatively but the provision of tax services was.
Kaplan & Mauldin (2008)	USA	MBA students were asked to answer an experimental case survey during class.	When the case examined reactions to a five-year relationship no difference in perceptions was found between audit partner and audit firm rotation. Results also indicated that firm rotation does not affect perceptions of independence, even after a 25-year relationship.
Quick & Warming-Rasmussen (2009)	Germany	A survey was sent to members of academic investment clubs as representatives of private investors.	Found that the provision of NAS was thought to impair independence. Only two of 19 different NAS was not believed to be a threat: accounting information systems and forensic services. Tax services, legal advisory, internal audit and bookkeeping are examples of services that damaged independence in appearance.
Dart (2011)	UK	Survey sent to institutional investors and private investors	Economic dependence and NAS was thought to be bigger threats to independence than long-term relationships between the auditor and client firm.
Daniels & Booker (2011)	USA	An experimental case survey was sent to bank loan officers.	Auditor independence was perceived to increase when the company had an audit firm rotation policy.
Quick & Warming-Rasmussen (2015)	Germany	An experiment where private investors made judgments on a hypothetical company in regard to the provision of different types of NAS through a survey.	The perception of auditor independence was impaired by the provision of NAS, advisory services of internal controls was thought to be the biggest threat. Results suggested that the limit of non-audit fees to 70 % in the audit reform is set too high.

3.5 A model of previous studies



*The study by Gates et al. (2007) indicated that firm rotation had an effect on perceived independence, but partner rotation did not have a significant impact

Figure 3.1: Model of previous studies

The model above illustrates the positioning of previous auditor independence research in light of long audit tenure and provision of NAS and include both studies of independence in mind and in appearance. It is evident that studies on long working relationships have not given uniform results, indicating that the debate on the effectiveness of firm rotation is far from over. The skepticism towards NAS on the other hand is more clear, where the majority identifies provision of NAS as impairing to auditor independence. However, considering the studies suggesting the opposite, it is not possible to conclude that NAS impairs auditor independence. Further, in some of the studies, the perception of auditor independence differs between the groups. Auditors in particular proved more critical towards regulating auditor independence, and did not see the mentioned threats as big in comparison to other groups.

An aspect to notice from the model above is the lack of pattern in the mapped research. One may expect that comprehensive research studies from the same region should present a somewhat consistent result, but the lacking trends support the views of audit tenure and NAS as aspects of individual interpretation.

With the findings and detected contradictions as basis, our data will later be analyzed in light of the Swedish national context. As the results of Patel and Psaros (2000) imply; it is important to carry in mind the characteristics of the national context as they may impact how auditor independence is perceived. The study by Dyxhoorn and Sinning (1982) exemplifies this as it indicated that the German stock market confidence is so high, investors take auditor independence more or less for granted. This, however, is likely a consequence of the national context, and may not be applicable to other contexts.

3.6 Chapter summary

Auditor independence can be defined as the propensity to report detected breaches, and is thus connected to the resistance of management pressure. Studies into auditor independence in appearance has been unable to find strong support of the notion that NAS and audit tenure has a negative impact. Market reactions are inconclusive, and survey studies has had diverse results. This suggests that mandatory audit firm rotation and the prohibition of NAS might not be effective in enhancing auditor independence. Ratzinger-Sakel and Schönberger (2015) came to a similar conclusion when they investigated the prohibition of NAS and found no evidence that the legislators of EU member states had failed to protect auditor independence in the past, putting the rationale behind the regulation to question. Moreover, much like the literature review above they found that there was no conclusive evidence that NAS impairs auditor independence, neither in mind nor appearance.

Finally, studies on how NAS and audit tenure affect auditor independence in appearance have not been investigated in Sweden. The lacking empirical evidence would therefore suggest that the impact mandatory audit firm rotation and restriction of NAS may have on the perceptions of the key Swedish stakeholders is uncertain.

4. Sweden

The Swedish environmental context is different from other countries as the economy, culture and business practices varies. Therefore, this chapter will begin with a presentation of the Swedish economy and culture, followed by an introduction of the Swedish corporate governance code. Subsequently the current legislation and principles that the Swedish auditor must comply with will be stated, before the new EU audit reform is presented in order to determine how the practices will change due to the new legislation.

4.1 The Swedish economy

According to Bryant et al. (2012, p. 9), the small and open Swedish economy is highly dependent on cross-border transactions and the Swedish financial market is inescapably linked to the global financial system. Bryant et al. (2012) also claim that financial openness is crucial for Sweden's economic growth. However, being an open economy also has its risks which became very evident as the 2008 financial crisis hit Sweden (Bryant et al., 2012, p. 21).

When conducting a study of the perceptions of auditor independence in Denmark Quick and Warming-Rasmussen noted the Danish business sector was limited with the consequence of a relatively small audit profession (2005). This was claimed to be a huge motivation in the conduction of their study as a small marketplace was thought to encourage auditors to behave more independently as their reputation could tarnish quickly, but could also be a threat to their independence due to the relationship between the client and the auditor being closer. In regard to the size of the audit profession, Quick and Warming-Rasmussen (2005) stated that the population of Danish auditors included about 6000 individuals. This can be compared to the Swedish number of 3495 authorized Swedish auditors (Supervisory Board of Public Accountants, 2015). If a relatively small audit profession can have an effect on the perceptions of auditor independence, as Quick and Warming-Rasmussen assumes, such an effect could thus be even more prominent in Sweden. The small audit profession of Sweden can also be compared to the large audit profession of the UK encompassing 23 348 auditors (Register of Statutory Auditors, 2016), the approximately 13 000 members of the German Institut der Wirtschaftsprüfer and the 348 000 members of the American Institute of Certified Public Accountants (Nobes & Parker, 2012, p. 19).

4.2 The Swedish culture

The way we comprehend ethical issues is believed to vary between countries due to cultural differences (Wines & Napier, 1992; Vitell et al., 1993; MacDonald, 2000; Thorne & Saunders, 2002). To explain these cultural differences, researchers often use Hofstede's typology in which culture is measured in various dimensions. Even though the country specific scores on most of these dimensions are based on over 45-year-old data, Beugelsdijk et al. (2015) recently found that while scores have changed during this time their relation to other countries have remained the same. The original work of Hofstede can therefore still be of use in explaining cultural differences between countries. Based upon Hofstede's (1988) research figure 4.1 shows how the culture in Sweden differs from the culture in the U.S, UK, Germany and Denmark, countries that previous studies of the perception of auditor independence has been conducted in.

It is directly evident that Swedish culture and therefore possibly the comprehension of ethical issues differ from the U.S, UK and Germany. In particular, these countries are regarded more masculine, whereas Sweden is strongly feminine. According to Vitell et al. (1993), competitiveness is encouraged in masculine countries and this has led to the development of business practices to be considered unethical in feminine countries. Based on this assumption, individuals of the masculine countries of the U.S, UK and Germany could be more accepting of questionable business practices, indicating that they may look more favorably on the provision of NAS by an audit firm.

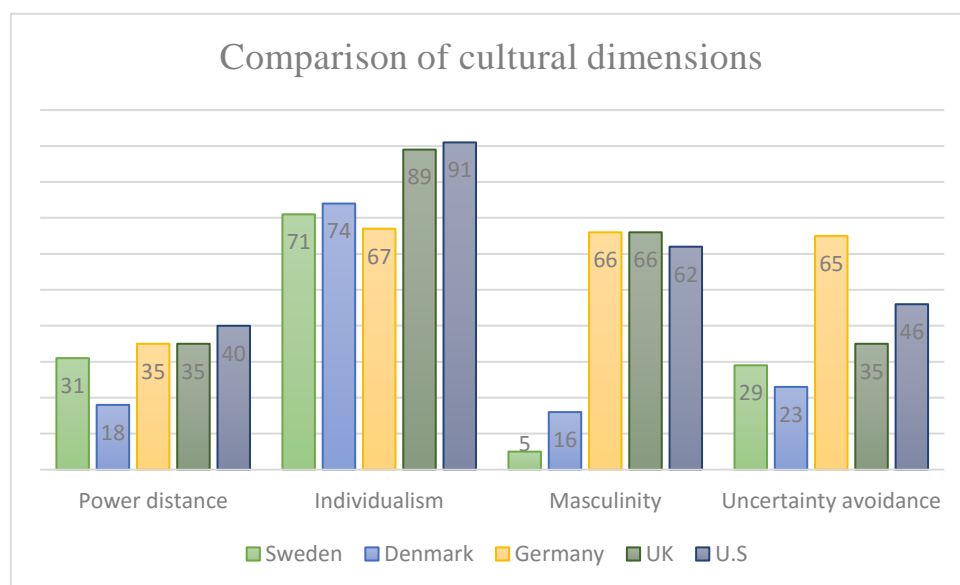


Figure 4.1: Cultural dimensions (based on Hofstede, 1988)

Denmark is among the few feminine countries where the perceptions of auditor independence have been conducted. In comparison to Sweden, Denmark is quite similar in the dimensions of individualism and uncertainty avoidance, however, since a difference in power distance is present, this may indicate that the individuals perceive ethical issues differently in the two countries based on. According to Vitell et al. (1993), ethical rules could be more important in forming opinions of inappropriate behavior in countries with large power distance. This suggests that it is more likely that Swedish individuals base their perceptions of auditor independence on the established rules governing the auditor's conduct.

4.3 Swedish Corporate Governance

The Swedish Corporate Governance Code is regarded as the complement to the national legislation, and is a norm-based system of self-regulation. The soft law is based on the principle of “comply or explain”, meaning that the companies that choose not to comply should explain why. The code promotes good corporate governance through a set of rules on the work of the shareholders, nomination committee, the board, directors and chief executive officers. The Swedish ownership structure is highlighted in the code as it is perceived as important for the Swedish context. In most Anglo-Saxon countries, the ownership structure is quite diverse, but in Sweden and other continental European countries, the ownership is often concentrated to a small number of large shareholders.

The role of the auditor in the Swedish Corporate Governance code is linked to a number of aspects in which the first is the nominations committee. The engagement of shareholders in this process is an important characteristic in the Swedish corporate governance, and among the tasks of the committee is the proposal of the statutory auditor. The code emphasizes that since the auditor is elected by the owners of the companies, the auditor is obligated to independently report back to the shareholders - free of any influences from the board or the management. The code also states that if any board member or manager violate any corporate policies or legislation, the auditor is obligated to report it (Swedish Corporate Governance Board, 2015). In their response to the green paper on audit policy, the Swedish Corporate Governance Board also highlighted this unique aspect in Sweden, and stated that the judgement call between the advantages and disadvantages of changing audit firm should be left to the nomination committee (2010, p. 2).

Finally, besides being based on Swedish norms, the Swedish code is also influenced by the European Commission's recommendations in the field of corporate governance. Among these directives is also the regulation of the auditing profession in which this thesis is investigating (Swedish Corporate Governance Board, 2015).

4.4 Auditing regulations in Sweden

4.4.1 The Companies Act

The auditing profession was first regulated in Sweden by the 1895 Act when limited companies were recommended to assign auditors to review the financial statements (Öhman and Wallerstedt, 2012). The following decades, the acts continued to expand the regulation, developing the Swedish auditing profession. The 1932 Kreuger crash indicated however, that the auditing profession was still underdeveloped and insufficiently regulated. In the aftermath of the crash, it became evident that a high level of secrecy and lack of financial auditing were important reasons to why the giant pyramid scheme survived undetected for so long. The auditing profession suffered greatly after the crash, and the need for stronger audit practices and ethical guidelines set off a range of regulatory changes in Sweden (Jones, 2010). The 1944 Companies Act was at large a response to the findings in the aftermath of the Kreuger crash, and required all listed companies to have at least one authorized auditor. The importance of auditor independence was emphasized, and the auditor was now also obligated to conduct a more comprehensive audit, verifying that the contents of the balance sheet were consistent with the books (Engwall and Morgan, 1999).

4.4.3 The European Union

As a consequence of Sweden entering the European Union in 1995, Swedish companies are not only obligated to follow the national law, but also directives issued by the Union. Since 2006, EU-listed companies and auditors have been subject to the Company Law Directive on statutory Audit (2006/43/EC). The soon-to-be implemented 2014/56/EU directive is amending the directive from 2006, aiming to improve the audit quality and strengthen the independence of the auditor. Since the EU regulation takes precedence over national law, directives and regulations are placed above the constitution.

4.4.2 The Swedish Auditors Act

Due to the EU membership, the Swedish Auditors Act was passed in order to make the national legislation compatible with the established EU regulation (Öhman and Wallerstedt, 2012). This regulation mainly surrounds the practical aspects of auditor authorization, as well as audit quality controls. The regulation also served as a fundamental basis for the more comprehensive Auditors Act of 2001. This act is of great importance to the audit practice and policies, adding additional guidance on the aspect of auditor independence.

4.5 Auditor independence in Swedish legislation

The aspect of auditor independence in Sweden is impacted and regulated by all of the above mentioned bodies and legislation. Additionally, a number of non-governmental bodies, national and international, serve as important influences on the development of the independent auditor.

The Swedish Auditors Act 19 § and 20 § obligate Swedish auditors to act in accordance with the Generally Accepted Auditing Principles (GAAP). The act emphasizes the importance of auditor independence, and that the entire audit procedure should be performed in line with recommendations to assure a satisfactory level of objectivity. Furthermore, the auditors act obligates auditors to test if there are any circumstances that may undermine the confidence in their objectivity or independence for each new engagement (21 §). If that is the case, the auditor must decline the engagement unless sufficient safeguards are put in place with the result that the independence cannot be questioned by an external party. This paragraph contains the so-called analysis model with the purpose of making sure that auditors are not only independent but also being perceived as independent by outside parties (prop. 2000/01:146 pp. 58-65). According to 21 §, the act states that in the following circumstances, the Swedish auditor must decline the audit engagement:

1. If he or she or anyone else in the network where he or she works:
 - a. Has a direct or indirect economic interest in the client's operations,
 - b. Through counselling that is not an audit activity has given advice in a matter that to some part is subject to the audit,
 - c. Acts or has acted in support of or against the client's standpoint in a legal or economic affair,
 - d. Has close personal relationships to the client or any person in its management,
 - e. Is subject to threats or other pressure that is intended to intimidate, or
2. If there are any other circumstances of such a nature that it may undermine the confidence for the auditor's objectivity and independence.

4.5.1 The IESBA code of Ethics

In Sweden, all auditors associated with the Swedish Institute of Authorized Public Accountants are also obligated to follow the ethical rules of the International Ethics Standards Board for Accountants (IESBA) (FAR, 2016). The very first paragraph of this code highlights that auditors have the responsibility to act in the public interest and should therefore not only accommodate the needs of an individual client or employer (100.1). Because of this the code requires all auditors to remain independent from their clients as this is in the best interest of the public (290.4). Two varieties of independence are identified in the IESBA code 290.6. *Independence of mind* constitutes the actual mindset of the auditor in which it is possible to act with integrity, objectivity and professional skepticism whereas *independence in appearance* refers to how outside parties perceive the auditor's ability to act accordingly.

To remain objective is also one of the fundamental principles of the IESBA code and is defined as "to not allow bias, conflict of interest or undue influence of others to override professional or business judgments" (100.5 b). Further, the code identifies various threats to objectivity and the other fundamental principles (100.12):

1. *Self-interest threat* – the threat that a financial or other interest will inappropriately influence the professional accountant's judgment or behaviour.
2. *Self-review threat* – the threat that a professional accountant will not appropriately evaluate the results of a previous judgment made or service performed by the professional accountant, or by another individual within the professional accountant's firm or employing organization, on which the accountant will rely when forming a judgment as part of providing a current service.
3. *Advocacy threat* – the threat that a professional accountant will promote a client's or employer's position to the point that the professional accountant's objectivity is compromised.
4. *Familiarity threat* – the threat that due to a long or close relationship with a client or employer, a professional accountant will be too sympathetic to their interests or too accepting of their work.
5. *Intimidation threat* – the threat that a professional accountant will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over the professional accountant.

As the attentive reader will probably have noticed the threats from the IESBA code in a)-e) strongly resembles the circumstances under which a Swedish auditor would have to decline an audit engagement in accordance with the Swedish auditors act 21 § a)-e). The IESBA code also identifies various scenarios where these threats would appear.

Other threats identified in the IESBA code

As objectivity is a component of auditor independence, all threats to objectivity presented above are also threats to independence. However, the IESBA code also contains further details of circumstances which may threaten auditor independence. One example is the provision of non-audit services which according to the IESBA code 290.156 can create threats to independence in the form of self-review, self-interest and advocacy. The code points out a number of non-audit services that may have a negative impact on the auditor's independence, including bookkeeping (290.168), valuation services (290.176), taxation services (290.182), internal audit services (290.196), IT system services (290.201), legal services (290.209), recruiting services (290.214) and corporate financing services (290.216).

Furthermore, the IESBA code 290.220 states that self-interest or intimidation threats may be created if a large fraction of the audit firm's total revenues comes from fees of an individual client. This is also applicable to the case when fees from an audit client represents a large share of the revenues an audit partner brings into the firm (290.221).

4.6 The EU audit reform

The EU audit reform originated from the former Commissioner for Internal Market and Services, Michel Barnier, who was the driving force behind the green paper and the subsequent debate about the role of the auditor. Barnier stated that the role of the auditor in the financial crisis had been largely ignored (European Commission, 2010b), and the green paper can therefore be seen as an attempt to place the auditors in the limelight. One of the main objectives of the green paper was to discuss how changes to the audit function could help achieve market stability. The concern for a lack of auditor independence emanated from the fact that banks involved in the financial crisis had received clean audit opinions (European Commission, 2010a). In relation to this, the green paper stressed that auditors play an important societal role and suggested that they had failed to fulfill this responsibility in the events leading up to the crisis. Moreover, emphasis was put on auditor independence that "should thus be the bedrock of the audit environment" (European Commission, 2010a, p. 3). Two measures that were suggested to strengthen auditor independence was mandatory audit firm rotation and the prohibition of some Non-audit services.

Many organizations responded to the green paper but despite some heavy critic from audit firms, investors and public authorities (European Commission, 2011a) the Commission continued their quest to reform the audit function by adopting a proposal for a EU directive and regulation in the matter (European Commission, 2011b). The Commissioner Michel Barnier stated "Investor confidence in audit has been shaken by the crisis and I believe changes in this sector are necessary: we need to restore confidence in the financial statements of companies. Today's proposals address the current weaknesses in the EU audit market, by eliminating conflicts of interest, ensuring independence..." (European Commission, 2011b). One of the suggestions in this proposal was the mandatory audit firm rotation after a period of 6 years, with the possibility to expand to 9 years in the presence of joint audit.

This proposal was thereafter reviewed by JURI, the European Parliament committee for legal affairs, who, for example, expressed a wish to expand the period an audit engagement could continue without rotation to 25 years (amendment 168). In December 2013, the European Parliament and the Member states made an agreement on how the Commission's proposal should be altered (European Commission, 2013). This agreement was welcomed by Barnier who claimed that the new reform would lead to financial stability, even though it was less ambitious than the Commission's initial proposal. The new regulations in regard to auditors' independence will be discussed below.

4.6.1 Directive 2014/56/EU and Regulation (EU) no 537/2014

The audit reform in Directive 2014/56/EU and regulation (EU) no 537/2014 is applicable to statutory audits of Public Interest Entities (PIEs). According to the amendment of Directive 2006/43/EC, a PIE is an entity in a Member state listed on a regulated market in the EU, a credit institution or an insurance undertaking (art. 13). Member states have the option to define additional entities as a PIE if these for some reason are of significant public relevance. To date there is no suggestion from the Swedish legislator to expand the definition of PIE in any way (Prop. 2015/16:162, p. 12).

For the audit of entities identified as PIEs, regulation (EU) no 537/2014 specifies that an engagement may not surpass ten years (art. 17). However, the regulation allows the member states to legislate that firm rotation must take place sooner, or later, extending the timeframe to 20 years if tendering is conducted, and an additional four years in the presence of a joint audit (art. 17(4)). The preparatory proposition suggests that the Swedish legislator will permit the maximum timeframe for listed companies (prop. 2015/16:162, p. 33). The introduction of mandatory audit firm rotation will not remove the obligation to rotate the audit partner after seven years as article 42(2) of Directive 2006/43/EC has not been amended. That partner rotation should be maintained was stressed in the green paper as this would prevent companies from circumventing the regulation by following the partner to a new audit firm (European Commission, 2010, p. 11).

Another regulation aimed at improving independence is the prohibition of certain non-audit services (NAS). According to article 5(1) of regulation (EU) no 537/2014 the audit firm and the network it belongs to may not provide the audit client, its parent company or company under its control with blacklisted services the audited year and the year before that. In regard to some of these blacklisted services, member states are allowed to permit them under the circumstance that it has no direct or unessential effect on the audited financial statements and that documentation on the estimated effect is given to the audit committee in an additional report (art. 5(3)). The prohibited services and which can be permitted by member states can be seen in the table below. In Sweden the legislator has proposed that all of the derogations be entered into the Swedish auditors act (Prop. 2015/16:162, p. 16).

Blacklisted non-audit services		
<i>Service</i>		<i>Permission to allow</i>
Tax services	Preparation of tax forms	Yes
	Payroll tax	No
	Customs duties	No
	Identification of public subsidies and tax incentives unless support from the statutory auditor or the audit firm in respect of such services is required by law	Yes
	Support regarding tax inspections by tax authorities unless support from the statutory auditor or the audit firm in respect of such inspections is required by law	Yes
	Direct-, indirect and deferred tax calculations	Yes
	Tax advice	Yes
Services involving management or decision-making in the entity		
Bookkeeping and preparation of accounting records and financial statements		
Payroll services		
Design and implementation of internal control or risk management procedures that are related to the preparation or control of financial statements as well as design and implementation of financial information technology systems		
Valuation services		Yes
Legal services	The provision of general counsel	
	Negotiation on the behalf of the audited entity	
	Acting in an advocacy role in the resolution of litigation	
Internal audit services		
Services linked to the financing, capital structure and allocation, and investment strategy of the audited entity		
Promoting, dealing in, or underwriting shares in the audited entity		
Human resources services	Searching for, seeking out and undertaking reference checks for management in a position to influence the preparation of accounting records or financial statements	
	Structuring the organisation design	
	Cost control	

Figure 4.2: Table of the prohibited Non-Audit Services (Regulation (EU) no 537/2014)

In a further attempt to strengthen the auditors' independence, regulation (EU) no 537/2014 also mandates that total fees for permitted non-audit services may not exceed 70 percent of the averaged audit fees for three years (art. 4(2)). Member states have been given the permission to allow exemption from this rule if requested by the auditor on exceptional grounds. The Swedish legislator has proposed that such an exemption rule will be imposed in a new 22 a § of the Swedish auditors act (Prop. 2015/16:162, p. 17).

4.6.2 Changes in Sweden due to the EU audit reform

When comparing the current law regulating the independence of auditors in Sweden with the EU audit reform the biggest change is arguably the implementation of mandatory audit firm rotation. In regard to the non-audit services some of these would already have been out of the question for Swedish auditors as the IESBA code lists many of them as independence impairing. Non-audit services highlighted as potential threats to independence in the IESBA code include taxation services, bookkeeping services, valuation services, internal audit services, IT system services, legal services, recruiting services and corporate financing services. The only two services blacklisted by the EU not mentioned by the IESBA code are thus services involving management or decision-making in the entity and payroll services. Although these services are not explicitly mentioned in the IESBA code they may both create self-review threats which should be taken into consideration by the Swedish auditor as a part of the analytical model.

The biggest difference for the Swedish auditor in regard to NAS would thus be that they previously were able to judge their independence in each individual case when following the principles-based IESBA code and that this level of autonomy has been removed and replaced by stricter rules that directly prohibits some services.

4.7 Chapter summary

The small audit profession in Sweden may influence the perceptions of auditor independence in the country which may therefore be very different from those in the UK, Germany and U.S where the audit profession is much larger. This may thus be regarded as a unique national aspect that separates Sweden from many of the countries where previous studies have been conducted. The perception of auditor independence and the ethical grounds on which it is based on, may also differ in Sweden in comparison to other countries due to cultural differences, something this thesis will attempt to investigate. Moreover, the Swedish context also differs from other countries in regard to corporate governance where a concentrated ownership structure is an important Swedish characteristic in contrast to many Anglo-Saxon countries. As evident from the previous chapter many of the previous studies on the perceptions of auditor independence are conducted in these countries and due to the contextual differences, the results of those studies may not be transferable to Sweden. Another Swedish characteristic is the presence of the nomination committees in which the dominant shareholders have the power to influence the choice of auditors.

Furthermore, this chapter has presented the current regulation affecting auditor independence in Sweden today, as well as the new audit reform imposed through the EU. While the implementation of mandatory audit firm rotation is entirely in Sweden, it was found that many of the prohibited services are already out-ruled through the recommendations of the IESBA code. This means that an important change from the reform is the transition from being allowed to make own judgement calls in regard to non-audit services, to stricter regulation with less room for discussion.

5. Results and analysis of interviews

The results of the conducted interviews will be presented and analyzed in this segment. Additionally, when the viewpoints of the auditors in this analysis are presented, we have chosen to exclude stating the workplace. It was noted during the interviews that the opinions of the auditors were not significantly influenced by the culture of their firm. This was especially evident as the three representatives from PwC argued both in line with and in contrast to each other. Representatives of the following stakeholder groups identified above are included through conducted interviews:

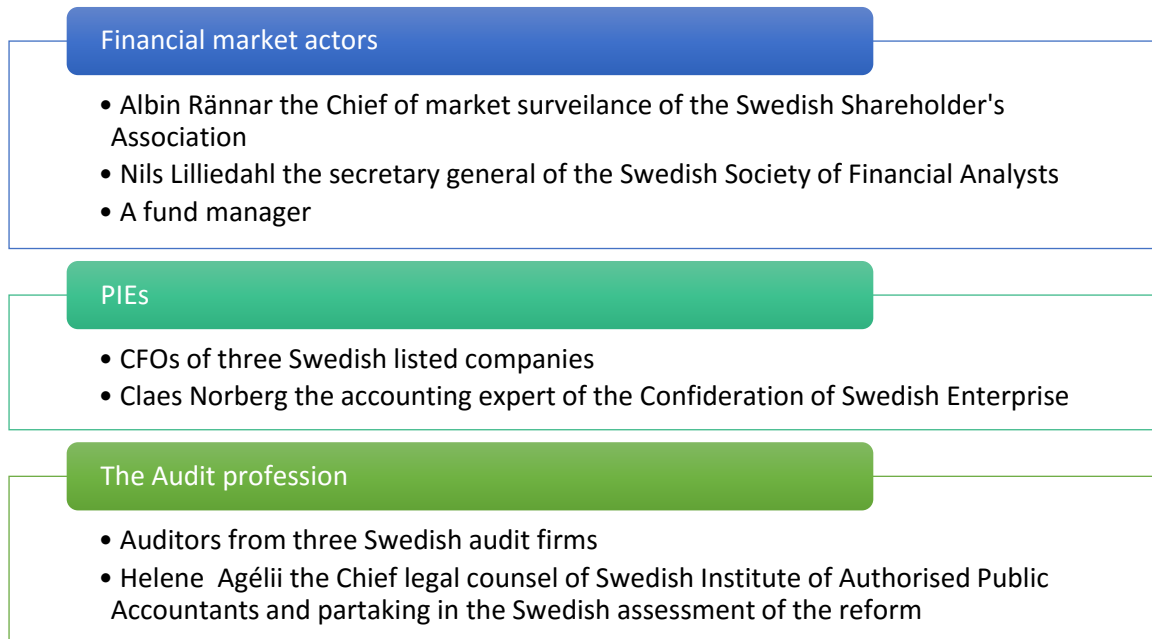


Figure 5.1: Interviewees

5.1 The viewpoint on the objectives of the EU audit reform

5.1.1 The audit profession

Helene Agelii, chief legal counsel at FAR and partaking in the Swedish assessment of the reform, stated that there were originally three outspoken goals from the regulatory changes; “the first objective was to improve audit quality, the second was to strengthen auditor independence, and the third objective was to dissolve the market concentration surrounding the Big Four”. Agelii questioned, however, the assumptions on which the reform is based on, pointing out that “there are no empirical evidence that firm rotation is necessary”. In support of the reform, she concluded that it is unlikely that the EU would initiate a comprehensive legislation if the public had not expressed an insecurity towards the independence of the auditor.

The auditors pointed out the 2008 financial crisis as an important explanation to the reform, however, on the contrary it was also emphasized that the audit profession could not be blamed for the crisis. One of the auditors stated that “when the market crashes, it is not a direct consequence of the auditing industry”. It was pointed out that we live in a society where there is a high level of skepticism and low level of tolerance, something that was perceived a big challenge for the Swedish auditing profession. Despite this view, the auditors regarded the focus on auditor independence as positive and as an attempt to establish a uniform regulation within the European Union to increase the capital market confidence. From an investors viewpoint, one of the auditors argued that the reform would not have been initiated if it was only based on the wishes of the investors; “politicians, the media and the fear of independence related issues have been the driving forces”.

5.1.2 Financial market actors

In line with the audit profession, the financial market actors pointed out the financial crisis as a triggering factor to the reform. Nils Liliedahl, Secretary General in The Swedish Society of Financial Analysts, argued that most legislative changes originate from crises and that “the objective is eventually to increasingly monitor the companies and the relationship between the client and the auditor”. The fund manager argued that the regulation had not been much up to debate in the fund industry, and pointed out that fund managers respond more to specific events rather than new regulation. Albin Rännar, director of market surveillance of the Swedish Shareholder’s Association, stated that the new reform may be unnecessary in the Swedish markets, but that it is the price to pay for accessing the European markets. He concluded that “the audit industry is eventually built on public trust and trust is expensive to regulate”.

5.1.3 Public interest entities

Among the public entity representatives, the regulation was welcomed, and although it was understandable that all listed companies should play by the same rules, the reform was at the same time viewed somewhat unnecessary and less applicable to small-cap. Claes Norberg agreed in this statement, stating that the public interest in these firms is typically smaller, and that the financial impact of the reform will be more significant here in comparison to larger firms. On an overall level, Norberg perceived the reform as “a way to prove the European Union’s ability to take action after the crisis”.

5.2 The viewpoint on auditor independence

5.2.1 The audit profession

Integrity and the ability to be neutral and free from any external influences which may impact the audit were pointed out as important aspects to enhance auditor independence. Additionally, the auditors highlighted auditor independence as a twofold; independence in mind and independence in appearance. Among the two, independence in mind was considered more difficult to evaluate in owner-managed firms, since the auditor tends to have a closer relationship with the management of non-listed companies.

This was partly explained by the fact that these firms often chose their auditor based on personal chemistry rather than on a firm level. Further, although the auditors stated that it is equally important to document their independence in all engagements the documentation process for listed companies could be perceived as more critical due to the public eye and larger scale of interests. At the same time, due to a more comprehensive platform of regulation and thereby clarified guidelines, this procedure was considered less complicated in engagements for listed companies. It was concluded that “the documentation process of auditor independence may feel more important in listed company engagements, but then more difficult to evaluate in owner-managed firms due to the a less comprehensive regulation”. Moreover, one of the auditors pointed out that the positive effects of a good client-auditor relationship was to some degree misunderstood; “the public would probably prefer the auditor keep its distance from the management, but good solutions do emerge from good relationships”. This difficult relationship balance is in line with the findings of Bamber and Iyer (2007) who stated that the auditors’ knowledge and understanding of the client serve as an important fundament to promote audit quality.

Agelii argued that the focus on ethics and moral issues have increased significantly in Sweden over the last decade; “companies are no longer demanded to only follow legislation, but also to act within the moral norms of society”. Parallel to the development in ethical business behavior, the auditors stated that the discussions on auditor independence have been intensified over the last decades, and that “the focus on auditor independence have been strengthened through new and expanded regulation, something that was particularly reinforced after the Enron scandal”. It was also mentioned that in addition to the establishment of a clear and transparent set of rules and standards, the audit firm leadership strategies have developed, resulting in “significantly improved internal processes”.

5.2.2 Financial market actors

Albin Rännar stated that since society places a great deal of trust into the work of the auditor, it is essential to secure their independence. He argued that “society expects the auditor to be independent”, concluding that the auditor independence might be very far down on the checklist when investors evaluate an investment. This was exemplified with the expression that “it is not until it is burning that you call the fire brigade”. Rännar emphasized that one must separate between dominant owners and small investors. He argued that auditor independence may be more important for the minority investors as the dominant owners have a far better insight into the company. Nils Lilliedahl from the Swedish Society of Financial Analysts reasoned similarly, arguing that “financial analysts do not care about who the auditor is as long as an auditor has actually audited the financial statements”. He also stated that a sell-side analyst would not care at all about auditor independence. Similar findings were found in Germany where Dyxhoorn and Sinning (1982) noticed that auditor non-independence had a negative impact on investment decisions but that auditor independence was not influential. The authors explained that in certain countries, investors might expect auditors to be independent, and will therefore not include this aspect in the evaluation process unless it is considered to be poor.

Their findings on non-independence is also at large in line with our as the fund managers pointed out scandals and media attention as more influential. Our support to the German study may be a consequence of cultural similarities. Research suggest that similarities within cultural heritages is an important factor explaining why some countries establish stronger trading relationships (Guiso et al, 2009). The fact that Germany is the most important trading partner of Sweden (Business Sweden, n.d.) may therefore indicate that the longstanding relationship is built on some degree of cultural compliance which could explain why the views are similar. Additionally, Sweden and Germany share many of the same economic principles from the European model where less faith is placed in the “invisible hand”, creating a rather active state (Veggeland, 2007). The level of government intervention may therefore be another explanation to why the financial market actors seem to trust the markets to the extent that they exclude auditor independence when evaluating investments. High levels of market trust in Sweden may also be partly a result of the increased ethical focus stated by Helene Agelii.

5.2.3 Public interest entities

One of the CFOs stated that “the main task of the auditor is to question, critically investigate the financial statements and furthermore assure that the legislation is being followed”. This was largely supported by the other two representatives. It was furthermore emphasized that no owner, large or small, should be favored. There was a uniform perception of the auditor as more than a stamp of quality; “The auditors are an important sounding board; they are close to us”. At the same time, the importance of a professional and transparent relationship was emphasized. Further, all the company representatives stated that in order to establish an efficient audit, the chemistry between the two parties is important. Thereby, one may conclude that these aspects of the relationship between the auditor and the management could be difficult to balance. Antle (1984) in the US and Watts and Zimmerman (1979) in the US/UK found the relationship between the auditor and management to be a critical balance point and significant threat towards auditor independence. Moreover, considering that IESBA has identified and included this threat in the code of ethics (i.e. familiarity threat), as well as the Swedish Auditors Act to some extent points out the same aspects, one may conclude that this finding was expected - confirming a common view on the relationship balance between the auditor and the client.

Further, Claes Norberg pointed out the difficulties surrounding regulating auditor independence, stating that “the problem is that one can only regulate independence in appearance. Independence in mind is impossible to regulate meaning that the risk of dependency will present in all business relationships”. The CFOs stressed that auditor independence was believed to be crucial for their investors’ confidence in the financial statements. All of the CFOs were thus in agreement that an independent auditor was not only a regulatory demand, but also of value to their owners.

However, in line with the statements of the financial market actors, Claes Norberg noted that the investors are rarely portrayed when the media cover stories on auditor independence, something that could confirm the statement that owners assume auditor independence is intact as long as there is no crisis. Norberg stressed that the issue of auditor independence should be important to the owners, but that this could be questioned due to the Swedish ownership structure.

5.3 The viewpoint on audit firm rotation

5.3.1 The audit profession

On the aspect of audit firm rotation, the audit profession was positive towards rotation, stating that it is probably never good to be part of the same engagement for very long. However, it was pointed out that the relationship between the auditor and the client is not static, and the possible challenges from placing time as the critical factor was highlighted. It was argued that since both the team, partner and client management rotate “you will never have the same counterpart for more than seven years. This aspect is never addressed in the media”. Further, the US study by Kaplan and Mauldin (2008) found that audit firm rotation had limited effect on the perceptions of auditor independence, and that it did not add more value than partner rotation. Helene Agelii argued similarly, stating “it is good that auditor independence is up to discussion, but firm rotation is a rather blunt tool”.

Moreover, it was argued that the implementation of firm rotation would lead to an increase of audit fees. This was explained by the fact that the shorter time periods and growing number of audit tenders must be compensated for. One of the auditors argued that if the audit fee is too low, the engagement cannot carry itself “due to the longer startup, firm rotation is an investment for both parties. It is therefore important that the rotation period is not too short, and that there is some level of assurance that the engagement is good business for us. If not, we are no longer independent”. It was also argued that audit tenure would not only fail to enhance auditor independence, but also reduce the audit quality. This finding supports the study by Geiger and Raghunandan (2002) where it was concluded that it is within the first years of an engagement that the majority of audit reporting failures occur. Moreover, it was argued that the importance of auditor independence is to a large degree determined by the culture of the firm and the internal processes. The auditors did thereby not feel a need for increased regulation, and concluded that audit firm rotation would eventually not enhance auditor independence.

5.3.2 Financial market actors

In order to support why audit firm rotation is necessary, Albin Rännar referred to a study on the independence of board members conducted in relation to the development of the Swedish Corporate Governance Code. By drawing parallels to this study, Rännar argued that “the auditor cannot be independent after ten years. The parties have become very close to one another”. He acknowledged that whether an auditor is independent or not is not solely a consequence of time, but also impacted by the individual’s level of integrity. He however concluded that this was not a sufficient argument to rule against the implementation of audit firm rotation.

The fund manager saw both positive and negative sides to firm rotation. A fresh set of eyes was regarded an important upside, however, on the contrary he agreed with the auditors, stating that the new team would not possess the same company knowledge as the former team. On this aspect, Nils Liliedahl agreed with the fund manager, highlighting more or less the same benefits and challenges with firm rotation. Finally, Rännar stated that although market efficiency will decline and audit fees will increase, audit firm rotation is a necessary action to stimulate the trust to both the markets and the auditing profession. Overall, the interview subjects were quite positive towards mandatory audit firm rotation. The findings of this study are thus the opposite of two previous UK studies. Firth (1980) found an insignificant effect on the perceptions of auditor independence when asking about a ten-year relationship, while Dart (2011) found support for the notion that partner rotation was enough to protect auditor independence. Explanations to why our findings differ may be another consequence of variations among economic models. While the UK follows the Anglo-Saxon model with limited market regulation, Sweden follows the Scandinavian model where state intervention is more desirable. The positive attitude towards firm rotation among the Swedish financial market actors could therefore be partly explained by the role of the government in the Swedish society.

5.3.3 Public interest entities

The companies understood the importance of rejecting too close relationships, and saw rotation as something positive. Those who had experienced rotation, described that “it was refreshing to rotate the auditors, they had a different focus, but there was of course much more administrative work for us since the new team did not possess the same knowledge of the company as the previous team”. The long and demanding start-up period was emphasized by all the interviewees. Moreover, the companies saw team and partner rotation as enough to enhance auditor independence, and did not find it necessary to also rotate the firm. This was explained by the impression that the larger audit firms possess largely the same competences and knowledge. Based on this assumption, it was stated that “It is the partner rotation that matters [...] To also rotate the firm would not add value to any parties”. In line with the auditors, increased costs were also highlighted. One of the CFOs argued that since the relationship between the client and the auditor is a two-way, the management could be more involved in the process of avoiding tight relationships.

Claes Norberg viewed audit firm rotation as a fairly primitive tool to protect the owners, and perceived the new regulation as an attempt to tackle the agency problem. He questioned the positive effects from firm rotation, stating that “it becomes difficult when regulation is set to decide when it’s time to rotate [...] Then if the firm is in a crisis or not doing well, forced audit firm rotation will become a big burden”. Norberg did understand the possible correlation between long working relationships and auditor independence, but emphasized that longer working relationships do add important continuity and efficiency to the audit.

Finally, Norberg concluded that he believed the effects from firm rotation could be similar to those in the Netherlands where the regulation and increased number of audit tenders led to increased audit quality. It should be noted that this outcome was questioned by the auditors who argued that it was more likely that the effect would be opposite since the level of trust and knowledge in every engagement are fundamental factors on which the audit quality is built on.

5.4 The viewpoint on non-audit services

5.4.1 The audit profession

The auditors did not fully identify themselves with the allegation that NAS compromise the independence of the auditor. The group did understand that the economic dependency could be perceived a threat, but did not experience the service combination as compromising. This was partly explained by the clear guidelines that is provided by the comprehensive regulatory platform on which the audit of Swedish listed companies is based on. It was stated that in Sweden “this is not thought to be a problem”. These assertions support the findings of Defond et al. (2002), Craswell (1999) and Hay et al (2006), but at the same time partly reject the study by Kinney et al. (2004). This US research found the provision of NAS as compromising towards auditor independence, however at the same time it also found a positive correlation between the provision of NAS and audit quality. Previous research on NAS from the viewpoint of auditors is thereby mainly negative towards the assumption that it compromises auditor independence. However, the impact social desirability bias may have on our interview data should not be ignored. Therefore, based solely on the views of auditors, one cannot conclude that auditor independence is not affected by the provision of NAS in Sweden.

From the beginning it was anticipated that mandatory audit firm rotation would benefit the smaller audit firms, however most auditors in this research argued that these firms do not possess broad enough competences to conduct a large and complex audit. It was stated that “when companies must change auditor, certain criteria will be listed [...] In the end, the listed firms know who they want to work with”. According to the auditor at Grant Thornton, the company do not see an opportunity within the area of auditing, but do believe that there will be an increased demand of non-audit services. He stated “since the companies may behave more cautiously, the outcome could be that consulting services will be purchased from the firms outside the big four”.

5.4.2 Financial market actors

Nils Liliedahl stated that “Auditor independence could definitely be compromised by combining the audit with non-audit services. There is no doubt about that”. Both the fund manager and Albin Rännar agreed on this. Rännar argued that “when the audit firm also provide the client with consulting services, a conflict of interest occurs. Since these consulting services are very profitable, it is possible that the auditor will withhold critique towards the company in fear of losing the client”. He concluded that auditors under no circumstances should be subject to any conflicts of interests, and that the Swedish Shareholder’s Association was open to prohibit the provision of all non-audit services to the audit client.

Economic dependency was also pointed out as a threat in the Irish study by Canning and Gwilliam (1999), however, the respondents in this research did not support the prohibition of these services. The findings of Swanger and Chewning (2001) USA are both confirmed and rejected since their study found NAS compromising, but only if it was conducted by the audit team. Finally, our findings are at large in conflict with the findings of Gul (1989) in New Zealand where the results suggested that auditor independence was strengthened if NAS was also provided. However, considering the significant growth in NAS provision during the 90s as well as the following auditing scandals (Gwilliam et al., 2014), the study by Gul may be outdated. It could therefore be concluded that regardless of economic models, there is a common view of NAS as compromising among financial market actors.

5.4.3 Public interest entities

The companies expressed a mixed feel towards the restriction, and stated that they had not experienced that the use of NAS had been in conflict with the audit. They explained that the services they had purchased had been conducted by other teams from the audit firm, something that had eased the process since the teams could communicate directly instead of through the company. One of the CFOs stated that “The benefits of prohibit NAS will be very limited, possibly non-existent”. Further, it was argued that the use of NAS in smaller firms was not comparable to that of larger listings, something one of the CFOs criticized in the new reform “It is the same set of rules for a small firm like us and a larger listing like Ericsson. It could be argued that the differences between a global entity and a local player should have been taken more into account”. Overall, there was a shared understanding that the auditor independence could be negatively impacted when large number of services are being purchased. Eventually none of the representatives believed that it would be problematic to hire a third party to provide these services if necessary. Finally, two of the representatives explained that they had experienced a growing cautiousness among the auditors “I have noticed that our auditors thoroughly evaluate whether they can provide certain services or not. And if their integrity could be compromised, it is good to separate the services”.

Claes Norberg highlighted the downsides to restricting NAS, pointing out the benefits from using an audit firm with knowledge of the concerns and possible obstacles in the company. It was stated that since prohibition will force companies to assign a third party, more administrative work will be placed on both the auditors and the companies - a price the client will have to carry. Norberg argued that “The reform will not be a problem for the larger listings, they can take it [the increased costs], but if you look at the smaller listings, how will the economic impact affect them? This is where it will hit”.

The UK study by Beattie et al. (1999) suggested that financial directors found NAS and economic dependency as big threats towards auditor independence. Our interview subjects acknowledged this threat, but since they had not experienced it as compromising, it could be argued that our findings do not entirely confirm the UK study. It is evident that one must separate between large and small listings. Further, our results are more in line with Quick and Warming-Rasmussen's (2005) findings where the majority of Danish directors did not perceive the provision of consulting services as compromising. It could be argued that our support to this study and furthermore the rejection of the UK findings are again results of cultural dimensions and the role of governments in respective countries. As emphasized earlier in this analysis, the UK and other Anglo-Saxon countries have limited market regulation while the European and Scandinavian models have a more active state. Additionally, Denmark and Sweden are close - not only in terms of geographic location, but also in regard to historic events, trade, culture and values (Nordic Council of Ministers, 2014). This is also reflected in the model by Hofstede (1988), and similarities like these may explain our support to the Danish study as well as our rejection of the UK findings.

5.5 The viewpoint on potential consequences of the EU audit reform

5.5.1 The audit profession

On the potential effects the reform may have on the Swedish markets, Helene Agelii argued that among the three objectives of this reform "EU have completely failed to open up the market. I believe this regulation will have the opposite effect since larger listings need an audit firm of a certain size". Moreover, the cost and administrative work that follow from this regulation was a common concern within this group, and Agelii pointed out that "even if the auditor independence strengthens and the audit quality improves, it will not happen for free".

Among the auditors, the directive's effect on auditor independence is expected to be very limited. There was a shared belief that this aspect is sufficiently regulated in the current legislation, and it was argued that stricter regulation is not positively correlated with auditor independence. Instead, it was stated that company atmosphere and focus on transparency and ethics were more relevant factors to determine the level of independence. A recurring concern was the impact rotation may have on revenue, and it was pointed out that "when a large engagement rotates, it may not be replaced by a new client [...] The rotation will impact the profitability of the audit firms, and the rather stable level of income we have now will fluctuate more". This will require the audit firms to be much more flexible, a flexibility the auditors perceived as a great challenge. A number of interviewees believed that one consequence could be that key members of the old team would rotate together with large companies, and thereby add some level of continuity to the engagement. The relocation of human resources was also seen as a necessary action to secure the work of the auditors - especially in smaller cities where the loss of large engagements could leave the audit firm with periods of limited workload. One of the auditors stated that "while the former audit firm may struggle to find work to those who used to work with the rotating client. On the other hand, the new audit firm may not have enough resources available to conduct the audit and the result may be that former team members will

rotate with the client”. Further, it was argued that the audit tenders will enhance the auditor-client relationship and force the audit firms to spend more time on building relationships with potential clients long before rotation. Focus on client relationships was not considered a challenge towards auditor independence.

One of the auditors raised concerns in regard to the impact the regulation may have on services where the audit has been an important entry point. She questioned “how will these services manage to recruit new clients that are not using our audit services”. Further, she stated that there is a possibility that the outcome could be internal conflicts “there is a risk that the profitable departments don’t want to carry the less profitable departments”. How this challenge will be met seemed quite uncertain, but since the audit engagements will need to carry itself without help from other services, the audit fees will arguably increase.

Further, Agelii pointed out the lack of evidence suggesting a need for stricter regulation to secure auditor independence, and compared the reform with the process of hunting a ghost. She stated that “the EU is attempting to solve a problem no one knows to exist”. At the same time, Agelii concluded that the focus on auditor independence will increase the awareness around it, and although the regulation may not strengthen auditor independence, it could still result in increased trust in the financial markets.

The possible outcomes of the numerous member state options and the variations in the national implementation processes were discussed and questioned. Several interviewees had anticipated that an important objective of the audit reform was to establish a uniform legislation across the EU member countries, but due to the regulatory flexibilities not all the interviewees believed this objective would be met. Agelii argued that “the national legislation will differ significantly among the countries and this is a failure by the EU. The process for auditors to comply with these variations will become a challenge [...] There will be more focus on compliance than on the actual objectives of the reform; to enhance audit quality and auditor independence.” Agelii concluded that the first year after implementation will serve as a testing period.

Overall, there was no view of Sweden as a unique country in the implementation process, and it was argued that the challenges faced and tackled here in Sweden, were the same struggles of other member states.

5.5.2 Financial market actors

Within the group of financial market actors, there was mixed feel towards the effectiveness of the reform in Sweden. Nils Liliedahl stated that “I do not see how the market nor the level of independence would be affected by the regulation”. He argued that no financial analysts have any interest in these matters, and that the development of auditor independence in Sweden receives limited attention in the industry.

Albin Rännar disagreed with Liliedahl, stating that he believed both independence in mind and in appearance would be strengthened by the new reform. Rännar explained that “policies create norms which express how things are expected to be”. Further, Rännar hoped that the regulation would eventually increase the investor trust in the financial markets, and that this would lead to rising stock prices. The fund manager was also positive towards the focus on independence, but in line with Nils Liliedahl, he argued that the reform had received little attention in the fund industry. He stated that the fund managers did care about auditor independence, but that this aspect was not actively discussed when evaluating new investment options. Moreover, Rännar agreed with Agelii, stating that “legislation and regulation are no magic bullet, you have to do some test-driving”.

5.5.3 Public interest entities

The companies did not see that the regulation would impact much in the auditing industry. Mandatory audit firm rotation was perceived largely unnecessary, especially since the big firms are so uniform in competence and knowledge. One of the CFOs stated that “the listed firms will stay with their auditors as long as they can, and rotate as seldom as possible. Because it is a demanding process”. The current legislation was perceived adequate and the CFOs did not see an evident need of more regulation to enhance auditor independence. They concluded however, that when non-audit services will be needed in the future, the companies will make sure to stay well inside the lines of the new legislation and to a larger extent separate the audit from other services. On the matter of dissolving the market concentration, the company representatives stated that due to a need of complete competences they would not be interested in working with the smaller audit firms, but would instead continue to rotate among the larger firms.

Claes Norberg highlighted the balance between social and economic impact, stating that it may not be fair that the smaller listings which also tend to have a limited impact on society, will be more financially exposed in comparison to the larger firms. Norberg concluded that “I don’t believe that auditor independence will be enhanced. Partly since there will still be long rotation periods, but also because I see this reform more as a power to act after the financial crisis in Europe”.

6. Results and analysis of survey

The results of the survey sent to auditors, top management, financial analysts, fund managers and private investors will be presented and analyzed in the following. For the convenience of the reader the response rate is presented once again in the table below. As evident from the number of responses, the results may only be seen as an indication of the perception of these groups.

<i>Stakeholder</i>	<i>Sample</i>	<i>Respondents</i>	<i>Response rate</i>
Auditors	665	40	6 percent
Top management	333	80	24 percent
Financial analysts	111	16	14,4 percent
Fund managers	65	12	18,5 percent
Private investors	-	13	-

Figure 6.1: Sample and response rate for all groups

6.1 Audit tenure

Feelings towards mandatory audit firm rotation were overall positive as the majority of nearly all groups stated that they thought it would be a good tool to secure auditor independence. However, it was evident the auditors had a more negative view on mandatory audit firm rotation than was found in the other groups.

Do you believe that a forced change of audit firm after ten years (audit firm rotation) is a good tool to secure auditor independence?

	<i>Private investors</i>	<i>Financial analysts</i>	<i>Fund managers</i>	<i>Top management</i>	<i>Auditors</i>
Yes	53,8	50	41,7	61,3	53,8
No	30,8	25	33,3	32,5	43,6
Don't know	15,4	25	25	6,3	2,6

Figure 6.2: Percentage response in regard to mandatory audit firm rotation

Since the general opinion about mandatory audit firm rotation was rather positive one would expect the perceptions of auditor independence to be significantly affected by long audit tenure. However, when asked about a work relationship of ten years, perceptions varied. While more than half of all the private investors and financial analysts agreed fully or partially to the claim that an auditor cannot be independent when the audit firm has had the same client for ten years, fund managers were more inconclusive as many of them stated to be neutral. The observation that financial analysts seem to perceive a ten-year audit tenure as a threat to auditor independence is the opposite result from what Firth (1980) found in the UK, which may indicate a difference in context or a change of time. That financial market actors could have become more critical since 1980 is plausible as this was before the Enron scandal erupted and put the auditor's independence in the limelight. The perceptions of top management showed a large variation with 40 percent agreeing, 23.8 being neutral and 36.3 disagreeing. While the median suggests that top management is a somewhat neutral group in respect to ten-year audit tenure, the relatively high standard deviation indicates that this is an issue they do not agree upon to a large degree.

The group of auditors was the only group where the majority disagreed, indicating that they do not see auditor independence to be substantially threatened by a long audit tenure. As the median for auditors in this question is 5, one can firmly place them as a group that does not perceive auditor independence as impaired by a ten-year tenure, yet one should also note the standard deviation which suggests that there is also some degree of disagreement within the group. A gap between the perceptions of financial statement users and auditors were also found by previous studies of Bartlett (1993), Beattie et al. (1999), Quick & Warming-Rasmussen (2005) and Shockley (1981).

When an audit firm has been hired by the same company for ten years the auditor cannot be independent anymore

	<i>Private investors</i>	<i>Financial analysts</i>	<i>Fund managers</i>	<i>Top management</i>	<i>Auditors</i>
1. Fully agree	7,7	-	8,3	5	-
2. Partially agree	53,8	50	16,7	35	20
3. Neutral	23,1	18,8	41,7	23,8	5
4. Partially not agree	7,7	12,5	25	11,3	17,5
5. Fully not agree	7,7	12,5	8,3	25	57,5
Don't know	-	6,3	-	-	-
Median	2	2	3	3	5
Standard deviation	1,1	1,1	1,1	1,3	1,2

Figure 6.3: Percentage response in regard to a ten-year audit tenure

The perceptions of the efficiency of audit partner rotation in protecting auditor independence were quite ambivalent, as can be seen in figure 6.4 below. While the majority of both auditors and top management seems to believe that the current regulation in this area is sufficient, 30.8 percent of private investors and 37.6 of financial analysts disagreed. Based on the answers in this survey, fund managers do not seem to believe that further measures are needed as only 8.3 percent stated that their opinion was not that audit partner rotation was a sufficient measure. Moreover, the median of their answers are also an indication of this and combined with a standard deviation of only 1.0, this suggests that the group is more or less in agreement in regard to this issue.

In my opinion it is a sufficient measure to change the audit partner each seven years to protect auditor independence.

	<i>Private investors</i>	<i>Financial analysts</i>	<i>Fund managers</i>	<i>Top management</i>	<i>Auditors</i>
1. Fully agree	15,4	-	8,3	20	27,5
2. Partially agree	30,8	25	33,3	33,8	40
3. Neutral	15,4	25	41,7	20	15
4. Partially not agree	23,1	6,3	-	15	15
5. Fully not agree	7,7	31,3	8,3	10	2,5
Don't know	7,7	12,5	8,3	1,3	-
Median	2	3	2,5	2	2
Standard deviation	1,3	1,3	1,0	1,3	1,1

Figure 6.4: Percentage response in regard to partner rotation

Although the majority of auditors have claimed that audit partner rotation is enough their responses to the question about audit firm rotation indicates the opposite as 47.5 percent agreed that the audit firm should also change periodically to protect auditor independence. The majority of private investors, financial analysts and top management also stated that audit firms should change periodically, suggesting that these may have a favorable view on the mandatory audit firm rotation imposed by the EU. The median of all groups are all below or precisely 3 indicating that the average perception of these groups are positive, or at least neutral towards the measure to rotate audit firms. However, as one can see from figure 6.5 below, the standard deviation is especially high for private investors indicating a big variation in the views of this group. Fund managers did not seem to oppose audit firm rotation as only 16.6 percent disagreed to this claim.

The audit firm should also be changed periodically to protect auditor independence.

	<i>Private investors</i>	<i>Financial analysts</i>	<i>Fund managers</i>	<i>Top management</i>	<i>Auditors</i>
1. Fully agree	33,3	31,3	8,3	21,3	7,5
2. Partially agree	16,7	31,3	33,3	33,8	40
3. Neutral	16,7	18,8	41,7	15	17,5
4. Partially not agree	16,7	-	8,3	13,8	12,5
5. Fully not agree	16,7	12,5	8,3	16,3	22,5
Don't know	-	6,3	-	-	-
Median	2	2	3	2	3
Standard deviation	1,6	1,3	1,1	1,4	1,3

Figure 6.5: Percentage response in regard to firm rotation

6.1.1 Commentaries to audit tenure

A fund manager noted that every case of audit is unique and added that it could also be beneficiary to have an experienced auditor that knows the company well as this increases their ability to provide the company with good advice.

Further, one of the top managers highlighted the time it takes to establish a good understanding of the company, indicating that this individual could see disadvantages from being forced to rotate audit firm:

“If the auditor is independent or not is about personal characteristics, ethics, moral and professional conduct of the auditor. One shall also remember that listed companies today are immensely complex as it demands time to get to know the market, processes, systems and key people. If the auditor has the ability to independently stand for their decisions is a question of the backbone of that person, nothing else.”

6.1.2 Correlation

In figure 6.6 below Spearman's rank correlation (ρ) has been calculated to show how the different variables are related to each other. Answers to the question about mandatory audit firm rotation have been found to have a correlation with feelings towards a ten-year audit tenure in all groups. This correlation can be considered strong in three groups, namely private investors, top management and auditors. In regard to private investors a correlation between these two variables of 0.635 ρ combined with the results presented above suggests that their positive view on mandatory audit firm rotation is connected to a scepticism towards the auditor's ability to remain independent. The strong correlation of 0.62 ρ for auditors also suggests that a large part of respondents answering that mandatory audit firm rotation would be a good tool also regarded auditor independence to be impaired after ten years and vice versa. This indicates that personal feelings towards the independence impairing properties of a long audit tenure effects the auditor's viewpoint of this measure.

The results of this correlation analysis could also be taken as an indication that the auditor's that have responded to this survey have been affected by the phenomenon of 'social desirability' to a low degree. This can be seen by the weak correlation between the question regarding partner rotation and the two questions about a ten-year tenure and firm rotation. In all other questions of a likert scale asked in this study it can be assumed that the socially desirable answer would be to disagree. The insertion of one question where the socially desirable answer would be the opposite can thus show if the respondents have answered disagree to all questions mechanically (Bryman & Bell, 2013, p. 254). If auditors would have answered the likert scale questions in such a way, the correlation between all of these questions would thus be strong and positive. The weak correlation can therefore be seen as an indication that the answers have not been affected by this phenomenon to a large degree.

ρ Private investors	<i>Mandatory audit firm rotation</i>	<i>10-year tenure</i>	<i>Partner rotation</i>	<i>Firm rotation</i>
Mandatory audit firm rotation	1			
10-year tenure	0,635*	1		
Partner rotation	0,023	-0,005	1	
Firm rotation	0,283	0,231	0,459	1
ρ Financial analyst	<i>Mandatory audit firm rotation</i>	<i>10-year tenure</i>	<i>Partner rotation</i>	<i>Firm rotation</i>
Mandatory audit firm rotation	1			
10-year tenure	0,319	1		
Partner rotation	0,098	0,563*	1	
Firm rotation	-0,014	0,488	0,018	1
ρ Fund manager	<i>Mandatory audit firm rotation</i>	<i>10-year tenure</i>	<i>Partner rotation</i>	<i>Firm rotation</i>
Mandatory audit firm rotation	1			
10-year tenure	0,411	1		
Partner rotation	0,346	-0,096	1	
Firm rotation	0,217	0,876*	-0,243	1
ρ Top management	<i>Mandatory audit firm rotation</i>	<i>10-year tenure</i>	<i>Partner rotation</i>	<i>Firm rotation</i>
Mandatory audit firm rotation	1			
10-year tenure	0,609*	1		
Partner rotation	-0,046	-0,107	1	
Firm rotation	0,604*	0,671*	-0,253	1
ρ Auditor	<i>Mandatory audit firm rotation</i>	<i>10-year tenure</i>	<i>Partner rotation</i>	<i>Firm rotation</i>
Mandatory audit firm rotation	1			
10-year tenure	0,620*	1		
Partner rotation	-0,146	-0,140	1	
Firm rotation	0,513*	0,535*	-0,168	1

Figure 6.6: Spearman's rank correlation (ρ) for all groups for the questions regarding audit tenure. *. Correlation is significant at the 0,05 level (2-tailed)

6.2 Non-audit services

In regard to non-audit services, the majority of all groups shared a positive opinion about a prohibition of certain non-audit services. Private investors seemed to endorse this measure the most as 61.5 percent stated that prohibition would be a good tool to secure auditor independence while only 15.4 percent were of the opposite opinion.

Do you believe that a prohibition for an audit firm to sell certain other services to a company they audit is a good tool to secure auditor independence?

	<i>Private investors</i>	<i>Financial analysts</i>	<i>Fund managers</i>	<i>Top management</i>	<i>Auditors</i>
Yes	61,5	50	58,3	52,5	52,5
No	15,4	37,5	33,3	41,3	45
Don't know	23,1	12,5	8,3	6,3	2,5

Figure 6.7: Percentage response in regard to the prohibition of NAS

The majority of private investors and financial analysts stated that they agreed that an auditor is not independent when the audit firm also sells other services to the company. The effect that the provision of NAS had on the perceptions of auditor independence was thus greater for the financial market actors than that of top management and auditors. These results are hence along the line of the majority of previous studies (e.g Bartlett, 1993; Beattie et al., 1999; Canning & Gwilliam, 1999; Quick & Warming-Rasmussen, 2005; Colbert et al., 2008; Quick & Warming-Rasmussen, 2015; Shockley, 1981; Lowe et al., 1999; Swanger & Chewing, 2001; Quick & Warming-Rasmussen, 2009) and the opposite of Gul's (1989) New Zealand study. As the New Zealand study may be outdated it would thus appear as the provision of NAS is not perceived differently in diverse countries.

As only 17.5 percent of auditors stated that the auditor is not independent when the audit firm sells other services, a larger percentage of top management, 35.4 percent, shared this opinion. This question thus illustrates how the perceptions of financial market actors and auditors are on different ends of the spectrum, with top management somewhere in between. This result is in line with the Danish study by Quick & Warming-Rasmussen (2005) who also found the same difference in perceptions. That top management perceives situations slightly more independence impairing than auditors was also found by Beattie et al. (1999). This difference in perceptions between different groups does thus not appear to be influenced by contextual differences as our findings resemble those of both Anglo-Saxon and fellow Scandinavian country studies. From the median answers of this study it is also very clear that the groups that perceives NAS as the smallest threat are the top managers and auditors, however, the standard deviation still indicates some disagreement within these groups.

The auditor is not independence anymore if the audit firm also sells other services to the company.

	<i>Private investors</i>	<i>Financial analysts</i>	<i>Fund managers</i>	<i>Top management</i>	<i>Auditors</i>
1. Fully agree	30,8	18,8	16,7	2,5	2,5
2. Partially agree	38,5	43,8	33,3	32,9	15
3. Neutral	-	12,5	33,3	12,7	2,5
4. Partially not agree	7,7	6,3	16,7	34,2	45
5. Fully not agree	15,4	18,8	-	17,7	35
Don't know	7,7	-	-	-	-
Median	2	2	2,5	4	4
Standard deviation	1,5	1,4	1,0	1,2	1,1

Figure 6.8: Percentage response in regard to the impairment of NAS

In order to determine if there are any difference in the perception of the self-interest and the self-review threat in the provision of NAS the answers to the statements that these makes the auditor dependent are combined in figure 6.9 below. The table indicates that auditors are more inclined to perceive self-review as a threat than the self-interest threat. As the median shows, the auditors are also the group that has the strongest opposition to the claim that NAS creates economic dependency. Although there is some disagreement within the auditor group, the standard deviation is lower in regard to the self-interest threat, indicating that they share a more common perception on this issue. The majority of private investors perceived both of these as serious threats to auditor independence, although a larger percentage of these agreed to the statement in regard to the self-review threat. The self-review threat was also most prominent for the fund managers. On the contrary, a larger percentage of both the financial analysts and the top management agreed to self-interest being a big threat to the auditor's independence. The standard deviation of the financial market actors also indicate that the group responded consistent in regard to the self-review threat.

That an audit firm sell other services to a company the audit - makes them economically dependent on that company (- means that they must review their own work), which means that the auditor cannot be independent anymore.

	<i>Private investors</i>	<i>Financial analysts</i>	<i>Fund managers</i>	<i>Top management</i>	<i>Auditors</i>
1. Fully agree	53,8 (53,8)	31,3 (26,7)	33,3 (8,3)	3,8 (6,3)	7,5 (12,5)
2. Partially agree	30,8 (38,5)	25 (26,7)	16,7 (33,3)	40 (27,8)	7,5 (27,5)
3. Neutral	7,7 (7,7)	6,3 (20)	16,7 (33,3)	15 (22,8)	10 (2,5)
4. Partially not agree	- (-)	18,8 (-)	16,7 (8,3)	25 (27,8)	30 (25)
5. Fully not agree	7,7 (-)	18,8 (20)	16,7 (-)	16,3 (15,2)	45 (32,5)
Don't know	- (-)	- (6,7)	- (16,7)	- (-)	- (-)
Median	1 (1)	2 (2)	2,5 (2)	3 (3)	4 (4)
Standard deviation	1,2 (0,7)	1,6 (1,5)	1,6 (0,8)	1,2 (1,2)	1,3 (1,5)

Figure 6.9: Percentage response in regard to the self-interest and self-review threats

The majority of private investors found the provision of all non-audit services to impair auditor independence. However, the standard deviation of this group was between 1.4 and 1.7 for all of these services indicating some degree of disagreement. This was especially prominent in regard to tax services which showed the highest standard deviation indicating that the private investors of this study are not homogenous in their perceptions of this service, although the majority of them viewed them as independence impairing.

In regard to the other two financial market actors majority support was not found for the notion that payroll services make the auditor dependent and in fact 43.8 percent of financial analysts actually disagreed to this statement. The standard deviation also suggests that this group was in disagreement regarding this issue. Although a majority of fund managers did not find that human resource services impair independence, 33.3 percent of fund managers were neutral,

indicating that the services was considered irrelevant to them. However, the median of this group suggests a slight tendency to perceive the service as independence impairing at 2, while the standard deviation of 1.2 further shows some disagreement in the group. As evident from the table below, majority support in the group of fund managers was also absent in regard to tax consultation. While 41.6 percent of these agreed that such services impaired auditor independence, 33.3 percent had the opposite opinion. The standard deviation shows a larger disagreement in regard to tax consultation at 1.5.

Although a majority of private investors and financial analysts, as well as 41.6 percent of fund managers and 36.3 percent of top management perceived independence as impaired by tax consultation, only 7.5 percent of auditors agreed to this. The auditors responding to this survey also appeared to be in agreement over this issue with a standard deviation of 0.9. This shows a rather significant difference in perceptions of auditor independence. Once again, top management can also be seen to place themselves in the middle of financial market actors and auditors.

However, the latter was not evident in all cases as top managers found the services of payroll, legal services, services involving promotion of, dealing in or underwriting shares, human resource services and services linked to the financing, capital structure and allocation, and investment strategy as less compromising to auditor independence than the auditors themselves. Therefore, one may not conclude that top management are always in the middle in regard to perceptions of auditor independence.

Combined percentage of respondents agreeing to the claim that the different non-audit services leads to the auditor not being independent anymore

	<i>Private investors</i>	<i>Financial analysts</i>	<i>Fund managers</i>	<i>Top management</i>	<i>Auditors</i>
Tax consultation	61,6	62,6	41,6	36,3	7,5
Bookkeeping services	69,3	50,1	66,7	66,3	67,5
Payroll services	53,9	25	41,7	36,3	40
Services related to internal controls	61,6	62,6	83,3	53,8	46,1
Legal services	69,3	56,3	58,3	35,4	40
Services involving promotion of, dealing in or underwriting shares in the company	53,9	66,7	50	37,5	41
Human resource services such as the participation in the recruitment of leading positions in the company	61,1	50,1	41,7	46,9	73,7
Services that on some way means taking part in the decision-making of the company	77	68,8	66,6	83,8	95
Valuation services	69,3	60	58,3	51,3	44,7
Services linked to the financing, capital structure and allocation, and investment strategy of the company	61,6	56,3	66,6	40	67,5

Figure 6.10: Percentage response in agreement in regard to the different non-audit services

For some of the services, all groups were relatively in agreement that these impaired auditor independence, namely regarding bookkeeping services and services involving participation in decision-making. The latter was also the service that auditors reacted strongest to as 95 percent agreed, giving a standard deviation of 0.6. Moreover, auditors were also the group where the highest percentage found human resources as a threat, indicating that they may have other insights into how this service may compromise independence.

6.2.1 Commentaries to the provision of NAS

One private investor noted that responsible tendering of services should be required by both the auditors and the companies. A company manager also indicated that the companies also have a responsibility, noting that the company must keep track of the services they buy and have a decision-process around this.

Comments from both private investors and top management stated that the degree to which the independence could be tarnished depends on the size of the audit firm. Larger audit firms were assumed to be less at risk as they are able to provide the services through employees of other departments.

Many auditors responded that the impairment of the auditor's independence is reliant on the circumstances of each individual case. Below, the commentary of one auditor has been translated to English to shed light on how auditors reflect on this matter:

“The boundary for what an auditor is permitted or prohibited to do is very clear. Of course we as auditors cannot help to recruit leading executives, or partake in decisions. It goes without saying that we cannot do that. For each assignment performed in addition to the audit a thorough review is conducted to secure that the service in question does not affect our independence. If it does, we of course say no to the assignment. Even if some services are marked ‘OK’ for us to perform, we sometimes say no because the outside world might perceive it as compromising towards independence. If that is the case, we are forced to decline no matter if we really are allowed to perform the service.”

Another auditor directed critique towards the EUs cap on NAS fees and wrote:

“To place an exact percentage cap on advisory services like in the EU audit reform, suggests that the legislator believes that you always charge exactly the time spent and that it is not questionable what is what. That is an illusion in my opinion, the EU is trying to obtain an accuracy that does not exist...”

6.2.2 Correlation

Spearman's rank correlation has also been calculated between the questions regarding non-audit services and tables presenting this can be found on the following pages. The tables show that there is a correlation between the standpoint regarding the measure to prohibit certain NAS and feelings towards these services' independence impairing properties. This correlation is strong for the groups of private investors and top management. A correlation between these of 0.613 ρ for private investors combined with the results presented above indicates that their skepticism towards the auditor's ability to remain independent when NAS is provided is connected to their faith in the measure to prohibit certain services. Moreover, the correlation for private investors between NAS impairment and both economic dependence and self-review is strong. This indicates that respondents answering that NAS impairs independence is also likely to have answered that both economic dependence and the self-review threat is prominent. However, the correlation is higher in regard to the self-review threat at 0.806 ρ in comparison to 0.694 ρ and this may be taken as an indication that private investors connect the self-review threat to independence impairment to a larger degree than the economic dependence.

The other group where answers to the questions about the measure to prohibit NAS and the independence impairing properties of these services showed a high correlation was the top management. As this group showed a larger variation in responses the strong correlation of 0.62 ρ suggests that it is likely that respondents answering that the prohibition of NAS would be a good tool also found these services to impair independence and vice versa. For this group the correlation between NAS impairment and economic dependence and self-review can also be considered strong at 0.714 ρ and 0.652 ρ . This may also indicate that it is likely that those that agreed that NAS impairs independence also agreed that this was due to both economic dependence and the self-review threat and that those that disagreed to the statement that NAS impairs independence also disagreed to the other two statements. However, these results also suggest that top management are more inclined to connect economic dependence to independence impairment than the self-review threat.

In regard to the different non-audit services only one is strongly correlated to NAS impairment for the top management group, namely tax consultation at 0.628 ρ . This could be taken as an indication that the 35.4 percent of top management that responded that they agreed that the provision of NAS impairs the auditor's independence also agreed in regard to tax consultation. If that is the case it suggests that top management connect tax consultation to auditor independence to a larger degree than other non-audit services. On the contrary the weak correlation between the other non-audit services and NAS impairment may also suggest that some of the managers disagreeing to the statement that NAS impairs independence still found that some of these services was compromising. This suggests that while some managers may not think of non-audit services as impairing as a whole this position may change when these services are divided into smaller components.

ρ Private investors	Prohibition of NAS	NAS impairment	Economic dependence	Self-review	Tax consultation	Bookkeeping	Payroll services	Internal controls	Legal services	Share promotion	Human resource	Decision-making	Valuation	Financing
Prohibition of NAS	1													
NAS impairment	0.613	1												
Economic dependence	0.540	0.693*	1											
Self-review	0.499	0.806*	0.804*	1										
Tax consultation	0.697*	0.471	0.501	0.615*	1									
Bookkeeping	0.071	0.394	0.418	0.510	0.249	1								
Payroll services	0.026	0.357	0.488	0.444	0.210	0.930*	1							
Internal controls	0.659*	0.608*	0.651*	0.612*	0.661*	-0.004	0.007	1						
Legal services	0.693*	0.486	0.418	0.510	0.696*	0.141	0.111	0.853*	1					
Share promotion	0.556	0.396	0.315	0.460	0.606*	0.460	0.368	0.438	0.716*	1				
Human resource	0.556	0.276	0.360	0.456	0.912*	0.306	0.240	0.505	0.595*	0.724*	1			
Decision-making	0.407	0.660*	0.696*	0.835*	0.749*	0.547	0.551	0.521	0.420	0.467	0.692*	1		
Valuation	0.549	0.422	0.541	0.437	0.732*	0.027	-0.003	0.867*	0.845*	0.530	0.689*	0.545	1	
Financing	0.440	0.117	0.172	0.242	0.595*	-0.016	-0.109	0.685*	0.742*	0.577	0.709*	0.335	0.850*	1
ρ Financial analysts	Prohibition of NAS	NAS impairment	Economic dependence	Self-review	Tax consultation	Bookkeeping	Payroll services	Internal controls	Legal services	Share promotion	Human resource	Decision-making	Valuation	Financing
Prohibition of NAS	1													
NAS impairment	0.480	1												
Economic dependence	0.462	0.874*	1											
Self-review	0.498	0.501	0.407	1										
Tax consultation	0.262	0.308	0.338	0.115	1									
Bookkeeping	0.132	0.232	0.426	0.007	0.758*	1								
Payroll services	-0.029	0.442	0.451	-0.099	0.624*	0.637*	1							
Internal controls	0.298	0.614*	0.441	0.464	0.539*	0.238	0.451	1						
Legal services	0.182	0.839*	0.696*	0.372	0.566*	0.419	0.672*	0.710*	1					
Share promotion	0.388	0.338	0.278	0.045	0.471	0.405	0.217	0.270	0.456	1				
Human resource	0.050	0.684*	0.577*	0.363	0.645*	0.495	0.589*	0.685*	0.938*	0.438	1			
Decision-making	0.301	0.656*	0.612*	0.452	0.596*	0.618*	0.413	0.515	0.821*	0.663*	0.847*	1		
Valuation	0.384	0.754*	0.828*	0.329	0.537*	0.446	0.424	0.699*	0.761*	0.380	0.724*	0.674*	1	
Financing	0.355	0.760*	0.637*	0.396	0.698*	0.387	0.491	0.787*	0.907*	0.560*	0.893*	0.800*	0.827*	1
ρ Fund managers	Prohibition of NAS	NAS impairment	Economic dependence	Self-review	Tax consultation	Bookkeeping	Payroll services	Internal controls	Legal services	Share promotion	Human resource	Decision-making	Valuation	Financing
Prohibition of NAS	1													
NAS impairment	0.437	1												
Economic dependence	0.385	0.790*	1											
Self-review	0.542	0.110	0.016	1										
Tax consultation	0.718*	0.400	0.536	0.344	1									
Bookkeeping	0.650*	0.598	0.871*	0.871*	0.673*	1								
Payroll services	0.219	0.315	0.601*	-0.369	0.243	0.594	1							
Internal controls	0.629*	0.689*	0.752*	0.103	0.666*	0.811*	0.510	1						
Legal services	0.477	0.563	0.598	-0.112	0.198	0.626*	0.274	0.633*	1					
Share promotion	0.563	0.140	0.084	0.851*	0.369	0.360	-0.122	0.290	0.028	1				
Human resource	0.437	0.108	-0.266	0.603*	0.094	-0.038	-0.451	0.147	0.114	0.738*	1			
Decision-making	0.414	0.122	-0.098	0.610*	0.017	0.133	-0.283	0.255	0.900*	0.836*	0.900*	1		
Valuation	0.124	0.217	0.126	0.509	-0.003	0.276	-0.066	0.136	0.208	0.584	0.573	0.608*	1	
Financing	0.302	0.392	0.203	0.559	0.009	0.318	-0.091	0.133	0.362	0.594	0.545	0.619*	0.865*	1

Figure 6.11: Spearman's rank correlation (ρ) for private investors, financial analysts and fund managers in regard to the questions about NAS. * Correlation is significant at the 0,05 level (2-tailed)

Top Management	Prohibition of NAS	NAS inputment	Economic dependence	Self-review	Tax consultation	Bookkeeping	Payroll services	Internal controls	Legal services	Share promotion	Human resource	Decision-making	Valuation	Financing
Prohibition of NAS	1													
NAS inputment	0.620*	1												
Economic dependence	0.570*	0.714*	1											
Self-review	0.539*	0.651*	0.705*	1										
Tax consultation	0.455*	0.628*	0.509*	0.486*	1									
Bookkeeping	0.238	0.283*	0.260	0.208	0.262	1								
Payroll services	0.271	0.281*	0.323*	0.172	0.148	0.172	1							
Internal controls	0.253	0.331*	0.281*	0.346*	0.261	0.452*	0.255	1						
Legal services	0.463*	0.456*	0.328*	0.328*	0.292*	0.268	0.357*	0.289*	1					
Share promotion	0.358*	0.226	0.293*	0.316*	0.072	0.207	0.326*	0.214	0.311*	1				
Human resource	0.187	0.044	0.042	0.083	-0.018	0.220	0.298*	0.247*	0.331*	0.257*	1			
Decision-making	0.346*	0.065	0.167	0.179	0.112	0.395*	0.410*	0.243	0.198	0.370*	0.435*	1		
Valuation	0.373*	0.244	0.205	0.299*	0.331*	0.372*	0.412*	0.282*	0.281*	0.207	0.118	0.420*	1	
Financing	0.436*	0.330*	0.292*	0.455*	0.197	0.263	0.485*	0.189	0.517*	0.401*	0.308*	0.403*	0.749*	1
p Auditors														
Prohibition of NAS	1													
NAS inputment	0.324	1												
Economic dependence	0.303	0.572*	1											
Self-review	0.481*	0.694*	0.529*	1										
Tax consultation	0.326	0.338	0.239	0.314	1									
Bookkeeping	0.317	0.035	0.170	0.185	0.134	1								
Payroll services	0.251	-0.057	0.312	0.084	0.131	0.776*	1							
Internal controls	0.366*	0.002	0.458*	0.271	0.180	0.347	0.519*	1						
Legal services	0.399*	-0.119	0.017	0.080	0.207	0.240	0.354*	0.102	1					
Share promotion	0.245	0.035	0.040	0.087	0.087	0.317	0.123	0.153	0.253	1				
Human resource	0.494*	-0.043	0.211	-0.022	0.192	0.319	0.377	0.353	0.254	0.113	1			
Decision-making	0.492*	0.082	0.218	0.150	0.236	0.490*	0.469*	0.407	0.466*	0.489*	0.482*	1		
Valuation	0.052	0.186	0.103	0.103	0.128	0.265	0.270	0.386*	0.112	0.477*	0.039	0.439*	1	
Financing	0.129	0.101	0.094	0.062	0.118	0.333	0.270	0.287	0.089	0.523*	0.165	0.380*	0.613*	1

Figure 6.12: Spearman's rank correlation (ρ) for private top management and auditors in regard to the questions about NAS. *: Correlation is significant at the 0.05 level (2-tailed)

Previously it has been found that the majority of financial analysts found NAS to impair auditor independence. The correlations calculated above also suggests that these connect this impairment with economic dependence at 0.874 ρ . All non-audit services have been found to be correlated with NAS impairment for this group which suggests that it is likely that financial analysts agreeing to the statement that NAS impairs independence also find the different services to be compromising. The connection between NAS impairment also appears to be the strongest in regard to internal controls, legal services, human resources, decision-making, valuation and financing. This may indicate that it is these services that has had the strongest influence on the financial analyst's perception of the independence impairing properties of non-audit services.

For fund managers the percentage of answers indicates that they perceive the self-review threat as slightly more prominent than the self-interest threat. The correlation calculations have, however, found a weak correlation between NAS impairment and the self-review threat of only 0.11 ρ which indicates that many of the respondents agreeing to the statement that NAS is impaired due to the self-review threat had not previously answered that they found NAS to impair auditor independence. This may suggest that the initial reaction of the fund managers when faced with the statement that NAS impairs auditor independence was influenced by the economic dependence to a larger degree, as this correlation was strong at 0.79 ρ . If this is the case it indicates that the self-review threat might not be something that the fund manager considers unless being reminded of its possible existence.

As the majority of auditor's disagreed to the statement that auditor independence is impaired by the provision of NAS the weak and sometimes even negative correlation between NAS impairment and the different services is somewhat surprising. For example, the correlation of 0.002 ρ for internal controls suggests that some auditor's that had answered disagree in regard to NAS as a whole changed their mind when the type of service was specified. It can thus not be concluded that auditor's do not perceive NAS as a threat to auditor independence based upon the results of this survey, despite such a large majority response to that question. A possible explanation to this surprising result is that the auditor's might regard NAS in general as those services that would be allowed, while many of the services asked about in the survey would already today be out of the question in accordance to the analysis model of 21 § auditors act. This possibility would be plausible if we assumed that the auditors answered the first question based upon experience, as they would have encountered far more situations in which the audit was performed simultaneously with allowed services.

6.3 Financial market reaction

In order for the EU audit reform to meet its objective and enhance the stability of the financial market, the measures taken must arguably be able to affect how financial market actors see auditor independence. As we have already detected, the responding financial market actors do perceive audit tenure and NAS as threats to auditor independence. However, in order for the market to stabilize, these actors must also be affected by auditor independence in their investment or reporting decisions and these groups have therefore been asked if the auditors independence is a part of their evaluation.

Is the auditors' independence a part of your evaluation of an eventual investment (Private investor and fund manager), -a listed company (Financial analyst)?

	<i>Private investor</i>	<i>Financial analyst</i>	<i>Fund manager</i>
Yes	38,5	31,3	75
No	61,5	68,8	25

6.13: Percentage response in regard to investment- or analyst- evaluation

In regard to both the private investors and the financial analysts, who may also influence the decision-making of the investors, the majority claimed not to include the auditor's independence in their evaluation. This indicates that these groups are unlikely to trigger a substantial market reaction when the audit reform is implemented. However, if the results of this survey give an accurate indication of the fund managers position, a market reaction could follow as 75 percent stated to include the auditor's independence in their decision-making. While this could be taken as an indication that fund managers evaluate the auditor's independence, we recognize that a degree of response bias could be present as only 12 fund managers responded to our survey. There is thus a possibility that these fund managers wanted to participate as they had a larger interest in the independence of auditors than their colleagues. If we would assume that such a response bias was present and all the fund managers that had an interest in the topic as they included the auditor's independence in their evaluation responded, this would mean that 13,8 percent of the fund managers surveyed evaluates the auditor's independence. Therefore, it can be said that for the sample of fund managers included in this thesis between 13,8 and 75 percent looks at the auditor's independence.

Would you refrain from investing in a company if you got the impression that the auditor was not independent anymore (Private investor and fund manager)? – Would you include it in your analyst reports (Financial analyst)?

	<i>Private investor</i>	<i>Financial analyst</i>	<i>Fund manager</i>
Yes	53,8	68,8	83,3
No	46,2	31,3	16,7

Figure 6.14: Percentage response in regard to reactions

The success of the EU audit reform in creating market stability is also dependent on the degree to which the financial market actors would actually act on their perceptions of the auditor's independence. All of the financial market actors responded with majority support that they would both refrain from an investment or include it in a report if they got the impression that the auditor was not independent, indicating that there is potential for a market reaction. These results also suggest that the more sophisticated investor, i.e. the fund manager, would react to a larger degree as more of these responded positively. However, as these financial market actors might not evaluate the auditor's independence at all, a market reaction could still be absent as they would not have the opportunity to obtain a bad perception of the auditor's independence to begin with.

6.3.1 Commentaries to the evaluation and impact of auditor independence

One private investor chose to elaborate the response to the question if the auditor's independence impacts the evaluation of an investment: "It is difficult to say if it affects my eventual investment. It probably has a larger impact in smaller 'speculative companies' where the valuation of the company can be significantly affected if the auditor conveys incorrect information". This statement thus indicates that for this individual private investor the issue of auditor independence would not impact the investment decision in larger listed companies.

Further, it was stated by a fund manager that: "It is about making an overall assessment. The auditor's eventual dependency should be seen as a risk among other so called ESG-risks, in particularly the governance part".

6.3.2 Correlation

To see how the financial market actors have answered to the two questions presented above in connection to audit tenure and NAS the correlation between these has been calculated and are presented in the table below. While both private investors and financial analysts have responded in majority that they agree to the statement that an auditor is not independent after a ten-year tenure, they show a diverse correlation between this and the question as to if they would react. As previously discussed the majority of both of these groups also stated that they would refrain from an investment if they found the auditor's independence to be impaired. The relatively strong correlation of 0.572 ρ for financial analysts suggests that audit tenure would be something that they would react upon.

ρ Private investors	<i>10-year tenure</i>	<i>NAS impairment</i>	<i>Evaluation</i>	<i>Reaction</i>
10-year tenure	1			
NAS impairment	0,120	1		
Evaluation	0,404	0,150	1	
Reaction	-0,185	0,221	0,571	1
<hr/>				
ρ Financial analyst	<i>10-year tenure</i>	<i>NAS impairment</i>	<i>Evaluation</i>	<i>Reaction</i>
10-year tenure	1			
NAS impairment	0,561*	1		
Evaluation	0,466	0,413	1	
Reaction	0,572*	0,189	0,647*	1
<hr/>				
ρ Fund managers	<i>10-year tenure</i>	<i>NAS impairment</i>	<i>Evaluation</i>	<i>Reaction</i>
10-year tenure	1			
NAS impairment	0,198	1		
Evaluation	0,533	0,297	1	
Reaction	0,460	0,329	0,633*	1

Figure 6.15: Spearman's rank correlation (ρ) for the financial market actors in regard to audit tenure, NAS, evaluation and reactions. *. Correlation is significant at the 0,05 level (2-tailed)

However, the weak and even negative correlation of -0.185ρ for private investors indicate that many of those that were not critical to the auditor's ability to remain independent after ten years subsequently responded that they would refrain from an investment. Furthermore, it also suggests the opposite, that some of those that were critical to a ten-year tenure answered that they would not react upon it. These results can thus be taken as an indication that a long audit tenure is unlikely to influence the actual investment decision of private investors.

As the correlation for financial analysts between NAS impairment and reaction is relatively weak at 0.189ρ this also suggests that it is more likely that they would react to a long audit tenure rather than the provision of NAS.

6.4 Other commentaries to auditor independence

One of the participating financial analysts shared the belief that the only measure that could secure auditor independence is to impose substantially higher liabilities on the audit partner. Another financial analyst noted that it is uncertain how external parties could determine if the auditor is independent or not, concluding that the only thing to really go on are the notes listed companies include in financial reports about services bought from their audit firm.

An auditor shared the opinion that auditors can never be entirely independent as long as they are being remunerated by the client and in order to be entirely independent, remuneration would have to be given by the state in some way.

7. Discussion

The discussion will be two-parted where the first part will analyze the results of both the interviews and the survey in light of previous research while the second part will discuss the effects of the EU audit reform in Sweden. Considering the contradictions and lacking patterns in previous research, the findings in this thesis will both support and question earlier studies. It is believed that the trends that will be mapped in the following could be consequences of the characteristics of the Swedish society, and may therefore not be transferable to other contexts. In regard to the research design, one may state that while the interviews allowed us to collect detailed information, adding more depth to our study, the survey allowed us to cover a far larger group of respondents. It was therefore important that the combined analysis of this data was balanced between depth and coverage.

7.1 Contribution to the theoretical platform on auditor independence

7.1.1 Audit tenure and audit firm rotation

The interviews suggested that, although the auditors agreed that long working relationships may not be good for any parties, they did not believe that auditor independence would be impacted by mandatory audit firm rotation. Interestingly enough, this was not entirely supported by the survey where the respondents were divided into two groups. While approximately half of the auditors disagreed with the interviewed auditors and proved positive towards mandatory audit firm rotation, the remaining auditors (43,6%) proved largely negative. Based on these observations, it is difficult to conclude whether Swedish auditors perceive lengthy relationships as compromising or not. On the other hand, the interviews allowed the interviewees to elaborate their thoughts within the Swedish context. The auditors acknowledged the familiarity threat as potentially compromising, however largely rejected it as a problem within the Swedish auditing profession. Considering this aspect, one may argue that our findings are more in line with previous research concluding that auditor independence is not compromised by audit tenure (Knechel and Vanstralen, 2007; Geiger and Raghunandan, 2002; and Carcello and Nagy, 2004).

Moreover, another interesting finding within the group of auditors was that although the majority was positive towards mandatory firm rotation after ten years, there was still a vast disagreement with the statement that the auditor is not independent after ten years. On an overall level one may conclude that the negative tone is dominating this group, but there are not sufficient grounds to map a shared perception of the effectiveness of mandatory audit firm rotation on independence.

The interview data presented the financial market actors as positive towards firm rotation, however, the downsides were also acknowledged and discussed. Furthermore, the survey conveyed results in line with this, stating that the respondents believed in the efficiency of mandatory audit firm rotation. This study has thus found indications that financial market actors are positive towards this measure which has also been found in the studies of Gates et al. (2007) and Daniel and Booker (2011). Moreover, although the response on mandatory audit firm rotation was quite consistent among the respondents, the results indicated that fund managers are more neutral towards audit tenure and the effects it may have on auditor independence in

comparison to the other respondents. An interesting finding when comparing the results of the interviews and the survey data was that while Nils Liliedahl expressed that most financial analysts do not reflect about the independence of the auditor, the survey presented the financial analysts as the most critical group, promoting stricter regulation. This result thereby both confirms and rejects the findings of Dart (2011) who found long term relationships less compromising towards independence.

The top management's view on audit firm rotation was divided. The interview data suggested that the group was positive towards partner and team rotation, but did not see any value in rotating the firm. The survey however, presented the top management as the most positive group towards firm rotation. Further, it could be argued that there was a lacking consistency within the group as the majority of the respondents in the survey also stated that partner rotation was a sufficient measure to enhance independence, indicating that firm rotation is unnecessary. Thereby the interview data receives support from the survey on this matter. Previous research on top management's perception of auditor independence within the area of audit tenure is rather limited, suggesting that the interest in the views of top management is low. One may question why this interest seems relatively absent, especially since it is the relationship towards management that audit rotation seeks to regulate. As one of the CFOs pointed out; more responsibility in regard to auditor independence could be placed on management, and further research could preferably focus on how this group may contribute. Considering the significant response rate in the survey, the positive attitude towards audit firm rotation is inevitable. On the other hand, however, the contradicting view on partner rotation makes it difficult to conclude that top management is positive towards firm rotation.

7.1.2 Non-audit services

While the views on the effectiveness of audit firm rotation varied, not only between the key stakeholder groups, but also within them, the data on NAS presented more uniform results.

The interview data suggested that auditors understand why external groups would see NAS, and economic dependency in particular, as compromising, but did not find stricter regulation on auditor independence as necessary since the guidelines today are so clear. The survey did support this result, stating that the auditors did find prohibition of certain services as a good tool to enhance auditor independence. However, the respondents did not identify themselves with the statement that the auditor automatically becomes dependent when other services are sold to the client firm. This critical view reflects the findings of both Beattie et al. (1999) and Quick and Warming-Rasmussen (2005) where the auditors responded that provision of NAS did not have a compromising effect on independence. Moreover, as the auditors indicated that the provision of NAS was not a threat to auditor independence in mind, the results of this study may therefore be regarded as support to the conclusions of Defond et al. (2002), Craswell (1999) and Hay et al (2006). Considering the phenomenon of social desirability, these answers had to be analyzed with cautiousness and a critical eye. We can thus not ignore the findings of Kinney et al. (2004) which suggested that NAS may impair auditor independence. Therefore, although both the survey and interview data present NAS as non-compromising, it is somewhat problematic to draw conclusions.

Although the findings of these previous studies into auditor independence in mind are unlikely to have been compromised by social desirability they may have been affected by the choice of measurement as a proxy for auditor independence. These studies have used measurements ranging from the propensity to issue going concern audit opinions (Defond et al., 2002) or qualified audit opinions (Craswell, 1999; Hay et al., 2006) to the relationship between NAS fees and restatements (Kinney et al., 2004). As these measurements could have been affected by other circumstances there is always the possibility that they have led somewhat misleading results. For example, Craswell (1999) assumed that if an auditor with high levels of non-audit fees issued few qualified audit opinions the independence was likely to be impaired. However, a low amount of qualified audit opinions could also be explained by an ability to persuade clients into making the necessary adjustments before issuing the opinion. Such an ability to persuade clients could also be connected to a better relationship with the client, were the auditor is not only viewed as a controlling examiner but is also valued for the enhancements they can make to the business through non-audit services. Using qualified audit opinions as a proxy may therefore not be entirely ideal.

Kinney et al. (2004), on the other hand, studied the amount of restatements in relation to NAS fees under the assumption that a large amount of restatements was connected to the auditor being persuaded to look the other way by their clients. This may be a more reliable measurement, but one must also remember that the audit function can never fully guarantee that the financial statements are completely free from misstatements. While some of the restatements found by Kinney et al. (2004) may have emanated from the auditor looking the other way this may thus not be true for all of them, as some may derive from this natural deficiency in the audit function. Following this discussion, the measurement of Defond et al. (2002) appears to be the most accurate proxy for auditor independence as going concern audit opinions cannot be avoided by any adjustments from the client and it is less unlikely that auditors miss something in regard to the financial viability of an enterprise. Therefore, one could regard the results of Defond et al. (2002) as the most reliable which suggests that NAS provision does not impair auditor independence in mind. However, it can never be guaranteed that researchers have not, consciously or unconsciously, affected the results of their research due to preconceptions. The findings of all of these studies could thus have been affected by the results desired by the researchers. From previous studies as well as our own it is therefore difficult to accurately determine whether or not the provision of NAS impairs auditor independence in mind.

The results of our survey showed that 7 out of 10 non-audit services was perceived less compromising by top management than by auditors. In some cases the gap was significant, and especially the views on human resources and services linked to the financing and investment strategy stood out. These findings are thus in contrast to the UK study by Beattie et al. (1999) where top management was more critical towards NAS than auditors. On the contrary, some parallels can be drawn to the results of the Danish study by Quick and Warming-Rasmussen (2005) where it was concluded that managing directors were less critical towards the use of consulting services in comparison to other groups. As stated in the analysis, this could be a result of cultural and governmental dimensions.

The interview subjects were slightly more conservative, and although they had not themselves experienced the use of other services as compromising, there was a shared understanding that NAS could compromise auditor independence. Given that the above findings do not clearly promote prohibition of NAS nor discourage it, it is difficult to confirm or reject previous research. Previous studies have presented results on both sides of the specter, and although our data is not completely consistent, it could be argued that our results lean more towards the perception of NAS as less compromising.

The survey indicated that the financial actors do see NAS as potential threat towards auditor independence, something the interview data supported, in line with a number of previous studies (eg. Scheifer and Shockley, 1990; Dart, 2011). However, in regard to both audit firm rotation and NAS, the interview data and survey suggest that although auditor independence is perceived important, there seems to be a limited interest in ensuring that auditor independence is intact. Our combined findings are thereby in line with the findings of the German study by Dyxhoorn and Sinning (1982). The interview data indicates that Swedish investors, fund managers and financial analysts do not reflect much over auditor independence when evaluating new investment options. The survey largely supports this finding, as the majority of private investors and financial analysts stated not to include auditor independence in investment evaluations or analyst reports. The survey data on fund managers provide indications that this group may include auditor independence in investment decisions to a larger degree than what was indicated in the interview. Moreover, it is to our understanding that scandals and media attention may have a greater impact on the financial market actors interest in auditor independence than regulatory changes.

7.1.3 Contextual differences

Previous studies on the perception of auditor independence have reached different conclusions. Even within the same countries these conclusions vary, something that indicate that it will be difficult to determine if the results of this study differ from others due to the characteristics of the Swedish context. On a cultural level it has been assumed that masculine countries, in comparison to feminine ones, are more accepting of questionable business practices like the provision of NAS. This study has, however, not been able to find any strong indications that these perceptions differ between masculine and feminine countries as the vast majority of previous studies have found that the provision of NAS has a negative impact on auditor independence. Some differences may be detected, however, as a comparison of our findings and those of Dart's (2011) suggest that Swedish private investors perceive the provision of NAS as a bigger threat than that of UK investors. Nonetheless, it should be noted that this distinction may be explained by other factors and is not necessarily a consequence of the cultural dimension of masculinity.

Further, Quick and Warming-Rasmussen (2005) noted that a small audit profession might have bigger incentives to remain independent as it would be easier to incur a bad reputation. There is nothing in the previous studies that indicates if the opposite is true for countries like Germany, the UK and the U.S. where the audit profession is significantly larger. However, some indication that Swedish auditors find the costs of a bad reputation too overwhelming to risk has been found through the interviews, where one auditor stated that the big audit firms have too much to lose. This may therefore serve as an indication that Swedish auditors are more likely to act in line with national independence regulations and norms.

Although contextual differences have not proved very prominent as the findings of this study both confirm and support the results of previous studies in various countries, our observations did present indications that studies from Anglo-Saxon countries have a tendency to be more critical towards auditor independence in comparison to the findings in this study and the studies from Germany and Denmark. This could be a result of the level of regulation in respective countries, and may indicate that the trust placed in the “invisible hand” in Anglo-Saxon countries seems rather fragile. However, considering the lacking consistency between studies from the same countries, this indication cannot be stated. We may conclude that although these indications are weak it is not possible to completely dismiss the notion that contextual differences can lead to differences in perception.

7.2 The EU audit reform and Swedish implementation

In this section the EU audit reform and Swedish implementation will be discussed in light of our findings from the key Swedish stakeholders’ perception of auditor independence. This discussion will largely be based upon the objectives of the EU audit reform as well as the possible consequences of implementing mandatory audit firm rotation and prohibit certain NAS in Sweden.

7.2.1 The key Swedish stakeholders’ reactions to the EU audit reform

Mandatory audit firm rotation was only considered to be a good tool to increase auditor independence by one of the interviewees, the chief of market surveillance of the Swedish Shareholder’s Association. This result was not entirely supported by the survey where the majority of all groups answered that mandatory audit firm rotation was a good tool to increase auditor independence. That financial market actors such as private investors believe that this measure would be appropriate in Sweden has thus been found in both data collection methods while the viewpoint of top management and auditors have differed. Two reasons behind a negative feel towards mandatory audit firm rotation have been found in these groups. First, it was stated that the relationship between the audit firm and client company is much more dynamic and that the current partner rotation in combination with top management rotation, makes firm rotation unnecessary. The belief was thus that familiarity threats is not as prominent as assumed since the personnel of both the audit team and the company management is ever changing. Secondly, the costs of changing audit firm were highlighted as this would inflict both administrative costs in addition to a possibly reduced audit quality from the steep learning curve. Moreover, the audit firms expressed a concern of the impact rotation may have on their

revenues when large audit clients must rotate, putting pressure on the firms to attract new clients. Since the interviews enabled managers and auditors to elaborate their thoughts on the matter of mandatory audit firm rotation, this suggests that these groups may in fact be more negative towards this measure than the survey data indicate. However, the correlation analysis suggested that a positive feeling towards this measure may be connected to the experience of audit tenure impairing independence. The difference in results between the survey and interviews could thus derive from a lack of auditors and managers in our sample with the prior experience of long relationships as a threat to independence.

In regard to the prohibition of NAS, the viewpoint of financial market actors has been found to be positive in both data collection methods. The survey data suggests mixed feelings towards this measure in the top management and auditor groups, where both the negative and the positive standpoint received many followers. However, as a larger part of these groups did not agree that the provision of NAS is a threat to auditor independence this suggests a skepticism to the measure to prohibit these services. Both interviewed auditors and top management could understand why an outside party could perceive NAS as a threat but claimed to have not experienced this themselves. As previously discussed, the correlation analysis shows some indications that the auditors have answered the question about the impairing properties of NAS based upon services that would be allowed when following the current Swedish legislation. Combined with the interview data this can thus be taken as an indication that Swedish auditors might not perceive a need for the new auditor independence regulations inflicted by the EU as the already existing rules would be enough. Although the interviewed top management did not find it problematic to hire a third party to provide non-audit services in the future, they noted that, due to the company knowledge possessed by the audit team, it had been convenient to use the same audit firm. While the survey data suggests that top management are both positive and negative towards the prohibition of NAS the possibility to elaborate their thoughts in interviews suggested that the possibility to enhance auditor independence would be limited and may not be able to outweigh the costs.

The viewpoint of auditor's and top management therefore appears to be that neither mandatory audit firm rotation nor the prohibition of NAS is entirely suitable as these measures inflict large costs and uncertainties while it is unclear whether they will actually succeed in creating enhanced auditor independence. This indicates that both of these groups would prefer that the Swedish legislator extend the timeframe for rotation to 24 years and impose all of the derogations in regard to the prohibition of NAS.

7.2.1 Auditor independence in mind

The interview data suggests that auditor independence in mind will remain unaffected by the regulations that are soon-to-be implemented in Sweden. Independence in mind is difficult to evaluate, however, which can be seen from the previously conducted studies in this field. In our case, the indication that auditor independence will not be affected, mostly derives from the opinions of auditors who proclaimed that they themselves had not experienced audit tenure and NAS as impairing. On this matter, it should also be noted that due to the phenomenon of social desirability, the auditors may not want to reveal information on instances when they have

remained with an audit client despite feeling dependent. Moreover, auditors may also have an economic interest in portraying audit tenure and NAS as harmless to their independence. The reliability of these answers may thus be limited by this, something that may also apply to the top management that stated that auditor independence had not been impaired by long audit tenure or the provision of NAS as stating otherwise may be damaging for their investor relations.

If we leave these concerns aside, this study suggests that auditor independence in mind will not be enhanced by the EU audit reform. While this may be a 'socially desirable' answer, the auditors made it clear that the current Swedish legislation and furthermore internal firm policies result in all questionable engagements being declined. If the analytical model of the Swedish auditors act 21 § is applied correctly by the Swedish auditors, the implementation of mandatory audit firm rotation and prohibition of NAS will thus have little or no positive effect on auditor independence in mind. However, it must be stressed that these results are not regarded to be fully reliable as it is impossible to guarantee that the auditors and top management has been entirely straightforward in their answers. Some potential for improving auditor independence in mind could, for example, be found in the survey data where a small minority of auditors found both a ten-year tenure and the provision of NAS as impairing. This may indicate a slight improvement of auditor independence in mind when mandatory audit firm rotation and the prohibition of NAS is implemented. However, the results that the majority of auditors were in agreement that a ten-year audit tenure and the provision of NAS does not impair independence in the survey combined with the results of the interviews suggests that the independence enhancing possibilities may be very limited. As was found in the correlation analysis the results of the survey are less likely to have been affected by social desirability and these results can therefore be considered to strengthen the findings of the interviews.

Moreover, in regard to the possible changes in the audit industry, it has been suggested that auditor independence in mind could decrease as a consequence of the reform. One of the auditors noted that the rotation of a large audit engagement in minor locations may leave the former audit firm with limited workload, while the new audit firm may be in great need of more resources to conduct the audit. One consequence is that members of the former audit team will rotate with their clients. If it can be assumed that a long audit tenure decreases auditor independence in mind, mandatory audit firm rotation may be insufficient in dealing with this issue as members of the audit team may remain with the client firm. While this was partially considered by the EU when retaining the audit partner rotation, other members of the audit team may be equally or even more important than the partner. In fact, in regard to the familiarity threat the partner might be less likely to form close relationships with the client since these often have less frequent contact with the client than other members of the team. The threats of long audit tenure could therefore be argued to be even more prominent with the other team members who are free to rotate with the client. The outcome of this possible consequence is uncertain, but it may still serve as an indication that policy development of the EU could be improved.

7.2.2 Auditor independence in appearance

While it appears as the audit reform may be unsuccessful in enhancing auditor independence in mind, the results of both the interviews and the survey suggests that auditor independence in appearance may be strengthened. Whereas the perceptions of the three key stakeholder groups vary to some extent, there are indications suggesting that the financial market actors are in agreement with the EU that long audit tenure and the provision of NAS is a threat to auditor independence.

As the majority of private investors and financial analysts perceived a ten-year audit tenure as a threat to auditor independence, this suggest that auditor independence could be enhanced by mandatory audit firm rotation. However, the appropriateness of the Swedish implementation can be questioned as the legislator has proposed to extend the allowed tenure to the maximum of 24 years. When the perceptions of auditor independence of the financial market actors appear to be affected already after a ten-year audit tenure, this extension can be assumed to substantially reduce the enhancement of auditor independence in appearance. This would imply that the policy development of the EU has been correct in regard to mandatory audit firm rotation whereas the Swedish legislator might be on the wrong track. Moreover, this puts further doubts on the appropriateness of the many member state options in regulation (EU) no 537/2014 as the potential to enhance auditor independence in appearance would be greater without them.

The Swedish financial market actors seem to have the same views of NAS as the EU as both the interview and the survey data suggest that their perceptions are negatively affected by the provision of all blacklisted services. Auditor independence in appearance may thus be enhanced by the implementation of prohibition of NAS in Sweden. Once again the Swedish implementation rather than the EU policy development can be questioned as the legislator has proposed to use all derogations. Even though this study has found indications that financial market actors' perceptions of auditor independence are negatively affected by the blacklisted services, some tax and valuation services will still be allowed in Sweden. The potential of enhancing auditor independence in appearance will therefore be reduced due to the Swedish implementation. Once more it appears to be the member state options that limit the positive effects of the EU audit reform.

7.2.3 Financial market stability

An important objective of the EU audit reform was to increase the financial market stability. The interview data indicates that increased financial market stability may be absent as neither private investors, fund managers nor financial analysts were believed to include auditor independence when evaluating investments or preparing reports. These results were not entirely supported by the survey data as about a third of the respondents from the private investor and financial analyst groups and 75 percent of fund managers responded that they do evaluate the auditor's independence. Even though there are uncertainties surrounding the fraction of financial market actors that include auditor independence in their evaluation, the results would indicate that some of them do. Therefore, an increase of capital market confidence could be the result of the EU audit reform as the perceptions of the Swedish groups have been found to be in line with that of the EU. However, it should be noted that there are not sufficient grounds to believe that the objective of increased capital market confidence will be fulfilled as our research has detected a number of uncertainty factor surrounding this outcome.

Market reactions pertaining to private investors or influenced by financial analysts could occur but both the survey and the interview data suggests that they would be very limited. The potential for market reactions are instead with the fund managers as the survey data suggests that this group do evaluate auditor independence. The claim of the interviewee fund manager that fund managers in general do not evaluate auditor independence is thus challenged by the fact that 75 percent (i.e. 9 individuals) of surveyed fund managers answered oppositely. It is thus difficult to conclude if fund managers in general evaluates auditor independence or not as the results of both data collection methods may have been influenced by response bias. That some fund managers do evaluate auditor independence is, however, certain from the survey results. However, it would appear as if the potential to increase market confidence is limited in Sweden due to the Swedish use of member state options. This means that even if Swedish financial market actors do evaluate auditor independence market reactions would be small as their perceptions of this does not appear to be in line with the Swedish implementation.

7.2.4 Other potential consequences

From the interviews it was found that the EU audit reform could have the unforeseen consequence of strengthening the position of the Big 4 audit firms. This is thus the contrary of the objective to open up the market and thereby include the smaller audit firms. Since this study has found that the audit reform may have a very limited effect on auditor independence and furthermore might not succeed in stabilizing the capital market, one can thus wonder if the inflicted costs are able to outweigh the benefits. One might also wonder if the turbulence that the reform may trigger in the audit industry can really be justified if the effects on auditor independence prove to be limited.

One final effect from the implementation of this reform should be noted. Since the release of the green paper, the media has arguably drawn more attention towards auditor independence. This focus was highlighted by many in the interviews, implicitly indicating or explicitly pointing out that the debate on this cornerstone of auditing may enhance the Swedish social norms and thereby indirectly impact how and to what degree auditor independence will be considered in the future.

8. Conclusions

Humphrey et al. (2011) has criticized the EU audit reform for being based upon assumptions. With basis in this argument, this thesis began by questioning if the EU would actually be able to achieve the objectives of the audit reform. The measures of mandatory audit firm rotation and the prohibition of NAS suggests that the EU assumes that financial market actors perceive long audit tenure and the provision of NAS as threats to auditor independence. That this could be the perception of these actors was also suggested by the results of this study, indicating that the EU has not based the audit reform on entirely groundless assumptions. However, the results of this study also suggest that Swedish financial market actors might not evaluate auditor's independence in their investment decisions, indicating that the effects of the reform could be limited. The EU may therefore have taken for granted that enhanced auditor independence in appearance will lead to increased financial market stability. Furthermore, this finding suggests a high financial market confidence level in Sweden which may be seen as consequence of the characteristics of the Swedish context where ethical business behavior is expected. This may also indicate that in contexts where an emphasis on ethics is well incorporated into the national culture, the financial market actors would assume that the system is working and thereby take auditor independence for granted.

Moreover, some indication that the EU might have based their assumptions on insufficient insights into the audit industry has been found as the EU audit reform might have limited effects on both auditor independence in mind and in appearance in Sweden. Our results indicate that the effects may be the opposite of the objectives, raising questions if the possible benefits of the reform will be able to outweigh the costs.

8.1 Suggestions for future research

It has been questioned whether or not the EU audit reform will lead to any market reactions. From the interview data this appears somewhat unlikely but the effects cannot be excluded as the survey indicated that at least some of the financial market actors would include auditor independence when evaluating an investment. There is therefore great potential of conducting an archival data study after the implementation of the EU audit reform to further investigate if the objective of increased financial market stability has been achieved.

The scope of this thesis was limited to the measures of mandatory audit firm rotation and prohibition of NAS. However, the reform also contains other measures intended to enhance auditor independence as for example the strengthening of the audit committees. As the discussion of the effects of the audit reform may have been affected if this measure had been included, further studies on the key Swedish stakeholders' perceptions and reactions to this measure are promising. Due to the unique Swedish feature of the nomination committee, this aspect may differ in Sweden in comparison to other EU member states. Moreover, we were unable to gain insights into the viewpoint of the board of directors and nomination committees of Swedish listed companies and future studies could therefore be aimed at including these.

Furthermore, while this study has been able to provide indications of the perceptions of one type of PIE, we do not know if the viewpoint of these differ from those of financial institutions such as banks. Therefore, future research could preferably be focused on mapping the perceptions of this group.

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Appendix 1 – Interview guides

The audit profession

Part 1 – General questions about auditor independence

1. What is auditor independence for you, which aspects are essential in order for an auditor to be independent in its work?
2. Has your view on auditor independence changed from when you started as an auditor? In that case, how and why?
3. Is it easier or harder to be independent in large listed companies?
4. What do you believe are the normal reasons behind a change of audit firm?
5. Do you think that auditor independence is misunderstood by external stakeholders?
6. How do you think that stakeholders perceive auditor independence?

Part 2 – Threats to auditor independence

7. What do you believe is the biggest threat to auditor independence?
8. In the new regulation the provision of NAS in combination with the audit is heavily criticized and EU also claim that long audit tenure affects the auditor's independence. Do you agree with this? Why/ why not?
9. Do you believe that the threats you mentioned are handled sufficiently in the current auditing practice?

Part 3 – The EU audit reform

10. What is your personal conception about the motives behind the EU audit reform? Can you tell us what you think is positive and negative about the implementation?
11. What do you think about the prohibition of NAS?
12. What do you think about mandatory audit firm rotation?
13. Do you think that the EU audit reform will affect the Swedish audit industry and its structure?
14. The competition of the Swedish audit industry is hard; do you think that the EU audit reform will enhance this? If yes, do you believe that the harder competition can affect the independence of auditors negatively?
15. The Swedish Shareholder's Association has expressed joy over the EU audit reform and mean that an auditor cannot be independent after ten years with the same client. What do you think about this?
16. Do you believe that the threats to auditor independence is handled sufficiently in the current Swedish audit legislation or do you feel the need for an update or completion of the legislation? Motivate.

Questions especially developed for the Chief legal counsel of Swedish Institute of Authorised Public Accountants

1. Do you have the feeling that the auditor's independence is viewed as more important or has a more central role in the Swedish society in comparison to other EU countries?
2. In what way do you think that the Swedish society separates themselves from other EU countries in regard to, for example, the market, norms and values?
3. In which way do you think that these aspects affect the implementation of the EU audit reform in Sweden?
4. Which effects do you think that the EU audit reform will have on the Swedish market and audit industry?
5. Do you think that the effects will be stronger or weaker in Sweden in comparison to other EU countries, in particular in light of the Swedish use of member state options?
6. You have expressed criticism to the implementation process of the EU audit reform in Sweden, what do you believe are the biggest challenges when the reform is implemented?
7. In what way is the Swedish Institute of Authorised Public Accountants involved in the implementation?
8. Do you think that the EU will be able to achieve the objectives of the reform?

Public interest entities

Part 1 - General questions about auditor independence

1. Which role do you think that the auditor plays in your company, why is it important for you to have an auditor?
2. How would you describe the relationship that your company has with your auditor?
3. What is auditor independence for you, which aspects are essential in order for an auditor to be independent in its work?
4. How important do you think that the auditor's independence is for your company's investors?

Part 2 – Audit tenure

5. For companies that had remained with the same audit firm for a long time: We have noticed that you have had the same audit firm for X years, how do you see long audit tenure?
6. For companies that had recently changed audit firm: We have noticed that you changed audit firm X years ago, can you tell us more about this?
7. Do you think that a long work relationship with the audit firm is a threat to auditor independence?
8. Are there any disadvantages or advantages of remaining with the same audit firm for a long time?
9. Are there any disadvantages or advantages of changing audit firm?
10. Why would a company normally change audit firm?
11. Do you know how the board of directors and the shareholders of your company has reasoned around the choice of auditor?
12. For companies that had remained with the same audit firm for a long time: How do you feel about changing audit firm?

Part 3 – Non-audit services

13. Many companies also hire their audit firm for other services, do you think that the provision of other services is a threat to auditor independence?
14. For companies that used their audit firm for other services: We have noticed that you use your audit firm for tax services, can you tell us more about this?
15. For companies that had previously used their audit form for other services: We have noticed that you previously used your audit firm for tax services, can you tell us more about this, have you stopped using your audit firm for these services, why?
16. Could there be anything positive about hiring your audit firm for other services?

Part 4 – The EU audit reform

17. How much do you know about the EU audit reform?
18. How do you feel about the measures that will be implemented (i.e. mandatory audit firm rotation and prohibition of NAS)?
19. What do you think will be the consequences of these rules?
20. For companies that would be forced to change audit firm soon: What do you think will be the most important factor when your company looks for a new audit firm?

21. For companies that used their audit firm for other services: How do you feel about hiring another firm for these services?

Questions especially developed for the accounting expert of the Confederation of Swedish Enterprise

1. You have previously expressed that a system where the auditor is prohibited from providing other services will probably be less effective than the current system and led to higher costs for listed companies, can you explain what you mean with that?
2. You have also stated that the reform is developed without consideration for the audit firms or the companies that use their services, how do you think that the EU should have handled this?

Financial market actors

Part 1 – General questions about auditor independence

1. What role do you think that the auditor plays in the community?
2. What is auditor independence for you, which aspects are essential in order for an auditor to be independent in its work?
3. The medias' focus on auditor independence has increased during the last decades, why do you think this has happened?

Part 2 – Threats to auditor independence

4. What do you believe is the biggest threat to auditor independence in Sweden?

Part 3 – The EU audit reform

5. Among the measures of the EU audit reform is mandatory audit firm rotation after ten years, what do you think about the appropriateness of this measure in Sweden?
6. Another measure of the EU audit reform is the prohibition of certain Non-audit services, what do you think about the appropriateness of this measure in Sweden?
7. Do you believe that the auditor's independence actually can be enhanced by increased regulations as the EU asserts?
8. Why do you think that the EU imposes these changes?

Questions especially developed for the chief of market surveillance of the Swedish Shareholder's Association

1. You have figured in the media lately and talked about how important the EU audit reform is to increase auditor independence, why do you think that the reform will lead to so much improvement?
2. So you mean that the provision of NAS and long audit tenure has a negative impact on the auditor's independence, do you think that it is as big of a threat as the EU indicate?
3. Do you think that there is a need for this complement to the Swedish legislation?
4. In the radio-debate between you and Dan Brännström it is quite clear that you have different perspectives on the auditor's independence. Why do you think there is such a diverse perception of this aspect?
5. You also stated that it is impossible for an auditor to be independent after ten years, can you explain this argument?
6. You have previously mentioned many positive aspects of the implementation of the EU audit reform, do you see any negative aspects?
7. The competition in the audit industry is already very tough, how do you think this will be affected by the EU audit reform?
8. Based on your observations, how does private investors see the EU audit reform?
9. How important do you think that the auditor's independence is for the private investor? Is this something they reflect upon when evaluating new and old investments?
10. Do you think that the EU audit reform is going to have a noticeable effect on the stock market, and in that case what effect?

Questions especially developed for the secretary general of the Swedish Society of Financial Analysts

1. Do you think that it is important for the members of the Swedish Society of Financial analysts to be updated about the changes implemented through the EU audit reform? How do you think that the changes could affect the society?
2. How do you think that the changes could affect the Swedish market, and especially your members?
3. When booking this interview you wrote that the auditor's independence is not very important for your members, why do you think that is the case?
4. Do you mean that the auditor, generally speaking, plays a relatively small role for your members and to a lower degree effects how they evaluate listed companies?
5. What are the important aspects when a financial analyst evaluates a listed company?
6. Which group of stakeholder's do you then believe has the most interest in regulations of the auditor's independence?

Questions especially developed for the fund manager

1. Which effects do you think that this EU audit reform could have on the Swedish market?
2. What impression do you have from the fund industry, how does the fund manager relate to the EU audit reform?
3. Is the auditor's independence important in your daily work as a fund manager?
4. Have you ever experienced that a fund or investment has had a bad development due to a damaged auditor independence?
5. Do you think that the EU audit reform will have any effects on your industry?
6. If we look beyond the fund industry which group of stakeholder's do you believe has the most interest in regulations of the auditor's independence?

Appendix 2 – Survey questions

TYPE OF QUESTION	QUESTION
<p>1. YES/NO, DON'T KNOW</p>	<p>Do you believe that a forced change of audit firm after ten years (audit firm rotation) is a good tool to secure auditor independence?</p>
<p>2. YES/NO, DON'T KNOW</p>	<p>Do you believe that a prohibition for an audit firm to sell certain other services to a company they audit is a good tool to secure auditor independence?</p>
<p>3. LIKERT SCALE</p> <ul style="list-style-type: none"> 1. FULLY AGREE 2. PARTIALLY AGREE 3. NEUTRAL 4. PARTIALLY NOT AGREE 5. FULLY NOT AGREE - DON'T KNOW 	<p><i>Below a number of assertions are made that are answered by stating if you agree or not:</i></p> <p>When an audit firm has been hired by the same company for ten years the auditor cannot be independent anymore.</p> <p>In my opinion it is a sufficient measure to change the audit partner each seven years to protect auditor independence.</p> <p>The audit firm should also be changed periodically to protect auditor independence.</p> <p>The auditor is not independence anymore if the audit firm also sells other services to the company.</p> <p>That an audit firm sell other services to a company the audit makes them economically dependent on that company which means that the auditor cannot be independent anymore.</p> <p>That an audit firm provide other services to a company they audit means that they must review their own work which leads to the auditor not being able to be independent anymore.</p>
<p>4. LIKERT SCALE</p> <ul style="list-style-type: none"> 1. FULLY AGREE 2. PARTIALLY AGREE 3. NEUTRAL 4. PARTIALLY NOT AGREE 5. FULLY NOT AGREE - DON'T KNOW 	<p><i>Below a number of other services an audit firm can provide are mentioned, state if you agree or not that the provision of the following means that the auditor is not independent anymore:</i></p> <p>Tax consultation</p> <p>Bookkeeping services</p> <p>Payroll services</p> <p>Services related to internal controls</p> <p>Legal services</p> <p>Services involving promotion of, dealing in or underwriting shares in the company</p> <p>Human resource services such as the participation in the recruitment of leading positions in the company</p> <p>Services that on some way means taking part in the decision-making of the company</p> <p>Valuation services</p> <p>Services linked to the financing, capital structure and allocation, and investment strategy of the company</p>
<p>5. COMMENTARY</p>	<p>Do you have any other thoughts about auditor independence please feel free to share them below</p>