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Developing a Code of Ethics for the Swedish audit profession 1923 to 1994
- Juxtaposing the internal and external role of the Code

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Abstract

The purpose of this paper is to conduct an analysis of how the Code of Ethics has been used by FAR as a strategy in the history of the professionalization project of Swedish auditors from 1923-1994. Acknowledging the differences between professional development in the Anglo-Saxon countries and Continental Europe, the study contributes to nuance the theory of profession and deepen our knowledge of the role of ethical codes in the context of shifting ideologies of government and governance of both the Swedish state and profession. The Swedish system adopts a similar tradition with the European Continental tradition where there is a close relationship between the State and the profession. To determine the function of the code, this study first maps out the discretion granted to the audit profession to decide on its ethical rules; then analyses how the audit profession had verbalized its ethical codes over time within the context of legal, regulatory changes and development of the audit profession in Sweden.

The theoretical framework draws on Birkett and Evans' (2005) model for organizing and understanding histories of the professionalizing activities of occupational associations and Abbotts view of professional codes. The study is based on content analysis of relevant law, regulation and the Code of Ethics. It is further supported by an extensive review of archival documents from FAR and previous studies on the development of the profession in Sweden.

The findings of this study show that ethical rules were essential for association control. The verbalization of different ethical rules appears to be a function of the development in size and geography of members. Most of the guild rules were kept inside the organization to protect the autonomy and flexibility of the association to manage its internal affairs. The verbalizing of ethics has been used as a reminder for the members of the rules that were at hand by other organizations. During the first period such reminders were done through speeches and meetings, but when oral verbalization was not enough written verbalization was published. During later periods these verbalizations were also targeted at important stakeholders. The profession used the space granted by the state to bring international norms into the Swedish profession acting as a rule intermediary interpreting international norms in the Swedish context. In contrast with studies that focus on the role of the code as a means to obtain legitimacy, the results of the study lead us to conclude that weight of this argument is somewhat of lesser significance in the Swedish case. It is apparent that as the status of the Swedish profession in ethical issue is not depending on the profession's capacity for self-regulation, but the profession's capacity to assure an institutional frame within which it may act.

Key words

Code of Ethics, Accountancy Profession, Regulation, Accounting History, Sweden

Introduction

When colligating the different theoretical traditions on profession and ethics, Abbott (1983) identifies three reasons for professions to develop ethical codes. First, an ethical code has the function of protecting clients from the “social danger of uncontrolled expertise” (Abbott, 1983, p. 864); second, it provides a market-based reason of creating and protecting professional monopoly (*op. cit.*; Larson-Sarfetti, 1978) and third, it helps determine intra-professional and the extra-professional status (Abbott, 1988). The remedies for achieving status are entry controls, formal behavioral controls (formal ethical codes) and everyday informal controls (Abbott, 1983, p. 868). According to Abbott (*op. cit.*, p. 873) the three reasons for developing codes are simultaneously at play. The strength of the different reasons depends on (i) the difficulties to achieve or maintain the ends of protecting client, achieve monopoly or high status (ii) the alternative options of achieving or maintaining these ends. To a large degree the literature on the development of ethical codes for the accountancy profession identifies one or several of Abbott’s (1983) reasons as salient for the codes’ development (e.g. Preston, et al, 1995; Neu & Saleem, 1996; Neu & T’aerien, 2000; Baklof & Martin, 1991).

The development of ethical codes is context sensitive (Preston et al. 1995; Backof and Martin, 1991). It is closely tied to historical, social, legal, cultural context in a country and connected to the development of a profession. Many studies have been carried out on the Anglo-Saxon countries (for an exception see Dedoloulis, 2006) and focused on processes of legitimacy (see for example Preston et al. 1995). However, even within the Anglo-Saxon world, the issues and conditions that trigger the code development, differ between different countries and professional associations. Therefore, it is not unreasonable to suggest that no single model can explain the relationship between a professions’ development and the emergence of codes. Instead, an in-depth analysis of the unique context of each case presents a valuable contribution to enhance our understanding of this relationship.

Acknowledging the differences between professional development in the Anglo-Saxon world and Continental Europe (Abbott, 1983; Brante, 2010; Svensson & Evetts, 2010), this paper contributes with a case study on the development of the Code of Ethics for Swedish authorized auditors. Historically, Sweden has similar traditions as Continental European with regards to law and the relationship between the state and the profession. One feature of the Continental tradition is a close relationship between the State and the profession. Instead of developing independently from the state professional institutions are often developed in interaction with or as part of governmental regulation. Consequently, the extent of self-regulation by the profession is often lower in countries with a Continental European tradition (cf. Öhman & Wallerstedt, 2012). Given that the space for the profession to determine its code of ethics being delimited to the discretion granted by legislators or the “left over” spaces not occupied by governmental regulation, it raises the question as to whether the function of the code differs from ones described in the literature on the Anglo-Saxon profession (i.e., is, having a strategy to establish legitimacy through issuing the code of ethics). To determine the function of the code, this paper analyses the discretion granted to the audit profession to decide on its ethical rules; how the audit profession had exercised this discretion over time within the context of legal, regulatory changes and development of the audit profession in Sweden. The analysis provides a basis to analyse how the code of ethics is used as a strategy by FAR in the history of the professionalization project of Swedish auditors from 1923-1994. This study contributes to nuance the theory of profession and deepen our knowledge role of ethical codes in the context of shifting ideologies of government and governance of both the Swedish state and profession.

In the next two sections, the theoretical framework and method are presented. This is followed by a description of the Swedish context and the development of the regulation the profession had to work within over time. The findings of this study, discussion and conclusion are then presented.

Theoretical framework

Birkett and Evans (2005) defined professionalization as “the path taken by occupational associations to attain professionalism” (Birkett & Evans, 2005, p. 102). The authors developed a theoretical model for occupational associations’ effort to achieve professionalism building on a comprehensive review of earlier research on professionalization. The model takes into account the conditions; the dependencies with other institutions and associational strategies required for achieving professionalism. The figure below outlines these relations.

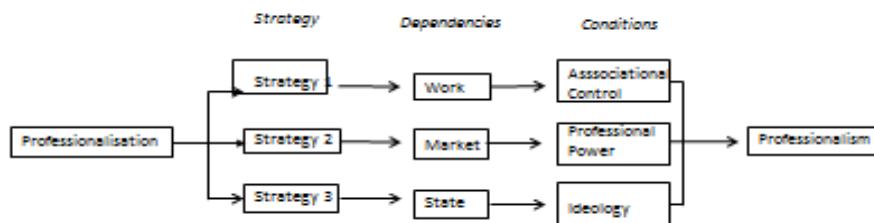


Figure 1: Strategies, dependencies, and conditions (from Birkett & Evans, 2005, p. 104)

The point of departure in that the aim of occupational associations is to achieve professionalism is closely linked to Abbott’s (1988) claim that professionalism is related to achieving social status through closure of labor markets for professional services, and to Larson’s (1977) position that professionalism primary aims to gain monopoly over a production and consumption market. Achieving the end of professionalism is dependent on the occupational association ability to handle the professions’ dependency on their domain of work, the production and consumption of services and the relationships to the state. To succeed in this pursuit, the association has to be able to exercise associational control, professional power and to sustain a professional ideology. In this context associational control is exercised through the institutional frameworks of the occupational association, including capacities to deal with homogeneity of membership and services, social cohesion of member and identity of members within the association (Birkett & Evens, 2005, pp. 108-109). While the two first of these factors are part of the efforts for gaining public trust for the professional services (Neu, 1991; Pierce, 2006) the last one is connected to the idea of professions as moral communities (Frankel, 1989).

Professional power are defined by Birkett and Evans (2005, p. 106) as the power to determine who will produce what and how production will occur in the professions domain (cf. social closure, Abbott, 1988). In this category Birkett and Evans (2005) also include the legitimacy given by the state or the society at large for exercising such power. In other words the power is dependent on its acceptance in the “eyes of salient other” rather than a property of the profession (cf. Latour, 1986). This implies that power is inherent unstable and need to be currently maintained. This is one function of sustaining a professional ideology i.e. “the ways in which what we say and believe connects with the power structure and power-relations of the society we live in” (Eagleton, 1983, p. 14 quoted in Birkett and Evans, 2005). Regarding professional ideology Birkett and Evans (2005, p. 110) claim:

The ideology associated with professionalism offers service, competence and integrity – *by producers to consumers*. Moreover, professional authority is promoted as the mechanism by which the “structure of uncertainty” experienced by consumers, as a result of occupational monopoly, is managed and alleviated.

The conditions in Birkett and Evans model are closely intertwined with each other. It is difficult for example to imagine that professional ideology may exist without professional power and that professional power exists in lack of associational controls. The model, however, gives one opportunity to sort out the development patterns of different occupational groups. In this regard “the dependencies” may be interpreted as different arenas or set of networks where the occupational association applies strategies for pursuing their interests (either based on public interest or self-interest) and where the success of these strategies is depending on the possession of different conditions. One such strategy could be the development of ethical codes. According to Frankel (1989, p. 110) a profession’s code of ethics:

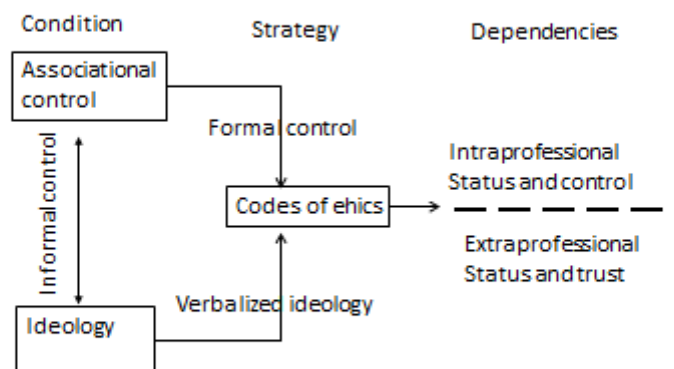
... is perhaps its most visible and explicit enunciation of its professional norms. A code embodies the collective conscience of a profession and its testimony to the group’s recognition of its moral dimension”

In the framework of Birkett and Evans (2005) this definition of ethical codes would implies that codes may be a strategy for verbalizing professional ideology at the same time as it represents one remedy for associational control. According to the Oxford and Cambridge dictionaries verbalization implies “to express in words”. Verbalization can take the form of ‘speaking it out loud’ or a written codification of the code. Verbalization could also be internal expressed to a particular group within the association. It could also be external i.e. published or made available to parties outside the association. It may thus be used at both the work and the market arena as well as legitimating the profession in its interaction with the state.

In empirical research on the development of codes of ethics for accountants or auditors a diversity of different patterns has been shown (e.g. Preston et al 1995; Neu & Saleem, 1996, Backof & Martin 1991; Dedoulis, 2006). The codes seem intimately connected to the occupational associations pursue of professionalism and earlier research has to a large degree focused on its function as a remedy to (mainly) increase the extraprofessional status in the market arena or the state – profession network. According to Neu and Saleem (1996) the development of codes is a response to changing circumstances for maintaining professional privilege, i.e. what Birkett and Evans referred to as “condition”. Preston et al (1995) show how larger shifts in the American society have led to new writings in the code of ethics for the American profession. Dedoulis (2006) add to this by describing how code of ethics is applied in ambition to “discipline” within the Greece profession.

Reviewing this research, professional codes of ethics as a strategy seem to be a point of intersection between different dependencies for the professionalization process. A code contains behavioral rules for the dependencies of work as well as market (Frankel, 1989; Velayutham, 2003). Taking Frankel (1989) definition, quoted above, as a point of departure, the code of ethics embodies what Birkett and Evans (2005) calls the condition of ideology. It is likely that ideology as well as professional ethics consists of both spoken and unspoken rules. In this respect ideology and ethics are simultaneously formal and informal (associational) controls. By verbalizing ethics in a code informal controls became formal and the ideology a remedy for impression management (Neu, 1991). The verbalization may be intra-professional, internal, in order to alert the professions about desired behavior or external, extraprofessional, a way of influence the dependencies of market and state. Using Abbott's (1984; 1988) concept an ethical code influence the intra-professional relationship by either adding new elements to the ideology or by verbalizing earlier unspoken rules and thereby transform informal controls to formal ones. It also influences the extraprofessional relationship by fulfilling the functionalist promises (Abbott, 1984) of client protection. This give a model for studying the strategy of codes of ethics departing from Birkett & Evans (2005) but applying Abbott's (1984) concepts.

Figure 2: A model for studying codes of ethics as part of the professionalization process



The model above is general, while the dependencies may be assumed to be context dependent. As discussed in the introduction the development of profession differed between the Anglo-Saxon countries and Europe. In the Anglo-Saxon sphere state government was decentralized and supported market related development of profession, implying that occupational associations took care of education and licensing of its member and the self-employed practitioners working in a market for services for client became the role model. In comparison to this the Continental model builds upon a close relation between the profession and the state, with academic education as a rule for becoming a professional and very often a position as a civil servant rather than self-employed in exercising professional work (Svensson & Evetts 2010) These differences may imply that the professions within different contexts are faced by different types of challenges for which codes of ethics may be a remedy. In a Continental setting much of the extraprofessional status of a profession such as demand

on higher education or experiences in order to get a license is gained through the regulation of non-professional bodies. A strategy for increasing the profession's status through high education/experience level will therefore rather be directed toward the regulatory body, than verbalized in codes. In addition the domain of profession is often stated by law. Much of the status Abbott (1983) defines as important for professions are thereby institutionalized through regulatory bodies and the state, rather than by the code. Instead one may expect the codes to function as trust-making devices. As such one may propose that an ethical code in a Continental European setting way would either work as (i) pro-active i.e. the code developed by the profession in order to influence the regulatory bodies to develop their codes through adapting "good practice" (i.e. the content of professional codes) or (ii) as smoothing i.e. the code gives interpretations of the regulation that accommodate the regulation to the professional practice (iii) as a way of assuring compliance to the regulatory bodies code and thereby infuse trust by obedience.

Due to the relations between the state and the profession in a continental European setting, some of the functions usually allocated to code of ethics in Anglo-Saxon countries in relation to the market are legally regulated. This does not detract that code of ethics may play an important role in sustaining the status of the profession on the market. The concept of market, which is defined by Birkett and Evans (2005) as "consumer power" may have a more complex structure applied to the Continental European tradition. First; the struggle over professional domains (Abbott 1988) that in Anglo-Saxon countries may be resolved by consumer choosing the one or the other professions' services, may in a Continental European setting involve negotiations between the struggling professions and the state; secondly, the idea of consumer power has to be specified. Consumer power may be carried out by either the individual consumer buy decision or by the power allotted to consumer organization. If applied on companies as consumer as in the case of audit services one may claim that consumer power is both performed by the individual company (the client) and the business associations active in the private sector of the economy. In other words, the code of ethics may be expected to play an important role when professions develop their scope of activities or enlarge their markets from e.g. national to international as well as in relation to client and different industrial association. Most often a verbalization of the code is a way of foster or to sustain stakeholder engagement. In addition to the functions above in an intra-professional setting a formal code of ethic could imply either a verbalization of earlier informal norms or an introduction of new element into the ideology of the profession. In both cases the code is as noted above a way of discipline the behavior of the profession. While the introduction of new elements may be an expression of a will to develop the profession or an external pressure to change, the verbalizing of informal norms may either be due to breaches by professionals of the informal norms and thereby a way to increase the associational control or a strategy of image management, i.e. to show the environment that certain norms do exist in the profession.

To summarise, one may expect codes of ethics of professions in countries based on the Continental European tradition to be a reaction to the often comprehensive regulation from the state regarding the professions' status. The uses of code of ethics to increase status or trust building may therefore differ from the uses in an Anglo-Saxon setting. In the table below the expected uses are summarized:

Table 1: Expected strategic use of code of ethics within the Continental European tradition

Code of ethics	Extraprofessional dependencies		Intra-professional dependencies
	State	Market	
Main function	Trust building (Status)	Trust building (Status)	Associational control
In the situation of	Status building regulation	Changing domain	Disobedience or changing domain
Strategies	Pro-active Smoothing Compliance	Stakeholder and façade management	Enforce compliance Introduce new norms

Method

This paper presents a historical analysis of development of code of ethics within the Swedish audit association FAR from 1923 when FAR was founded to 1994 the year prior to Sweden's accession into the European Union. The study is based on content analysis of the Code of ethics and an extensive review of archival documents from FAR, legislation and previous studies on the development of the profession in Sweden.

To understand the development of the profession and the regulatory framework in Sweden, this study draws on the work of Larsson (2005); Nilsson (2016); Sjöström, (1995); Wallerstedt (2009); and Wallerstedt and Öhman (2010) Öhman and Wallerstedt (2012). Sjöström has mapped the legal development of audit regulation since the late 19th century; Wallerstedt (2009) has made a rigorous analysis of source material in describing the development of the audit profession during the last 100 years. Nilsson's work covered the same time period, but focused on the regulatory development and the interactions between the profession and the state. Larsson (2005) and Wallerstedt and Öhman (2010;2012) are interpretations of the development of the Swedish audit profession in which Larsson emphasizes the close relation between the profession and the state while Wallerstedt and Öhman focus on the importance of corporate scandals in the development.

For the development and verbalization of ethics by the occupational association FAR different archival and source material has been used:

1. matriculation register of FAR (1923-1969) which contain member registers, extracts of by-laws, description of activities and articles on current matters (available in FAR library)
2. minutes from annual meetings (1971-1995 (except for 1977))
3. Minutes from the Regulatory Committee that was responsible for the development and enforcement of standard by FAR after 1975 Company Act (1979-1985).
4. Regulation from the Chambers of Commerce and National Board of trade
5. Minutes from the meetings of the Nordic association for auditors.
6. Special speeches and articles about codes of ethics (b-f are available in the Center for Business History, Stockholm)
7. Books published by FAR about the development
8. Balans, the trade journal published by FAR (1975-1994)
9. Governmental investigations and regulation in the area

The material has been classified according to its origin (minutes, matriculation etc.) and whether it content discussions and changes of ethical rules. A content analysis has been performed on the

material where changes in ethical codes are mentioned in order to get a base for describing the changes over time. In addition, discussions, articles etc. have been analyzed in order to put the changes into their social context in order to enable interpretations of the development.

The Auditors in the Swedish context

As mentioned in the theory section the development of professions as well as codes of ethics vary substantially in different contexts. A dividing line goes between the development of professions in the Anglo-Saxon sphere and the development of profession in continental Europe. Sweden, the site for this study, belongs to the continental tradition. La Porta et al (1998) classified Sweden in a sub-category to the continental tradition, the Scandinavian tradition. As such the legal tradition is – as the continental tradition – based on Roman law, but the Scandinavian tradition had, at the time of La Porta et al's investigation, higher accounting quality and a very high degree of compliance and enforcement of law compared to other categories in their classification. Transferred to the field of auditor, one may say that legally Sweden has been very close to the German tradition (up to the 1970's) but the structure of the accounting profession has differed somewhat. The development of the profession in Sweden has often occurred in conjunction with the professions in other Scandinavian countries. The occupation in Scandinavian is divided into accountants and auditors, where auditors are licensed and have the status of being a profession. The Anglo-Saxon licensing of Chartered Professional Accountant (CPA) does not exist.

According to Brante (2010) the state and the different professions in Sweden have co-developed over time. Each large change in governmental forms or state policies has given rise for what he calls professional types (Brante 2010, p.77), i.e.:

... one, two or a cluster of professions that evolve as responses to, parts of, and sometimes as instigators of profound societal development and change, often in conjunction with assisting and adjacent occupations.

When the occupational association of auditors emerged in Sweden in the early 1920s the Swedish state is defined by Brante (2010) as the industrial state, occupied by large infrastructural projects. The profession rising during this state was prominent “the engineer”. Given the fast development of Swedish companies and the internationalization of trading during this period, the auditor became another vocation to emerge (Wallerstedt; 2009). The first legal rules about statutory auditing were formulated in 1895 company act. Licensing of auditor started 1912 by the private body Chamber of Commerce in Stockholm. This model for licensing was an adaptation to the German tradition in the area (Wallerstedt, 2009). The title of the licensed person became “authorized auditor”. The decision of “private sector” authorization was preceded by lively discussions. A number of politicians and auditors lobbied for a state authorization, while others acted forcefully against this. The issue of whether the licensing of auditors should be done by a private organization (the market) or by a governmental agency has been a point for discussion the whole time period discussed in this paper. In 1923 the authorized auditors got together to form an occupational association; the association of authorized auditors, FAR (Föreningen Auktoriserade Revisorer). FAR has since then taken position against state authorization, even after such authorization was implemented (see further down). From the start of FAR the auditors had three sets of rules to comply to; the law for statutory audits, the rules for admittance to the profession from the Chambers of Commerce (the market) and the – at this time – mostly informal rules of FAR. Still, however the gentleman view of the auditor was dominating the image of the auditor (Larsson, 2005; Nilsson, 2016).

About 1935 the state policies changed toward “the welfare state”. Under these policies a social security system was built including “guarantee of a set of civil rights such as minimal standards of income health, housing, and education” (Brante, 2010, p. 93). What later became known as “the Swedish model” i.e. a development of the businesses through negotiations and agreements between the business society, the unions and the state emerged (Jonnergård & Larsson-Olaison, 2016). In the early part of this period the public discussion about auditing was dominated by the so-called Kreuger scandal in 1932. The scandal included accounting manipulation and audit failure and was shaking the Swedish business to the ground. Regulative changes were to come and in 1933 FAR released its first ethical rules. More important for the profession was the new Company Act that was decided on in 1944. The new company act build heavily on the German counterpart. Through the act the use of authorized auditors in auditing companies over a certain size became statutory. This implied a first monopoly for the authorized auditors. The law was very specific on the content an auditing consisted of and the first regulation on conflict of interest was included in the law (Nilsson, 2016; Wallerstedt 2009)¹.

The audit profession flourished during the welfare state. The audit business was expanding from being a large city phenomenon with smaller audit firm centered around a renowned auditor, to covering the whole country with firm’s branches and in the 1950s connections to international networks of auditors. In the later parts of the period the close connection with the state was obvious (Larsson, 2005). Firstly, the state took over the licensing of auditors 1973 through the National Board of Trade. Taking the power over the entry and the owning the disciplinary means of exclusion of the profession, the development of the practice and its ethics were left to the auditors. In the new Company Act of 1977 the development of “good auditing practice” and “good auditor’s practice” were given to the profession. At the same time the auditing was extended to include companies’ tax payments and sale of weapons. In 1983 the statutory auditing was extended to include all companies with limited responsibility for their owners. During this time the trust in the auditing were rather placed in the trust of the profession, than in the individual profession (Nilsson, 2016).

The welfare state faded away as the Neoliberal state emerged in the early 1980 (Brante, 2010). Beside the introduction of New Public Management the 1980s included a radical growth in the Swedish stock market, supported by governmental policies favoring savings in stock and a deregulation of the market (Jonnergård & Larsson-Olaison, 2016). The professional prototype of this area was the financial advisor, and the auditor redirected their salient interest groups from the society at large (the so-called stakeholder model) to the investors. Still, most of the regulations of the profession (except for the entry/exit) was in the hand of the occupational association, but in the early 1990’s the licensing and disciplinary functions were moved to a new governmental agency; the Supervisory board of Public Accountants (Revisorsnämnden, RN). This reform was a preparation for the Swedish enter into the European Union. In 1995 Sweden became a member of EU and by that a lot of the regulation was moved from national to regional level. That is also where we end our case as most of the development of ethical codes after that has been an adaption of international development of standards (cf. Sonnerfeldt & Loft, 2016). According to Nilsson (2016) this period led to a trust in auditing as a system, i.e. a trust in the standards and rules regulating the auditing, rather than a trust in the profession. In

¹ In addition a second type of auditors “the approved auditor” with lesser demands on education and experiences was incorporated in the law. The approved auditors were legally equalized in the Corporate Act of 2005. In this paper we only discuss the authorized auditor.

the table below some features of the development is listed. Note that the division in periods is ambiguously and that features of earlier periods are segmented in later ones.

Table 2: Development of auditing in the Swedish context

Development of the state (Brante, 2010)	Functional development of the profession (Wallerstedt, 2009)	Main basis for trust in the profession (Nilsson 2016)
<p><u>The industrial state</u> (1850-1930) Focusing on building infrastructure and legal framework</p>	<p><u>The emergence of the profession</u> (1880-1930) First legislation 1895 Private sector licensing 1912 Occupational association 1923 Small audit firms in large cities</p>	<p><u>The professional gentleman</u> (1880-1930) The individual auditor and his/her character was the basis for trusting the audit.</p>
<p><u>The welfare state</u> (1935-1985) Focusing on building a welfare society, close collaboration and negotiation between the state, the business and the union. The auditors viewed as serving the public</p>	<p><u>The consolidation of the profession</u> (1930-1970) Legal monopoly 1945 Increasing number of auditors (from 59, 1932, to 364, 1971) Development of larger audit firms, with branches and part of international networks. FAR member of Nordic and European network of auditors</p>	<p><u>The profession</u> (1930-1990) Trust in auditing was based on the trust on the profession and the occupational association as keeper of good audit practice and ethics.</p>
	<p><u>Legitimizing the profession</u> (1970-1985) State licensing 1972 Legal monopoly on standard for practice and ethics 1975 Extension of areas for auditing 1970-1980 A wave of mergers amongst audit firms and closer connection to international audit network starts in early 1980s FAR became a member of IFAC 1976.</p>	
<p><u>The Neoliberal State</u> (1985-1990) An emphasis on the market as effective arena for production and distribution of good. Competition as the remedy for pursuing effectiveness. The individual as the basic entity of the society</p>	<p><u>Internationalization of the profession</u> (1985-1995) A number of standards for good audit practice and ethics. Increasing merger activities between audit firms International firm's name is added to the Swedish ones New governmental agency for licensing and discipline the profession (1992) as a preparation for entering EU</p>	<p><u>The structural arrangement</u> (1991-2014) Trust based on the regulation that restricted and enable the auditors. System and institutional trust rather than trust in the profession as such.</p>

The table above summarizes the development of the profession from three different perspectives; the societal, the professionalization perspective and the functional perspective on trust building. These

three perspectives serve as a background to this paper, even though we apply a certain different division into time periods. Our point of departure is that the code of ethics may be used as a strategy within the frame of other regulation and therefore we take the major changes in audit regulation as our point of departure. As noted above the enter control as well as the requirements for education and training has been outside the discretion of the profession itself. Instead it has been in the hands of first a private sector organization and later on a governmental agency. This leaves formal behavioral controls and everyday informal control as possible strategies for achieving status. Also here, however, has the power of the profession been restricted by different regulations over time. First, the Company Acts have given a frame for e.g. conflicts of interests. Second, the different supervisory boards have had regulations interfering with behavioral control by the auditors. This implies that we may divide the development of auditor's code of ethics into three time periods after the discretion of the profession to decide about the content of its ethical code: First, 1923 – 1944, when Chambers of Commerce authorized the auditors and the Corporate Act of 1910 was applied. Second, 1945-1972, when the Corporate Act of 1945 was implemented. Third, 1972-1995, when the authorization where taken over by the governmental agency National Board of Trade and a new Corporate Act was issued in 1975.

A profession has obligations that do not rest upon the non-professionals. These responsibilities include: responsibility to his clients; responsibility to society; responsibility to other members of his profession and responsibilities to himself. Responsibility in the aforementioned areas is essential and the neglect or imbalance of one would undermine the proper discharge professional duties (Mautz and Sharaf, 1961). The Code of Ethics by FAR to guide the behavior of its members has been developed within the context of shifting ideologies of government and governance of both the state and profession in an increasingly interconnected and interdependent world. The verbalization of the Code has been limited by the space granted by legislators or the “left over” spaces not occupied by state authority. The findings below presents: i) how FAR has exercised this discretion over time; ii) the context within which the code is developed. The analysis provides a basis to analyse how the code of ethics is used as a strategy by FAR in the history of the professionalization project of Swedish auditors.

The early days 1923-1944; private market authorization and general legal rules

Governmental and private sector regulation

When the professional association, FAR, was established in 1923, the 1910 Companies Act provided a legal framework stipulating a few rules on the behavior of the auditors. When it came to the auditor as a person, the act prescribed that an auditor had to have be a Swedish citizen that had “come to age” and that had enough experiences in bookkeeping and business transaction to carry out an auditing. The auditor was prohibited from being employed by the company s/he audited or serve as a board member of the client company. In addition the law stated that the auditor was responsible for any harm done through the audit or the audit report. The requirements stipulated set the scene for the authorization rules that was issued by the Chambers of commerce, a private authority.

The Chambers of Commerce made further specification that stating that an auditor should “master her/his own property (meaning not being economically dependent) and have a reputation for being decent and righteous. This was not only a symbolic demand. One of the main conflicts in relation to the Chamber of Commerce during the 1920s was the interpretation of the reputation of the ones that wanted to become auditors (Wallerstedt, 2009). In addition to this the Chambers of Commerce specified that any adept to authorization should have three years of service under an authorized author

in addition to the academic demands in order to come into question for an authorization. The issue of independence was also further regulated through a statement that equalized the demand of independence with the legal ones of a judge. By this Chambers of Commerce indirectly based their regulation not only on the Corporate Act, but further more on legislation applying to other professions.

In addition to specifying the legal requirements the Chambers of Commerce imposed rule of confidentiality upon the auditor as well as restriction on employment. An auditor was not supposed to be employed or to have any business activities besides auditing. The Chamber of Commerce further expected the authorized auditor to an oath on behaving appropriate cited below (Chamber of Commerce Regulation for authorization, 1919):

I N.N. promise to on my honour and consciousness that I, as by the Chamber of Commerce authorized auditor, will perform those assignment entrusted to me with decency, dutifulness and consideration to the best of my capacity and consciousness, to unswerving respect the duty of confidence and to all part follow the regulations and rules developed for the audit profession.

In summary, during these early years the law gave a basic regulation regarding the audit as a person and his/her independence and responsibility. The law did not demand that the auditor should be authorized. The demand on authorized auditor was specified by the Chambers of Commerce that specified the personal aspects of the auditors and the basis for independence. The Chambers further added requirement of confidentiality and exclusivity in applying the vocation. Parts of the relation to the market were thereby regulated by the private market organization rather than the state or the professions.

Professional development of ethics

There are three important governing documents in FAR that provide guidance on the operations, activities, membership and code of conduct of its members. The 'stadgar' contains the bylaws of the association; the 'reglemente' contain more specific guidance on the interpretation of the bylaws and the Code of Ethics contains guidance on profession conduct of its members. FAR had drafted these documents taking into consideration legislative acts and provisions by the Chamber of Commerce.

In 1923, the bylaws of FAR state that the association has the task to safeguard its members' common interests; promote a high general standard of the Swedish accounting profession; to promote the implementation of rational methods in the field of auditing, accounting and organization of both public and private Swedish companies and upon request to issue statements of affairs as part of professional auditing activities, as well as representations on such matters.

In the first 10 years of establishment, there had not been documented evidence of a written Code of Ethics. The expected professional behaviour of members was believed to be communicated through initial meetings with the Chairman of the Committee or Secretary of the association. This practice enabled ethical rules to be made known only to the members and association control of members within the association (FAR, 1998). The mindset of FAR's leadership on ethics and the professional behaviour and its importance were captured in speeches in the association as well as publications from the Inter-Scandinavian Congress where ethics is verbalised.

Oskar Sillén the Chairman of FAR, in his speech to association members in 1925 included three primary areas of professional conduct: the auditors' relationship with the principal, relationship between colleagues and the general behaviour of members. Sillén asserted that it was not desirable for auditors to be on too intimate terms with clients and their employees. Rather, the relationship was to

be in a “värdigt vänligt” (translated as *dignified and friendly*) manner, which he regarded as difficult due to the ‘brother system’ adopted in practice in Sweden (Wallerstedt, 2009). Historically, many of Sillén’s audit engagements resulted from consulting work earlier where his services were sought due to his knowledge of the companies and maintenance of close relationship with managers of those companies (Kipping and Engwall, 2002). It had also been customary where lay auditors were appointed due to their relationship with management. He drew examples of measures to guard against conflict of interest for example from Finland, Denmark, Netherlands and Switzerland. In addition, he spoke on the importance of auditors’ competence and confidentiality, which were coded in law as well as in the regulation provided by the Chamber of Commerce. FAR has had a greater leeway in the provision of guidance on intra-professional relationships, as other regulators did not occupy the space. Sillén drew from Code of the American Institute of Accountants to discuss the importance of not appropriating engagements of colleagues, not advertising and soliciting another member’s clients or encroaching in another member’s affairs. Even though members have the right to render help and advice to those that request. Sillén also mentioned the behavioural code and practices of Haskins and Sells in the US. He drew to members’ attention the importance of factors such as appearance, personal habits, behaviour, attitude towards customers in order to avoid behaviour that puts the corps in an unfavourable light. For example, smoking in the office was deemed unsuitable. Drunkenness and extravagant living not accepted. (Wallerstedt, 2009).

The general behaviour of auditors was also addressed in the Inter-Scandinavian Congress held in Copenhagen in 1927. Norwegian representative Christain Sommerschild led the topic of professional ethics. Sommerschild defined professional ethics as the “*revisors fasade*” (auditors façade) which he denoted as a collection of ‘former’ features of the auditor that should be observed in outward appearance (Sommerschild, 1927). The issues raised in the congress were similar to the topics in Sillén’s speech indicating Nordic thinking of that time (Wallerstedt, 2009).

The first documentation of ethical rules in FAR dates back to 1933. Previous studies have attributed this to the 1932 Krueger crisis. We argue that the documentation was also driven by the need for greater association control. From 1924-1933, membership of FAR increased from 27 to 58 members (115%). The percentage of auditors authorized in Stockholm decreased from 78% to 64% indicating greater heterogeneity of the Swedish profession. At the aftermath of the Krueger Crisis in 1932, FAR was aware that the authorized auditor of Swedish Match Anton Wendler, a member of FAR acted as the auditor of Swedish Match while he was on the client payroll breaching the law and bylaws of FAR.

The Swedish audit profession undertook several initiatives to maintain the façade of the profession. In particular, Sillén² and his colleagues had earlier been connected to the Industrial Office of the Federation of Swedish industries a consulting organization. They now left the audit department of the Industrial Office of set up a separate firm. In addition, efforts were taken to amend the bylaws and verbalize the code of ethics internally.

The bylaw of FAR was amended in October 1932. The extracts available to external parties in 1933 included paragraphs on requirements on membership control, conflict of interest, incompatible

² Oscar Sillén was the dominant actor in the field of auditing at this time. He was amongst those first authorized in Sweden and one of the foundering members of FAR and chairman of the organization during their first years. In addition he was the first professor in accounting at Stockholm School of Economics and worked as a consultant in many of Swedish largest companies. His influences on the development was most significant (Wallerstedt 1995).

business and the discipline of members. Though the oath taken by members was published, the Code of ethics remained a written but unpublished document internally and externally.

Paragraph 3 of the bylaw states the membership requirements, i.e.; that individuals who received the Swedish Chamber of Commerce authorization for the exercise of the professional accountant operations and show to possess the qualifications which the Board deems necessary may be elected by the board as active member of the Association. Active members shall commit not to undertake the audit of the business enterprise in which he has a direct or indirect interest.

Paragraph 4 states that the application for admission as an active member of the association made in writing to the Board. The "reglemente" further specifies the information to be submitted including the applicant's full name, address, and birth year; degrees and other theoretical training; internships; relevant transcripts; a copy of the authorization certificate from the Chamber of Commerce; references from association members; information concerning the applicant's finances, in particular loans and guarantees and further information the Board require. Paragraph 5 state active member may not retain his or her title when no longer practicing as a chartered accountant. Paragraph 11 stipulates the rights of the Board of Directors and members with regards to disciplinary situations.

FAR members take an oath when becoming a member of FAR published in the reglemente paragraph 5.

*"Since signed by the board of FAR elected to the Association, I declare on my honor that I shall not undertake such audit of the business enterprise in which I have a direct or indirect interest, resulting in me to another person, the submitted oral or written report. Furthermore, I declare myself in principle to join in one of the Association expressed desire that members ought not to enter into new guarantee commitments of a financial nature and the previous ones dismantled as soon as possible"*³

In 1937, a slight revision was made to the bylaws published. Paragraph 3 clarified that in addition to the bylaws, the Reglemente first adopted October 28, 1933 contained regulations of the association. The association published paragraph 6 stating active member obligations to follow closely the Association in force statutes and regulations.

The first code of ethics consisted 10 principles. The code was revised in 1937, 1940 and 1941. The code in 1942 consisted of 15 principles. The 1st principle specified how the name of the firm should be presented; the 2nd, 3rd and 12th principles covered the task, responsibilities and limits of the delegation of work by auditors. For example, members should not certify the correctness of the accounts that are not examined by him, the fellow auditor he works or one of his employees he oversees. Members were not to accept or offer commission to others outside the highly qualified corps and were to maintain quality by not certifying the compliance of accounts that were 'less than formally correct'. About half of the code dealt with relationship with colleagues. These principles state that members should not directly or indirectly offer employment to people who are employed by other members without first notify his colleague; members were not to critic the earlier work or opinion of a colleague without conferring with him; question another member trustworthiness or competence,

³ "Sedan undertecknad av styrelsen för Föreningen Auktoriserade Revisorer invalts i nämnda Förening, förklarar jag på heder och samvete, att jag icke utan förut av Föreningens styrelse beviljad dispens skall åtaga mig sådan revision i affärsföretag, i vilket jag själv har direkt eller indirekt intresse, som resulterar i av mig till annan person avlämnad muntlig eller skriftlig rapport eller berättelse. Vidare förklarar jag mig i princip ansluta mig till ett av Föreningen uttalat önskemål om att ledamot icke bör ingå nya borgensförbindelser av ekonomisk natur och att äldre sådana skola snarast möjligt avvecklas."

unless specific conditions are satisfied or give the impression that he is speaking on the whole groups behalf. Furthermore, members were to refrain from deliberately offering better services or prices lower than generally regarded as fair among authorized auditors. Communication between new and old auditors was regarded essential to understand why the latter resigned from the engagement. The remaining principles dealt with relationship with clients. With conflict of interest provisions already covered by legislation, regulation by the Chamber of Commerce and the bylaws and reglemente, the ethical code made provisions on the prohibition of contingency fees and acceptance of advances from clients.

By 1944, the membership of FAR further increased 3.8 times to about 110 members (excluding the 32 that retired). The percentage of auditors authorized in Stockholm decreased slightly from 78% in 1923 to 70%. A higher percentage of auditors were authorised from Stockholm as compared to 1933.

Summary

In the first nine years of the first period (1923-1932) when FAR was established, the association had no written code of ethics. Membership started with a rather homogenous group of 27 members. Verbalisation of the code had been made through internal speeches addressed to members of FAR; presentations and discussions at the Inter-Scandinavian Congress; initiation meetings and socialisation of new members. The state had staked little claim on the regulatory space as Sweden adopted the German tradition of private authorization that could have kept the state away from this regulatory sphere. Trust between the association and the business community was established through the Chamber of Commerce regulating particular aspects of professional conduct. More importantly, as the appointment of auditors was at that time still very much dependent on appointing individuals whom the management or board member trusted, the importance of maintaining a façade through appropriate conduct was emphasised. Towards the second half of the first period, the Krueger Scandal, the increase in the heterogeneity of the profession and the failure to see to the compliance of the law and code by one of its prominent members Wendler were several factors that contributed to the codification of the secret code. The code had undergone several revisions and in 1942 selected guidance on relationship with clients which correspond to the requirements by the Chamber of Commerce was codified and published as part of the by laws. The code covered predominately relationships between association members and relationship with clients were not covered in legislation. The Krueger crash also led to an intensification of actions by auditors to maintain the façade of independence. The verbalisation suggests the predominant importance of the code as a means of association control in the process of professionalization.

The growth of the Swedish Welfare state; statutory audits and increasing interest from the state 1945-1972

Governmental and private sector regulation

The governmental and private regulation for auditors was more or less the same from the 1920s up to the new Corporate Act was issued in 1945. As indicated above the discussion around the auditor and the audit function was however lively, especially as the Kreuger scandal occurred in 1932. The accounting fraud related to the scandal was so extensive that the existed number of Swedish authors was not considered large enough to scrutinize the Kreuger group. Instead an Anglo-Saxon accounting firm, Price Waterhouse, was employed to invest into the accounting of the group. The auditor for the Kreuger group was taken to court on the charge of lack of independence and insufficient auditing. As

mentioned above the auditor was authorized and an active member of FAR⁴. After the scandal the discussion of the functions, competence and ethics was lively (Nilsson, 2016; Wallerstedt & Öhman, 2010; Öhman & Wallerstedt 2012). As the new corporate act was drafted it became clear that the scandal at large had favoured the profession. For the first time statutory auditing performed by authorized auditors became mandatory for larger audit firms and the demand on education and practice were emphasized. The Corporate Act was to a large degree modelled after the German equivalent, but the discussion before the law was also influenced by Anglo-Saxon legislation.

Regarding the auditor's personal characteristics and the auditor's liability the 1945 Corporate Act had the same content as the 1910 Corporate Act. The legal rules regarding independence were developed and the earlier phrase that the auditor was forbidden to be employed by the client company or anyone on the company's board, was change to "not be subordinated or dependent to anyone in the company, its board members or CEO, or any in the company that are in charge of the bookkeeping or the management of assets". In addition it was stated that the auditor should not be married to, sibling, in blood-relation or brother in law to such a person.

The new legislation led to changes in the Chamber of Commerce regulation on authorization of auditors. An upper age-limit for first-time authorization was set to 55 years. The regulation complemented the legal definition of independence by that the auditor was not to be part of the client company's board and by a general rule implying that if any special conditions in relation to an assignment existed which unsettled the trust in the auditor, the auditor was not to perform the assignment. In addition the Chamber acknowledged the development of the profession by adding a responsibility for the auditor for the work performance and confidentiality of her/his assistant. The oath of good performance was kept unchanged.

In summary the new legislation implied that some of the earlier rules were specified, leaving left discretion to the Chambers of Commerce. The Chambers, however, kept and developed their regulation with general rules of independence and consideration for the growing audit firms and thereby was the limits for professional discretion regarding ethics about the same as before.

Professional development of ethics

During this period as conflict of interest, independence and competence have been increasing regulated by the state and Chamber of Commerce; there had been relatively few changes in the governing documents of FAR with respect to the professional behaviour of auditors.

In 1946, FAR published a new revised version of an extract of the bylaws. The objectives of FAR had been reformulated stressing particular characteristics of a profession. The 1946 stadgar states that the association has the purpose to: 1. maintain a just and skilled corps of accountants; 2. promote sound principles and rational methodologies for auditing, accounting and organization; 3. safeguard members' general professional interests and; 4. promote cohesion and consensus among the members

Compared to the version from 1923, purpose 1 was added to emphasize the moral and competence of the profession; purpose 2 was reformulated in a more inclusive and concise manner that had within its scope purpose 2, 3, and 4 of the 1923 stadgar. FAR specified more clearly its role to safeguard members' general professional interest rather than general interest. It also added the fourth purpose. The governing bodies of the association were published in paragraph 3 of the bylaws. They are namely: the annual meeting; board of directors and auditors.

⁴ He was deputy auditor for FAR's financial accounting.

The Chairman of FAR from 1945-1949 Ebbe Rybeck mentioned in the Inter-Scandinavian Congress that in the revision of the new bylaws of the association, a strict distinction was made between rules of professional conduct regulating relationship between members of the association and rules regulating the auditors' relationship with clients (Rybeck, 1947). He regarded the former to be generally interpreted as guild rules by the public and that the association would like to maintain freedom over its scope and contents to avoid misinterpretation from those outside the profession. The external verbalization was therefore limited to the need to observe "god revisors" (good auditor's practice). The latter could be verbalized and presented externally but with a note that in certain cases it could conceivably be used in an unwarranted manner at any tort lawsuits against its members. (Rybeck, 1947).

Members of the association in addition to the previous requirements had to have at least one year of practice immediately before the application for entry and continue to exercise professional activities as chartered accountant; the applicant should generally enjoy the reputation for integrity and otherwise found suitable to practice in the profession. Applicants into the association in addition to previous document requirements had to submit references of two of the association's members and a statement indicating the applicants economic situation in particular loans and guarantees. The association maintains discretion to discipline and expel members according to the conditions stated in the bylaw. Founding members of FAR Sven Hagström and Seth Svensson who were also Board members where much involved in cases of alleged breach in professional conduct by members.

From 1947 after Rybecks speech in the Inter-Scandinavian congress to 1965, there was there was no documentation on the further development of the 15 principles. In fact, the secret Code was abolished in 1965. The control of ethical behavior of accountants was delegated to the firms. There were members of the association in the 1970s who were unaware of written versions of the Code though interviews from previous studies suggest that these code were kept at the firm level and many of the principles became the norms of the profession imparted through socialization and mentorship (FAR 1978). From 1945 to the mid 70s, focus was placed on more technical aspects of auditing Sweden became one of the first countries to issues technical auditing standards in 1967 (Öhman and Wallerstedt, 2012).

In 1969, the bylaws published included paragraph 26 on arbitration procedures. Members were obliged to submit arbitration disputes with clients about fees and cost of completed assignments within the year. The case was to be heard by 3 to 5 board members.

Another significant event was the establishment of the Union Européenne des Experts Comptables Economiques et Financiers (UEC) consisting national accountancy bodies, initially from 10 continental European countries in 1951. The Scandinavian countries that adopted a rather neutral stance became members in 1963. The membership had a significant influence on the external verbalization of FAR's ethical code in mid-1970s.

Summary

The legislative and regulatory reforms from at the aftermath of the Krueger Crash led to the state staking a greater claim on the regulatory space in particular the area of independence and awarded the Chamber of Commerce monopoly status to authorise auditors. As the State and the Chamber of Commerce increasingly codify rules on independence and authorisation, FAR made a conscious attempt to separate ethical guidance with a more guild-like character with those rules applicable to guide auditor client relationships. With the former kept secret, the leadership of FAR maintained power, control and flexibility excluding parties from outside the association from its internal affairs.

FAR continued to codify and publish selected guidance in its bylaws stressing the professions moral and competence requirements, the processes and organisation within FAR to uphold its bylaws and codes. This can be seen as an attempt to regain trust of the market and the state. This period marked an interesting one of de-verbalisation of the secret written code. In 1965, it was believed to be only found in the audit firms. Codes of behaviour not specified by the law or Chamber of Commerce regulation were verbalised through mentor programs and socialisation at firm level, speeches, debates and conferences.

Being part of the state? Auditing as part of societal development 1973-1994

Governmental and private sector regulation

At the time of the implementation of the Corporate Act of 1945 the building of the Swedish welfare state deepened. The post-war period was a period of increasing industrial production and wealth and the prime of the Swedish model. The audit profession developed in conjunction with this and the number of auditors as well as audit firms with branches in different Swedish cities increased (Wallerstedt 2009). The degree of internationalization of Swedish companies was high and in order to be able to audit foreign subsidiaries the Swedish audit firms often was in contact with audit firms in another countries and the international audit firms. The audit regulation was not widely questioned or changed during the 1950s. During the 1960s however the discussion of whom that should authorized auditors started up again (Larsson 2005; Nilsson 2016; Öhman & Wallerstedt 2012). Rather than a corporate scandal or misbehaviour from the auditors the reasons for the discussions this time seems to be ideological. Two issues surfaced: (i) if the law stated that the auditor should be authorized, it was viewed as logical that the state took responsible for the authorization and (ii) the regulation that forbid the auditor to be employed by others than audit firm. This second issue was connected to the specific structure of the Swedish business society at this time. A large portion of the Swedish industry section in the consumer goods and the agricultural area was owned by co-operative organizations and organized in federative organizations. Often the central organization of these federative organizations had responsibility for the auditing of the co-operatives but had difficulties to recruit competent auditors as these auditors lost their authorization if they got employed by the federative organization. The questioning of the authorization where thereby based on one more ideological issue and one connected to a specific interest group.

As an answer to the questioning of the regulation of the auditors a governmental investigation was initiated and in 1973 a new regulation for authorizing of auditors was put in place. Through this "Provision for authorized auditors" the authorization of auditors was moved from the Chambers of Commerce to the National Board of Trade. The rules of the "Provision" were in 1975 complemented by the rules in a new Corporate Act. The changes implied an end of the private sectors regulation of the auditors. In addition many of the rules of auditors' behaviour earlier regulated by the Chambers of Commerce were stated in the provision and the law, leaving the regulation of the National Board of Trade to be more strictly about demand on authorization. While the 1975 Corporate Act kept the rules from the 1945 Corporate Act regarding the audit as a person, the 1973 provision on authorization stated that the auditor should be known as honest and in other way suited to be an auditor, while the regulation from the National board of trade has none regulation regarding the personal features of the auditors. The oath of good behaviour included in the rules from the Chambers of Commerce thereby disappeared.

In a similar way the Provision for Authorization “took over” the Chambers of Commerce rules regarding confidentiality. This implied that the auditor’s confidentiality for the first time was required by law. The Provision further on included similar rules regarding independence that earlier been stated by the Chambers of Commerce that did not allow the auditor to take assignment where conditions existed which may unsettle the trust in the auditors independence or impartiality. The issue of dependency was further specified in the regulation of the National Board of trade. Here the limit of an auditor’s involvement in a client company was specified to not take part of the bookkeeping in companies where s/he is auditor, except for advising and giving instruction about the annual report. Later this limitation was extended to include “not get involved in the management of a client’s assets (KFS 1977:24) or the client’s position of wealth (KFS 1986:8). Regarding the rule of taking part of the bookkeeping this rule applied to the auditor, while other persons, employed by the same organization as the auditor, was allowed to advice in accounting issues.

In the Corporate Act of 1975 the rules that an auditor may only be employed by audit firm was remained as well as that the auditor may have no employment or business activities besides auditing. The interest of the cooperative sector in Sweden was thereby disregarding. The main change in the Corporate Act was however that the more detailed rules about what an auditor should do and the demands on auditors were removed. Instead the Corporate Act stated that the auditor should follow good auditing practice (good revisionssed; processes for auditing) and good auditor practice (good auditor’s practice; ethical demands on the auditor). To define these practices were up to the profession. This delegation to the profession was implemented and performed up to the Swedish entering into the EU in 1995. The legal changes in audit regulations between 1975 and 1995 had to do with the domain for statutory auditing (see Larsson 2005) rather than the ethics of the profession. A more detailed account of governmental and private regulation of the auditors between 1923-1995 is showed in appendix 1.

Professional development of ethics

The legal developments had granted organizations external to the legal institutions the discretion to develop “good auditor’s practice”. FAR, by default had undertaken to develop standards on ethics by which authorized auditors were obliged to comply.

In 1974, the Committee for Ethical Questions was established in FAR and chaired by Ebbe Rybeck in preparation for the new Companies Act 1975. The Committee had the task to make recommendations on rules on professional ethics for auditors to be proposed at the annual meeting of FAR in 1976 and prepare a final draft of the recommendations after the annual meeting (FAR/ARS Arbetsplan för verksamhetsåret 1975/76; 1976/1977).⁵ Although the Committee was not a standing committee it played a crucial role in determining the point of departure for verbalising the rules of ethics for the profession. The presentation and arguments put forth to the Board in the annual meeting in November 1975 captured the mindset of the Committee on Ethical questions on how the “good auditor’s practice” was to be verbalized both internally and externally.

Rybeck classified ethical rules into two types: ‘kasuistisk’ and ‘omdömesregler’ (translated as casuistic and rules involving judgment). He defined the former as when a case was carefully described, for example, specifying something in particular that was prohibited. The latter was defined as rules where in each case, it was necessary to determine if he had acted wrongly or not. He argued for the latter stressing the competition between the two ways of codifying rules to guide ethical behaviour. To

⁵ Members of the committee include Siv Berlin; Sten Berglund; Bertil Olsson and Sigvard Lövgren.

illustrate his point, he adopted Jewish law as an example of the former, which in historical times comprised 613 testaments of which 365 were prohibitions. He argued that early Christianity was critical to the approach as it was crippling to judgment. He cited an example from the Jewish scriptures where a heathen was asked if he could read the Jewish Law standing on one leg and he replied "*vad som är dig förhatligt skall du icke göra mot andra. Det är lagen.*" ("What is hateful, you should not do to others. It is the law."). With this illustration, he implied that all detailed rules are based on principles.

Drawing parallels with the revisions made to the American Institute of Certified Public Accountants' ethical standards, Rybeck quoted a leading professor in the US asserting the need to depart from the negative framing of ethical rules i.e. "you shall not", towards a greater use of judgment in dealing with ethical issues. He however cautions that though both "rules" and "interpretations" required judgment, the rulings by the Ethics Division in the US was binding and increasing in numbers (249 in 1975). With these arguments, he urged the members to avoid too many detailed rules when further developing the Code..

FAR became a member of UEC in 1963. In the early 70s, the UEC began work to draft a framework for professional ethics. The Committee for Ethical Questions was requested by the Board to prepare a draft opinion and make recommendations to the exposure draft. In 1975, UEC published a Framework for Professional Ethics for Accountants in Public Practice. The framework provided common fundamental ethical principles, which members were under membership obligation to apply. The development of a more detailed code and enforcement rested on each professional association at the national level. Members however could not adopt rules that were less stringent.

Given the above reasoning, the Committee for Ethical questions saw no reason to discuss the common ethical principles contained in framework published by the UEC. It suggested a direct translation of these principles forming (verbalizing) the main principles of 'good auditor's practice'. It was also pointed out at the meeting that these principles except for a few details are in agreement with the Ethical rules set forth by the AICPA. Distinct from the US ethical rules that comprise of "Rules" and "Interpretations"; the Committee for Ethical questions has adopted the term "Rules" and "Guidance". It was further intended that the discipline committee and the board could suggest further revisions. In 1978, rules on 'good auditor's practice' was coded and published in Balans and FAR Samlingsvolym along with other standards and recommendations in accounting and auditing.

The rules for 'good auditor's practice' were presented in 3 sections: Introduction; Definitions; Rules and guidance. In the introduction, the need for a set of rules on professional ethics was constructed. The document conveyed the need of society for a core of independent auditors in the interest of good accounting, advice and reporting. Followed by a call for members of the profession individually and as an association to participate in the efforts to create and sustain confidence associated with the association's general reputation and ability to meet the legitimate expectations. This required members and those working with and for the members to follow good auditor's practice. The second part of the introduction explained the status and origins of the rules by first stating that it is a development of Swedish legislation and provisions and that it is built on the UEC framework supplemented by guidance applicable to the Swedish context. The scope of the pronouncement is explained stating that the rules do not cover all situations leaving FARs board the right to interpretation, which is to be communicated to members. The last section of the introduction discloses the disciplinary procedures should a member deviate from the rules. The rules for good auditor's practice were effective as from February 21, 1977. This section is followed by a section defining 5 terms used in the pronouncement: member; firm; client; company and accounting document.

The core section of the pronouncement was the presentation of the 8 rules translated from UEC framework and guidance applicable to the Swedish context. The direct translation (with minimal changes) provided FAR a façade, a legitimate one that had been agreed on by 17 other European countries. The guidance provided the association the role to interpret and apply the UEC framework and build on national law and provisions. The explanation of the scope of the rule further provides FAR's greater capacity and flexibility in keeping control of member within the association control.

The first principle provides that a member should always prove to be worthy of trust and exercise professional duties conscientiously observing ethics.⁶ The guidance provided, reiterated FAR's principles based approach pointing out that it was inconceivable to specify all the requirements in various respects that constitutes good auditor's practice. Rather, members were guided to behave in such a way that he would not dishonour himself and his profession and adversely affect confidence in the profession. It points out two areas first, work of the profession that had to be conducted in an orderly manner and with proper documentation of work done for clients. Second, the member had to maintain a sound financial standing.

The second and third principles dealt with conflict of interest, independence issues and incompatible activities. These two principles reiterate and build on legal provisions stated in the legislative acts. The second principle states that the member should exercise his profession with independence and objectivity. In circumstances where these conditions are not fulfilled, the auditor should refuse to act or withdraw. This applies also to circumstances where the trust of others in the independence of his position is undermined. The guidance provides a non-exhaustively list of 9 examples where external parties could question the member's independence. Most examples cover direct and indirect interest, which has been provided for in the legislation, provisions and regulation by the National Trade Board. FAR also provides examples on circumstances where an auditor received such a gift which cannot be regarded as normal memory or honour gift and when the auditor predominantly derive his income from the client.

The third principle prohibits members from engaging in any other activities incompatible with his professional duties as independent auditor. This principle is also provided for in legislation. FAR provides guidance interpreting the law that a member is free to operate business as a consultant in the areas in which he or his firm possess skills, such as taxation, organization, data processing within the accounting profession and related areas for example, hold academic positions at the state, provided that the rules of ethics is complied with and that public confidence in the member's objectivity is not compromised.

The fourth principle on professional practice state that members should carry out his professional work diligently so that it provides a sound basis for forming his opinion. He should act under the law and observe generally accepted accounting practices and auditing standards. The principle also states the responsibility of the audits in situations where he has employed staff and other experts to assist him in carrying out his professional work or when he is working in collaboration with other auditors. The guidance stressed the importance for members to abide by legal requirements and the importance to declare in the auditors report circumstances where legal provisions had impeded the audit.

⁶ This principle is phrased slightly differently from the UEC principle that states Accountant should always act with honesty and probity, avoiding any act or default discreditable to the profession. He should act conscientiously with respect for the ethics of this profession

The fifth principle prohibits members from unauthorized disclosure of facts and information obtained in the course of his professional work except to the extent that he has a public and professional duty to disclose. The principle also states that the member is prohibited to make use for his own personal interest the knowledge he has gained in the course of his professional work.

The guidance reiterate and explains specific provisions in legislation in Company and Tax Law that grants public authorities such as the court, prosecutor's office, police or tax authorities the right that to demand the auditor disclose certain information, and provides guidance on the auditors rights and responsibility in those different circumstances. It further extends the auditors duty to ensure his subordinates observe these duties.

The sixth principle states that member shall promote good relations within the profession. It did not include the specific case provided for in the UEC framework to consider circumstances when an auditor replaces a colleague. The guidance material required auditors to take into account the considerations prior to criticizing or commenting on the work of a colleague. Criticism directed at fellow, must have dignified form, and should be submitted to it before it is presented. The area of guidance had been part of the profession's internal verbalization since its first set of ethical rules.

The seventh prohibited members from advertising, solicitation or the use of their names and qualification known to the public in a way some can discredit the profession. The guidance explains the principle stating that these activities undermine objectivity that is detrimental to the profession.

The eighth principle states that fees charged to clients should be reasonable taking into consideration the knowledge and experience and prohibits fees that are dependent on the outcome of his work. The guidance provides that clients are entitled to request an approximate indication of the fee for a particular assignment, so that the fees paid in advance can be assessed. If this is not possible, the client requested be kept informed of accrued expenses as the work progresses.

In 1982/83, in light of legal debates and legislative developments surrounding the protection of other stakeholders particularly in the event of liquidation, FAR added a paragraph in its guidance supporting the 4th Principle. The guidance provided that members, due to their position as auditors were to take into account the legitimate interests of shareholders, creditors, employees and other stakeholders such as the public, in light of the law and good business practices. In 1984/85, there had been legislative changes in rules with regard to Confidentiality that was reflected in the change in the guidance material on confidentiality and a separate pronouncement drafted to provide more detailed guidance on confidentiality interpreting the law in relation good auditor's practice in 1987. Guidance was provided in three main areas: preliminary investigation and during investigation in cases involving police and prosecution authorities in accordance with the Swedish Code of Judicial Procedure. 2. Cases dealing with Tax Law and 3. Civil procedure or administrative law.

The work of the Committee for Ethical Questions was succeeded by the Regulatory Committee. The Regulatory Committee saw to the development of rules on good auditor's practice as well as cases where these rules were breached. The Committee consisted 10 members representing auditing firms of different size and geographical location.⁷ It has defined its role as not one of policing the profession

⁷ In 1982 for example, the Regulatory Committee was chaired by by Bo Fridman from Bohlins Revisionsbyrå AB Torbjörn Björner (Elinder & Lindgren Revisionsbyrå); Sune Carlsson (Öhrlings Revisionsbyrå); Per-Olof Héman (Reveko AB); Leif Lundfors (Dahlgren Revisionsbyrå); Erik Rydstrom (Individual Audit Office AB); Björn Stenson (Auditing Team

but to see to the compliance of ethical standards through improving education (Balans 1983: 4). Rules Committee summarized the various decisions for publication in anonymous form verbalising its interpreting rules internally and externally.

In that light, another source that captures the verbalisation of ethics is the association's journal - Balans. In the meeting of the Regulation Committee meeting in April 1982, committee members were concern from results of a survey of members the different interpretations and difficulties members had in applying independence requirements in practice (Rule Committee, §27). The Committee initiated and orchestrated a comprehensive publication of independence guidelines over a series of articles in Balans. The contents, Regulatory Committee members in charge and structure of the articles were decided in the September 1982 meeting. The articles were to have the following structure: a presentation of the legislation, regulation and FARsed in boxes; from perspective of issues dealt with by FAR on a daily basis and ending with practical advice to members and implications. The intention was that the articles were going to be used as material on FAR's information meetings with their members (FAR-dagarna) and that they later should be reprinted together with a report from these meetings. The series of articles published in issues of Balans 1983 verbalised the interplay between the different regulation on independence, attempted to clarify the relationship between independence and several concepts namely: conflict of interest; confidentiality and incompatible business and distinction between independence in mind and appearance. The limits of the auditor's professional activities, combinations of assignments for the same and various clients, auditor - client relationship, financial dependency, working with other experts and activities external to profession (e.g. hobby engagement, auditor's management of his/her own assets were discussed. Through this means FAR verbalises externally to members and interested stakeholders the ethical rules on independence and their interpretation, connecting regulation with practice.

In 1985, Bo Fridman the Chair of the Regulatory Committee had as the title of his article in Balans "The auditor's role: professional ethics should not be developed" (translated). He asserted,

"etiken står och stampar. Det är precis vad den skall göra. Stampa högt och bullrande för att ständigt göra sig påmind." (Balans 1985:4)

"Ethics standstill. That is exactly what it should do. Stamp loudly and noisily to constantly make itself felt. " (Translated)

Fridman cautioned the profession against getting caught up in a thicket of detailed regulations developing ethics in a fragmented incoherent manner. He stressed the first principle in the Code, which takes the form of a catchall clause: FAR member shall prove worthy of the trust it requires. The ultimate motive of ethical rules was to maintain the quality of the work carried out by the profession i.e., "in accordance with generally accepted auditing standards". He purported that the different requirements must be coherent and that the profession had to be more aware of ethical issues and engage in discussions in the application of ethics in new situations to deepen knowledge through experience. (Balans 1985:4)

At the same time, a draft recommendation was being developed with SRS to provide guidance on the accounting operations carried out by authorized or approved auditors. This recommendation consisted of 3 parts. The first provided a list of services that may be offered by members as accounting services,

Lindenberg & Co AB); Sundman Gunnar (Gunnar Sundmans Revisionsbyrå); Edward Waller (Hagstrom Revisionsbyrå) and Sören Wikström (Einar Larsson Revisionsbyrå)

circumstance when special assistance may be given and conditions where assignment falls outside the scope of accounting services. The second section provides guidelines on conflicts of interest prescribed in regulation by the National Board of Trade and the specific requirements that must be met in audit engagements. The third section provided practice guidance in 11 areas dealing with aspects of quality. The recommendation was subsequently published in 1988 applicable to both authorised and approved public accountants (FAR and SRS members). The regulatory collaboration with SRS to upkeep the quality and consistency of work of auditors and interpretation of independence rules protects the façade of the profession from practices of approved auditors external to FAR.

The mid-1980s the increase in cross border trade and investments contributed to the need for harmonisation and uniformity in practices. The growth in corporations was accompanied by the size of audit firms and the scope of services, in particular consulting services by audit firms. The growing interest of stakeholders led to the recognition by FAR that discussions of ethical issues, in particular independence could not remain within the profession. The differing needs of audit and consultancy services of three key stakeholders namely: corporate managers, creditors of companies and the State were discussed (Balans 1985:4). The increase in activities in the international arena also led to the publication of FARs English dictionary to facilitate consistent translation of terminology (Balans, 1986)

The Reorganization of the Auditing Profession in Europe (RAPE) working party established in 1983 to review the European Profession revealed the European professional associations in Europe desire to have one strong European organization to achieve greater efficiency, reduce duplication of work and cost effectiveness. The restructure of regional representation of the European accountancy profession led to the dissolution of UEC and constitution of FEE in 1985 with no standard setting role. FEE made clear in 1985 its recognition IFAC as the appropriate body to set auditing standards and the importance of strong European input in that context. FAR had been a member of IFAC since its establishment in 1977. IFAC's had the broad objective to develop and enhance a coordinated worldwide profession with harmonized standards. Similar to UEC, IFAC has developed a Code of ethics consisting common principles and 12 statements of guidance published at the time. The minimum harmonisation approach adopted by IFAC's Ethics Committee was similar to that of UEC. The adoption was voluntary and the development of a more detailed code and enforcement rested on each member body at the national level.

FAR's pronouncement was updated in 1990 stating that the code constitutes a development of the legislation and regulation by the National Board of Trade. FAR endorsed IFAC's efforts toward a high and uniform ethical professional standards and state its committed to IFAC's Code of Ethics that was to be observed in Sweden so far as is compatible with Swedish law. It reiterates its principles based approach stating that the rules do not claim to be exhaustive, but aims to give a comprehensive picture of Ethics. FAR's Board of Directors had the right to interpret the rules, which had to be communicated to all members. Changes in the rules had to be adopted by the general meeting on the proposal of the Board. In addition, the members obligation to abide by the ethical rules were structured into the introduction supported by the Auditors Provisions 1973:221.

The principles translated from UEC's framework continue to constitute FAR's Rules on Ethics with a change in the rules on advertising. In light of the liberalisation of advertising in the US and the different practices in various countries, advertising which constituted a large proportion of cases in the Regulatory Committee. The change allowed advertising and was verbalised as members may make their names and their qualifications to the public in a manner that does not discredit the profession. Solicitation continues to be prohibited. The approach by FAR was in line with IFAC, which adopted a

more neutral stance towards advertising in 1988 in order to reflect the liberalization of advertising by professions in legislative practice at that time (Sonnerfeldt and Loft, 2016).

The approach adopted in the provision of guidance material of the Code did not differ from 1977. In several provisions, the guidance was reformulated in a clearer, more precise manner. Apart from the changes in rules on advertising, other substantive changes in the guidance resulted from legislative changes. In 1990, FAR published a draft recommendation on ethical practice with regard to taxes and social contributions. The recommendation apply to auditors and others who may not be members of FAR but working in close cooperation with FAR members. The guidance provides that auditors should consider the legitimate interest of shareholders and other stakeholders. In performing tax related engagements, auditors were to abide by the law and when quoting law – ensure that he or she had mastered the subject. The recommendation also stated that the auditors were free to inform client of tax law requirements and free to advice on tax matters. However, caution had to be exercised in certain circumstance and in advising and preparation of tax returns the principles of independence and confidentiality had to be observed.

Summary

In Period 3, several developments were crucial in shaping the way FAR has chosen to verbalise the Code of ethics. The State staked a larger claim to regulate the conduct of auditors, transplanting regulation by the Chambers of Commerce into legislation. The National Board of Trade, a public organ replaced the Chambers of Commerce in the hierarchy of audit regulation. The profession was granted a space to determine ‘good auditor’s practice’. The globalisation of trade, increase in cross border investments and the growth in the size and scope of the services offered by audit firms created the need for Swedish auditors to gain trust and legitimacy of a wider set of stakeholders in the market and greater association control.

FAR has chosen to verbalise its code by translating ethical rules developed by UEC into the Swedish context, bring in legitimately agreed upon norms by the profession that the regional level. Within the Code, FAR expresses in the form of guidance how these principles were to be applied by members. The guidance reflects to a large degree reiteration and interpretation of Swedish law; supplementing the law and reconciling conflicts between different regulatory systems to ensure that legislation is complied. It is important to stress that in the Swedish case many elements of what is understood as a Code of Ethics is already regulated by the state. The space left to FAR are those, which the state has chosen not to occupy.

In this period, the growth of consulting by members of FAR and non-members (approved auditors) was seen as constant threat to trust in the profession. The Ethical rules are verbalised in the core ethical pronouncement structured in a principles based manner; it also published other pronouncements that touched on specific ethical aspects to complement the core ethical pronouncement, one of which was jointly drafted with SRS. Balans was relied on as a mechanism, which the ethical rules had been verbalised to members as well as relevant stakeholders connecting regulation and practice.

While it appears that FAR has obtained a larger space within the audit regulatory arena for self-regulation, our analysis suggest otherwise. FAR, instead play the role as a regulatory intermediary using the code of ethics as a strategy to legitimize the activities of the audit profession to regulators and other important stakeholders but importantly, it acts at the same time as a remedy for association control to maintain good relations within the increasingly heterogeneous profession, juxtaposing the internal and external role of the Code.

Discussion and conclusions

From the start of the organization the space for the professional association to decide about its “ethics” was limited due to the regulation from, primarily, the Chambers of Commerce. One reason for this may be that the authorization through the Chambers started before the professional association was formed and therefore had to include the expectancies from the business societies on “good auditors” in their regulations of auditors. A support for this interpretation is that one of the explanations in earlier research for founding FAR was a call from the Chambers to Sillén to organize the authorized auditors.⁸ Another reason could be that the model as such was imported from Germany and copied its feature from Germanic practice. However, getting authorized by the Chambers of Commerce was, in the early days, also a statement against state-based authorization. To “keep the state out” might have been more important than to have fully discretion of the ethical rules of the profession. This might be especially likely, if the private sector’s regulation assured a certain extraprofessional status and trust. In other words, the cosigning of ethics in relation to the professional as a person and the market might not be in conflict of the strategies of the profession at time.

By this also the need to externalize any ethics was avoided and has been discussed above the verbalizing of the ethics was come afore as the trust in auditors was violated by one of the members of FAR. The oath included in the published part of the by-laws in 1932 may be read as a direct reaction of the fact that Wendler had been employed of the company he audited. The oath as such include no new regulation, the issue at hand was already regulated in the regulation from Chambers of Commerce. The publishing of the oath thereby might be seen as a way to demonstrate the compliance to these rules, i.e. both a reminder directed to the members and an attempt to reinforce the trust in the market.

This kind of public verbalization of ethics seems to be a dominant strategy during the time when the authorization was done by the Chambers of Commerce. As Rydbeck states at the Inter-Scandinavian Congress in 1947, a distinction were made between the rules regulating relationship between members (the guild rules or the secret code) which was to be kept within the professional association and the ones regulating the relationship to the client. Referring back to table one, the main function of the guild rules was to assure associational control, while the trust building on the market was connected to a compliance to the rule stated in the private sector regulation. To this we may add a function of the verbalized code to be a “reminder” in the intra-professional arena of the regulation set by other parties. The state, on the other hand, was “kept out” of the regulatory space.

The pattern in the last period differs somewhat. As the authorization was taken over by a governmental agency keeping the state out was no longer an option. Instead the auditors was delegated the right of defining “good auditor’s practice”. On the surface this appeared as the professional self-regulation increased. However, in reality as the most of the rules from the Chamber of Commerce was included in the 1973 provision for authorization of 1975 Corporate Act, the space was not substantially enlarged, but the demand on verbalizing increased. As has been described above the verbalization of the good auditor’s practice in this period seemed to have to sides (i) an interpretation or assimilation to the legal rules, acting in the function of “reminder” noted above (ii) to implement and adjust the ethical codes of international accounting associations (UEC; FEE; IFAC). As noted earlier, international codes and experiences have been used over time as inspiration and arguments in the discussion within the profession. No, the internationalization of the profession had reached the

⁸ In a reprint of old documents (Damberg, 19xx) a number of replies on a letter from Sillén to other authorized auditors indicate this. Other sources indicate that the founding of FAR was due to a wish to get included in the Inter-Scandinavian cooperation. The two explanations do not exclude each other.

level of common codes of ethics. This added on layer of associational control to the earlier ones, not only would the member comply with the rules of the Swedish association; FAR had a loyalty toward and a mandate to implement the rules of the international organization. A new strategy of rule-mediation was formed.

It is difficult to assess the importance of this import of foreign rule into the Swedish regulatory framework. It is likely that it ease the general internationalization of the Swedish profession and the Swedish audit firms which was occurring during the 1980s (Loft & Sjöfors, 1993; Wallerstedt, 2009; Wallerstedt, 2001). In practice it ought to imply that the ethical rules were a result of negotiation within the international organizations of accountants and thereby partly influenced by the Swedish auditor's elite. The introduction in the good auditor practice may be seen as a way to diffused (what in table one is called "introduce new rules") to the general membership of FAR. On the other side the ethics included in guild rules disappeared as part of the professional organization's public function and seem to been taken over of the audit firms and the socialization of new authors into the firms. As most Swedish firms became part of large international network organizations (at that time the Big9) it is likely that an "internationalization" of guild rules also occurred.

In conclusion we may observe that the use of ethics in the professionalization process seems differs from our expectations and the theoretical model in figure two as:

- Most of the guild rules were kept inside the organization. The verbalization of different ethical rules appears to be a function of the development in size and geography of the professional association, rather than necessarily the development of new rules. The larger the association and the more geographically diffused the audit firms the more demand for verbalization. When the firms became large and international connected the function of imposing the guild rules was put on the firm level.
- Beside the assumed function of enforcing compliance and introduction of new norms, the verbalizing of ethics has been used as a reminder for the members of the rules that were at hand by other organizations. During the first period such reminders were done through speeches and meetings, but when oral verbalization was not enough written verbalization was published.
- Instead of developing own ethical codes in order to reach external status, the professional association appear to co-opt with the environment. To assure that the chambers of commerce (Handelskammaren) had rules for personal behavior and ethics towards the clients was a way to raise the status of the profession in the business society and to avoid governmental intervention. This strategy was successful up to the 1970s when instead the legal regulation took over the role of the chambers of commerce. Again, however, the profession found a space for applying the own interpretation on some of the ethical issues.
- On the intra-professional arena the ethical code became one way of making the profession more international oriented. This function has not been surfaced in earlier research in the area.

Most of earlier research on development of ethical codes has focused on the discourses of the codes and their relationship to the societal development (Neu et al 2003; Neu, 2001, Neu & Saalem, 1996, Preston et al, 1995). According to Preston et al (1995) the early years of the American profession the ethical code was characterized by giving professionals "the right state of mind" and "becoming professional" (op. cit. p. 511) while the code in the late period (ending 1988) was technical and legal to its character. In a similar way Neu (2001) following the discourse defines a "historical" and a "modern" discourse in the ethical discussion amongst Canadian accountants. While the historical discourse content of concept close to virtue as "moral", "honest", character, etc. the modern one

included concept as integrity and independence, i.e. a terminology found in the international codes of ethics. In a later article Neu et al (2003) divide the development into four periods claiming that in the first of these periods the discourse was characterized by Christian ideas and Protestant work ethics, where after the discourse became more secular, ending in a rule based ethics.

Comparing these results with the development of the Swedish ethical codes, the development from a “state of mind” to rule-following seem to be in common. The development described in this paper however differs as the organization of the regulation differs. Ethics was partly “externalized rules” from the start as it was started by other organizations than the organization. When it come to the Swedish profession the early discourse defined the ethic as about a façade. This façade was important to maintain. The concept of façade might be interpreted as a strategy to “hide away” what really happening from the outside society. However, given the feature of the Swedish society at this time with very close network amongst those included in the business elite (the brotherhood) another interpretation is possible. To pursue a façade could imply to keep a distance from these brotherhood relationships while performing auditing. In other word a way of phrasing independence in the terminology of the time. Keeping the façade thereby may be interpreted as a general principle for how to interact with the clients. Over the time we may also observe that “keeping the distance” become increasingly important for the profession. Even though the early regulation from the Chambers of Commerce included rules of independence, these rules seem not to been followed by all auditors (e.g. Wendler) or interpreted as if consultancy was incommensurable to auditing (Sillén’s work at the consultant company). When the façade was broken in the 1930s it was not changing of rules, but changing actions that became the consequence.

So the close relationship between parties of the Swedish business society was one driver for the development of auditors’ conception of ethics in the early years. When the more rule-based perception of the ethics entered during the 1960’s, the society had gone through significant changes. The Swedish model had implied that the network not only included the business elite but furthermore the state, at this time equalized with the Social Democracy Party. In this more political driven environment, the façade lost in relevance as the influence of the state increased. The influence toward a more rule-based interpretation, however, seems to come from the international profession. When Rybeck discuss the principal-based contra detailed rules his references are taken from the international development rather than the Swedish business society. So similar to the development in US and Canada the interpretation of the concept of ethics changed over time and in conjunction with the societal development. Different from these “larger” countries, however, the Swedish profession used external references, the profession at large, in order to re-position the concept.

Let us end the paper as we started it; with Abbott (1983) reasons for developing codes. As we have shown the profession’s space for developing code have been limited to mostly deal with intra-professional status and regulating intra-professional relationship. We do not conclude however that this has implied that the Swedish profession had not achieved or ignored the other reasons mentioned by Abbotts (1983) for developing a code, i.e. protecting professional monopoly, protecting the client and gain external status. Instead it is rather, as Abbott suggest, the alternative options of achieving or maintaining these ends that been strong enough to let the profession concentrate in the areas of own decision-right.

In summary it appears as the status of the Swedish profession in ethical issue is not depending on the profession’s capacity for self-regulation, but the profession’s capacity to assure an institutional frame within which it may act. This is not surprising given the origin in the continental European system, but

emphasis the importance that nuance the theories in the area in order to be able to describe more than the Anglo-Saxon world.

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Appendix 1 Relevant Legal and Regulatory development

Table	3:	Development	of	formal	behavior	rules
Rules on person and general behaviour		At the start of the case – 1945		1945-1972	1973-1977	1976-1995
Audit as a person		<p><u>1910 Corporate Act</u> Had to come to age, Swedish citizen and experienced enough in bookkeeping and business transaction to carry out an auditing <u>Chamber of commerce rule (1919)</u> 25 years old, master her property, have general reputation for decency and righteous conduct. By at least three years of practice at authorized auditor have gain commendable experience and thereby becoming suitable for the audit profession.</p>		<p><u>1944 Corporate Act</u> As before <u>Chamber of commerce rule 1969</u> As before, but adding: The auditor should at her first authorization be younger than 55 year. The time of practice before authorization should be no less than five years. <u>Chamber of commerce rule 1970</u> The rule of righteous conduct has been removed and the rule of decency move to the last point about audit as a person. Added: If the auditor is put in bankruptcy or made pupillage the authorization will be suppressed</p>	<p><u>1975 Corporate Act</u> As before <u>1973 Provision for authorized auditors</u> Come to age, been practice auditing in a satisfying way for at least 5 years Known to be honest and in other ways suitable for being an auditor (§2) <u>National board of trade KFS 1973:6</u> No rules of the auditor as a person</p>	
General behaviour		<p><u>Chamber of commerce rule</u> All auditor gives the oath: “ I N.N. promise to on my honour and consciousness that I, as by the Chamber of Commerce authorized auditor, will perform those assignment entrusted to me with decency, dutifulness and consideration to the best of my capacity and consciousness, to unswerving respect the duty of confidence and to all part follow the regulations and rules developed for the audit profession.</p>		<p><u>Chamber of commerce rule</u> As before (some modernization of the language in 1970)</p>	<p><u>National board of trade KFS 1973:6</u> No rules of the auditors general behaviour</p>	

Table 4: Development of rules on conflict of interest

	At the start of the case – 1945	1945-1972	1973-1975	1976-1995
Conflict of	<u>1910 Corporate Act</u>	<u>1944 Corporate Act</u>	<u>1975 Corporate Act</u>	<u>National board of</u>

<p>interest/ independence</p>	<p>An auditor is not allowed to be employed by the company or any board members (72§)</p> <p><u>Chamber of Commerce rule</u> Authorized auditor may not undertake assignments for auditing companies or corporations where people are managers to which the auditor is in a position of dependency or in relation to which according to the law lead to disqualification of a judge.</p>	<p>An auditor is not allowed to: be subordinate or dependent to anyone in the company, board members or CEO, or any in the company that are in charge of the bookkeeping or the management of assets. Neither is the auditor to be married to, sibling or in blood-relation or brother in law to any such person.</p> <p><u>Chambers of Commerce rule</u> As stated in the law; but adding Authorized auditor may not undertake assignments for auditing companies or corporations if;</p> <ol style="list-style-type: none"> 1. He is part of the company's board 4. If special conditions are at hand that may unsettle the trust in the auditor's independence when performing the assignment. 	<p>As in 1944 Corporate Act + cannot be an auditor if he is in debt to the company or any other company in the group or has obligation for which such company has guaranteed (chapt 10 §2)</p> <p><u>1973 Provision for authorized auditors</u> If any "other" (beside those in 1944 Corporate Act) circumstance are at hand that may unsettle the trust in the auditors' impartiality and independence in performing an assignment, the auditor should decline the assignment. (§ 6)</p> <p><u>National board of trade KFS1973:6</u> Authorised or approved auditors may not take part of the bookkeeping in companies where s/he is auditor, except for advising and giving instruction about the annual report. Other person, employed by the same organization as the auditor may however advice in accounting issues. The auditor is responsible to inform the management of the company that receive advices that the company's management retain the responsible for the bookkeeping. (§ 12)</p>	<p><u>trade KFS 1977:24 (instruction regarding KFS 1973:6 §12)</u></p> <ol style="list-style-type: none"> 1. As before + may not get involved in clients management of assets 2. May not be an auditor in a company where his subordinated are advising the company in question regarding bookkeeping, annual report or management of assets 3. The daily bookkeeping should be done by the audit client self. <p><u>The National board of trade KFS 1986:8</u> Auditor is not allow to manage clients' assets or any activities that may influence the client position of wealth (KFS1977:24 cease to exist)</p>
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Table 5: Development on rules on auditors' liability to client

Liabilities	At the start of the case – 1945	1945-1972	1973-1975	1976-1995
Confidentiality	<p><u>Chambers of Commerce rule</u> The auditor may not for her own or someone else gain or damage use information obtained through the auditing assignment. Neither may she unfold knowledge obtained in an auditing to anyone external.</p>	<p><u>Chamber of commerce rule</u> As before, added The auditors are allow utilize assistance, and are responsible for the assistance work and confidentiality</p>	<p><u>1975 Corporate</u> As in 1973 Provision specified to may not leave information to “individual shareholder or outsiders” <u>1973 Provision for authorized auditors</u> The auditor may not use information obtained through auditing to gain for himself or other, neither may he unauthorized mention any of the knowledge he gained through auditing of a firm. (8§) <u>National board of trade KFS 1973:6</u> No rules about confidentiality</p>	
Employment	<p><u>Chamber of commerce rule</u> Authorized auditor may not practice any trading- or dealership business or be active in any commercial business. Neither may he possess a salaried position in public or private organizations.</p>	<p><u>Chamber of commerce rule</u> As before</p>	<p><u>The 1975 Corporate Act</u> Not allowed to manage or take part of management in other businesses. He may only be employed at other authorized or approved auditor or audit firm. <u>National board of trade KFS 1973:6</u> Only activities compatible with auditing are allowed within the frame of an audit firm. (§11)</p>	
Liability for damage	<p><u>1910 Corpoare Act</u> Responsible for any damage that come to existence through inaccurate information or negligence in the audit</p>	<p><u>1944 Corporate Act</u> As before</p>	<p><u>1975 Corporate Act</u> As before <u>National board of trade KFS 1973:6</u> The audit should deposit security for any damage s/he may be responsible for through auditing to the national board of trade If a conflict of honorary occurs the dispute should be offended party report to the local chamber of commerce in order to reach an arbitration agreement. (§14)</p>	<p><u>National board of trade 1980:13</u> KFS 1073:6 cease to exist <u>National board of trade KFS 1990:19</u> Every auditor should has an individual insurance that covering any liability for damage s/he may cause in the role as an auditor.</p>

Appendix 2 Summary of findings

Period	Verbalisation / Codification	Drivers	Extra professional dependencies	Intra professional dependencies
<p>Period 1 1923-1932</p> <p>1933- 1944</p>	<p>No written code Verbalisation through internal and external speeches; initiation meetings; socialisation and conferences</p> <p>Codification of a secret code - 10 principles in 1933 - 15 principles in 1942</p> <p>Codification and publication of selected guidance in the bylaws on relationship with clients (1942)</p>	<p>Establishment of a profession</p> <p>Increase in size and heterogeneity of the profession</p> <p>1932 Krueger Scandal</p>	<p>State – staked little claim on the regulatory space</p> <p>Market -Trust building through regulation by the Chamber of Commerce (private regulation)</p> <p>Market- Trust building through maintaining independence in appearance (façade maintenance)</p>	<p>Association control</p>
<p>Period 2 1945-1972</p>	<p>De-verbalisation of the written code (1965). Socialisation through mentor programs at firm level, speeches and conferences</p> <p>Codification and publication of selected guidance in the bylaws on relationship with clients</p>	<p>Legislative and regulatory changes at the aftermath of the Krueger Scandal</p> <p>Need to maintain the façade of auditors</p>	<p>State granted monopoly of authorisation to Chamber of Commerce</p> <p>State – staked a greater claim on the regulatory space in particular the area of independence</p> <p>Market -Trust building through regulation by the Chamber of Commerce (private regulation)</p>	<p>Association control</p>
<p>Period 3 1973-1994</p>	<p>Verbalising Ethics through coding and publishing Rules on Ethics.</p> <p>Principles based to retain control and flexibility</p>	<p>Legislative and regulatory changes giving the profession scope to develop good auditor’s practice within the legal framework</p> <p>Globalisation of trade and business need of trust and legitimacy of market</p>	<p>State staked a large claim to regulate auditors transplanting regulation by the Chamber of Commerce into legislation</p> <p>The National Trade Board replaces the Chamber of Commerce in the hierarchy of audit regulation.</p>	<p>Introduction of international norms</p> <p>Introduction of new role of FAR as a rule intermediary</p> <p>Association control</p>