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The Auditor at Work

A study of auditor practice in Big 4 audit firms

Pernilla Broberg

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Department of Business Administration
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School of Economics and Management
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Till Claes, som alltid finns vid min sida

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Under wandering stars I've grown. By myself but not alone.

(J. Hetfield & L. Ulrich, 1991)

My grandfather, as well as my being part of a family with a lot of self-employed small business owners, are the main reasons for my being involved in the field of business administration. It was my grandfather who helped me land a summer job in the office of a local fishing company, Nordqvists Fiskexpert AB. I spent several summers and other holidays in that office, doing everything from invoicing, payments and salaries to book-keeping and closing the books. It was also where for the first time I came in contact with an auditor and auditing. My experience from this job was of great value during my university studies and for that I am especially thankful to my grandparents as well as to Tommy. Thank you for making my summers something I look back at with joy!

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Pernilla Broberg

Hörvik, March 2013

Table of Contents

Chapter 1 15
Introduction 15
1.1 What is this study about? 15
1.2 Formulating the research problem 17
1.2.1 From macro-level to micro-level auditing 17
1.2.2 Why study micro-level auditing? 19
1.2.3 Why study auditor activities? 21
1.2.4 Conceptualization 22
1.2.5 Research question and aim of the study 23
1.3 Expected contribution 24
1.4 Scope and limitations 25
1.5 Outline of this dissertation 26
Chapter 2 27
Methodological considerations 27
2.1 Basic assumptions 27
2.2 Different aspects of auditor work 29
2.3 Context 32
Chapter 3 35
The Audit Profession 35
3.1 The audit profession – aspects related to the theory of professions 36
3.1.1 Audit purpose 37
3.1.2 An agency theory perspective 38
3.1.3 Knowledge, education, training and examination 41
3.1.4 Professional "affiliation", socialization and status 43
3.2 The audit process 46
3.3 Auditing standards 48
3.3.1 The role of auditing standards 48
3.3.2 The nature of auditing standards 50
3.4 Setting the stage – Recent changes in the audit profession 52
3.5 The audit profession in Sweden 57
3.5.1 The Swedish setting – corporate governance and auditing arrangements 57
3.5.2 Current issues on the Swedish auditing scene 60
3.6 Professionalism includes both content and control 62
3.7 Summing up and issues raised 63

Chapter 4 65
Structure versus Judgment 65
4.1 The structure–judgment debate and the production of legitimacy 66
4.2 The structure–judgment dilemma 67
4.3 The use of IT 72
4.4 Structure and judgment 73
4.5 Summing up and issues raised 76
Chapter 5 77
The Production of Comfort 77
5.1 Comfort and discomfort 78
5.2 Comfort versus knowledge base 83
5.3 Expert systems – trust vs. scepticism 83
5.3.1 An introductory note on comfort 83
5.3.2 An introductory note on "trust" 84
5.3.3 Reflexivity 86
5.4 Auditing and trust – producing comfort for the capital market and for society 87
5.5 Auditing and trust – producing comfort among auditors and within audit firms 89
5.5.1 About globalization 89
5.5.2 Comfort – an emotional response to increased globalization and complexity? 91
5.5.3 The audit firm as the site for local transformation 92
5.6 Summing up and issues raised 93
Chapter 6 95
Audit Quality 95
6.1 The audit quality concept 95
6.1.1 A complex guiding star 95
6.1.2 Defining audit quality 99
6.1.3 Measuring "negative influence" on audit quality 102
6.2 What influences audit quality? 103
6.2.1 Audit quality: the "tone at the top" 103
6.2.1.1 The "tone at the top" and audit firm culture 103
6.2.1.2 The auditor–client company relationship 105
6.2.1.3 Commitment to audit quality 108
6.2.2 Audit quality: auditing standards 111
6.2.3 Audit quality: auditors' personal attributes 112
6.2.4 Audit quality: the audit process 114

6.2.5 Audit quality: professional scepticism and professional judgment 116
6.2.6 Audit quality: audit methodology 120
6.3 What is audit quality? 122
6.4 Summing up and issues raised 127
Chapter 7 129
Fieldwork Realization 129
7.1 Research process (the working process) 130
7.2 The observations 130
7.2.1 Observational research 130
7.2.2 Previous auditing studies using observations 132
7.2.3 The focus of this study 133
7.2.3.1 Case study design 133
7.2.3.2 The site and case for the main observations 134
7.2.4 Work in the field 141
7.2.4.1 About ethnography 141
7.2.4.2 About participation 142
7.2.4.3 Direct observation and shadowing 143
7.2.4.4 About interpretation and reflexivity 145
7.2.4.5 Description of my work in the field 146
7.2.4.6 Validation – complementary observations 148
7.3 Complementary interviews 149
7.3.1 The need for complementary interviews 149
7.3.2 Pilot interview 150
7.3.3 Interview guide 154
7.3.4 Interviewees 154
7.3.5 Member validation 155
7.4 Summary of empirical observations and interviews 156
Chapter 8 159
Empirics – A Day at the Office with Auditor A 159
Chapter 9 175
Empirics – A Busy Day at the Office with Auditor A 175
Chapter 10 189
Empirics – Complementary Observations 189
10.1 Complementary observations – Auditor B 189
10.2 Complementary observations – Auditor C and Auditor D 195
10.3 Complementary observations – Auditor E 198
Chapter 11 201
Analysis and Discussion – The Auditor at Work 201

11.1 Introducing the analysis 201
11.2 The nature of audit work 202
11.2.1 Introduction to the categorization 202
11.2.2 Categorizing and describing auditor activities 203
11.2.2.1 Communication 204
11.2.2.2 Documentation 206
11.2.2.3 Administration 209
11.2.2.4 Reviewing 210
11.2.2.5 Consultation 211
11.2.2.6 Preparations 211
11.2.2.7 Reading standards and regulations 212
11.2.2.8 Firm activities 213
11.2.2.9 Updating 214
11.2.3 Summarizing the classification of auditor activities 214
11.2.4 Comments and additional activities 216
11.3 Describing and analyzing audit work and auditor activities in Big 4 audit firms 226
11.3.1 The audit profession 227
11.3.2 Structure versus judgment 231
11.3.2.1 Routines, manner and behaviour 231
11.3.2.2 Structure 234
11.3.2.3 Professional judgment 245
11.3.2.4 The audit (firm) system 251
11.3.3 The production of comfort 252
11.3.3.1 Teamwork and cooperation 252
11.3.3.2 Trust 254
11.3.3.3 Comfort – more than reduced or removed discomforts 262
11.3.4 Audit quality 268
11.3.4.1 Defining audit quality 268
11.3.4.2 A sufficient audit? 274
11.3.4.3 The "audit quality" concept 278
11.3.4.4 Controls 280
Chapter 12 285
Conclusions 285
12.1 Main contributions 285
12.1.1 The audit profession: profession and business 285
12.1.2 Structure versus judgment 288
12.1.2.1 Structure and judgment in structured judgments 288

12.1.2.2 Audit firmalization 289
12.1.3 The production of comfort 291
12.1.4 Audit quality: profession comfort and business comfort 292
12.2 Methodological contribution 294
12.3 Auditing as a comfort-seeking activity 295
12.3.1 Activities, rituals, routines and controls 295
12.3.2 Auditors as rule and standard appliers 295
12.3.3 Structure versus judgment 298
12.3.3.1 Structure or judgment? 298
12.3.3.2 Structured judgments 299
12.3.4 Trusting the audit expert system 300
12.4 The production of comfort… 303
12.4.1 … as the "realization" of audit quality 303
12.4.2 … as an individual feeling 304
12.5 Implications, personal reflections and final points 306
References 315
Appendix 1 – Interview guide in Swedish 345
Appendix 2 – Interview guide in English 348
Appendix 3 – Statements for respondent validation (in Swedish) 351
Appendix 4 – Statements for respondent validation (in English) 354

Chapter 1

Introduction

> When I started working as an auditor 25 years ago I knew everything I had to know…. Today, all I know is who to ask.
>
> (Authorized public accountant, partner in a Big 4 firm)

1.1 What is this study about?

The quote with which I open this monograph is from an auditor I talked to in the very early stages of the study. He works in a Big 4[1] audit firm in Sweden, and at that time he had more than 25 years' experience. He explained that when he started as an auditor, he felt that he had all the knowledge he needed to be able do his job, but that developments in the field of auditing and accounting over those 25 years entailed numerous changes regarding everyday audit work, both in job assignments and in the role of the auditor. He explained that nowadays auditors have a higher degree of responsibility and that there is an increased need for expertise and knowledge among auditors. He further explained that it was not possible to keep up with all the regulatory changes, so auditors did not and could not keep up with every development in this way. Consequently, he said, although nowadays he himself does

[1] Prior to 1989, the dominant group of audit firms was known as the Big 8; from 1989 to 1997, they were the Big 6; between 1998 and 2001, the Big 5, and since 2002, the Big 4. The current term, Big 4, will be used throughout this study to refer to all these different groupings. Specifically, the Big 4 refers today to the audit firms Deloitte, Ernst & Young, KPMG and PwC.

not know everything he needs to know in order to audit, he does instead know who to contact in every situation that might occur – "who to ask". This development towards more complicated audits where there is a constant need to consult experts has been emphasized by many senior auditors (e.g. Humphrey et al., 2011:447).

Another interesting issue raised by this auditor was about "structure". His experience of the developments in auditing was that the move from structure to "understanding the company" had now shifted back to structure and possibly even "extreme structure". He did not like this and described the development as "negative".

The developments and issues the auditor told me about aroused my interest in the everyday work carried out by auditors. I realized that it would be difficult to study how audit work had changed (as I had no "how it was before" to compare to), yet I realised that it would be important to study current audit work – How could it be described? What does it include? What is special about it?

The questions might seem simple and the answers obvious. However, quite a few researchers in the last 15 to 20 years have indicated that the knowledge and understanding of auditing practice is not as explicit and well developed as one might assume (e.g. Humphrey & Moizer, 1990; Kirkham, 1992; Power, 2003; Mennicken, 2006; Humphrey et al., 2007; Humphrey, 2008; Humphrey et al., 2011). This seems especially valid when it comes to the understanding of the work of auditors in light of the significant and quite recent changes the audit profession[2] has experienced (e.g. Kirkham, 1992; Humphrey et al., 2007; Humphrey et al., 2011) and even more valid with regard to auditing in local settings (Mennicken, 2006) and the nature of audit work (Humphrey & Moizer, 1990).

Through this introduction, I will try to point out the need for a better understanding of the everyday work carried out by auditors and present the reasons why I engaged in this study of the nature of auditing work.

[2] What in the UK and the US is known as "the accounting profession" is known in Sweden as "the auditing profession" (Wallerstedt, 2001:865). In this study, I use "auditing profession" (which includes both "accountancy profession" and "accounting profession"). Similarly, "auditor" is used instead of "accountant".

1.2 Formulating the research problem

1.2.1 From macro-level to micro-level auditing

Previous research has identified and discussed different aspects of auditing. Such aspects include auditing as a profession, structure–judgment, the production of comfort and audit quality. These studies have focused on certain auditing characteristics or specifics, particularly at the macro-level. In this study, I emphasize that in order to understand what working as an audit is about and to understand the effects of macro-level decisions and "interventions", it is important to shift focus and explore micro-level auditing. I recognize that it is important to include results and discussions from macro-level perspectives when exploring micro-level auditing. This is stressed, for example, by Hambrick and Finkelstein (1987), who argue that individual actions are usually shaped by factors in the organizational environment. I argue that there is a relevant difference between auditing as discussed on the highest levels (such as by standard setters) and auditing as a day-to-day activity carried out by individual auditors in local contexts. To be able to explore and better understand the work carried out by individual auditors, it is important to comprehend these factors.

Among such factors, standardisation and regulation of professional conduct has become a more and more important part of audit professionalism (Grey, 1998; Power, 1999; Barrett et al., 2005). Also, "audit quality" seems to have become the "mantra" or "ideal" of audit practice and some kind of a guiding star within the audit profession (cf. Humphrey et al., 2007). Especially because of "business scandals" that were exposed during the 2000s (such as Enron, WorldCom and others discussed in section 3.4), accounting and auditing rules and regulations, often in the name of quality, have attracted increased attention as providing solutions to such problems. The scandals have put auditors "on the spot", and the audit profession has become subject to increasing public scrutiny (Morrisson, 2004). There is increased pressure from clients, stakeholders, regulators and the public; the production of legitimacy is probably more important than ever before (Power, 2003), and regulation (including accounting and auditing standards) is becoming more prescriptive and detailed (FRC, 2006; Larsson, 2007). This prescriptive approach has been categorized as "structured" and might be seen as a way of coping with and producing legitimacy under economic, regulatory and political pressures (Humphrey and Moizer, 1990; Bowrin, 1998;

Power, 2003). Overall, this development is part of what is referred to as "increased structure" in the structure–judgment[3] debate which is addressed in this study.

The notion of auditors applying "gut feel" (Humphrey & Moizer, 1990; Pentland, 1993) brings an interesting perspective on the structure–judgment debate since it has implications for audit practice. Structure might mean not only something that is "opposed" by the audit profession and regulators, but also something embraced and developed within firms and/or within audit teams as a means towards gaining legitimacy and control (Humphrey & Moizer, 1990; Power, 2003) and towards getting relief from "discomforts" (Carrington & Catasús, 2007). Such notions indicate that there are important micro-level aspects that need to be explored.

A number of aspects have been emphasized in previous studies of auditing in local and/or practical settings: for example, the use of working papers (Pentland, 1993), effects of new audit technologies (Fischer, 1996), socialization processes (Grey, 1998; Covaleski et al., 1998; Anderson-Gough et al., 2000), client-acceptance decisions (Gendron, 2000, 2002), coordination of multinational audits (Barrett et al., 2005), the use and circulation of international auditing standards (Mennicken, 2005, 2006) and the impact of business risk audit methodology (Curtis & Turley, 2007).

These studies have found that the production of comfort is central in in audit work; that the adoption and use of new audit techniques does not directly result in audit efficiency, which instead is the result of parallel auditor actions; that socialization processes within auditing firms are strong; that the client term is central in such socialization and that the client-acceptance decision is influenced by commercialism or by professionalism. It is also found that global coordination of audits includes detailed work practices influenced by risk of litigation and firm diversification, causing revised conceptions of good auditing and of the client (due to commercialization) and that international auditing standards (ISAs) do not serve as objective measures that can be applied during an audit to determine what auditors should do (that ISAs are pervasive but neither serve as an unambiguous point of reference nor serve as ready-made tools). Furthermore, it is found that auditors experience difficulties implementing business risk audits (new methodology) within the existing organizational structure.

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[3] There is no standard spelling of this term across UK, US or EU texts. I have adopted the style "judgment" in the main text of this work, while preserving the "judgement" spelling within quotations from other texts, including legal documents. Other UK/US/EU spelling variants have been handled similarly.

Westerdahl (2004, 2005) focuses on the structure and judgment discussion. He shows that that audit practice is not only about following step-by-step instructions and laws and regulations but also a social interaction that is influenced by contextual factors. Westerdahl also finds text and language to be more important than, for example, mathematics, that is, words rather than numbers are in focus and that rule-following seems more important for less experienced auditors. He suggests that there is much structure but also judgment and negotiation.

Most of these studies argue or in different ways indicate a need for further research on micro-level auditing or on the interaction between macro- and micro-level auditing. That need is further discussed in the following section, where I look at the importance – implied, for example, by Fischer (1996) – of studying auditing from the perspective of individual practicing auditors.

1.2.2 Why study micro-level auditing?

Power (1997, 2003), Gendron (2000) Westerdahl (2004) and Humphrey (2008) stress that there are very few studies of audit practice, especially in its "real" context. According to Power (2003:379), "very little is known about auditing in practical, as opposed to experimental, settings". Not only the sparse quantity of *in situ* audit practice research, but also the findings of those and other auditing studies suggest that we need to know more about how audit work is actually carried out. Following the recent developments in the audit profession, it has been stated that auditing practice needs "to be understood in relation to changing regulatory and professional pressures" (Kirkham, 1992:297).

An initial literature review indicates that there is a shortage of (detailed) research examining, for example, the relation between regulation and audit practice (Humphrey et al., 2011). As for global regulation, Mennicken (2006) claims that "much work has focused on the diffusion of global regulation at the macro-level" and not on the effect of such global audit rule-setting on local practices. To be able to define what "working in accordance with international standards" means, we have to look closer, for example at "local practices, people and instruments, as well as the wider network of actors, expectations and demands involved" (Mennicken, 2006:5) as this is where the audit process and auditing concept can be understood.

It could probably be said that globalisation has affected and is affecting the audit profession, audit firms and auditors and that nowadays auditing is a "global

profession". Conversely, globalisation in general is an everyday process carried out in local settings and local organizations (Giddens, 2001, on "structuration"; see also Barrett et al., 2005); Mennicken (2006) pinpoints the fact that day-to-day auditing is carried out in local settings. In this study, I emphasize that auditing is carried out by individuals in local settings including national characteristics (such as legislation and tradition) as well as firm specific characteristics (such as firm culture) and that this is an important aspect to consider in any study of audit practice as it is in such settings that audit work is done.

The importance of this kind of research has been strongly advocated, for example, by Barley and Kunda (2001). They claim that the need for studies of work processes as situated work practices has emerged (again) due to the assumption that work processes have changed, just as the context that organizations (and society at large) operate in has also changed. Hence, as it can be assumed that the "audit environment" has changed, it might be assumed that the nature of the actual audit work has changed (Humphrey et al., 2007). Even though the "change" cannot be explored as such in this study (because there is no reference point to compare with), I am inspired by Barley and Kunda (2001) to suggest a need to explore the auditing concept in the current setting.

Power (1995) argues that we do not know much about auditing in its context; he also concludes that *how* audit work is done is important. Hence, as an attempt to gain understanding of *how* and *why*, I find it relevant to also include a contextual perspective. Influenced, for example, by Gendron (2002), I emphasize that although auditors are individual actors, auditing procedures (such as auditor judgment) cannot be separated from the context (such as the audit firm organization). Similarly, following Giddens (1990, 2001), I suppose that globalisation is an everyday process carried out in local settings. The phenomenon of "auditing" may be defined and described on macro-levels, but what auditing is and how it ought to be carried out must be interpreted and realized by the people who perform it, that is, from a micro-level perspective.

It has been claimed that even though organizations face the same external pressures (such as regulation), they respond differently to such pressures; thus, internal factors seem to influence organizational behaviour (see, e.g. Howard-Grenville et al., 2008; see also Huising and Silbey, 2011). Furthermore, is has been suggested that management practices, management systems and formalized and prescribed processes (in manuals, checklists, databases, etc.) are such internal factors but it is claimed that such practices, systems and processes cannot themselves create compliance with

regulatory requirements (Huising & Silbey, 2011). Instead, Reason (1999:9) suggests that, in a dynamic and uncertain world, it is humans (with their abilities and limitations) who adjust actions to suit local conditions.

Consequently, I suggest that to be able to discuss and develop auditing on higher levels, from a macro-level (international or even global) perspective, we must first better understand the work of auditors on lower levels, that is, from the micro-level (however, as the micro- and macro-level are influenced by each other, the macro-level cannot be ignored). This approach is especially important, for example, when trying to understand how the use of international standards influences audit practice and how the impact of regulation is felt (such questions are considered important by Humphrey et al., 2011).

1.2.3 Why study auditor activities?

Quite contrary to what Mintzberg (1968) writes about managers, there is a fairly common understanding of why we have auditors (even though there are different opinions of their importance and on what auditors should do). However, just as Mintzberg writes about managers and managerial work, the extensive literature on auditing and auditors is surprisingly vague and limited when it comes to describing what ordinary auditors do between 9 a.m. and 5 p.m.[4] (e.g. Pentland, 1993; Westerdahl, 2005). As pointed out, for example, by Geertz (1973), what is essential is what people actually do at work – not what they should do, want to do, are going to do or what they say they do. I propose that we seem to know quite little about what the auditor actually does at work; in many studies, auditors seem to be viewed from a distance. Answers to the question "What does the auditor do?" seem more related to the purpose of auditing (i.e. the role of auditors), its "outcome" (audit reports, legitimacy, etc.) and what auditors fail to do than to actual activities performed. Among the growing amount of auditing research, it seems like the focus rather lies with audit outcomes and effects than on trying to define basic aspects of auditing. While such research is important, I suggest that, just as a better understanding of the auditor's day-to-day activities is a fundamental and necessary starting point towards greater overall understanding of audit practice, there is a need to explore and develop the auditing concept itself.

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[4] This is written in the spirit of Sune Carlson's "Executive Behaviour" (1951) but is mostly influenced by Henry Mintzberg's dissertation "The manager at work – determining his activities, roles, and programs by structured observations" (1968).

Only a very limited amount of research has focused on what auditors actually do throughout their workday. Furthermore, there does not seem to be any research presenting auditor activities (e.g. what kinds of activities, their nature and frequency).

Giddens (1984, 1991, 1995) argues that social actions (even the small ones) contribute to production and reproduction of social systems and to alterations of such systems. Social systems consist of "situated activities of human agents" (1984:25) and are then a sort of outcome of agents' social actions. Agents are active participants (groups or individuals) and in producing and reproducing social systems, their actions are constrained and enabled by rules and resources, i.e. structures. When agents act, they find use for their knowledge of the structural context; they are constrained by capabilities, perceived available actions and external limitations. At the same time, their actions are constrained and enabled by structures produced by those actions. (Giddens, 1984, 1991, 1995) In line with this reasoning, auditing is seen in this study as the outcome of auditor actions, and it seems difficult to separate the actions from their context.

If auditing is seen as the outcome of auditor actions, high-quality audits are often mentioned as the desirable outcome of auditing. Audit quality seems to have become the "ideal" of audit practice (cf. Humphrey et al., 2007) and the aim of audit work is often described in terms of the performance of high-quality audits. Yet, research indicates that there is much more to learn and understand when it comes to fundamental and important things about audit quality (cf. Francis, 2004), and issues regarding audit quality appear to be part of the very essence of the auditing concept.

1.2.4 Conceptualization

By describing and exemplifying the auditor's day-to-day activities, I try to explore the auditing concept. A description and conceptualization of what auditors do (in terms of auditor activities) ought to be an important part of forming a necessary basis for such critical reviews and evaluations of the auditing profession as are needed to form relevant suggestions for development and change. The lack of such descriptions and conceptualization seems to depend on a lack of empirical evidence (due to limited research and the "secretiveness" associated with the auditing profession), which causes vagueness and sometimes generates questions rather than answers. To describe auditing as "examining", "reviewing", "scrutinizing", "inspecting" or "checking" seems rather superficial and limited. Research carried out, for example, by Pentland (1993) and Westerdahl (2004), as well as the way auditors themselves depict their

roles, responsibilities and activities, indicates that auditors do more than just carry out "examinations".

Following Czarniawska's (2009) reasoning, I put forward the notion that only external observers and novices in fact notice and reflect upon the things taken for granted and which are obvious and natural for practitioners – in this case, auditors. Czarniawska (2009:12) states that it probably takes two to describe work – one actor and one observer. For this reason, an "outsider" perspective ought, therefore, to be of vital importance for the conceptualization of auditing.

Hence, in this study, conceptualization involves combining different aspects of auditing; it also involves carrying out an empirical investigation based on these aspects to form an idea of auditing and to grasp its content and meaning.

1.2.5 Research question and aim of the study

By combining different aspects of auditing and by focusing on the individual auditor and observing day-to-day work carried out by auditors, this study explores the auditing concept in the current "auditing scene" (which includes regulation and new conditions such as internationalisation of the profession and audit firms as well as the abolition of the statutory audit). Such an understanding appears important in the debates on regulation, structure vs. judgment, and professionalism. To obtain this better understanding of the nature of audit work, I will explore and exemplify day-to-day activities carried out by auditors in local settings: how the macro-level phenomenon of "auditing" is realised in micro-level, day-to-day audit work. In doing this, the following research question will be addressed:

– *What does the auditor do?*

This question is rather wide and might be seen as (too) general. I fully realise the limitations of the approach, also the relevance and importance of the critique of this kind of descriptive research question. For example, Willmott (1984) criticizes Mintzberg's *The Nature of Managerial Work* since it does not include the important aspects of *how* and *why*. As auditing does not take place in a vacuum (the context matters) and as it is carried out by human beings, I put forward that the explorative and exemplifying nature of this study also enables inclusion of the *how* and *why*. Also, it is important to note here that the examples, descriptions and concepts explored in this study are not without valuation and assumptions; they also make some

elaborations possible while excluding or making other elaborations more difficult (Nilstun and Hermerén, 1984). Hence, the *how* and *why* aspects that follow the *what* is important and will be included.

To summarise, *the aim of this study is to explore the auditing concept through exemplification of auditor practice.* This is done by focusing directly on the work of auditors.

1.3 Expected contribution

I am attempting with this study to contribute to the conceptualization of auditing. This involves combining previously identified and discussed aspects of auditing; the contribution thus lies with involving a number of auditing characteristics and particulars to form an idea of what auditing is about. Czarniawska (2009) argues that things that are taken for granted and which are obvious and natural for practitioners can be better noticed and reflected upon by external observers. In the context of auditors and auditing, this kind of research is very limited – especially with respect to describing the auditor's everyday work. To be able to make such descriptions is important in trying to conceptualize auditing and is an expected contribution of this study.

Humphrey et al. (2011:445) claim that to gain better understanding of the nature of auditing, there is a need to gain further knowledge about what auditors do to deliver high-quality audits. By studying the day-to-day work of auditors, this study will contribute to a better understanding of that work and hence about processes related to auditor behaviour and audit work practice. This research focus is desirable (Humphrey, 2008; Humphrey et al., 2007; Humphrey et al., 2011), and this perspective and understanding is of importance to research, discussion and development of the audit profession. It may also be of importance in developing the education and training of those who intend to enter the profession and become auditors.

The effect of regulation on audit practice is not well documented. Previous studies have illuminated a need for such studies (e.g. Mennicken, 2006; Humphrey et al., 2011). By exploring audit practice through auditor actions and activities in light of new conditions for auditing and auditors, the present study contributes to the research on auditing practice and to the academic literature. It is also hoped that this

study may contribute to the various debates on regulation, structure vs. judgment, and professionalism.

In addition, in view of the limited number of audit practice studies or fieldwork studies in the auditing field, it is hoped that this study will also make methodological contributions as it combines observations with interviews, thereby arriving at findings that would not have been possible if using only one of these methods. The observations made possible detailed records of auditing activities as well as generating questions about these activities; auditors' thoughts and reasonings were also revealed. The interviews enabled me to ask these questions and to discuss my findings with the auditors themselves. In combination, this made it possible to form an idea of what auditing is about.

1.4 Scope and limitations

The references and data used in this study have a number of different focuses and origins. For example, I refer to studies from both the United Kingdom and the United States. Given the internationalisation of auditing (Humphrey, 2001) and audit firms (at least the Big 4 audit firms) and the cooperation within and across audit firms (e.g. through IFAC projects, etc.), the Swedish Big 4 firms, which are the empirical focus of this study, are strongly influenced by the thinking, decisions and requirements of the "international firm". Thus, I consider, albeit subject to a degree of care, that assumptions and results from studies based in countries such as the UK and the USA to be useful in this study about the auditor at work.

This dissertation includes a relatively large volume of references to, and quotations of, material issued by the audit profession (e.g. IFAC, IAASB[5], FRC[6], ICAEW[7] and

[5] The International Auditing and Assurance Standards Board (IAASB) is an independent standard-setting body initiated by and a constituent part of IFAC.

[6] The Financial Reporting Council (FRC) is an independent regulator responsible for promoting high quality corporate governance and reporting to foster investment in the UK.

[7] The Institute of Chartered Accountants in England and Wales (ICAEW) is a professional membership organization, supporting over 136 000 chartered accountants around the world.

FAR[8]). I recognize that this kind of material, at least to some extent, is biased and not "scientific" in a strict sense. But since this is a dissertation exploring how auditing is carried out by individuals in local settings, and since such settings are strongly influenced and partly defined by what happens on the overall auditing scene (including regulators, standard setters and professional associations), I must also consider this material. I would, however, emphasize that I recognize that it does not necessarily describe how things are, but how they, for example, should be. It is a basis, even a prerequisite, for this study that auditing in local settings might not equal what it is assumed or expected to be; that what auditing is and how it ought to be carried out must be interpreted and realised by the people who perform it.

1.5 Outline of this dissertation

The remainder of this dissertation is organized as follows. Chapter 2 presents the methodology of the study and is followed in Chapters 3 to 6 by discussion of each of the main aspects central to the study. Chapter 3 describes the audit profession and includes material related to the theory of professions, the audit process, auditing standards and recent changes in the profession with particular reference to the Swedish auditing scene. Chapter 4 addresses the structure–judgment debate. Chapter 5 deals with the production of comfort and discusses expert systems and the concepts of trust and scepticism. In Chapter 6, I define audit quality and discuss what influences it. Each of Chapters 3 to 6 concludes with a summary and a reprise of the key issues raised and identified for further exploration. Chapter 7 introduces the major group of chapters that describe the empirical fieldwork, its key features, methodology and the participation of auditors. The empirics based on observations are presented in Chapters 8 to 10, and in Chapter 11 this material is analyzed together with the empirical data based on interviews. The conclusions of the study are presented in Chapter 12.

[8] FAR is the professional institute for authorized public accountants, approved public accountants, and other highly qualified professionals in the accountancy sector in Sweden. FAR has about 6 500 members.

Chapter 2

Methodological considerations

In this chapter, I present the methodological considerations for the study. I present basic assumptions, discuss the key chosen aspects and introduce the context of the study.

2.1 Basic assumptions

To emphasize that "audit is a social phenomenon" (Flint, 1988:14), a social practice, and that auditors cannot free themselves from a complex set of relations when performing an audit, this study looks at audit practice in context. In this case, that means being on the site of an audit firm, observing the auditor at work. Economic, political and social factors create the environment in which auditing is practiced. The auditor is a part of the environment of the audit – his/her decisions are a reflection of the environment, at the same time serving to construct it (e.g. Hines, 1988, 1989; Abbott, 1988). Thus, auditing could be viewed as socially constructed (e.g. Humphrey & Moizer, 1990). As this study focuses on a phenomenon which is contemporary and not easy to distinguish from its context, it seems appropriate to use a case study approach (Yin, 2003). However, because of limited opportunity to do case studies of auditors at work and for reasons of cross-verification, this study uses one main case in combination with additional cases and interviews with the intention to find some patterns and general relationships characterizing the patterns and thereby contributing to the conceptualization of auditing. The study is mainly an interpretive case study, this choice being based on a number of assumptions that will be discussed in this section.

I put forward that auditing practice is characterized by uncertainty, instability, uniqueness and value conflict and that, to understand such situations, a case study

approach is beneficial (cf. Cooper & Morgan, 2008). As for perceptions about reality, my assumption here is that reality is more a projection of human imagination (cf. the concept of "individual consciousness" used by Burrell & Morgan, 1979 and the concept of "social construction" used by e.g. Scapens (2007) than a concrete structure (Morgan & Smirchic, 1980; Scapens, 2007). However, individual consciousness and social construction are what could be called the two "extremes" on the subjective–objective continuum used to depict different approaches to social science (cf. Burrell & Morgan, 1979; Morgan & Smircich, 1980), and the phrasing "more… than…" in the previous sentence only indicates the approximate position of this study on that continuum.

The ontological assumption of reality as perceived through individual consciousness indicates that it is through subjective interpretation that one gains knowledge of the studied phenomenon. The researcher must interpret a social reality of which he/she is a part and from which he/she cannot be separated. The issue of interpretation will be discussed later (in Chapter 7, especially section 7.2.4.4). The ontological assumption of reality as perceived through individual consciousness also indicates that the actions of individual actors in this study are not seen as determined by general laws of nature but as outcomes of the exercise of free will. Auditors can choose to act or not (cf. Giddens, 1984).

Based on the combination of the these assumptions (ontological, epistemological and about human nature), this kind of research could be viewed as phenomenological and concerned with understanding the subjective, socially constructed, world (i.e. the phenomenon being studied). The researcher seeks "to interpret the socially constructed reality and to give meaning to what the individual social actors know and do in their day-to-day relationships and activities" (Scapens, 2007:5).

Case studies are often used in interpretive research when seeking to understand the case by giving meaning to the phenomenon. The intention is to explain through patterns such as behaviour, values and norms observed in the case. However, "…in an area where case studies have not previously been conducted, the initial interpretive case study might be regarded as exploratory" (Scapens, 2007:6).

2.2 Different aspects of auditor work

One issue related to phenomenological interpretive case studies is the use of theory. Instead of forming a base from which to deduce explanation, theory "is used to sensitise the researcher to particular issues which could be important in the case" and "…helps to focus the attention of the researcher on specific issues" (Scapens, 2007:7). This means that to be sensible to relevant "data", it could be useful for the researcher to make certain preparations before entering the field. It is important to know what to look for and to have certain concepts to be able to describe the things that are observed (Carlson, 1951). A "theoretical framework" could be used to help the researcher to see important aspects of the observed phenomenon.

In line with this reasoning, I chose to include and discuss certain aspects of auditing in order to focus on and be sensitive to certain data during the fieldwork and to reduce the risk of missing out on relevant parts. Consequently, just as discussed by, for example, Nilstun and Hermerén (1984), the descriptions I give in this study when trying to explore and exemplify "What does the auditor do?" are not unbiased; they entail certain implications. The aspects (in Chapters 3 to 6) chosen for this study provide certain opportunities and limitations. The coincidences and conscious choices, such as how I have chosen to explore, exemplify, describe, analyze and discuss the auditing phenomenon, are of decisive importance.

The aspects chosen are as follows: the audit profession, audit quality, auditing standards, structure versus judgment, the production of comfort, expert systems and trust versus scepticism. I will briefly present each of these aspects now, but further reasons for choosing each of them will be discussed in more detail as they are introduced in the relevant chapters.

At the beginning of this project, I included four aspects in the theoretical framework – *the audit profession*, *structure versus judgment*, *production of legitimacy* and *audit quality*.

The audit profession aspect is needed to be able to define the fundamentals of auditing as a profession and to define what it means to be a professional. That definition, for example, would include how working with standards is a part of being a professional and how standards are the restrictions, guidelines and tools that auditors use to achieve high-quality audits. Moreover, the question of auditing work

emphasizing and including structure or professional judgment has been discussed in several studies and could not be disregarded. In previous studies, the production of legitimacy is recognized as important in the auditing process and as an important auditing outcome. As I realized the value of discussing structure versus judgment along with the production of legitimacy, I included the latter perspective in the former. Finally, the audit quality aspect was included as it probably is one of the most (if not *the* most) important concepts within auditing in the light of recent developments and the fact that audits of high quality seem to be the generally agreed goal of auditing.

In the very beginning of my work in the field – my observations – I realized that these aspects would not be enough to be able to reach an understanding of the nature of auditing work. During the observations, I realized that auditing probably is not only about following standards, producing legitimacy and high-quality audits. It also includes aspects related to the individual auditor and his/her state of mind and "feelings". I started to elaborate on and added an aspect about *the production of comfort*, something I had some (yet limited) knowledge of at that time. The last part I developed was about *expert systems – trust versus scepticism*. As I analyzed my empirical material, I got the feeling that the aspects I had included could not be used alone to interpret and understand everything I had experienced. I needed another, more critical dimension to be able to form a more comprehensive picture. I then came across the concepts of expert systems, trust and scepticism and at that point seemed to have found the missing parts. This last aspect of auditing was included as an additional dimension of the production of comfort.

Hence this study includes the following aspects:

- *The audit profession* (Chapter 3) – In this chapter, the literature on the consequences of auditing being (perceived as) a professional activity is reviewed and discussed.
- *Structure versus judgment* (Chapter 4) – In this chapter, the structure–judgment debate is introduced and different aspects of the debate is highlighted. This includes auditing as the production of legitimacy.
- *The production of comfort* (Chapter 5) – In this chapter, the comfort concept is elaborated. Also, the production of comfort is related to notions of expert systems, trust and scepticism.
- *Audit quality* (Chapter 6) – In this chapter, the features of audit quality are described and I discuss what striving to achieve audit quality is about.

With these chapters, I try to illustrate that the auditing field is characterized by different issues that need to be considered. The context becomes important, not only for auditors trying to perform high-quality audits, but also for researchers seeking to understand something about auditing. It is also my hope that these four chapters will point out the importance of the individual auditor and his/her situation, including the conditions he/she is working under and the difficulties related to defining, for example, desired outcomes (alone or with others) and the important influence of the audit firm.

The chosen aspects are central when analyzing the data collected and when drawing conclusions. I was familiar with most of them before I went into the field and started my empirical study. This empirical phase, of course, raised other issues. According to Silverman (2006:12), "…whatever we observe is impregnated by assumptions". What is seen depends on knowledge and experiences as well as on the lenses used; intentionally or unintentionally, direct or indirect. The chosen aspects serve as lenses through which "the reality" is observed and perceived (Silverman, 2006). However, due to limitations (of time, access, experience, etc.), the "risk" of being biased when collecting data is in this study a risk that is necessary to take. It is to be hoped that the focus gained exceeds the risk of giving too much, too little or no emphasis at all to certain other issues and data.

As Chapters 3 to 6 vary in length, it is important to point out that the space given to each chapter does not indicate relative importance. The chapter lengths vary with the amount of research related to the different aspects as well as the level of coherence across the research. More space has sometimes been required when the research has indicated different results or views.

The study begins with certain "predetermined" aspects of auditing and could therefore be said to be about specific aspects. However, the research process also includes inductive elements where the predetermined aspects have not been enough to support the exemplifications made. Hence, the study is of an abductive nature.

A final remark is that theory could not only be an input, but also an output in this kind of research – theory could be formed from patterns observed in the case (Scapens, 2007). Also in this study, I make certain suggestions based on insights and findings; these should be seen as issues for future research.

2.3 Context

The focus of this study is the work of auditors in Big 4 audit firms in Sweden. Thus, Swedish Big 4 audit firms constitute the context and are described and discussed in Chapter 3 (especially section 3.5), Chapter 5 (section 5.5.3) and Chapter 7 (especially section 7.2.3).

In Chapter 3, I discuss the characteristics of the audit profession and what it means to be an auditor. Auditing as a profession is seen as a contextual frame. Certain features of professions in general and the auditing profession in particular are important to emphasize in order to shape an overall background for the subsequent discussion.

The auditing profession in Sweden is discussed in section 3.5. The section includes a brief discussion of the Swedish setting, including corporate governance and auditing arrangements as well as current issues on the Swedish auditing scene. The latter highlights the abolition of the statutory audit for all companies; this is presumed to be relevant for the everyday work of auditors because of the greater emphasis on developing products and making marketing efforts.

Even though audit firms are claimed to be global, the national context cannot be overlooked. There are still distinctive national characteristics that might influence auditing and auditors. They include national legislation and traditions, the overall business environment and the way the profession is organized (professional associations, oversight bodies and so on). Hence, audit firms and auditors are presumed to be influenced by the national context.

Furthermore, previous studies have emphasized the strong influence of audit firms on auditors. Pentland (1993) suggests that auditors from the same firm tend to audit in the same way, Fischer (1996) emphasizes internal expectations and their influence on how audit work is done, Grey (1998) discusses how auditors tend to identify with the firm they work for. Also Hogarth (1991) and Carpenter et al. (1994) suggest that it is important to consider audit firms as the context in which audits take place. In this study, I stay close to these suggestions and assume that audit firms constitute a vital part of the context for audit practice.

A delimitation of this study is that it focuses exclusively on the Big 4 audit firms. It has been argued that the socialization process is especially strong within the large audit firms. This is presumed to be an important part of the context and is further discussed in Chapter 5, section 5.5.3.

The characteristics of the Big 4 audit firms are further discussed in Chapter 7, section 7.2.3. This discussion includes their organizational form, ownership structure, oligopoly position (dominance), globalization, business features, hierarchical structure and teamwork.

Chapter 3

The Audit Profession

With this chapter, I provide a background to the discussion about the consequences of auditing being (or perceived as) a profession: What does it mean to be an auditor and to work in the audit profession? Nevertheless, the chapter is not about whether auditing is a profession or not. In this study, I accept that auditing, at least traditionally, has been defined as a profession (cf. Abbott, 1988).

A number of approaches from the sociology of professions contribute to the understanding of professions and their origins (e.g. Willmott, 1986); there are many different views on what characterizes a profession and what the prerequisites for a profession are. These "attributes" are debated since they are considered vague, difficult to apply in distinguishing professions from other occupations[9], and it is difficult to find a common set of attributes valid for all those occupations normally referred to as professions (a too abstract definition would be purposeless).[10] Also, some of these attributes have been claimed to be "myths" (cf. Brante, 1988, 2005). Therefore, as my aim is not to discuss whether auditing is a profession or not, I do not try to cover, describe or explain all possible aspects of auditing as a profession. Rather, I examine some of the most commonly mentioned attributes relevant to the work activities carried out by auditors. A perspective indicating that a profession could be distinguished by certain characteristics in one situation and social order and by other characteristics in another (Brante, 2005) seems to be in line with the assumptions of this study. In other words, context matters. I also find the view that "professionalization is a complex dynamic process with several levels of action" (Abbott, 1991:380) to be relevant and in line with the assumptions of this study.

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[9] Brante (2005) illustrates this by using organized crime as an example.

[10] A major reason for the difficulty of definition lies in the efforts to combine cognitive, theoretical or knowledge level, social or organizational aspects and individual aspects (Brante, 2005).

3.1 The audit profession – aspects related to the theory of professions

> The professional man… does not work in order to be paid, he is paid in order that he may work. Every decision he takes in the course of his career is based on his sense of what is right, not his estimate of what is profitable.
>
> (Marshall, in Brante, 1988:119)

> Where the practitioner is able to provide a sense of security against the unknown that nevertheless continues to remain at least somewhat unpredictable, he will be in the strongest position.
>
> (Collins, 1975:343)

> He [the accountant] has become what has been happily described as the medical consultant of industry. Nor is his part confined to the giving of a mere annual certificate of health. 'The control which the auditors of a bank exercise over its policy', said Leaf [W. Leaf , *Banking*, 1926:232], 'is very real.' 'The character of our work has changed', said the President of the Institute, reviewing the period which had elapsed between 1880 and 1921. 'The auditor has become the adviser and expert whose assistance is eagerly requested. On questions of financial policy, on the raising of capital, on distributions of profits, on costing, and so forth, his advice is deemed to be essential, and further, in organization generally, his help has been sought and valued. In many a business, proper statistical records, intelligently applied, have led from difficulty and approaching disaster to smooth working and substantial success'. In company reconstruction and reorganization there is the same tendency to rely upon the accountant, though the problems to be solved may extend far beyond mere questions of accounting.
>
> (Carr-Saunders & Wilson, 1933:219)

The opening quotes are presented here to introduce some (contradictory) views on the audit profession. The quote by Marshall indicates expectations and perceptions of a "pure" profession. The quote by Collins indicates that "superiority" and trust are

often ascribed to professionals because they are the ones who can provide security against the unknown. The extract from Carr-Saunders and Wilson, written almost 80 years ago, is presented here for two reasons – to indicate that auditors, at least in a historical perspective, have been regarded as "business doctors" as well as to show that change is not new to the audit profession (cf. further discussion in section 3.4).

3.1.1 Audit purpose

According to the ICAEW (2002:9), "[t]he essence of a profession is that qualified individuals perform a complex task with integrity…". To engage professionals could be seen as a way to reduce uncertainties and risks (Brante, 2005). In the prevailing business climate, the relevance of auditing has been questioned (e.g. European Commission, 2010; Deumes et al., 2010) and the audit profession has been heavily criticized and questioned because of its conflicting demands of serving the public interest and of being financially successful (cf. Lee, 1995; ICAEW, 2002:10). These concerns are related to the fundamental object and one of the characteristics of a profession – the "performance of a service that is for the common good" (Brante, 1988:122).[11] To understand and adhere to the public interest aspect of auditing has been and is *the* condition for the usefulness of auditor work. Also, if they are to provide an important function in the society, professional groups must function without conflicts and problems (Parsons, 1964, uses the term "smoothly"). Hence, in light of recent developments in the auditing scene, the questioning of the audit profession seems inevitable and concerns about de-professionalization (cf. Humphrey & Moizer, 1990:222) seem relevant.

For example, Flint (1988) and Lee (1993) point out the significant function of auditing. According to ISA 200[12] ("Overall objectives of the independent auditor and the conduct of an audit in accordance with international standards on auditing"):

> The purpose of an audit is to enhance the degree of confidence of intended users in the financial statements. This is achieved by the expression of an opinion by the auditor on whether the financial statements are prepared, in all

[11] Brante (1988:122) refers to Millerson's (1964) enumerative definition of a profession as a "summary of the most frequently occurring characterizations".

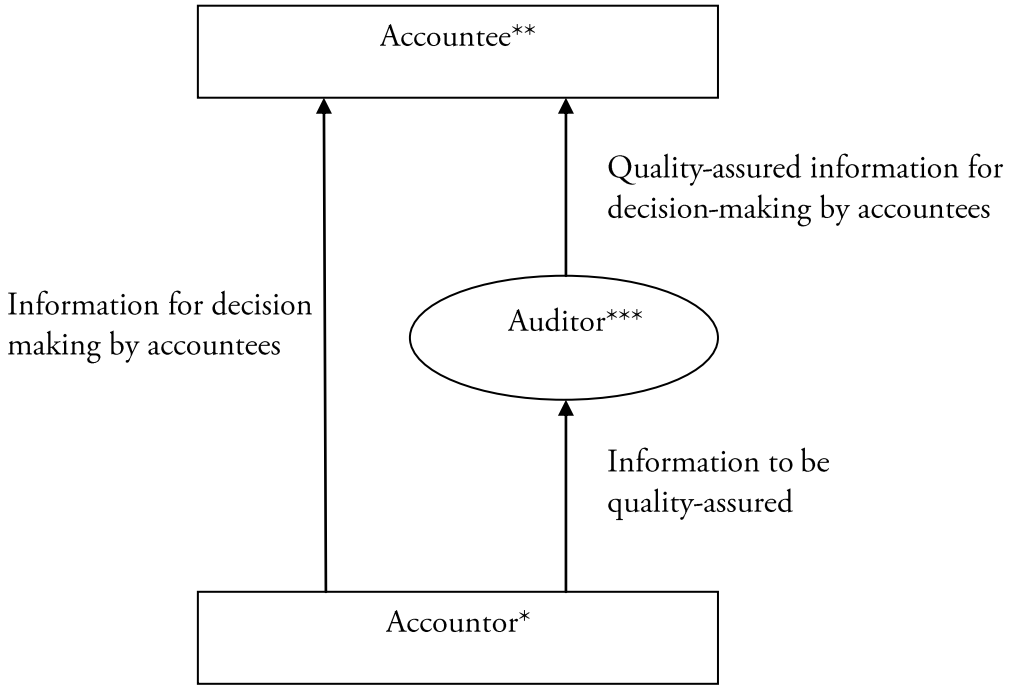
[12] Effective for audits of financial statements for periods beginning on or after December 15, 2009.

> material respects, in accordance with an applicable financial reporting framework. In the case of most general purpose frameworks, that opinion is on whether the financial statements are presented fairly, in all material respects, or give a true and fair view in accordance with the framework. An audit conducted in accordance with ISAs and relevant ethical requirements enables the auditor to form that opinion.

In section 6.1 on the complexity of the concept of "audit quality", it is claimed that different stakeholders have different interests and involvement in, as well as different experiences and expectations of audits. Hence, their perceptions on audit quality differ. The underlying cause of such differences derives from different perceptions of the purpose of auditing. A large amount of research and studies related to the purpose and perceptions of auditing have focused on the so-called expectations gap (e.g. Humphrey et al., 1992, 1993; Epstein & Geiger, 1994; Power, 1999; Koh & Woo, 1998; Wolf et al., 1999; McEnrone & Martens, 2001; Öhman et al., 2006). This gap exists because the perceptions of audit purpose differ among different stakeholders and auditors. A concern for the audit profession is that the value of auditing thereby becomes questioned (Power, 1999).

3.1.2 An agency theory perspective

Based on the principal–agent relationship (that is, delegation of responsibilities and self-interest, information asymmetry and opportunistic behaviour) explained in agency theory and in particular in the theories of Ijiri (1975), Öhman et al. (2006:92) outline an accountability model that includes accountees (the principals), accountors (the agents) and auditors to show the relationships between the different parties and the information flow between them.



*Accountor: Management representatives in charge of operations with stewardship obligations and who are obliged to provide true and fair information.

**Accountee: Investors and other stakeholders entitled to information for their decision-making process.

***Auditor: Independent professional, respondent for assuring quality of information, i.e. that gives a true and fair and is reasonably concrete.

Figure 1 – The Accountability Model (Öhman et al., 2006:92)

The model (Figure 1) shows that some, but not all, information is quality-assured by auditors before accountees receive it. Morrisson (2004) points out that it is not possible for auditors to quality-assure all of the accountors' information. The decisions on what information should be quality-assured by auditors is made by the

accountors (who to some extent can decide what information to distribute and when to distribute it), the laws and regulations (some information must be presented to the auditors before it is distributed) and the auditors (by using professional judgment, they decide what to audit and how to do it). Thus, the role of auditors is to monitor (to address the agency conflict by supporting the maintenance of confidence and trust) both the work of the accountors (the agents) and the information they provide (e.g. ICAEW, 2005; Öhman et al., 2006).

There are, however, factors that complicate the situation, so the model in Figure 1 is to be seen as a simplified model (e.g. ICAEW, 2005). One such factor, brought up by, for example, Zeff (1987) and Anderson-Gough et al. (2000), is that auditors refer to client companies and their management as "clients" when the true clients should be the investors and creditors. Also Humphrey and Moizer (1990) conclude that auditors perceive client company management as the "consumer" of the audit service. Another such factor is that auditors are engaged as agents (under contracts). Using agency theory, however, this is not obvious as auditors have self-interest and can behave opportunistically. A fundamental assumption for auditing to be effective (i.e. for auditors to be a part of the solution to principal–agent conflicts) is that auditors are objective and independent from the "management agents" (the accountors). Such independence is fundamental for the performance of quality audits (e.g. ICAEW, 2005, 2006b).

The view of auditors as self-interested "participators" in the society can be related to a perspective in the theory of professions influenced by Weber (1968): that professions have "power" as their central driving force, that they use "closure" (such as through educational requirements, limited recruitment, examinations, legitimization and authorization) to maintain monopolies to gain rewards and privileges (cf. Parry & Parry, 1973; Willmott, 1986; Brante, 1988, 2005). By providing special services, professions try to both create and control markets for their expertise (Larson, 1978) and, hence, professionalism "is a strategy for controlling an occupation" developed by those within the profession to create distance from their clients (Willmott, 1986:558). From such a "suspicious" or "cynical" perspective, both auditors as individuals and as groups would be seen as being driven by self-interest (cf. Brante, 1988, 2005). This perspective, however, is contested by Jonnergård (2008:193f) who claims that labelling of groups as professionals (at least when it comes to labelling new vocations as professions) is initiated by other interested parties rather than by the vocational groups themselves. She speculates that "[t]he label, profession, thereby goes from being a desired state for the professional to a way for people other than professionals to resolve societal problems and organize the workforce".

The commercial nature of audit firms has raised concerns about auditor independence (e.g. Hanlon, 1996; Sikka & Willmott, 1995). Due to what seems to be a strengthened and close relationship between auditors and client management, the role of auditors and their independence (in fact and in appearance) has been questioned. According to Anderson-Gough et al. (2002:1168), audit firms' more commercial orientation might have influenced how "professions" are perceived in the society. The audit profession has historically not been perceived as a "gentlemen's profession" (such as medicine and law, see Dezalay, 1995:333) and even though they have tried to achieve such status (Matthews et al., 1998), they have been and still are about "working for people who could pay" (Anderson-Gough et al., 2000:1169).

The critique of the audit profession, questioning its "public watchdog" abilities, however, is not new. For example, Humphrey and Moizer (1990:217) question whether the audit profession is able "to deliver the audit services traditionally demanded by society". The same concerns are also raised by Zeff (1987) and Kaplan (1987), who studied auditor independence and the extent to which auditors, instead of serving public interests, prioritize serving corporate management because it might be seen as more attractive to be creative business advisors and confidantes than unglamorous counters and sceptical guardians of markets (cf. Kaplan, 1987).

To be successful and maintain a high-quality reputation is important for auditors and audit firms. To uphold a reputation of independence is important to promote trust. Hence, protecting their reputations serves a strong incentive. Another "incentive" is the body of regulatory demands and requirements (e.g. ICAEW, 2005). Research has shown that audit firm reputation can affect the price that can be charged (e.g. Francis & Simon, 1987; Beatty, 1989) as well as the ability to attract new clients (e.g. Wilson & Grimlund, 1990). Hence, it is not only important to avoid a negative reputation, but also to acquire a positive reputation (Brozovsky & Richardson, 1998). This is a dilemma because that auditors need to have a close relationship with employees (especially management) at the client company to be able to carry out high-quality audits (cf. Sweeney & Pierce, 2004; Carrington & Catasús, 2007; see also section 6.2.1.2).

3.1.3 Knowledge, education, training and examination

Formal higher education is seen as an unconditional "entrance ticket" to a profession (Brante, 2005:2). The use of theoretical knowledge and skills based on such knowledge is also a commonly declared characteristic of a profession as well as

education and training of such auditor skills, and ensuring auditor competence by examination (cf. Millersson, 1964; Brante, 1988; see also Evetts, 1999). These components are classified by Freidson (1999) as institutional constants and are elements defining a profession. Parsons (1964) also points out that institutional mechanisms that "assure" a responsible performance of such competences is an attribute of a profession (see also Brante, 1988). The organization of professions is classified by Freidson (1999) as one of the contingent elements, the institutional variables, conditioned by time and space/place (the politics of the state, dominating ideologies and the content of professional knowledge).

To have (or to claim to have, or to strive for) a defined knowledge base and exclusive ownership of an area of expertise is a common characteristic of a profession (cf. Brante, 1988, 2005; Abbott, 1988; Freidson, 1994; Evetts, 2003). In 1961, Mautz and Sharaf suggested that there is a theory of auditing, that auditing is not completely practical, but a series of practices and procedures or methods and techniques. They argue that auditing is also concerned with explanations, descriptions and reconciliations (i.e. theory) and that the theory and practice of auditing are closely connected. Mautz and Sharaf claim the general view is that auditing is a completely practical matter. I doubt that the current general view of auditing is of the exact same nature, but the notion remains that the knowledge base of the audit profession is not clearly defined. Power (1999) argues that the knowledge base is weak as the output is obscure and unspecifiable, and auditors must be trusted about their production of assurance. This assurance cannot be separated from the auditors' "qualitative opinion process" (Power, 1999:28). Also, as Carrington (2010:671) points out, "[n]on-audit accountants may well be as knowledgeable about the latest developments in accounting regulation as auditors" and "[a]uditors are typically neither in a position to challenge tax and finance specialists on their area of expertise". Hines (1989) recognizes that there have been attempts to reveal the existence of a "theoretical body of knowledge" (i.e. conceptual framework projects), but since it has not caused any change in practice, such attempts are claimed to be nothing but efforts towards maintaining status and monopoly (see also Lee, 1995).

According to Hines (1989), auditors have been considered to belong to a profession as they *give the appearance* of having a unique body of knowledge. Also, it has been suggested that "professionalism" in auditing is more about behaviour, conduct and professional appearance, rather than knowledge (Alvesson, 1994; Grey, 1998; Anderson-Gough et al., 2000, 2001, 2002; Cooper & Robson, 2006) and that this is something that professions with a weak knowledge base have in common (Alvesson,

1994; Anderson-Gough et al., 2002). The notion of appearance will be discussed further in the next section.

3.1.4 Professional "affiliation", socialization and status

> Socialization can be regarded as the numerous formal and informal processes which enable individuals to become successful/functioning members of a collectivity.
>
> (Anderson-Gough et al., 2000:1155)

> The minutiae of personal conduct and appearance might seem unimportant but in fact they are as crucial as the firm's procedures and pro-formas that guide an auditor through the daily work, or the process for the selection and training of staff.
>
> (Anderson-Gough et al., 2001:99)

To have associations or bodies that organize their members (with "to organize" as a fundamental aim) is a commonly declared characteristic of a profession (cf. Millerson, 1964; Willmott, 1986:559; Brante, 1988). Millerson (1964) suggests that such associations are altruistically driven – aiming at improving the quality of professional services (by, for example, developing and promoting standards). A more political approach suggests that, through such associations, images of socially valued attributes such as trustworthiness and independence can be projected; professional bodies' regulation of both the supply and quality of professional services is a means to achieve higher remuneration and prestige (Willmott, 1986; see also Larsson, 1978; Brante, 1988, 2005).

It has been claimed that it is not only monopoly that regulates the supply of professional services. Auditing (especially its processes, i.e. how it is done) is sometimes described as a 'black box' phenomenon (e.g. Power, 1994). By mystifying audit work (the tasks and their execution) the professional "shapes the buyer's perception of the commodity in a way that increases its exchange value" (Willmott, 1986:562). The suggestion that it is virtually impossible for accountees to evaluate the

services provided by auditors (O'Donohoe et al., 1991; Colbert and Murray, 1999; Power, 1999; Carrington, 2010a; see also Chapter 6) adds to this mystique.

The uncertainty and complexity related to the work carried out by professionals and the need to exercise judgment from case to case is often used to justify professional autonomy (Freidson, 1994). Larson (1977:47) addresses this issue in describing dimensions of the professions' market control by, for example claiming that "[t]he more salient, the more universal, and the less visible the service, the more favourable the situation is for the profession". Hence, one could argue that it is possible for auditors (and the audit profession) to socially construct "auditing" (cf. Willmott, 1986; also Fischer, 1996, on the "unknowability" of audit practice).

By incorporating the audit profession under Companies Acts, states recognize it and confide in it, making the monopoly more effective; hence, there are no incentives for others to expose the mystification of audit work developed by the audit profession. Under these circumstances, the state is dependent on the audit profession for training and supplying skilled professionals (Willmott, 1986).

However, the feeling of identity, sharing common values and a common language (to a large extent only understood by those "inside" the profession) are seen as other such characteristics as well as reproduction of the profession through selection of students and trainees (cf. "Goode's definition" in Gesser, 1985:244; Brante, 1988:122; Anderson-Gough et al., 2000).

To stress professional integrity, ethical codes, disciplinary mechanisms, loyalty and altruism is important to being entrusted and gaining public confidence (Brante, 2005). Socialization and organization are used as a type of internal control of the observance of professional norms (cf. Brante, 1988, 2005). Traditionally, the need for external control has been regarded as unnecessary and almost impossible: "Who could be competent enough to assess the actions of a professional but another member of the same profession?" Given this situation, the profession as a whole must be entrusted (Brante, 2005). The recent series of business scandals and crises, in which the audit profession has sometimes been the centre of attention, has entailed a loss of confidence and trust and, hence, altered the conditions of audit work (e.g. Chandler & Edwards, 1996). Thus, one could probably claim that the context in which auditors operate has changed. How such change has been transferred to local settings, i.e. how it influences the day-to-day activities of auditors needs further investigation.

The preceding discussion indicates the importance of professional appearance, i.e. appropriate behaviour. This has been emphasized, for example, by Dirsmith and Covaleski (1985), Power (1991), Fogarty (1992), Pentland (1993), Coffey (1994), Grey (1994, 1998), Dirsmith et al. (1997), Anderson-Gough et al. (1998, 2000, 2001, 2002) and Kosmala (2005). Professional appearance, or conduct, has also to do with such aspects as physical appearance (adherence to dress codes) and submitting to long working hours (cf. Pentland, 1993; Covaleski et al., 1998; Grey, 1998; Anderson-Gough et al., 1998, 2000, 2001, 2002). According to Grey (1998), being a professional is primarily about appropriate self-conduct rather than technical competence and accreditation (not saying, however, that competence and accreditation are unimportant). Grey also claims that behavioural norms are not stipulated by professional associations – they are produced and reproduced within the audit firms. Hence, what it means to be a professional is also connected to the culture of the particular firm.

In examining the requirements for a sufficient audit, as framed by the Swedish Supervisory Board of Public Accountants and "measured" by classifying disciplinary cases as based on process wrongdoings or professional wrongdoings, Carrington (2010a) finds that professional aspects such as independence and professional conduct seem like a more important contributor to sufficiency than process aspects (such as "correct" judgments and sufficient planning). Thus, "[o]beying the protocol of the audit process is an important, but not necessary, condition" for a sufficient audit (p. 680). Carrington (2010a) concludes that his findings support the argument that, in professions with perceived weak knowledge base (or expertise), professionalism is more about conduct than knowledge (as argued by e.g. Alvesson, 1994, and Anderson-Gough et al., 2002; Cooper & Robson, 2006). Hence, the appearance of the auditor becomes an essential and critical matter (cf. Anderson-Gough et al., 2002; Kosmala, 2005; Carrington, 2010a).

The studies I have just cited not only indicate the importance of appropriate behaviour; they also suggest that professionalism is understood more in terms of appropriate behaviour than in terms of "solely" expert knowledge (cf. Anderson-Gough et al., 2000:1155). The emphasis on appropriate behaviour is at odds with the "core" of professions – to define and control their (technical) knowledge base (e.g. Abbott, 1988). Yet, this does not have to mean that technical knowledge acquired through training is not valued – such knowledge (and expertise) is instead more to be seen as a requirement and an underlying aspect of audit work (cf. Anderson-Gough, 2000).

According to Anderson-Gough et al. (2000), clients are at the centre of the socialization process; by studying trainee accountants, they found that the client concept mediates explanations of events as well as legitimizes demanding practices. As firms have included other financial and consulting activities (such as tax advice, management consulting, legal services and financial services), they are increasingly referred to as "professional services firms". Consequently being "client-friendly", "serving the client", and presenting a professional image to clients (using appearance and social skills) are central matters. According to Forsberg and Westerdahl (2007), the market mechanism with its business orientation is driven by this client focus. The participants in the study by Anderson-Gough et al. (2000) maintained that "on-the-job experiences", i.e. the informal and unstructured processes of socialization, were more in learning how to be an auditor than preparing for examinations study and (formal) in-house training. As they described daily work practices, they often referred to the client – for example, they said that long working hours were needed to get the job done *for the client*. An interesting aspect about this is that since trainees hardly ever encounter clients, "dominance of 'the client' in trainees' organizational sense-making is as much, if not more, a result of – or the very least mediated through – discursive practices within the firm" (Anderson-Gough et al., 2000:1162).

It has been suggested that the attributes commonly ascribed to the professions (that they are an important part of the welfare of the society and that they have great, difficult and "heavy" responsibilities) must be rewarded properly to attract the "right" people – that includes status and prestige as well as material rewards (cf. Brante, 1988, 2005). Jonnergård (2008) claims that the status that comes with possession of the title is one of the main advantages of being a professional.

3.2 The audit process

Humphrey et al. (2007:10) describe the audit process as being "a combination of ethical, auditing and quality control standards together with the firms' audit methodology". The actual procedures comprised in the audit process are, at least to some extent, a subjective matter (cf. Pentland, 1993). These procedures are both debatable (cf. Power, 1999) and changeable (e.g. Robson et al., 2007). The audit process is nevertheless commonly divided into three stages: planning, fieldwork and

final review. Each stage comprises a number of parts. In the simplified description of the audit process presented in Table 1, twelve such parts are identified.[13]

Table 1 The audit process

The planning stage
1. Client acceptance
2. Collecting information about and gaining understanding of the client, its activities, environment and circumstances
3. Planning the audit
4. Working out an audit plan and an examination plan
The fieldwork stage
5. Planning materiality
6. Evaluating and testing internal controls
7. Substantive testing
8. Examination of the annual report and bookkeeping
9. Examination of the management's administration of the company[14]
The final review stage
10. Internal reports
11. External reports
12. Documentation

The planning stage includes obtaining, evaluating and drawing conclusions from the evidence. In accepting the client, the auditor determines if he/she meets the

[13] The stages and parts are based on similar descriptions made by Flint (1988:102) and supplemented by descriptions from auditing textbooks (Woolf, 1997; Hayes et al., 2005; Porter et al., 2006), material from the profession (FAR, 2006) and previous studies dividing the audit process in a similar way (Cho & Lew, 2000).

[14] Since the study is carried out in a Swedish setting, the description of the audit process includes the management audit (*Förvaltningsrevision*) which is a mandatory part of the statutory audit in Sweden (cf. section 3.5.1)

independence requirements regarding the client. Planning the audit includes, among other things, the acquiring of relevant personnel (team members).

In the fieldwork stage, the exercise of judgment is central. When planning materiality, the auditor assesses audit risk and sets materiality limits; in evaluating and testing the internal controls, the auditor identifies their strengths and weaknesses and ascertains whether controls are functioning properly. Substantive testing is about testing transactions and account balances. The management audit is about examining the management's administration of the company – the stewardship of management (cf. Burrowes & Persson, 2006).

The final review is about reporting. Internal reports are directed towards those charged with governance of the entity, and external reports are addressed to shareholders and other parties external to the company.

3.3 Auditing standards

> When practice is changed, we may say that the standard is 'implemented' or practised.
>
> (Brunsson & Jacobsson, 2000b:127)

3.3.1 The role of auditing standards

The setting of auditing standards is complicated and includes a number of different activities. The International Auditing and Assurance Standards Board (IAASB) sets the standards. The standards then need to be adopted by, for example, the European Union (EU) and its member states. When the standards are implemented by the audit firms, we are getting closer to practice; however, using the standards in practice is about compliance – i.e. that individual auditors in fact use and follow the standards. Another part of all this relates to enforcement by quality controls and by audit oversight boards.

Currrently we have probably been experiencing the biggest change in auditing standards since such standards were first introduced (ICAEW, 2006c). The

implementation of the Directive on Statutory Audits of Annual Accounts and Consolidated Accounts (2006/43/EC) by the European Commission (EC) is part of this change. The directive is also called the "revised Eighth Directive", "the new Eighth Directive" or the Statutory Audit Directive (hereafter referred to as the Statutory Audit Directive), and it deals with auditor independence, objectivity, quality control and auditing standards. The overall objective of the Statutory Audit Directive is "harmonisation" and according to Article 26, "Member States shall require statutory auditors and audit firms to carry out statutory audits in compliance with international auditing standards…". The EC has accepted International Standards on Auditing (ISAs) as authoritative statements on auditing practice and these standards, produced by the IAASB are to be applied to all statutory audits in the EU (Loft et al., 2006).

The Statutory Audit Directive declares that "[i]t is important to ensure consistently high quality in all statutory audits required by Community law" and that "[a]ll statutory audits should therefore be carried out on the basis of international auditing standards". The primary purpose of auditing standards is to enable auditors to conduct high-quality audits (cf. ICAEW, 2006a). Audit quality (as discussed in Chapter 6) is an important question, not only for auditees but also for the auditors since the reputation of a badly performed audit could harm the auditor and the role of auditors (cf. FAR, 2005).

Global standard setters are faced with the important challenge of "developing standards that can be adapted and made to work in the context of different traditions and jurisdictions" (ICAEW, 2006c:4). The challenge for national standard setters and practitioners is to implement these global standards "in a manner which, in the case of auditing standards, enhances audit quality" (ICAEW, 2006c:4). A related challenge is the application of such standards on smaller and less complex audits (e.g. ICAEW, 2006c). Due to such issues, IFAC initiated the Clarity Project (cf. section 6.2.2). Compliance with auditing standards, which is required of members of the professional bodies when performing an audit, thus becomes the challenge for auditors. The rules and guidelines must be applied and used by auditors, and this application is "influenced by their own judgement and the day-to-day exigencies of specific client work" (Carpenter et al., 1994:373–374).

3.3.2 The nature of auditing standards

> Whilst […] auditing standards do not determine the purpose of the audit they do explain and provide guidance and principles on how to perform an audit…
>
> (ICAEW, 2006a:10)

> Auditing standards are an important part of the auditors' toolkit.
>
> (ICAEW, 2006b:5)

> Auditing standards are about behaviour and behaviour is not always best managed using rules.
>
> (ICAEW, 2006b:18)

The purpose of auditing standards is to enable auditors to perform audits (ICAEW, 2006b). Auditing standards are often based on principles of behaviour[15] (such as "do as you would be done by") and on generalisations (such as "auditors should obtain sufficient evidence to support their audit opinion"). This means that auditors have to use some level of judgement in applying standards (ICAEW, 2006b) and that the level of abstraction maintained in auditing standards can only be concretized by auditors themselves (Mennicken, 2005, 2008). For auditing standards to be effective, auditors must adhere to both the spirit and the letter of the standards.

Many jurisdictions subscribe to the use of principles-based standard setting (ICAEW, 2006b). Principles-based (or objectives-oriented) auditing standards are contrasted with rules-based auditing standards. The distinction between principles (objectives) and rules is not obvious, and the issues related to this distinction are especially relevant in discussing audit quality. Researchers, professional bodies and standard

[15] Compared to accounting standards, auditing standards are more about behaviour but and in contrast, auditing standards are more "a means to an end than an end in themselves" (ICAEW, 2006b:18).

setters are seeking answers (or solutions) to questions that address issues such as the following (e.g. ICAEW, 2006b):

- How can the quality of auditing standards be enhanced?
- Is there an appropriate length of auditing standards and how long might that be?
- How are judgment, integrity and consistency in the conduct of audits affected by rules?
- How does detailed and lengthy auditing standards (that attempt to cover all possible situations) influence audit quality?

Despite the fact that international auditing standards are "principles-based", concerns have been raised about their "realization" and the entire system that surrounds them:

> [T]he strict guidelines in the new international auditing standards, ISA, can be seen as 'more structure and less judgment'.
>
> (Öhman et al., 2006:93)

These concerns are related to the so-called structure–judgment problem and will be discussed in Chapter 4.

The Institute of Chartered Accountants in England and Wales (ICAEW, 2006c) claims that regardless of who performs the audit, auditing standards have a direct effect on the manner in which audits are performed. The increased and changed regulation and standardization, especially the requirement of compliance to ISA, is part of globalization and an effort towards harmonization. Barrett et al. (2005:1) raises the question of how globalization is produced and re-produced in everyday managerial practices; in making globalization "real", how the global interacts with the local. They point out that globalization is not just a process involving nation states, but also a process that "involves detailed everyday activity in the context of diverse local institutions" (Barrett et al., 2005:1). By studying the use of ISAs within a large post-Soviet audit firm, Mennicken (2006, 2008) shows that global standardization is not just a top-down process; it is equally driven by the day-to-day activities of local actors.

The developments described in this section have also led to internationalization of the big audit firms, which now have become global audit firms. Due to harmonization of company laws and accounting laws not only the audit firms, but also their clients have become internationalized.

3.4 Setting the stage – Recent changes in the audit profession

To set the stage for this study, I point out recent developments in the audit profession: What is happening on the current auditing scene? Issues related to these developments form the context of this study. I emphasize that the audit profession is in a stage of rapid change. In fact, the history of the audit profession reveals "accelerating change and incipient crisis in respect of identity, regulation and organisation of the profession" (Willmott, 1986:569). Hence, "to be in a stage of rapid change" is not new to the audit profession; however, I suggest that recent developments are a relevant part of the context for this study.

> In practice, audit firms are now complex and highly structured networks of rules, standard operating procedures and authority limits. They are highly mechanical information bureaucracies.
>
> (Hopwood, 1998:515)

> The last 20 years have seen rapid and significant changes in the auditing profession.
>
> (Knechel, 2007:384)

> With the sudden collapse of Enron, the auditing profession, indeed the entire corporate governance structure, became highly suspect in the blink of an eye.
>
> (Knechel, 2007:402)

Auditing is not a new phenomenon, but lately the profession appears to have been in a state of rapid change (e.g. Knechel, 2007; Öhman, 2007). According to Knechel (2007:383), "there is now little doubt that the past few years have been a watershed period for the auditing profession". It has also been claimed that there has been an increase in expectations from auditing and auditors (e.g. FAR, 2011) at the same time as the image of the "omniscient auditor" is described as not credible (Davidsson & Weglin, 2011).

The business reporting supply chain[16] includes the people and processes involved in the preparation, audit and use of business reports, and they are all important for the result: "[a]t the end of the day, the financial statements are only as strong as the weakest link in the chain of preparers, boards, auditors, etc." (Richard Deutsch, National Assurance Leader, PwC, in IFAC, 2011a:8). According to Charles Tilly, Chair, IFAC Business Reporting Project Group, audits are a key link in that chain (in IFAC, 2011a:5).

Auditing is clearly an important activity; this was made particularly clear by the consequences of the Enron scandal which culminated in 2001 (and rapidly followed by WorldCom and others in the United States and a little later by Ahold and Parmalat in Europe). Questions were raised about the integrity of the audit process; although stakeholders often did not (and still do not) really know what an auditor actually does, they had expectations of their services which were clearly not met (cf. Peecher et al., 2007). In many ways, the collapse of one of the (at that time) Big 5 audit firms, Arthur Andersen, in a blaze of scandal was an event that separated periods of time for the profession.

Revised laws, standards and norms have been recognized as way of dealing with failures and hence to be the solution to problems that arise (e.g. Chandler & Edwards, 1996; Power, 1999). The fact that auditors today work in a "post-Enron era" is proven when considering increased accounting and auditing rules and regulations[17] (such as the Sarbanes-Oxley Act in the United States and the "Statutory Audit Directive" in the EU), as well as increased pressures from clients, stakeholders,

[16] It has been suggested that "financial reporting" should be expanded to "business reporting" and hence, "financial reporting supply chain" changed to "business reporting supply chain" (IFAC, 2011a:9).

[17] In the following text, unless otherwise stated, "regulation" is used as an overarching concept that includes standards, guidelines, rules and legislation.

regulators and the public. The media are "centred on the need for auditors to become more active in detecting fraud, closing expectations gaps and preventing corporate collapses" (Robson et al., 2007:25). Humphrey et al. (2011:432) claim that due to, for example, official investigations and questions raised about their work, auditors in recent years "have been placed more firmly in the public spotlight".

Hence, there are economic, regulatory and political pressures for change (cf. Power, 2003:392). The audit profession is asked to do more and to take more responsibility and, at least when it comes to public companies, there is an increased need for expertise and knowledge among auditors. One interesting point is the paradoxical solution to the problems. While "the profession is roundly blamed for many of the failures in financial reporting", it is at the same time "enlisted as a major part of the solution to those same problems" (Knechel, 2007:402). The post-Enron regulatory response is an international one, focusing on international harmonization and on oversight (Humphrey et al., 2007). With an emphasis on transparency in the audit process and the auditability of audit quality, it seems that there are efforts towards making audit auditable (cf. Power, 1996; Humphrey et al., 2007). While there always might have been an implicit emphasis on audit quality, audit quality in today's auditing arena seems to be more to the forefront, explicitly demonstrated as a response to institutional and commercial pressures; it could possibly be seen as a process of impression management (Humphrey et al., 2007).

In the name of audit quality, important actors, such as the International Federation of Accountants (IFAC)[18] and the European Union, state that they aim at harmonization of auditing standards and audit practice. One important step towards such harmonization is the development and implementation of International Standards on Auditing (ISA). To enhance the quality of accounting information, harmonization is also a focus in the accounting field, where the use of International Financial Reporting Standards (IFRS) has been and still is one of the major steps. Both the use of ISA and IFRS influence the work of auditors. One issue that has attracted attention and raised questions is the use of professional judgment (that traditionally has been a core issue for the audit profession) and whether the space for it has been or will be reduced. It has been suggested, nonetheless, that the use of professional judgment will

[18] IFAC is the global organization for the accountancy profession with about 164 members from 124 countries, representing in total about 2.5 million accountants employed in public practice, industry and commerce, government, and academe. For an elaborated discussion on IFAC and its role as an important international standard setter in auditing, see Loft (2006).

not come to an end as a result of international harmonization efforts, but that it has and will continue to change in character (Marton, 2011).

Among the most recent events on the auditing scene are the EC Green Paper "Audit Policy: Lessons from the Crisis" (October 2010). The interest and importance of that proposal is evident from the large number of comments (688) that were submitted within the official period for submission (eight weeks) and the debate that followed in 2011 (e.g. EC, 2011; Humphrey et al., 2011). On 30 November 2011, the EC decided upon an "audit package", a proposed law including an amendment to the Statutory Audit Directive and a regulation regarding audits of public interest entities. The subsequent decision-making process is expected to last for three to five years.

The reasons for reassessing auditing policies were, among other things, to clarify the role of the auditor, to strengthen auditor independence, to improve the oversight and assess the structure of the audit market in Europe. All these issues are considered to be important contributions for enhanced financial stability. Among the more "controversial" parts of the proposal is the suggested mandatory firm rotation and prohibition of non-audit services (NAS). These parts are strongly questioned by the profession, with IFAC leading the challenge (e.g. European Commission, 2010; IFAC, 2010, 2011b).

The so-called controversial suggestions are related issues regarding independence. It has been claimed that the nature of professionalism (e.g. Hanlon, 1996, 1998) and the environment for professional services is changing. To claim that there has been a commercialization of the profession does not seem controversial (cf. Dezalay, 1995; Forsberg & Westerdahl, 2007). Audit firms are referred to as "professional services firms" both by themselves and by others (e.g. Jeppesen, 1998; Anderson-Gough et al., 2000), and the settings where auditing takes place are influenced by both professionalism and commercialism (e.g. Bailey, 1995; Gendron, 2002; Barrett et al., 2005; Broberg et al., in press) to a greater extent than before. Audit firms now undertake both professional and commercial activities. It has been claimed that, for reasons of competitive advantage, an increased market orientation must be considered and a focus on the relationship with the client is important (cf. Reid, 2008; Hodges & Young, 2009). Such features have effects on the organization and on the people within the organization. Anderson-Gough et al. (2000), for example, studied how socialization within audit firms is taking place "in the name of the client" and, hence, how it influences the construction of professional identity.

According to Mautz and Sharaf (1961), a profession has to continuously modify its relationship with clients. Using a marketing perspective, Kotler and Connor Jr. (1977) conclude that, for example, changing expectations of the client and increased competition must be handled to be able to adapt in a more market-oriented environment; they emphasize the problem of attitudinal barriers – commercial disrespect and the association of marketing with selling. Operating in a market-oriented environment, professional services firms must also realize the importance of marketing (O'Donohoe, Diamantopoulos & Petersen, 1991; Kotler & Connor, Jr., 1977; Barr & McNeilly, 2003). This has, however, been an issue as "selling" has not been considered to be a part of a profession (Reid, 2008). Thus, there have been and still are tensions between "the professional" and "the commercial" (e.g. Kirkham, 1992; Radcliffe et al., 1994; Gendron, 2002; Barrett et al., 2005; Forsberg & Westerdahl, 2007).

In this respect, one important change in the field of auditing is the audit exemption and abolition of the statutory audit for many companies. Through the EU Fourth Company Law Directive (78/660/EEC), member states are allowed to grant exemption from the statutory audit for small companies. The consequence is that nowadays only the biggest companies within the EU are required to have audits. This is a major change for the audit profession with its history of monopoly and support from the state (e.g. Littleton, 1933; Willmott, 1986; Lee, 1995). Hence, the conditions for auditing and auditors are changing; according to Heischmidt, Elfrink and Mays (2002), such changes in the business environment are reshaping auditor practice (see also e.g. Humphrey et al., 2007). Auditors must now meet demands of voluntary audits (cf. Collis, 2010) and must "sell in" and supply other assurance services and related services. Within the audit profession, marketing and advertising have traditionally been seen as unethical (Heischmidt et al., 2002; Clow et al., 2009). It could therefore be assumed that the developments in the business environment entail major challenges for the auditor. It has been suggested that auditors now must engage in marketing activities (Hodges & Young, 2009) and use pure business skills (Jönsson, 2005) to keep clients and to gain new clients. A recent study of Swedish auditors has shown that the attitude towards marketing-related activities among auditors is quite positive; they engage in such activities, view them as important and seem to be able to balance the responsibilities inherent in the audit profession with the "imposed" marketing activities (Broberg et al., in press).

3.5 The audit profession in Sweden

The Big 4 audit firms are global, national and local. This thesis focuses on Big 4 firms in Sweden, so it is important to consider the Swedish setting. In this section, I discuss the audit profession in Sweden and, in doing so, address present circumstances and current issues as well as aspects related to auditing as a profession.

3.5.1 The Swedish setting – corporate governance and auditing arrangements

According to Thomsen (2008:225), the Scandinavian countries (Denmark, Norway and Sweden) are internationally oriented. They are also small and homogenous and therefore, in comparison with larger countries, informal social networks are easily formed, while reputation and culture ("informal governance mechanisms") are more effective. With regard to ratings such as the World Bank Index and the Anti-director index, Scandinavian countries often receive top marks on variables measuring enforcement (e.g. efficiency of judicial system and accounting standards), credit-worthiness, and society and government qualities.

In Sweden, there is a clear division of roles and responsibilities among shareholders (owner level), the board of directors (steering and monitoring level) and the managing director (executive level) (FAR, 2010b). The Swedish model for corporate governance is characterized by a separation of board and management functions, mandatory employee representation on the board and a significant degree of family ownership and large business groups (e.g. the business spheres of Handelsbanken and Wallenberg that control about half of the market). Even though foreign and institutional ownership has increased, these business groups have largely kept their dominance of the stock market. In Sweden, banks have traditionally been seen as playing a larger role than in many other countries, and banks have historically been powerful (the two large business spheres have a bank at the centre). But change has now come about, with Sweden being considered more market-based than, for example, Denmark and Norway. Sweden is often described as one of the less litigious countries; also as having higher investor protection than other civil law countries, but lower than common law countries such as the United States and the United Kingdom (cf. Thomsen, 2008).

Incentives and CEO pay in Sweden have increased (but are still considered low in comparison with, for instance, the UK), though Sweden has higher pay levels than

Denmark and Norway and uses more variable compensation. In evaluating the Scandinavian model, Thomsen (2008:230) concludes that it is characterized by "weak managers who are pressured by strong owners, independent boards, and strong labour unions" and therefore classic agency problems. Type I, owner-manager problems due to managers ("agents") not always acting in the interest of shareholders ("principals") are less serious in Sweden than, for example, in the UK. However, this might indicate "lethargy" and hence, absence of dynamism (and the gains of a dynamic capital market) (cf. Thomsen, 2008).

Auditors and non-executive board members in Sweden are nominated by a nominations committee that represents the (major) shareholders. Prior to each annual general meeting, a proposal to appoint auditors and non-executive board members is prepared by the nominations committee (cf. FAR, 2010b; see also Thomsen, 2008).

Statutory audit in Sweden includes management audit (*förvaltningsrevision*).[19] The legislated management audit also exists in Finland, but the Swedish model for management audits has no counterpart in other countries (cf. Carrington, 2010b). It is a special arrangement that means that auditors must also audit the management activities undertaken by the board and the CEO ("their administration") and includes a statement from the auditor on whether they should be granted discharge of liability. Due to the developments on the international auditing scene the future of such management audits in Sweden has been questioned (cf. Justitiedepartementet 2007, 2009; Hult & Svernlöv, 2011). One reason for this is not only harmonization within the EU, but also that there is no international auditing standard on how to carry out management audits (cf. Justitiedepartementet 2007; Hult & Svernlöv, 2011).

In Sweden, the state is relatively strong; for example, auditors must check their client's taxes, and they have crime-controlling responsibilities as they are obliged to report suspicions of economic crime to the authorities (so-called *anmälningsplikt*)[20] (cf. Larsson, 2005). The Swedish audit profession has traditionally been in a strong position (Jönsson, 1988). However, its preferred self-regulation (Edenhammar and Hägg, 1997) has been questioned following recent developments on the auditing scene (i.e. the foremost accounting scandals) (cf. Öhman et al., 2006).

[19] The Companies Act (Aktiebolagslag, 2005:551), 9:3§, see also, for example, Öhman & Wallerstedt (2012)

[20] The Companies Act (Aktiebolagslag, 2005:551), 9:42-44§§

Three "levels" of auditors in Sweden are permitted to perform statutory audits: authorized public accountants (*auktoriserade revisorer*), examined approved public accountants (*godkända revisorer med revisorsexamen*) and approved public accountants (*godkända revisorer*). Together with other highly qualified professionals (e.g. tax consultants and advisers) in the accountancy sector, these auditors are organized by FAR.[21] FAR has about 6 500 members and is a member of IFAC (FAR, 2012). The difference between authorized and approved accountants is that those who are authorized, as well as those who are approved public accountants who have passed an examination of professional competence, are qualified to perform audits of all Swedish firms that require statutory audit. Those who are approved but with no certificate are empowered to perform statutory audits in firms that are not listed and who do not meet more than one of the following three criteria: average of more than three employees, a balance sheet total exceeding SEK 1.5 million, and annual net sales exceeding SEK 3 million.

The audit profession in Sweden has preferred self-regulation over a system of mandatory regulation (cf. Edenhammar & Hägg, 1997). *Revisorsnämnden* (the Supervisory Board of Public Accountants) is the governmental authority, under the Ministry of Justice, that supervises auditors and audit firms. Revisorsnämnden has two overall responsibilities: to provide for the need of qualified auditors and to exercise oversight over these auditors (Revisorsnämnden, 2007). Hence, it is Revisorsnämnden that investigates and decides on disciplinary measures against auditors and audit firms. They also arrange examinations, issue approval or authorization of auditors and registered audit firms and ensure appropriate development of professional ethics and auditing standards. At the level of international cooperation, Revisorsnämnden is represented in the European Group of Auditors' Oversight Bodies (EGAOB), which works as an advisory body for the EC, and in the International Forum of Independent Audit Regulators (IFIAR), which promotes cooperation among oversight bodies globally and makes possible the exchange of information and experiences (Revisorsnämnden, 2012).

[21] The organization's original name of FAR was changed to FAR SRS in 2006 when it merged with the Swedish organization of auditors (*Svenska Revisorssamfundet*, SRS), another professional accountancy organization in Sweden. Hence, there is now just one professional accountancy organization in Sweden. In 2010, its name was changed to Far, and in 2011 to FAR.

3.5.2 Current issues on the Swedish auditing scene

The well-known Kreuger crash in Sweden in 1932 provoked a severe critique of the audit profession and subsequent important changes in the profession (cf. Wallerstedt, 2001, 2009; Öhman & Wallerstedt, 2012). In spite of that, or possibly because of it, Oskar Sillén in 1949 wrote that Swedish authorized accountants could look back at the (until then) existing development with joy and pride and that their reputation was in a state of steady growth since they had on the whole answered to the high requirements for technical skills, trustworthiness, objectivity and integrity. Sillén also emphasized that this entailed responsibility, and that the demands in the future should therefore be raised. He predicted a steady growth of confidence from the business world and the general public.

Much water has flowed under the bridge since then.[22] The statutory audit for all limited companies in Sweden (that had been in place since 1895) was removed in 2010.[23] Developments on the Swedish auditing scene (the abolition of the statutory audit for all companies) has raised concerns about auditors' and audit firms' marketing and salesmanship to survive and to succeed. The consequence is that currently only about 18 per cent of companies in Sweden are required to have audits – about 75 per cent of newly-started businesses have chosen not to be audited, while in total 85 per cent of Swedish companies have still chosen to be audited (cf. Danielsson, 2011, 2012). Among the latest developments on the Swedish auditing scene is the "HQ-scandal"[24] which has been the centre of attention and has intensified Swedish debate on the role of auditors.

Voices from outside the audit profession claim that auditors and audit firms must improve skills, develop their range of products, and make them more explicit (e.g. Tönnervik et al., 2010; Danielsson, 2011; Grahn, 2011). In line with claims that professional services firms must realize the importance of marketing (cf. O'Donohoe,

[22] For a detailed discussion on the development of the auditing profession in Sweden, see, for example, Öhman & Wallerstedt (2012).

[23] From November 1, 2010, only companies exceeding two of the following three requirements must still be audited: total assets 1.5 MSEK, net sales 3 MSEK, and 3 employees (on average).

[24] HQ Bank had its banking license revoked by the Financial Supervisory Authority in 2010 due to major deficiencies in trading operations. The bank was then forced into liquidation and bought by Carnegie Investment Bank. The auditor was criticized and received a disciplinary reminder from the Supervisory Board of Public Accountants because of deficient documentation.

Diamantopoulos & Petersen, 1991; Kotler & Connor, Jr., 1977; Barr & McNeilly, 2003), a recent study by Broberg et al. (in press) indicates that Swedish auditors are making "marketing efforts" and carry out marketing activities. Marketing, however, has traditionally been seen as incompatible with the audit profession (cf. Reid, 2008, claiming that professional services firms associate marketing with "selling" activity that has not been considered to be a part of a profession) and even unethical (Heischmidt et al., 2002; Clow et al., 2009). The study of Swedish auditors by Broberg et al. (in press), however, suggests that this "attitude" is changing (which, according to Clow et al. 2009, is in line with indications that auditors' negative views on marketing are changing towards more positive views).[25] As customer acquisition and retention has become more important, the marketing function is becoming active instead of passive (cf. Hodges and Young, 2009). How this change has influenced and is influencing the degree of professionalism is a matter of opinion and perception and cannot be measured here. The change, nonetheless, must be seen as an important factor on the current auditing scene, not least in Sweden.

In summing up, it could be claimed that auditors are doing "societal business" as well as "business performed in society". According to Öhman (2007), who carried out an extensive interview study among Swedish auditors, this is a dilemma for the audit profession:

> The auditing profession's demands for self-regulation makes it crucial for auditors to balance different interests, instead of focusing more on their own interests. This implies that auditors should consider their task as "societal business" rather than "business performed in society".
>
> (Öhman, 2007:vi)

When it comes to the EC Green Paper on Audit Policy: "Lessons from the Crisis", FAR agrees on the effectiveness and appropriateness of using ISAs, but emphasizes that auditors must obtain a solid understanding of ISA. This understanding is considered important in order to be able to concentrate on the substantial issues in the audit (cf. FAR, 2010a). Due to the high share of small and medium-sized

[25] For more elaborated discussions about auditors' attitudes towards marketing, see Ellingson et al. 2002, Tang et al., 2002, Clow et al., 2009, and Gerlogstig et al. 2011. For more elaborated discussions on auditors' marketing practice see Ellington et al., 2002, Heischmidt et al., 2002, and Broberg et al., in press.

enterprises in Sweden, there is a large share of SME audits. FAR considers it important for auditors to be able to use ISAs in an appropriate manner, based on an understanding of ISA. With an effort towards such understanding, FAR does not see a need to distinguish between the auditing of small and auditing of large clients (cf. FAR, 2010a).

3.6 Professionalism includes both content and control

To be regarded as a profession, a "pure profession", entails two categories of attributes. The first category – "content" – includes knowledge, skills, experience, ethics and appearance and is about applying "abstract, general or esoteric knowledge to specific, individual cases and problems" (Noordegraaf, 2007:766). Through knowledge, expertise and technical bases, professionals know how to "treat cases" (Noordegraaf, 2007:766; cf. also Wilensky, 1964) as they have acquired standard skills that enable them to do so (Noordegraaf, 2007:766; cf. also Mintzberg, 1983). These skills are often to some extent codified, but professionals know how to use them and are skilled in doing so (Noordegraaf, 2007:766). Professionals learn and over time know how to behave and "appear" (how to act, speak and dress) properly in situations they are facing and react to signals they are receiving, and they do so according to a shared ethic (Noordegraaf, 2007:766; cf. also Wilensky, 1964).

The second category is about "control" and includes association, jurisdiction, knowledge transfer, codes and supervision attributes. Professional work is constituted, defined and controlled by the profession, and to be a professional you must be a part of the profession. "Professionals control professionals" as professional practices are controlled and regulated by professional associations and they have acquired jurisdictional autonomy to do so (Noordegraaf, 2007:767; see also e.g. Abbott, 1988; Freidson, 2001). Through training and supervision, professionals learn the rules of the game and appropriate behaviour (e.g. codes of conduct and codes of ethics), become members of professional communities and are punished by them when not adhering to those rules. The power and monopoly that accompanies these features are fairly often criticized due to notions of professionals as self-serving and greedy. At the same time, the power can be important in shielding off the profession to develop and transfer theory-driven and experiential knowledge and skills (e.g. Noordegraaf, 2007).

Hence, Noordegraaf (2007:768) suggests that professionals have rational, ethical, political and social drivers, and that these drivers "balance each other". I suggest that these drivers (whatever label they receive) are important aspects of the auditing field.

3.7 Summing up and issues raised

As mentioned at the beginning of this chapter, I do not plan to discuss whether auditing is a profession or not. My aim is rather to provide a background and a starting point for the main study. That auditing traditionally has been perceived as a profession is a notion that matters. It is part of the history of the profession, and as such it affects developments and expectations, both from within and outside the profession, so it must be taken into consideration if we are to understand present-day audit work.

The common apprehension (it does not seem controversial) is that auditors are to quality assure (certain) information on behalf of the accountees (stakeholders) and thereby enhance the confidence of financial statements (through an opinion). Both the agent and the principal have an interest in the audit (e.g. ICAEW, 2005; Deegan & Unerman, 2006). However, the audit profession is confronted with changes and challenges. "Public interest" aspects are contrasted with "doing business" aspects. There are expectations gaps, independence issues and a dualistic interpretation of who the "clients" are. Hence, there seem to be different layers and levels, but the lines between them are "fuzzy", and there are different interpretations both of where they are drawn and where they should be drawn.

The discussion on professionalism in terms of content and control features serves as a background of what follows. I claim that being considered as a profession, both from within and outside the profession, matters. Whether auditing *is* a profession or not, is not as relevant as whether auditors are expected and/or *perceived* to be professionals.

In order to gain a greater understanding of the issues discussed in this chapter about the audit profession, this study will explore what "being a professional" in the field of auditing is about. I emphasize the need to focus on individual auditors and their day-to-day work in the current "auditing scene", and I will especially focus on how individual auditors describe and characterize the concept of "professionalism" and also what "being a professional" means for them.

This chapter has also raised issues about how standards are used by auditors, how standards influence the work of auditors in general and how standards influence the audit firms' systems in particular. It is my hope that the observational research in this study will yield better insight into these issues.

Chapter 4

Structure versus Judgment

> The structure–judgment problem was, and remains, the academic articulation of an issue which goes to the very heart of professional practice and identity.
>
> (Power, 2003:382; see also Carpenter et al., 1994)

I suggest that the so-called structure–judgment perspective is an interesting and relevant aspect to apply in this study. The long-lived debate on structure versus judgment cannot be overlooked, especially since the debate now seems more current than ever. There has been a trend towards increased regulation, principles and rules and a related demand for guidelines (e.g. FRC, 2006; ICAEW, 2006b; Van der Veer, 2006). Also, the use of technology, which is often mentioned as one part of structure, has increased and, as with technological developments in general, is unlikely to decrease. At the same time, in the context of the new audit regime, there are expectations of auditors performing more qualitative assessment (Kosmala MacLullich, 2003:792). These developments have led to concerns regarding the effects on the audit process, especially the use of judgment and an emphasis on the production of legitimacy – which, as Power (2003) points out, is both exported from and imported to the audit profession.

4.1 The structure–judgment debate and the production of legitimacy

> Taken to the extreme, the loss of judgement and flexibility threatened to reach a level of disfunctionality… the more mechanization and the less judgement, the more rapid is the potential commoditization of the audit.
>
> (Knechel, 2007:387)

Rules could open the door for people to observe the letter of the law rather than the spirit. In auditing, this could imply that auditors might "hide behind auditing standards and leave their judgement at home" (ICAEW, 2006b:14). The trend towards more structure in auditing is about legitimacy and control which, according to Power, "… is not necessarily consistent with better or more efficient auditing" (2003:381). Instead, greater structure might reflect the development of auditing into "business"; according to Anderson-Gough et al. (2000:1169), auditing has always been about "serving the paying client" and, thus, the business aspect as such is not just a "contemporary phenomenon". Greater competition entails a need to manage audit more as a business activity (cf. Power, 2003:382).

Auditing standards are about behaviour, which might not always be best managed by the use of rules (ICAEW, 2006b). The importance of recognising professional judgement "in the way in which standards and rules are applied and enforced" has been pointed out, for example, by the FRC (2007:5) and by the ICAEW (2006b:19), which states that "[a]uditing standards are no substitute for the exercise of audit judgement".

Concerns have been raised about increased structure, as in increased regulation. According to the FRC (2006:14), "the increasingly prescriptive approach taken in both accounting and auditing standards" is causing worries. Van der Veer (2006:3) expresses them as: "[t]he auditing profession is heavily regulated" and "[o]ne should reflect on the necessity for further regulation". There have also been warnings that auditing today is about form-filling and that auditors increasingly spend their audit work ticking boxes on various lists because of the regulations which they must follow and because of the threat of litigation (cf. IFAC, 2008). Van der Veer (2006) brings

up the "ticking the box" issue, claiming that the profession must be cautious that "the function of the auditor does not become that of merely a compliance officer, checking the box"; the ICAEW (2002) stresses that a successful audit is not as simple as ticking boxes; and IFAC (2008) points out concerns due to more "formal audits". The same arguments that are used to justify professional autonomy could be used to claim that neither the work carried out by professionals nor professional products can be standardized – there is a need "to exercise discretion and judgment from case to case" (Freidson, 1994:164).

On the current auditing scene, trust and the production of legitimacy are crucial issues for the audit profession (e.g. Power, 2003). Therefore the perception of auditing as "box-ticking", as today's auditors are sometimes accused (e.g. Van der Veer, 2006; FAR, 2011) is a burden on the audit profession. As the ICAEW (2002:4) points out, "[p]erception matters" – "the nature of auditing means that a loss of confidence and reputation or a reduction in trust, for whatever reason, undermines its effectiveness". Pressures for rationalization, formalization and transparency of the audit process are trends caused by threats of misaligned expectations (also from within the system). They are made visible as "the writing of audit, in the form of standards and technical guidance, has intensified" (Power, 2003:392). Even though it is argued that official guidance "plays little role in everyday audit work" it could legitimize audit work in, for example, disputes with clients (Power, 2003:383). It is also argued that formal structures of audit processes are used only to legitimate the auditor's authority (cf. Humphrey and Moizer, 1990; Bowrin, 1998) and that "[i]n-house audit manuals present a loose framework for the exercise of judgement" (Power, 2003:383).

4.2 The structure–judgment dilemma

There lies a difficult task in balancing "formal, defendable, economic and manageable structure" with "the autonomy of auditor judgment" (Power, 2003:382). This dilemma, often referred to as "the structure–judgment debate" is not a new phenomenon (early research on this topic was carried out by Dirsmith & McAllister, 1982a, 1982b; Cushing & Loebbecke, 1986; Kinney, 1986; Elliott & Jacobson, 1987; and Morris & Nichols, 1988). However, today when "…the legitimacy of auditing is under fire as perhaps never before…" (Power, 2003:379), the debate has attracted further attention.

The structure–judgment debate refers to different views on to what extent the audit process should be structured and to what extent there should be room for individual judgment (cf. Smith et al., 2001; Power, 2003). A formal approach is described as including guidelines, instructions and computer support, while an "individual judgment" approach is concerned about allowing auditors to consider different aspects and to base their assessment on a variety of aspects (Öhman et al., 2006). According to Power (2003:381), the debate "reflected, and still reflects, practitioner concerns with the optimal design of technical procedures".

Cushing and Loebbecke (1986:32) define structure as:

> … a systematic approach to auditing characterized by a prescribed, logical sequence of procedures, decisions, and documentation steps, and by a comprehensive and integrated set of audit policies and tools to assist the auditor in conducting the audit.

This description of structure still, more than 25 years later, seems to be valid. A high degree of formalization and an orientation towards rules are characteristics of a structured audit approach. New audit technologies, defined as the auditor's "tool kit" [26], have also been seen as "increasing the degree of 'structure' in the audit process" (Fischer, 1996:239).

Kosmala MacLullich (2001:6) claims that:

> [t]he audit methodologies structure the audit process into a series of steps and components, including planning, decisions and objectives, predetermine the procedures to be carried out in order to fulfil these steps and components. That is, the auditor complies with the fore-structure of established standards and checklists what may prejudice and bias understanding.

Hence, it could be argued that structure engenders auditor judgment; by doing so, it limits the scope of auditor judgment as it guides the auditor in what judgments to make and when to make them (cf. Turley and Cooper, 1991; Kosmala MacLullich, 2001) – "[i]n other words, in such a context judgement appears to end where structure ends." (Kosmala MacLullich, 2001:6) However, from a different angle it

[26] Defined as everything that is "designed to enhance the auditor's capacity to perform an audit task" (Elliott & Jacobson, 1987:198). The same definition is adopted in Fischer (1996).

could be argued that as the decision to follow such guidelines (on what judgments to make and when to them) and how to follow them lies with the individual auditor in individual situations and therefore structure serving as a guide for judgments does not "end judgment" (cf. Kosmala MacLullich, 2001).

When it comes to "choosing sides" in the structure–judgment debate, some studies argue for an approach with less structure and more room for individual judgment (e.g. Dirsmith & Haskins, 1991; Francis, 1994; Kosmala MacLullich, 2003). Arguments here are related to the benefit of flexibility that comes with more judgment and less structure. Francis (1994) emphasizes that the audit process is not a logical series of steps that could be built into and "delegated" to decision aids (see also Power, 2003).

There are also experimental studies on this topic. For example, Myers et al. (1997) point out the benefits of an unstructured approach, arguing that auditors in firms using an unstructured approach probably will develop deeper thought processes. While auditors in firms with a structured audit approach use, for example, predetermined audit programs, checklists, analytical models and decision aids to a larger extent (and thereby exclude judgment to a larger extent), auditors within "unstructured" firms use judgment to make changes within the audit programmes by, for example, adding or removing steps. By doing so, they develop a better understanding of how the different steps are related. As these auditors "make their own structure", they might not be exposed to the risk of ignoring relevant information to the same extent as auditors using more structured approaches (cf. Myers, 1997: Kosmala MacLullich, 2001). Also, it has been suggested that more structured approaches might entail non-reflective learning (cf. Schön, 1983, 1996, claiming that "reflection" stands in contrast to "routinization" resulting from experience), that the audit process will be accepted as norms, and that the decision making actually lies with those who create the structure. The risk is then that there will be no such thing as individual auditor judgment, as such judgment might never be developed or might be lost during the first years at the audit firm as auditors learn to use judgment in a structured way (Kosmala MacLullich, 2001). Reflection is important and necessary to gain insights on and develop individual knowledge and skills and to develop the audit profession's overall knowledge and practice. Reflection can then serve as an opportunity for professionals to steer away from the routinization that may result from experience (cf. Schön, 1983, 1996).

This is in line with arguments by Cushing and Loebbecke (1986) that auditors using a structured audit process might develop a "mechanistic" thinking. It is claimed that

"mechanistic" thinking may cause auditors to focus on less important things and miss important facts, aspects and circumstances. If a structured audit approach only takes into account features and circumstances from a "typical audit", there is a concern for what happens when facing an "atypical audit" (involving, say, fraud or bankruptcy). By sending a questionnaire to audit seniors, both in firms classified as structured and in firms classified as unstructured, Bamber et al. (1989) studied audit seniors' perceptions of organizational practices, task-technology, role conflict and role ambiguity. They found no evidence of auditors from structured firms being less flexible in atypical audit environments. However, structure with its system of rules might be described as representing a "universal audit" (cf. Francis, 1994; Power, 2003). Considering claims made about the importance of observing and adhering to the uniqueness and special circumstances of every audit engagement (cf. ISA 200; IAASB, 2010), one could claim that there is no such thing as a "universal audit", and the value of this particular audit approach might be questionable.

Smith et al. (2001) claim that auditors using more structured approaches tend to focus on what is familiar, concrete and relatively structured (often the so-called quantitative parts), while those using more unstructured approaches tend to have more of a balance between quantitative and qualitative parts. In line with this, Sullivan (1984:66) argues that an auditor using a structured approach is likely to focus on the "confirmation process", while an auditor using an unstructured approach "may derive less comfort from the confirmation process" and focus more on the circumstances that are relevant for the particular client and its stakeholders. As a counter-argument, Mullarkey (1984) argues that 80–90 per cent of audits are very similar, and that what he calls "predesigned approach" (i.e. structured approach) is therefore often the most effective. This claim was strongly questioned by Holstrum (1984) and as Mullarkey's argument was made almost 30 years ago, its validity today is questionable, especially since the profession attaches great importance to the use of professional scepticism and to search for and pay great attention to unusual circumstances (e.g. ISA 200; IAASB, 2010).

A slightly different approach was used by Prawitt (1995) as he studied, through an experiment, how human resource assignments were affected by a structured audit approach. His results indicated that in structured firms, managers tended to assign less experienced auditors to supervise and review judgment-oriented tasks than managers from unstructured firms did. He also found that when the environmental complexity increased, auditors from unstructured firms tended to assign more experienced auditors for these tasks, and that structured firms tended to rely more on specialists.

Schroeder et al. (1996) discuss how the different approaches could affect the result of the audit. They claim that, as auditors within "structured audit firms" look for information that fits with their decision tools instead of using judgment in deciding what evidence is needed, it might be that those auditors make mistakes more often than auditors from less structured firms.

This prospect forms a sharp contrast to the "reality", where more structured approaches seem to predominate (cf. Dirsmith & McAllister, 1982b; Smith et al., 2001; Power, 2003). According to Power, this "reflects the increasing demand for legitimate and transparent forms of standardized practice for management control purposes" (2003:381). Thus, if structure is about legitimacy and control, more structure might result in neither better nor more efficient audits. It could be that enhanced structure, with formal approaches and routines, are primarily used to protect auditors and the audit profession (cf. Öhman et al., 2006).

The trend towards more structured audit processes could reflect the development of the business side of auditing, which makes it necessary for audit firms to exert quality control. Greater structure makes the audit process manageable and could facilitate audit risk control, cost control and communication within audit firms (cf. Cushing & Loebbecke, 1986; Bamber et al., 1989; Manson et al., 2001; Power, 2003). Another explanation is that the fear of being second-guessed raises the demand for guidance on how principles and rules are to be applied, which in turn is one reason for proliferation of principles and rules (ICAEW, 2006b). More structure could be seen as a defence against threats of lawsuits (Dirsmith and McAllister, 1982).

Hopwood (1998:515) emphasizes the influence of the provision of consultancy services on the environment at audit firms in general and on professional judgment in particular. He claims:

> Rules, procedures, standardised processes and manuals are now more characteristic of the activities of audit firms rather than the widespread diffusion of discretion and judgment.

Increased competition in the market for audit services has also been suggested as a reason for more structured audit processes (Dirsmith and McAllister, 1982; Manson et al., 2001; Westerdahl, 2005) as it entails a desire to attain a distinguished image (Cushing and Loebbecke, 1986). Mullarkey (1984) and Fischer (1996) point out the importance of cost efficiency in this competitive environment. Also, Myers (1997) suggests that using a more structured approach increases effectiveness (at least for

"typical" audit situations) and claims that audit pricing (on average) is lower for those firms. Fischer (1996) also points in this direction as he suggests that audit quality may not be impaired because of (new) audit technologies. He emphasizes that whether or not audit technologies are producing audit efficiencies or not depends on the individual practicing auditors, i.e. the ones that are realizing them.

In this connection, more than just consistency *within* audit firms has been mentioned. Globalization and the quest for harmonization suggest a need for consistence *across* audit firms. The structure of the audit market, with its "Big 4 dominance", indicates the enormous size of those firms and implies a need for a consistent audit approach within such large firms (cf. Sullivan, 1984).

4.3 The use of IT

Using computers in the audit process has been a matter that has given rise to concerns (e.g. Dillard & Bricker, 1992) – especially with regard to so-called knowledge-based systems designed to perform as human experts with reasoning capabilities, and in which judgments are made by the system (the auditor then deciding whether or not to accept them). These systems must not be confused with traditional computer-based systems, providing "analog technical calculations" that serve as input to the judgment process and, hence, could be described as "decision support systems" (Dillard & Bricker, 1992:207). Dillard and Bricker conclude that knowledge-based systems hold the potential to enhance audit efficiency and audit quality but also include the risk of negatively affecting the development of auditor expertise and judgment.

With the shift towards risk-based auditing instead of systems and transactions audits, there has been an increased use of IT, especially for routine procedures (cf. Manson et al., 2001).

According to Bierstaker et al. (2001), the use of online audit systems, where audit evidence is gathered electronically instead of on paper will reduce the amount of menial tasks and, hence, give the auditors more time to focus on tasks of a higher level, such as understanding the client's business. Manson et al. (2001) argue that IT, due to its reliability and accuracy offers opportunities to increase quality and productivity.

Doost (1999) recognizes that IT systems entail some advantages but also risks. One such risk is that auditors do not understand how either the hardware or the software created by IT programmers works (for example, how different parts of the software are related) – hence the risk of auditors not really understanding how their audit software works yet relying on the correctness of its outputs. Humphrey and Moizer (1990), Fischer (1996) and Power (2003) all point out that auditors not only might not understand the new technologies but, perhaps more importantly, might not be aware of the technical concepts and assumptions embedded in new procedures. Accordingly, Fischer (1996) indicates that auditors tend to refer to the firm's approach instead of referring to principles in the auditing standards.

There are concerns about the impact of computer assistance in auditing. One such concern is that it will lead to "over-documentation" due to a "checklist approach" where the replenishment of the database, ticking boxes and signatures are the main focus and where principles will be "musts" because they become incorporated in databases and checklists. There are fears that such an approach will reduce the use and opportunity for professional judgment and steer the focus away from what is really important and substantial – such as the client's business, strategies, profitability and liquidity, as well as the client's organization, culture and personnel. To really understand these matters and to understand what issues are relevant for the individual engagement, it is necessary to communicate with representatives of the client, talk to people, ask questions and listen to what they say (e.g. Brännström & Forsberg, 2009).

4.4 Structure and judgment

The categorization used by Kinney (1986) indicated that Deloitte & Touche and KPMG were structured, Price Waterhouse, and Coopers & Lybrand were unstructured, and that Arthur Andersen and Ernst & Young were semi-structured.[27]

[27] Kinney et al. (1986:74) defined structured firms as tending to "(1) require use of statistical sampling, (2) use structured internal control evaluations, and (3) use formal scoring sheets or rules for integrating audit test results"; they defined unstructured firms as tending to "use less structured guidance and leave more considerations to the judgment of the field auditor" and added that statistical sampling might be used in some situations in unstructured firms but that it was not required.

However, it was later claimed that the big audit firms all followed a similar semi-structured audit approach (partly due to mergers between the original firms (cf. Bowrin, 1998). Smith et al. (2001) found that during the 1980s and 1990s audit firms became less diversified and that much of the diversity disappeared.

Much research on structure vs. judgment in auditing concludes that both approaches are problematic (cf. Rose & Miller, 1992) and that structure *and* judgment are both necessary (cf. Tschudi, 2005; Öhman et al., 2006). The important issue is then to be able to balance them and to able to do so due to obtained understanding of the approaches and their applicability (cf. Tschudi, 2005). In line with this, Schroeder et al. (1996) claim that even though there are great differences between the approaches, the categories "professional firm" ("organic", using less structure) and "mechanical firm" ("mechanistic", using more structure) should not be seen as opposites.

Researchers in this field, however, tend to prefer a less structured approach (cf. Dirsmith & McAllister, 1982b), being inclined to consider the disadvantages of a structured approach to outweigh its advantages (cf. Schroeder et al., 1996). Even critics of a structured approach admit to its benefits – for example, Sullivan (1984) suggests that, with great care and much training, decision aids can enhance audit judgment, although he emphasizes that aids can never replace it). His discussant, Warren (1984:71), points out that firms develop their (structured) approaches to enhance the judgment process – "not to reduce or eliminate the role of judgment".

A central part of the debate seems to be how the exercise of judgment is affected by a more structured audit process. Cushing and Loebbecke (1986) argue that with more structure comes less room for applying judgment (which they prefer). This is also brought up by Francis (1994) and Öhman (2007), but here more as a "warning" than a preference. What are the consequences of codifying "human vitality" into formal systems (cf. Fogarty, 1996:263)?

Building on the work by Cushing and Loebbecke (1986) and Kinney (1986), Morris and Nichols (1988) provide some evidence indicating that there was more consensus regarding materiality decisions as well as fewer Type I and II errors[28] and lower costs because of judgment error in structured firms. Bamber and Snowball (1988) do not

[28] Type I error occurs when an auditor makes a mistake (e.g. incorrectly issues a qualified opinion) when there is no misstatement in the financial reports. Type II error occurs when an auditor fails to detect and report misstatements (e.g. incorrectly issues an unqualified opinion).

find support for such consensus among auditors at structured firms; however, they conclude that auditors from structured firms tend to use coordination and control mechanisms (such as consultations with peers) more than auditors from unstructured firms when uncertainty increases.

Most descriptions and explanations on the structure–judgment debate presented in this chapter could be seen as polar positions (cf. Sullivan, 1984) or extreme cases. Much literature seems to focus on how an increase of one (e.g. structure) means a decrease of another (e.g. judgment) and on benefits of one compared to another. A closer look, however, reveals categories such as "highly structured", "semi-structured", "partially structured" and "unstructured" (cf. Cushing & Loebbecke, 1986) as well as the use of qualifiers like "is more/less…", "tends to use…" and "is mainly…" and so on. Also, the components used to categorize the different approaches are quite vague and not always consistent. This suggests that structure does not exclude judgment and vice versa.

What stands out as important in this debate is instead how audit firms and auditors balance a "formal, defendable, economic and manageable structure for the audit process with the autonomy of auditor judgment" (Power, 2003:382) and how the approaches used influence the auditor's practical reasoning and judgment process, and thus, audit quality. Also, for example, the effects of IT use depend on how its users perceive its role (cf. Giddens, 2006:569, see also Zuboff, 1988).

I suggest that the following unattributed quote[29] may serve as a tactful and thoughtful "summing up" of the structure–judgment debate presented in this chapter:

> Computers are incredibly fast, accurate and stupid. Human beings are incredibly slow, inaccurate and brilliant. Together they are powerful beyond imagination.

Note, however, that I do not suggest that structure is equal to using computers. Hence, if there is an optimal design of the audit approach, it might be about combining structure and judgment and the ability to modify and restructure the combination when necessary rather than about including or excluding various approaches and methods.

[29] The quote has been ascribed to several sources. Among them are Albert Einstein and the economist Leo Cherne. Most often, its origin is marked as "unknown".

4.5 Summing up and issues raised

In order to explore the issues discussed in the structure–judgment debate, I suggest that it is relevant to gain an understanding of how individual auditors explain and characterize the concept of "professional judgment", to what extent they would describe audit work as structured, and how they describe the balance between structure and judgment. As the use of structure has been quite heavily questioned and criticized, I also aim to explore how individual auditors reason about their opportunity to influence the structure/system used at the firm where they work: Is it possible, if or when necessary, to deviate from the audit firm system and to question, criticize and/or change the way audit work is done?

Chapter 5

The Production of Comfort

In this chapter, I discuss auditing and the production of comfort. Instead of just looking at auditing as a technical practice, I emphasize the importance of the social context in which auditors make decisions and of realizing auditing as something socially constructed. Furthermore, it is argued that to understand such practice it is necessary to include cognitive and emotional processes.

In line with this understanding, Pentland (1993) and Carrington and Catasús (2007) discuss how auditing is about the production of comfort. Auditor comfort seem to be (at least a part of) answers to important questions such as "How does the auditor determine the nature and extent of audit work?","How much audit work is enough?" (cf. Humphrey & Moizer, 1990),"What is sufficient?" (e.g. Carrington, 2010a) and "What is appropriate?"– that is, how do auditor know that they have performed the work appropriately, sufficiently and completely?

To answer these questions with "It is a matter of judgment" does not seem to be enough. If such judgments and decisions are seen as a cognitive, emotional and social process involving environmental, personal, social and organizational factors, the answer might not seem as clear. As judgment-based decisions must be made every day, auditors must "realize" and attach meaning to concepts such as "enough" and "sufficient". In this chapter, I discuss how "comfort" and "discomfort" might be a part of everyday audit work as a way for auditors to realize and make sense of their tasks and responsibilities.

This chapter also includes sections on expert systems, trust and scepticism[30] where I elaborate on how the opposites trust and scepticism could be seen as adding a necessary

[30] These sections were written after the completion of my fieldwork. Careful reflection on what I had taken part in made me realize that I needed to include an additional

dimension to the discussion on structure and judgment introduced in Chapter 4. I do so by first discussing why there is a need for auditing and trust in the audit profession. I then take the discussion one step further and elaborate on the role of trust within the audit profession. Here I will argue that the notion of trust could serve as a link between structure/judgment and comfort.

5.1 Comfort and discomfort

Auditing is sometimes described as a technical practice. From this perspective, auditor judgment is a "practice conducted by individuals who must respond efficiently to cues in the auditee environment and make decisions accordingly" (Power, 1995:318). However, it could be argued that auditor judgments are not just something that comes out of applying audit techniques, but decisions made in a social context. (Curtis & Turley, 2007:441; Kirkham, 1992). Pentland (1993) shows the importance of understanding the social construction of the audit process when trying to understand and describe how audit work is done (see also Power, 2003; Carrington & Catasús, 2007). One conclusion from Pentland's study is that auditing is ritualistic and that social control pervades the behaviour of auditors and audit teams. To understand auditor judgment, we must look at not only cognitive processes (Johnson et al., 1989), but also emotional processes and the social context of audit work (Pentland, 1993). Environmental conditions (Brody et al., 1998) along with personal, social and organizational factors "influence judgement and decisions that are reflected in behaviour" (ICAEW, 2007a:2; see also Anderson-Gough et al., 2001; Gendron, 2002). Hence, auditors' decision making takes place in a complex setting.

Moreover, within this complex setting, auditing involves certifying the unknowable: the fact that "numbers do not speak for themselves" is a fundamental issue in auditing (Pentland, 1993:609). Numbers can be a reflection of the "reality" or of management

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part to be able to more properly and more critically interpret my experiences from the field. While the previous part of this chapter as well as Chapters 3, 5 and 6 are based on ideas, experiences and knowledge I had before the fieldwork, this chapter is based on ideas I actively researched afterwards. This condition as well as the fact that the ideas presented here are to a great extent outside my own "comfort zone", has influenced the content of these sections as well as the related analysis and conclusions that follow later in the thesis.

self-interest, but they can also be wrong. This is reflected in auditing standards in terms such as "risk of misstatement", "obtain assurance" and "satisfactory". Pentland, however concludes that auditors instead talk about "comfort" and "being comfortable" – that is, using "emotional language". Pentland suggests that this is an important signal of how auditors attach meaning to their work. "Outsiders" (non-auditors) might consider, for example, unaudited numbers as entailing risk or uncertainty, whilst such situations make auditors feel "uncomfortable". Hence, risk and uncertainty is experienced and expressed as "discomfort".

Demands on displaying appropriate behaviour and physical appearance and following standards and regulations as well as other demands from superiors, peers, clients and stakeholders are all examples of discomforts experienced by the auditor. Carrington and Catasús (2007) suggest that becoming comfortable (and hence considering the audit as sufficient) is about getting relief from such discomforts. However, as Kolcaba et al. (2004:96) suggest, discussing comfort and distress from a nursing perspective, comfort seems to be more than the absence of discomfort (see also Carrington & Catasús, 2007).

As alternatives to rational thought and formal rational procedures, concepts such as "hunch", "intuition," and "gut feel" have been suggested as important features of the audit process (Pentland, 1993; see also Humphrey & Moizer, 1990; Power, 2003). The question previously raised, "How does the auditor know that he/she has performed the work appropriately, sufficiently, and completely?" seems to be expressed by auditors in terms of comfort, for example: "What is my comfort level with…?" and "Do I have enough evidence about these things to be comfortable?" By trying to identify these "signals" of a feeling of comfort, auditors try to bring some kind of order and meaning to their work (including responsibilities and expectations placed on them). To do so, auditors are dependent on themselves and others (Power, 2003:389). As an auditor cannot personally observe, inspect or examine everything related to their clients, they must "rely" on the work carried out by team members, but also, at least to some extent, on descriptions and explanations made by their clients. At the level of the audit team, the comfort level of the engagement leader depends (at least to some extent) on the comfort level of the team members. And, given the important factor of socialization and the notion of appropriate behaviour, it is also about receiving appropriate "signals", i.e. habits are formed in and accepted by the "audit community" (cf. Pentland, 1993; Power, 2005).

That auditors must rely on the work of others does not mean that the audits are carried out by those others, but that when they are performing the audit, auditors

must use the work of others. The ultimate symbol of who is auditing is what Pentland (1993) refers to as "the sacred signature". Throughout the audit process, members of the audit team are constantly "signing-off" (meaning "the job is done") on audit steps, working papers, conclusions, and so on. This ritual is thus a part of getting comfortable (Pentland, 1993).

According to Pentland's ritualist perspective, explanations of auditor behaviour must include an understanding of the production of comfort. By using "gut feel", auditor judgment is formed both in situations where there are rules to follow and in situations where there are no such rules; conclusions must be made even in situations where there are no applicable rules. In situations where there are rules, auditors must decide when and how to apply them; as discussed earlier, using auditing standards in many respects means making judgments. To be comfortable with such decisions, auditors employ collectively maintained, habitual procedures. In situations where there are no rules, auditors must rely on hunch and intuition to meet expectations (Pentland, 1993; Power, 2003). The ritualist perspective suggests that this hunch and intuition approach is "formed from repeated collective interactions with the audit team" (Power, 2003:385) and thereby they become habits by which auditors can produce "comfortable judgments". Hunch and intuition are formed in an institutional setting and thereby constrained and constituted by the institutional context (cf. Collin et al., 2009; Tagesson & Eriksson, 2001).

According to Page (2006:6), reasonable assurance is "the level of confidence that an auditor, exercising professional skill and care, is expected to attain from an audit that the financial statements are not materially misstated". Such confidence is subjective; absolute assurance is unattainable because of uncertainties and as the scope of audit evidence is limited. Hence, reasonable assurance is about auditors feeling sufficiently confident, i.e. being comfortable.

The literature encompasses different aspects of what "being comfortable" is about. According to Power (2003) as well as Carrington and Catasús (2007), being comfortable includes being dependent on who does the work and who is involved. In searching for comfort, it has been suggested that auditors use rituals and formal structure (cf. Pentland, 1993; Öhman et al., 2006); that the validity of the rituals depends on who they are performed by (Pentland, 1993); and that discomforts are eliminated through constant negations (Power, 1999; Beattie et al., 2001; Carrington & Catasús, 2007). Humphrey and Moizer (1990) discuss how their interviewees (audit managers) consider the audit manual, detailed rules and principles as facilitating and enabling good judgment. The interviewees also explained that in

comparison to auditing standards, their own firms' audit procedures were more developed (the standards were seen more as minimal) and that auditing standards therefore only had little influence on the extent of audit work. The implication is that the (firms') audit manual and procedures, described as more detailed than the standards, influence the determination of levels and scope of audit work. The standards serve more as a legitimizing device in areas such as disputes with clients (i.e. external).

If they are rationally effective, standards, guidelines, manuals, and other procedures can also gain "internal legitimacy" (cf. Meyer & Rowan, 1977) and thereby help define what responsible and rational actions and opinions are. This also suggests that they impose "a particular construction of reality on the conduct and discourse of auditors" (Humphrey & Moizer, 1990:226). Carrington & Catasús (2007:44) suggest that applying the firm's software and work programs, i.e. the audit firm's methodology, is a major means towards becoming comfortable ("to get relief from discomfort"). To "know" that the audit manual, etc. being used are compatible with the manuals etc. used by other firms can also produce comfort (cf. Humphrey & Moizer, 1990). Carrington and Catasús (2007) suggest that audit firm methodology especially seems to be a means towards getting relief from discomfort regarding the scope of responsibilities and the risk of being criticised. They claim that getting comfortable is about working "with and through structure" (p. 45). In addition to working with and through structure, the auditor's personality, experience and integrity are identified as important features of "becoming comfortable".

Pentland (1993:606) specifically points out how micro-level interactions within the team create comfort. He describes such interactions in terms of rituals as collective activities (e.g. all kinds of conversation), carried out to maintain social order (cf. also Goffman, 1967; Collins, 1981) with significance to "an emotional level for the participants". Hence, when it comes to constructing social order, there is an emphasis on an emotional process rather than on rational calculation, and Pentland (1993:607) suggests that "auditing is an emotional process".

Thus, rituals seem to be used to "get comfortable". They are used to "transform" chaos into order and indeterminacy into form (cf. Moore & Myerhoff, 1977; Pentland, 1993). The literature indicates that rituals are used as a managerial control mechanism (cf. Kunda, 1992; Pentland, 1993), as a social control instrument (cf. Lukes, 1975; Pentland, 1993), as an instrument of social cohesion due to group identification and transmission of values (cf. Collins, 1981; Pentland, 1993), and to

manage our public selves – what behaviour to display (cf. Goffman, 1967; Pentland, 1993).

Pentland (1993) suggests that it seems that "comfort" is to some extent treated as a commodity, and he draws a parallel to how Armstrong (1991) describes trust as a social product. Comfort is not just a matter of "an emotional state of an individual [the auditor] or a group [e.g. the audit team]" – when comfort is produced and exchanged within the teams, within the firms and between the audit firms and the public – mainly the investment community – it becomes "an objectified, institutionalized fact". (Pentland, 1993:610).

Carrington (2007:36) and Carrington and Catasús (2007) describe how an audit can fail to produce comfort, that there are hindrances experienced by auditors in their endeavours to becoming comfortable, and that sometimes discomforts cannot be turned into a state where auditors are comfortable. Carrington and Catasús (2007) imply that for it to be a "successful" audit, the starting point cannot be a state of comfort and that the audit is about finding discomforts to relieve. They suggest that a uncomfortable starting point can be harder and harder to attain when the same auditors are auditing a client from year to year (provided that clients from year to year resolve issues pointed out by auditors). They suggest that failing to produce comfort may indicate that other types of failures are about to "happen" or be revealed.

The risks of litigation as well as laws and regulations have an effect on auditors' comfort levels (cf. Carrington & Catasús, 2007; Carrington, 2010a). When auditors and their work are questioned and criticised – as with expectations gaps or corporate scandals – they become uncomfortable (cf. Carrington & Catasús, 2007). Öhman (2005, 2007) discusses how "security" is a deeply rooted human trait and how the feeling of being under pressure and in a vulnerable position where there is a need to protect yourself naturally also applies to auditors. This notion is likely to be one of the main explanations for the use of and need for proper and adequate documentation and maybe even "over-documentation". The documentation is the "proof" that something has been done and the means through which auditors communicate what has been done. The documentation also serves as support for auditor conclusions and statements. For legal reasons auditors are also obliged to sufficiently document their work – it is by reviewing the documentation that supervisory boards and courts can assess whether an auditor has done what is required (Carrington, 2010b). Hence, the use of documentation could be seen as a way for auditors to increase the feeling of "security" and comfort. Emphasizing, for example, documentation steps is part of Cushing and Loebbecke's (1986:32) definition of

structure, while Öhman (2005, 2007) suggests that, in the name of self-regard and security, auditors let themselves be guided by a formal structure. This kind of structure facilitates control by the audit profession and the audit firms, while the structure enables auditors to gain legitimacy within the profession and the firms.

5.2 Comfort versus knowledge base

Power (2003:388) concludes that "auditing is essentially an inferential practice" and that this inference is about knowing the appropriate way to do things (i.e. "This is how we do things") – for example, how to apply formal rules. Hence, "rule following" is not merely about individual cognition, but about adhering to a collective "agreement" – in this case on what comfort is about and hence, what gives comfort. Therefore, auditor inference could be considered to be socially constructed – i.e. constructed from auditor interaction. If this is the case, the knowledge base (cf. section 3.1.3) of auditing is undermined as it implies that the knowledge base is contextual. Such aspects might not be expressed in a clear and obvious way, as Power (2003:390) puts it: "bringing in the messy backstage of audit practice seems to undermine the front stage which auditing presents to the outside world". However, Power also points out that a "communal component" does not mean that such knowledge is insecure, but that communities, rules and authority aspects must be considered when discussing audit knowledge.

5.3 Expert systems – trust vs. scepticism

5.3.1 An introductory note on comfort

Instead of discussing auditing in terms of contracts and monitoring, as in agency theory, Pentland (1993:606) focuses on "the social production and distribution of cultural and emotional resources, such as trust". He states that "auditors are centrally implicated in the social production of trust in financial markets" and they "give 'comfort" to people who are vulnerable to erroneous, self-interested, and possibly fraudulent statements from corporate management". Kosmala MacLullich (2003) suggests that, due to the lack of trust, there is a need for comfort and that auditing,

rather than control, is used as a means of comfort reassurance. Carrington and Catasús (2007:36) claim that, from this perspective, "auditing is primarily about producing comfort about the numbers to the auditors, to the firm, to the capital market and to society". Hence, comfort is not only an "outcome" of the audit (comfort to the capital market and society), but also a state that is produced during the audit by auditors and within audit firms (Pentland, 1993; Carrington & Catasús, 2007). In the following sections, I elaborate on both perspectives, but first it seems essential to introduce the concept of "trust".

5.3.2 An introductory note on "trust"

Giddens (1990:89) suggests that trust arises from a lack of full information, that it "is only required where there is ignorance" and only needed in situations of uncertainty (Giddens, 1991). In situations of complete knowledge or when our experiences suggest that something is highly unlikely, Giddens argues that we might have confidence, but there is no reason to trust (or mistrust). He defines trust as:

> … confidence in the reliability of a person or system, regarding a given set of outcomes or events, where that confidence expresses a faith in the probity or love of another, or in the correctness of abstract principles (technical knowledge).
>
> (Giddens, 1990:34)

Addressing the difference between confidence and trust, Luhmann (1979, 1988) argues that trust is related to risk and that risk is a consequence of individual activities and decisions and thus, alternatives are recognized and considered. If no such alternatives are considered, Luhmann suggests that it is about confidence, not trust. Giddens (1990:32f) partly agrees with that approach but suggests that confidence is a particular type of trust and that trust derives from faith in the reliability of a person or a system and is the link between faith and confidence. He also claims that risk is not just a consequence of individual action.

Giddens argues that to risk something means to court danger. Danger is a "threat to desired outcomes". When such a danger is minimized (or counteracted) there is a situation of security and hence "[t]he experience of security often rests upon a balance of trust and acceptable risk" (Giddens, 1990:36).

Trust facilitates individual, societal well-being and "social quality" (cf. Ward & Meyer, 2009) as it reduces complexity (cf. Luhman, 1989). A decline in trust might cause caution and anxiety (Crawford, 2004). Giddens (1990, 1991) uses the terms "ontological insecurity" or "existential anxiety" and Crawford (2004) discusses the emergence of a "culture of anxiety" to describe how continuous caution and anxiety lead to a situation with constant reflexivity leading to constant questioning. Luhmann (2005) suggests that where there is risk there is a need for trust; the increase of risk in today's society (cf. also Giddens, 1990; Beck, 1992) might lead to individuals ignoring or turning a blind eye to risks in trying to reduce complexity (Luhmann, 1982, 1989; cf. also Giddens, 1990). Hence, by trusting (or distrusting), complexity is reduced since an individual's decision to trust (or distrust) functions as a way of practicing rational activity (Luhmann, 1979).

This also suggests an association between increased complexity and increased risks. With little (or no) understanding, risk is increased, complexity is increased, and consequently there is an increased need for trust. Hence, in situations of risk and where the experience is such that I can rely on the assumptions I have about the future, trust grows (cf. Luhmann, 2005). To trust means using less energy – by trusting, there is no need to calculate risks – for to weigh, measure and evaluate risks involves great energy needs. This is also the case for distrust, where it is assumed that the outcome is negative since both trust and distrust entail lesser cognitive energy. An approach that says, "I do not really know or get it, but it is probably all right" means that I do not have to think very much about it. To take a "middle position" is much harder (cf. Newell & Swan, 2000).

Luhmann (1979) claims that complexity and uncertainty is inherent in society. Beck (1992) argues that we live in a global risk society and that the main characteristic of the global order is to handle risks. The risks we have today have to do with insecurity caused by social development and as consequences of science and technology. Giddens agrees with Beck on how today's society is distinguished by risks and uncertainties (cf. Giddens, 2006); he discusses modernity as a double-edged phenomenon where the themes "security versus danger" and "trust versus risk" are central and where disembedding mechanisms, due to the separation of time and space, are increasingly used to organize social life (Giddens, 1990). In terms of binding time and space, i.e. connecting presence and absence, Giddens (1990) distinguishes between two types of disembedding mechanisms – symbolic tokens and expert systems. They are used to lift out "social relations from local contexts of interaction" and to reconstruct them "across indefinite spans of time-space" (1990:21); they depend on trust (p. 26) and provide "guarantees" of expectations

(p.28). Symbolic tokens such as money, can be passed around, and there is no need to regard the characteristics of those involved in handling them. Trust is involved as (to use the same example) users of money presume that other users honour their value (p. 26).

Expert systems are "systems of technical accomplishment of professional expertise that organize large areas of the material and social environments in which we live today" (Giddens, 1990:27; cf. Freidson, 1986) and just as symbolic tokens do, "they remove social relations from the immediacies of context" (Giddens, 1990:28). Trust, as a form of "faith" (based on the experience that the system generally works), then is in "the authenticity of the expert knowledge" (p. 27f) which professionals apply rather than in the professionals themselves. Their competences must however be trusted. Most often, laypersons have weak inductive knowledge (cf. Simmel, 1978) and cannot check such expert knowledge themselves (Giddens, 1990). Hence, rather than expressing just a cognitive understanding, trust, as a form of faith, "a confidence vested in probable outcomes", expresses a commitment to something (Giddens, 1990:27).

To function well, social systems such as the economic system need to reduce complexity (cf. Luhmann, 1979). Giddens (1990) argues that for individuals to have trust in social systems, there needs to be, first, trust in a person who represents that system. Giddens uses the term "access points" to describe such interpersonal trust. From a different perspective, it could be argued that an individual must trust the social system before he/she can trust a representative of it (cf. Luhmann, 1988).

5.3.3 Reflexivity

In discussing and elaborating on trust, Giddens (1990) includes the concept of "reflexivity". Reflexivity seems to be central in discussions on modernity (cf. Giddens, 1991; Beck, 1992, 1995; Beck et al. 1994). Through reflexivity, individuals become increasingly aware of risks to act upon and can decide how to act – whether to trust or mistrust. Reflexivity is about how knowledge and understanding gained from ourselves and others affect our perceptions and understandings. This reflexivity is facilitated in scope and speed by highly developed technology and through the global nature of communication media (Unerman & O'Dwyer, 2004).

Modernity may be seen as a contrast with tradition (Giddens, 1990:38). In traditional cultures, the experience of generations is valued, for example, through symbols that

contain and perpetuate experience. Time–space "distanciation" is handled as activities and experiences are placed "within the continuity of the past, present and future" which are "structured by recurrent social practices" (Giddens, 1990:37). This implies that tradition is not absolutely static – "it has to be reinvented by each new generation, nor that it resists change – it pertains to a context in which there are few meaningful forms of change" (Giddens, 1990:37).

Reflexivity in pre-modern civilizations, according to Giddens, is limited as, for example, the past weighs more heavily than the future; thus reflexivity is about reinterpretation and clarification of tradition. In modern civilizations, reflexivity is different – rather than being reinterpreted and clarified, social practices are "constantly examined and reformed in the light of incoming information about those very practices". Through reflexivity, the characteristics of social practices are altered. Giddens argues that this is because what is done (just as "what was done before") must, in light of incoming knowledge, be principally defendable. Hence, as tradition then can be justified, and because of the inertia of "habits", tradition will continue to play a role in modern societies. Just as tradition, "the new" is also reflected upon in modern society. Giddens (1990:39) argues that "[m]odernity is constituted in and through reflexively applied knowledge". However, he continues to argue that knowledge can be revised and is not equal to certitude. Just as often noted in science, nothing is certain – to know is not to be certain. Hence, "the reflexive appropriation of knowledge" can be described as unstable (cf. Giddens, 1990:53). Also, some individuals and/or groups are considered to be more readily able to reflexively apply specialized knowledge (or "claims to knowledge") to social activities than others.

5.4 Auditing and trust – producing comfort for the capital market and for society

Engaging professionals could be seen as a way to reduce uncertainties and risks (Brante, 2005). Discussing the consequences of modernity, Giddens (1990) emphasizes the use of expert systems, and I would suggest that auditing is such a system or at least a part of the economic system. Using Giddens' theories, Unerman and O'Dwyer (2004) argue that non-expert outsiders do not have enough knowledge of the accounting and auditing expert systems to be able to systematically evaluate, for example, the reliability of accounts. And, not to make life too difficult, non-expert outsiders place trust in such systems. This trust is only questioned (which might lead

to scepticism towards the expert system) when the system fails to deliver expected results.

Auditing is used to produce comfort even though relatively little is known about that process (e.g. Power, 1995, 1999; Gendron, 2002; cf. also discussions on the mystification of professional work in general by Larsson, 1977, and discussions of the mystification of audit work in particular by Willmott, 1986). Also, the producers of comfort, the auditors, are those who decide when comfort is attained (Carrington & Catasús, 2007). It has been claimed that individual accountees must rely on the work of auditors, that they really do not have another choice if they are to ascribe value to the audit (Power, 1999). Hence, it is more likely that the work of auditors is associated with comfort rather than assurance (cf. Pentland, 1993; Power, 1999; Carrington & Catasús, 2007). In spite of corporate scandals and financial crises in which severe criticism was directed towards the audit profession, investments are still being made; thus, there must be some kind of *sufficient* comfort or trust associated with auditing (the conception of what is a sufficient audit may differ among stakeholders, cf. Carrington, 2010a). According to Humphrey et al. (2011), the reforms suggested in the EU Green Paper appear to be premised on a need to generate greater confidence in auditing and auditor work (rather than on efforts to actually improve audit quality). These claims and the possible approach indicate the importance of trust and the effort to keep and/or regain trust.

As an expert system, the auditing system is a disembedding mechanism – as it is "providing 'guarantees' of expectations across distanciated time-space", it presumes, foster and promote a separation of time and space (cf. Giddens, 1990:28). The layperson's trust in the auditing system from this perspective then depends neither on full initiation into its processes nor full knowledge of it, but on faith – often based on weak inductive knowledge. For example, awareness of regulatory agencies assigned to protect an expert system's consumers does not alter the presence of trust.

Unerman and O'Dwyer (2004) studied the accounting and auditing failures at Enron, WorldCom and Andersen through the lens of Giddens' theories. They claim that both auditing and accounting meet Giddens' definition of expert systems – they rely on technical expertise and require the use of subjective judgment, which often is seen as objective by non-expert outsiders. Unerman and O'Dwyer conclude that large-scale failures in accounting and auditing expert systems has reflexively increased the awareness of the impact of such systems among non-expert outsiders, and consequently there has been a decrease in their trust in the outcomes of those systems.

5.5 Auditing and trust – producing comfort among auditors and within audit firms

5.5.1 About globalization

The use of expert systems such as auditing is not only a consequence of modernity; I would argue that modernity also has consequences for auditing. Giddens (1990:63) argues that "modernity is inherently globalising". Hence, I suggest that auditing as a globalized phenomenon entails aspects that are likely to affect auditor work. The time-space distanciation, disembedding mechanisms and reflexivity I have described in the previous section are parts of that globalisation. The global business environment offers both opportunities and challenges for auditing and auditors and, as a consequence, auditing today is characterized by complex interrelationships. National differences still exist, but the Big 4 audit firms as well as auditing standards and the accounting standards are to a large extent global.

The modern auditing system could be described as built from a global perspective but put into practice in local settings (cf. Mennicken, 2006). Giddens (1990:64) describes globalization as "the intensification of worldwide social relations which link distant localities in such way that local happenings are shaped by events occurring many miles away and vice versa". This entails complex relations between local involvements and interactions across distance as the local–distant relationships are increasingly stretched in "modernity" (cf. Giddens, 1990:64). This also entails local transformation as what happens in local settings is likely to be influenced by factors operating at distance. The "result" of this transformation probably differs both in scope and in direction. Also, as social relations are "stretched", there might be increased pressures for local autonomy and regional cultural identity. Therefore, the character of change is not likely to be generalized. Giddens (1990:80f) uses the notion of "re-embedding" to describe how disembedded social relations are pinned down to local conditions of time and space. This has also been emphasized by Barrett et al. (2005:1), who claim that the globalization process "involves detailed everyday activity in the context of diverse local institutions". Hence, globalization is influencing activities in local settings at the same time as those activities "interpret" and to some extent determine globalization.

Giddens' (1990) ideas about expert systems as part of the consequences of modernity have been used to explore phenomena in accounting and auditing (see also Unerman

& O'Dwyer, 2004). For example, Jones and Dugdale (2002) explore the phenomenon of activity-based costing (ABC) and conclude that it is an expert system that emerged as a solution to help managers gain control over problems that arose because of global change. At the same time, though, ABC created new forms of risks, so ABC as an expert system "is both a response, and a contributor, to risks of the modern world…" (Jones & Dugdale, 2002:121).

The influence and meaning of globalization on audit firms and auditors has also been examined by Barrett et al. (2005). They use Giddens' insights on how

> …global tendencies are produced and reproduced through the actions of individuals, how individual actions are informed by local understandings and experiences of globalization, and yet simultaneously affect how globalization subsequently evolves.
>
> (Barrett et al., 2005:2)

They conclude that globalization entails both convergence and fragmentation, just as Giddens (1990:175) argues that the globalization process fragments as it coordinates. They find that litigation and commercialization are globalizing tendencies that might lead to responses at the practice level by audit firms and auditors. Litigation might change documentation practices, and commercialization might entail diversification of audit firms as there might be different interpretations of what good auditing is. Barrett et al. (2005) also emphasize the notion of trust – how trustworthiness is expected when communicating their work within the team and how that entails a risk, especially for partners and senior auditors, that such descriptions of work carried out is not true. The option to trust is to develop ways of monitoring the work of team members (for example, "review by interview").

5.5.2 Comfort – an emotional response to increased globalization and complexity?

Tschudi (2005:81) argues that the increasing complexity in today's society, which brings about uncertainty and makes foreseeing difficult, is a reason to limit formal rules and regulations – it is not possible to try to meet such complexity with expanded and refined sets of rules and regulations.

According to Tschudi (2005), the distinct difference between a holistic emotionally characterised process and a rational analytical process is now emphasized within psychology. Tschudi claims that, in general, there is a better understanding of the importance of recognizing not just holistic approaches but also emotional aspects and intuition. A more holistic approach with emotional processes, instead of analytic procedural thinking (with more rational and logical thinking), could deal with the tendencies to merely adhere to certain patterns, norms and rules – that is, "doing the right things" rather than "doing things right"; being qualitative and "organic" rather than quantitative and "mechanical". To overcome such tendencies, there is also a need to embrace criticism towards and questioning such tendencies, established norms and rules and towards perceived deficiencies. It has been claimed that auditors are cautious (cf. Power, 2004) and conservative and that they tend not to question their work habits (cf. Fischer, 1996).

As it is impossible to include every possible situation in a set of rules, there is an overall preference for principles (and a judgmental approach) instead of rules (and a structured approach), especially when handling complex situations and relations (Tschudi, 2005). This has also been emphasized by regulators and standard setters (e.g. ICAEW, 2006b).

Auditors have sometimes been described (or accused) as acting as "machines" (cf. Pentland, 1993). If that description is "correct", it would imply that the rules have taken over and that understanding of the system and the principles it is based on is absent (cf. Tschudi, 2005). Tschudi (2005) argues that to gain such comprehensive understanding, a holistic approach is necessary. With this understanding of the system comes an ability to act appropriately and purposefully in case of unexpected situations – if the system allows and encourages such a "problem-solving" approach. According to Tschudi (2005), this understanding also involves emotive features.

The importance of emotional processes (as a sort of compass) to be able to make decisions, or at least to increase the efficiency and "accuracy" of the decision process, has been shown by Damasio (2005; see also Tschudi, 2005). Damasio (2005) show how emotions guide and/or bias behaviour and decision making and how feelings is necessary to navigate through the large amount of decisions individuals have to make, i.e. how emotional inputs are necessary for rational decision making. Damasio (2005:173) suggests that a kind of gut feel ("the somatic marker") serves as an automated signal that leads individuals to immediately reject "the negative course of action" and hence, make them choose among other and, thus, fewer alternatives. Without somatic markers, gut feel, efficiency and accuracy of the decision process are reduced. Negative somatic markers serve as alarm bells whilst positive markers serve more as incentives. Hence, somatic markers "assist the deliberation by highlighting some options (either dangerous or favourable) and eliminating them rapidly from subsequent consideration" (p. 174). The somatic marker can thus be thought of as a "biasing device".

Damasio (2005) argues that beliefs, feelings and intentions are results of biological and cultural factors that often determine our reasoning, but he recognizes that human beings have some, yet limited, room for exercising individual freedom for "willing and performing actions that may go against the apparent grain of biology and culture" (p. 177). The somatic markers used in rational decision making were probably "created in our brains during the process of education and socialization" (p. 177). Damasio (2005:188) distinguishes between somatic markers ("gut feel") and instinct by suggesting that instinct is a "mysterious mechanism by which we arrive at the solution of a problem without reasoning toward it". Hence, intuition is not about acting consciously, but about impulsive, unconscious acts. Damasio (2005:189) agrees with Salk (1985) and Szilard (1992) and suggests that creativity rests on intuition – that creative work does not depend merely on logical thinking and analytical ability.

In sum, to gain an understanding that is of vital importance when rules and regulations are insufficient or inappropriate, those rules and regulations must be balanced with reason combined with emotion (Tschudi, 2005).

5.5.3 The audit firm as the site for local transformation

The audit firm is likely to be an important site for local transformation as it has been described. Covaleski et al. (1998) conclude that expertise might not only be located in professionals but also in the formal structure of the organizations (cf. also Abbott,

1988). They come to this conclusion by analyzing the exercise of control in the big auditing firms and suggest that

> [T]he control in professional firms occurs in a complex field of power and resistance in which people tend to be both explicitly and unwittingly constituted as corporate clones.
>
> (Covaleski et al., 1998:324)

They claim that organizations, such as the big auditing firms, use management by objectives and mentoring as techniques of control. By doing so, the professionals are transformed into disciplined and self-disciplining members of the organization – with goals, language and lifestyles that reflect the imperatives of the organization. These processes are complex as they include aspects of freedom, calculability and identity (Covaleski et al., 1998:293).

Aspects such as "resistance", "freedom" and "calculability" indicate some kind of choice (about individual action and behaviour) and the notion of "professional judgment" as well as some aspects of theory of profession (integrity, objectivity, etc.) seem to presume this choice, or at least to call attention to the importance it. However, the literature seems to suggest that the choice is very limited and might be reduced to the choice to belong or not to belong to the firm (and the profession) – to be "in" or to be "out". The socialization processes are considered strong – individuals either have the appropriate behaviour and appearance or not. This limited choice is not just the case when it comes to behaviour and appearance; for example, Ijiri (1983) argues that in deciding what is fair and not fair, auditors suffer from freedom as they are restricted by cultural conventions, legal precedents, economic theories, accounting principles and auditing standards. Ijiri, however, also claims that since auditors are ultimately free, they are responsible for their choices.

5.6 Summing up and issues raised

This chapter on the production of comfort may reveal some "answers" to questions and issues raised in this study. To produce comfort appears to be a central aspect of auditing and what auditors strive towards in their effort to produce high-quality audits. In doing so, the use of structure seem to be an important part. There are, however, relatively few studies that focus on auditor comfort. It is my hope that the

present study will contribute to a greater understanding of how auditors do produce comfort and what that essence of auditor comfort is about.

The trust versus scepticism approach adds a more critical dimension to the understanding of auditors and their work. Issues raised in this chapter have dealt with the balance between auditor trust and auditor scepticism – not towards clients and the audited information, but towards the audit system used by individual auditors in their day-to-day work. It seems that trusting the audit firm system, at least to some extent, is about producing comfort and becoming comfortable. This is a matter that I find relevant to explore further. Among the interesting questions to ask is "To what extent do individual auditors trust that the systems used at the firm where they work actually lead to high-quality audits?" In light of the discussion in this chapter, reflexivity among auditors seems like another important aspect to explore: "How can auditor reflexivity be described and do auditors reflexively apply their specialized knowledge?"

Chapter 6

Audit Quality

Many academics have indicated that there is a large quantity of "audit quality" studies within the field of audit research (e.g. Francis, 2004; Carrington, 2010a). Overall, the results of these studies and the evidence provided are mixed and inconclusive (e.g. Connell, 2001). Francis (2004) reviewed 25 years of research on audit quality and concluded that we still really do not know fundamental and important things about audit quality (such as how much auditing is optimal and what are the optimal social arrangements).

My intention in this chapter is neither to cover all these different kinds of studies[31] nor to evaluate their results, but rather to review and shed light on different aspects of the concept of audit quality.

6.1 The audit quality concept

> "Audit quality is, in essence, a complex and multi-faceted concept."
>
> (IAASB, 2011:3)

6.1.1 A complex guiding star

Audit quality seems to have become some kind of a guiding star within the audit profession. It could also be seen as to have become the "ideal" of audit practice and/or

[31] For an elaborated review of audit quality studies, see Francis (2004).

a "mantra" (cf. Humphrey et al., 2007). When the concept is used, it often seems to be equivalent to "high audit quality" – the aim of auditing, audit work, is to achieve high audit quality, or to perform high-quality audits. These audits are described as necessary and as playing an important role in "supporting the quality of financial reporting around the world" (IAASB, 2011:2), as "a key contributor to financial stability" (IAASB, 2010:3) and as a crucial part of an efficient capital market and effective allocation of economic resources (e.g. Wallman, 1996). The revised Statutory Audit Directive highlights the public interest function of the statutory audit and explains that "… a broader community of people and institutions rely on the quality of a statutory auditor's work", that "[g]ood audit quality contributes to the orderly functioning of markets by enhancing the integrity and efficiency of financial statements" and that "[i]t is important to ensure high quality in all statutory audits required by Community law" (European Commission, 2006). The Transnational Auditors Committee[32] (TAC) points out the importance of delivering high-quality services and value for money to maintain client satisfaction and to gain and maintain the reputation of being a professional services firm (IFAC, 2007b). Thus, due to the higher value of quality audits, entailing, for example, fee premium[33] possibilities, there are incentives to establish a reputation for high-quality services (Shapiro, 1983).

The importance of auditing and high-quality audits are, at least from a general point of view, not questioned. There are, however, critics who question the relevance of auditing (cf. section 3.1.2). Thus, business (and auditor) failure, and the role of auditors in scandals and financial crises, are causing great challenges to the audit profession (e.g. FRC, 2006). To have to justify and explain itself is probably healthy for any profession as such efforts can stimulate continuous improvement (e.g. IAASB, 2001).

Stakeholders have different interests and involvement in, as well as different experiences and expectations of, audits. Hence, their perceptions of audit quality differ. An investor might have a different perception of audit quality than an audit committee member (e.g. IAASB, 2011). This is one reason for the complexity of the audit quality concept. According to the IAASB (2010, 2011), "audit quality" would

[32] TAC is the executive arm of Forum of Firms, IFAC. It encourages members to meet high-quality standards of international auditing. Forum of Firms is an association of international networks of accounting firms that perform transnational audits.

[33] For elaboration on audit quality and fee premium due to firm size, see, for example, Francis and Simon (1987).

benefit from different stakeholders making efforts to understand each other's perspectives. The IAASB suggests three fundamental aspects of audit quality – inputs, outputs and context factors (see Figure 2). As indicated in Figure 2, the different aspects are interrelated as they directly as well as indirectly influence audit quality.

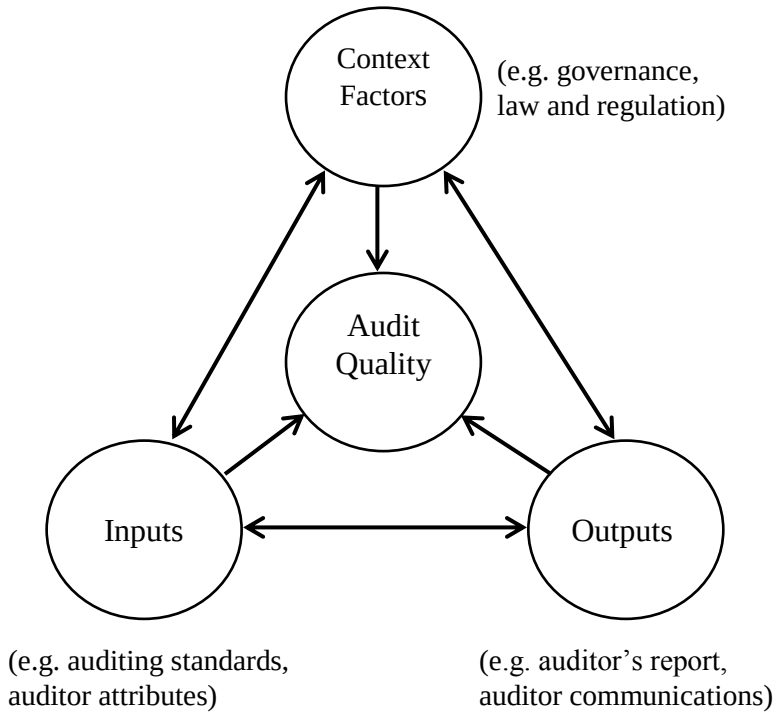

Figure 2 – Important influences on audit quality (source: IAASB, 2011:4)

Inputs will be further discussed in section 6.2 – "What influences audit quality?" Outputs, according to the IAASB, are also important – it is often the outputs that influence the various stakeholders' perceptions of audit quality (e.g. Is the audit report useful?). For example, the usefulness of the information provided in financial statements depends to a great extent on auditors ensuring its quality. Consequently, stakeholders are dependent on the outcome of the audit. (e.g. Flint, 1998)

Users' perceptions of auditor reporting are an important issue related to audit quality (FRC, 2006; ICAEW, 2007a; IAASB, 2010, 2011). The audit report has become

codified and standardised (as a consequence of its form being specified by law and standards). Auditors' reports in reality only inform the reader that the auditor's opinion is that the financial statements show a true and fair view and that they are prepared in accordance with relevant laws, requirements and standards. A (clean) audit report is more of a signal than a source of information (FRC, 2006:40) and it has been claimed that auditing produces comfort rather than assurance (Pentland, 1993; Power, 1999; Carrington & Catasús, 2007) by legitimising the financial accounts (Power, 2003; see also Carrington, 2010a). This is further discussed in Chapter 5. As Carrington (2010a:672) points out, "the audit process is opaque" and since hardly any information about the audit work performed is revealed, it is difficult for users of the financial statements to question or evaluate it. Colbert and Murray (1999) point out that it might not even be possible for consumers to assess professional services after their rendering. Thus, to find the auditor report useful, users are in a position where they have to trust the audit (Power, 1999). This indicates that users' reliance on the work of auditors must be based on other factors (the auditor being professionally qualified, the reputation of the audit firm, the applicable regulatory regime). Hence, as indicated in Chapter 1 about the audit profession, "it is not as much what is done as how and by whom the acts of auditing are performed that is important" and quality is then strongly affected by the perceived professionalism, "the professional appearance" of the auditor (Carrington, 2010a:670). This appearance, however, is also influenced by what is performed, i.e. the actual audit process, even if the connection might not be obvious. However, continuous mistakes would make it difficult to maintain professional appearance, while failing to uphold a professional appearance would imply struggle to be successful within the profession even if there were no "errors" as such (Carrington, 2010a).

As part of enhancing the usefulness of the auditor's report and thereby audit quality, there seems to be mutual agreement among different parties within and related to the audit profession that improvements to the current reporting model are needed. and the form and content of the auditor's report is now under discussion (e.g. FRC, 2006; ICAEW, 2007; IFAC, 2011a).

Peecher et al. (2007:464) point out that "[p]ublic company auditing does not exist in a vacuum" and, as indicated in Figure 2, there are contextual factors that influence audit quality – e.g. a framework (including laws and regulations) in which audits can be conducted effectively can positively influence audit quality (IAASB, 2010, 2011:4). The IAASB strongly emphasizes the importance of a collective effort towards audit quality – preparers, audit committees, auditors, standard setters, professional

bodies, and regulators must all be involved and work together to identify and seek solutions to challenges and problems (IAASB, 2010). Furthermore, it is important to consider that factors outside the control of auditors can affect the level of audit quality. These factors include good corporate governance within the client company (e.g. managers not obstructing the audit process), the work and decisions of audit committees (regarding the scope of the audit), the support from shareholders (could put pressure on management to comply with their obligations), exposure to litigation, the quality of the regulator's staff who assess the work of audit firms and time pressures caused by the accelerating reporting regime (FRC, 2006).

There are multiple perceptions, descriptions and explanations of the concept of "audit quality" and its meaning and content. As previously mentioned, there is an "unknowability" of audit practice (cf. Fischer, 1996; see also Willmott, 1986); Power (2003) concludes that, in general, audit quality is assumed to be "unobservable" or at least difficult to observe (cf. Alvesson, 2004; Humphrey et al., 2007), especially as it has to do with auditor effort (which is inherently difficult to observe). Even for auditors themselves, audit quality is obscure and difficult to observe (cf. Power, 2003:383, 389). It might even be that "quality" is something we only can observe when it is *not* there (cf. Westerdahl, 2005 – quality is the absence of low quality; signs of what is poor are more obvious and hence more easily perceived than what is superb).

From my perspective, however, it seems that the common denominator in those perceptions, descriptions and explanations is that auditing is a process; that "audit quality" is a desirable *outcome* of that process, or a "common goal" (IAASB, 2010:3) to strive towards; and that the general opinion is that audit quality can be further enhanced (e.g. IFAC, 2010). How to reach that outcome, and what the content of such outcome is, is not as clear. The literature suggests quite a few different angles that are not necessary contradictory, but that at least focus on different perspectives. One reason for this is that different stakeholders (such as preparers, investors, regulators, auditors, those charged with governance and other standard setters) have different views on what auditing is (or should be) about and what its outcome is (or should be).

6.1.2 Defining audit quality

There have been attempts to reach a common definition of the "audit quality" concept, but so far there is neither any general "agreed upon" definition nor any

definition that can be used to measure auditor performance against: "truly objective measures of audit quality do not exist" (Fischer, 1996:224).

The ICAEW states that:

> Although each stakeholder in the audit will give a different meaning to audit quality, at its heart it is about delivering an appropriate professional opinion supported by the necessary evidence and objective judgment […] auditors provide a quality service to shareholders if they provide audit reports that are independent, reliable and supported by adequate evidence.
>
> (ICAEW, 2002:8)

According to the FRC (2006), the most common definition used in academic research is DeAngelo's (1981b:186): "The quality of audit services is defined to be the market-assessed joint probability that a given auditor will both (a) discover a breach in the client's accounting system, and (b) report the breach" (cf. also Deis & Giroux, 1992). This definition takes into consideration the technical competences of the auditor and the auditor's independence as it focuses on the appropriateness of the opinion on the financial statements and the risk that an unqualified audit opinion will be given when it should not be. Under such definitions, high audit quality implies therefore a higher probability that the auditor will find and report misstatements (cf. the study by Francis et al., 1999, which focuses on auditors' role and actions in regard to earnings management) (FRC, 2006). The definition also considers that high audit quality is an outcome relevant to the whole business reporting supply chain as it uses the phrase "market-assessed joint probability" to indicate a relationship between auditors' technical competence and independence and their reputation (e.g. Watkins et al. 2004; FRC, 2006).

Due to the difficulty of observing, measuring and in general evaluating audit quality (for accountees as well as for researchers and others), auditor reputation has been used as a proxy for audit quality in several studies. The operationalization of this proxy has often been whether the audit firm is a Big 4 firm or not – assuming that larger firms indicate higher audit quality (e.g. DeAngelo, 1981b). DeAngelo (1981b) argues that audit quality is not independent of audit firm size (due to the assumption that larger audit firms have more to lose from not delivering high-quality audits, that size alters auditors' incentives, and therefore larger firms provide higher audit quality). The relationship between audit firm size and reputation and more accurate audit reports has been emphasized, for example, by Francis and Wilson (1988), Francis and

Krishnan (1999), and Lennox (1999). Also, Watts and Zimmerman (1981) present arguments that audit quality is related to the size of the audit firm (as larger audit firms have comparative advantages in monitoring the behaviour of individual auditors). Evidence of different aspects of audit quality being related to audit firm size[34] has also been provided by Davidson and Neu (1993), Colbert and Murray (1998), Frankel et al. (2002), Mansi et al. (2004) and Al-Ajmi (2009). Audit quality research has also focused on the need for services from auditors with a "high audit quality reputation" and whether this market demand drives audit quality (e.g. Francis & Wilson, 1988; Clarkson & Simunic, 1994). Schroeder et al., (1986), Carcello et al., (1992), Herrbach (2001), Knechel et al., (2007) and Kilgore, Radich and Harrison (2011) found that audit team attributes are seen as more important for audit quality than audit firm attributes. Warming-Rasmussen and Jensen (1998) concluded the opposite.

The overall result of these studies is mixed, and there is much more to explore on the effect of industry structure on audit quality (Francis, 2011); the assertion that larger firms deliver higher audit quality is still an assumption (cf. Connell, 2001). On the other hand, there are also studies (e.g. Lam & Chang, 1994; Nieme, 2004) that argue there are no differences between large and small firms when it comes to providing high-quality audits. According to Krishnan (2003), however, it seems to be a general finding that market reaction to financial statement information is influenced by auditor reputation – using the proxy of audit firm size (due to the difficulties of directly observing audit quality, audit firm size serves as a surrogate).[35] The FRC (2006) concludes that this suggests that users' confidence in financial statements is influenced by audit firm reputation.

The threat of litigation could also act as a driver of audit quality since it is a powerful incentive to conduct high-quality audits (e.g. Lee & Mande, 2003). Audit quality research has also focused on auditor liability (associated with litigation) and whether "high-quality auditors" to a lesser extent are willing to accept riskier clients since problems could negatively influence auditor reputation. Öhman et al. (2006) find indications that, instead of focusing on the parties they are there to protect, auditors seem to be more concerned about their own situations: for example, time and effort spent on "verifiable" objects rather than on matters they recognise as important for investors and other stakeholders. Hence, they concluded that "[d]oing things right seems to be more important than doing the right things" (Öhman et al., 2006:107).

[34] In these studies by comparing Big 8 to non-Big 8 audit firms.

[35] For a more elaborate discussion, see DeAngelo (1981b)

The ICAEW (2002) explains that audit quality is not only about following auditing standards and regulations but about reaching appropriate judgments in difficult and complex situations. The FCR (2006) points out that giving an appropriate audit opinion is to be considered a minimum requirement. They suggest that audit quality includes more aspects, such as enhancing the corporate governance and the control systems in the client company.

6.1.3 Measuring "negative influence" on audit quality

The actions taken and efforts made by audit firms comprise the fundamental prerequisite for audit quality (cf. Power, 2003). These actions and efforts, however, are undisclosed and therefore very hard to measure. Whether or not it is at all possible to observe audit quality has been questioned and opposed. Colbert and Murray (1999) state that "[y]et, audit quality is largely unobservable" (see also e.g. Akerlof, 1970). In audit quality research, audit fees have been used as a proxy for audit effort (e.g. Palmrose, 1986). This would suggest that "more" auditing results in higher audit quality (or at least appears to do so) and that, conversely, a low audit fee or so called low-balling[36] has a negative influence on audit quality. There have also been studies discussing the impact of auditor independence on audit quality, in which audit fees have been used as a proxy for auditor independence (e.g. Hoitash et al., 2007); studies trying to explain the impact of non-audit fees on auditor estimation of abnormal accruals (e.g. Chung and Kallapur, 2003); and others on the likelihood of auditors reporting abnormal accruals (e.g. Frankel et al., 2002). The results of audit quality studies using audit fees as a proxy are thus mixed.

Anderson-Gough et al. (2001) claim that time budgets influence auditors decision-making behaviour. Considering budget and time pressures on auditors, studies have suggested a "quality threatening behaviour"[37] (e.g. Kelley & Margheim, 1990; Otley & Pierce, 1996a, 1996b; Malone & Roberts, 1996; Pierce & Sweeney, 2003, 2006), meaning that auditors will reduce their work to meet pressures (such as budget and time pressures), that there are adverse consequences and that such behaviour will compromise audit quality. The prevention of such behaviour is a matter of concern for the leadership of the firm (who sets the tone at the top and influences the culture of the firm).

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[36] To deliberately underestimate or understate a cost (as a "negotiation trick").

[37] For example, biasing sample selection, unauthorized reduction in sample size and premature sign-off (Pierce & Sweeney, 2006).

Research on audit failure also addresses issues related to auditor behaviour and audit quality and exposes weaknesses of the audit profession as well as levels criticism against it (e.g. Citron, 2003; Gwilliam, 2003; Brandon et al., 2004; Cullinan, 2004; Fearnley & Beattie, 2004; Morrison, 2004; Ghosh & Moon, 2005; Krishnan & Levine 2005). Much of this research focuses on the relationship between auditors and their clients and on the effects of auditors providing NAS (e.g. Kinney et al., 2004; Larker & Richardson, 2004).

6.2 What influences audit quality?

From the starting point that auditing is relevant and that high audit quality is a desirable outcome, I turn now to different aspects of audit quality and some key issues. This section deals with several aspects of audit quality:

- the "tone at the top";
- auditing standards;
- auditor's personal attributes;
- the audit process
- professional scepticism and judgment; and
- audit methodology.

These interrelated aspects have been identified from the academic literature, the professional bodies and actors. Together rather than separately, these aspects are seen as influencing audit quality. Later (in section 6.3), I summarize these aspects and elaborate on the difficult question, "What is audit quality?"

6.2.1 Audit quality: the "tone at the top"

> Quality audits do not just happen.
>
> (ICAEW, 2002:11)

6.2.1.1 The "tone at the top" and audit firm culture

Auditing standards, the skills and competences of auditors, perceptions and actions of others in the business reporting supply chain, and the legal, regulatory and business

environment are components that influence audit quality (IAASB, 2011). These components highlight the fact that auditing must be seen in its context and as that context – the business and societal environment, including information needs, regulations, education and technology – is constantly changing and evolving, auditing is a dynamic process (ICAEW, 2002:8); consequently, audit quality must be a dynamic outcome. The IAASB publication "Audit Quality: An IAASB Perspective" (2011) emphasizes that the auditing process, including its outcomes, must continuously evolve and be developed and improved (cf. Peecher et al., 2007) According to IFAC (2007b), delivering high-quality audits is an ongoing commitment and the leadership – the "tone at the top" – within auditing firms is an important element of the process. Otley and Pierce (1995) find that dysfunctional behaviour of in-charge seniors is affected by the leadership style of audit managers (especially in situations with perceived increased uncertainty). They claim that audit firms through the recruitment, promotion and training of managers, have great potential to influence dysfunctional behaviour (such as under-reporting of time and premature sign-offs).

According to TAC, "…the tone at the top is an important driver of audit quality" (IFAC, 2007b:4). The FRC points out that the culture within an audit firm strongly affects auditors' "mind-set" and is thereby, due to the public interest nature of an audit, very important (FRC, 2006; cf. IFAC, 2007b). To create an environment where high-quality audits are supported, firm management personnel, by setting the tone at the top, are important contributors to the culture of the audit firm. They can support a "high audit quality culture" by policies, procedures, communication of expectations and compliance, reward systems, sanctions, and also by their own behaviour (ICAEW, 2002; IFAC, 2007b).

The FRC (2006:23f) mentions several indicators of a culture that are appropriate in enhancing audit quality:

- "Whether the firm's leadership promotes effectively the importance of the firm properly discharging its professional responsibility as an auditor."

- "Whether in complying with ethical and professional conduct standards, the firm has regard to the fundamental principles of those standards and acts in a way that respects those principles."

- "Whether the firm's training, counselling, appraisals, promotion and remuneration structures promote the personal characteristics – such as

integrity, objectivity, rigour, scepticism, perseverance and robustness – that are essential to quality auditing."

- "Whether the firm avoids decisions dictated by short term financial considerations where those decisions would have a negative effect on audit quality."

- "Whether the firm attaches importance to the effective provision of technical support, to risk management and to compliance with ethical standards."

- "Whether appropriate emphasis is given to the development of an information infrastructure to support the audit function."

As threats to an audit firm from an audit quality perspective, the FRC (2006:24f) mentions "insufficient input to management decisions", "[o]ver-emphasis on winning audit appointments and on the retention of audit clients", "[o]ver-emphasis on non-audit services combined with under-investment in audit", "excessive cost cutting", and "[i]nternal training that is focused on improving client services at the expense of necessary training in technical competence and understanding the public interest aspect of an audit". These issues, as associated with the auditor–client company relationship, will be discussed in the next section.

6.2.1.2 The auditor–client company relationship

> The audit of public companies is a very private activity.
>
> (Beattie et al., 2001:xvii)

Auditors' independence from management is considered as one of the essential elements of auditing. Independence in fact and in appearance is widely seen as a necessary feature of audit quality (cf. Mautz & Sharaf, 1961; DeAngelo, 1981; Jamal & Sunder, 2011). Sir David Tweedie, chairman of the Accounting Standards Board, emphasizes the importance of achieving independence by claiming that "it must be achieved or the societal purpose of the audit is lost and with it the accounting profession" (Beattie et al., 2001:xxii).

An important aspect of auditing today is a far-reaching understanding of client firms' corporate governance and business environment. At the same time. the audit profession has been questioned because of the relationship between audits and the

client company's management and concerns about auditor independence, in fact as well as in appearance (e.g. Boyd, 2004; Mayhew & Pike, 2004; Jamal & Sunder, 2001). Auditors are dependent on the cooperation of management and employees at the client company (cf. Sweeney & Pierce, 2004; Carrington & Catasús, 2007), and it is claimed that openness and honesty as well as mutual trust and respect between auditors and representatives of client companies are necessary for high-quality audits (e.g. ICAEW, 2002; FRC, 2006).

Audit firms refer to themselves as "professional services firms" and according to Anderson-Gough et al. (2000) this reflects how they now undertake both professional and commercial services. Kaplan (1987), Hanlon (1996, 1998), Gendron (2002), Boyd (2004) as well as Forsberg & Westerdahl (2007) raise the matter of commercialization and "commercial auditors" (auditors who strive towards profit and remuneration) and auditors being concerned about whether the client firms' management is satisfied. In order to keep and recruit both audit engagements and consulting engagements, they promote themselves as business advisors – situations that might impair auditor independence, if not in fact, then at least in appearance.

The "two-edged sword" of professionalism and commercialism might impose tensions in the everyday auditor work situation, so the situation must be managed (cf. Gendron, 2002; Barrett et al., 2005; Forsberg & Westerdahl, 2007). Hence, an area of concern affecting audit quality is the relationship between auditors and the management at client companies. This could be seen as a dilemma because (a) these relationships are assumed to contribute to effective audits and (b) there can be an inherent lack of transparency in the work and judgments of auditors (the audit approach, audit evidence, professional judgments, etc. are not disclosed to the users of audited financial statements). The lack of transparency also makes it difficult for auditors and audit firms to demonstrate the effectiveness and quality of their work (cf. FRC, 2006).

The provision of NAS to auditing clients is also considered to be a matter of aggravation (e.g. Boyd, 2004; European Commission, 2010). This is not only due to independence issues when there is a risk of auditors becoming "business advisors" and management advocates (e.g. Bazerman et al., 1997; Haynes et al., 1998; Jeppesen, 1998; Arnold et al., 1999; de Ruyter & Wetzels, 1999; Jenkins & Lowe, 1999), but due to the business-like environment the provision of such services causes (e.g. Hopwood, 1998). Hanson (1989), however, suggests that audit work [at least until then] was the central service provided by the big audit firms and that, therefore, the culture at those firms were emphasizing the importance of professionalism and

objectivity. The audit profession does not consider an absolute prohibition on the provision of NAS to be appropriate (IFAC, 2010; FAR, 2010a) and emphasizes that:

> Auditing is a highly complex multi-disciplinary service. In performing both audit and non-audit services, audit firms obtain complementary knowledge and competence that ensures that each of these services can be provided efficiently and to the expected quality. Audit firms need to have internal experts who ask critical audit questions around many elements of business relevant to the audit of financial statements. If the audit firm does not have experts in these areas, (e.g. valuation experts, actuaries, pension specialists, etc.) it has fewer resources to call upon when difficult audit issues arise.
>
> (IFAC, 2010:14)

Hence the audit profession acknowledges that an absolute prohibition on the provision of NAS would entail too great a loss of valuable information in individual audit engagements as well as a significant loss of valuable expert knowledge for auditors and audit firms; auditors would not gain experience in expert areas, and it would probably be difficult to recruit and keep experts. Experts are seen as an invaluable asset for audit firms and their "absence" is believed to have a negative impact on audit quality (e.g. FAR, 2010a). Francis et al. (2005), moreover, could not find evidence that the provision of NAS to audit clients impaired auditor independence.

The impact of the relationship between auditors and clients presumably depends on the motivation and characteristics (the professionalism) of individual auditors who carry out the day-to-day audit work (ICAEW, 2002). In response to questions raised about independence threats such as a (too) close relationship between auditors and management and large revenues from NAS, the audit profession often pleads that independence is a state of mind (cf. Humphrey & Moizer, 1990).

The audit profession also recognises the importance of client companies experiencing auditing as adding value and benefit (cf. FAR, 2010b). As it offers opportunities to provide additional services, it has been claimed that the shift towards business risk audit has brought about a view of auditing as an audit/consulting hybrid (Jeppesen, 1998).

6.2.1.3 Commitment to audit quality

In their effort to assist audit firms to achieve audit quality, TAC has explored current practice regarding the "tone at the top". They highlight five areas where audit firms demonstrate and document their commitment to audit quality (IFAC, 2007b):

- *Strategy*: According to ISQC 1 (A5)[38] it is important that audit firms recognize quality in their strategies. The ICAEW (2002:11) claims that "[a]udit quality is achieved only if it is the keystone of the firm's overall strategy" and according to the TAC report "[f]irms note that quality is viewed as a requirement in everything that they do" (IFAC, 2007b:10). Quality is viewed as important for a firm's reputation, survival and growth. Decisions regarding audit fee policies, reward systems, recruitment strategies, etc. have an impact on audit quality (ICAEW, 2002). More specifically, an audit firm's strategy can include values such as integrity and specific goals such as service excellence, development of individuals and development of systems.

  Commitment to audit quality is also shown by more people being assigned to the firm's audit quality initiatives and by experienced partners being assigned to leadership positions with quality control and risk management responsibilities rather than management activities related to business objectives. In realizing firm strategy and applying policies and procedures, all employees must give attention to the spirit as well as the letter of these policies and procedures (IFAC, 2007b).

  Furthermore, audit firms should expect and require a commitment to quality also from their clients, that they participate (and encourage participation) in external activities aimed at defining and shaping public policy, that they (major audit firms) develop, update and promulgate a common audit methodology that is compliant with ISA and that carries out globally coordinated internal inspections (IFAC, 2007b; cf. also the Statutory Audit Directive, 2006/43/EC).

- *Communication*: Audit firms must continuously reinforce their "quality message" among their employees (all levels of staff) and make an effort to create an environment, a work culture, where audit quality is embraced

[38] All references to International Standard on Quality Control 1 (ISQC 1) refer to the standard issued and effective as of December 15, 2009.

(IFAC, 2007b). According to ISQC 1 (A4), this message could be communicated by "training seminars, meetings, formal and informal dialogue, mission statements, newsletters or briefing memoranda". TAC emphasizes that the messages should be frequently delivered, that they should be positive and constructive and that "they should address the concepts of integrity, objectivity, independence, professional scepticism, and accountability to the public" (IFAC, 2007b:15). TAC also notes that the form, content and frequency of quality messages varies with the size of the audit firm – "[i]n smaller firms the communications tend to be less formal" (IFAC, 2007b:16f).

- *Job Descriptions*: TAC notes that including quality elements in formally documented job descriptions could be useful. Such quality elements include "[t]he need for competent execution of the firm", "[c]ommitment to the strategy of the firm" and "the importance of continuing professional development". It is also useful to emphasize the importance of "[s]etting an example as a professional, by performing high-quality work and expecting the same from subordinates" (IFAC, 2007b:19). As pointed out in ISQC 1 (paragraph 19), it is of essential importance that employees with responsibilities for the audit firm's system of quality control have "sufficient and appropriate experience and ability, and the necessary authority, to assume that responsibility". Furthermore, TAC notes that, from its engagement partners, firms expect excellent technical knowledge as well as "ability to recognize problems and reach appropriate conclusions"; for other professional staff, the expectations and requirements correspond to their level (IFAC, 2007b:20).

- *Performance Evaluation*: ISQC 1 (A28) states that "[p]erformance evaluation, compensation and promotion procedures give due to recognition and reward to the development and maintenance of competence and commitment to ethical principles". The Public Oversight Board (POB)[39] recommends review performance measures (as it "would be effective in developing auditor's skills and improving audit quality") and states that such measures should focus on

[39] The Public Oversight Board (POB) was a private organization and a part of the self-regulatory system that oversaw the accounting profession in the United States. It was formally dissolved in 2002 due to a proposal (partly as a result of accounting scandals and bankruptcies) of the new private auditor oversight body to regulate the industry: the Public Company Accounting Oversight Board (PCAOB).

the depth and substance of understanding of the client's business and risk, responsiveness to unexpected or unplanned conditions encountered in audits, development of innovative audit approaches, professional scepticism and persistence, and knowledge of accounting principles and practices (POB, 2000). Also, since professional development is an essential issue, it must be given priority. Another relevant aspect is the performance appraisal system, which should focus on achieving high audit quality and should be clear and carefully communicated, as well as formally documented (POB, 2000; see also FRC, 2006, and IFAC, 2007b). TAC also emphasizes that "[p]erformance should not be measured primarily on meeting time deadlines and budget estimates" and points out the need for guidance and training on how to manage time pressures (IFAC, 2007b:25).

- *Monitoring*: According to ISQC 1 (paragraph 48), firms should "establish policies and procedures designed to provide it [the firm] with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate and operating effectively". TAC points out that to ensure they meet the "tone at the top" requirements, monitoring is necessary in audit firms. Furthermore, the quality control system should be tested on a regular basis, feedback should be provided (from all levels within the firm), the system should be documented, and all employees should be informed of the results of the monitoring process. The monitoring process should be an incentive and opportunity for employees to improve their performance (IFAC, 2007b). It is a concern of the leadership function to nurture a culture where monitoring is seen as constructive and not as a burden (ICAEW, 2002).

As I see it, an open and honest commitment to audit quality on management level is important for at least three reasons. By their commitment to audit quality the management of an audit firm *sets examples by their own behaviour*; in doing so, they influence the behaviour of other employees at the firm and play an important role in *creating an environment* and establishing a culture where high audit quality is the main objective and the only option. This also *affects the reputation of the audit profession* – an aspect that is important for the entire business reporting supply chain (e.g. IFAC, 2011a).

This section has focused on the leadership function of audit firms. However, as TAC indicates, the commitment to quality "is also demonstrated each day by the hundreds of thousands of audit professionals in their daily actions" (IFAC, 2007b:28). The

ICAEW (2002:10) points this out by claiming that "[a]udit quality is a collective responsibility and should be reinforced at every level of the audit firm". Hence, audit quality is not only affected by the tone at the top and the audit firm culture but also by the behaviour and actions of each and every individual auditor.

6.2.2 Audit quality: auditing standards

With reference to high-quality audits, the IAASB emphasizes the importance of auditing standards (such as ISA and ISQC) as they provide a foundation that supports this audit (for a more thorough description and explanation of auditing standards, see section 3.3). As standard setters, the IAASB is directly involved in the support of audit quality (IAASB, 2010, 2011). However, the IAASB also points out that the standards comprise only one of several components that influence audit quality (IAASB, 2011:2ff). The EU Statutory Audit Directive suggests that the use of international auditing standards, regular inspections, oversight and cooperated oversight (between member states) are important means to achieve high audit quality (European Commission, 2006, 2010).

According to the IAASB (2011), the ISAs are of high quality. Quality is ensured during the process of their development – i.e. through a due process including stakeholder input and consultation and by the Public Interest Oversight Board (PIOB)[40] oversight of the standard-setting process.

The Clarity Project, completed by the IAASB in 2009 aimed at improving the ISAs in several areas, to facilitate the application of the standards and to strengthen the recognition of these clarified ISAs as a global benchmark for audit quality. All ISAs (36 standards) and ISQC 1 were reviewed and redrafted. About half of the standards were substantively revised. The IAASB believes that the improvements and changes related to the Clarity Project (including enhanced requirements and guidance) are useful contributors to audit quality as they aim to strengthen audit practice (IAASB, 2010, 2011).

According to the ICAEW (2002:10), "[a]uditing standards provide guidance on what auditors need to do to perform audits with satisfactory quality": ICAEW claims that compliance with such standards "provides evidence that a quality audit has been

[40] The Public Interest Oversight Board is an international body that oversees IFAC, seeking to improve the quality and public interest focus of IFAC standards.

done". However, these standards could be argued to only constrain auditor input (cf. DeAngelo, 1981b). If auditing standards are considered to serve as minimum requirements (e.g. DeAngelo, 1981b), they could be said to *not* drive higher audit quality, but indicate the lowest level of audit quality (e.g. FRC, 2006) and to provide a defence for auditors and audit firms in case of litigation (e.g. DeAngelo, 1981b). Therefore, they might not promote or motivate audit quality above such minimum standard.

Taken to the extreme, one could discuss whether regulated use of auditing standards are in fact limiting audit quality since it could be argued that they encourage compliance at the lowest level of audit quality. (e.g. FRC, 2006) A counter-argument here is the expected and crucial professional approach, meaning that auditors should follow not only the letter but also the spirit of standards (and policies and procedures). The impact of auditing standards on audit quality has been studied and discussed by Frantz (1999) and Burns and Fogarty (2010).

6.2.3 Audit quality: auditors' personal attributes

> Audit quality is highly dependent on the quality of the people. […] people are the key drivers of quality…
>
> (ICAEW, 2002:10, 12)

> "[A]udit quality is not primarily about auditing standards but about the quality of people, their training and ethical standards. Auditing standards are no substitute for the exercise of judgement, which is where mistakes are made."
>
> (ICAEW, 2006b:19)

Auditing is an activity carried out by human beings. To be able to carry out high-quality audits, the skills of both partners and staff are determining factors (FRC, 2006); to make sure that such skills are maintained is a responsibility for both audit firms and individual auditors (ICAEW, 2002). Mervyn King, chair of the King Committee on Corporate Governance (IFAC, 2011:10) describes the importance of organizational culture and the people (at all levels) within it by talking about not only the tone at the top, but "the tone at the top, the tune at the middle, and the beat of the feet at the bottom".

The IAASB points out that whether or not it is possible to fully achieve the objectives of the auditing standards depends on the people who carry out the audits, i.e. the auditors:

> It is their [the auditors'] knowledge and experience and their understanding of the client that can make a real difference in audit quality. Importantly, effectively executing on many of the requirements in the ISAs relies on a key personal competency – professional judgment. Achieving the goal of a high-quality audit very much depends on auditors exercising appropriate and sound professional judgment throughout the engagement. This calls for having the right people involved on the engagement who not only are properly trained but also continue to enhance their competence though ongoing professional development.
>
> (IAASB, 2011:6)

IAASB (2011) mentions the auditor's personal attributes as important input to audit quality, while the FRC (2006) points out that the skills and personal qualities of auditors (partners and staff) are key drivers of audit quality. They include auditor skills (technical skills, business knowledge and experience, and "innate judgment skills"), expertise and experience, ethical values, mind-set and the sense of professional obligation – to be able to make professional judgments, auditors must have integrity and rigour; be objective, competent and motivated, and use scepticism, perseverance and robustness. Development, education and training including regular monitoring, testing and assessment, are necessary to obtain and maintain such professional qualifications (ICAEW, 2002; FRC, 2006; IAASB, 2011).

Bonner and Lewis (1990), Libby and Luft (1993), and Libby and Tan (1994) try to explain how auditor performance is influenced by ability and knowledge. Bonner and Lewis (1990) find that abilities and knowledge directly influence auditor performance – how they affect performance varies, depending on the task. Libby and Luft (1993) developed the Bonner-Lewis model and suggest that abilities and experiences serve as input to knowledge that, in addition to direct influence by abilities, influences auditor performance. Also, they suggest that different inputs have different impact, depending on the task. This is especially examined by Libby and Tan (1994), who find that experience directly influences performance when the tasks are "structured" (e.g. internal control evaluation). This finding might indicate that automaticity develops from experience. Experience is also found to have an impact on the development of knowledge relevant to task performance. Ability, on the other hand, seems to directly

influence performance when the tasks carried out are unstructured. For more structured tasks, the influence of ability is mediated by knowledge. Hence, abilities, experience and knowledge have been found to influence auditor performance and, depending on the task, they affect performance differently.

Since audit work is not static, but rather of a changing nature (cf. Bell et al., 1997), auditors must continuously develop and add to their skills. According to Barrett et al. (2005), this includes not only marketing and consulting skills but also more social skills, such as to be able to present themselves well and to be able to read body language.

6.2.4 Audit quality: the audit process

The European Commission (2010:6) notes that "the statutory audit has evolved from substantive verification of income, expenditure, assets and liabilities to a risk-based approach" and suggests:

> From a user perspective, auditors should provide a very high level of assurance to stakeholders on the components of the balance sheet and the valuation of those components at the balance sheet date. The Commission wishes to explore the case for "going back to basics" with a strong focus on substantive verification of the balance sheet and less reliance on compliance and systems work i.e. tasks that should primarily remain the responsibility of the client and in the main be covered by internal audit. Auditors could disclose which components were directly verified and which were verified on the basis of professional judgement, internal models, hypotheses and management explanations. To provide a "true and fair view", auditors should ensure that substance prevails over form.
>
> (European Commission, 2010:7)

To produce audit services involves a great range and diversity of people, interests and complex processes (cf. Barrett et al., 2005). The audit process – including the audit methodology, the effectiveness of the audit tools used and the availability of adequate technical support – is another important input to audit quality (IAASB, 2010, 2011:4). Firms must continuously invest in technology and knowledge management systems to be able to keep pace with developments and changes in the business environment (ICAEW, 2002). The FRC (2006:32ff) indicates that with an

appropriate (for the engagement) structure, experience and knowledge of the audit team; if resources are sufficient, high-quality technical support is available, audit methodology is well structured, the objective of ethical standards are achieved; and if audit quality control procedures are effective, understood, applied and monitored (within firms and across international networks), then an audit process is likely to be effective for quality audit. ICAEW (2002:13) also points out that strong teamwork with effective communication and knowledge sharing, as well as members with adequate qualifications and clear understanding of their roles and responsibilities are essential for high-quality audits. Also, team members must be alert to unexpected events and findings matters and adequately follow identified possible risks, anomalies or other issues. (ICAEW, 2002)

Fischer (1996) concludes that there is no single one best way to perform high-quality audits. He suggests that there are differences among auditors, audit teams and audit firms. He also suggests that the understanding of how to perform a quality audit may change over time.

According to the FRC (2006:32ff.), threats to an effective audit process involve increased use of computerised audit methodologies, over-prescriptive auditing standards, regulation and audit methodologies, and too close a relationship between auditors and clients ("client capture"). This issue was further discussed in Chapter 4 (structure versus judgment).

Gendron (2002:659) calls attention to the hierarchical structure in audit firms, where the work of auditors is "closely guided or constrained by professional standards, firm policies and procedures, and decision support systems" (see also Solomon, 1987; Libby & Luft, 1993). By means of socialization, the mind-sets of the local practicing auditors may be influenced by the organizational setting and the components of the organizational setting (Covaleski et al., 1998; Gendron, 2002). Thus, the settings where the audit processes take place are also influenced by issues such as "…professional autonomy, career advancement, policy-making, and socialization…" (Gendron, 2002:660). From his study, Gendron (2002), suggests that the intention with firm organizational components seems to be to moderate the level of tension caused by conflicts and contradictions in the auditors' environment (e.g. professionalism vs. commercialism; see also Moizer & Humphrey, 1990) Hence, by "setting the scene", the audit firm might influence auditor behaviour and decision making in the audit process.

The FRC claims that necessary attributes for an audit methodology that makes high-quality audits possible are the following: (a) providing a framework and procedures that support auditors in carrying out effective and efficient audit work; (b) providing for compliance with laws, requirements and auditing standards in a way not inhibiting the use of professional scepticism or professional judgment; (c) requiring proper and adequate documentation (cf. ICAEW, 2002); and (d) making it possible to review the work (FRC, 2006:34). I move now to discuss issues related to professional scepticism and professional judgment.

6.2.5 Audit quality: professional scepticism and professional judgment

> In practically every case the trouble goes much deeper than capital and finance. The wider and more complex issues of the general policy of the business, the scope of its operations, the soundness of its equipment and organization, the efficiency and harmonious working of its management and staff, the advantages or handicaps which it has as buyer, producer, and seller – all these must be reviewed before even the nature of the scheme can be determined. The first essential is a complete survey of the history, the present position, and the prospects of the undertaking as an economic unit… Bearing in mind the diversity of problems which may have to be solved – financial, technical, psychological, and economic – it is a significant fact that there is a clear tendency to offer the accountant the task of welding together the complete scheme of reorganization, of which the purely financial adjustments may form only a small, and far from the most important, section.
>
> (From *The Accountant*, 1927:985, in Carr-Saunders & Wilson, 1933:220)

Even in 1933, Carr-Saunders and Wilson claimed that there was a move towards using the auditor as more than a "medical adviser" and consultant. They claimed that the business world also requested the aid of auditors in direction and management itself. They observed that the situation was not without problems – "[t]he position of the company auditor is one of peculiar delicacy, for though he is appointed as the 'watchdog' of the shareholders, he must yet work in close and constant cooperation with the board" (1933:221). They then stated that it was necessary to preserve the interest of the shareholders and, in doing so, the auditor must resist pressures that might be put on him regarding, for example, how the accounts were presented. If the auditor and the directors were unable to agree, it had become an unwritten code of

the profession, a duty, for the auditor to resign. They also suggested that such an extreme step was probably not taken very often.

Several issues might affect the confidence in the audit process and thereby audit quality. One such issue is that the changing business environment has meant more complex financial reporting, involving more estimates, forecasts and valuations (FRC, 2006; FAR, 2010b). This is partly related to using professional scepticism and professional judgment.

Auditing is about giving an opinion. The audit opinion is a subjective opinion. In the audit report, the auditor should provide reasonable assurance (high but not absolute) about whether the financial statements as a whole are free from material misstatements and give a true and fair view (cf. ISA 200, paragraph 5). According to the ICAEW (2006a), reasonable assurance is something that is *attained* by auditors rather than something that is *provided* by them. As reasonable assurance is about a degree of confidence (on whether financial statements are not materially misstated), it could be described as inherently subjective (cf. Page, 2006). What is "reasonable" involves judgment (e.g. regarding the extent and nature of audit evidence needed to support the audit opinion) and may therefore vary with the situation and person who is involved in such judgment.

Hence, the quality of the opinion is directly influenced by auditor judgment. The quality of such judgements is influenced by the quality of the evidence gathered and the people who have gathered it (ICAEW, 2002; FRC, 2006). In line with this, Cowperthwaite (2009) argues that auditing, with the need to apply professional scepticism and professional judgment, is more like an art than a science. Thus, comparing auditors to artists illustrates the influence of individual qualities – auditing is a product of individual auditors just as art is a product of individual artists.

As an important aspect of audit quality, bodies within or related to the audit profession agree on the importance of applying professional scepticism and professional judgment (e.g. EC, 2010; IAASB, 2010; IFAC, 2011a; ICAEW, 2002). According to the IAASB, professional scepticism underlies the ISAs, and ISA 200 requires the application of professional scepticism in planning and performing audits, including guidance on how to do so. Also, ISAs dealing with the auditors' responsibilities relating to fraud (ISA 240), consideration of laws and regulations (ISA 250) and related parties (ISA 550) reinforce the value of professional scepticism.

Professional scepticism is considered to reduce the risk, for example, of overlooking unusual circumstances and using inappropriate assumptions when deciding how, when and what to audit (ISA 200; IAASB, 2010).

According to ISA 200, applying professional scepticism includes being alert to, for example:

- Audit evidence that contradicts other audit evidence obtained
- Information that brings into question the reliability of documents and responses to inquiries to be used as audit evidence
- Conditions that may indicate possible fraud
- Circumstances that suggest the need for audit procedures in addition to those required by the ISAs

(ISA 200: 18)

It is also necessary to maintain professional scepticism throughout the audit if the auditor, for example, is to reduce the risks of

- Overlooking unusual circumstances
- Over-generalizing when drawing conclusions from audit observations.
- Using inappropriate assumptions in determining the nature, timing and extent of the audit procedures and evaluating the results thereof.

(ISA 200: A19)

Whether auditors exercise sufficient professional scepticism has been questioned (e.g. Financial Services Authority & Financial Reporting Council, 2010), and it has been suggested that there is a need for more space for auditors to exercise their professional judgment and to do so without fear of liability (IFAC, 2011a). Warren (1984:71) argues that "the nature of auditing requires professional judgment". It has been suggested that what constitutes a quality audit might be *the* most important (and difficult) judgment for auditors to make (Fischer, 1996:237). A central issue here is

sufficiency – i.e. When is sufficient evidence obtained? Such judgment lies with and must be made by the individual auditor.

Furthermore, the audit process has evolved. Accounting standards have become more complex due to the increased complexity of modern business, and auditors must assess their clients' compliance with such standards (including increased disclosure requirements and difficult estimates) (FRC, 2006). Hence, one could probably argue that judgment is more central in auditing than ever before.

To make professional judgment is considered to be one of the most important aspects of auditing (cf. Dillard & Bricker, 1992). Auditors reach such judgments through communication with colleagues (cf. Solomon, 1987). According to ISA 200, professional judgment is especially necessary when it comes to decisions about

- Materiality and audit risk
- The nature, timing and extent of audit procedures used to meet the requirements of the ISAs and gather audit evidence
- Evaluating whether sufficient appropriate audit evidence has been obtained, and whether more needs to be done to achieve the objectives of the ISAs and thereby, the overall objectives of the auditor
- The evaluation of management's judgments in applying the entity's applicable financial reporting framework
- The drawing of conclusions based on the audit evidence obtained, for example, assessing the reasonableness of the estimates made by management in preparing the financial statements

(ISA 200: A23)

The FRC (2006) emphasizes that judgments made by auditors must be objective and supported by evidence. To be able to exercise professional judgment training, knowledge and experience is important to developing such competence that is essential to achieving reasonable judgments (ISA 200, A24). According to the ICAEW (2002:12), personal aptitude (qualities such as integrity, objectivity and scepticism) and consultation with others are other important aspects of the ability to make correct judgments.

Since every company is different, audits need to be individually tailored and since a company's situation changes, the audit may vary from year to year for the same client. This is one reason for the necessity of professional judgment. Understanding the client company and its financial statements is a cumulative process including enquiry, observation and examination of evidence. (ICAEW, 2002:8) There is no predetermined level of how much is sufficient evidence – the level required to be able to give an audit opinion. One reason for this is the variation of size, industry, corporate governance etc. in the audited entities. The nature of these judgments makes them difficult to evaluate (FRC, 2006), and the quality of such professional judgments are difficult to observe (cf. Alvesson, 2004; Humphrey et al., 2007).

6.2.6 Audit quality: audit methodology

In the so-called post-Enron era, audit methodologies are changing (cf. Khalifa et al., 2007; Humphrey et al., 2007). As discourse could be seen as a practice and a social action that is about constructing and intervening with, in this case, the field of auditing, the changing discourse about auditing is an important development (cf. Foucault, 1977; Khalifa et al., 2007; Robson et al., 2007). Hence, the "language" used indicates how something should be and/or has been interpreted and made "real"; it reflects aims, ambitions and tendencies. Research has indicated that there was first a change in discourse as "judgment" moved towards a discourse of "techniques" (cf. Khalifa et al., 2007). Khalifa et al. (2007) suggest that there has been an additional clear shift in the audit discourse, where the discourse of "business value" has been more or less replaced by the discourse of "audit quality". The emphasis on quality seems to have been initiated by regulators and standard setters such as the SEC, through SOX, and the IAASB (cf. Khalifa et al., 2007:837). This movement is highly relevant in audit practice, especially when it comes to justifying audit practice to clients (cf. Fogarty, 1996) and controlling the work carried out by employees (cf. Pentland, 1993; Fischer, 1996; Power, 2003). It has been suggested that to enhance audit quality (and the quality of assurance services provided by audit firms), auditors should combine modern technology-based auditing with more traditional procedures (such as reviewing and discussion activities). "[A]n increasingly prescriptive approach to auditing" is an issue that can affect confidence in the audit process (FRC, 2006:8). This is part of the "structure–judgment debate" which was discussed in Chapter 4.

Khalifa et al. (2007) suggest that there now has been a move from business risk and strategic systems audit methodologies towards "audit quality driven discourses" (Humphrey et al., 2007:4; cf. also Khalifa et al., 2007). Hence, the emphasis

currently seems to be on audit quality rather than on business risk. Audit quality is promoted (and is sometimes seen as a "mantra" (e.g. Humphrey et al., 2007), and there seems to be a need for auditing to be auditable (Khalifa et al., 2007:830).

There is little research on the effect of the actual audit methodology on audit quality, i.e. how the audit processes and methods used influence audit quality (cf. FRC, 2006). Martens and McEnroe (1992) conducted a survey study in this area that indicated auditors favour a compliance approach (rather than applying higher standards of reporting) when they face difficult technical choices.

The benefits of a "business risk approach" (such as effectiveness, efficiency, and addressing technological change and the needs of those charged with governance) have been pointed out by Lemon et al. (2000). Instead of using a full business risk approach in the ISAs, the IAASB has tried to develop a framework enabling auditors to decide, for each individual audit, the appropriate balance between controls and substantive testing (IAASB, 2010; see also FRC, 2006). As Power (1997:82; see also FRC, 2006) points out, much audit work is nowadays concentrated on the examination of the client companies' ("auditee organizations") internal control ("audit is control of control"). Auditors assess the clients' internal control environment by using "analytical procedures" (a technique which is about doing a reasonability assessment by analyzing, comparing and predicting financial information, key figures and trends).

Bell et al. (1997) and Peecher et al. (2007) discuss strategic-systems auditing (SSA) – described as recognizing, for example, complex systems and stressing the importance of a rich understanding of the client's business (including business model, strategy, industry, environment, risks, etc.) in order to be able to form expectations of financial statement amounts and disclosures that are then used to assess risks. According to Peecher et al. (2007:482), SSA is "one way to re-conceive the audit with substantial promise for meeting society's needs and demands for high-quality audits". They separate it from business risk audits in general by claiming that those include a client's strategy and/or business risk in assessing and planning audit risk (cf. Robson et al., 2005; Curtis & Turley, 2006) or just consider a client's business risk in the audit evidence process (cf. Knechel, 2005). Hence, SSA, or a "strategic-systems lens", is a process with a broader perspective (Bell et al., 1997:2).

Related to audit quality and audit methodology is the detection of fraud. The possibility that auditors will not detect fraud affects confidence in the audit process (FRC, 2006). According to interviewees in the IFAC report on how to integrate the

business reporting supply chain (IFAC, 2011a), auditors could do more in this area (e.g. better verify the correctness of deposits with banks and purported sales with customers); they have been criticized for not making enough effort, for example, on fraud issues (cf. Humphrey et al., 1993; Sikka et al., 1998) and consequently, protecting investors and public interests (cf. Lee, 1995). This development might rest upon an enhanced focus on "examination" (Carpenter & Dirsmith, 1993) and making clients "auditable" (Power, 1996, 2003) instead of a more explicit focus on the detection of fraud (cf. Carpenter & Dirsmith, 1993).

One suggestion has been "a specialist class of auditors" who can better assess risks related to (complex) financial statements and who can assist other auditors on such issues (IFAC, 2011a). Establishing, for example, industry specialization – using auditors with special industry expertise – could be one way of enhancing (at least perceived) audit quality (cf. FRC, 2006). The ICAEW (2003) highlights promoting and reinforcing professional scepticism through the development of quality control procedures as an important aspect of improving fraud detection.

This kind of industry expertise could do more than just serve as a fraud detection device. Shockley and Holt (1983) and Palmrose (1984, 1986) claim that industry expertise could enhance the ability to gather better audit evidence and thereby lead to audits with higher quality.

6.3 What is audit quality?

The previous sections on audit quality have set out a wide range of ideas and perceptions about audit quality. Here, I try to summarize those ideas and perceptions and elaborate on what audit quality is about.

As I see it, there are different aspects of the audit quality concept. The overarching aspect includes issues related to *why* high-quality audits are important. The public interest function of auditing is central and includes supporting the quality of financial reporting around the world and contributing to financial stability. High audit quality is seen as a crucial part of efficient capital markets and effective allocation of economic resources. Higher audit quality is also presumed to enhance the usefulness of financial statements and audit reports. From a client (and auditor/audit firm) perspective, higher audit quality seems associated with "adding value".

Another aspect concerns *what* audit quality is, and it has been suggested that high audit quality implies a higher probability that the auditor will find and report misstatements; that it is about following standards, regulations *and* reaching appropriate judgments in difficult and complex situations (hence, the "appropriateness of the opinion", that the audit report is independent and reliable and based on appropriate evidence). It is also about enhancing client companies' corporate governance and control systems. To clients, audit quality seems to be quite distinct – "value for money". A general idea, however, is that what audit quality is depends on perceptions, and that perceptions of audit quality vary among (and probably within) different groups of stakeholders. For example, the perceptions of investors, regulators and auditors (might) differ.

The *how* aspect includes a large number of ideas and perceptions. One category is about context matters such as the framework (including laws, regulations, standards, inspection and oversight), the business, regulatory and societal environment (including information needs and technology) as well as the constantly changing and evolving context. A second category includes matters outside auditors' control – actions of others, good corporate governance within client companies, audit committee decisions, shareholder support, exposure to litigation, quality of regulator staff, and time pressures. However, the major category includes matters within auditor and audit firm control. These may be categorized as follows:

- Auditor qualities matters

This category includes auditor (personal) qualities (and characteristics) – ethical values, sense of professional obligation, independence, integrity, objectivity, rigour, scepticism, perseverance, robustness, expertise, business knowledge, technical competence, experience and skills. It also includes having updated and developed knowledge and skills.

- Auditor practice matters

This category includes auditor effort, actions, behaviour and mind-set. It includes complying with ethical and professional conduct standards and applying professional scepticism and making objective, reasonable and appropriate professional judgments. It also includes auditors giving attention to the letter and the spirit of audit quality policies and procedures.

- Audit team-related matters

This category includes having an appropriate team structure – including sufficient experience and knowledge. It also includes strong teamwork with a clear understanding of roles and responsibilities and effective communication.

- Client-related matters

This category includes adapting the audit to client companies (through a comprehensive understanding of the companies and their businesses) as well as auditors and audit firms expecting and requiring commitment to audit quality from clients. It also includes the notion that relationships with "clients" (representatives of client companies) serve both as promise (due to information and understanding) and threat (due to independence issues). The importance of openness and honesty as well as mutual trust and respect is emphasized. The provision of NAS serves both as promise (due to gaining and enhancing expert knowledge) and threat (due to independence issues).

- Audit firm-related matters

There are several matters related to firm culture, leadership and processes included in this final category. This includes supporting audit quality through policies, communication, expectations, compliance, reward systems, and sanctions as well as making an effort to create an environment (culture) where audit quality is embraced. It also includes audit firms recognizing (a commitment to) audit quality in their strategies and continuously communicating the "quality message" (through, for example, training seminars, newsletters, meetings and job descriptions). When it comes to audit firm leadership, the tone at the top at audit firms and, for example, attitudes and efforts in recruitment, training and promotion of managers is seen as important. Another important issue is audit firms' support of professional development. This category also includes process-oriented matters such as the audit firms' methodology, tools and resources – including the provision of technical support and a supporting information infrastructure. It emphasizes the importance of audit firms having appropriate performance evaluations and clear performance appraisal systems that are well communicated and formally documented as well as constructive monitoring (quality control) systems (including regular feedback and assessment) that are documented and aiming at improving employee performance.

Ethics, integrity and commitment to continuing professional development are examples of audit firm values that are related to audit quality (IFAC, 2007b). The key

issue related to audit process issues is probably that audit practice must continue to develop (e.g. IFAC, 2011a).

The Public Oversight Board (POB, 2000) emphasizes the importance of performance appraisal. The board recommends that review performance measures focus on the depth and substance of understanding of the client's business and risk, responsiveness to unexpected or unplanned conditions encountered in audits, development of innovative audit approaches, professional scepticism and persistence, and knowledge of accounting principles and practices. Also, POB argues that since professional development is an essential issue towards improving audit quality, it must be given priority.

One main underlying question is: How can audit quality be measured? The ICAEW (2006b) claims that it is possible to measure audit quality and that it is important to do so. However, ICAEW stresses that measuring could be improved and that there should be more focus on qualitative measures (instead of quantitative) such as the quality of judgments, training and feedback (from shareholders and audit committees).

As I see it, "audit quality" has different dimensions. At least two such dimensions are apparent: "audit quality" as quality work performed by auditors (scope and content) and "audit quality" as the usefulness of the audit (which, as described, differs depending on stakeholder perspective). The former includes performing excellent audit work, while the latter includes meeting the needs of different stakeholders. These dimensions are interrelated – e.g. excellent and impeccable audit work must include judgments and decisions on what to audit; and this is related to aspects such as the structure and the business operations of the client (i.e. includes stakeholders such as investors, suppliers and consumers); also, individual stakeholders' use of the audit depends on the scope and content of the work carried out by the auditors.

There is a large body of research on audit quality which includes studies that

(a) problematize the audit quality concept (including whether it can be measured or not, and normative aspects on what audit quality should be and how it could be enhanced);

(b) try to explain audit quality (what it is, what influences/drives it, etc.)

(c) try to explain different phenomena related to audit quality by using audit quality proxies (such as audit firm size).

I agree with Connell (2001), who argues that it is important to distinguish between actual and perceived audit quality (see also DeAngelo, 1981a, 1981b). Connell (2001:174) indicates that that most empirical studies measure "perceptions of market participants" and that empirical studies which focus on actual audit quality (as defined by DeAngelo, 1981a, 1981b) are rare. Actual audit quality could be studied by reviewing audit files or by reviewing audits from within audit firms (Connell, 2001).

Different professional organizations and bodies, such as international and national professional institutes and standard setters, have carried out incentives and projects where audit quality is "explored". They have issued guidelines, reports etc. to explain concepts and related issues and to point out possible improvements. To some extent, these can be seen as representing auditors' views on audit quality (as many of these organizations are mainly represented by auditors). I would, however, claim that (a) there is a relevant difference between auditing as discussed on the highest levels (such as by standard setters) and auditing as a day-to-day activity carried out by individual auditors in local contexts, and that therefore (b) the perspectives of individual auditors in local contexts need to be explored and better understood.

In line with initial arguments made in this study, I consider this to be an important task. There are reasons for this claim: to get a comprehensive view on audit quality (what it is, what it can be, how it can be improved, etc.), the insights and perspectives of individual auditors must be included. One must better understand what is going on at the site of audit firms, what situations auditors are facing, and what day-to-day audit work is about in order to further fruitfully discuss and work on audit quality and issues related to it. I agree with Connell (2001) that actual audit quality could be studied by reviewing audits (through reviewing audit files or by review audits from within audit firms), and that examining real audits is vital in order to understand audit quality. As Connell claims (2001:175), I suggest that "audit quality can only be examined in depth by researchers delving inside audit firms and their clients" as well as by careful discourse analysis (as suggested by Khalifa et al., 2007).

However, I need to restate that studying actual audit quality is not my intention. Instead, in this study I try to explore the day-to-day activities by auditors (what they do, as well as how and why they do what they do). This is my intent because

(a) I find this to be an important aspect in trying to establish a general and comprehensive understanding of auditing;

(b) I have taken on the challenge of exploring what "audit quality" means in everyday audit work (cf. Humphrey et al., 2007:17); and

(c) at least to some extent, I question who would be experienced and competent enough (while remaining objective) to investigate and assess audit files, look at whether they indicate audit quality or not; and if such assessment is done, it is still a subjective assessment (and might not be experienced as audit quality by others). Nevertheless, I realize the importance of such attempts, recognize their potential value and would strongly encourage such case studies.

6.4 Summing up and issues raised

(High) audit quality is a difficult outcome to measure. Again, it seems easier to point out really bad audits than really good ones, and hence, easier to measure audit quality when it is not there. And I suggest that the views, opinions and suggestions presented in this thesis seem to regard audit quality, as least to some extent, as something that is often "visible" when it is not there. Thus, the important issues to explore are not only how auditors characterize high-quality audits, but also how they know and make sure that they have done good and sufficiently extensive audit work. It is my hope that this study will contribute to a greater understanding of these matters.

In the preceding chapters, I have investigated a range of important and essential aspects of auditing streaming from the literature reviewed. In Chapter 7, I return to the methodological aspects of this study.

Chapter 7

Fieldwork Realization

To generate a researchable problem is the starting point in all research. Defining a research problem is one of the two most challenging tasks in the whole process. Analyzing data is the other. This chapter focuses on the critical steps between these two points in the research process: the research design and the method of data collection. Usually, planning and preparing the actual collection of data is what is done afterwards. But the high level of secrecy in audit firms (mostly because of the importance of client confidentiality)[41] *creates difficulty of access for researchers, so the planning and preparation of data collection play significant roles in the research design. One could argue that this problem arises because the research is dependent on access, which, in this case, is decided by representatives at the fieldwork site (here, Audit Firm 1). Creating as much transparency as possible is one way of handling the problem (Rennstam, 2007); reflexivity is another (cf. Alvesson & Sköldberg, 2008). An important intention of this thesis is therefore to reveal as much as possible to readers so they have a better opportunity to form their own opinions and interpretations without the researcher revealing the actual audit firms and auditors and thereby breaking the disclosure agreements.*

Research design involves comparing alternative methods that might be used and includes sometimes difficult choices about methodological assumptions (see Chapter 2). The aim of

[41] Except for informing authorities when the law stipulates, auditors must observe professional confidentiality and must not expose clients to any harm (cf. Warming-Rasmussen & Jensen, 1998). This is fundamental for auditors and audit firms.

this chapter is to present the chosen empirical method, argue for its relevance and explain how it was realized. This also involves discussing the consequences of those choices.

7.1 Research process (the working process)

The fieldwork was carried out quite early in this project. It took place over a period of about two months (October to December) in 2008. The material was then analyzed during a lengthy period (partly due to the large amount of data). During the initial analysis, I saw that I needed to include additional material and hence the sections on trust and scepticism (5.3, 5.4 and 5.5) were added.

The interviews took place during August and September 2011 and additional observations were made in September 2011. When the interviews and all the collected data (including notes, quotes, experiences, impressions, insights, etc.) as a whole had been analyzed, some preliminary results were put together to be used for respondent validation. Comments from those respondents (in the beginning of 2012) were incorporated and the conclusions finalized.

7.2 The observations

7.2.1 Observational research

As I not only aim to understand what auditors do, but also how and why, I stress the importance of gaining insights from within the audit firms. Grey (1998:572) studied how auditors operationalize professionalism and claimed that it was "necessary to have 'insider' knowledge of what accountants do when they work". To do so, he observed practices and attempted to analyze the meaning of those practices.

According to Dingwall (1997:52f), the methods of social research can be divided into "asking questions", "hanging out" and "reading the papers". The same sort of division has been made by Easterby-Smith, Thorpe and Lowe (1991): (i) interviews, (ii) observations and (iii) diary methods; and by Silverman (2006): (i) interviews and

focus groups, (ii) observations, (iii) audio and video recording and (iv) analyzing texts and documents.

Research that views auditing as a technical practice sees auditor judgment as a "practice conducted by individuals who must respond efficiently to cues in the auditee environment and make decisions accordingly" (Power, 1995:318). Since this perspective ignores "the social context in which decisions are made, where judgements are not simply the procedural outcomes of the application of a set of audit techniques" (Curtis & Turley, 2007:441), it has been criticized (Kirkham, 1992). Environmental conditions (Brody, Golen & Reckers, 1998) along with personal, social and organizational factors "influence judgement and decisions that are reflected in behaviour" (ICAEW, 2007a:2). The auditor is a part of the environment of the audit – the auditor's decisions are a reflection of the environment at the same time as they also may serve to constitute it (Hines, 1989; Kirkham, 1992). As professionals, auditors both create their work and are created by it (Abbott, 1988). The fact that auditors cannot free themselves from a complex set of social relations when performing an audit indicates that audit practice must be studied within its context. Observation "has often been the chosen method to understand another culture" (Silverman, 2006:19), to gain understanding of what is going on in a particular context from the participants' perspective (Bryman, 1988).

Khalifa et al. (2007:845) point out that "what people do and what they say they do are not the same" and that talk of change does not imply shifts in practice, but that "[a]udit practices and methodologies are, however, constructed partly through discourse" (see also Philips et al., 2004). By using observation, both auditor activities and discourse may be seen within a context. Using observation, the researcher can compare what people say and what they do. While interviews will tell you how a certain individual experienced a certain situation (which means that the interviewee, consciously or unconsciously, "sifts" the experience for you), observation makes it possible for the researcher to be the one who makes the selection (cf. Fangen, 2005). This is advantageous, since you can choose the perspective, but for the same reason, is not without its problems; on the contrary, it raises the issue of interpretation and the importance of reflexivity (cf. Alvesson & Sköldberg, 2008). Interpretation and reflexivity will be further discussed in section 7.2.4.4.

One advantage of observation is that it yields rich empirical material that is more natural than empirical material collected from surveys and interviews (Alvesson and Kärreman, 1995). However, there are limitations to what information can be collected – observations do not reveal what is going on in people's heads.

Adler and Adler (1994) distinguish between qualitative and quantitative observations. Quantitative observations are experiments where a certain situation is created to assure standardization and control, while qualitative observations are observations of more naturally occurring situations. Both these types of observations are afflicted with choices and consequent problems. The observations carried out in this study are of a qualitative character. Therefore the focus in the following sections is related to those choices and related problems.

7.2.2 Previous auditing studies using observations

Overall, there are only a small number of field studies within this area, that is, auditing *in situ*. Power (2003) discusses some important contributions to the understanding of auditing and the production of legitimacy. In this section, I review some of those studies as well as some field studies carried out after Power's article was published.

To describe the details of audit work as a part of a study of how auditors in large public auditing firms create and use working papers, Pentland (1993) made field observations of two audit engagements. To collect data, he used observations, interviews and verbal protocols of working paper reviews. He was permitted to observe and interact with the members of audit teams, and the observations allowed him to collect detailed data on audit practice. This combination of methods provided much data without interfering too much in the conduct of the audit work.

Fischer (1996) conducted an interpretive field study within Big 6 audit firms to examine the effects of recently implemented audit technologies on audit practice. Covaleski et al. (1998) conducted an ethnographic field study in Big 6 public accounting firms, examining "how organizations transform professionals into disciplined and self-disciplining organizational members whose work goals, language, and lifestyle come to reflect the imperatives of the organization" (p. 293). To examine the concrete practices through which professionalism is enacted, Grey (1998) used an extensive case study of a Big 6 audit firm. In addition to interviewing trainees, Anderson-Gough et al. (2000) spent time at two Big 6 audit firms in the UK to talk to the members of the personnel departments and to "hang around" and "listen in". In a field study at three Big 6 audit firms in Canada, Gendron investigated how auditors make client–acceptance decisions (Gendron, 2001) and how the audit firm organization influences such decisions (Gendron, 2002). Westerdahl (2004, 2005) carried out a field study in auditing (where he followed auditors during several weeks

of their work) and concluded that balancing formal procedures and interpretations is central in audit practice. Westerdahl also described how auditing seems to be more about correct formulations and language issues as well as negotiations and adjustments (and agreements) between colleagues and with clients, rather than about reading standards or interpreting the firm manuals. He concluded how the approaches to and application of rules and regulations are "fostered" through everyday work situations within the firms and that the important space for ethical discussion is limited due to commercial pressures, detailed rules and regulations and increased structure (cf. also Forsberg & Westerdahl, 2007). Barrett et al. (2005) studied globalization and the coordination of work in multinational audits and conducted a detailed study of the management of a Big 6 (now Big 4) audit firm in Canada over the period July 1996 to September 1997; they had full access to audit working papers and files related to one of the firm's clients. Mennicken (2005, 2006) investigated the introduction and circulation of ISAs within a post-Soviet audit firm by participant observations and by looking at its internal documents, the audit manuals, internal standards and quality control procedures. She also conducted semi-structured interviews with members of different departments at the firm. The interviews were complemented by interviews with auditors at other firms, with regulators and with academics. By conducting a longitudinal case study, developed by a set of audit files over a five-year period, together with interviews with audit team members Curtis and Turley (2007) examined the impact of the business risk audit on actual audit practice and on practitioners.

7.2.3 The focus of this study

7.2.3.1 Case study design

Professional firms become increasing important with regard to professionalization and regulatory processes. Cooper and Robson (2006) claim that multinational professional service firms (the Big 4) have not received the attention that they warrant and that studying them could enhance the understanding of professionalization and professional regulation. These firms are important sites where professional identities are mediated, formed and transmitted (Cooper & Robson, 2006).

Due to the time-consuming fieldwork necessary to collect empirical material in this study (see section 7.2.4) and the difficulty of getting access to audit firms (cf. Grey, 1998; Power, 2003; Khalifa et al., 2007; Humphrey, 2008), a single-case design was chosen to address the research question. One rationale for a single-case study is the

revelatory case (Yin, 2003). Since few researchers previously have had the opportunity or access to observe audit practice in its real-life context, the use of a single-case design is justified because of its revelatory nature.

The criticism of single-case studies reflects upon problems with uniqueness (inter alia). Single-case designs are vulnerable, especially since the researcher has to "put all the eggs in one basket" (Yin, 2003:53). Since there is no other case, there is no possibility of direct replication. Another problem is that analytic conclusions arising from two or more cases are more powerful than those from a single case. However, a single case could be considered an appropriate research design when the intention is to study an everyday situation (Yin, 2003).

The present study is mainly a holistic case study, which means that it involves one main unit of analysis, Auditor A (who will be further described in section 7.2.3.2). However, in trying to assure the reliability and validity of the findings, supplementary observations (section 7.2.4.6) and interviews (section 7.3) were also carried out.

7.2.3.2 The site and case for the main observations

The site

The big audit firms are organized as private corporations, where auditors are the biggest owners. According to Revisorslagen (2001:883) – the Auditors' Act – authorized public accountants (*auktoriserade revisorer*) and/or approved public accountants (*godkända revisorer*) must own and control 75 percent of the votes in an audit firm.[42] This means that auditors working in the same firm also share its ownership – an arrangement called "partnership". Similar arrangements and rules exist within the EU (cf. the Statutory Audit Directive, 2006/43/EG). The relatively large number of partners have "some voting power, are the firms' key production workers, in charge of recruiting new clients and providing services" (Gendron, 2002:660).

Jonnergård (2008:187) claims that the Big 4 audit firms are "not only multiprofessional, but have virtually attained a global oligopoly in the market for large corporate accounting" and as such they have enormous direct influence on the

[42] According to *Lag (2009:564) om ändring i revisorslagen (2001:883),* Revisorsnämnden grants an exemption from these terms, but more than 50 percent of the votes must belong to auditors (authorized or approved public accountants).

profession (cf. also Boyd, 2004; Liu & Simunic, 2005; European Commission, 2010). The Big 4 form some of the biggest service corporations in the world (Greenwood & Empson, 2003). The same Big 4 dominance applies in Sweden – Deloitte, Ernst & Young, KPMG, and PwC have the significant market share.

According to Wallerstedt (2001:864), these firms have adopted certain "big business" features: a uniform corporate style, common auditing procedures and common technical standards. In questions concerning policy and practice, they turn not to the professional associations but to their own firm committees, research groups, etc. (Jones, 1995; see also Wallerstedt, 2001).

The Big 4 are hierarchically structured. Several titles are used: assistant, senior, manager, senior manager and partner. The title depends on, for example, experience, training (courses, etc.) and authorization. Becoming a partner is also about the ability to get and keep clients (cf. Westerdahl, 2005).

I observed an auditor from one of the Big 4 audit firms (Audit Firm 1). This auditor, Auditor A, is described in this section. I chose the auditor's office as the site of the observation. There are three main reasons for these choices.

First, consider how, writing in 1917, Paul V. B. Jones described the procedure undertaken by an auditor in Tudor England (around 1500): "[o]nce he began upon his books, the Auditor remained right in his room, his food allowances and other necessaries being carried in to him" (p. 144)). Describing the later development of the British audit profession, Littleton (1933:262) refers to the Jones' description: "once he was engaged in his work with the records, the auditor often remained steadfastly in his room, even food being brought to him".

Over 500 years have passed since the auditor performed this kind of ritual, though much has changed since then. I still, however, think that an interesting and important assumption could be made out of it – the auditor's room, the office, is an important site for the understanding of auditing practice. Behind the office door, at the desk, the auditor is assumed to conduct audits and hence, it is expected that this is where an auditor's practice and activities takes place and can be observed. It is, however, important to stress that other sites, such as meeting rooms and clients' premises, also are central in describing and understanding audit practice. For reasons discussed below, these other sites were not considered in this research.

Secondly, the notion of socialization and the implications of being a professional in a Big 4 audit firm[43] (Grey, 1998) suggest that auditors, consciously or unconsciously, might act in certain ways due to socialization (cf. Anderson-Gough, 2000). According to the theory of professions, "high status" is an important matter within professions and can be seen as being conferred upon them by society (see section 3.1.4). Additionally, the Big 4 are hierarchical, meaning that all employees have a title and thereby also a certain position and place within the organization and certain tasks to perform. It has also been stressed that the nature of the relationship with the client should be strictly professional. This is particularly evident when considering the importance of and great emphasis on auditor independence. Considering these four aspects (socialization, status, hierarchy and independence)[44], I make the assumption that outside their own offices, auditors are more aware of their actions and therefore act in a conscious way. Thus, the auditor's office should be an important site for observing audit practice. However, as I will discuss, being the focus of someone's observations and having someone sitting next to you taking notes about what you do and say is, of course, an unusual situation and will most likely also have an effect on the auditor's actions.

Thirdly, a more obvious reason for not including observations of auditors outside the office area, such as clients' premises, is that sites like that are more accessible for "outsiders". Thus, outside the office the auditors can be seen anyway, and their actions might not be seen to be as mysterious as the actions taking place behind the closed office door.

Also related to the site is the office size. Francis and Yu (2009) argue that larger offices, due to the presence of greater in-house experience, are more likely to provide high-quality audits. The office where I carried out my observations could probably be classified as medium-sized.

Another important issue related to the site is the structure of the audit team. The model presented here is based on the empirics from this study. As it is relevant for the following sections it is included here. The results indicate that the team structure is very similar in all of the Big 4 audit firms. The chart in Figure 3 was initially drawn by Auditor A and has been slightly modified after the interviews.

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[43] When the article by Grey (1998) was written, they were the Big 6.

[44] I stress that the aspects given as examples are just examples. My intention with this section is to give examples upon which I ground my assumption about the office being an important site.

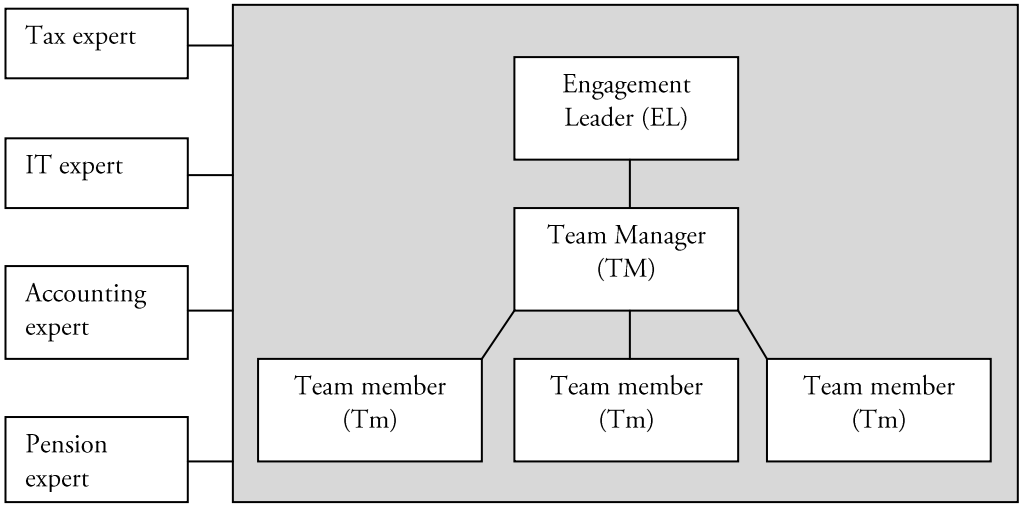

Figure 3 – Audit team structure

Figure 3 shows the basic structure of a "normal" team for an individual engagement. The number of team members varies depending on the size and complexity of the engagement. Also, there is often an additional level of team members ("assistants") and for very large engagements there could be more than one team manager. For very small engagements, there might not be any team members. Auditors of all different hierarchical ranks *could* take on the assistant and manager roles in the team; however, the role in the team is generally dependent on hierarchical level (meaning that assistants are team members, and partners are mostly engagement leaders). Hence, the team role is connected to professional status. The individual auditor can have different roles for different engagements. The experts mentioned in Figure 3 are examples; what kinds of experts are attached to the team depends on the characteristics of the individual engagement. Hence, each engagement has its own audit team.

Auditor A

At the time of my fieldwork, Auditor A (a woman in her thirties) had just passed the examination to become an approved certified accountant (*godkänd revisor*). She was involved in about 60 audit engagements and had the manager role in most of those audit engagements. She describes herself as a "project leader". However, for some audit engagements she was the signing auditor (engagement leader) and for other engagements she was a team member without any managerial or leading role. Thus, for most audit engagements, she had what can be described as a "middle manager

role" and therefore she was "in the midst of the net of relations in the audit team" (Carrington & Catasús, 2007:40); also in the middle of the hierarchy, directly involved with both top managers and assistants and in a highly pressurized position. Hence, it has been suggested that these middle managers (often called "seniors") have a key position within the audit firms in matters such as audit quality (cf. Kelley & Margheim, 1990; Malone & Roberts, 1996; Otley & Pierce, 1996a, 1996b; Carrington & Catasús, 2007).

In this study, I made the choice to exclude gender aspects (that is, aspects related to the fact that Auditor A is a female auditor are not stressed). Since this study is about individual auditors and their everyday work, which includes issues such as trust and risk, as well as personal attributes, I realize that such delimitation entails shortcomings when it comes to understanding the nature of audit work.

The Manual

The first day at the office, Auditor A showed me in detail how "The Manual" was constructed and how it works. However, when the first part of my fieldwork was completed, I realized that it most likely would have been useful to have received some actual "training" in using the manual.

"The Manual" (the in-house audit manual) is the computer-based program/system constructed by the specific audit firm. Hence, all of the Big 4 audit firms have their own manual. It is organized by different steps and procedures. It includes descriptions, instructions, checklists, questionnaires, tables and matrices. It is connected to a client and an audit engagement database as well as to databases consisting of checklists, standardized forms, reports etc. The manual is used for communication and it includes the audit program and work paper files. It is also a control system. The engagement team uses the manual for real-time exchange of information.

The point of time

The point of time for the fieldwork could be described as having (at least) two dimensions – a wider historical and "present" dimension and a "time of the year" dimension. The former, "the current auditing scene" has been described earlier (see 3.4 and 3.5.2); this section will focus on the latter dimension. The importance of "time of the year", as pointed out by most study participants – i.e. activities carried out, to some extent the time spent on each activity, workload and degree of time pressure – depends on what time of the year it is.

Tables 2 and 3 present an annual overview and the planning of an average week for Auditor A. The description is the auditor's own and was provided to me at the beginning of my observations.

Table 2 Annual overview of auditor work phases

Quarter	Month	Phase
Q1	January	Auditing large companies
	February	
	March	Auditing medium-sized companies
Q2	April	Q1-examination, large companies
	May	Auditing, small companies
	June	
Q3	July	Q2-examination, large companies
	August	Courses
	September	Management audits
Q4	**October**	"Hard close"[45], Q3-examination, large companies
	November	Management audits and preparations before 31 December
	December	

As indicated in Table 2, my observations were carried out during the last quarter of the year (October, November, and December) and during that phase, so-called hard

[45] An early examination with the purpose of (for example) identifying possible auditing issues in advance.

close examinations, Q3-examinations, management audits and preparations for the turn of the year are the focus.

Table 3 Planning of an average week for Auditor A

January, February, April, **October, November**	
Monday	Visiting client, large company
Tuesday	Visiting client, large company
Wednesday	Visiting client, large company
Thursday	Visiting client, large company
Friday	Visiting client medium-sized company
March, May, August, December	
Monday	Visiting client medium-sized company
Tuesday	Visiting client medium-sized company
Wednesday	Visiting client medium-sized company
Thursday	Auditing at the office
Friday	Auditing at the office
June, July	
Monday	Auditing at the office
Tuesday	Auditing at the office
Wednesday	Auditing at the office
Thursday	Auditing at the office
Friday	Visiting client medium-sized company
September	
Monday	Course
Tuesday	Course
Wednesday	Course
Thursday	Course
Friday	Auditing from the office

Table 3 indicates that during the time I was observing Auditor A, she spent many days at the client site, i.e. visiting large and medium-sized clients. A few days a week, she audited from the office and it was on those days I was present. The fact that she spent most time outside the office probably influenced my empirical material, since the relatively few days at the office might have include different activities, or at least a different division of activities, than during phases with more auditing at the office. Auditor A described the work during this phase as more about "following up" and that much time at the office was spent on documentation activities.

7.2.4 Work in the field

> The method of participant observation has its roots in ethnographic research studies.
>
> (Easterby-Smith et al., 1991:96)

7.2.4.1 About ethnography

The concept of "ethnography" is often used as a synonym for fieldwork (Fangen, 2005). Ethnography could be described as anthropological fieldwork and could be said to be studies where the researcher takes part in a social situation (or a community) over a longer time period. The aim of such research is to make social actions in one world understandable from another world's point of view (Fangen, 2005:29). To reach this understanding, one must take part in and enter deeply into the community over a longer period. According to Prasad (1997:107), the cultural understanding of ethnography "cannot possible be over-emphasized". He further states that "ethnographers are strongly wedded to understand events and social interactions within a specific cultural context" (e.g. a professional audit firm).

Even though observations might be seen as the primary method in ethnographic research (Silverman, 2006), other methods, such as interviews and surveys, also are used for collection of empirical material in this kind of research (Alvesson & Sköldberg, 2008).

The ethnography concept is quite widely used (Fangen, 2005). However, one could probably say that what different types of "ethnographic research" have in common is focus on cultural phenomena or ideas, ways of thinking and symbols (Alvesson &

Sköldberg, 2008; Fangen, 2005). When it comes to analysis, ethnographers commonly use hermeneutic methods (Fangen, 2005).

Prasad (1997:115) argues that ethnography is "immensely attractive and insightful" but "not an easy methodology to practice".

There are important aspects related to who is lawfully allowed to perform audit work; for this study, as there are important advantages of a "shadowing" approach, I did not take part in the day-to-day audit work. Accordingly, this is not a "genuine" ethnographic study, but rather a study with ethnographic influences.

Due to limitations in conditions such as limited access and my own limited experience in conducting observations and interviews, this study does not claim to fully live up to the type of study that Barley and Kunda (2001) quite strongly favour and sees a "revival" need for. Especially from an anthropological perspective, this study is certainly not ethnographic. Due to difficulty of gaining access to audit firms, fieldwork research of this kind is still fairly rare (e.g. Grey, 1998; Power, 2003). Power (2003:380) points out that this is one issue to consider when reflecting upon the methodological weaknesses of these kinds of studies. He describes some studies as "nascent anthropology" with some evidence of "ethnographic aspirations" that might be possible, but are in practice limited.

Also, Luhmann (1986) points out that the world as seen from an observer point of view most likely is different from the world as seen from the observed. In research towards understanding audit practice, this might be seen as a disadvantage as it does not catch the world as seen by the observed. It could, however, also be seen as an advantage – the external observer might be able to see and to distinguish between alternatives and to notice and reflect upon matters that the observed does not reflect upon (cf. Czarniawska, 2007). It is important, though, to emphasize that the activities etc. included in this kind of study are seen from the observer perspective.

With this in mind, I stress that this study is of an exploratory and exemplifying nature, yet relevant despite its shortcomings.

7.2.4.2 About participation

There are two main types of observations: participant observations, where the researcher takes part in the social situation as human being, and non-participant

observations, where the researcher conducts research as an outsider watching what other humans do (Fangen, 2005; Kostera, 2007).

The most extreme form of participation is probably one of the best ways to understand social actions, but such participation would probably mean that "the researcher role" is weakened or even fades away. By merely observing, the researcher role remains strong, but could mean difficulties in fully understanding communication observed used in a social situation (Fangen, 2005).

Depending on ontological and epistemological standings, the following discussion could imply that a combination of participation and observation, or "participant observation", is a relevant choice for collecting empirical material in this study. One advantage of participant observation is that, as an insider, the researcher can get access to sensitive information and/or information that is hard to grasp for outsiders (Kostera, 2007). A subjective approach advocates leaving the observer stadium and involving oneself as participant. Knowledge cannot be generated objectively; the researcher needs to get involved in order to be able to gain understanding.

The most extreme form of subjectivism means that humans are completely unbound and independent. Advocates for objectivism (positivists) would probably argue that participating is not in line with the collection of observable facts and not agree on a combination of participating and observing as a solution. According to the objective approach, the world exists irrespective of individuals' perception/view of it – individuals are born into an already existing world. In the most extreme form of objectivism, the situation determines a person's actions.

7.2.4.3 Direct observation and shadowing

Direct observation and shadowing (cf. Czarniawska-Joerges, 1992; Czarniawska, 2007) are hybrids of the two main types of observation (participant and non-participant). In direct observation, the researcher can be seen as a "guest" rather than a part of "the group". The researcher can ask questions while observing. This way, the researcher could obtain not only descriptions of what people do, but also obtain explanations and/or opinions as to why they act as they do. Shadowing means following a person around, interrupting as little as possible – basically the only interruption is to ask questions about what the person does (Kostera, 2007).

Time and access seem to be problematic issues in many areas of research. As in most studies, a certain time limitation is present also in this study. Access to audit firms has

also been an issue. Perhaps "going native" (in an anthropological way) would be the best way to gain understanding of the actions of auditors, and even if the time issue could be handled in some way, the access issue is a more difficult nut to crack. The access in this study came with certain terms, and relevant choices were made together with the audit firm. This was not without its problems.

Under these conditions, access included "hanging around watching, asking questions and listening in" (cf. Strauss, 1987). Rather than being a "fly on the wall", I was considered a "guest" or a "shadow". Such direct observations do not require presence every day (Kostera, 2007). However, there are certain problems connected with the awareness of being observed, especially since having a "guest" or a "shadow" around watching you work is probably not very common. A criticism of observations where humans taking part in a situation know they are being observed is that they act differently just because they are aware of being watched. This speaks for taking part to the extent that the researcher is not recognized as a researcher, but as an auditor. However, since the researcher in this case is not an auditor, and therefore not allowed to do "real" auditing work, it is not possible to "go completely native". Nevertheless, from field research experience, Alvesson and Kärreman (1995) state that the subject of the study gets used to the situation quite fast and soon almost ignores that a researcher is present.

One solution to the problem could be to observe secretly. This might be possible if observing human actions in a department store or in some public square, but not when it comes to observing auditors "in action". The auditors will know that there is a researcher present; they will see the researcher "hanging around listening in", and it would not be ethical to not tell or lie about why they are doing so. The "awareness of being observed" issue is often dealt with by observing over a longer time period – so that the observed gets used to having the observer around.

Limited access did not make this solution possible in this study. During the days I spent at Audit Firm 1, I would hardly suggest that Auditor A got used to having me around, but I hope that it was enough time for Auditor A to at least not be uncomfortable with the situation. I also tried to deal with the issue by being friendly and by very strongly emphasizing that I was not there to in any way evaluate the performance of Auditor A, that I did not have nearly enough practical knowledge to do so. Auditor A and I have discussed these issues after the interview that was done at a later stage of the study. She seemed very sincere when she said that she had not been uncomfortable during my observations. Quite the opposite, she claimed that she enjoyed the time I spent at her office. This, as well as the fact that Auditor A was

chosen for me (by a partner at Audit Firm X), is also something that I have to reflect upon – perhaps the work and activities during my observation were not representative enough for some kind of understanding of audit practice?

7.2.4.4 About interpretation and reflexivity

In order to understand what people's actions mean for them, "it is necessary to seek to access the meanings and interpretations which people 'carry around in their heads'" (Anderson-Gough et al., 1998:39). This implies that direct observations of what people do, in the most basic positivistic way, have limitations.

Conducting observational research is not unproblematic. The perspectives and interpretations of the researcher strongly influence what and how something is described (Alvesson & Kärreman, 1995). Related to issues of interpretation is the matter of validation. Dingwall (1997:62) points out regarding validity that to test it readers can ask themselves whether they distinguish clearly between data and analysis.

According to Silverman (2006:11), researchers and philosophers agree that "the facts we find in 'the field' never speak for themselves but are impregnated by our assumptions". Simple reports of events are rare and even though the researcher may strive to be objective, "even scientists only observe 'facts' through the use of lenses made up of concepts and theories" (Silverman, 2006:12).

Observation is not just seeing; it is experiencing. However objective the researcher tries to be in a study, the participant observations entail not only empirical material, but also gaining knowledge about auditors, auditing and the context in which auditing work is done. This knowledge gradually forms the lens through which the auditor's day-to-day activities are observed and it is inevitable that this influences the interpretations. In the best case, the knowledge gained helps the researcher to see and collect relevant data; in the worst case, the collected material is biased due to a faulty focus.

To interpret and reflect means that the researcher is aware that the data he/she collects (e.g. by observations) is not a mirror (reflected) image of "the reality out there". The researcher has to interpret not only the empirical material but also his/her interpretations. Awareness of one's view on ontological and epistemological issues (and their consequences) is important when it comes to interpretation of interpretations.

Reflexivity is to be aware of the research process. In my research, subjectivity is a problem. I made the observations "alone" and depending now on how I sort the material, different versions could be produced.

Probably every researcher entering a field to collect data has some pre-understanding or knowledge of the topic that is going to be studied. What is important is to be aware of it, at least to a reasonable extent, and of the consequences.

By doing fieldwork, as a researcher, I not only gained understanding about the actions of auditors but also learned new things about auditing. The knowledge gained may be used to interpret the empirical material.

When first talking to one of the representatives (whom I contacted with through a work-related event several months earlier) at the audit firm in which my observation took place, he seemed very interested; it was not as hard to get access as I thought (and had heard) it would be. This could imply that the issues I am interested in are relevant to the auditors and therefore increase their motivation. However, for that reason, there is a need to be cautious in case that motivation could affect my results in some way.

Another problem I had to deal with was that auditors today are exposed to a large amount of control and inspection (from within the firm and from different external parties). This and the fact that I observed how auditors deal with regulations means there was a risk that they would see me as a kind of spy "checking up on them" (as to whether they complied with standards and so on) and that could also affect my empirical material.

7.2.4.5 Description of my work in the field

As Barley and Kunda (2001:84) emphasize, "work practices are highly situated". Hence, to gain understanding of audit practices, participant observations are a relevant way of carrying out the empirical part of this study. This method is not only a way to capture audit work from the auditor's point of view; it also "forces researchers into direct contact with social phenomena (in this case, audit work) for an extended period of time" and the researcher gets some appreciation of audit work patterns and contexts (Barley & Kunda, 2001:84). The observed auditors might not be aware of such patterns and contexts. Hence, participant observations as carried out in this study could be assumed to include both emic and etic accounts – descriptions

from the insider (within the culture) and descriptions from the external researcher (culturally neutral) (cf. Barley & Kunda, 2001).

During the observations, I also conducted so called real-time interviews. In studying work practices, this combination is advocated for researchers by Barley and Kunda (2001). In addition, when it was important for me to be able to "keep up with things", I asked Auditor A to explain what she was doing and sometimes also why.

The collection of empirical material was made during fieldwork at a Big 4 audit firm where I observed Auditor A in day-to-day audit work. I observed concrete activities (cf. Barley & Kunda, 2001), as well as the mood of the auditor in carrying out these activities and the atmosphere surrounding the activities. Hence, I was able to observe how Auditor A worked, what she did, what "tools" she used and how she interacted with colleagues.

During my "days at the office" I sat next to Auditor A by her desk. I was able to sit very close to the computer. This way, I could follow both the computer screen and read documents and other materials that the auditor read and worked with on the desk. This seating arrangement was jointly agreed upon with Auditor A before my first day of observation. We also agreed that it would be helpful if she kept telling me what she was doing ("thinking out loud"). In fact, she sometimes also subsequently explained things to me. Most often, explanations were initiated by the auditor (e.g. telling me who she was going to call before she made the call, explaining why certain things were highlighted on a document, etc.). The auditor also said that it was acceptable for me to ask questions whenever I wanted to. But, since I wanted to disturb and influence the auditor as little as possible, I asked very few questions.

During the observations, I took careful and detailed notes (which included descriptions of what was happening, times, my own reflections, etc.). The style of the notes were inspired by the empirics collected by Sune Carlson for his study "Executive behaviour" (1951) and by Henry Mintzberg for his study "The manager at work – determining his activities, roles and programs by structured observations" (1968). The notes were taken to be able to depict activities (including frequencies and duration) and actors as well as to the greatest possible extent to be able to quote written text as well as conversations and oral explanations.

The notes were then typed out after each day of observation to what can be described as a diary. The observations resulted in approximately 110 pages of handwritten notes (75 typed pages or approximately 40,000 words). I collected several quotes, but the

notes mainly consist of narratives in my own voice and interpretation. This procedure provided a form of data that could not be obtained by other procedures (cf. Pentland, 1993).

7.2.4.6 Validation – complementary observations

Due to limitations arising from issues discussed earlier (the single case study design, single unit of analysis, observations taking place during a specific time, etc.), I decided to carry out some additional observations to try to expand my findings and to gain some minimum, yet limited, level of validation. This time, it was a bit more difficult to gain access and I made use of a personal contact at a different audit firm, Audit Firm 2. This contact helped me to gain access to a smaller office within Audit Firm 2.

The additional observations were carried out in September 2011. Together with Auditor B, who is a human resource manager at the office, I decided how to carry out these observations. It was evident that he was a bit uncomfortable as he did not entirely understand what I wanted to observe and he wanted me to "disturb" as little as possible. I had two days to spend at the office and so we decided that I should spend half days with four different auditors – Auditor B, Auditor C, Auditor D and Auditor E (see Table 4). Before my arrival, Auditor B asked the others if they wanted to participate.

These observations were carried out in the same way as the observations of Auditor A. I took notes, was able to ask questions during the observations; the auditors sometimes explained what they were doing, and we had coffee and lunch together. A major difference, however, was that during these additional observations, I had the previous observations to compare with – this was unavoidable and most likely influenced what I focused on and how I interpreted what I observed. The results from these observations were very much in line with the observations of Auditor A.

The empirical data from these observations were included in the analysis and used together with the first observations. In the analysis, they were primarily used as a complement to the "main" observations.

7.3 Complementary interviews

7.3.1 The need for complementary interviews

When it comes to gathering data on what people actually do and/or how they do it, observations with the addition of real-time interviews are considered as a superior method. Merely interviews, as mentioned by Barley and Kunda (2001:84) "are especially useful for understanding how people make sense of their work and the issues they believe are important". Thus, when the observations were made, additional interviews were needed to be able to explore and exemplify the auditing concept further. Hence, the interviews were used not only to check whether my interpretations were in some sense valid in relation to how they were appreciated by members in the same setting, but also to try to gain further understanding of how auditors make sense of their work.

A prevailing circumstance in the audit arena is that auditors are criticized and to some extent have to struggle to legitimize their work and its usefulness; auditors may also be working under a "regulatory cloud" (e.g. Humphrey et al., 2007). It is thus important to consider that auditors probably are well aware of the importance of "image" when their work is difficult for outsiders to assess (cf. Alvesson, 2001) and they are well aware of the impression they want to convey (cf. Goffman, 1959). Therefore, what auditors say about their work might be quite strongly influenced by "front-stage representations of auditing", i.e. not representative of the "back-stage" processes and practices of auditing (cf. Humphrey et al., 2007).

In spite of such limitations, I do think that interviews are a useful complement to the observations I carried out. The major aim with the interviews was to discuss what I observed and my interpretations with "insiders" (other auditors) and to gain further understanding of "why" aspects.

The interviews were semi-structured, and an interview guide was based on the issues raised from the review of the literature and on the results from the observations. A preliminary version of the interview guide was discussed during a two-hour pilot interview. The interviewee (Auditor F) is an authorized public accountant now

working for the Swedish Supervisory Board of Public Accountants (*Revisorsnämnden*). The results from the pilot interview are discussed in section 7.3.2, following.

A revised interview guide was constructed after taking the recommendations from the pilot interview into consideration. Some interviewees wanted to see the questions in advance and some did not. I sent the questions to those participants who asked for them. The interview guide is further described and explained in section 7.3.3.

Each interview took about 60 minutes and took place at the office of each participant. Confidentiality was a condition for all but one participant (Auditor G). The interviewees are described in section 7.3.4.

In total, seven interviews were conducted. These seven interviews resulted in approximately 100 typed pages (42,000 words) of interview material. The material was analyzed together with the material from the main and additional observations.

7.3.2 Pilot interview

Auditor F has about 38 years of experience working as an auditor. He is now working for *Revisorsnämnden* and therefore has experience from carrying out inspections, performing quality controls and dealing with disciplinary matters.

The pilot interview was carried out as a two-hour discussion with Auditor F. Step-by-step we went through the questions; I explained why I asked each question and Auditor F commented on its relevance and formulation. When applicable, Auditor F also answered the questions. These answers would be used (when applicable) in the analysis. However, the main objective of the pilot interview was to test the understanding and relevance of the questions in the interview guide. The result and implications will be described in the following.

In the introductory questions, Auditor F suggested adding a question about whether the interviewee has any experience from the business world other than being an auditor (Q1.3). He explained how specialist competences and additional experiences have become important features of auditing. Experience, for example, from accounting consulting or from working with the tax authorities could influence interviewee opinions and understandings.

Questions Q2.1 and Q2.2 (about characteristics of office work) were considered relevant. Auditor F explained that it is now quite common for auditors to do some "office work" at home, but he did not consider that distinction relevant.

Questions Q3.1 and Q3.2 (about professionalism) were discussed in some detail. Auditor F speculated that the interviewees might consider them difficult to answer, and that it therefore might be necessary to give them some kind of examples. However, I decided not to give them any introductory examples as I thought it would influence their answers too much.

With the questions about audit quality (Q4.1 and Q4.2), Auditor F especially found Q2.2 to be highly relevant.

On questions Q5.1 to Q5.3 (about structure vs. judgment), Auditor F suggested that I should emphasize the interviewee's personal views, so the questions were therefore slightly adjusted (for example, "how would you explain …?" rather than "how could … be explained?"). Auditor F especially considered Q5.1 to be of high importance. He also guessed that the answers for Q5.2 would be quite different.

The questions that I was mostly concerned about were the "critical aspects" questions (Q6.1 to Q6.3) as I did not know if they were formulated in an understandable way and if they were about something that the interviewees could refer to. According to Auditor F, the questions were relevant, clear and understandable. He guessed that the interviewees would to a high degree trust the systems used (Q6.1) and further explained that it was

> …a question that we consider quite a lot… it's how… the auditor himself[46] is involved… you have probably already noticed that… it's very… very much that is delegated… it is precisely this… how much the auditor himself is involved in the audit… what does he or she… and… what follow-ups is he or she doing… and when do you do it?! (Auditor F)

I explained that such follow-up activities were not something that I observed during my fieldwork and Auditor F said:

> And that is out general impression as well… so it is… to a relatively small extent you do it… But… then it is also important that you so… that you are

[46] In Swedish, the answer is "gender-neutral".

> involved in the important stuff… it is… especially if you have… an auditor who is the auditor in ten listed companies… he may not have time to be involved to the extent that he should be… of course it is also very important to have "deputies", managers… who… or "deputy auditors"… who are very much "hands on"… but the responsible auditor must be involved with the important issues… and that's of course also a way to ensure that the work carried out is of high… that you review the work your staff have done… But of course, at the bottom there is the internal system…
>
> I think it is a good question… And the you can elaborate on… how… in what way are you involved and how are you involved... what areas are you involved in… (Auditor F)

On question Q6.2, Auditor F explained the normal procedure for circumstances of deviation from the firm's audit system:

Of course you can… but one cannot make the decision by oneself… that I can say… You cannot make that decision, you must turn to the quality responsible at the firm… to confirm that you actually can make such modification… or if you suddenly may refrain from doing this… if the system says you have to do it… then… it's… the audit firm's internal set of rules and regulations says you must do it… if we come and do it… then maybe you can say that this is actually… the auditor himself[47] has the capability and capacity to make decisions… however if it is a complex issue that he or she cannot themselves… well, then he or she cannot make the decision… So, you must know it yourself… take an accounting issue, for example… if you are very good at IFRS… well then you can make the decision… but if you do not… unless you… are generally knowledgeable… then you cannot actually make the decision… then you have to consult, for example… But from a quality perspective according to auditing standards… but usually the internal regulations are much tougher… (Auditor F)

Auditor F considered Question Q6.3 to be connected to Q6.2, and he assumed that these issues were directed by internal sets of rules and regulations at each audit firm, which he pointed out as being very "strong" at the Big 4 audit firms. He also assumed that there are differences on how strict these issues are directed between the firms, that some firms probably are pushing more for a higher degree of "independence" ("freedom") for the individual auditor and that in some firms these matters might be more centrally directed.

[47] In Swedish the answer is "gender-neutral".

Auditor F considered the list of activities in Question Q7.1 to be quite "complete", but he emphasized some issues (which will be further discussed in the analysis). Also he suggested that "evaluations" and "feedback to co-workers" should be included as a separate part. When I explained that the list was based on my observations and that I only observed some minor occasions of feedback and did not observe very much "evaluation", he suggested that this was due to the hierarchical rank of Auditor A – that this was an activity that is more frequent and apparent for auditors at higher levels of the hierarchy. Hence, it was probably important to include auditors from different levels in the study and the fact that it was Auditor A I observed had influenced my results.

We also discussed in which order the activities could best be presented in the list. In the list that Auditor F received from me, the activities were arranged according to amount of time spent on them (according to the observations of Auditor A, see Table 15, section 11.2.3). Auditor F suggested to arrange them instead according to "sort of activity" and according to the audit process instead; he said that in that order the list would be easier for interviewees to grasp. I decided to follow this advice.

Furthermore, the discussion with Auditor F resulted in two more activities being added to the list: sales activities and quality assurance. Sales activities includes for example drawing up offers, an activity that Auditor F described as time-consuming, costly yet as becoming more and more important. Also quality assurance was seen as very important and very time-consuming and hence, was included as a separate part in the list.

The last part of the interview guide (statements Q7.2a to Q7.2j) we discussed in detail. I realized that it probably would be necessary to explain the statements during the interviews to try to get interviewees to "talk about the same thing".

Overall, Auditor F emphasized that it would be interesting to find out how the younger auditors (the assistants) reason about my questions – that some of them might think that some issues are not relevant to them. Auditor F, however, pointed out how important it was that they also think about issues such as professionalism and professional judgment. He therefore thought that I should go ahead with my plan to include some assistants in my study.

7.3.3 Interview guide

The interview guide is provided in Appendix 1 (in Swedish) and Appendix 2 (in English). It was constructed in Swedish and distributed (to those who asked for it) in Swedish. The interviews were held in Swedish. The translation into English was only done for the purpose of inclusion in this thesis.

The interview guide is divided into two major parts. The first part contains six topics: Q1.1–1.4 introductory questions (age, experience and specialization); Q2.1–2.2 office work (description of tasks as well as comparison to work outside the office); Q3.1–3.2 the audit profession (the concept of "professionalism" and "being a professional"; Q4.1–4.2 audit quality (characteristics and sufficient "effort"); Q5.1–5.3 structure vs. judgment (characteristics of "judgment", experienced degree of structure and balance between structure and judgment); and Q6.1–6.3 critical aspects (trust in the firm's system, opportunities to deviate from the system and to question or criticize it). The second part of the guide contains results regarding observed activities (Q7.1) and ten statements based on the observations (Q7.2) and the interviewees are asked to reflect upon these results and statements.

The list of activities in Q7.1 was slightly modified following the responses gained from each interview.

7.3.4 Interviewees

The interviewees are briefly described in Table 4.

In addition to the pilot interview, six interviews were conducted. Auditor G is the secretary general of FAR (with about eight years in that position) and was chosen as I wanted to include a representative of the Swedish professional auditor organization as that person might have different insight and add an additional perspective to my study. The interview with Auditor G was carried out before the interviews with the other auditors.

All other interviewees were contacted because of previous participation in the study (Auditor A), recommendations by other participants (Auditor H and K) or because of being acquaintances of mine (Auditor I and J). Auditor H works about 50 percent with audit engagements and about 50 percent with other responsibilities within the

firm. Auditor J is an office manager, and Auditor K has certain managerial and business responsibilities. Auditor I is just in the very beginning of her auditor career. When the interviews were conducted, she had team roles both as team manager and team member, but not as engagement leader.

As I do not consider gender aspects in my study, gender was not a criterion for participation. As I do not aim at any kind of generalization, I did not focus on covering all different hierarchical ranks or all of the Big 4 audit firms. Instead I searched for interviewees that where available and interested.

As I conducted the interviews, I quite soon realized that each additional interview did not result in much new or different data. Therefore, I did not conduct more interviews than those I booked initially.

7.3.5 Member validation[48]

The data and insights gained from the observations and the interviews were in general similar, unanimous or at least pointing in the same direction. The final interviews did not add much new information. Hence, I chose to sum up the result and insights so far in a list of statements and ideas. The list (see Appendices 3 and 4) resulted in 18 statements, including revised versions of the ten statements from the interview guide. This list (the version in Swedish) was then presented to two additional participants, both from Firm 4 (which was not represented until then) and both chosen through personal contacts. Auditor L is an authorized accountant, a partner and head of the office. Auditor M is an assistant. To include auditors with different professional status (or hierarchical rank) was at this stage a conscious choice (mainly because most participants indicated that there might be differences in activities carried out, depending on hierarchical rank).

Auditor L and M were asked to reflect upon the list of statements as a way of getting reflections and comments from members of the same setting as the other participants (i.e. Big 4 audit firms in Sweden).

There are many difficulties with such "member validation" of my findings. For example, it is not unproblematic to detach material from its context and submit it for checking (cf. Emerson & Pollner, 1988). Also, it is difficult to know how much

[48] Also called "respondent validation" and/or "member check" (e.g. Bryman, n.d.)

attention the participants give to material they are to check – e.g. being indifferent does not mean corroboration (e.g. Bloor, 1997). Overall, the critique has to do with how to interpret the interpretations of the participants.

The procedure can be used to establish some credibility of the findings. It gives me some indication of my ability to comprehend the setting (Bryman, n.d.).

7.4 Summary of empirical observations and interviews

All the participants are briefly described in Table 4. They are presented in the order they appeared as participants of this study.

Table 4 – Summary of participants (in the order they participated in the study)

Participant (gender)	Affiliation	Experience (approx.)	Office size	Professional status (Hierarchical rank)	Method
Auditor A (female)	Firm 1	7 years	Medium	Examined Approved	Observations + interview
Auditor B (male)	Firm 2	25 years	Small	Approved	Observations
Auditor C (male)	Firm 2	22 years	Small	Approved (also authorized accounting consultant)	Observations
Auditor D (male)	Firm 2	12 years	Small	Examined Approved	Observations
Auditor E (female)	Firm 2	6 years	Small	Assistant	Observations
Auditor F (male)	RN	39 years	-	Authorized	Interview
Auditor G (male)	FAR	30 years	-	Authorized	Interview
Auditor H (male)	Firm 3	14 years	Large	Authorized (Partner)	Interview
Auditor I (female)	Firm 1	1 year	Small	Assistant	Interview
Auditor J (male)	Firm 2	31 years	Large	Authorized (Partner)	Interview
Auditor K (male)	Firm 3	25 years	Large	Authorized (Partner)	Interview
Auditor L (male)	Firm 4	29 years	Large	Authorized (Partner)	Member validation
Auditor M (male)	Firm 4	1 year	Small	Assistant	Member validation

In Table 5, the participants of this study are presented in a different way. The idea of the table is to show the distribution between hierarchical rank and audit firm affiliation of the participants.

Table 5 – Summary of participants (distribution between hierarchical rank and audit firms)

Method	Professional status (Hierarchical rang)	RN	FAR	Audit Firm 1	Audit Firm 2	Audit Firm 3	Audit Firm 4
Observations	Authorized						
	Approved			A[a) e)]	B, C, D[e)]		
	Assistant				E		
Interviews + validation	Authorized	F[b)]	G[c)]		K[d)]	H[d)], J[d)]	M[d)]
	Approved			A[a)]			
	Assistant			I			L

[a)] Participant A occurs twice (observations + interviews).
[b)] Participant F is authorized but now works for RN.
[c)] Participant G is authorized but now works for FAR.
[d)] Partner.
[e)] Examined-approved public accountants.

In summary, the empirical data in this study are based on partial observations of five auditors at work and seven interviews with auditors and representatives of the profession. This resulted in approximately 75 pages or 40,000 words (from the observations) plus 100 pages or 42,000 words (from the interviews) of typed narrative notes (including quotes, names, times, hours, etc).

Chapter 8

Empirics – A Day at the Office with Auditor A

This chapter describes a day at the office in October/November 2008 with Auditor A at the audit firm. In analyzing my observations of the distribution of activities during the course of any of the days spent at the office, I could detect no patterns such as mornings differing from afternoons, etc. However, certain activities recurred every day: phone calls (both incoming and outgoing, from clients and colleagues), e-mail communication, colleagues dropping in to ask questions, Auditor A dropping in to colleagues to ask questions, various kinds of follow-ups, preparing for the next day, printing and scanning.

Auditor A spends a lot of time away from the office (she calls on customers, engages in lectures at the university, etc). This is especially the case in January, February, April, October and November, so I find it important to stress that the following description of a day at the office might not be a typical day in this particular time period.

Much time is spent on management audits, so-called hard close and auditing the third quarter for big companies.

The following activities are not to be seen as in a certain chronological order. The clock time indicated for each item, however, is accurate in terms of recording about how much time is spent on each activity.

08:00 The day begins with Auditor A taking out the computer, which is kept in a locker for security reasons. The computer is started and updated.

Auditor A then writes an e-mail to a client asking them to choose days for auditing – when the auditors can come to them. She gives the client a few suggestions about dates. They need about two days at the client site for this audit. There will probably not be time for finishing all the documentation there. The remaining documentation will be done when the auditors come back to the office.

08:10 Auditor A receives a phone call from a client. The client has discovered that they did not pay value-added tax for a fee. The client asks about correcting this "backwards in time". Auditor A answers, *"It was very good that you discovered this… you can correct it"*.

When the call is finished, Auditor A says to me that this is very common (i.e. that clients call about these things): *"sometimes they call to tell about mistakes of 20 SEK … which, from my perspective is too small an amount"*.

08:15 Auditor A fills in the time report, using a program on the computer. This program is kept open during the day and is used continuously.

08:16 Auditor A begins with documentation work. The documentation is from a meeting with a big client (Client 1, a listed company). She has some scanned documents with organization schemes, including both pictures and text. There is also a flowchart from a meeting with the purchasing manager; it shows the purchasing function. Auditor A comments to me on this documentation: *"The law says that you need this"* and she continues by explaining that the bigger the company, the more often they have schemes and charts like this. For this particular client, much is written only about the purchasing function. Auditor A explains that for smaller clients they do not write this much at all.

Auditor A inserts the documents as files in the Manual (after finding a suitable place for them in the text) and says that she read and checked them on the site of the client and continues that *"it would be very dangerous to insert something that you did not check"*. She also stresses that it is important not to insert too many things since one then can

miss what is important, and a very extensive documentation is not necessarily good documentation.

As for Client 1, Auditor A and a colleague have met about 20 persons from the company during September. She has a lot of notes from these meetings. They do not have time to make all the documentation directly, so what they do is to mark the most important things directly after a meeting; this is helpful when they then later do the documentation in the Manual.

Now she is about to report their "findings" to the company board. The important thing is to "flag" things that are problematic now or that could mean problems in the future. She says that the list of such things will be much shorter this year than last year since the client has have corrected most of the things that were pointed out then. She comments, "*and it is of course good when it is like this*".

After writing some points with issues in a list, Auditor A reads it through very carefully and says, *"you must make sure you did not write something wrong"*. The list is to be sent to the company for comments, a step that Auditor A finds very important.

08:46 Auditor A writes an e-mail regarding an event that is coming up. The audit firm is participating in a "student competition".

08:49 Auditor A reads an e-mail about a PM (memorandum) from the engagement leader (EL) of Client 8. The PM describes certain conditions and issues at the company and includes comments from the auditors. She goes through the document. The EL has shown it to the person he talked at the site of the client to make sure that they agree on what is written in the document. It is important that there are no misunderstandings. The EL is going to go through the PM with the company's financial manager. Auditor A would have preferred the person who was shown the PM to give comments as well (which he did not do in this case).

08:53 The phone rings. Auditor A answers and begins writing an e-mail to the EL for Client 8 about getting comments from the person who has read the PM.

The phone call is about Client 1. The caller is an IT expert who is connected to the engagement (he is a part of the audit team). He had been identifying controls related to the company's outsourced salary system and had tested them. Auditor A makes careful notes of the phone conversation: thinks that it went well, client representatives were nice, made some improvement suggestions about statements of travel expenses; they liked the expert's suggestions, the attest function in the system is enough.

Auditor A brings out a chart of the salary process for the company. She has made notes on the chart, for example, has written, "mistakes might occur here" with an arrow to the process for statements of travel expenses.

They continue the conversation and Auditor A writes an e-mail to the IT expert with some information. Auditor A also asks the IT person if he felt that the people were competent.

When the phone call is over, Auditor A says that she is satisfied with what the IT expert told her. She thinks it is very nice that the IT expert has done his part and says,"*I do not know if I would have been able to do that myself*". She continues that maybe she could have managed, at least to some extent, on her own, but it would certainly have taken much more time and therefore it would have been ineffective. She also says that the controls he identified this year can be used again next year.

09:17 Auditor A fills in the time report.

09:18 Auditor A looks at a presentation she is going to make about auditing at a meeting at the site of Client 1 next week (on her own, in English). She is about to send the presentation to the person responsible (the controller for the group).

Before sending the presentation to him, she tries to call him first, to tell him about what is coming. She says that "*it is a good thing to do… it can be difficult to be clear about what you mean in an e-mail*".

The controller for the group answers the phone and they agree that he will e-mail her or call her when he has had a look at the presentation.

Auditor A tells me that they (at the audit firm) think that it is good to do these kinds of presentations. They hope that it is time-saving.

09:28 Auditor A writes and sends an e-mail regarding some documents she received today (sent to her by post). There are some documents missing and in the e-mail she asks if they are available electronically.

09:30 Auditor A makes a phone call regarding an engagement letter (for Client 4b). She says to me that they do not think that this is something important: *"I do not think that they have had time to read it, but… then I can hurry them a little bit…"*. She makes some notes during the conversation: the board wants to cut some costs, board meeting on December xx.

When the phone call is finished, Auditor A writes an e-mail about it to the EL.

09:35 Auditor A starts writing a new e-mail. She says that it is a good way to be reminded of what needs to be done, and she says about herself, *"I am sitting here like some kind of leader of a project"*.

09:37 Auditor A fills in the time report.

09:38 Auditor A ticks off some things on her own to-do list) which she keeps at her desk.

09:39 Auditor A does some invoicing. She is responsible for the invoicing for some engagements. She says that this is something that has to be done; the people at their accounts department are not happy if they do not do it when they should, because it means tying up capital.

09:45 Auditor A invites me for coffee with the rest of the colleagues. She takes the opportunity to restart and upgrade the computer. Many of the colleagues are gathered in the coffee room and there are always sandwiches and fresh fruit.

10:00 Auditor A reads an e-mail regarding an upcoming evening event. This is an event she is organizing. They sent a lot of invitations to this event and many have accepted the invitation. Auditor A says that *"networking is important"*.

10:02 Auditor A begins working with some documentation for the audit of Client 3b (a mid-sized company in which the internal control is considered to be good). She is the team manager for this audit engagement and is also in the team for the audit of the parent company (Client 3a). The documentation for this client is "dragging" a little bit. It must be finished when the audit report is signed, but the date for signing is not decided yet.

Auditor A has the balance sheet in front of her (a printed version) and she compares it to what is in the Manual. It is not necessary also for the team manager to do this "quality control", but Auditor A finds that kind of comfort worth the money. For this client they have an "accountant responsible" (*Redovisningsansvarig*) from the audit firm, something that she finds very comfortable.

For this client, inventories are considered to be material and a key risk. Auditor A has audited the stock in hand; she spent one day doing this, while the team member audited "the rest" – she finds this *"very tricky"* and the engagement leader must check it. Auditor A continues going through the documentation and checks the work of the team member, to see that she did what she was told to do. The team member, for example, was told to check five items and the documentation says five items, so Auditor A says, *"This is how it should be"*. Auditor A and the team member were at the site of the client at the same time and the team member asked Auditor A questions during the day. When looking through the documentation, she A says, *"I recognise this… we have talked about this"*. She says that it is more about control than doing the team member's work over again. This control is important to see that the team member did not miss something or reach the wrong conclusion.

10:17 Auditor A fills in the time report.

10:18 Auditor A continues with some e-mails.

10:20 Auditor A calls Client 10 (an SME company with 10 million SEK in turnover and with routines and systems to audit). She asks him how it is and so on. She makes a lot of careful notes during the conversation. They talk about the business recession and how he is affected. They also talk about the client forecasting a breakeven for 2008 and that he is not sure that termination of employees is necessary. Auditor A makes notes of some numbers and calculates a little with her minicalculator. The results are OK now, but the fourth quarter will probably deteriorate the numbers.

The conversation is quite long and Auditor A takes the opportunity to do some other things as well … e.g. fixing the list for tonight's event. They also talk about dividends, the rules for them, what to think about when it comes to change in ownership, etc.

When the phone call is finished, Auditor A tells me that this client calls her several times a month and so she almost never needs to update herself before meetings and so on.

10:35 Auditor A fills in the time report.

10:36 Auditor A does some planning for the audit of Client 4c (which, just as Client 4b, is a subsidiary to Client 4a). She opens the file for this company in the Manual and starts filling in the threats and safeguards approach to auditors' independence (*Analysmodellen*). Since the accountant responsible is from the audit firm, there is what Auditor A calls a classic self-review threat (*Självgranskningshot*). She says that it is very important that the auditors do not associate with this at all, that there need to be "watertight bulkheads".

There are different questionnaires for the auditor to fill in, depending on the number of hours spent on the engagement (less than 100, 100–200, or more than 200). Auditor A says that when there are borderline cases, they should use the longer questionnaire *"to be on the safe side"*.

One of the questions is whether there are any connections to an SEC-registered company. Auditor A fills in "No" and says *"that is no business of mine!"*

There is also a question about "going concern". Auditor A fills in that it is a going concern, but she says that she wants to add a comment as well, since the company is an "R&D company" and does not have any revenues yet… but they do have strong financiers that contribute with capital all the time… The company is dependent on this… Her judgment is that there is no obstacle to it being a going concern and adds that this is something that continuously is evaluated by auditors.

Auditor A says that writing a conclusion is very important. Anybody should be able to go in and follow the documentation and that there must be a "red thread". She says that the hair-raising example is to write that things are OK, but when reading the documentation see that there are problems.

11:00 Auditor A enter Client 4c's website to get some information for the Business Analysis Framework (BAF). This step is the RS310 step in the Manual. She copies and pastes some information about the company's business into a Word document. She finds it interesting and "*a challenge to try to understand it*". She says that *"one must understand that much that makes you feel comfort to be able to audit"*.

Auditor A finds some text on the website which she recognises from a paper or something similar. She wants to copy and paste it into her Word document anyway and does so instead of directly into the Manual since it otherwise could add with pictures and so on. Instead, she inserts the Word file into the Manual when she has completed it.

When she is done, she writes the conclusion: "BAF has been drawn up according to RS / Auditor A"

When it comes to key risks, they have not identified any key risks.

The judgment is that substantive testing is more effective since they can not rely on internal controls. So far, there are no internal controls to audit, but the company is building up such controls and Auditor A thinks that in the future they will have internal controls to audit instead.

11:20 A colleague drops in to Auditor A's office to ask about the time for the event this evening.

11:25 Auditor A is looking through some documents from a visit to Client 11, which recently changed from one area of operations to another. The client had not finished the annual report when the auditors were there.

Auditor A says,*"We know what we want to see…"*, "*there are always some minor adjustments…"*, *"we are a little bit… finicky… they think…"*.

Auditor A prints the annual report and then compares it to an earlier version; she says, *"Sometimes it only takes a minute or so… we directly see if there are any big issues"*. To compare with last year's numbers, according to Auditor A, it's important since they sign off on this as well.

Auditor A ticks off the different items and sums and write things that need to be corrected with a red pen.

With the exception, for example, of removals and new accounting principles, the headings and classifications should be the same as last year and could include the same sort of numbers.

Auditor A goes through the accounting principles quite thoroughly and says that it is important that this is in order.

The company has included key ratio definitions, but they do not have any key ratio in the annual report. Auditor A comments on this and writes that the company has to include key ratios or remove the definitions.

Notes, according to Auditor A, are important. Some of them are mandatory. For example, with notes about auditor compensation, Auditor A thinks that it is stated in the Swedish Annual Accounting Act. She comments that they have to add a text about the difference of auditing engagements and other engagements. She also mention that according to the law they must have a note about the employees.

When it comes to a note about the change in equity, they have not filled in a specific chart. Auditor A does not want to start to "dabble" with this: *"He must make a draft first himself before I can go in and say that something is wrong"*.

She tells me that in this case there will not be a qualified audit report.

11:55 Auditor A fills in the time report.

11:56 Auditor A checks her e-mail.

12:00 I am invited to join Auditor A and some colleagues for lunch. They almost always go to the same restaurant. As we walk to and from the restaurant, she has questions to me about what I observe and about my impressions from the observations. At the restaurant, we discuss private matters, not work-related.

13:00 We are back at the office, and Auditor A starts preparing for the next day, when she is going to a client (Client 4b). This is a company where a lot of things happen during a year. Since some board members for this company are foreign, all communication and documentation is in English.

Auditor A has quite a lot of documents in a pile in a transparent folder on her desk and says, *"Usually I do not have it this unsorted… but this is a company where things happen all the time… therefore I have the documents in folders on my desk… that is how I keep control… they call all the time… it is not practical to not have them on view"*. She starts sorting some documents that she has printed and puts them in a binder ("the current audit file"). One of the documents is an e-mail from the client in which they ask about depreciations. This is not audit evidence and therefore there are not any required procedures for how to document it, but Auditor A documents it anyway and comments, *"I am one of those who print more than others"* and a little bit later she says, *"I am probably a little bit over-careful when it comes to documentation"*. She says that, in fact, documentation with references is often enough.

Auditor A continues checking the documentation by using some websites (e.g. "*Bolagsverket*" and "*Info Torget*") and services they have access to in order to check that they have documented the correct board members. She prints the lists from the websites and then realizes she has duplicate copies of one of them… :*"Ah… I'll save them both"*.

Auditor A then continues preparing for the next day by printing three copies (one copy each for the EL, the TM and the Tm) of a checklist they will use for the management audit and the audit of the client's internal control.

The client is a company that has a lot of meetings. Auditor A has a special binder for the minutes from these meetings. She says that it is an important part of the management audit to read these minutes.

Auditor A then takes out six binders that they are going to bring to the site of the client the next day: the file for 2007, the file for 2008, the general ledger, the binder with the minutes (as described above), a binder with the annual reports and a "miscellaneous binder" (including personnel options, etc.).

13:40 Auditor A fills in the time report.

13:41 Auditor A reads an e-mail from a client (Client 5) she e-mailed about the annual report yesterday. The client wants her to use her private e-mail from now on.

Auditor A says that she wants her clients to understand what it is they are signing; she thinks if they understand what it is about, they find it much more fun as well.

13:43 Auditor A sort some e-mails, for instance, regarding an event in December. The audit firm has invited clients to a seminar where they inform them about news in the accounting and auditing field.

13:45 Auditor A calls a colleague at another office. She is going to take on one of this colleague's clients while she is on maternity leave. The colleague does not answer.

13:46 Auditor A follows up an e-mail she wrote to herself, as a reminder, about RS 310 and Client 2. She has to write about three offices, three customers, the number of employees etc. She uses the client's website to find some information; she says that there is plenty of useful information. When doing some of the documentation in the Manual, she refers to the website.

13:51 Auditor A reads and write some more e-mails.

13:53 Auditor A skims through the system documentation for Client 1. She says that this documentation is necessary according to BFL (the Swedish Accounting Act). She then writes a "note" in the Manual about reading it and says,*"It can improve by keeping a little bit…".* She inserts the document into the Manual.

13:58 Auditor A continues her day by doing some planning for the audit of Client 6. According to RS 210, the audit engagement letter must be updated. Auditor A writes that an audit engagement letter has been drawn up according to firm policy: the conclusion is that there is no risk for the firm to keep this engagement.

As for the composition of the team for the engagement, the conclusion is that the composition is good. The EL has been the auditor for a long time; TM (Auditor A) has been a part of the team for four years; and Tm has been part of the team for one year. Therefore the cumulative knowledge is considered to be good.

Auditor A continues with the BAF and enters the client's website. She copies and pastes some information from the sections "news" and "employees" to the Manual. The conclusion is that the BAF has been filled in and updated according to firm policy. Another conclusion for this engagement is that substantial testing is the most effective audit methodology; the company has good internal control, Auditor A is feeling comfort but they do not have very many employees, etc.

14:18 Auditor A fills in the time report.

14:19 Auditor A prepares for the event this evening. She brings out her business cards, etc.

14:20 Auditor A makes a new attempt at calling the colleague who soon will be on maternity leave. Now she answers and they talk about contact persons, date for closing and about giving Auditor A the necessary authority for this client (Client 7) in the Manual. Before they hang up, they talk about work in general.

14:25 Auditor A prepares a file for 2008 in the Manual for Client 8. This also includes updating the Manual and giving the team members the necessary authority. The authority part, she says, is important (so she carefully checks the spelling of names, etc.).

14:35 The phone rings. It is a call from Client 12. Auditor A fetches a piece of paper and opens the client file in the Manual.

Auditor A goes through the annual report together with the client. She explains the earnings appropriation, how the numbers are connected and how it will be next year and says, *"It looks very good… your capital is stable"*. They continue by Auditor A explaining equity, untaxed reserves, equity/assets ratio: *"It means share of equity"… It is about 22%, which is a good ratio… about 30% is ok"*.

They continue with operating results, miscellaneous external costs, depreciations, balance-sheet allocations, how the balance sheet is structured, current assets, prepaid expenses, tax liabilities, holiday pay liabilities, inventories, etc.

After a long conversation and many explanations, Auditor A asks if the client has any further questions…: *"You sound completely exhausted… I think that you are able… you are interested and that is fun"… "for us it is not complicated"*.

The client has some questions regarding the abolition of the audit requirement. Auditor A explains, *"The things you cannot do yourself you still need to use help for"…* and continues by saying that she cannot do it since she is the one doing the audit… that it must be two different persons. Auditor A also explains that she and the EL do not do the same things, there is no duplication of work and that the fact that they have two auditors does not have any effect on the fee.

Auditor A makes some notes of the phone conversation while the client continues to ask questions. The client asks about different solutions for the distribution of capital; she has heard of different solutions (from the bank and so on). Auditor A says, *"I think that the general rule is that you yourself understand the instruments"* and says that she has never hear of the solutions the client is talking about. She tells the client about a tax consultant at the firm that she can call to ask questions about this.

When the phone call is finished, Auditor A tells me that this was *"the most difficult client… in a class of their own … who questions everything."*

15:35 Auditor A fills in the time report.

15:37 Auditor A continues ticking off the annual report of Client 11, which she started earlier this day. She numbers the things that need to be corrected (using a red pen). The document is then scanned and sent to the client. Auditor A says that some auditors write the things that need to be corrected in an e-mail; others call the client… but that she prefers showing the client in the actual text, since the client could be stressed if you call them and say that they understand even if they do not understand.

15:52 Auditor A sends an e-mail to one of the Tms she works with. She writes that the Tm did a good documentation. She tells me that she finds feedback important.

15:54 Auditor A has received an invoice from the audit firm in Thailand. They have checked the inventories at the site of a client. She says that they are very thorough. The audit firm in Sweden tells them what to check, chooses the sample testing, etc.

The invoice is in Thai baht, instead of US dollars which they agreed on. Auditor A makes a phone call to check last year's invoice and then pick it up for comparison. She concludes that it has become more expensive, 2000 SEK, because they used THB instead of US Dollars. This is problematic since they charge the client for this.

16:00 My observation day at the office is over.

Chapter 9

Empirics – A Busy Day at the Office with Auditor A

The period December to February is probably the most hectic period for auditors. During this period they are preparing for the end of the year, when many clients have their closing of the books. The difference between "a day at the office" and "a busy day at the office" was something I experienced and became aware of during my fieldwork. In exploring and exemplifying auditor work, I suggest that it is important to describe this variance as it shows that there are different kinds of work days, with a noticeable difference in pace and "pressure". Therefore, as a complement to the previous chapter, this chapter describes a busy day at the office with Auditor A at the audit firm.

During this period, Auditor A spends a lot of time away from the office. She is calling on customers (middle-sized and large organizations) about four to five days a week. Just as for the more calm days, on the basis of my observations, I cannot state that particular patterns of activities were carried out during certain times of the day. Mornings did not differ from afternoons, for instance. However, on the basis of my observations, I can say that during this particular period in December–February there was a somewhat different atmosphere at the office. Auditor A was more stressed and seemed more "divided", strained and "under pressure". Such is the reason for this separate chapter.

Again, it is important to stress that the following description of a busy day at the office might not be a typical day in this particular time period. Likewise, the activities described are again not to be seen as in a certain chronological order. The time allocations, however, are indicative of the time spent on different activities.

08:00 After taking out the computer from a safety locker, Auditor A starts working with a protocol to *Bolagsverket* (the Swedish Companies Registration Office) for Client 13. They are about to change their board of directors and they want to take the opportunity to change auditor at the same time. A senior colleague has been their auditor but now Auditor A is going to be their auditor (which means that Auditor A will become the engagement leader for this client). According to Auditor A, *"It is common that we help them [the clients] with administrative things like this"*. She continues with the documents and says, *"I usually put myself as a contact person… they are quite finicky at Bolagsverket"*.

While Auditor A is continuing to work with the documents for the Bolagsverket, a senior colleague comes into Auditor A's room and asks about an annual report (for Client 3a, where he is EL and Auditor A is TM)…: "Does it say anything about the merger?" Then he hesitates a bit and says, *"Excuse me… I just rush in and order things from you like this in the morning… without any consideration…"*. Auditor A says that it is OK, that I (Pernilla) am here to observe what I do…

When the colleague has left the room, Auditor A takes out her copies of the annual report to check if it includes anything about the merger. She finds that it does and then she prints two copies for the colleague and explains to me that the colleague (EL) is going to meet with the chairman of the board of directors today and that he therefore needs the documents.

08:13 Auditor A's mobile phone rings and she answers it. It is a private call.

08:16 Auditor A e-mails about an engagement with some university students.

08:17 Auditor A makes an internal phone call to the Accounting Responsible for Client 3a. Since she does not answer, Auditor A continues with reading e-mails and writes a new e-mail to ask about the location for a lecture she will be giving at a university.

08:21 Auditor A continues with documents for Bolagsverket. She has a printed version that she has used as a draft and she fills in the form using the computer.

Auditor A uses the Bolagsverket website to look for information about how much it costs for companies to make changes (such as register a new member of the board of directors). She says, "*I quite often check out the websites of the Bolagsverket and the Skatteverket [Swedish Tax Agency]*". She finds that the fee for changing the board of directors is 900 SEK and that the fee for changing auditor is also 900 SEK. She is quite certain that you only have to pay for one, the highest, amount. But she wants to be sure and therefore checks out the information at the website. She was right.

Continuing with the documents she says, "*You are a bit extra careful with these things… there is not an extra fee or so, but it is disturbing…*".

The documents are now completed, and Auditor A is going to send them to the client since they have to sign them. Before closing the envelope with the documents, she includes an envelope with her name and office address on. She says that you get a quicker reply if you do it like this… :*"Sometimes I am kind enough to stamp the envelope as well… but I do not feel like it today…"*. Auditor A also writes a note to the person responsible at Client 13 and asks him to send the documents back to Auditor A after signing them. She says that she usually asks them to do so, because they unfortunately often forget something. If they send it back to her, she can check it before it is sent to the Bolagsverket. Auditor A also uses small Post-it notes to mark the places where they have to sign.

08:26 Auditor A's mobile phone rings. It is a private call and she says that she does not have the time to talk at the moment.

08:29 Auditor A tries to find the address for Client 13 so that she can send the documents to them. She looks for it on the Internet, but cannot find it. She says that they have the address in a folder, but that the folder is on another floor and she does not feel like going to get it. She makes an internal phone call and asks somebody at the office to check it up.

When she has finished and closed the envelope, she says, *"This is so boring… these administrative things"*. She continues by saying that even though they (the clients) are pleased at you filling it in… it is not something that they really appreciate… However, this time she says that it was a bit more fun since she is going to be their auditor…

08:35 Auditor A tries calling the accountant responsible for Client 3a again. She still does not answer.

08:36 Auditor A brings out some documents from Client 14 which she visited the day before. The documents are a kind of "documentation of systems" – how the client's systems are connected to each other, etc. The documents are kept in the computer, and Auditor A prints them, picks them up at the printing area and then looks them through. Then she writes an e-mail to say thank-you for the documents and that she wants them to add even more information in this documentation (for example, describing the numbers included). Auditor A says, *"They have to add more… it is a good start, but…"*. On the printed copy she then writes, "To be added with more text".

08:40 Auditor A looks through Client 14's internal information paper. She says that she usually asks to get a copy of these papers because it is a good way of keeping up with what is going on, even though it has a lot of information that really is not relevant to her. One of the things she finds most interesting is a part where they write about what is going on in the client's line of business (e.g. about new value-added tax). This time they have environmental- related information which Auditor A finds very relevant for another of her clients (a client which is developing products in a line of business directly related to this environmental issue). She wants to share the information with this other client, but she wants to check if there is a decision made in the EU before she does so. She says that you should never e-mail information like this to a client before checking it first. She writes a note to herself about doing so and then she uses the Internet to search for information. She says that searching the Internet is something she usually does and that *"sometimes you come in to the government's website and so on… then it feels reliable"*. She then says that information from evening papers such as *Aftonbladet* does not feel very reliable, but that she reads it anyway. She decides not to continue with this right now.

She says that often when you bring it up with the client, they have also heard about it, but that it is good to ask questions about it. That way you are a bit "up to date".

Auditor A continues looking through the client's internal information paper and underlines certain things.

There is a part with statistics from the eleventh month which she finds relevant, and she says that she knew it would be a little bit worse now… due to the financial crisis… that this line of business gets affected at once.

When she has finished looking through the paper, she puts it in a folder where she keeps the other issues of the same paper.

08:49 Auditor A fills in the time report.

08:50 Auditor A e-mails Client 13 to inform them that the documents for Bolagsverket will be sent today. She says to me that the reason for e-mailing them about this is that they are usually more alert then. She writes, "Go through it and then let XX sign it on page 4 of the alteration form"… "All of you must sign the protocol"… "then send everything to me"… "There are also some things you have to fill in manually".

08:51 The telephone rings. Auditor A answers very cheerfully and they talk about an event they (the firm) are participating in this evening. When the phone call is over, she tells me that they are sponsoring some kind of snacks and that they of course want to promote themselves at the same time. So she has printed some logos to bring and use when they hand out the snacks.

08:54 At the same time as filling in the time report, Auditor A tries calling the accountant responsible for Client 3a again. This time the accountant answers and Auditor A excuses herself for calling when she is sitting on the same floor… she says that it's because I (Pernilla) am here today and it is easier this way…

Auditor A asks the accountant to add some specific information about the merger (in the annual report for Client 3a).

08:56 Auditor A reads some e-mails. She prints a document from Client 1 (about their bonus model) but says that she does not "have the strength" to go it through today and says, *"It is very important that we get these documents from the right source… specifically the parameters…. It is rather complicated… you have to really sit down and read and calculate for a quite long time…"*.

09:00 Auditor A fills in the time report and then writes an e-mail to one of the team members she works with.

09:01 Auditor A has received a question from one of her clients about tax relief for earned income (*jobbskatteavdrag*). She says that she is not very familiar with this, that she "*is not familiar with the different monetary limits at all*". She looks at the website of the Swedish tax authority and says that their A–Ö [A–Z] section is good.

She prints the e-mail from the client and some information from the tax authority's website. Then she underlines some things in both documents. She reads it carefully. Then she looks at the website again and she "surfs" into the government's website and prints some information from there as well. She goes back to the tax authority's website and downloads a PDF brochure. She prints the pages that have information about tax relief for earned income, reads it carefully and underlines some things. Then she goes back to using the computer and looks up a table. She prints it and then says, *"I'll leave this to mature for a while…"*.

She looks in a folder to check when the two clients that are married (who asked about the tax relief and who owns the company) were born. She writes down this information on one of the printouts. Then she starts calculating with a hand-held calculator and continues to read and mark things in the text. On one of the printouts she writes that the woman can increase and that the man, who has reached the limit, should remain at the level he is now.

Auditor A also checks an information sheet from FAR SRS regarding taxes and she makes a copy of it.

09:24 A colleague enters Auditor A's room and they talk about an e-mail which was sent to the banks and which they thought was good.

09:25 Auditor A continues with the "tax relief issue". She collects all the printouts and puts them in a file.

09:26 Auditor A fills in the time report.

09:27 Auditor A e-mails the client who had a question about tax relief for earned income and writes that she will come back to her regarding this issue. She then checks her notebook where she keeps to-do lists and she crosses out some things on one of the lists.

09:29 Auditor A writes an e-mail to a client to ask them to send her a specific file (which can be exported from the client's system and then imported in a programme used by those who work with accounting at the firm (and which also the auditors have access to).

09:31 Auditor A goes through some Post-it notes which she has on her desk, crosses out some things, moves one of them to her calendar and throws some of them away.

09:32 Auditor A sends an e-mail to a colleague at another office about an inventory she is helping Auditor A with. That office is much closer to the client.

Auditor A calls out to a colleague and asks him to check his calendar regarding a meeting they both should be attending.

The colleague enters Auditor A's room and at the same time as they discuss possible dates for the meeting, she starts writing an e-mail about it (to those they are meeting with).

09:37 Auditor A fills in the time report.

Auditor A checks some e-mails. She has received an answer from Client 14.

09:38 Auditor A e-mails the engagement leader for one of the engagements where she is the team manager. She says that she usually does so when she has finished the documentation. That way, the engagement leader does not have to keep checking if it is done. She says that there are some deadlines, but if they have the time before the deadlines they can check it out earlier.

09:41 Auditor A e-mails regarding a new client (Client 15) which they are about to place in their system. That way also this client will receive newsletters, *Nytt från Revisorn* (a paper from FAR), an audit firm calendar, and so on.

09:42 Auditor A checks the Post-it notes she keeps on her desk. At the moment, there are six of them in a row. She chuckles a little bit and says that she first had a feeling that she really did not have a lot to do… then she saw all the notes…

09:43 Auditor A reads an e-mail regarding a new cash register legislation. She e-mails the information about this to all of her clients. It says that they should check the tax authority's website and so on.

09:44 Auditor A invites me for coffee.

09:57 Auditor a prints a label for the binder for the current file of Client 14.

Auditor A e-mails Client 2 to check if they have any questions before the closing of the books. She writes that if they do have questions they are welcome to give her a call.

Auditor A prints out some documents and then updates a procedural description (about IT security, back-ups, and so on) sent to her by Client 14. She reads it and underlines some things.

She writes an e-mail back to the client to say thank you for sending the documents and that she has some additional questions (e.g. for how long the back-ups are stored).

10:04 Auditor A puts a folder in order (with labels, etc.) and then sorts some papers.

She invoices by using a programme in the computer and by checking some documents kept in a folder. She says, *"The date got a bit strange… I do not invoice very often… that I do not have that many…"*.

10:10 The phone rings. It is Client 14 calling in reply to the e-mail Auditor A just sent them.

At the same time as talking to the client, she checks out some e-mails.

She makes some notes on the "IT security" document… "perhaps adding that the storing is external…". Before they hang up, she says, *"Thank you very much so far"*.

10:14 Auditor A reads an e-mail from a client regarding IFRS. The e-mail was sent to her and some other colleagues. She says, *"This is a client who usually has ingenious questions"*. In the e-mail the client has written that he does not know who feels inclined to answer… that "the first one wins…".

10:15 A colleague comes in to Auditor A's room to ask if she knows who is the office manager at another office.

Auditor A replies to the client with the ingenious question (see at 10:14, above).

10:16 Auditor A receives an answer from Client 2 (see at 09:57, above). The client writes that they have not really started yet. Auditor A starts writing a reply where she takes the opportunity to ask the client to ask the ten largest customers for "confirmations of balance". She also writes that attached to the e-mail there a letter which they can adjust for each client respectively and use for this purpose. She also gives them some other instructions.

10:21 One of the acccountants responsible comes in to Auditor A's room. She asks if it is OK to disturb Auditor A and then asks her about a certain date. Auditor A checks the computer and a folder.

10:25 Auditor A continues with the e-mail to Client 2. She looks though the attached file carefully and makes a few changes in it (dates, and so on)

and she marks the parts which need to be adjusted for each client respectively with yellow highlight.

At the same time as she is doing this, Auditor A remembers another thing. She looks up two documents from another client. One document is from 2002–2007 and the other is from 2002–2008. She reacts to two amounts that are similar and says that this is something *"we usually use when we analyze"*… that it is a *"good measure"*.

Auditor A continues with the e-mail.

10:31 Auditor A continues with some other e-mails. She has received an e-mail from the person who is head of the office in another European country. Auditor A sent him a PM with information about what she did when she was there, and he e-mailed her to tell her that he found the PM to be OK. Auditor A writes back to him since she has a few questions.

10:35 The accountant who came in to Auditor A's room earlier comes again, with another question.

Auditor A continues with the e-mail to the person abroad and says to me,*"It is always like this… a perpetual checking-in back and forth…"*.

Auditor A replies to another e-mail.

10:39 Auditor A fills in the time report.

Auditor A has received a reply from Client 2. The client writes that she had thought about how and when to do "confirmations of balance" and that she will read it.

10:40 The phone rings. It is an engagement leader for one of the engagements where Auditor A is the team manager. It is about a "set-off" by Client 4b. Auditor A tries to find some documents kept in the computer about this.

Auditor A sends two e-mails to the engagement leader about Client 4b and asks him if he "would check them before I start adjusting them".

She also asks him to check them before she sends them off for translation.

Auditor A then checks a table with different templates. The table also includes sections of a law and so on. She makes some notes and then prepares for a phone call she has to make regarding this issue. She mentions a few names of people who might know about it and which she could call.

Auditor A explains to me that the issue is about two opinions that the auditors are about to do – one about a "set-off issue" (*kvittningsemission*) and one about "subsequent events" (*händelser efter balansdagen*). The question is whether they can make these two opinions into one. Auditor A says that one of the difficulties is to cover all necessary sections of the law.

10:49 Auditor A tries calling one of the persons she thought about that probably know about this. He does not answer and she leaves a message on his answering machine in which she says that she will e-mail him as well and that it could be great if he could answer them as soon as possible today.

10:51 Auditor A brings out *Samlingsvolymen 2008 del 1* (a book from FAR SRS including the Companies Act, Swedish accounting laws, Swedish accounting standards, etc).

Before looking into it, she e-mails the person she just called and sends an e-mail to a client.

10:55 Auditor A starts reading parts of Chapter 13 in the Companies Act, "Issue of new shares". She marks certain parts of paragraphs 6, 7 and 8 with a blue marker.

10:59 Auditor A starts making changes in a template regarding the auditor's opinion on the board of director's statement according to… about set-off.

She continues to read in the Companies Act and goes back and forth between the book and the document in the computer. She then

searches for an e-mail and says, *"It is very often you sit like this and just search… for things…"*.

She prints two templates, one for each of the different opinions. She compares them very carefully and makes some changes by hand.

Auditor A then continues searching in the book (*Samlingsvolymen*) and starts reading parts of Chapter 19 of the Companies Act (the chapter about acquisition of own shares, etc.).

11:14 Auditor A makes a phone call to a person at the firm's translation department and asks her if she, or somebody else, can translate the two documents during the day.

The person says that she will send a list with three names of possible translators to Auditor A. She tells Auditor A to send the documents to all of them and then the person who has the time to do it will make the translations if they get them before 14:00.

11:17 Auditor A starts checking some numbers for another client. The revenue is lower than last year. Auditor A says, *"This is a client I have had for many years… I know it quite well"*… and continues, *"There is no reason to panic… If there had been a minus value… there are a lot of things you have to do"*.

11:21 Auditor A fills in the time report.

11:22 Auditor A receives the e-mail from the translation department (see at 11:14 above).

She continues working with the opinions, using the computer to copy/paste parts of the templates. She says, *"You have to be so very finicky… it could be one word that makes all the difference"*. She checks *Samlingsvolymen* to be sure that she refers to the correct sections of the law.

11:26 The engagement leader for Client 3a enters Auditor A's room and asks about the audit report for the client. She says that she will fix it, and he leaves the room.

Auditor A says that there are certain things to think about… that they have templates for it… but that they could just as well have used a standard report.

She calls out to the engagement leader to ask him if they are signing today… (to make sure that she fills in the correct date).

11:30 A colleague who works with accounting enters Auditor A's room. He asks Auditor A if she would like to be a part of the team for a new client. It is a client who is now a private firm but that is going to form a limited company. Auditor A seems very happy and says that she will gladly do it.

The colleague excuses himself for disturbing us and asks if we are having a internal meeting… Auditor A then explains very briefly who I am and why I am there.

When the colleague has left the room, Auditor A tells me that he is very good, that he is good at getting new client assignments. He used to be an auditor, then he started his own accounting firm which has now been bought and taken over by the firm and so he is back at the office, but now at the accounting department. Auditor A says that it is good that he now works at another department… otherwise he would not have given her so many assignments.

11:35 Auditor A continues working with the audit report for Client 3a. She compares it with last year's audit report (which is kept in a folder)… to make sure that she did not miss anything. After finding a small error, a "b" instead of a "B", she prints new copies of it.

11:38 Auditor A asks the engagement leader for Client 3a about some other documents and says that she can check them… he answers that "it would be great if you could do that".

11:39 Auditor A continues with the opinions for Client 4b and says, *"This is so very difficult"*.

She prints and checks some documents (board minutes) with notes made by the client. The client's lawyers have made a "draft proposal".

Everything is written first in Swedish and then in English, section by section. Auditor A marks the sections of the law which they are referring to. She then copies and pastes parts of the board minutes to her own draft and says, *"These things are in fact rather tricky… how to write and so on…"*. She thinks it over for a short while and says, *"Maybe it feels best to keep them as two different documents after all…"* and that it *"seems hard to make them into one"*.

11:52 Auditor A sends an e-mail to the engagement leader and says that she suggests that they keep them as two different opinions and that "I hope that you agree". She also asks him to check them through. She also writes that she has marked the things she copied from the lawyers draft with yellow highlight. Before she sends him the e-mail, she carefully reads through the attached documents.

11:57 The phone rings.

12:01 Auditor A searches among her documents. She at first cannot find the documents she just wrote, but eventually she finds them.

12:03 Auditor A fills in the time report.

12:05 My observation day at the office is over. This afternoon, Auditor A is giving a lecture about balance sheets and income statements at a client's company.

Chapter 10

Empirics – Complementary Observations

As discussed in section 7.2.4.5, I also carried out some complementary observations. These observations took place at Audit Firm 2, where Auditor B was my contact person. Together we decided that I should spend the first observation session with him. The following days, I also spent time with three more auditors at this firm: Auditors C, D and E.

10.1 Complementary observations – Auditor B

Auditor B started his day by providing me with information about the office and gave me a tour so that I could introduce myself to the auditors I was going to spend time with. Everyone at the firm knew that I was coming; they had received written information about this a few days earlier and they called me "the shadow". The environment was very friendly.

Before he started his "actual" workday, Auditor B gave me some information about his role at the firm and the kind of audit work he specialized in.

08:36 The evening before, Auditor B had been searching on the Internet for business courses at the request of a client whose children had become partners in the client's firm and who therefore needed to take some introductory business courses. He had found some courses that seem relevant and he now writes an e-mail to his client with two suggestions. He attaches the course descriptions he found.

08:51 Auditor B ticks off a checklist which is lying on his desk.

08:52 Auditor B continues with an audit engagement where he is the engagement leader. It is an engagement where the client also has lay auditors. The client company has received some kind of funding and they need to affirm the costs they have incurred. There are some templates to use, but Auditor B writes his own certificates, using his own template which he modifies. To certify the total sum included in the certificate, Auditor B summarizes a batch of invoices. He then completes the certificate and prints it, then repeats the procedure for another client (of the same type).

He starts working on another certificate; this time there are about 30 supporting documents to be summarized before he can complete the certificate. He starts by using the calculator. Then he uses Excel. Something is not correct. There is some kind of discrepancy and he makes the same calculations several times. He skims the documents and compares with his Excel file and tries to find the discrepancy. He uses the calculator again and after some time points out to me,"*There is probably a miscalculation here*". After some more calculations, he finds the mistake and the sum that differs.

09.08 The phone is ringing. It is a client and Auditor B brings out his calendar and they agree on some possible days for a meeting; also, that Auditor B should ask a colleague who is also going to be at the meeting what day he prefers. They discuss some issues and concerns that will be addressed at the meeting. They also talk about the fact that a person at the client company is leaving:

"We have to wait and see who will replace her… if that person has worked with these matters before…"

"It has been working well… taken out everything we need… it is unfortunate that she leaves…"

They also discuss how the previous person at the same position did not stay long either and that it is it unfortunate that people have stayed such short periods.

09:22 The phone call is terminated. Auditor B is just about to go to the colleague's office to decide on a day for a meeting when he realizes that the colleague is on vacation. He then calls out to another colleague and ask if she knows when the colleague will be back. As she does not know, Auditor B calls the office receptionist, who says that the colleague is using the computer-based calendar and that Auditor B can check it and then book the meeting.

09:25 Auditor B books the meeting in both his own and his colleague's calendars and then writes an e-mail about it to the client he just spoke to.

09:29 Breakfast break. Most employees go for coffee and sandwiches in the office dining area. At the table where Auditor B and I were sitting, there was very little talk about work and mostly talk about activities during the weekend, summer houses and so on.

09:55 Auditor B checks his e-mails.

09:56 Auditor B makes a phone call to a client who had tried to get hold of him. They talk about the income statement and about the client's pension and retirement income. Auditor B retrieves the client's tax return form in his computer and explains for the client that he can take out additionally almost 200 000 SEK before he must pay state tax.

The client also has questions about how it works if he decides to sell the company, and Auditor B explains some major issues to think about.

The client would like a summary of income statements. Auditor B suggests a summary as a table of the income statements from the last three years and says that this is how it is usually done.

10:03 The phone call is terminated and Auditor B explains to me that it was a client with a private firm who is now reaching his retirement age and that he is moving close to a sale of the firm.

10:05 Auditor B makes a note on his to-do list.

10:08 Auditor B has received a reply about the date for the meeting (see 09:25).

A colleague enters Auditor B's office. She has a question about a client's stock valuation. She says that, as there are no exact numbers for some items, she had to estimate some amounts and she asks Auditor B if the amount is reliable. Auditor B answers, *"Yes, I think so … it will end up outside the materiality limit anyway"*. He also says that it is not something to address on the form for discrepancies.

10:11 When the colleague has left, Auditor B explains that it is important to have these discussions and that the team members ask questions and discuss matters that they are uncertain about: *"I am putting my name on the paper – it is very important that it feels good"*.

10:14 Auditor B writes a confirmatory e-mail about the meeting (see 10:08) and then checks his calendar.

10:15 Auditor B leaves the room to go and get a fax.

10:16 Auditor B comes back to his office. He continues the work with the certificates (see 08:52). He finds the document with the sum that differs, an invoice.

10:19 Auditor B prints the calculations he made in Excel twice. He highlights the sum that differs with a yellow highlighter pen on the printed calculations. He then tells me that on the way to work the next day he will stop by at the client's office and check the error they made. He tells me, *"Before then there will be no certificate"*.

10:23 Auditor B prints the certificate that is finished and leaves the office to get the printed paper.

10:24 Auditor B saves the calculations he made in Excel and, slightly dejected, says, *"So… now I cannot put this aside…"*

10:25 A team member (an assistant) enters Auditor B's office to reconcile some items. Auditor B follows her to her office where she shows him

the papers she is working on. They look them through together and then agree to print a balance sheet and an income statement.

10:33 Auditor B goes and checks how it goes for another assistant.

10:35 Auditor B is back at his office. He starts working at an engagement where Audit Firm 2 is taking care of the book-keeping. The client's business is not doing very well, not as good as they thought it would. Auditor B explains that he now must "flag" his concerns to the client and that it is then up to the client if a balance sheet for liquidation purposes should be drawn up.

There is a note from a team member on one folder with papers regarding the client. The note says,*"It is not going well for X either. It seems like they have exchanged one of their vehicles. Would you like to take a look?"*

Auditor B thinks out loud, *"This does not look very good…"* and explains that they have exchanged a vehicle with an eight-year depreciation plan, which is reasonable, after just three years.

Auditor B makes some calculations. He concludes that it is a 100 000 SEK loss-making transaction. He then calculates how it influences the income statement and the balance sheet and he thinks out loud, *"But… it feels like he must have borrowed more money…"*; he compares an inventory list on the computer screen and asks himself, *"How has he financed this deficiency?"*

Auditor B continues by claiming that a balance sheet for liquidation purposes must be drawn up. For example, the trailer must be valued. He makes some notes, thinks out loud, *"I do not understand why he does not get the business going…"* and then continues to examine the documents.

10:49 Auditor B uses the Internet and makes a Google search to find the client's website. After some effort, he finds it and uses it to find a certain phone number.

10:51 He makes a phone call to the client but there is no answer. He then writes down the phone number on a Post-it note.

10:54 The phone is ringing. It is a colleague (team member, an assistant) at the same office. They have a discussion about some supporting documents that they need. He tells her to call another colleague to ask him about them as well.

11:00 Auditor B brings out some files and says, *"I am going to sign this…"*.

The phone is ringing. It is the same colleague that rang a few minutes ago. The talk is about what date to use – he asks what date is used in the share register and then decides to go to the colleague's office to have a look. Before he goes, he checks his private mobile phone.

At the colleague's office, he confirms that something is wrong and tells the colleague to examine it further.

11:06 Auditor B is back in his office. He signs off on several papers in the files he brought out a few minutes ago. He explains that he went through this with the team member who did the audit earlier.

11:15 The phone is ringing. It is the receptionist calling to say that one of Auditor B's clients just arrived and was waiting for him. He then leaves the office and walks to the reception. The client brought his annual accounts that are to be signed. Auditor B later explains to me that they went through it yesterday and found some things that needed to be changed today. Auditor B brings the papers to the copying machine and makes copies.

11:26 Auditor B brings the files that he signed (see 11:06) to the archive.

11:30 Auditor B starts making the summary of income statements that a client asked for earlier (see 09:56). He uses Excel to make his own tables and says to me, *"I could have asked someone else to do it, but it is not much work … It will be quicker if I do it myself than if I have to explain it to someone else*".

11:40 A colleague, Auditor C, enters the office to ask if it is time for lunch. They had agreed on taking me to lunch together as I was going to spend time with Auditor C after lunch. They agree to leave for lunch soon.

11:42 Auditor B goes for the 2009 file of the client who wants a summary of income statements. The files for 2010 and 2011 could be found on the computer, but the 2009 file had been "lost" when they replaced their computers.

11:46 We leave for lunch. Auditor B says that it has been a quiet morning.

10.2 Complementary observations – Auditor C and Auditor D

The observations of Auditor C and Auditor D were very much in line with my previous observations (of Auditor A and Auditor B). Therefore, in this section I will focus only on the things that were different.

When I start observing Auditor C, he is in the middle of finishing a (worldwide) course on independence. This afternoon, he is going to take the final exam. The course is mandatory and must be completed before a certain date. Auditor C says that he thinks that it is difficult to understand the English language used. He must frequently use a dictionary. He tells me there are a lot of SEC-related questions. When he has finished the exam, he makes sure that it is registered. The exam takes about 45 minutes.

Auditor C sits down with an assistant (team member) at her office for about 25 minutes to discuss the work she has carried out on an engagement. Auditor C complains a bit about the client firm's lack of orderliness (among their paperwork) and says that he is thinking about visiting the client instead of the client coming to the audit firm. By doing so, two of the client's employees can join them and listen to Auditor C's comments and suggestions for improving some routines. Also, this way they cannot blame each other for how things are done now.

Auditor C and the assistant discuss some figures and amounts. They agree that one routine by a certain employee seems wrong and therefore they are concerned about if she is doing other things wrong as well. Together they try to figure out how she is doing and how she is thinking. They discuss that it would be better if they did certain things each month instead of more infrequently, then they would come into a better cycle with better control, for example, of their cash flow, and it would feel better. The assistant expresses some worries by saying that she probably has spent more time on the engagement than the assistant did last year. Auditor C says that it is absolutely OK, especially since she has much better documentation.

They continue by discussing a preprogramed percentage limit, and the assistant explains that she had put the percentage limit down, from 75 per cent to 50 per cent. Auditor C says that he thinks that it is difficult to formulate these kinds of explanations. He also asks the assistant (as she just finished the methodology course) if it is OK to make the kind of alteration she did. She says that it is OK but that you need a very good explanation to do so.

When I started to observe Auditor D, he was working with the annual financial statements of a parent company where he earlier prepared the annual financial statements for two subsidiaries (which, as he also tells me, is more accounting than auditing). He has received the file with the consolidated financial statements from a colleague who prepared the same statements last year.

Auditor D explains that this is not something he does very often and that he therefore, for example, continuously compares the amounts and numbers from last year. After some calculations, Auditor D realizes that something is not correct – that it does not balance. He calculates the numbers several times but cannot understand where the miscount is. Twice he is interrupted by colleagues entering his office. One time it is a colleague who asks him to come with her to have a look at the layout of a report she is putting together and another time it is a colleague who brings some files to Auditor D and shows him what has been done. He is also "interrupted" once by the office's coffee break. He compares the figures on the computer screen with figures on printed documents in some files. He switches between the "consolidation software" and Excel, makes different calculations and compares. He also uses a hand-held calculator.

Auditor D is focused and thoughtful. He seems frustrated and is saying things like *This is hopeless" "Why does this not add up?" "I thought this would be easy, just something to run through… but there is a discrepancy of 524 000 SEK… I do not like it…" "There*

is something about this that I do not understand" and *"Have I made some kind of miscalculation?"*

After about an hour, he decides to start over, to start from scratch to see where the mistake is as *"something must be wrong"*. He prints the annual report from the previous year, gets the sheets from the copying machine and uses them to try to find why this year's consolidations do not add up. He then finally finds the mistake, corrects it, and spends a few minutes in trying to understand why it "happened" and makes sure that it balances with the rest of the calculation.

Auditor D explains to me, *"This is the kind of thing I do not like… when you cannot explain why things turn out as they do"*. He then starts calculating again and thinks out loud, *"It must be just a coincidence… but why on earth… It is not even close to being correct… It is connected, but I would like to be able to explain why there is an adjustment…"*. After some additional calculations, he finds where things have gone wrong and says, *"… got it together… now it is a different situation… now it adds up much better"* and *"What problems a miscalculation can cause!"*

In total, this task has taken about two hours. He then explains that he might also have a look at the cash flow before he continues but that he *"never has used this programme to do so… can be exciting… or else I will just do as I usually do…"*. He gives the "new" programme a try, but after about ten minutes, decides to use the programme he is more accustomed to. Auditor D then explains that *"now the carpentry work of the actual annual report begins"*. He uses a certain program to do so, but explains that some figures must be filled in manually because he used a separate program for the consolidation and says that *"the programmes are not connected… otherwise one can get a lot for free… as connections between different items could be made… as it is standard programs we use…"* .

Much work is about making sure that different sections and items have the correct titles, labels and placing, especially compared to last year's report. The work continues by calculations, filling in figures, updating texts (e.g. notes) and making comparisons between files on the desk, printed documents and figures and documents on the computer screen. Auditor D is frustrated as some things that should have been updated automatically and says, *"Then I have to do it manually… but still I think that… it is a damn system…"*.

10.3 Complementary observations – Auditor E

Auditor E is an assistant. When I start observing her, she is auditing a client's financial statements, and she tells me that she also did last year's auditing for this client. She was visiting their book-keeping agency yesterday.

12:49 Auditor E is working with four different engagements of the same client at the same time, instead of doing them one-by-one. She explains that she has done as much work as she could at the site of the client; that way she does not need to bring a lot of things back to the office.

12:54 Auditor E prints some documents and picks them up. She puts them in a file.

12:58 Auditor E fills in the time report.

Auditor E is searching a certain online database to find the real property registered on a particular corporate identity number. She prints a list from the database and picks it up from the copying machine.

13.00 Auditor E starts working with a file in the Manual.[49] She is reviewing the items included in "land and buildings" as "it is considered a material account". She highlights some figures on the printed list (see 12:58) in yellow highlight. She then numbers all printed documents, fills in the same numbers in a template on the computer screen and writes a comment saying that it has been verified by checking the online database. She then systematically ticks off certain amounts in a file with printed documents and continues reviewing another item (that is considered less material).

13:14 Auditor E makes a note about what she is working with right now on a piece of paper on her desk. She then puts the paper aside.

[49] Note that this is the Manual used at Audit Firm 2, which is equivalent but not the sameas the Manual used at Audit Firm 1.

13:15 Auditor E continues with some more items in the same manner as described. Some items are considered material, others less material and some immaterial. She has four files on her desk (from the four engagements, see 12:49) and she is working with them simultaneously. She ticks off amounts that are compared with the balance sheet and compares them to supporting documents (for example, account statements from the Swedish Tax Agency).

13:26 Auditor E receives an e-mail saying that the post has been sorted and is available.

13:27 Auditor E continues auditing the financial statements.

13:28 A colleague (an assistant) enters the office to ask how things are going. Another colleague stops by and makes a joke.

13:30 Auditor E continues auditing the financial statements. After a while, she becomes a bit hesitant as an item, "accounts payable – trade", that according to the planning (which she checks again) should be material is classified as immaterial. She explains the importance of what level an item is classified by (the level of materiality determines what steps and audit procedures to carry out and the amount of audit evidence and supporting schedules that should be collected and included). Auditor E changes the classification of the item, from immaterial to material. She then continues to number, refer, mark, comment, sign, tick off and compare documents. She updates the signatures and dates from last year's audit at several places and, where necessary, she updates the comments (which according to Auditor E are "pre-programmed").

13:46 Auditor E makes an additional note about what she is working with right now on the piece of paper lying on her desk (see 13:14).

She then clears the files by removing some documents, and explains to me, *"You can clear these files a bit… as little paper as possible"*.

She calculates some amounts and replaces figures in the file in the Manual.

14:04 Auditor E prints a document and gets it from the copying machine. She puts the document in one of the files.

14:10 Auditor E starts working on a document ("PM Audit of the financial statements") in Word. She writes comments and alters old comments. Some is removed others are added.

14:13 Auditor E prints some documents and pick them up from the copying machine. She puts the documents in one of the files.

14:15 Auditor E then continues with similar procedures for all four engagements. She comments that this is "*the same thing again*".

Chapter 11

Analysis and Discussion – The Auditor at Work

11.1 Introducing the analysis

The following analysis and discussion is guided by the empirical data and by my interpretations. By exploring and exemplifying auditor activities, I try to approach an understanding of the auditing concept. In doing so, I frame work practices as constellations of *actions*, *actors* and *actions of objects* (cf. Goldkuhl & Röstlinger, 2006). Actions are performed in a *manner* at some *place* at some *time* by *producers* (humans and machines) and are affected the *experiences and capabilities* of the producers, by *infrastructural conditions* (such as norms, guidelines and instruments), by *transactional conditions* (such as product orders and compensations) and by *external conditions providers* (such as norm framers, guides, instrument providers, product assigners and payers). The outcomes are *products or other results*. Producers, clients and providers are the actors and conditions; products and other results are the action objects.

The main actor/producer is the auditor (Auditor A in the empirical data), but with regard to communication it is of great importance to identify communication "with whom?" In focus also is the manner in which the actions are carried out (the "how?"). I will also try to relate this to the experiences and capabilities of the auditor (the "why?"). The time and place elements are seen as given (Chapter 7) as well as the overall infrastructural and transactional conditions and external condition providers (Chapter 3). However, the firm specific conditions (norms, guidelines and

instruments) are not seen as given, but rather as part of what influences the manner in which actions are carried out. In simple terms, the outcomes might be described as "audits".

In this first level of analysis, on the nature of audit work (section 11.2), I focus on the actions of Auditor A where I aim to categorize, describe and exemplify those actions (from here on, termed "activities"). Following Goldkuhl and Röstlinger (2006) and my fieldwork experience, this categorization and description must also include the actors. In the subsequent section (11.3), I explore and exemplify the auditing concept further by elaborating on the manner in which such activities are carried out, that is, the "how" and the "why" aspects.

11.2 The nature of audit work

11.2.1 Introduction to the categorization

The first part of the analysis is inspired by Mintzberg's dissertation "The manager at work – determining his activities, roles and programs by structured observations" (1968). In this analysis, I start to address the research question – What does the auditor do?

Here then I am analyzing the auditor at work, distinguishing the characteristics of auditor work and different activities and categorizing them. By borrowing from Mintzberg's method and presentation of data, I try to bring some order to my observations and to structure and present my data in a way that facilitates the understanding of it at the same time as it facilitates my further analyses.

By no means do I intend to give a completely comprehensive description of audit work. Following the restrictions in time and place and also the exploratory nature of the study, my plan in this chapter is to explore the nature of audit work through activities undertaken by one auditor at the office of a Big 4 audit firm.

11.2.2 Categorizing and describing auditor activities

In this chapter, where I categorize the actual activities of auditors, the focus is on *what* auditors do and to some extent with *whom* (the "where and when" are somewhat predetermined, see Chapter 7), but not *how* or *why* they do it. The categorization is based on my observations of Auditor A. As will be indicated further on (section 11.2.4), this is not irrelevant because auditor work activities are said to be dependent on experience and hierarchical rank.

The categories could in a few cases be seen as overlapping (e.g. documentation and reviewing), and sometimes the auditor was multi-tasking (e.g. writing an e-mail while talking on the phone). In most cases, though, it was possible to separate the activities both in frequency and time consumption. The few cases when separation was difficult or even questionable are not influential enough to change the overall summations and classifications.

The frequencies presented in this section are based on how many times the auditor moves from carrying out one activity to initiating another activity. For example, sometimes an activity was initiated and then terminated for some reason (e.g. interruption, waiting time, or making a decision to do something else) and then resumed later. It could be argued that this is not a good way to describe the frequencies of activities, since the same documentation activity could be counted more than once. However, Auditor A carried out many of the different activities in a fragmented way (due to interruptions, waiting time and her own decisions to do something else) while interruptions were common and expected. Hence, the large fragmentation of activities seems to be an important aspect when it comes to describing the nature of auditor office work; therefore it is my impression that this way of quantifying auditor activities is relevant.

The average numbers presented in the following sections and tables should neither be seen as exact nor definite. They should rather be seen as indicators of the frequencies of and time spent on different office work activities. They are used to illustrate the proportions of different activities and provide a description that could contribute to the understanding of time spent on and balance between the different activities.

The major part of the work carried out at the office is carried out "in front of the computer" (this was also noted by Westerdahl, 2005). Auditing is also about

"interplay" and being able to manage such interactions and relations with colleagues and clients (cf. Westerdahl, 2005).

11.2.2.1 Communication

The most frequent and time-consuming activity is communication (see Table 6).

Auditor A carries out communication activities between 40 and 50 times a day. The most common way of communicating with both colleagues and clients is by using e-mail. Auditor A uses e-mail correspondence mostly to schedule meetings and make arrangements with both colleagues and clients, to request documents, files and information from clients and to send and receive documents such as templates, outlines and standardized material (such as standardized contracts). To some extent, documents that could be seen as audit evidence are received from clients by e-mail, but such documents seem on the contrary never to be sent between colleagues by e-mail (instead they are uploaded in the Manual and thereby made available for all auditors connected to the engagement).

A typical e-mail to a client consists of Auditor A writing "The following days are suggested for auditing… please choose the two days that you prefer".

Communication by telephone is also very frequent. Auditor A spends approximately one to two hours a day on the phone. The length of each call is very variable. Especially, phone calls from clients can be long. An example of such a call is a client calling with questions about salaries, dividends and taxes.

Clients also make quick phone calls when they need confirmation about something they have done – is it okay? Auditor A commented to me on one such phone call from a client asking about missing VAT: "He called and asked about a mistake on 20 SEK… from my perspective that is too small an amount… ". To the client she said, "It is very good that you found the mistake… just correct it".

Phone calls to and from colleagues are usually very short. They include everything from asking for names of auditors in other offices (e.g. to help out with inventories in another city) to trying to find someone who can help out with the formalities in a contract.

Physical meetings are not as frequent as the two other types of communication. Such meetings occur when a colleague (auditor) comes into the office and asks for favours

or help in different ways. Such communication that could be considered directly client-related, however, is very rare. Most requests and questions are about other things (such as asking for the name of an auditor at another office or about office-related issues). A few times, the engagement leader for an engagement where Auditor A is the team manager came into the office and asked about the client's annual report and the information in it. There is also some communication with accounting colleagues through "physical meetings".

The frequency and time spent on communication activities indicates the necessity of strong communication with knowledge sharing as well as information sharing that has been pointed out as important for producing high-quality audits by for example ICAEW (2002). It also implies that auditors need input from several sources throughout the audit to be able to make judgments (cf. Solomon, 1987) and that auditors are trying to understand their clients and their business by communicating with client representatives and recognizing the importance of listen to what they say – something that has been stressed as important by for example Brännström and Forsberg (2009).

Table 6 - Category: Communication

		Average occasions (freq./day)	*Average time (min./day)*	*Average time/activity (min.)*
Total communication		40–50	110–220	4
E-mail	Total	20–25	40–60	2.5
	Write e-mail	15	25–35	2.5
	Read e-mail	5–10	10–20	2.5
Telephone	Total	10–20	60–135	8
	Receive phone call	5–10	35–75	8
	Make phone call	5–10	25–60	5.5
"Meeting"		5–10	10–25	3
Communication – colleagues		20–30	50–110	4
Communication – clients		10–15	45–90	5.5
Communication – others		5–10	10–25	2

11.2.2.2 Documentation

The second most frequent and time-consuming activity is documentation. Auditor A carries out documentation activities between 15 to 20 times per day. Most time is spent on documentation in the Manual. It could almost be said that to be working in the Manual is to be working with documentation. This documentation is part of the "engagement file" and could be viewed, commented, extended and used by all auditors in the engagement team and could also be subjected to different kinds of quality control. It is not allowed to change (other than misspellings and other careless mistakes) the documentation made by a team member; instead, comments are written and comments are made. All additions made are signed by name and date. Another procedure used is to call the person who made the documentation and to let them make the changes. Auditor A expresses several times that you have to be very careful, accurate and thorough when it comes to the documentation – "you have to be so

damn picky… one word could make a difference". She also makes sure that there are copies and printouts of everything and of every version of a document. She explains, "I am probably a bit too meticulous with the documentation… often documentation with cross-reference is enough". Sometimes when there are duplicate copies, she saves both just in case.

To some extent the documentation activities in the Manual could be considered to be communication. By documenting something in the Manual, auditors communicate to team members that it has been done or is in progress. The Manual also has a function which makes it possible to write "coaching notes". These notes are instruction and feedback to other team members. Also, the documentation in the Manual is a way to communicate how the audit has been performed. From the Manual, it should be possible to follow all steps of the audit, and every decision should be "traceable". Most steps in the Manual must include some kind of conclusion. Therefore it could also be seen as communication of decisions made and of the reasons for these decisions.

"Paperwork" activities are not very time-consuming; they include printing, copying, scanning, using files, etc. The category "examining documents" includes inspecting and going through documents such as PMs regarding a client's internal control, and comparing a client's annual report with last year's version to be sure that nothing is missing. Since these activities are not directly related to the audit *per se* but rather to the specific documents and whether they are correctly written, I have put them in a separate sub-category within the documentation category instead of including in the reviewing category. The category, however, is quite minor and including it in the review category would not impair the overall picture.

Table 7 - Category: Documentation

	Average occasions (freq./day)	*Average time (min./day)*	*Average time/activity (min.)*
Total documentation	15–20	90–110	6.5
In Manual	6–7	60–70	11
"Paperwork"	6	15–20	3
Examining documents	3–6	10–20	4

An example of documentation activity in the Manual is Auditor A completing the documentation from a meeting with a large client. Documents with organizational schemes (including illustration and text), a flowchart (for the purchasing process) and various summaries of meeting notes that she has scanned are uploaded and organized in the Manual. As for the flowchart, she comments, "It says in the law that you must have it … the bigger the company, the more often they have it". When she transfers the documents to the Manual she tells me that she read them very carefully at the site of the client and that "it is highly dangerous to include something [in the Manual] that you have not checked…"; she explains that this is because including it in the Manual means that you have approved and accepted it. Because this is a large company, quite a lot has to be written and commented on regarding the purchasing process. She says that for smaller clients, they do not write as much at all. She also comments that in order not to miss the important things, it is important not to include too much text. She says that it is more important that it is good documentation.

For this client, Auditor A and another team member met in total about 20 people from the client's firm. This time most people came from the R & D, IT and purchasing departments. People's names are one important thing that should be documented. There are a lot of notes from these meetings, and Auditor A says that there is no time to do the documentation directly at the client's site of the client. After a meeting, she always highlights the most important things to reduce the "starting run" when doing the documentation later. She creates links to files with summaries of the meetings in the Manual. Auditor A also uses the Manual to document her findings on the internal control for these departments. Text that is unfinished and "work-in-progress" is written in red.

The findings on internal control should then also be reported to the board of the company (client). Matters that are not severe enough to cause a qualified audit report, but that might cause problems in the future (e.g. items that work today but could cause problems if someone leaves the company) must be "flagged". For the client in this example, Auditor A says that the list of such issues will be much shorter this year. This is because they have corrected most things from last year's list, "which of course is good!".

After writing all notes and text in the Manual, Auditor A reads it through very carefully: "You must check to make sure you did not writing anything wrong". She also goes through the notes taken by a less experienced colleague. Auditor A was not

present at that meeting and wants to check it before putting it in the Manual for the EL to read.

Workings papers are electronic in form. They exist in the Manual and not only serve as documentation but also are used to evaluate the work of team-members; these "coaching notes" are a place for everyday feedback and "teaching".

The frequency and time spent on documentation indicates its importance throughout the audit process. It is very clear that documenting something is the most evident way to show that something has been done, and it serves as support for auditor conclusions (cf. Carrington, 2010b). The findings also suggest that this "support" function is built into the audit firm system and hence, a part of the structure as described, for example, by Cushing and Loebbecke (1986) and by which auditors let themselves be guided (Öhman, 2005, 2007).

11.2.2.3 Administration

The third most frequent but not very time-consuming activity is administration. The average time spent on these activities is low, and only one activity, time reporting, is quite frequent. Administration activities are carried out for a total of one half-hour a day and time reporting, which is done almost once an hour, is the activity that consumes the most time.

Table 8 - Category: Administration

	Average occasions (freq./day)	*Average time (min./day)*	*Average time/activity (min.)*
Total administration	15–20	25–35	2
Time reporting	8	15	1–2
Scheduling	3–6	6–10	2
Sorting	1–3	2–5	1–2
Invoicing	1–2	3–6	3.5
Other	1–2	1–2	1

Time reporting is done through a computer programme. That programme is running all day; it is started and then kept open on the computer desktop.

Scheduling, or organizing her own time, includes Auditor A using her calendar, various handwritten checklists, to-do lists, memory notes and written e-mails to herself (as reminders of things to do).

Sorting is about organizing e-mails and printed documents on the desk in different files and folders.

Invoicing is done about once a day and is described by Auditor A as "something that has to be done" (cf. Chapter 8, 09:39).

11.2.2.4 Reviewing

The activities categorized as reviewing are probably those that people outside the profession would consider as "auditing". Reviewing has been categorized, for example, by FRC (2006) as a more traditional procedure (compared to more modern technology-based auditing). "Reviewing activities", however, are to a large extent delegated to team members (see section 11.2.4). For auditors with more of a team manager role, about 1 to 1.5 hours per day are spent on these activities. Most of the reviewing is what I have chosen to describe as "directly client-related" but also includes reviewing audit work carried out by team members.

Table 9 - Category: Reviewing

	Average occasions (freq./day)	*Average time (min./day)*	*Average time/activity (min.)*
Total reviewing	3–5	60–90	20
Directly client-related	2–3	50–60	20
Work of team members	0–2	10–25	1–2

Examples of directly client-related reviewing activities include reviewing a client's balance sheet and its items (comparing them to expectations and reviewing necessary explanations in case of divergence, etc.). When it comes to reviewing the work carried out by team members, Auditor A describes this as more of a control activity (to see

that something is not missed and ensure that the correct conclusion is drawn) than redoing the work.

11.2.2.5 Consultation

Of all activities, consultation is the most variable in terms of frequency and time consumption. These activities were carried out between 2 and 15 times per day and between 20 minutes and 2 hours a day.

Table 10 - Category: Consultation

	Average occasions (freq./day)	*Average time (min./day)*	*Average time/activity (min.)*
Total consultation	2–15	20–120	8

Consultation includes a variety of activities. It could be, for example, drawing up contracts or explaining different regulations, how certain restrictions work or what certain terms means.

The consultancy part of auditor work is often referred to as the more commercial side of auditing and as something auditors engage in for reasons of profit and remuneration (cf. Kaplan, 1987; Hanlon, 1996, 1998; Gendron, 2002; Boyd, 2004). However, often these activities seem to be a part of auditors' information gathering in their intent to understand the client and a part of auditors' getting control of certain things that are going on in the client company (cf. Sweeney & Pierce, 2004; Carrington & Catasús, 2007; FAR, 2010a, 2010b; IFAC, 2010). The professional and commercial parts of auditor work do not seem to impose any tensions or cause dilemmas in everyday auditor work situations.

11.2.2.6 Preparations

A number of different preparation activities consume less than one hour per day. Directly client-related preparations consum more time, but are almost as frequent as preparations in the Manual. The average time per activity is therefore higher for directly client-related preparations.

Table 11 - Category: Preparations

	Average occasions (freq./day)	*Average time (min./day)*	*Average time/activity (min.)*
Total preparations	3–7	20–40	6
Directly client-related	2–3	15–30	8
In Manual	1–4	4–12	3

Directly client-related preparation activities include, for example, preparing and bringing out papers and files for visiting clients. Preparation in the Manual means to organize a new engagement. If it is a client that was audited last year, it is about preparing for the new year by making a file for the new year and updating it with relevant issues.

11.2.2.7 Reading standards and regulations

About 10 to 20 minutes per day is spent reading standards and regulations from an annual omnibus book issued by the Swedish professional auditor association or reading standards through the Manual. This book (in two parts) includes auditing standards and regulations and accounting standards and regulations. Auditing standards are described as "built into the Manual" and they can be reached from it.

Table 12 - Category: Reading standards and regulations

	Average occasions (freq./day)	*Average time (min./day)*	*Average time/activity (min.)*
Total reading standards and regulations	1–3	10–20	6

When I observed Auditor A, she was drawing up some contract for a client and needed to read the actual standards. Thus, when it comes to the actual "book", the observations of the activity might not be "typical". However, auditing standards are occasionally taken out and read through the Manual (by clicking on the title of the standard).

Auditing standards are said to be "an important part of the auditors' toolkit" (ICAEW, 2006b:5) and to provide guidance on how to perform an audit (ICAEW, 2006a). ICAEW (2006c) argues that auditing standards have a direct effect on the manner in which audits are performed. Öhman (2006) suggests that the guidelines in the ISAs can be seen as more structure (cf. also Humphrey and Moizer, 1990; Bowrin, 1998; Power, 2003; FRC, 2006; Larsson, 2007). The findings of this study, however, suggest that this structure does not lie directly with the standards themselves but rather with the way they are incorporated in the audit firms' manuals and hence, the way in which they are used. As such, they have an indirect effect on auditor work rather than the direct effect described by ICAEW (2006c).

11.2.2.8 Firm activities

Firm activities include what can be described as marketing, or at least public relations activities. These activities are neither frequent nor time-consuming. This does not, however, mean that they are not important.

Table 13 - Category: Firm activities

	Average occasions (freq./day)	*Average time (min./day)*	*Average time/activity (min.)*
Total firm activities	2–3	3–7	2

Auditor A seems engaged in a number of firm-related activities. One such activity involves being part of something related to updating the firm website. Examples of other such activities are preparing participation at different kick-offs and in student activities as well as organizing different kinds of networking. She comments on these activities: "I get myself involved in things that I consider fun". In some sense, these activities are about making business – keeping and acquiring clients. Auditor A explains that it is expected of the auditors employed at the firm that at some point they will start to acquire their own clients.

This part of auditor work shows that auditors do engage in marketing and similar activities (Hodges & Young, 2009; Broberg et al., in press) and use pure business skills (Jönsson, 2005) to keep and gain new clients. It also shows that auditors realize the importance of adapting to a market-oriented environment (due, for example, to the abolition of the statutory audit for all companies in Sweden), something that has been emphasized as important, for example, by Kotler and Connor, Jr. (1977), O'Donohoe, Diamantopoulos and Petersen (1991), as well as Barr and McNeilly

(2003). There are no indications of auditors considering "selling" and marketing activities as behaviours that are in conflict with being a professional (cf. Kirkham, 1992; Radcliffe et al., 1994; Gendron, 2002; Heischmidt et al., 2002; Barrett et al., 2005; Reid, 2008; Clow et al., 2009). Instead, they seem like a natural part of the auditor's everyday work. Hence, the results of this study are much in line with the findings of Broberg et al. (in press) that auditors are able to balance the responsibilities inherent in the audit profession with the "imposed" marketing activities.

"Firm activities" however, do not just include or are not seen as marketing activities per se. They could also be activities seen as serving a more social function – including those that might be aimed at fostering the firm or office atmosphere and at creating a "we" feeling – a feeling of belonging.

11.2.2.9 Updating

In spite of the fact that this category is very small and that having it as a separate category might be questioned, it is important to notice it as a separate activity that does not really fit into any of the other categories. One reason for this is to acknowledge that keeping up-to-date is important and a continuous activity. Another reason is that my observations might be misleading, as most of this updating is done through reading newsletters, etc. in the Manual. Accordingly, I might not have recognized it at all if Auditor A had not pointed it out and told me what it was she was doing.

Table 14 - Category: Updating

	Average occasions (freq./day)	*Average time (min./day)*	*Average time/activity (min.)*
Total updating	0–1	0–1	1

11.2.3 Summarizing the classification of auditor activities

What can then be said about the nature of audit work in terms of activities, how often each activity occurs and how much time is spent on each activity?

Auditor office work seems to be very fragmented. On a "normal" day, Auditor A carries out about 5–12 activities per hour; on a "busier" day, there could be more than 20 activities per hour.

Table 15 - Auditor activities sorted by frequency/day, time consumption/day and time/activity

Activities sorted by frequency/day (no. of occasions)	*Activities sorted by time consumption/day (minutes)*	*Activities sorted by time/activity (minutes)*
Communication (40–50)	Communication (110–220)	Reviewing (20)
Documentation (15–20)	Documentation (90–110)	Consultation (8)
Administration (15–20)	Reviewing (60–90)	Documentation (6,5)
Consultation (2–15)	Consultation (20–120)	Preparations (6)
Preparations (3–7)	Preparations (20–40)	Reading standards and regulations (6)
Reviewing (3–5)	Administration (25–35)	Communication (4)
Reading standards and regulations (2–3)	Reading standards and regulations (10–20)	Administration (2)
Firm activities (2–3)	Firm activities (3–7)	Firm activities (2)
Updating (0–1)	Updating (0–1)	Updating (1)

The analysis shows that Auditor A carries out many different activities and that the frequency of the activities is quite high. It also shows that the duration of activities is

quite short. On a "normal" day at the office, the average time spent on each activity was less than 10 minutes (about 9 minutes) at a time. Two-thirds of the activities lasted 5 minutes or less, and less than 10 percent of the activities lasted 30 minutes or more. On a "busier" day, the average time spent on each activity at a time was about 6 minutes. Four-fifths of the activities lasted 5 minutes or less, and none of the activities lasted 30 minutes or more.

Sometimes the auditor was multitasking. An example of this was talking on the phone with a client while writing e-mails and preparing some part of the auditing of an engagement by making notes.

11.2.4 Comments and additional activities

The additional observations and interviews I carried out after the initial ones yielded some additional thoughts and comments on auditor activities. In terms of the characteristics of activities carried out at the office and the difference between work at the office and work at the client's site, the same issues are pointed out by all participants:

> ...inside the office...well that's about...there you have the planning stage...the team...even if there are just two or one hundred people you still meet often and talk about things together…about the division of labour, roles and responsibility...well there is a lot of planning work done in the office... (Auditor G)

> nowadays you go out and download stuff with computer support... and then you often sit in the office and do the analyses... (Auditor G)

> ...you do much of the reporting in the office...when you come to conclusions...get the team together … ""What are we going to emphasize? What are we going to report? What is to be included in the auditor's report? Shall we write anything for the management or the board?""... (Auditor G)

Hence, planning and reporting activities occur more often at the office, whilst information gathering (especially through interviews) is often done at the client's site.

The interviews also revealed some additional activities that I did not observe. There are several reasons for such "non-appearances": for example, it has been stated that the kind of activities carried out is dependent on the time of the year (cf. also 7.2.3) and the characteristics of the client:

> ...so in fact it is mostly in the final stage that you move into the office so to speak...And then often in the final...so to speak, as auditor in charge it is, well, often in the beginning and final stages that you are involved... that is to say how...how do we prepare, what are we to focus on, what is important, how shall we look at this, when are we to do this, who are we going to meet, and so on, and then we let the team do their job, with continual checking against each other by the responsible person in the field, and then you perhaps go out on some occasion...go through certain questions, it depends entirely on the type of client...how tight things are and the time of year...we visit the more important clients a couple of times a year anyhow... (Auditor H)

As indicated in the pilot interview, the activities, their frequencies and duration are considered by all participants as dependent on hierarchical rank, experience and team role (hence, they might also to some extent differ among audit engagements):

> In fact, it is very different depending on whether it is a small client or an important one...first...and I can say that most of my work is with major clients...that it is mostly international enterprises and companies listed on the stock exchange on which I spend most of my time...You could say that with regard to the larger enterprises 90 percent of the work must be carried out at the client's...it is really just planning...certain administrative things that are always part of work with clients, that are carried out from the office...So if everything is working well, then 90 percent of the work is out at the client's...Then you have these smaller clients, that I do not have so many of, where...they are called cardboard box jobs ("*kassebolag*") where you quite simply receive material to the office, for they have nowhere for you to sit...And then it is made ready...the work here...But we try to do as much work as possible at the client's, as that is where their business is...it is not the figures that we have to audit, we have to audit their business, and therefore we have to understand their business...and if we are not there… well then we do not manage it...in a good way... neither effectively nor do we carry out a good quality audit. (Auditor K)

Also, most interviewees emphasized that auditor activities vary, for example with hierarchical rank:

> ...it is wholly decisive the point you are at in your career, that is how long you have worked...I should say the place where you work, what type of clients you work with, how experienced you are, also if you are an authorized public accountant there is a certain range – either you work at Ericsson or you have 200 family-owned companies, that's how it is...I should say...and then you can have auditors like myself in fact, who have internal parts to play...in the firm...that is the auditing firm is managed by the auditors...(Auditor H)

As pointed out in the first part of the analysis, audit work appears quite "fragmented". All interviewees strongly support this description as well as that much work is carried out at quite high speed:

> ...doesn't exist...doesn't exist...I seldom have anything lasting more than an hour...so it is meetings...it is meetings... (Auditor J)

> ...but a day at the office will never be exactly as I envisaged it in the morning… (Auditor A)

> ...then I think that if you are newly employed... then you do more things at a stretch...so you can sit and really audit say a little company from A to Z...eight hours per client...but I seldom do this...As team manager, well, at that level, you have many balls in the air at once... (Auditor A)

> Lots of mail, yes...And in holiday time just, well... you don't find the first person, so you have to look for the next, and the next... You need...the client most often needs the answer immediately...in fact two hours before they ring up... (Auditor I)

One reason pointed out is that due to the available techniques (for example, e-mail), it is expected that questions will be answered almost instantly:

> That's how it is... you work all the time with different engagements...you then wait for material from different clients ...and they want,...well, when they have sent off something they want an answer within ten minutes or so... (Auditor I)

> ...you know I... I suppose when I count them... I have 200 mails or so a day ...so I mean... I have to answer them... (Auditor J)

Participants also seem to agree on and "recognize" "communication" as the most common activity and that much time is spent on e-mail communication:

> … so you read a lots of mails and answer...well, and then there are lots of small, short questions from clients... So that... if you work on a national basis you can get everything from "hey, Lisa and I are getting a divorce, can you...what the hell shall we do about the shares...?" or… "I want dividends, how much should you... I've had questions from the tax authorities...? So, it is EVERYTHING..." (Auditor J)

In the following, I describe the additional activities mentioned, and offer some "critique" of the classifications I made.

Among the activities mentioned and not included in my categorization is *teaming*:

> ...however I miss information more about how you build a team, "teaming", that you have the right people, the right qualifications, the right structure in every way...in fact a team that matched the company's needs, and then you have to use lateral thinking as much as you can...you must have a balance of men/women, you must have the right stages of competence in the team in some way…And then...and this is something that is not so tangible...but when you have done your field studies, perhaps that contribution has not come into being because you have been there, and then there's the corridor gossip... [Auditor G emphasizes that there in fact is quite a lot of corridor gossip, that it is a part of the category I have labelled "communication"] But it is SO important!...that you...as you are moving around all the time...at least I'm one of those, I don't sit still much, but you...you meet colleagues and they have all followed what happens in the business news bulletins... you know what is happening… and the impulses, the ideas you get are tremendously important...and it's then that you too can take up the issues that you have been ruminating on, "hey, I've been thinking about this, how would you reason here?" (Auditor G)

Evaluation of the work carried out by co-workers and *feedback to co-workers* are two activities that auditors at higher levels of the hierarchy claim to spend a lot of time on.

The procedure is that the immediate superior carries out the evaluation. Then that evaluation is evaluated according to a "grandfather principle". Properly done this is something that takes a lot of time.

Also, partners evaluate all employees. Auditor F explains that this has to do with promotion and specialization and that it is matter that is becoming more and more important. He emphasizes that

> it's extremely important for the professional development of each colleague...that you actually have a...If you ask a colleague what is the worst thing about this auditing firm ...you always get the answer that it's the feedback...you always get too little feedback...You can give any amount of feedback, but it's still not enough... (Auditor F)

Hence, evaluation and feedback probably could constitute one or more additional categories instead of being included in "communication". Also, one interviewee suggested that "reporting" might be about communication and should probably be a category separate from "documentation" (or included in communication):

> I miss the reporting, and I'm not only thinking about the auditor's report but about all the feedback to the company that we are auditors for... (Auditor G)

For those evaluated or those who receive the feedback such activities are described as a "learning process":

> Yes...and they read of course...it's the same all the time...if you think of this staircase that you had before...well...all those who are team assistants...they report up to the manager...so that they read... the team manager perhaps does not do any checking but he reads everything that everyone has done, and if there is something that is faulty they will send a mail, like, with "oh... you obviously did not carry out a check-up inventory...why not?"...
>
> [But then you have to...if it's you who've missed something, you have to do it later then, don't you?]
>
> Yes...Because otherwise you won't learn what you ought to do... (Auditor I)

Hence, evaluations and feedback are different activities dependent on hierarchical rank and on team role.

Meetings is another category that has been mentioned. These are often internal meetings with colleagues but sometimes also meetings with clients that take place at the office:

> So, you also have the meetings themselves, not perhaps just preparation for meetings, but also you have the following... planning meetings and concluding meetings...and sometimes the client can come to us as well...you have the client meeting itself... (Auditor I)

Partners and auditors with managerial positions seem to take part in meetings more often. Also there seem to be more of a variety of meetings for those auditors:

> Team meetings… there are many internal meetings...we have a lot of them...group leader meetings...office management meetings... regional meetings...interviews...I try... even if there are many of us here I try to attend most of the...interviews, still... (Auditor J)

A different kind of meeting could be seen as a "firm activity" and/or networking where the actual "gathering" takes place at the office during office hours:

> Yes, then there are those "network things"...a lot of that...that's on Thursdays...a bank that comes here...and then we must have lunch with them..so that we make up...there are seven of them and seven of us...so we have to organize things...then we have an opening ceremony, and then we have to organize that... (Auditor I)

> Yes...that is in fact only one of those...but we have...we have masses of different networks… we have bank networks, lawyers' networks, and... (Auditor I)

An activity that was not observed but that I identified as important from the empirical material is the *interview*:

> you must understand how the company develops with regard to its surroundings and its competitors and in order to succeed in that you must ask a lot of questions and meet many people in the company...so I call that

> information collection...and then you give more concrete interviews to find out the actual outcome in different connections...how things are going with...sales and orders and how the stock is developing and so on... (Auditor G)

Thus, conducting interviews is an important auditor activity. However, such interviews are in most cases carried out at the site of the client:

> Yes...the greatest difference is probably more in the proper interviews with the MD and so on...because when I am in the office then it's more like that you have the material and work with it… and like...[...]figures... then I ring them up and talk to them, but it is not quite the same...so if I am out at the client's I go and interview like...several people... and it's more of the informal kind...[...] ask about that too, perhaps you don't do that when you're sitting in the office, there you perhaps toss off a mail with a few questions...so that you...more from...personal interviews, I think... (Auditor A)

Nevertheless, sometimes the interviews or information gathering through interviews are carried out at the office. Also, the information received from the interviews is sometimes "processed" back at the office. The processing of such material is now "hidden" in other categories (principally in the "documentation" category). The interview activity should therefore not be neglected.

A category related to "interviews" is the more informal category *asking questions*. The importance of asking questions and evaluating the answers received was pointed out by several participants. If interviews are more "client-related", asking questions could be seen as more "team-related":

> then [to ascertain a sufficient audit] you have a general discussion with the team, perhaps the one that is in charge of the field...you ask questions, different questions in one direction and another, and if the field representative...if he answers in a reliable way, then I can feel "Ah, we do have a check on what we have done, including the details"... (Auditor H)

> Often it's like this, if you are to be a little practical... or a little realistic then it's like this...you go through the work and so on and then you have an idea of it… it can always be better...in certain cases it is bad, and so on, they have to re-do it... and update, etc...but in the end it comes down to this that if you ask a certain number of questions and you actually get answers to them... then you feel comfortable... So you can say if I have...I have a company and I have five

> questions where I... I need to know how they have been dealt with...either I find out about them in the documentation, what is the complete situation and then you complement this and talk a little, or so... so you ask the team "what is the situation here?", "well, it's like this and like that...", "but that can't be right", "yes, but it is", "no, but it can't be, you must...you must investigate this, like, a little more..." Or " this looks good" and then you pose a follow-up question and if they can even answer it and then you pose yet another follow-up question and they can even answer that too..."yes, but this feels...they have actually looked at this as if I had done it myself... (Auditor H)

> And it was often like this when you were new, then it was actually someone else, the manager or engagement, who then...they always hinted "have you asked that question...?", "yes, that's right...", "but what answer did they give...?", "well then, you must go further..." you learned in that way... (Auditor A)

A final category is about activities mentioned by some interviewees and that I also came to understand and be aware of throughout the interviews. Such category could be labelled *leadership and running a business*. This category includes several aspects. Being a role model and mentor and representing good examples are important aspects that are also recognized by an emphasis on "the tone at the top". A different aspect is related to the business side of auditing:

> ...we talk a great deal about taking responsibility as manager at the office also...that you should show your younger colleagues the way, that you should be a prominent figure that they can look up to and imitate.....go round and speak to your colleagues, check if they feel at home, if they have any problems and such matters... (Auditor K)

> Then I have in fact another role...it's perhaps in administration, but...as a manager of part of this...it's like that in some way...to carry out strategy work...to run projects...projects to render work more effective...to run sales projects, which are actually sales activities...to run organizational issues, which in other words can be "who is to be office head here or not there?" as well as... carrying out follow-ups, that is also a part of administration, to carry out follow-ups with... with accounts receivable for example...follow-ups as to how we deal with costs, authorize payments, masses of things, millions of them in connection... as it were... what is part of management...not just working with

> auditing...In other words we run our own... we have also got a firm, we are not just auditors, or at least not...well, I don't know how many are...but as a partner you are then...you have your engagements it is perhaps half who just work with their engagements, but then are...as a partner you have certain, you have actually the responsibility for... perhaps a number of colleagues… I don't think that there is anybody in... partner in this office for example who is not what we call a counsellor...for a colleague...so this is your responsibility, you are responsible for... well, for the community spirit in the office...so that certain things, to do with pubs and Christmas parties and such like are not...they are not...in other words you are not only to go there because it's fun, it's part of your work...as a partner in the firm... we are obliged to be present...it's not expressed like that of course, but we...you must have an incredibly...an incredibly good reason not to take part in social occasions, certainly not as a new member, in fact nobody has… if you don't want to, you don't have to...So I feel... well, that this particular aspect of management is indeed...important... (Auditor H)

During the interviews, it sometimes felt as though I was interviewing businesspeople, and that the participants sometimes were struggling to combine the auditing role and the business role. At least that they seem to see it as a relevant challenge:

> Then I feel that there is a danger...it's the auditing firms themselves who have created it... this is just what I myself have been thinking about... there is a danger then in that what we teach them from day one… a damned lot and... in order to admit a client you must fill in masses of forms and this and that... a lot of stuff which doesn't help the client a shit but is just there to save our own skins... if anything should happen we are able to say that "we followed the rules in this case so it's not our fault..."... and then it's difficult for them later to go out and deal with clients...because... you must start somewhere...and where do you begin? Well, there are people you know and they start thinking... "whoops... now I can't take that one, as I know them..." and "I can't admit that one because it costs like a whole lot to admit the client and fill in all the forms..."So there's a danger in all that... But you have to... and of course it isn't easy when you're new, but after a while you learn that too..."what's the risk... what's the risk for such a client... he runs his own race...has a bank loan... hardly any supplier's invoices... sends four invoices a month…so what's the risk?"... In other words are you going to force a damned check-up package on them… one that's made for little Volvo...? Well, it's a little... the branch has lost their footing a little here... trying to find something that is suitable for

everyone... and it's... the large auditing firms have a problem with this... because it's... something that has been thought up worldwide and all the clients must be fitted in there.....so it feels somewhat wrong...And then you might think that... yes, but we in Sweden must adapt as we are nearly the only ones who are obliged to have an audit... or rather... now we have got that...but that limit is ridiculous...but we must somehow force this on them... our Americans just can't believe it's true... what "for such clients, like?"...do you think that...our City X [a fairly large city in the north of Sweden] office has as many clients as in the U S... eh?... and I mean when we meet at courses and so on... I mean it's enough if you go to Norway... there was someone there…it was one if our senior managers that attended a course like that... and he worked with a mere couple of clients…it was [a large well-known power company] and another, like...And of course...he can then work in another way and you have a package that you work with, with that client, you have to fill in 400 forms and 1800 ticks... And then there is something wrong and they do like this... they make a kind of diagnosis and it shows "whoops…now you haven't done this... and you haven't done that.. not done that..."There is a risk that you stop thinking if you only fill in forms... then it's certainly necessary with large companies... otherwise you will have no structure in things... you can't just be logical…But if you work with smaller companies... you can still think... and then... then it's sort of another way of working... (Auditor J)

In other words there are things like that...that are... so you have to see that... so you must always have with you... whatever, like...for there are certain things... in the assignment contract I think that it is actually stated in the auditor's... something... that you must have that… so that... we have it for all ... also... I send it out to cooperative building societies and so on too, even if they ask themselves "what the hell is this...?"... and the same with this management representations... it's a little like this then... for I mean... it's a typical "branch invention"... For I mean that they write on the annual report that everything is O K, then sign it as well... thus the simple question..."but what on earth have you done... did you not check all this...?"... they use us a little like... "yes, we have of course, but..."... "I won't sign it..."…what the hell are you doing...? Well, such things happen... I mean they write on the annual report that everything is O K, then they must also sign a document which is in somewhat more detail that everything is O K *again*... "Why must I sign it? Is it to protect you?" (Auditor J)

The challenge of balancing the professional and business sides of audit work will be further discussed in the final analysis and conclusion.

As for time reporting, it seems like there are different ways to approach it. Auditor J explains that he does not report time at several points during the day:

> ... so I do the opposite… as I think like this... I have worked with this client... what else have I done... I have worked with this one and that one... yes, but with this one I have worked so and so... then I write down half hours or hours, when I know that "now I have filled..."...for otherwise... damn it... for otherwise I would need an hour a day to make a report of my timetable...
>
> [... it probably comes when you are... experienced...?]
>
> ...yes... just that... then I look at it a bit like this too... when, like "how much have we done for this client...?... and this and this and this... so you can look a little at... as it is a little like this... if it costs two and a half thousand an hour all the same you must be careful about where you put times... in other words you can't just...well, two hours can't be charged to a client… because in this way you have upset the calculation...then it's a little like... you have different...certain big things can mean that you can get into trouble... board meeting or something like that... as I have several who have a turnover of several billions and so you fix a lot of time for them... I mean that the audit fee can perhaps be a million ... and then it... then it doesn't matter so much…an hour more or less wrong... so that...then it isn't the same... but for small companies it's like a quarter of an hour here and there...it can soar... (Auditor J)

In sum, auditor work seems dependent on hierarchical rank. Activities and responsibilities, as well as ways of doing things, varies depending on hierarchical rank as well as team role.

11.3 Describing and analyzing audit work and auditor activities in Big 4 audit firms

In this section, I focus on the "how" and "why" aspects. I do so mainly through my interpretations of the observations and interviews, but also by relating those interpretations

to the literature. In doing so, I again address the research question "What does the auditor do?" and hence, further explore the auditing concept through exemplification of auditor practice.

11.3.1 The audit profession

When it comes to what professionalism is about or what it is to be professional, three categories of concern can be distinguished:

- Auditor attitude and approach

This includes auditors having integrity and being questioning, sceptic, independent, impartial and "self-governed". It includes being responsible and courageous as well as being interested and devoted. It is also recognized as important that auditors remain loyal to the role.

- Auditor competence and abilities

This includes auditors having knowledge, being competent and having sufficient experience to gain understanding of the client and their business and to adjust the audit to the client. In this respect, it is important that auditors have social skills (to be able to participate in social interplay; to be able to discuss and get answers as well as to be able to work with different kinds of people and companies). The participants also recognize that it is important that auditors know how to work in a team.

- Auditor behaviour

It is also recognized as important that auditors behave in an appropriate manner, according to the audit industry, and that they have appropriate appearance.

Most participants use different terms to describe professionalism. These descriptions and terms are, however, related in various ways and should probably not be seen as totally different perceptions. Knowledge/competence was mentioned by three participants and integrity was mentioned by two participants.

It has been emphasized that, due to its weak knowledge base, the audit profession is characterized by conduct and appearance (cf. Alvesson, 1994; Anderson-Gough et al., 2002; Cooper & Robson, 2006; Kosmala, 2005; Carrington, 2010a). Here, conduct

and appearance has, among other things, to do with physical appearance such as adhering to dress codes (cf. Pentland, 1993; Covaleski et al., 1998; Grey, 1998; Anderson-Gough et al., 1998, 2000, 2001, 2002).

Among the participants in this study, physical appearance is only emphasized by Auditor I:

> Yes, above all it is to look professional. Regarding the appearance... you don't go out to a bank client in Converse... as I am doing now when I'm in the office. (Auditor I)

It might be that physical appearance is something that those who have only been a part of the profession for quite short time are more conscious about – Auditor I has only worked for a year. For those who have worked longer, the physical appearance is more unconscious and not something they directly think about when it comes to professionalism.

Auditor G mentioned competence almost as a "given" aspect of professionalism. He instead emphasized the importance of being loyal towards the auditor role and in such loyalty he included independent aspects and ethics:

> … .. it's having loyalty to the role, I wrote... as auditor… an auditor must be… independent… although I don't like the word independent… as it is both impartial and independent… we have translated the word independent wrongly… it's more about impartial ["opartisk"] and autonomous ["självständig"] … but on the other hand that... and it is implied too that the auditor is neither loyal to the client nor to the shareholders nor to any other interested party. There is… must not be any loyalty, in the normal sense of the word, other than to the role, I wrote… You must understand that "here I am the auditor", it's, like, first priority, it's number one… and I am an auditor in a company where I in the name of professionalism am obliged to abide by ethical rules… and the role of auditor implies having integrity, or else… An auditor without integrity is of no use! You must be able to say "yes", you must be able to say "no", and you must also be able to say that "I am uncertain" ... but you must say what you yourself stand for deep down and feel… so it is important… And then, in professionalism … of course, and it perhaps goes without saying, that this implies competence and quality… in other words if you are an auditor you must have sufficient qualifications for the engagement and you must carry

> it out with quality… that is… really basic, but it must be said in order to give the whole picture... (Auditor G)

The reflections of the participants in this study seem to reveal professionalism as being loyal towards the profession and to have an appropriate behaviour towards others within the professional (being interested and devoted, being able to work in a team, being responsible, having social skills, asking questions, etc.). With the exception of Auditor G (the quote above), several participants also seem to reveal professionalism as being loyal to those outside the profession – especially the clients.

These various aspects seem to indicate that auditors *are* sceptical, questioning, independent, brave, interested and devoted. A different perspective seems to be that auditors *have* knowledge, competence, experience (sufficient for the task), social skills (and appropriate behaviour). A third final perspective could be described as being about how the work is carried out, that is, how what auditors are and have is reflected in their work – what they *do*.

For example, Auditor J suggested that it is very important that auditors adjust the audit to the client. Also, this is related to sufficiency, to do "enough" and to make an effort – for example, gaining sufficient understanding of the client company and its business:

> Yes, but it's just like this that… well, I think that it is professional to be able to keep your distance… and adapt your… your profession, your work… related to the client and place it… place bars and fences and all kinds of things at the right level… for I mean… you can think that you are bloody professional if you work in this one-man company and then force all Volvo's… group audit program on to them… that's highly professional, isn't it…[ironical]! How professional is that? In other words it's bloody professional to force onto the client what he needs… and cover your back too… or whatever you are going to do?... you are going to audit this client so do it in the right way! So, you have, like, covered… the risks and other matters where is needed… plus you can perhaps even offer the client a little extra in the form of improvement potential and suggestions and a little here and there… that's what I call professional! … I definitely don't think that it is professional to bundle up all the clients in the same program… there are certainly those who think so, but it's awfully "unprofessional"... because that's almost "unprofessional"… (Auditor J)

> Yes, but I think of it like this, "professionally sceptical" I then think as well… Because… I don't think that you are professional if you are not professionally sceptical… and it's not that we have to suspect economic crime and always find it, but that… but you must be … well, susp… "suspicious" is perhaps the wrong word, but you must always… "question" it then… the answer… and I don't leave the matter until I understand it at least… It is, like, all the same our duty… well, to call in question until we understand… for that is the great difference when you are quite new… that you ask a question because you have a checklist and you have learned that you must ask these ten questions and then you just take the answer and write it in your database and continue… I haven't even thought about it… was it a good answer… The more you have worked... the more there's always something that rings a bell … like, "OK, that is your answer so… what does that really mean …." and then you ask follow-up questions, like, until you are satisfied… or you can draw conclusions so that you can still get feedback "OK, now you give an answer like this and it implies this and this and that…" So that's what I think I suppose that… then you are professional… It's no doubt that [to question] this is what makes many people think it's awful… "Oh but I've worked this long all the same, so I should… it's required of me now that I should, like,… take these … talks…". There are many who … believe, like, that … the client understands it as that we don't know anything just because we ask because you want to understand… the more you have worked the more you realise that that is not the case… well I say several times to the client now "OK, that's what you've answered… I only want to understand… please could you explain once more…" and they don't think of me as stupid but see that I am really considering it… instead of just thinking that I should swallow it... "OK, that's fine…"… That wasn't right in fact… but you thought that... the client understood things in a certain way and so on… (Auditor A)

The overall similarities but particular differences in defining "professionalism" are important to explore. The similarities could to some extent indicate consensus among the auditors within the profession whilst the differences indicate that individual auditors make their own interpretations or at least prioritize certain explanations. The presumption that individual aspects are important and "healthy" will be further pursued and discussed in the rest of this chapter as well as in the conclusions that follow.

11.3.2 Structure versus judgment

11.3.2.1 Routines, manner and behaviour

According to my interpretations, auditors are careful and thorough; they want to and are determined to do a good job. They want their work to be correct and accurate as well as relevant.

With e-mail communication, for example, Auditor A is very careful and thorough. Every sentence is read at least once, sometimes twice, before sending. Spelling, sentence structure, etc. are scrutinized and I received the impression that these matters are important to Auditor A regardless of who the receiver of the e-mail is. She pointed out that, in general, "formalities are extremely important". This is also emphasized by the other participants.

Another activity related to writing e-mails is documentation. Auditor A is very careful and thorough with her own documentation and with the documentation of others. She analyzed her own behaviour, saying that she probably is a bit too careful. I would also describe Auditor A as very careful and thorough in all aspects related to documentation, that is, the formalities, the content (quality) and the scope (quantity) of the documentation. She also commented on this a few times: "I am the kind of person that prints out more than others do" and "I am probably excessively thorough with the documentation". When making preparations for visiting a client, she goes through some printed documents and thinks out loud, "…a duplicate?... Ah! I'll save both…". This seems to be typical and something I observed several times. Almost all documents are saved and very few papers are thrown away.

Comparing also the additional observations (see Chapter 10), I feel that this careful and thorough behaviour is rather common. It seems that being careful and thorough with formalities and documentation is something that auditors can "control". There seems to be an underlying idea that what gets documented gets done and that the documentation and written communication in general serves as a kind of evidence of, for example, the auditors' efforts – both internally (within the team and the audit firm) and externally (towards the client). It is also mentioned as important in case of such events as lawsuits.

The fact that auditors' work is evaluated and quality controlled is something that is constantly present and therefore must influence this behaviour. Thoughts of

evaluation and quality control are present during the everyday auditor work. However, the explanation might not be as simple as it first seems. One reason is that some participants mentioned that it is not considered "good" to get too high scores in quality control, etc. (as it indicates "overkill"). Hence, there seems to exist a challenge in keeping the thoroughness on a "high, but not too high" level.

By using the Manual, auditors communicate what has been done, but Auditor A often makes a point of also sending an e-mail to the team members directly concerned. She considers such communication and "feedback" useful. The importance of feedback is emphasized by all participants. Feedback and evaluations are seen as very positive by all participants and seem to be a "natural" part of the day-to-day audit work.

These procedures could be seen as exercise of control and as searching for comfort. By continuous evaluation and feedback, it is assured that everyone is conforming to the same routines and procedures, that the Manual is followed and that the structure and system are interpreted "correctly" and appropriately. This is expressed, for example, in terms of "doing what is expected" or "doing it the same way as I usually do it".

When I asked about the presence of their own routines and systems, I first had to explain what I meant by "systems" and came to realize that "procedures" or something similar probably would have been a better choice of word; but then this was something that the participants did not "like". Most participants hesitated a bit before they commented on whether such routines and systems were used (Q7.2c) but then said that it was not desirable for auditors to have separate routines in addition to the firm's system. Hence, it seems that individual routines and systems are not desirable (but this does not mean that it is not good or that it does not occur):

> That's a bit of a... there is a risk in that too... then not everybody is the same... it would be handy... if it were so that everyone was the same... as then there could be only one system on a larger scale... But I am... a little hesitant... but it's like this like... you know that this exists... but there is also a risk that you have too many individual routines... because... because then you don't really rely on the internal system... and then perhaps you can't get the audit to work out... Now I'm exaggerating a little... but there is a risk in having too much of an internal... or your own... your own system... and I can say that... in our oversight it happens that we... I mean all documentation must be in the auditing system in fact... but then sometimes some document comes to light and the auditor himself has had it in his internal archives... now that's a detail

> in the whole... but... it's not so good either... so, no you mustn't... well, this is a really important issue... for the quality of the auditing itself… there is a risk in it... if each auditor has too many individual routines.. if Nisse has his routine and Elsa has hers, etc... It's a good question, I feel. (Auditor F)

Besides this comment by the member of the Supervisory Board of Public Accountants (*Revisorsnämnden*), none of the participants agreed that they use such individual routines or systems. A few said that they had certain ways to do things depending on the client (for example, if it was a client they audited before or not, if there usually were certain issues for a particular client, etc.) but that these "routines" were all according to the Manual.

At the same time as my interpretations start to reveal auditors as "rules and routines followers", this is not really how they view themselves – at least not when it comes to legislation, regulations and standards. Nor do the majority see themselves as "experts" (to be an expert is something they seem to refer differently to and some of them point out that auditors could be seen as generalists). Instead of being "followers", they suggest that they *use* laws, regulations and standards; thus, that they are better described as "appliers". When asked to comment on the statement about auditors as experts who follow laws, regulations and standards (Q7.2g) Auditor G said:

> Well, I put a question mark there... I think that it sounds a bit tedious... "that follows laws, rules and standards..."... yes, that's true of course, and it must be so, but I think it sounds a little tedious, a little... well, if it had said applies... and is in the process of establishing practice it would have been more acceptable... that's how it is!, but I don't like it. "Apply" would have seemed... like a step forward... (Auditor G)

He suggested that "this is how it is" but strongly stressed that he did not like it. My reflection here is that there might be two different perspectives to explore. One is about external rules, laws and standards, and the other is about internal rules and routines. I suspect that what auditors in Big 4 audit firms mainly "follow" are the internal rules and routines and that they do not see this behaviour as following rules. Instead they refer to it as a "methodology".

Following this reasoning and the discussions that follow in this and in the concluding chapter, I am therefore at least tempted to suggest that auditors are primary not rule-followers in terms of external rules, laws and standards. I

would rather like to suggest that they are audit firm system-followers. These systems are built on external rules, regulations and standards as well as on internal rules and routines and in combination they influence how audit work is done.

An important addition to this discussion is the apparent presence of socialization. Even though I did not spend nearly enough time in the field to be able to "discover" any socialization processes, I believe that I was catching glimpses of "outcomes" of such processes. The notion that auditors are audit-firm-system followers is one such "glimpse".

11.3.2.2 Structure

Audit work is considered to be highly structured by all participants. They claim that such structure is absolutely necessary:

> There I also said always, or 100 percent… and I mean that also in the creative phases… planning… how I should report… even if there are creative processes in this they are part of a conscious structure which aims at all times at doing a really good and efficient job… (Auditor G)

> Well, I should say to a high degree, therefore I don't like this expression, there must be a high degree of structure… You must have good planning, you must have a good team, you must know what you want, a certain degree is just not good enough… (Auditor G)

> To a very high degree. It is very much structured. At any rate at our level… just because you are so governed by what you really ought to do… then if you don't do it, you must motivate why you haven't done it… More structure than judgement… but… but that's at our level, like… (Auditor I)

> If it hadn't been structured then I wouldn't have managed to have as many clients as I have… so I would say that… 90 to 95 percent I think is structured work… well… in other words I would never have been able to run my work… as I do today… I would not have been able to have the number of companies/clients that I have today if there had been no structure in it all… It is a question of each colleague getting into the structure as soon as possible and doing the job they are responsible for… (Auditor K)

At the same time, participants all agree that audit work is both highly structured and highly dependent on judgment. They do not consider structure and judgment to stand in contrast to each other, but that they are co-exist. That they are not separate, but in the highest degree connected:

> When I see the question [Q5.3 about the balance between structure and judgment] my conclusion is that there is no contradiction and for me it isn't 60/40 nor 80/20 but for me it's 100/100, it must be integrated and the efficient auditor has this… that's the way it is… (Auditor G)

> No, no… they are not separate… we are wholly in agreement on that it is e x t r e m e l y important that this works together so that things will work out well … (Auditor K)

> Yes. It is essential after all… structure… judgment, as we know, comes in… all the time, but you must… the thread… well, you must all the same… you must structure to have a continuous thread, I think… (Auditor A)

It is sometimes stated that through structure one knows when to make judgments:

> Well, I must say that… in fact you must have both sides yourself… and there you notice, like, that… you must… for valuation… well, you learn that "a judgment must be inserted here"… The structure enables you to learn… at the beginning… then, like, you give more and more weight to judgment the longer you work… (Auditor A)

Also, the balance between structure and judgment could vary, depending on the client and the engagement. However, both structure and judgment is considered necessary:

> Yes… it has definitely got both the ingredients… as it's very structured in many ways… but… I don't know if I'm wrong to say fifty-fifty?... Because… well, there's certainly a greater part that is structured from the beginning, but it becomes more judgment by degrees… frightfully difficult and... it depends on what sort of company it is… if it was a company where I… where there are a tremendous number of judgments on their part from the beginning, that is in the balancing of the books itself… they may have made provision for goods in stock and so on… they can have other judgment items with different accrued items…, and so on… I have clients who have incredibly many assessment items

> in the balance sheet and then my audit is also an assessment… then I must diverge more from the structures that they use ... whilst... I can have a client who has… only one assets item, that is the bank, and I can check it against his bank's… the bank's statement of commitments and deposits … I don't need to make much judgment there… so it depends in fact from client to client… but for the large companies it's probably fifty-fifty… (Auditor A)

It also seems that the structure is seen as a way to learn and to keep track of things:

> … so many laws and regulations so that… [if there is no structure] who could understand all this? ' (Auditor A)

> I feel that many new employees… if they hadn't got a checklist they would never have known… well that… that they should use these ten judgments particularly in this audit… but had, like,… someone who has worked for ten years knows that, without a checklist… but what about a new employee… you can read the documentation of the new employee which is incredibly good… perhaps has only worked for a few months… and you think I'll be damned what a lot they've understood… as they have read so that they have understood, like, then they have acted accordingly, like,… and perhaps asked… and "why am I doing this…?" "Yes, but then I understand…" (Auditor A)

These statements support the interpretations I made from my observations and the arguments that audit work is of necessity about structure *and* judgment (cf. Tschudi, 2005; Öhman et al., 2006). Still, such descriptions indicate that there is structure and there is judgment. My impression is that these different approaches to a high degree are intertwined. I therefore believe that it could be argued that auditing is about making what can be called "structured judgments". I will return to this assertion in the conclusion.

Auditor "tools"

The participants seem to define "structure" as working systematically and using different "tools". It also seems that they refer to "structure" as something that includes certain aspects that might be more present in the big audit firms. The structure is then the firm audit system, the Manual, colleagues, teams, internal and external experts (IT specialists, translators, etc.):

> You have quite another… you have to think… first of all you come to an office… let's put it like this… so that things will work… our structure should work actually if we strive to have an office with at least 30 employees… for if it is a smaller office you will not… the structure is built on the fact that there are different roles in the team… and if you have fewer than 30… maybe you will not have enough specialist knowledge at the office… and you… you can't give your younger colleagues a career development in the same way… and… you perhaps cross over each other's boundaries… and have many different roles in a team, which makes things look different and… really checking-up is built on you having… it's a matter of cat on mouse and so on, you have always someone who checks up on the other… and if you don't have all those roles… the structure doesn't then function in the same way… and there are also smaller engagements where I work directly against a completely new employee… then I must behave in a different way than if I had had a team of six or seven colleagues… I don't say that it's not so good in smaller firms… it's important… you can find very efficient colleagues who have done a perfect job… but they perhaps have not followed the stru… they are probably less inclined to use structures… (Auditor K)

Several "tools" have been identified throughout this study:

- Computers and computer support

These are the tools that "gather" most of the other tools and hence, the place where many of the other tools can be found or the means through which they (manuals, checklists, templates, information searches, e-mail communication, etc.) are used.

- Manuals – audit programs based on the respective firm's methodology and which should be and are claimed to be ISA-compatible.

This could probably be defined as the auditor's "main tool" that is used continuously in day-to-day work.

- Different kinds of checklists and templates:

> There are hundreds of these different checklists… and they are collected in a special… database, you can say, so you can search…

[Which are separate from the other…?]

Separate from the other. So there are, for example if you have a company which deals in cash transactions, then you can take out a checklist which has about ten pages… then you can pick out certain questions, for many of them are perhaps not relevant… But if you have read it from the beginning and use it as a basis... then you won't have missed anything… … And there is one for stock-taking, that is if you are to go through their routine for example… there are masses of different descriptions of routines… about what it should look like or what it could look like… a share register "what should it look like if it is correct…?"

[Then you mean types of templates…?]

Yes, templates.

[Is there anything that you … do you use these checklists?]

Yes. All the time.

[On your own initiative, I mean?]

Sometimes they say "you can take this checklist for…"… sometimes the database refers to… that there is… that there is a checklist under "templates and forms" which is called…

Then we have these internal lists that we have made up ourselves. As a budget follow-up for example…

[As here…? At the office…?]

Yes. (Auditor I)

- Different kinds of information and databases

…information of different kinds, information about… well, databases… and they must of course… they can look different, it can be files, it can be IT-based… databases so that I get good information about this client, but also about the client's surrounding world, how their competitors are developing?, how this branch is developing?... I think that's important, that's a must today… so that you just don't rush in and check the book-keeping only… (Auditor G)

- The colleagues (both within and outside the team)

… and then one of the tools I call "the colleagues"… partly in the team, but also outside the team in fact… because although an auditor is bound by professional secrecy… well, … you go around pondering on something and then you can take up these issues… and you do this all the time, with colleagues, in an anonymous way… all the time in fact, you check your thoughts against someone… "now I've worked with a firm where this was taken up and I am somewhat uncertain as to how I should act, what do you think?"… You often find solutions in a dialogue and such… it is extremely difficult, none of us has an answer to everything… (Auditor G)

… what else do we use as tools…? Most of it is to be found in the databases… in fact… But then you can say that you have your supervisors and coaches, that's a fantastic tool. (Auditor I)

- Experts

Well… now there's tax and VAT and… you know exactly who to ask if it's a question of VAT… who you ask if it is, like… about financial investment in someone... or if someone says... there's such a lot so you work with VAT sales all the time… then it's important to learn … that… so that's why you are encouraged to work with networks in the firm… so that you know what the others do…

That's why we… we use networks, well, with banks for example… very actively… and lawyers and… and so on…

[But as an assistant then… could I be assigned to ring up such people…?]

Yes… you can describe a problem yourself… you can discuss… so, before you get in an expert you can ask your superior, as it will cost more money… so you check things against someone… but I had… for example someone who was here yesterday, and I had to ask a question about VAT…

As it is charged to the client… and… the person who is responsible for the client is the one who is EL… and he isn't too pleased if you ask… tax lawyers about this… [laughs]… So you nearly always are encouraged to… you take this way first… first you ask the person who is Tm, if he/she doesn't know, then you ask the EL… and if he/she doesn't know, THEN you can ask… experts…

> and certain engagements have… well, you know from the beginning that there are going to be complicated issues… and then perhaps you have an expert in the picture already from the planning stage (Auditor I)

The use of computers, manuals, checklists and templates of different kinds has been quite strongly criticized due to the notion of loss of judgment (e.g. Dirsmith & Haskins, 1991; Turley & Cooper, 1991; Francis, 1994; Kosmala MacLullich, 2001; Knechel, 2007). Among the participants of this study this notion and concern do not seem to be relevant.

The use of tools such as databases (with information), colleagues and experts has, in the literature, not been related to structure in the same way as computers, manuals, checklists and templates. They seem, however, just as important parts of the structure from the perceptions of the participants in this study and from my interpretations.

This is relevant to consider for at least two reasons. The first is that it is important to know what is being discussed and what different actors are included in such discussions. The second reason is that "structure" probably should not be seen as an approach, but rather as a part of what can be described as an audit system – where the use of different tools as well as other phenomena are included. Such a system seems strongly influenced by the Big 4 audit firms in general (as they at least seem to be considered quite similar) and by individual Big 4 audit firms in particular. The notion of audit firm structure has been previously discussed and will be further elaborated.

The audit firm structure

In discussing structure, participants seem to refer to the specific structure used at the audit firm where they work. The firm influence appears very strong. It is described as contributing to *the* best audits. Individual routines and systems are not desired:

> I'm a little afraid of that [laughs a little]… as I believe that this is a profession which must be quite standardized to a great extent… so when you write "individual routines and systems"… then I feel quite anxious about it…I… as people we are all different, as auditors we are all different… but.. it shouldn't really change the audit that we do… but… we think differently, we are not always as good at different risks and so on… and perhaps we focus the audit slightly differently… but to carry on with your own routines and your own systems… outside the basic manual… I feel somewhat anxious about that… I don't think I'm contented with that… (Auditor K)

Using the firm structure and system seems to be a way of "knowing" what to do and making sure that you do as you should do. It does not seem that there are any doubts about the firm structure and system. For the individual auditor, the structure is then something that is given and not something that they create themselves. There does not seem to be a real choice of whether to use this structure or not. However, this does not seem like something the participants are bothered about; on the contrary, it seems like something that they see as facilitating their work situation.

A few participants state that there is little room to change, question or criticize the existing system.

> In other words, I don't believe that there is anything that… that could change… Of course if you discover a fault in the system…well, one… like a bug or anything… then you can/must… ring to a help-desk and then they must do something about it… but then that's nothing… (Auditor I)

However, there seem to be (at least formal) ways to question or criticize the firms' systems, and the systems themselves are considered "changeable":

> Yes. Absolutely. Yes. We have… at the office we have an… someone who is an expert, like… and they take our comments, like, up to their... groups... and then… Then they try… well, if it was only me in the whole of Sweden that thought… but often everybody has the same... problem… and then it appears in the next version… they are very concerned about it being user-friendly particularly and, like… well… and if it is absolutely wrong, like… in the audit, it is corrected immediately if there has been something that has been overlooked… so that we shouldn't miss any detail… (Auditor A)

> We encourage questioning things as... the structure is the basis for everything and is our security… at the same time you have to question if it is always the most effective way of carrying out an audit… They are often created for extremely large companies… that's not always the case in Sweden…
>
> … it steers in fact all the Big 4 I would say…
>
> So there are adaptations but these adaptations are approved by someone who is responsible for quality in Sweden who… has carried out these… (Auditor K)

Also, it is considered possible to deviate from the system:

> …and I mean our auditing methods… well, it is… an electronic application, but you don't need that, methods are not electronics, you can use methods on paper too … if you should want to… but you know… you are obliged to go through different stages… and you must have a continuous thread and so on, otherwise you haven't followed any methods… but if you make… a professional judgment then, if you can call it that, "We mustn't do this because it doesn't contribute anything"… and you document this "yes, but we haven't…sent any, according to our methods... I haven't sent any solicitor's letter because the company doesn't have a solicitor… no... but you have to, we must document it… you can't just not bother about it… or "well we haven't sent any client balance circularization letter because… no, we saw when we signed the annual report all the accounts receivable that the company had on the last day of the twelfth had all been paid…"… but then you have to document this… so that's a stage in the methods that we must carry out… So documentation, what you have done and why you did it as you did is, well, the most important… Then it may be right or wrong, you can of course… it can be wrong for a reason… (Auditor H)

> …you can reason with yourself and say… "oh, what the hell… put low risk there instead… as you do when you… there… so you put low there too then perhaps we shall end up where we want to land up…"… in other words you will perhaps find some solution within the system so that it will turn out as you want it to… and you can always reason with yourself until… from time... to time, sometimes there are times, when you make this sort of judgment you can put… also if it should then be "average"… but you consider it as "low" and if you can also... find a motivation, that there is someone who only sends four invoices… in other words, if you can then motivate your standpoint… you can then find a way out… and perhaps find another variation… (Auditor J)

To carry out audits without using the audit firm's manual however seems almost unimaginable:

> In that case… you are allowed to make… you can in fact carry out an audit outside… but I must ensure that I follow…both [Audit Firm 1's Manual] which is higher than RS, old RS… well now it's ISA ... but that audit would be

> much more difficult for me to follow than to follow our databases… then in that case I should need to cover it in another way… but it would no doubt take a much longer time I should think… (Auditor A)

My overall interpretation is that the ways to modify the system or to deviate from it seem to be built into the system. This is also shown by the following quotes from Auditor J, indicating that the firm's manual has built-in alteration possibilities, and from Auditor K, indicating that the audit firm's structure might be considered as a system that includes more components than just the firm's manual (e.g. the team and colleagues).

> well… you've got this… that is… there is even… almost all for… dormant and non-dormant… so there is… if a company is almost dormant… you can tick it… and then you can… there are smaller firms without great risks, like, and then it's another type, but the system remains… it's in the system but the system becomes a little … "milder"… so that you can then… you don't need to give them the worst one of all… (Auditor J)

> Well, there are… it's different… well, in certain… in certain respects you cannot just skip it… so when we put risks on our clients for example and.. is it a greater risk… or is it a lower risk to work with this client… it's something that is dangerous for the whole firm if things go wrong… you can't just avoid the issue there in any way… But when you make a check-up you can find yourself in different situations where you… that "yes, OK… the manual says that in fact we should check this balance item… men… then I say with my experience that… that it's not really sensible, instead we should do like this and like that…" but mostly you don't reject the manual entirely… but when you do, you try all the time to discuss it in the team so that we agree that this is the right way of doing things… and sometimes it's so… nowadays I have a quality checker for all larger engagements… so that when I sign it there is another more experienced auditor, or one with equal experience, who has made an overall judgment at the same time that we have done right… then you take up this type of discussion… if you should deviate … then you do not in fact decide yourself, is what I mean, but ask a colleague for advice… (Auditor K)

Concerns – "discomforts"

Even though the necessity, importance and relevance of structure are emphasized by all participants, some of them also express concerns about too much structure:

It's simply too structured today…

[… to what extent would you say?]

Yes, it's very, very structured… Indeed it is… That's what it's like when you plan the engagement… well, you try to go through the routines and the different… and then you try to find the risk levels they have and so on… and from there you arrive in fact at… So you could perhaps… in fact you could say… that it is structured for the most part, but within the structure you can choose… I mean that if you come to the conclusion that you must check this and that, and the risk is such… so that you must check this and that… then you have a whole battery of measures "well, and how shall I do it now" and then we must in fact think about it a little…

…but it has become much more structured…if you look at a twenty-year period or something like that… for a while… it's gone like this… because when I started… in the eighties…yes… in the eighties… there was very little "filling-in…"… like this… well, you had to count the money in the till… and then you had to "tick off the check-up"… tick off the verifications for the general ledger… well, that sort of checking… and then it was substantive audit procedures in the year-end closure of the books … then we went as far as "to hell with that… strip the audit" as it was called… as little auditing as possible and as much as possible of "the main business" and then "sell more services" and consultants were to be brought in and then… then it exploded in certain places… then there was more… … "whoosh!"… then we had to count the bloody cash again… statements of accounts sent out… we hadn't done that for years… in other words there was a lot more of that sort of thing, plus that… management representations... the board was to be sent in…you know a lot of that sort of thing and then with computers and everything it has become much more structured… and then it… that's part of it a little when you work in an international environment, and you can enter the same database and work and like this…

… exactly… and then it's incredible… even an old fogey like me… that when you go in… and then you can exactly… they've got their working papers… what have they done on this… and you can go in and see and there it is documented there and then it is… signed by this person and that one…well, it's wonderful… many a time… in other words… used correctly it is of course

> damned good… but it's a question of it being correctly used… and then you have to find… where you can "strip it off"… to adapt it for the smaller firms, so that you don't place them in the same compartment… but I feel that we have understood a little… that is internationally in the large auditing firms, that you can't check in the same way…
>
> … and there is a lot of that sort of thing that I feel is good… well, almost a data bank where you can choose which items you want to work with… so that then… you don't need to invent the wheel once again, eh… and that is the advantage of this type of auditing … (Auditor J)

Auditor C also expresses concerns as he discusses the idea that the computer software is a danger in auditor work. He also suggests that as they are working more with it, some of the assistants he is working with probably have a better eye on the computer software than he has. Together with the hierarchical structure with its built-in learning and socialization processes, this indicates valid concerns about professional judgment never being developed or being lost during the first years at the audit firm as making judgments is learnt in a structured way (cf. MacLillich, 2001). Also, as this by experience becomes routine, reflection is lost, and the learning-process has become a non-reflective process (cf. Schön, 1983, 1996). Hence, auditor professional judgment might not really be individual professional judgment and it might be routines rather than reflections. This and other aspects of professional judgment will be further discussed in the next section.

11.3.2.3 Professional judgment

The final thoughts of the previous section might seem to reveal the kind of mechanistic thinking discussed by Cushing and Loebbecke (1986). From my observations and interviews, however, I am not completely inclined to make such interpretations. The systems used are neither completely "pre-determined" nor totally "closed" – that is, different decisions and adjustments must continuously be made and tools must be used and applied. Also, the continuous discussions within the team and among colleagues do not correspond with a mechanistic process; neither does the attitude and willingness to carry out good, relevant and appropriate audits for their unique clients that I sense among the participants of this study. Consequently, professional judgment must be further explored.

Professional judgment seems strongly associated with "professionalism". In addition to the "attributes" of professionalism pointed out in 8.3.1.1, being professional is also

about being able to make professional judgments and to be able to make professional judgments auditors must be embraced by professionalism:

> It's a little like this… the American versus the European way of working… I really believe that… although I also believe… a feeling that it's perhaps beginning to be a little more interwoven… that it's not as obvious that it is… as we tend to say… the American way is like '"ticking the book'"… that it is merely structure… at the same time for their part it's like this… their situation for claim indemnification… so that it is extremely important to show that you have in fact done these things… the rest is more difficult… that… if you're going to poke fun a bit… this business of judgment… can sometimes be… mean that you won't land up in the situation where someone will need to look at… how well the structure… In other words if you only go by the structure you may miss certain things that… that professional judgment could perhaps have prevented… (Auditor F)

When evaluating risk and materiality for an engagement, Auditor A explains that "calculation is one part, but then you must add gut feel and knowledge and so on…". She explains that making professional judgment is necessary, for example, when planning an engagement; otherwise there is a risk of "overkill". Professional judgment is often referred to as and/or exemplified by parts of the planning process such as determining materiality and the scope of the audit:

> …based on your own analysis then… you pick out a couple, and perhaps you don't need to pick 50, which you might have done earlier… when the statistical sampling, like, says that you should take out the following 50, so perhaps you should take seven instead, or eight or ten, which is more effective, but if you use your professional judgment that perhaps you even .. you will be more secure, as you perhaps will then have… primarily it's often like this that you choose the somewhat larger ones, for they are the most material, the most important… so you perhaps cover a larger part of the population… (Auditor H)

> … basically it's a very structured process… then… then you do our… and I should also say that when you… if you return a little to professional judgment, well, part of it, part of professional judgment is also… risk analysis, the initial risk analysis, where we, … where you… where we in some way make an analysis and a professional judgment based on "what are we going to focus on… in the audit?", and of course you can say "well, but… these items… "…

in other words on the assets side you have to evaluate in some way that they are really worth what is stated, on the liabilities side it is much more difficult, for it can state… it can state zero in liabilities, but it doesn't need to be zero in liabilities, that's where the risk lies… the risk is that there are more than stated, but on the assets side the risk is that the assets are less than stated, so you must have different approaches… if you see that "yes, but last year this company had 20 million in liabilities, and now there are none", then professional judgment", … it's well… like this "even if it is zero it's still an important item" as we must see that they have paid back… this money and that they do not have any accrued interest left or any other commitments left… so that a zero… would never have appeared in a statistical sampling… but… and this is what is a bit of a professional judgment… to give anyway an example of how it can be… and that's, well,… that the idea is that you go more, as I said, from a more statistical audit to a more professional judgment, where through this… you must in fact try to make a more, qualitative audit in a shorter time… If you make a statistical sampling then you must look at everything, in extreme detail… If you carry out an audit that is based on professional judgment then you carry out hopefu… if you make the right professional judgments, then you make a better audit, in a shorter time… (Auditor H)

Well, I believe that this has a lot to do with professional scepticism, because… it will come in time, it is difficult to have it directly, when you are new… and it's also… and you see that perhaps you have made similar audits, well, that… that it isn't black or white, for everything isn't black or white, sometimes you want a certain… and you, like, never achieve this… and then you must continue and try, like… what shall I say… well, to analyse it ... "OK, but how does this work in our branch… where is, like… and well… how can I cover up in my audit…?" Then you must change your… but it's also so, it would be difficult when you are completely new… you are steered by the checklists, you are more like this "but it says here that I could do so…?"… but you must, like,… well, more professional judgment… or… It can be other things… in fact you make judgments all the time… that's also extremely difficult to answer… as there is so much that is built on experience… it can have to do with everything about evaluation and so on… like… you... at the beginning "is it over or under…?" … is the market value over or under… value so that you are just steered…like, the longer you have worked you can accept more… if it is a certain type of assets items you can be under, but only if it isn't what is known as permanent decrease in value… it is an extremely difficult concept… and it's also so that by degrees you have learned to see, like, what can be a lot

and a little and so on… because there you must have judgment… which I thought was difficult when I was new… (Auditor A)

… in this business of how to apply professional judgment part of it is to have "the courage" to apply things... a system of rules, both in accounting and auditing in a … … principle-based way, so you won't be too stiff in the use of it… if something is to be found in ISA, or if we speak in a large-enterprise environment, in IFRS, you must NEVER accept things blindfolded! AT ANY TIME! Because then you are not professional… but you must understand that "this is the right way to apply it"… so that leads to a true and fair picture… then… I wrote as another keyword "responsibility"… and in that is included the ability to see a comprehensive view, to make an overall judgment, that as auditor to act in a responsible way, to take responsibility for the audit, and this includes being clear and hard-headed and sometimes ruthless in your reporting… and to do this based on some kind of devotion to the law and integrity, rather than doing it by browsing in the book to see "what shall I do now?"… and then... clever auditors must have it in them to be responsible rather than to seek responsibility somewhere else… And then there is a third, "fairness" I've written… and that, all that hangs together perhaps with a true and fair picture, that it is some kind of… I mean that all… auditing aims all the same for the audit that the company leaves to be a true and fair picture and give enough information and give relevant information and in a true… give a true and fair picture as the expression is… unfortunately today's system of rules does not always do this, but as auditor I must always strive for it… also if it does not state in the rules for annual reports that the company is not obliged to leave this information, but if I BELIEVE THAT IT IS NECESSARY, TO GIVE A TRUE AND FAIR PICTURE, then I must say so… otherwise those who read your account will not understand it, it will not be exciting to read next year's annual report as it does not hang together… Yes… difficult question, difficult answer… (Auditor G)

There I always wrote: ALWAYS! ALWAYS!. Above all perhaps in the reporting, but I would say that it is there all the time… (Auditor G)

…you must… be shrewd enough to make the audit relevant for the recipient… and there you must, as I see it, use your professional judgment… because you may say that I have ten observations which… in the auditing team, or from the audit… and now I have to present them to the company management and

> board in a run-through, and it's obvious that I must then think over the order and in what way I'm to present this so that it is relevant and important and makes them understand that the audit is serious…So I don't begin with trivialities and things that are not so important for those who are going to listen to me… that can be an example… and that I as auditor must show that I have understood their business, I think that is important, … that you are not some extraterrestrial being who comes and speaks a language that is uninteresting… (Auditor G)

To ask questions, to not let discomforts (cf. section 11.3.3) pass and to have the courage to do so are behaviours that participants associate with professional judgment. To ask questions is about gaining enough understanding about the client and its business, but also about learning, training and gaining experience:

> So that's the experience I've collected… during the time that I've been working, you might say… Well, … I believe that… that is you notice… you notice that when you speak to those who have been working a long time, that they can glance at a balance sheet and see that "this doesn't tally"… directly… well, they don't need to… they can just see that… they know that it is not correct… And it can be some… it can be , like, both small and large accounts… and whatever… it can be… they have a "feeling" for whether it… whether it is right or wrong… but… but… professional judgment is also a matter of asking… "what is it that is wrong?" like… and to try and hear… that is to try and learn… And then not to overlook… that is if I see a mistake I must report it… not, like, "oh, it's too much trouble, so I'll not bother to say anything about it"… It can be so that… that stock-taking is so manifest… so that there you can often see if it is wrong… and there are still many who write that yes "we found fifteen mistakes in 30 examined articles, but they were not so material…"… but it's still… it shows an enormous routine fault if half is just a little bit wrong… so I believe that it's important…
>
> […this is where it comes in… even when you are on the lower levels, then you use it in fact… professional judgment when… well, through daring to ask and so on…?]
>
> Yes… and everyone says this all the time, that even if you… if, like, your budget for the engagement is… ten thousand and you have already exceeded it

> and you find a mistake, you must then take it up… that is you must not let any mistake pass… Because that is not professional. (Auditor I)

The importance of professional judgment is emphasized by all participants. Their reasoning seems often to be based on a firm perspective. However, also the individual auditor perspective is accentuated:

> … the auditor exposes himself then to danger and risk if he doesn't follow his own convictions… as there is nobody else, there is nobody else who can... replace you and your viewpoint and experiences of this company, so you must make your own decisions, it is extremely important… (Auditor G)

It is noted that this is not easy and that it takes courage to do so:

> And the situations where this arises are often in different types of evaluation situations where you have to evaluate information… it can be specific in the audit that you must try and decide "what is material for this company?" for example… where… where you must have some kind of judgment… professional judgment… on the whole when you do this too… perhaps you base it all on much experience… and then you always have questions which basically when you are out in the company… where you can't read, like… straight off… "that's how it should be!"… but, for example, evaluation questions you ask… I mean "what value should a stock have?", "what value should shares in the subsidiary company have?"… etc… And here it's necessary with a professional judgment because… you can't pick this up by reading a manual that "this is how it should be", like…
>
> [And then it is necessary of course to have competence and experience to be able…?]
>
> Yes, that above all… and that's where a young … a new auditor... has a problem in… in two ways… one is that you lack experience and then perhaps you don't d-a-r-e to take a decision in the same way… but then we have a system in the office which results in… well, you have all the time… the possibility of checking with each other and to check that type of question with someone who is more experienced… (Auditor K)

Professional judgment, from the participants' perspective in my interpretation, seems to be about making structured judgments. Such structured judgments are carried out within the audit firm's system:

> … you mustn't go outside the system… and the rules… if we can put it like that… but… But… it's the most emotionally charged issues… that... you must have judgment with you in order to… solve… (Auditor K)

A reason for such structured judgments within a system seems to be that the auditors are searching for comfort. This will be further discussed in the next section. However, to be able to reach sufficient comfort level, one more circumstance must prevail – trust in the system.

11.3.2.4 The audit (firm) system

When participants are asked to talk about systems and structure, they primarily seem to refer to the Manual and the audit firm's methodology. In the sections following (sections 11.3.3 and 11.3.4), I discuss audit systems that include more than the Manual and the audit firm's methodology.

This far into the analysis, I can begin to understand how the audit system might be described. I would describe it as having three levels: *the audit system*, *the Big 4 audit firm's system* and *the particular audit firm's system.*

In this description, the audit system is the whole (overall) audit system, a global professional idea of auditors as "guardians of markets" serving the public interest. This level of system includes international and national laws and regulations, auditing standards, international and national professional organizations, international and national oversight, monitoring and quality control, as well as the use of experts. This system includes an understanding of auditing as an important activity, audit quality as a desired outcome and a belief that the audit profession and its professional auditors are those who should carry out audits. It also includes an understanding of how certain features (e.g. independence) are necessary and that certain actions/activities constitute an audit.

The Big 4 audit firm system is the way in which the Big 4 audit firms have interpreted and realized the overall audit system and how they have built business activities from it. This includes partnership, a hierarchical structure, teamwork, combinations of services (auditing and consulting) and the use of certain tools. As the

Big 4 audit firms are global corporations, it also includes a certain structure with international and national aspects.

The particular audit firm's system is the system used at the particular Big 4 audit firm. Even though the systems are similar for the Big 4 firms, they are not identical. The particular audit firm's system includes firm culture, techniques, policies, guidelines and instructions (formal and informal), audit manuals (audit methodology and computer software used) and certain actions/activities that constitutes an audit ("this is how we do it").

11.3.3 The production of comfort

11.3.3.1 Teamwork and cooperation

Audit work is much about teamwork and cooperation. Sometimes the teamwork is a local matter (i.e. only involving a local team); sometimes it involves auditors located across a few or multiple locations. The importance of who is included in the team and who the team cooperates with is mentioned by most participants, that is, who is included and how the cooperative work is claimed to influence the auditors' comfort-level:

> above all… I believe above all what you should feel… is a feeling for which work… well, which assistants and so on you… I believe that you must… it is MORE IMPORTANT than the system after all… that's to say the team… the colleagues you have in the team, because you can have the best system... in the world… … but some people… now… we don't employ such people [laughs]… but it's obvious that… well they are there and influence things… well, I feel more comfortable if I work with certain assistants in the house than if I have other assistants… (Auditor J)

> It is dangerous to be a soloist in auditing too, you must have your team with you, well… and if we are talking Big 4 and talk about larger engagements then you have one of those review partners you can have a dialogue with also, but... (Auditor G)

Some participants also discussed what kind of persons they prefer to work with:

> Yes, and it's a little like this, too, the problem for us is that some of us are clever and we get the feeling that they get, well, overloaded… and then the others have less to do… So I would rather have a person who thinks for himself than one who is… someone who is damned clever at filling in forms… regarding the forms in themselves… sometimes you can have filled them in without thinking… just completed the form… (Auditor J)

Also, team members have different roles within the team. These roles include different responsibilities and activities:

> Well, well…of course… there must be some form of structure… Then you can say that… it doesn't need to be me who is responsible for the structure… well, but… in the team… if I haven't got a team under me, and I have only got one assistant, then I am responsible for… some sort of structure… but otherwise it can be so that I have a damned clever colleague in charge of auditing… who is in charge of structure, and then I can be responsible... for the creative aspect… or what the hell……experience yes… exactly… (Auditor J)

As Barrett et al. (2005) suggest, auditors (ultimately engagement leaders) are dependent on the work of others (auditors and "experts"). To some extent, they must also rely on such work of others, even though they are sometimes located at a different site and are sometimes even unknown.

Just as Barrett et al. (2005) and Cooper et al. (1998) suggest, such circumstances are not unproblematic. To rely on work of others is not something "that goes without saying" for auditors. A title or reputation of being a great auditor or expert is not "enough". Instead, my findings indicate that familiarity with their "counterparts" (and thereby, increased confidence in the work carried out by them) is needed in order to create a feeling of comfort for auditors. To gain such comfort, Auditor A to the utmost possible extent, assigned work tasks to colleagues she had worked with before. If that person was not available, she asked colleagues to recommend someone to contact.

When it comes to experts and specialists, the participants seem to agree that they are playing a crucial part. When shown the statement introducing my study ("When I started working as an auditor 25 years ago, I knew everything I had to know… Today, all I know is who to ask…") Auditor J comments:

> Exactly… well, that's what I think… Then it's really a hellish art… and those that can't understand that… well they'll never make an efficient auditor … In other words you CANNOT… it's just a fact… it's IMPOSSIBLE to know everything in our branch today… Therefore you must… first of all you must specialize I mean IFRS… you are not even familiar with IFRS… so you have to become expert in only one damned IFRS recommendation… in just a little part…(Auditor J)

In addition to team-members and experts, auditors are also dependent on the cooperation of representatives (especially management) of their client firms (cf. Carr-Saunders, 1933; Sweeney & Pierce, 2004; Carrington & Catasús, 2007). Who the client is, who their employees are, who is responsible for what things – these are matters that not only directly influence the audit through the quality of their work and business skills. It also influences the audit more indirectly by the level of comfort that is reached; auditors could, for example, become more comfortable by being familiar with the people they meet (and that they know what kinds of errors and mistakes they make and what skills they are lacking) and/or by people with the right attitude than by highly skilled people they do not know very well and/or with an attitude that seems questionable.

11.3.3.2 Trust

Auditing standards and the audit system

Auditor F strongly emphasizes that auditing standards are something that auditors must follow. Auditors should use them as a starting point, and they should not see them as restricting their work in any way:

> You must in fact think of" what does the standard say?"… what must I do, what must I not do… and of course… in a purely business fashion it's naturally inhibiting if you have to stick to a set of rules… (Auditor F)

An important aspect of this point is that "following the standards" is not just about following international (and/or national) auditing standards. According to Auditor F, it is also about following the internal rules and regulations (which can be seen as a kind of standard). This is also something that is included in quality control inspections by *Revisorsnämnden*:

> Well… it's like this you have ISA now… but there is nobody… that I know of… no auditor that sits and checks by browsing in the ISA book so to speak… but all the auditing firms have their own manuals and their own auditing programmes and their own… they have their own concept as to how an audit shall be carried out… but this concept must be compatible with ISA… and then… then this concept is how can I put it… written down… made concrete in standard programmes and checklists… and I'm sorry to say that these standard programmes and checklists steer much of the auditing… and therefore I usually say that what is to be found in ISA and the thought behind the role of auditor, you must first have taken it in and made it part of you… otherwise you will make a mistake if you go directly to and become dependent on the standard programmes… you must… and that is really what professionalism is – to understand your role, to understand what auditing is… otherwise you will take the wrong way if you… work at a level that is too detailed. (Auditor G)

It does not seem that auditors perceive ISA to contribute directly to audit quality – it is rather the audit firm's interpretation and application of ISA that is important.

The preceding quotes from Auditor G and Auditor J indicate that ISA is used through the audit firm system:

> Well, now it's become more and more that all companies, like, have to be audited in our databases… like, know that it's this method that makes you… follow what is written… and so you follow… ISA… but certainly you could audit in your own way before… ensure that you followed… so that… (Auditor A)

> …in other words they have it in the [Collected volume, *Samlingsvolymen*] in the net then we have it built in… that is the whole of our audit methodology are constructed on it, like… (Auditor J)

It seems that there is a common understanding among auditors when it comes to the superiority of their (Big 4 audit firms') audit systems. Several auditors, for example, emphasize that their system is better than the standards. Also they are convinced (or at least they give the impression of being convinced) that the firm system includes and covers all parts, standards, and requirements, etc. relevant for an audit. These are the systems that are driving auditor work. The auditor now working for *Revisonsnämnen* explains it as:

> …because you are made to work very much by the audit methodology that you have in each office… that's what sets things going… of course there are possibly times when you would have a reason to go back to the exact standard and see… but then… these audit programmes, the auditing standards, they have to cover all this, eh… and if you look at Big 4 you'll see that they are ahead of the Swedish standard regarding ISQC 1 and so on, eh … (Auditor F)

This also means that it might be quite unusual for auditors, throughout their everyday work, to read actual standards. To do so seems to be more of an exception:

> … I don't believe that auditors to any particularly large extent return to the standards… I don't really think that... (Auditor F)

This seems especially to be the case when it comes to auditing, whereas in consulting services, it might be more common to go back to the (auditing and accounting) standards.

Trust in the audit firm's system

It appears as if there is a high level of trust in the audit firm's systems – especially the audit firm's manual. The participants seem to be convinced that using their respective firm's system results in high-quality audits. When asked to what extent they trust that using their firm system leads to high-quality audits (Q6.1), they answer:

> Well, 100 percent I should say… Now we have gone over to a new system… which… well, partly adapted to ISA as from 2011, on the first of January… but also… to ensure the continuous thread, even more, that is what we talked about… and that they begin at the right end… It [the new computer system] must focus more on risk and materiality… that you must produce, like… sufficient audit evidence perhaps many times more for risk items, so that it does not get this equal thickness … (Auditor A)

> A great deal… You rely a great deal on the system. In other words it feels as though we examine nothing that isn't in the system… or very, very little anyway… As if the system in fact says that we shall carry out research, the system says we shall carry out… well… all these stages… and we have it, like,

> drummed into us at all the courses… "if you just do what it says you will have made a fully correct audit…"… (Auditor I)

> Well, it's 120 percent… So we follow this, that's it … then it's well done…then the problem is that we must think for ourselves, especially about the smaller ones because there we know… there we don't follow.. that is, we don't force the whole package on to all the smaller firms and therefore we use a little more judgment for the smaller ones… (Auditor J)

Moreover, there seems to be a risk entailing the internal systems. This risk is related to a "checklist approach" where compliance becomes more important than reflection and hence, the audit work is passive rather than active and dynamic:

> The internal standards can be stricter… they are often… well stricter… for example when you are consulting… when you are to have an internal follow-up of a project and so on… But you can also say that there is also a risk then... the internal standards are often like this that you say that in this auditing system you must do a number of, certain, things… and part of these internal quality checks amounts quite a lot to… have you filled in the right form? Have you done this, have you done that… and… sometimes you possibly miss something… have I thought about it? It amounts a great deal to judging… have you filled in the right form… (Auditor F)

Auditor G expresses concerns that the level of trust in the firm's systems is as high as it is; he also emphasizes the risk of using the firm's system to become comfortable:

> A sensitive question [Q6.1][50] to FAR's Secretary General… but it is my estimation that I'm afraid, I can say that much without shaking in my shoes, but I'm afraid that the IT support is taking over… because… it is always so that the concrete aspect always takes over and the abstract aspect finds it difficult to win the match and it's enough to visit the auditing team, and that's what you've done, and there's an awful lot of hanging over the computer and there's a danger in that…

[50] "To what extent do you think that auditors trust that the system used at the firm where they work leads to high quality audits?"

That you acquire a thinking process and you go out and sense the atmosphere in the office before you… so that you don't think that the workday begins... when you lift the top of your laptop, like… on the other hand we must return to… we must understand that auditing is so INFINITELY much more than checklists! The checklists must be used as checklists and not to steer me. Well, I'm sort of afraid, and that's the challenge, what with the younger generation that is so computerized, there's the enormous risk that the whole audit becomes something to fill in the auditing programmes and databases… I am afraid of that development… and the branch has been criticized too… about… it's even in the Green Paper… that there is a tendency to "box ticking"… and that's a consequence of what we are saying, that there are such ingenious programmes which are so steering that they are taking over… and there is a quality risk in that…

… and then you have the previous year's documentation as a basis, and then it is very tempting merely to change around what you wrote last year… instead of doing something new, thinking in a new way, challenging both yourself and the company… because that is what auditing is about…

Yes, and this [cutting and pasting] is dangerous… auditing is, well, like… auditing is not just to attest what you see, but on the contrary we want to attest what lies around the corner, that you don't see - that is auditing. I'm going to blog about this in a few days, you must read it…

That [that complying with the firm system is part of getting comfortable] on the contrary is something I'm considerably more hesitant about. Because I mean that the auditor's professional judgment, the auditor's own standpoint and… well, his/her own sense of responsibility... is more important… so that I believe that there is a risk that you as auditor… are lulled into believing that if I only do as the auditing firm wants then I'm doing a good job. At this point I write a huge question mark. I must myself… make that judgment, I cannot rely on ready-made tools… (Auditor G)

The auditors do seem aware of problems and risks entailed, for example, with using the firm's system without reflection. They "know" that they should not rely on the audit firm's methodology. Still, most of them emphasize how the firm's system is an important part of their work, and the level of trust in this methodology is manifested several times:

… it isn't the methods in themselves that make up the auditing… on the contrary it is, well,… it's the input in the methods… if you pull the wrong way… you pull the wrong way… if you make a wrong judgment of the risks from the beginning you can use any old methods, anyway, to put it in a better way, our methods could be whatever you like, it won't be better auditing for that, but that ... the methods should be used more as a support in the process… BUT at the same time you must say that the methods stimulate making a correct judgment of risks… and how do you make a correct judgment of risks, well, it means that you, that you as auditor must look at a number of different… aspects of a company, well, partly you have, you must look at the company's surroundings, that's to say "what has happened in their surroundings… ?" … if we have a financial crisis " is this important for this company?"… well, perhaps it is if they have short-term loans… that have to be re-negotiated or that must be bought in again… "what about the rates of interest and how do they influence this company?" Whatever this might be… "there is a total meltdown in Greece, if we sell anything to Greece will we get paid for the accounts receivable we have in Greece?" Or whatever it might be, like… here's another example... of what might happen… "this company works with a certain technique, but another technique has turned up which revolutionizes, like, ... this company sells cassette tapes, but now all of a sudden the CD has arrived… so what is going to happen to this company…?" it's not going to exist in a year, like… so the surroundings are exceedingly important to check up on and often you speak about what it is to have branch knowledge and so on, but it is, like, an analysis of the surroundings, I should say… Then another important factor is, well,… is the internal processes, in other words, "how do you see the internal control in the company ?"… this risk analysis contains a whole lot… if we say that "well, but… we feel that it doesn't function particularly well… they have just introduced ,well, … installed a new ERP system… or they have, all of them in accounting, have been exchanged, like, they are quite new people, no routines, but it's all ad hoc, then there's a risk… then you have… an analysis if… well, of the figures as such, "what do they look like?"… do any, is there any problem to be seen from this analysis, if you look at a company and say "well, OK, this company has 100 millions as a turnover, but they have 100 millions as accounts receivable … ?" what does that signify? Well that signifies that they haven't got… they have sent a whole lot of invoices and haven't been paid for a single one, that's a very great problem, isn't it ?… they haven't got… and then they have problems with cash flow… So you look at the financial information and pick out a couple of risks... Then you have risks in the auditing… pertaining to how you apply accounting

> principles… you maybe have all the basic information, that is debit and credit have been carried out in a correct way in fact… but you are using the accounting principles in the wrong way… and it is possibly, for example, receipts statement of account is one of those … "when do you enter receipts in the books?"… is it when the goods are manufactured, is it when they are shipped from the warehouse, or is it when it comes to the customer, or when the customer uses the product, or is it when you send an invoice … or is it when the income is taken and when should it be taken according to the valid delivery terms or anything else… so that's typical, a question like this that is so extremely important… The third area… or the fifth area, isn't it?... is how you deal with assessments and judgments… you can have an inventory of goods which is taken up in the financial information to a value of ten millions, but is it really worth ten millions, are there,… are there things in this stock that are not worth a damn or even cost money to get rid of?… if they are harmful to the environment which you can't sell then it costs … then it costs to get rid of them, by-products and other things, … So I should say that they are, like, surroundings, internal processes, accounting principles, assessments and judgments, internal control… well, there are five of them… From… the outside you make your risk judgment… and of course our methods support that you look at the different parts, to come to the conclusion that "OK, what are the risks in… in this company and what shall we focus our audit on?" And then you can say, "OK… now we have different levels of experience in the firm… or in our auditing team... where is my focus as endorsing auditor?" It is then perhaps of the first importance that in…you can provide competence with regard to risks in the surrounding world, you have… you work with several companies, you have seen lots of things, you are into all this in some way… you can contribute this… you can contribute at the start-up stage… You can also contribute experience with regard to assessments and judgments for example… and you have in some way the final right to make decisions about "is this… can I accept this or not that?"… I should say… then when it's a matter of internal control, processes, accounting principles, and so on, of course you have the final… or, eh, I should say that you are quite involved in this business of accounting principles too… (Auditor H)

The foregoing reflection by Auditor G indicates that using a system is strongly associated with using the computer. However, based on my observations and interviews, I would suggest that the system comprises other aspects as well. During the observations, it became apparent that teamwork and the use of

experts are important parts within the auditing system and seem to contribute to auditor comfort.

To include experts is not unproblematic. The decision to include, how to include and when to include experts is about auditor judgment. Furthermore and perhaps more importantly, if and how to use the work carried out by experts (recommendations, suggestions, reviews, etc.), is a professional judgment-based decision made by the auditor. Hence, the responsibility lies with the auditor, who must apply professional scepticism when including others in audit work. As indicated by the auditor working for *Revisorsnämnden*:

> How you use experts in your work is a very important area that we are going fairly deep into in our supervision. How and to what extent do you use experts, how do you value their work and so on? For example it's not enough… just to employ an expert and the expert says that this is how it is… you must also evaluate the auditing conclusion of what the expert has accomplished…

> Today we put much emphasis on professional scepticism… which is the core for an intelligent auditor… who, like, sees risks, and so on… and we say that we cannot define it… and there are those who… I know Big 4… within this IFIA that I've talked about… this has been an issue that has been taken up… and then we say that we would very much like you to define what you mean by professional scepticism… and then we think that… well, in other words it can't be defined… rather you must think it out yourselves… and it's a little like this that you can't learn it, it's part of you in a way…

> …if you haven't been sceptical enough regarding the information you have been given… and haven't, like, burrowed your way deeper… but have taken for granted what has been said, and not been sceptical about the information. And that is difficult of course. (Auditor F)

To use and rely on a system could be claimed to entail risks. This is emphasized by Auditor F:

> … there is a risk… there is a risk that you rely on it to such an extent that professional scepticism… that professional judgment is put aside… that there's nearly no time for it… it's very steered by the internal system what steps are to be accomplished… so, certainly, there is a risk … there is a risk that

> professional scepticism… is put to one side… or however you'd like to put it… that there is no place for it… just this that.. "But we have done all of this…"… and naturally it is also important to think about the staffing in an auditing engagement … "have I the right staffing... and are they doing the right things…?"… naturally it is very important… There are cases where they… exactly... what we judge as the auditing's… if it is high-quality auditing or not… if you as auditor have employed staffing with too little experience… well, then you are in a worse position… to... convince yourself that you have in fact done a correct job… but on the other hand if you have a qualified staffing and you know what they can… then you are more secure… when you have to carry out your own evaluation later as responsible auditor… therefore staffing is important. (Auditor F)

Hence, it appears that, at the same time as auditors do not seem to have much "choice" whether or not to apply the audit firm's system, they find comfort in using it and, to quite a high degree, they trust that such use leads to high-quality audits. At the same time, they seem to be aware of the risks included.

11.3.3.3 Comfort – more than reduced or removed discomforts

One concept frequently used by Auditor A is "comfort".[51] After analyzing all the material in this study, it is one of the most distinct findings: that in their everyday work, auditors carry out activities and adopt certain behaviour as they strive to reach a high comfort level. Hence, there are constant efforts to increase the feeling of comfort. Through the understanding gained from this study, I suggest that comfort is about more than discomfort reduced or removed. Relief from discomfort seems to be about doing what is required. Sufficient high comfort seems to be about doing more than what is required.

However, auditors must still balance their efforts – "overkill" is causing new discomforts as it is not considered effective and thus, not appropriate. This is illustrated in Figure 4, where the comfort level is declining after a certain level of comfort. The figure also illustrates how comfort is different from relief from discomfort. The letter "a" in the figure indicates where discomforts are relieved and hence also indicate some level of minimum requirement. The letter "b" indicates the

[51] There is a Swedish word with the same meaning: *komfort*. Auditor A however pronounces it in English, just as do most of the other participants. Also, Auditor F (pilot interviewee) suggested that I should use the English term to try to avoid different understandings of what I meant.

point where auditor effort exceeds audit firm requirements and hence, where business comfort turns into business discomfort (the efforts made after this point are considered excessive and as unpaid work).

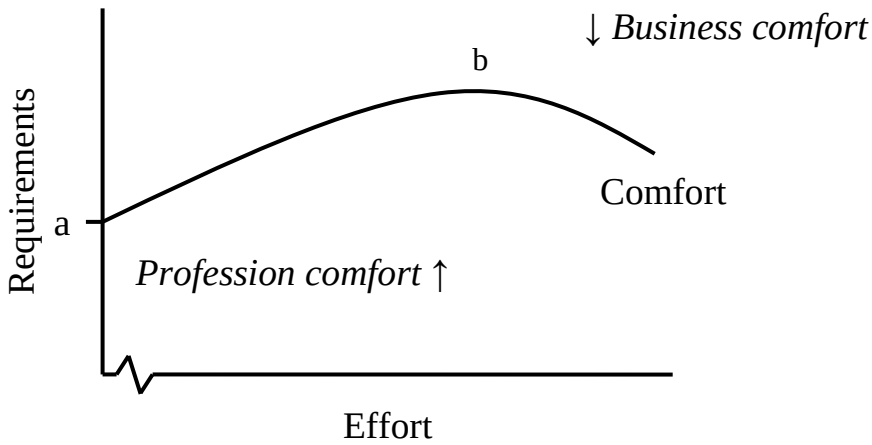

Figure 4 – Comfort level

The "peak" (b), where the level of comfort is at its highest, seems to be dependent on a large number of issues. The fact that auditors are individual professionals working at audit firms and part of the (global) audit profession, business world and society, plus the uniqueness of their clients indicate the complexity of this drive to achieve high comfort levels. Ultimately, in day-to-day audit work, auditing is carried out by individual auditors that have to take all aspects and issues into account. Throughout this study, I have become aware of how the drive towards comfort seems very central in everyday auditing work. From an auditor's and audit firm's perspective, it seems that high comfort levels indicate high audit quality. In the course of this study, I have also become aware of a number of issues related to these efforts. In the following, I will discuss these issues.

When events are in accordance with expectations, comfort is created. For example, Auditor A explained that the social security contributions of a client were, as expected, on the same level as last year (the client has the same number of employees this year). She says that "we know what we want to see". If figures and amounts are too similar, compared to last year – "damn how similar they are… it is almost

alarming". This is something that is not expected and it instead creates a feeling of discomfort. Consequently, as indicated by Carrington and Catasús (2007), auditors must then carry out some activity (such as further examination of the figures and amounts) to get relief from such discomfort:

> ... thus, in a normal audit I have first a thought about where the risks are, thus where ... where it potentially would arise problems... and ... before I sign, I would of course like to, in my own conceptions... have ticked of those risks ... and that is done in different ways ... (Auditor H)

To recognize things also creates comfort. For example, when reviewing the work by a team member, Auditor A explains that she recognizes what she sees, that it is the things she and the team member talked about and went through (and that the team member asked questions about) when they were at the client's site – "I recognize this… this is things we have talked about". Also she explains that she told the team member to review five items and that is what she did – "this is how it should be". While working on the management audit for a medium-sized client by making additions to the text in the Manual, Auditor A explains that this is actually something that the EL should be doing, but the fact that the TM also does it gives comfort to the EL. This appears to be some kind of "double check" and, as such, a kind of control activity. As indicated in the section on controls (section 11.3.4.4), reviewing and giving feedback could be seen as a way of controlling and gaining control. It appears as if recognition also is one such type of control. Hence, it could be argued that controls and gaining control are about creating comfort.

A reflection on the "expectations met", recognition and control aspects might be related to some kind of "consensus". Hence, it seems that when expectations are met, auditors recognize what they see and are gaining the control and consensus they are searching for. Such consensus has some kind of comfort value (cf. Humphrey & Moizer, 1990:228).

An additional aspect related to this consensus is the use of a "formal structure" (i.e. audit system), and as discussed in the previous sections, the use of such structure might reflect the notion that auditors are searching for "comfort" (cf. Mweyer & Rowan, 1977; Humphrey & Moizer, 1990; Pentland, 1993; Öhman et al., 2006). Using the firm's audit system is the "most concrete" way for an auditor to "know" that he/she is doing not only what should be done but also doing it the way it should be done. Aspects such as the appropriateness of behaviour, and the awareness of its "unyieldingness", i.e. that awareness of the importance of abiding to "how things are

done here (at this firm)" could be argued to create a feeling of consensus and therefore also a feeling of comfort.

Consensus could also be described in terms of rituals and routines carried out to "get comfortable". Who is involved (Power, 2003; Carrington & Catasús, 2007), teamwork (Pentland, 1993), formal structures (cf. Meyer & Rowan, 1977; Humphrey & Moizer, 1990; Pentland, 1993; Öhman et al., 2006) and control activities (cf. Lukes, 1975; Kunda, 1992; Pentland, 1993) could all be described in terms of such rituals and routines. Pentland (1993) describes how comfort is both an emotional state of the individual auditor and a "commodity". The findings of this study support this "dualism".

Another necessary "component" of comfort is understanding. To understand what things mean, why things are they way they are, how things are related, what people say and why they say it and so on seems important. As Auditor A is filling in the "threats and safeguards approach to auditors' independence" in the Manual, she comes to the question as to whether there are any connections to SEC-registered corporations. Auditor A says very clearly, "No!... this I do not want to concern myself with…". She explains that SEC- related matters are very complicated and that she does not have enough knowledge or understanding to be able to do these audits. She finds comfort in being able to tick "No" in this situation. To understand the client and its business is a "comfort issue" and Auditor A says that trying to understand sometimes is a challenge but that "you have to understand enough to be able to audit".

Many participants mentioned the importance of asking questions. It is said that it is expected (but sometimes difficult and tough) that the auditor ask enough questions to gain understanding and that he/she does not pretend to know or understand something that he/she does not know or understand. Auditor B was one of the participants who emphasized the importance of team members asking questions if they were uncertain; he explained,

> I am putting my name on the paper – it is very important that it feels good! (Auditor B)

Several participants mentioned that perceiving an understanding among the team members created comfort and that having doubts of such team and team member understanding created discomfort.

When it comes to experts, Auditor A explained that they almost never let experts make any kind of documentation in the Manual, that this is something they restricted. However, she explained that there are some experts they feel comfortable with (especially those they have worked with for a long time and who are used to this kind of documentation). Hence, comfort seems to be related to the people involved. This is also indicated as Auditor A explains that it creates comfort when clients have the correct attitude – "the attitude that things should be correct".

Auditor A mentions that she usually "collects" the "management representations" ("letters of representation") as it "feels like an extra comfort". She says that it is "probably not something that will hold in court, but it feels like extra comfort anyway". Hence, there seems to be some comfort related to certain documents and to the fact that the auditor holds such documents.

In the beginning of this section, I suggested that auditing as a comfort seeking activity is a central finding of this study. Another such central finding is that comfort is a feeling and, just as indicated by Humphrey and Moizer (1990) and Pentland (1993), my findings suggest that hunch, intuition and gut feel are important features of the audit process. Thus, there seems to be an emotional aspect of auditing.

When responding to the statement that a feeling of comfort is an important part of achieving high-quality audits (Q7.2a), Auditor J explains:

> I agree with that… because I mean… for some you could audit any amount, but you do never feel any comfort… thus.. I mean… it is correct… but at the same time there are some that think that you have hardly done anything but you feel comfortable anyway, it's a feeling you have for the client… thus it is like everything else… some you KNOW are grabbers… but you cannot quite put your finger on it… it it just a feeling… and for some it is just the opposite… that you know that they would never do anything wrong… if something is wrong their whole world falls down… thus there are no risk… and it is almost like "yeah, but do not worry… nice and calm, it's not a problem…"… but it's the individual there again of course… it is the professionalism again… how you… it's a parameter that is important… most important when you audit is "what feeling do you have towards the client?"… "is this a bandit or is it not a bandit?"…thus "is this someone I can trust?"… thus the feeling you get you'll have with you the whole time…consciously or unconsciously it steers some of your examination… that is how it is… I mean some clients I have worked with since the `80s… and I know exactly what

applies and there even assistants may think "yes, but… how can you accept that?"… "yea, but hey… I have worked with them since '80… it has been the same every year… and the question comes up every year and it is this answer and it is this outcome we get… "oh well… yes, yes… but it says here we have to do so…?"…"but, now this is how I KNOW it…" Thus, it's a feeling feeling you get… well… so that's an experience you have that could not be found in a system… It's pretty much as I remember when I started… and I know that the younger ones are now feeling, when you are completing the audit, you get into the situation where the boss asks you about the things that you knew that you had not done very good… and then it's an experience… I mean… (Auditor J)

[… how does he know that he must ask about that…?]

…well, how does he know that? Well, how the hell does he know that… like, always… always… "if only he doesn't ask about the stock…" or "if only he doesn't ask about the clients…"… but hell…"how… how are the clients now…?"… And… and perhaps it isn't anywhere… or… "this client has always had a problem with that market…" or any damned thing, because it doesn't need to be, like, any balance item in fact… A little of how you read an annual report… there are many of those… how you see relationships and measure of the liquidity and solvency measures … yield and such things… but just this how you look at things "but, what the hell, this can't be right…"… my boss could also say "this can't be right…"… without saying that he… directly… but there are a lot of parameters… well, hell, there must be something wrong somewhere, like,… "this can't be right… there can't be so much … stock… it can't be so… have you checked this properly…?"… and you don't find this anywhere, except that it's something you have with you… (Auditor J)

This explanation from Auditor J might indicate that comfort is related to experience. The influence of experience (including effort and understanding) is also emphasized by Auditor K as he explains:

So that when you attend the final meetings then you feel whether you have… if you know what's going on or not, in fact, and it… it's through… often a question of time… how much time you have spent on the engagement… how much review you've done and how well you know the company… your knowledge depends on how long you have been auditor or if you have really been out there and met people… Because you get… that's where professional

> judgment very often comes in too… because when you are out and meet a client and client staff… then it's the final receipt in fact when you really have a personal relationship when you are sitting and talking… if you have been an auditor for 25 years… you can't just sit there and just go on judgment… but if you have done the examinations and you are sitting and talking and discussing and you ask a few questions like this just to check -up, like,… and you feel that you get a fair, honest answer back, then you've got yet another receipt for, … "no, this feels good"… It is… when you are going to sign then there is… well, there is a certain feeling that is still there when you sign, like… "I'm signing this … depending on... there is no risk whatsoever... I've had clever colleagues so I know that they do a very good job… I have completed my review to 100 percent…" well, there can be different things in different companies, but… of course it's a certain feeling when you sign it… (Auditor K)

Also, this explanation emphasizes the emotional aspects of auditing. This aspect as well as other aspects of profession comfort and business comfort will be further discussed in the final chapter of this thesis.

11.3.4 Audit quality

11.3.4.1 Defining audit quality

Just as with "professionalism", participants define audit quality in a number of ways and by different terms. In the following, these definitions have been gathered into two main categories: audit process and audit outcomes.

- Audit process

When it comes to process-related definitions, high audit quality is defined as the condition where the auditor does the right things and carries out a client-oriented audit ("the right audit for the client"). It is also defined as the condition where the audit work has been carried out efficiently, the audit methodology has been followed (complied with) and adapted as needed, when there is sufficient audit evidence regarding risk items (but not "equally thick"; in other words, audit evidence for every single item) and when there is a main thread through the audit.

- Audit outcome

As for outcome-related definitions, high audit quality is defined as the condition where the reporting is clear and when there are no significant (material) errors in the client's reporting. High audit quality is also defined as the condition where the client has obtained more than an audit report (e.g. suggestions for improvement), i.e. that the audit provides some kind of additional value for the client and when the client is satisfied (including cost efficiency).

From these definitions, it seems that from an auditor perspective there is both a professional side and a commercial side of audit quality. Hence, it appears that auditors are both professional (with such traits as described by Abbott, 1988; Brante, 1988, 2005) and commercial (cf. Kaplan, 1987; Hanlon, 1996, 1998; Gendron, 2002; Boyd, 2004; Forsberg & Westerdahl, 2007). The more traditional task of quality assuring the client's information and reporting is combined with tasks more directed towards assuring that the client firm's management is satisfied.

It also seems that "audit quality" could be explained as having different "levels" and therefore could be viewed from different perspectives – a compliance perspective, an audit firm perspective, a client perspective and an individual auditor perspective. These are interrelated and overlapping but some distinct features could be explored.

From a *compliance perspective*, audit quality could be seen as doing what is required according to rules, regulations and standards. This seems like a minimum level. To be able to do what is required includes having knowledge, competence and (enough) experience. It also includes understanding the set of rules, regulations and standards as well as appropriately applying and complying with them. A compliance perspective does however not seem to be enough…:

> Here [Q4.1] I would like to give a simple answer… that auditors do the right things, not things right…
>
> Well… it's a little like this… you must sort out the concepts... depending on the firm's business model and risk situation so that you know that verification and testing is especially important in this company... and then you must have– and this is an important part of quality– a clear report… so it isn't always enough only with an auditor's report but also you must in addition report on different levels in the company… that's what I think… then I want to develop the auditor's report… you've perhaps noticed that… it isn't sufficient in the long run, not a chance… but it is… it goes beyond the limits of your work here, doesn't it…? But in ten to fifteen years from now the audit must be more

> transparent and the reporting must be more developed so that the interested parties get more out of it… that journey is not free from complications… with regard to damages issues and so on… but… there is no way back… (Auditor G)

From an *audit firm perspective*, audit quality seems to primarily be about auditors using and adhering to the audit firm system, especially their specific audit methodologies. This, however, is not unproblematic. Auditor J says that at the same time as this is "normally how it is", "it is not an equals sign". Auditor K emphasizes the use of professional judgment:

> No, I am not entirely, well… there is quite a lot in the whole that is important, indeed, you must also include professional judgment in the whole also… (Auditor K)

This statement might reveal that professional judgment is not seen as a part of the audit firm's *system*, but rather as something that is a supplement to it.

Auditor G expresses a fear of auditors primarily using and adhering to an audit firm's system:

> …well, well, but it's what someone like myself strongly calls in question and in fact cuts out… because it's not enough… to follow the auditing system and tools… that's why I said "shut off the computer and start auditing"… Wait!... Once again I'm afraid that this is how it works! And that is indeed what you are to describe… (Auditor G)

Auditor F expresses a wish that following a system is not seen as carrying out high-quality audits:

> Well, it's an interesting question [Q7.2e]… now I hope you get the answer that… no… because in fact it is a little more professional judgment… that is required... professional scepticism is required… (Auditor F)

Audit quality from a *client perspective* is about adjusting the audit to the individual and unique client and about adding value for the client:

> If you look at it from the client's perspective I should say that a client who says that "well, but this is… this was a high qualitative audit…" I should even say

that it was the right… focus on the right things, which potentially can entail… problems for us or that the financial information is faulty… high quality can … also entail that you have worked in an efficient way… and then the clients think that it is high quality when something else comes out of the audit other than a mere auditor's report in the end, that is that we come with several suggestions for improvements or have points of view and opinions, thoughts, about different things, or suggestions as to how they could do things differently… And it is very different what the client wants, so that it's not the same for all clients, but that… it's just about that… well, and of course… in some way… it's basic that it turns out right, but then the client often wants to have someone, since we are looking at everything all the same, then we might have an opinion, everything can be done better… what can we do better? what... like… how do things function in fact?..." (Auditor H)

Satisfied client… satisfied client, when you have a high standard of quality. Because… you can deliver very well indeed, and still the client is not satisfied as they don't think that you have been cost-effective, for example, and then you haven't delivered quality. (Auditor I)

…because it looks good to be with the client, then the client sees… how many hours we put into it… (Auditor I)

[a high-quality audit is] in fact right audit for right client… Because it's a little like this… we have AQR… is what we call it when we go around internally… a team comes from the U S A… and perhaps Norrland comes and checks on me and it's a little like that… and it isn't the Supervisory Board of Public Accountants ["Revisorsnämnden"], but it's we ourselves... and that's almost worse… but of course… and here you might think that, if you have the highest grade there… then you have over-audited… well… for somewhere there is the limit… it is not professional… because not so much needs to be done for this client to be … within the limit that is… (Auditor J)

... but at the same time you must be able to give the clients something more than that too… that they feel "damn it… it's a good thing to have an auditor after all"… "it's not just that signature that we pay for…"… (Auditor K)

However, all participants do not completely agree with adding value as related to audit quality. Auditor M comments that the client is receiving more than an audit report and that auditors are adding value through their work:

> …has nothing to do with the quality of the audit, it's more to do with seeing that the client is satisfied. (Auditor M)

Auditor M also claims that "making the client happy" is problematic in terms of audit quality:

> Very difficult, to think that an audit with a satisfied client has nothing to do with whether the audit is of high quality. A client is satisfied when we cost little and do our job quickly. On the other hand the aim is that the client **must be satisfied** when we deliver our audit. There can be hundreds of faults in a company which means that we have to spend twice as long to get the audit done according to ISA, comments on efficiency and improvements to the client are not always welcome… (Auditor M)

The compliance, audit firm and client perspectives are all present in the reflection from Auditor A:

> … well I should say… that is… a proper audit based on risk and essentials… that you have carried out… that you have begun at the right end from the beginning, that you have made a risk analysis and like… identified the material risks, if there are any, like, "key risks" or "significant risks"… gone further… and, like,… possible audit risks and, like, how we tackle it… plan audit strategy… methods… and that you… well, follow this and of course adapt it if something changes… with materiality and so on from the start…And all the time… well, and also, of course, from the start with the threats and safeguards approach to auditors' independence ["Analysmodellen"], that's part of the planning, that you test your independence as you work and so if something is to be changed… and if you follow the thread and really… when you arrive at the end and are ready with the audit, that.... well, you can follow it… you have, like,… that is you have real audit evidence for the risk items and the others too of course, but you have sufficient… because that's what I also feel can be lacking when you are completely new, that you spread it too thickly, you can't see the wood for the trees, you have, like, audit evidence for all the items, but you have missed… you have missed three extra items of audit evidence for, like,

> one that was part of… the essential risk items… you perhaps have just a stock list, but it should also have been included in the stocktaking, you should also have made a price test… for example… that it's a bit thin there… And there… I can feel that it's good auditing quality when you have got sufficient on the risk items… in fact spent that extra time on what were essential risks and then tie up the sack… and report to the client in the auditor's report so that…
>
> Because it's very important to have that [a thread]. And that anyone who goes in and reads my audit documentation will really understand how I have thought… the whole way… would be able to re-do it and arrive at… the same conclusion as me… (Auditor A)

Also, I suggest that there is an *individual perspective* of audit quality, where audit quality is about getting comfortable. And one of the major insights from the fieldwork in the study is that auditors seem to "interpret" audit quality in terms of comfort. That audit quality in day-to-day audit work is realized by the individual auditors' production of comfort. Sometimes Auditor A seemed to have a hard time letting go of certain things, and she explained that she needed to do a bit more work to reach "that feeling". On a few occasions she seemed to be very stressed and uncomfortable when something was urgent or when "the time was running out". She explained that it was really hard to let things go when she did not really feel comfortable about them. Auditor F explains that

> …it's one of the most difficult things you have as auditor if you, like, don't feel… that we didn't quite manage it… I can forget it all the same… you can do that mostly… but… sometimes it can be so that you should perhaps not have done so… (Auditor F)

The discomfort related to deadlines and time-pressures was mentioned by several participants. Auditor F emphasized the importance of communicating the importance of meeting deadlines to clients. Also, cost efficiency was emphasized:

> We do like this… well, we make these materiality calculations… and then you go through them… and we say, well, if you find a mistake… ONE mistake which is five thousand, let's say, then we must writ… that is we must note it… and withdraw it to the client… but if we find… if ,like, the total sum of the mistakes does not exceed a certain level then we must not… in fact in our office we talk an awful lot about this, that we MUST NOT do too much… so

> therefore… it is no use sitting and solving allocations of one thousand crowns if we have a materiality of five, since all the same we are not to take up mistakes that are greater than… that are under five… and then you must leave it otherwise you will never achieve cost-effectiveness… and then you will not have to remain in the office all…
>
> Then we'll take up… I'm thinking more… well, we'll take this up at the introductory meetings in the team… and we can say that tax is material from the first crown for example… so that we can have certain areas of focus that we focus on more… but if we haven't got that… then I won't spend extra time looking at it, indeed I won't… then I leave it, as it isn't … then EL doesn't want to know about it, so it's not interesting… why should I then spend time on something which I won't get credit for all the same? (Auditor I)

Hence, it might be argued that time and budget limits are, from an individual auditor perspective, to some extent determining audit quality.

When it comes to audit quality, there seems to be an everyday "conflict" between doing enough but not doing too much. At the same time as there are rules, regulations, international standards and internal standards/systems to follow, there are also profitability requirements, client expectations, etc. Hence, audit quality seems to be about balancing different demands and desires.

11.3.4.2 A sufficient audit?

The auditor knows that he/she has done a good and sufficiently extensive audit work when he/she…

- … does not feel any anxiety
- … does not think that there remains any question marks or doubts
- … considers the dialogue within the team to have been open and good
- … has asked questions and got clear answers from the team
- … can see that everything is coherent
- … feels that he/she has everything under control

- … feel that he/she has focused on the things that was material
- … feel that he/she has understood the client and its business
- … considers the audit evidence to be sufficient
- … is feeling comfort for the audit

Auditor A pointed out that the most difficult thing is not to review the things they see but "to know" if something is missing – "The hardest part is if something is missing":

> It is in fact… there is depth in it… I mean… when are you ready? And… there I usually say in different situations that… that to sign an auditor's report must not be… something that you do at your ordinary desk just like that automatically… that now the annual report is there and signed by the board and I've done my audit so now it's time for me to sign the auditor's report, it mustn't be some sort of production line nor must there be anything automatic about it, instead ONLY NOW[!] as I usually say, can you sit down, lean back, I usually recommend that you sit in a special chair to imprint the idea that this is a serious matter… this is the moment that it's serious… and so you must look at this annual report and look at with some kind of perspective, for the risk is that when you are in the middle of the audit and you are carrying on a dialogue that you don't see the whole, you don't see the wood for all the trees… and look at… is the management report ["förvaltningsberättelsen"] compl… does it describe the company's journey…? And material variances in the income statement, have I kept a check on it in my audit? And the balance sheet is of course important… all items… have I examined these risky items enough? And ask… I must ask myself the question: have I done so much that I'll not be uneasy… for example if there is a tax audit tomorrow… or if the company gets a new owner? But a clever way… this is a little more contemplative, is to test yourself with some kind of ocular inspection of the annual report… but I think that the best way to ensure that you are doing a good audit is always to carry out complementary analyses so that you don't merely examine the stock, oh, "This looks fine!", but on the other hand you complement it with other data and key figures… so that you understand… you must make it hang together… I think that's a good way to ensure quality… plus that you must carry on a dialogue with the team… your own complementary analyses and that you listen to those that you work with… how… have you seen anything that sticks out? Is there anything that you are worried about? Is there anything that… because I've

learned through the years that you must… in spite of everything so that… you make a professional judgment… but there can be something that is preying on your mind, and you must clear it up. If someone in the team says that I am really a little unsure that all the receipts have been accounted for… as I saw something there that indicates some hesitancy… *then* you must go into things in depth… fatal [!] to leave something that you are unsure about… then they must be essential things… but if you have… if you feel uncertain that it is an essential area then it is totally fatal not to go into it. (Auditor G)

But then it's what I said, "how do I know when I have done sufficiently enough?"… That you are calm, and you know that you can answer for this even if a new owner comes or new situations can arise tomorrow, … and that you must not… it mustn't prey on your mind…

… and that you dare to put forward the opinions that you have in fact, then you feel good! Then you are comfortable. (Auditor G)

Yes. So that's when we tend to talk about being comfortable… that's "security" in some way or however you'd like to put it… And that's also what comes with experience… Because I can really feel the difference when I'm not comfortable and when I am… and where that limit is… but it… I should say more precisely that it is when I have understood… I have understood how the firm works… I have understood the client's answer… I have, like,… and it doesn't need to be such a great answer like that, it's not perfect, but I've understood that either there is something lacking or not, I have anyway understood that and the client is in agreement that we have the same… opinion… And I understand how the company works, I understand how they run their receipts and so on, I feel that I understand the company… or, like, all… how things hang together… and I feel that I have got, like, audit evidence to cover things purely from the point of view of documentation… sufficient audit evidence… and, like, that there is a thread, I have been debriefed, I feel as though… well, that my auditor's report is correct, I would not have needed to comment on anything based on this report, like, that I am… then I feel comfortable… when I reach the goal and feel that… "but really I understand this..."... if something was wrong, or there are some irregularities, "well, I wouldn't have been able to see them from outside… there is nothing that has indicated that… based on the answers I have received and the tests I have made and this audit evidence, at least I keep a line of retreat…"… then it might be wrong, but then… I wouldn't, like,… I

often think when I read cases from the Supervisory Board of Public Accountants *[Revisorsnämnden*], that… when they are acquitted, "well, you have done enough all the same "Because it's not that nothing goes to… not to promise all my clients that there are no… irregularities… but you feel that you have done enough… Sleep well at night…

[… now it feels good, now I can leave it…]

Precisely. And there is often something in the audit that… you have your risk assessment and you begin in a certain way... but then there can be something you discover in the audit which makes you change the materiality and lower it, etc… that's a typical thing that makes you uncomfortable, suddenly you start to feel more nervous that, like, "this doesn't tally"… But if you audit more evidence all the time, in order to… "yes, good… that's correct… I'll continue, this hangs together, yes, it seems logical…simply technically speaking…" … you build it all up… finally you are "totally comfortable"…

[The concept… is there anything that you use in the auditing firm…?]

Yes… well, many of us say like this… that, like, "Are you comfortable with that?"… if you can ask like this" Are you comfortable with the audit now?"… it's quite good, I think, to ask that question, because many of us start thinking… "Could you get on and sign it now?"… that's what I might ask when the tm… and then you can, well,… some people are thinking "well, but I'm extremely pleased with my audit… I could sign it…", but then you see the difference in the eyes of those who perhaps… "what?... do you mean that I… hardly… not on your life…?" and then you start thinking "OK, so perhaps we'd better do more… why do you say that?" (Auditor A)

It's extremely difficult… because there are a few… different things… and in fact this is how it is… one is that… one is that I feel that I have put so much energy and work into it so I feel that I know everything about the client… so that I can do my… well… if we go back a stage I can say that most of my audits… well, I don't do them myself… entirely… but I've always had colleagues… who are involved in it all… which means that… my most important stages are… the planning stage and review… plus the reporting stage in fact… that's where I put in my time on the engagements… and that can be ten to fifteen percent of what… others spend on the engagement… so that it's

> through my review and my run-throughs that I ascertain whether we have made a good check-up… and that I have time to spend the time that is necessary… because that is necessary… different times… depending on whether it's a new client or if it's a client that you've had for a very long time and so on… but it's there that I feel myself if we have checked it all or not… then of course I know that we have a… structured way of working with the audit and it is gone through… so that this year I've had… four of my companies have undergone a so-called "practice review"… which means that people come from… this year it's only Swedes from Stockholm and Gothenburg… and they went through four of my engagements to be able to say "have you followed the standard that exists?" quite simply… and "does it seem like a high-quality good audit?"… And the previous year I had five engagements [!]… and I feel that I've had too many of that sort of thing [laughs]… so I've had nine lots in two years then… and that's a great deal… but it… you get a quality label for it… where… I mean have you gone through as many as they have I see the areas in which I perhaps haven't lived up to 100 percent with regard to standard… and so I have to try and improve… so you have a "quality loop" all the time in this way… (Auditor K)

How to "know" and make sure that the audit is sufficient are expressed in terms of "connections" and main treads – that things are connected and coherent.

11.3.4.3 The "audit quality" concept

An interesting matter is that "audit quality", which according to the literature seems to be the most important concept in auditing (cf. Humphrey et al., 2007), was not mentioned during my fieldwork. When I asked the interviewees about this, I heard quite different answers, and most interviewees thought quite a long time before they answered the question (Q7.2f). After some consideration, all but one seemed to agree that the concept of "audit quality" was not very frequently used in day-to-day work:

> no… that's so in fact… I don't think they use it especially often… But you can perhaps say that it permeates our whole way of thinking… but we don't say that so often… so I think that you can… so that it… it permeates our work I might venture to say… but we don't talk about it so much… just a little maybe… (Auditor F)

> … it's true enough… well… you talk about quality… and I mean it's there as a catchword and core value in the auditing firms of course… and that's what you

mean by quality auditing, I suppose… but, I think that out on an engagement and in the team… above all you don't say it to the client… but I think that… that it's an expression that goes without saying, there must be quality… and it's too great a risk not to give a thought to quality… because it's so obvious, so therefore you don't talk about it, I can understand that… No,... you don't talk about it… but on the other hand our governing friends, the European Commission and legislators they… and the Supervisory Board of Public Accountants… but they… they who practice the work… for them it's so obvious that it goes without saying… it's because, it's not to disapprove of the concept or don't believe in it, it's just that it's so basic that… (Auditor G)

No… we talk more in fact about making the client satisfied. So we use that word instead… or you… you must be observant, like, if there is… "what more can we do... for the client?"… so that… just now there has been a lot of focus on that… that you… that you, like… the client is satisfied if we can give some tips on… on some new VAT regulation which means that they can save money, like… but perhaps we don't talk all that much about quality… we talk more about cost-effectiveness… [laughs]… (Auditor I)

Especially the last quote in the above reflects what for example Anderson-Gough et al. (2000) refer to as auditors working at "professional services firms". This includes a commercial side and auditors being concerned about whether the client firms' management is satisfied (cf. Kaplan, 1987, Hanlon, 1996, 1998; Gendron, 2002; Boyd, 2004; Forsberg & Westerdahl, 2007).

Some participants, however, claim that the audit quality concept is used:

… yes, well, I think it is used, I must say,… we speak about audit quality… yes, of course, I think we do…

No, but of course we talk about audit quality…

Well we… you speak … speak, like, about carrying out a qualitative audit, that's how it is… and it can and it is, like, can be defined differently depending on who you're speaking to … (Auditor H)

No… I think that's wrong, because we speak about quality all the time… combined with effectiveness… But we have discussions all the time about

> "what is quality?"… Then you can say that you have a little dilemma here… in fact… which is contradictory … As auditor you have certain rules to follow and so on and then you can judge what quality is from that starting point… that you have fulfilled all these regulations… you might say that that is audit quality… But if you ask the client… then the question is" what does the client consider quality is in auditing?"… that can be something quite different… and there you have a combination that sometimes can be a little difficult to… solve then… as the client perhaps questions… will have something else… demands something other than what we call audit quality in fact… So we have many discussions around this and it… is used often… but then we often get into this about added value in relation to the client also, so that they will understand that as being audit quality… (Auditor K)

At least to some extent:

> "Never" I wouldn't agree with… I'm just trying to think… how often… does this go hand in hand with other concepts we use… I think that it goes together with being comfortable… that it has a certain level of quality then too, provided that that you are comfortable, in any case that's how I see it … when I'm comfortable I know that it is a high-quality audit… but perhaps not everyone has that definition… I use the word comfortable awfully often, "do you feel comfortable?" and then I mean, like, "have we got sufficient audit evidence?" ,"do we feel that we understand... ?"and then I feel that it is, like, used all the time… in every audit… Exactly audit quality, that word is not what I use perhaps… I hear it more often… that is in [the city where the office she works at is placed]… those who work with auditing… more about quality… they never use "comfortable" in the same way as we do… (Auditor A)

Thus, there are indications that "audit quality" is realized in terms of comfort. This is in line with the findings of Pentland (1993) who concludes that auditors are using an "emotional language" and talk about "comfort" and "being comfortable".

11.3.4.4 Controls

The controls performed at different levels seem to contribute to both audit firm comfort and individual auditor comfort. At the same time, as these controls sometimes are "mingled with terror" they are confirmatory and therefore contributing to a feeling of comfort:

It's a little like… a little scary. but at the same time fun, because you do want to hear… well… they come from other offices and they perhaps say "you do this very well"… then you are a little proud and think "yes, then we'll emphasize that…"… unique… interesting to hear what they have to say… of course you are a little nervous… here to help it to be true and fair… not as some kind of opposition… feels good to be able to put that year behind you… you want it of course to be correct… or true and fair… (Auditor A)

… I put an arrow pointing upwards on it [Q7.2d]… that's really awfully good, and it strengthens my self-esteem and you can be relieved if the quality check confirms that I do my work, do good work, but it's the same thing as with those standard programmes, they must,… they must NEVER constitute my…, how shall I put it, the basis for my conclusion, I do a good job just because I was approved by the quality check… but it's so that… each engagement is serious and I must do enough and reach that comfortable zone… in another way than relying on a quality check which took place one or two years ago. (Auditor G)

Yes. Well it does of course, but at the same time you might say that there is a tendency to judge structure more than the professional judgment… because it's always more difficult to… take on the professional judgment than if you had produced that check-up paper… or not done that and so on… So there's a lot of focus on structure… those quality controls… (Auditor K)

No, well it… I think that… well, many people think that… yes. but they are secure because they have followed the methods and they have achieved their goal with that so they have… it is quality assured because you have done enough there… that's how it is… and then… another stage can be that the person who is responsible says so…but I mean if you have followed the methods then you have brought things to a successful close… (Auditor J)

Auditor F pointed out controls on an international level might cause some unpleasantness and therefore make the auditors uncomfortable:

Then you can perhaps consider whether… sometimes I think that… these more systematic controls… Well, I've talked about this… EQCR or whatever you call it…there I believe that you feel increasingly comfortable… that it is a security… On the other hand these international inspections you have… there

> I think it's more a question of… of feeling that it is unpleasant… because, like… what sort of shit do they find... a little like that… a grading or something of that sort… I do not in fact think that it even makes you feel more comfortable… it can improve quality… because you know that this check-up is going to be carried out… and then it's important that I can show that I have done what I ought to have done… it's a little of both carrots and whip in other words… more whip than carrot… On the other hand this internal quality partner you have… there I think it's more that it's… it can be tiresome but… but it increases your comfortable feeling… that you have checked with someone and bandied questions and so on… Because there are different levels, different quality controls… (Auditor F)

It is important, though, to distinguish between the feeling during the control and the feeling after and because of the control. Hence, until the result of the control is revealed to the auditor being controlled, he/she might feel unpleasantness and be a bit uncomfortable. The comfort that controls contribute to seems rather to be because auditors know that their work is being checked and that they thus receive some kind of confirmation of the quality of their work (from both compliance and audit firm perspectives). Hence, it seems that being controlled is a sort of ritual used to transform chaos and indeterminacy – in this case, undetermined and diffused expectations of producing high-quality audits – into order and form (cf. Moore and Myerhoff, 1977; Pentland, 1993). It becomes a sort of confirmation and "measurement" that satisfactory work has been done. Auditors, in the name of self-regard and security, let themselves be guided by it (cf. Öhman, 2005,2007).

The controls may also be less of a less formal type. The use of feedback is one such "control". When asked how she knows and makes sure that she, as an auditor, has done good and sufficiently extensive audit work (Q4.2), Auditor I says:

> Then I won't get any criticism from EL [laughs]… No but then… it's like this… then… if there's anything that I haven't done which they think that I ought to do, then they'll tell me … and there is always someone looking over my shoulder… at the level where I am now, who comes to look at everything I do… there is nothing that I do which nobody else reads… But it will be… it's good for those who sign things later… when you reach that level there is a quality review… then you have… well, as in [Audit Firm 1] we have a team who, like, picks out perhaps two percent of all the engagements and goes through them… and then they get feedback … as there's a lot of feedback system… (Auditor I)

While confirming that controls contribute to a feeling of comfort, Auditor J also points out how a lack of control(s) makes him feel uncomfortable. This kind of control, however, seems more related to an individual auditor perspective and whether or not he/she has carried out enough "controls" and controlled everything they wanted to control. If such controls are not felt to be sufficient, a feeling of discomfort also arises:

> Well, of course… that is "the quality controls that are carried out at different levels contribute to your feeling increased…", that's just how it is…
>
> […you know that someone checks up…]
>
> Well, exactly… The worst thing is when you know that something… has not been checked… and you are obliged to sign it all the same, due to different circumstances and then it happens… in other words you are forced to and you know that it's holiday time and one must be sent off here and the other must be sent off there, we must get it signed now… and it's only half… then you are not comfortable… then you haven't got your comfort… no, you haven't… And I know that too, you might say that it has happened that you have signed an annual report where only one… and there are five on the board… "yes, but I haven't time… I'll fix the others later… I'll sign and then you too can sign, can't you…"… And before it is signed… it's not either… and that depends also… what client it is… and then it can even be so that… you have a feeling that you shouldn't do it… and you do it and it all goes to pot… There was someone there… and then the telephone rings, "how could you sign that…?"… [sighs…]… So that… It is bloody important… (Auditor J)

Chapter 12 now presents the overall conclusions and implications of the study as well as suggestions for future research.

Chapter 12

Conclusions

In this final chapter, I focus on the results from my analysis and interpretation of the empirical material and reflect on their implications. As the chapter proceeds, I also provide suggestions for future research.

In this study, I have explored the auditing concept through exemplification of auditor practice. In contrast and addition to previous studies of audit practice in general and situated audit practice in particular, this study has focused on what auditors actually do throughout their workday. As I reflect on what auditors do, why they do it, and on how the macro-level phenomenon of "auditing" is realized in micro-level day-to-day audit work, I try to elaborate on the nature of audit work and to conceptualize the auditing concept. The findings include a presentation and discussion of auditor activities and their nature. Those findings are of an explorative and exemplifying nature; they enabled further investigation and discussion on the "how" and "why" aspects. Their nature makes some further elaborations possible while excluding others; this is important to bear in mind in the following elaboration and discussion.

12.1 Main contributions

12.1.1 The audit profession: profession and business

It has previously been claimed that there is a business side of auditing (cf. Lee, 1995; Hopwood, 1998; ICAEW, 2002; Jönsson, 2005; Öhman, 2007; Hodges & Young, 2009; Broberg et al., in press). The findings of this study support this assertion: auditing includes both a professional perspective and a business perspective.

Previous research has expressed the risk of auditors not considering the public interest (cf. Forsberg & Westerdahl, 2007) and instead advocating for the audited firm and its management – in doing so, not protecting investors and other stakeholders (principals) to the extent they should (cf. Bazerman et al., 1997; Haynes et al., 1998; Jeppesen, 1998; Arnold et al., 1999; de Ruyter & Wetzels, 1999; Jenkins & Lowe, 1999; Öhman et al., 2006). This does not mean that auditors do not follow laws and regulations, but implies that they fail to do their duty as professionals (cf. Lee, 1995; Haynes et al., 1998; Öhman et al., 2006). Öhman et al. (2006), for example, show that there is a gap between what auditors do and what they perceive to be important for investors and other stakeholders. Hence, the usefulness of information is not their primary focus. Instead client satisfaction and adding value for the client (that is, the audited company, the agent) seems to be the more apparent focus. This reflects the business side of auditing.

Consequently, the findings of this study suggest that from an auditor perspective there is also a more commercial side of auditing. Just as discussed in the foregoing analysis, it appears that auditors combine more traditional tasks such as quality assuring the client's information and reporting with tasks more directed towards assuring that the client firms' management is satisfied. Therefore auditors are both professional (with such traits as described by Abbott, 1988; Brante, 1988, 2005) and commercial (cf. Kaplan, 1987; Hanlon, 1996, 1998; Gendron, 2002; Boyd, 2004; Forsberg & Westerdahl, 2007). These two "perspectives" are presented in Figure 5. Their respective influence on auditor work will be discussed further throughout this chapter.

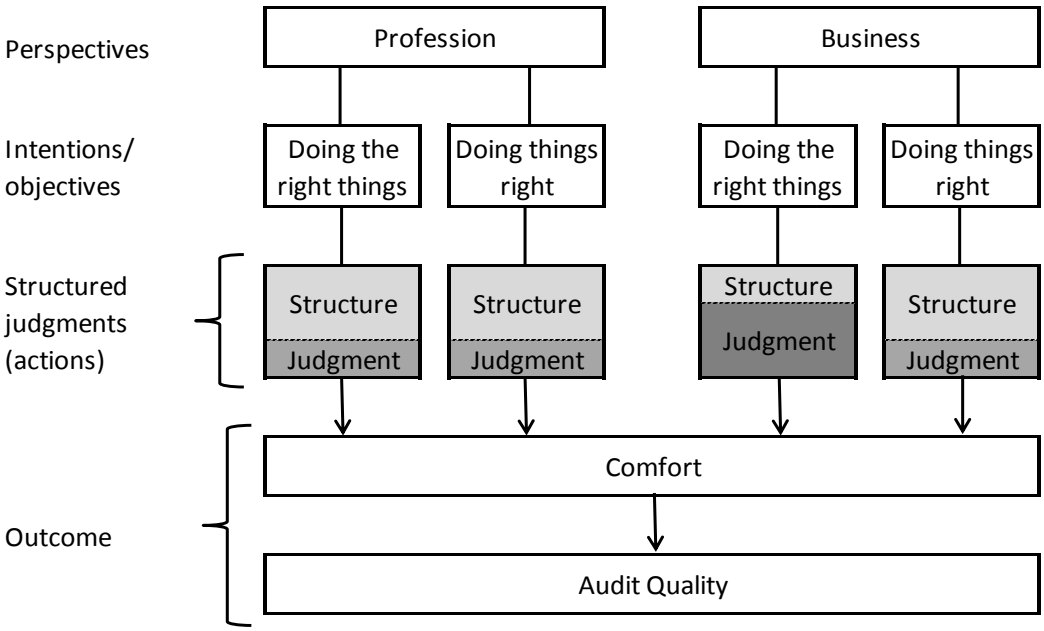

Figure 5 – Distribution between structure and judgment

As for the business aspects of auditing, it is important to be aware that this study took place during the discussions and decisions about the statutory audit for all limited companies in Sweden, as well as after the realization of the abolition of the statutory audit; this timing may have had an effect on my findings. The explicit focus on the client (that is, the audited company and its representatives) and adding value for the client may be due to the conditions of the study – at the time I carried out my fieldwork, it was particular important to gain and retain clients. However, the abolition had been under discussion for some time, so the audit firms where prepared and "knew" that they would keep most of their clients. Hence, it is difficult to assess the effects of the abolition on auditors and their work in this study.

12.1.2 Structure versus judgment

12.1.2.1 Structure and judgment in structured judgments

The findings of this study are in line with those of Westerdahl (2004, 2005). He focuses on the structure and judgment discussion (which is also included in this study) and concludes that audit practice is not only about following step-by-step instructions and laws and regulations but also about social interaction. Westerdahl also finds text and language to be more important than, for example, mathematics, i.e. that words rather than numbers were in focus and that rule-following seemed more important for less experienced auditors. He suggests that there is much structure but also judgment and negotiation. However, this study includes additional and complementary aspects. Also it focuses more on auditor activities and some matters that Westerdahl emphasizes (such as words vs. numbers) are not as apparent in this study (yet they are not contradictory).

My findings suggest that from both the professional perspective and the business perspective, auditors intend to do things right *and* to do the right things (see Figure 5). They need to do things right as well as to do the right things to be comfortable and carry out high-quality audits. This means that auditors not only seem to perceive audit quality as related to serving the public interest (more related to the professional perspective), but also related to serving the employer and the business relationship with the client (more related to the business perspective). This is evident when auditor participants in the study describe audit quality as when "the client is satisfied" and in terms of cost-efficiency.

Making structured judgments seems to be an important action towards reaching a sufficient level of comfort and, hence, to perform high-quality audits. The distribution between structure and judgment for each action seems to vary with the situation. This is illustrated in Figure 5.

When the intention is to do things right, both from a profession and from a business perspective, auditor actions appear to be based more on structure, i.e. judgments are embedded in structure. The same line of reasoning, i.e. mostly structure, could be applied to actions where auditors intend to do the right things from a professional perspective, but here it seems like the structure is enabling or restraining auditor judgments. When it comes to doing the right things from a business perspective,

judgment appears to be dominant while structure serves more as a formal limit on what is or is not possible.

If the use of judgment is seen as a sign of high audit quality and more associated with professionalism, it could be considered alarming that this professionalism is present to a greater extent on the business side of auditing. A cautious suggestion is at least that as a core issue of the profession, judgment does not wholly lie on the professional side of auditing. Instead, it is more evident on the business side. And, if so, auditors might be described as professional businesspeople.

12.1.2.2 Audit firmalization

From the findings of this study, it seems that auditors trust or at least more or less consciously assume that by using the audit firm system they are considering the principal(s) and are acting in their interest to the extent that they should. Thus, the audit firm system is "taking care of" the principal(s) and "making sure" that the principal is considered. This neither means that they set aside or ignore the principal(s) nor that they regard the principal(s) as unimportant. It means that auditors seem to only indirectly focus on the principal(s). The agent (being the client's representative) is, on the other hand, the one that auditors more directly focus on in their day-to-day work.

A "pure profession" has been typically characterized by content attributes such as knowledge, skills, experience, ethics and appearance. It has been said to be about applying "abstract, general or esoteric knowledge to specific, individual cases and problems" and using skills that often to some extent are codified but that professionals know how to use and they are skilled in doing so (Noordegraaf, 2007:766).

The knowledge base within the audit profession has been considered weak (e.g. Power, 1999); appearance, behaviour and conduct attributes have been seen as supplying that deficiency. The findings of this study suggest that the audit firm system, especially the audit firm manual, answers for much of the knowledge, ethics and experience. Thus, skills that appear to be central are not skills related to being an audit machine (cf. Pentland, 1993), but to being an audit machine operator. Here appearance, behaviour and conduct are important.

A "pure profession" has also typically been characterized by control attributes such as association, jurisdiction, knowledge transfer, codes and supervision. The findings of

this study suggest that such control attributes are prominent. Issues related to the audit firm level however appear to be the most prominent ones.

The findings of this study suggest that much of the "professionalism" in the audit profession lies with the audit firms. Substantial knowledge is "built in" to the audit firm system; an important auditor skill is to be able to operate the system whilst appearance, behaviour and conduct is about adhering to such effort. Fischer (1996) claims that auditors are influenced by internal (audit firm) expectations on how audit work should be done. The findings from this study also suggest that control attributes, especially those on the audit firm level, is important. The consequences of such "audit firmalization" on the audit profession seem to be an important focus for future research. Though, my speculation is that it is weakening the profession; that rather than auditing being the "performance of a service that is for the common good" (Brante, 1988:122) auditing might be more of a comfort-producing service for audit firm clients.

Thus, most findings of this study might be condensed to what I have chosen to label "audit firmalization". Audit firmalization incorporates the notion that while individual auditors are the standard bearers of the audit profession, the audit profession is formed and driven by audit firms. It also incorporates how the notion that audit firms serve as the interpreters through which regulations, rules and standards are translated and "determined", as the interpreters of important concepts such as audit quality.

Audit firmalization is observed quite explicitly when auditors, for example, say that the system developed and used in their firm is "better than the standards" or that using the audit firm system means doing more than what is required. Thus, audit firmalization seems to be a means through which audit firms keep their competitive advantage.

The explicit importance of the client (the organization being audited) and adding value for the client also indicates audit firmalization – the activities of auditors reflect the business side of auditing (including keeping and gaining clients as well as generating profit). By interpreting and translating regulations, rules and standards, audit firms try to make sure that their audits meet requirements. This audit firmalization could be discussed both from a profession perspective and from a business perspective: not meeting requirements would (at least eventually, from either perspective) put the firm out of business. Thus, audit firmalization is also about control.

Nevertheless, the findings suggest that audit firmalization contributes only to a limited extent to the production of auditor comfort (as a key issue in day-to-day audit work). The parts of auditor comfort that can be exchanged within teams, within firms and between the audit firms and the public, which is produced by using the audit firm system (including manual, hierarchy and teamwork) to some extent seems to be "audit firmalized". However, auditor comfort is found to also include individual aspects such as emotions, "gut feel" and intuition. These "components" seem to be parts of auditor comfort that cannot be "audit firmalized".

12.1.3 The production of comfort

From the interpretations of the material in this study, I suggest that from an auditor perspective, audit quality is about comfort and that there are several aspects involved in the production of individual auditor comfort. These could be described as combinations of more or less structured and/or judgment-based actions (cf. Figure 5) and summarized as *making structured judgments; using rituals, routines and controls*; and *placing trust in the expert system* (Figure 6). These aspects reflect regulatory pressures as well as pressures from the profession and from audit firm requirements. From an individual auditor perspective, it also seems that if these aspects are included, then comfort is produced and auditors are carrying out quality audits.

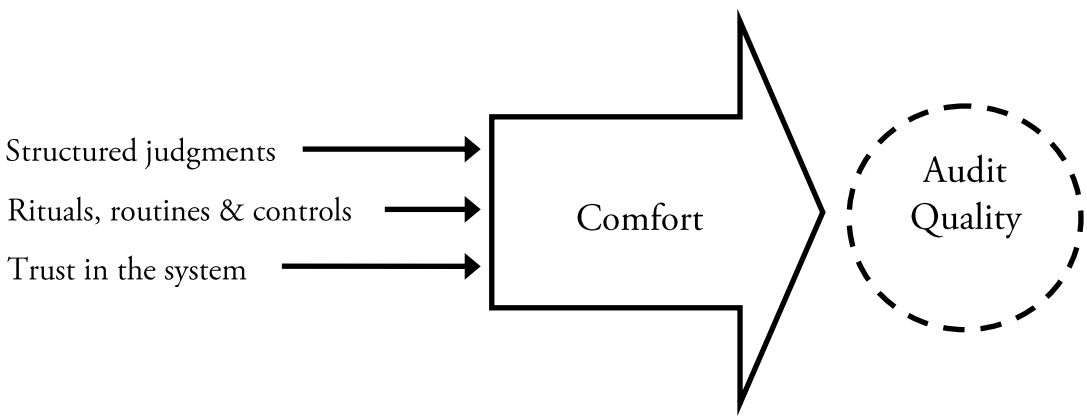

Figure 6 – The production of individual auditor comfort

That rituals, routines and controls all contribute to an auditor's being comfortable is one of the most evident findings of the study. This finding, however, has also been suggested, for example, by Pentland (1993), Power (2003) and Carrington and Catasús (2007). The contribution of this study is that, to become comfortable, throughout their workday, auditors combine structure and judgment, rather than use one or the other. In doing so, they make structured judgments (cf. Figure 5 and Figure 6). The contribution of this study is that to become comfortable, auditors, to a high degree, trust the system within which they work.

Thus, my findings suggest that the macro-level phenomenon of "auditing" is realized through comfort-seeking activities and behaviour. Searching for comfort is the means by which auditors make sense out of their work and the task they have taken on. Such comfort is ultimately an individual feeling (with certain collective elements). Reaching a high level of comfort is how auditors make sure that they are carrying out high-quality audits and in the name of audit quality; striving towards comfort becomes a meaningful social action.

12.1.4 Audit quality: profession comfort and business comfort

In the literature review, I suggested that audit quality had at least two dimensions: audit quality as quality work performed by auditors (scope and content) and audit quality as the usefulness of the audit (which differs with stakeholder perspective). The discussion in this thesis suggests different kinds of audit quality because audit quality for principals and agents does not seem to be the same thing. I suggest that this separation of "principal audit quality" and "agent audit quality" needs further investigation.

That a rule or standard is there does not mean that it is applied; that decision (how and when to apply rules, standards, judgments etc.) lies with the auditor. However, the decision is based on, and often even "prescribed" by the audit system used (primarily the manual). Hence, the "real" decision by the auditor is, after all, whether or not to use the system, or to what degree to use the system. Yet, on this matter they do not really have a choice. The choice they might have, at least in theory, is to make an effort that exceeds the system, i.e. follow the system and do even more. But in reality such choice is highly limited due to time and budget pressure; hence, it belongs to the business side of auditing. So, the auditor is in no position but to have confidence in the system. Such trust could involve risk – defects and deficiencies

could have major consequences. Hence, the system that is implemented and used to reduce risks involves increased risk.

As stated by Hanlon (1996:345), "to be successful in accountancy, one has to be cost competitive, commercially aware and biased in favour of the paying customer". Time and budget pressures limit auditor choice and auditor effort; it therefore seems that audit quality is also influenced by what can be defined as *business comfort*. This became clearer in the present study when I observed Auditor A all through a busy day at the office. On a more "normal" day, there was time to check and double-check the work that had been done, but on the busier day, there was no time for such checking. As an example, Auditor A usually checked her own e-mails (receiver, spelling, etc.) several times before sending them. But on the busy day, there was no time for checking and it was quite evident that keeping the deadlines created both comfort and discomfort. Hence, to produce business comfort, the "effort" was reduced – at the expense of less professional comfort.

Business comfort, however, also includes the quality of services provided – that they are relevant and add value to the client. As such, business comfort also means more rather than less effort. Thus, business comfort seems to both limit and stimulate auditor effort. Thus, this study indicates that audit quality probably is not as much influenced by commercialism in terms of impaired independence due to, for example, the provision of NAS (e.g. Bazerman et al., 1997; Haynes et al., 1998; Hopwood, 1998; Jeppesen, 1998; Arnold et al., 1999; de Ruyter & Wetzels, 1999; Jenkins & Lowe, 1999; Boyd, 2004; European Commission, 2010) as it is influenced by audit firms being profit-seeking companies.

A contribution of this study is that there are both professional and business aspects of comfort, that producing comfort is about balancing profession with business. Audit quality is influenced by auditor effort, which is driven by the production of profession comfort and of business comfort. Audit quality could therefore be described as driven by the requirements of and pressures from regulators, the audit profession and the audit firms.

Professional aspects suggest that auditor comfort is produced by auditors making structured judgments, carrying out rituals, routines and controls and trusting the system. Auditors associate this comfort with audit quality. On the one hand, business aspects reduce auditor effort due to time and budget pressures. This could produce discomfort and be perceived as reducing audit quality. On the other hand, auditors

want to provide high-quality services and therefore increase their effort, which in turn leads to the comfort that auditors associate with audit quality.

12.2 Methodological contribution

The observational research approach used in this study proved to be valuable. Just as argued by Mennicken (2006:5) studying "local practices, people and instruments, as well as the wider network of actors, expectations and demands involved" was found to lead to better understanding of auditing. Hence, this study also shows that there is a need for research studying situated work practices (cf. Barley & Kunda, 2001).

In Chapter 1, following Gendron (2002), I emphasize that although auditors are individual actors, auditing procedures (such as auditor judgment) cannot be separated from its context (such as the audit firm organization). Also, as claimed by Czarniawska (2009), I probably noticed, as an external observer and novice, and reflected upon the things that practitioners – in this case, auditors – took for granted as obvious and natural. At least the findings of this study suggest that studying individual auditors by observations throughout their day-to-day work (i.e. *in situ*) was an important "starting point".

Firstly, the observations contributed to better and more focused interview questions. This includes for example questions about trusting the auditing system. Secondly, the observations resulted in statements that were discussed with auditors during the interview. This includes statements about comfort, the use of the audit quality concept in everyday audit work, structured judgments and trusting the auditing system. Thirdly, the observations revealed comfort as a key aspect in everyday audit work and also lead to the inclusion of trust aspects. Fourthly, observations made it possible to record and categorize auditor activities. Fifthly, by experiencing day-to-day audit work I became aware of what I have chosen to describe as "audit firmalization" as well as how auditors seem to focus on the client (being the agent) rather than on the principal(s) throughout their everyday workday. Consequently, to gain further understanding about audit practice there seems to be great value in continuously entering the field. Auditors might not notice and reflect upon things they take for granted and which are obvious and natural for them. By exploring audit work through fieldwork there is probably much more to learn and understand about audit practice.

12.3 Auditing as a comfort-seeking activity

12.3.1 Activities, rituals, routines and controls

From this study, auditing emerges as being about auditors searching for comfort. In this search, the hierarchical structure of audit firms and audit teams appears to be a decisive matter. Hierarchy is important when it comes to auditor work assignments and everyday activities. Who is doing what is important.

Auditing is not just about reviewing and examining. And, reviewing and examining is not just about controlling. It is about getting to know, understand, form an opinion (idea) of something; about getting to experience and to cooperate. Hence, audit work is a combination of multiple activities. Auditing is not one activity; it is a combination of several.

One activity that stands out is communication. Much of the work auditors do could be categorized as communication. "Asking questions" is mentioned throughout this study and is related to the notion of comfort and to learning processes. Just as much as it is about reviewing and examining numbers and documents, auditing is about asking (the right) questions. Being comfortable about the numbers (cf. Pentland, 1993) is about being satisfied and comfortable with the answers and explanations received. Thus, auditing is about understanding the numbers.

Auditors are also managers. Only the lowest levels of employees in audit firms, the assistants, are without "manager assignments". This observation is relevant as it indicates the managerial roles and responsibilities that are embedded and included in the work of the auditor.

12.3.2 Auditors as rule and standard appliers

It has been suggested that "[a]uditing standards provide guidance on what auditors need to do to perform audits with satisfactory quality" and that compliance with such standards "provides evidence that a quality audit has been done" (ICAEW, 2002:10). On the other hand, it has been argued that such standards only serve as a minimum set of requirements and only indicate the lowest levels of audit quality – thereby serving as a defence for auditors in case of litigation (DeAngelo, 1981b, FRC, 2006).

In everyday audit work, it seems that auditors apply auditing standards by utilizing the audit firm system. Auditors seem to trust that the standards are appropriately incorporated in the audit firm system. In doing so, they also seem to accept that, to a large extent, it is the audit firm, not the individual auditor, that is interpreting the standards. Using the audit firm system not only provides them comfort when it comes to "knowing" that they are following the standards. Following audit firm systems also gives them comfort that they are performing high-quality audits because that system is considered (or at least claimed to be) "better than the standards". Hence, being comfortable seems to be more about following the audit firm system than following standards. Thus, the standards are just a part of the system; they are more a kind of prerequisite than a "component" that is highly relevant for audit quality. I suggest that following the audit firm system is a type of compulsory routine (it at least does not seem negotiable) and, as such, it is a part of auditor comfort. It is "easier" and more comfortable to *not* have to make a decision on how to use the audit firm system or on whether or not to use it at all.

Actions by regulatory regimes, etc. seem to influence the process in which auditors strive for comfort; that is, by setting up requirements and restrictions, they give rise to discomforts that auditors search relief from. Yet the discomforts such activities cause seem not always to be directly connected to the clients of the firm (neither the principals nor the agents). Hence, the auditors do not always perceive them as very meaningful. I would offer that if something is not considered meaningful, it is likely to be done in "the letter of professionalism" rather than in "the spirit of professionalism".

If auditing is about transforming a state of discomfort into one of comfort, then such discomforts or concerns should be, at least primarily, due to the clients, their businesses, and the needs of their stakeholders, and *not* due to regulatory requirements. I do not necessarily consider these things to be the same or to be "synchronized".

Auditors seem to view themselves as rule and standard appliers, not followers. By law and because auditing is a profession, they must apply rules and standards. But they also do so because of the complex "reality" they are dealing with. Hence, being able to claim that they have applied standards is a way to get comfortable.

I suggest it is troublesome if auditors themselves do not fully believe in what they do. It is also troublesome if audit firms, and to some extent also, regulators and standard setters have too decisive a role. Auditors must trust themselves to be professional, and

they must be so trusted by others. I suggest there is a need to further explore what it means if professionalism to a relatively high degree is determined by others (audit firms, regulators, standard setters) rather than by individual professionals.

My experiences in the field have given me the idea that most discomforts are related to things that do not directly involve clients, and I am inclined to think the discomforts are to a greater extent due to "formal" matters such as doing things right (cf. Öhman et al., 2006; Öhman, 2007): following the letter of the law, the regulations and the standards (to "pass" inspections and control/oversight procedures and to avoid sanctions and litigation). Auditors themselves seem to suggest that these matters have little to do with audit quality (neither for agents nor their principals) and even less to do with adding value to their clients (the agents).

The increased documentation in auditing seems not only to be an effect of increased requirements (by regulation or standards). To some extent, the increase also seems to be simply because it has been made possible by technical aids that are easily accessible (e-mail, printing, copying, scanning, etc.). This also seems to be the case with regard to the frequency of communication (by e-mail and phone). To reach a satisfactory comfort level, every possible and every accessible documentation activity must be used.

For some parts of the work, it seems very difficult to reach the optimal state of comfort. This is especially observed when there seem to be no clear rituals or routines to rely on. One such issue has to do with sufficiency – how to make sure that you have done a good and sufficiently extensive audit. For some engagements and in some situations, this seems more difficult than for others. It sometimes involves determining the comfort zone or even moving outside the comfort zone. Even though auditors use all tools available (standards, colleagues, etc.) they still might be a bit unsecure about whether what they have done is sufficient. This insecurity is quite obviously uncomfortable and seems to be a bit frustrating; it has to do with a "lack of structure". The situation seems related to both the professional and the business aspects of auditing. That comfort has to do with the balance between the profession comfort and business comfort aspects; that is, to be professional and to have a public interest perspective as well as to have a firm/client perspective where it is important to gain and keep clients, deliver additional value for the client and earn money for the audit firm. This implies that the efforts made and the time spent on different assignments are limited at the same time as the lack of structure may require that the auditor spend more time and effort on certain assignments.

These aspects of structure will be further discussed in the following section, along with the matter of judgment.

12.3.3 Structure versus judgment

12.3.3.1 Structure or judgment?

An important central debate in audit methodology includes the two separate (or combined) approaches of "structure" and "judgment". Structure has been quite frequently described and explained in the literature and is used as a label for "formal audits" (IFAC, 2008); formal approaches and routines (Öhman et al., 2006); prescribed, logical sequences of procedures, decisions and/or steps; a comprehensive and integrated set of policies and tools (Cushing and Loebbecke, 1986); orientation towards rules; and ticking boxes (ICAEW, 2002; Van der Veer, 2006; IFAC, 2008). Structure can mean, for example, using guidelines, instructions, computer support (cf. Öhman et al., 2006), tool kits (Fischer, 1996), checklists, analytical models and decision aids. The discourse is often about some kind of change or shift – *enhanced* structure (Öhman et al., 2006), *increased* use of technology, *more* mechanization, *increasingly* prescriptive approaches, or some kind of "level" such as a *high degree* of formalization. Increased regulation, principles, rules and guidelines have often been mentioned as reasons for structure (e.g. FRC, 2006; ICAEW, 2006b; Van der Veer, 2006). Structure has been described as being about legitimacy and control (e.g. Humphrey & Moizer, 1990; Power, 2003); as facilitating the exertion of control and communication within firms; as a reaction to the fear of being second-guessed; as necessary due to threats of litigation; to protect auditors and the audit profession (e.g. Öhman et al., 2006, IFAC, 2008); as used to get relief from discomfort (cf. Carrington & Catasús, 2007). Structure has also been explained as a consequence of the rapid commoditisation (Knechel, 2007) of audits; of auditing becoming a business; and as a result of greater competition, which in turn entails a need for auditing to be managed more as a business activity (Power, 2003). The notion of structure has raised concerns about the higher risk of auditors ignoring relevant information (Myers, 1997; Kosmala MacLullich, 2001) due to, for example, reduced flexibility and auditors developing mechanistic thinking (Cushing & Loebbecke, 1986) and non-reflective learning (Kosmala MacLullich, 2001).

One could argue that "judgment" is not as clearly described in the literature as structure, but is about the possibility and ability to consider different aspects and a variety of aspects (Öhman et al., 2006). Judgment is contrasted with structure; much

literature expresses the necessity of more room for individual judgment (e.g. Dirsmith & Haskins, 1991; Francis, 1994; Kosmala MacLullich, 2003). Judgment is described as emphasizing flexibility and the capacity to better capture behavioural aspects, to better preparing auditors for atypical audits, and to auditors developing deeper thought processes with better understanding of how, for example, different "steps" are related (e.g. Myers et al., 1997).

Again, the discourse when discussing these different approaches seems to be that using *more* of the one means using *less* of the other.

However, just as emphasized by Fischer (1996), I would suggest that audit quality may not be impaired because of (new) audit technologies or because of structure. Fischer emphasizes that whether or not audit technologies produce audit efficiencies or not is dependent on individual practicing auditors, i.e. the auditors who are actually realizing the efficiencies. From my interpretations throughout this study, I would suggest that an important concern is the strong influence of the audit firm and the perception that the space for individual reflection by the auditor seems quite limited. Everything seems to be taking place within the audit firm system; also when alterations and changes come to be included in the system, they seem to be thinking "inside the box" instead of "outside the box". Such "behaviour" appears to be a comfort-seeking activity.

12.3.3.2 Structured judgments

In most situations auditors face, there seems to be more or less explicit agreement about what is appropriate, whether it is about behaviour or about the tasks to be performed. Structure seems to be part of socialization and socialization seems to be part of structure. The structure is used to socialize, teach and train new employees into a certain way of thinking. Yet, most of the time there do not seem to be any rule or principle stating or even indicating precisely what is "enough" or "sufficient", hence the final judgment is based on something else – intuition, gut feel and habit.

Much of the structure–judgment research has been about classifying audit firm methodology as either based on structure or based on judgment (cf. Dirsmith & McAllister 1982a, 1982b; Cushing & Loebbecke, 1986; Holstrum, 1984; Mullarkey, 1984; Sullivan, 1984; Warren, 1984; Myers, 1997; Kosmala MacLullich, 2001).The debate related to these concepts has been normative – declaring what level of structure and judgment is preferable – and critical, mostly stating that increased structure

reduces the room for judgment, that this is a problem for the profession, and that it impairs audit quality.

In interpreting the material from this study, I prefer to claim that from an auditor perspective it is not about structure *or* judgment. It is about structure *and* judgment, that structure and judgment co-exist, and both are needed if auditors are to conduct comfortable audits. The notion that auditor judgments are made on the basis of, or within, a structure seems important. Hence, my findings suggest that auditors' professional judgments could be described as *structured judgments*; that auditors perceive structure as something that is required and enables judgment to be made; and that judgment is something that requires structure. The distribution of structure and judgment for each action depends on the situation.

12.3.4 Trusting the audit expert system

As argued throughout this study, being comfortable is a state of mind. One way of reaching such a state of mind is by placing (great) trust in those things that are hard to change or influence and in those things that from training, instruction, firm structure and firm procedures have become something almost learned by the heart: "This is how it is done", "This is how it should be done", "This is the best way to do it" or "This is how we do it".

One of many characteristics related to being a professional auditor is accepting the way the profession is organized. Hierarchy, firm culture, firm procedures, working in teams, using certain procedures, etc. are part of the auditor's normal workday and could be described as "the system". During my fieldwork, I did not observe any attitude that could be regarded as scepticism towards the system I have just mentioned. What I interpret as trust towards the system was, however, observed continuously. As I see it, there could be two (or more) reasons for this.

The first reason is that Auditor A actually trusts the audit system in general and the audit firm system in particular. Possible consequences of this trust could be serious and will be discussed again later. The second reason is that Auditor A might not completely trust "the system" but that, because of my presence, she was very particular about what signals she sent and about showing that she and her employer know how auditing is done best. Here I cannot see any serious consequences related to the audit profession, to the nature of auditing work, or to audit quality. If this is the case, it would suggest that Auditor A is looking after her own interests, the

interests of her employer and possibly even the profession. It would also suggest reduced validity and reliability in my empirical material, analysis and conclusions. Another alternative, at least theoretically, could be that Auditor A does not trust the system at all; that she only does the things she does because she has to and might like to act differently or not at all. But I do not think this is very likely from my impressions during the observations since I assume in that case she would have left the profession.

What are then the consequences of auditors trusting the audit (firm) system? At the same time as the audit (firm) system constrains auditors and their judgment, it also enables it (makes it possible). Hence, I do not see that adhering to a system means not using professional judgment. What does cause concern is the auditor's "attitude" towards the system and the "fact" that it implies that auditors are not really reflecting on their work (from "outside the box").

When auditors trust the expert system, that implies that neither scepticism nor reflexivity is present (or at least very little of this is present). This means that there is little or no awareness of the limitations of the expertise and therefore it creates risk. As Giddens (1991:125) states, "no expert system can be wholly expert in terms of the consequences of the adoption of expert principles".

I have claimed that trust is a way of feeling comfortable. When it comes to the parts of the work that Auditor A has more direct control of, the things she can influence and sometimes even control, comfort is not entirely about trust. Consider, for example, issues related to documentation and using the work of others. These are about trust in the sense that Auditor A finally must to some extent trust her own work and thereby feeling that the comfort level she has reached is adequate. This kind of comfort seems to be gained from trusting the audit firm system, especially the audit methodology used and realized through the manual. There are no signs of hesitation or reflection over the activities carried out.

Scepticism is often described as something strongly related to professionalism and is an essential attitude for carrying out quality audits (ISA, 200; POB, 2000; ICAEW, 2002, 2003; IFAC, 2007; EC, 2010; IAASB, 2010, 2011; IFAC, 2001a). Scepticism could therefore be assumed to be an approach auditors use to become comfortable. However, the findings of this study suggest that it is trust rather than scepticism that leads to comfort with regard to the audit firm system.

I suggest that auditors not only use and rely on the audit system, but that they also trust the system to a fairly high degree. It seems they are convinced that by using the system they are certainly doing things right as well as doing the right things when producing high-quality audits (as "defined" by the profession, from a stakeholder/principal perspective). In producing high audit quality, from a "client perspective" (the client being defined as the accountor, the company being audited, which in reality is the agent), auditors seems more sceptical towards strictly following or applying "the system". Here it becomes more a question of finding use of experience to manage the system, i.e. how the system can be used to carry out the best audit *for* (not *of*) the client. It becomes a matter of following the system versus managing the system. Paradoxically, it seems as if the "business side" of auditing constitutes the most reflective side. And if that is the case, the "business side" of auditing is a "sign of health" for the audit profession.

Following the ideas of Giddens (1990), Unerman and O'Dwyer (2004) discuss how daily life in today's world would be difficult without (implicitly or explicitly) placing trust in expert systems. In this discussion, it is the non-expert "system outsider" who is in the "centre". Considering the complexity of today's "auditing system", which could be said to interact with other expert systems (or to be a part of the overall "economic system"), I would suggest that the experts themselves, the "insiders", place trust in the expert system, its way of functioning, and its accuracy. They do so to "cope" and to reach sufficient levels of comfort. They are, for example, confident that by following the audit firm manual, they are following regulations and requirements (ISA, etc.) and that doing so is their duty. Hence, they not only trust, for example, that ISA are "baked into" the manual, but that following the audit firm manual and auditing standards is what they should be engaged in. Also, just as it appears that audit firms interpret auditing standards for auditors, it seems also it is the audit firm rather than the individual auditor that engages in reflexivity. If this is the case, the system that is there to *reduce* risk actually *creates* risk as insiders "choose" trust rather than scepticism.

Furthermore, I suggest that it is important to gain an understanding of how such trust, rather than scepticism, towards expert systems by "insiders" is influencing the system, the practices followed within the system and the risk such trust entails. There might not be a clear alternative to this situation: for example, is it reasonable to expect an expert to distrust the system and, if so, is one system sharply enough marked off from other systems that such "delimited" scepticism is possible? I would, however, suggest that it is important to gain understanding of what, for instance, it may mean if a system that is used to reduce risk (e.g. regarding financial investments) actually

imposes risk due to insiders trusting the system (rather than being sceptical towards it)?

Similarly, I argue that an auditor's professional judgments could be described not only as *structured judgments* but also as comfortable decisions within an expert system that the auditor trusts. Auditors seem not only dependent on the systems they use; they also seem be convinced that they should use the systems and they trust that the systems are "working".

I suggest that the "system" is not only about structure. The system certainly includes structure and judgment, but also a hierarchical organization, teamwork, procedures, instruments, different levels of control, the use of experts, training, and disciplinary mechanisms.

Distinguishing between structure and judgment seems less important than claiming the importance of using more or less of one of them, i.e. claiming the superiority of one or the other. In theory, the use of nothing but professional judgment is appealing. However, from what I have seen and understood, I do not believe that such an approach is possible. The context – which includes uncertainty, complexity, instability, uniqueness and conflicts (cf. Schön, 1983:17) and economic, regulatory and political pressures (cf. Power, 2003) make such a "utopia" impossible. From a different perspective, this approach might be undesirable as it could be stated that structure is useful in fostering and teaching new employees professional norms and thereby contributes to the socialisation of the auditing profession.

12.4 The production of comfort…

12.4.1 … as the "realization" of audit quality

From observing Auditor A, I propose that high audit quality, from an auditor perspective, is reached when a high comfort level is reached. From my fieldwork and interviews, I conclude that the concept "audit quality" is not used to a large extent in the everyday work of an auditor. However, I do not claim that there is no such thing as an audit quality discourse (cf. Khalifa et al., 2007; Humphrey et al. 2007). I do assume that such discourse is used on a "higher level", and that in the day-to-day

work spaces where actual activities (not mysteries) are performed, it is rather about comfort than about audit quality. Hence, being comfortable seems to be how audit quality is "realized".

12.4.2 … as an individual feeling

Just as Humphrey et al. (2007:32) suggest:

> [w]hat drives auditors appears to be a complex mix of influences, including perceptions of their firm, its traditions and systems, their position within the firm, prior training and experience, the way in which their performance is assessed, and developments in the professional regulatory arena more generally.

From Auditor A's perspective, auditing is not just about becoming comfortable with the numbers (cf. Pentland, 1993; Carrington & Catasús, 2007) it is also about being comfortable with decisions, judgments, structures, the work of team members, and technology (tools such as the computer and the manual). Hence, there are both audit and business aspects related to the production of comfort. The production of legitimacy sometimes referred to in audit research (cf. Power, 2003) seems more like a product that emerges from the audit. Within the audit team, it rather seems to be about the production of comfort. Comfort here includes auditing, professionalism and effectiveness aspects as well as business, profitability and efficiency aspects.

Being comfortable is a state of mind. Using Schatzki's (2005:471ff) terms, it involves the teleoaffective structure – "the array of ends", emotions that are acceptable or prescribed for the participants (auditors) in the practice (auditing).

Comfort is a "gut feel" (Humphrey & Moizer, 1990; Pentland, 1993), an emotional state (that includes the cognitive state). What I find interesting and not obvious from the literature (it is at least not explicit) is that comfort is more than a collective feeling (i.e. adhering to rituals, doing what is appropriate, etc). For example, Carrington & Catasús (2007:47) discuss how seniors highly value the experiences of signing auditors who "often defined the state of comfort" and that seniors need to reach that state to get confirmation on whether or nor not they have sufficiently eliminated the discomforts. I do agree with this statement, but I suggest that this is more like rituals and procedures and that it is not a sufficient explanation to be able to understand what "being comfortable" is about. As "being comfortable" is a very personal feeling and "collective" rituals and procedures might not always be enough. To give an

example, the literature seems to at least imply that there is a hierarchical aspect of comfort, meaning that the senior depends on the assistants to be comfortable, that the manager depends on the senior to be comfortable and that the engagement leader depends on the manager to be comfortable (and that the audit is complete when the engagement leader is comfortable enough to "sign off" the audit). Thus, auditing is about superiors being comfortable with the work (explanations, etc.) of subordinates. I very much agree that this is the case, but I also suggest that there is an additional dimension to "being comfortable": that on the individual level being comfortable is not only about who performed the work (tasks, activities) before you (i.e. being satisfied by the work of others), but also about who is going to review the work that you did. Hence, a part of being comfortable is about knowing that someone else is going to review your work and to be comfortable with who that person is. To know (through experience) that that person will carefully review your work entails an increased comfort level. This is not the same thing as being aware of the fact that the final decisions (and responsibilities) are made by signing auditors (cf. Carrington & Catasús, 2007:47).

Hence, the hierarchical structure of the audit firm and the rituals and procedures carried out represents the means to become comfortable.

What comfort in some respect seems to be about becomes some kind of tacit knowledge. By following the structure, through socialisation processes (such as training, feedback, teamwork) and through experience (knowledge, skills, routines, getting familiar with the firms structure and system, and so on), auditors *know* when the appropriate comfort level is reached. However, as comfort is a feeling, I suggest that there is an important individual aspect. Even though being comfortable includes some collective elements, it is an individual feeling.

I agree on the notion of auditing as a comfort-producing activity (e.g. Pentland, 1993; Power, 1999; Carrington & Catasús, 2007). Yet, in the view of the conclusions from some previous studies on auditor comfort (e.g. Pentland, 1993; Carrington, 2007; Carrington & Catasús, 2007), where auditing is mainly seen as a ritual that can be traded (Pentland, 1993) and where comfort is produced through negotiation (Power, 1999:40; Beattie et al., 2001) or as "an imaginative act of configuring discomforts and comforts" (Carrington & Catasús, 2007:54), I would emphasize that my interpretation is that auditing is a comfort-oriented activity where comfort is not only something that is being produced and passed on between individuals and groups – it is also an individual feeling, a state of mind that is very personal. Pentland (1993) and Carrington and Catasús (2007) emphasize the emotional features of comfort in

terms of collective rituals and acts and the significance of the signing auditor as *the* decision maker. I suggest that to be "persuaded" and to "go along with" a collective (or by a superior) decided upon comfort is not the same as reaching a state of comfort on an emotional level. Such persuasion, through discussions and conversations with colleagues (cf. Pentland, 1993) is a possible means to a comfort state on an emotional level, but it is not the same thing.

Regarding (new) laws and regulation, the influence is restricted to the impact they have on auditors' comfort levels (cf. Carrington & Catasús, 2007:50) through the interpretation of the audit firm.

Due to uncertainties, auditors try to create order to be able to understand and make sense of their role, responsibilities and work assignments. To do so, they adhere to the audit firm system. Hence, there lies a risk in that auditors are more and more "absorbed" by the firm system as pressures due to rules and regulations increase.

12.5 Implications, personal reflections and final points

The results of this study do not exactly speak for themselves – interest in the results comes from making use of them (cf. Humphrey, 2008:195). Such "use" is what I have tried to accomplish through this study. By combining the results and ideas of others along with my empirical material and my own interpretations and reflections, I have explored the auditing concept – what auditing is about, how it is done and why it is done in that way.

The implications of this study are that auditing has become (or at least is becoming) firmalized and that auditors have great trust in their respective audit firm system. This does not seem to be something that they are sceptical about or anything that worries them. What does worry auditors is to not have complied with the audit firm system and not to have satisfied their employer and the representatives of the audited client. This statement includes auditors producing profession and business comfort while considering the employer and the agent (representatives of the audited client). However, in everyday auditor work, it does not seem to include auditors considering the principal.

The implications of this study are that regulations, standards etc. are implemented, adjusted and interpreted within audit firms and that it is these interpretations that are

"realized" and used by auditors. The implications are also that such regulations, standards and audit firm interpretations will be used by individual auditors in a way that makes them comfortable, i.e. that "creates" comfort. The implication here is that, in order to stimulate audit quality, there is a need to study how and by whom the audit system is developed.

Before I bring this final chapter to an end, I would like to reflect and elaborate on some related issues. The reflections are based on issues raised in the review of the literature as well as on my experiences in the field.

What do auditors do?

I believe that the mystique around auditing has become something other than what it was. What auditors do does not seem to be as mysterious as how auditors think. The activities auditors perform imply that auditing is hard work; as I see it, that is neither a secret nor a mystery.

Auditors perform a large volume of activities and tasks and are often interrupted in the process. They make structured judgments, adhere to rituals, routines, procedures and behaviour that is defined in their social context and they trust the system(s) they use. Auditors produce auditor comfort which is perceived as producing (high) audit quality. They communicate this comfort to principals and agents. Whether or not they produce comfort for the "actual" principal and/or the agent is not as certain and is a matter on which I can only speculate.

How are standards used?

Standards are used through audit firm systems. I claim that the audit firm serves as a decisive "interpreter" for the auditors. Hence, the interpretations made and priorities chosen by audit firms are important; audit practice is therefore substantially driven by audit firms. While regulatory pressures (e.g. rules and standards) could be seen as forcing auditors towards action (as adhering to rules and standards is part of getting comfortable), I perceive that the organizational context (including the commercial context in which the audit firms operate) also imposes very important pressures to shape and/or transform auditor behaviour and audit practice.

This means that rules, regulations and standards seem to be translated in two different steps. First, audit firms translate them into their audit firm methodology, guidelines, policies, etc. Then, those methodologies, guidelines, policies, etc. must be translated

and used by individual auditors in their everyday audit work. Thus, rules, regulations and standards are mediated. As there seems to be a preference for principle-based systems (at least essentially), a subjective application of rules, regulations and standards are "expected" – it lies with the application of professional judgment, which is considered to be at the very centre of auditing. I would, however, stress the importance of considering how such professional judgment is influenced by the different levels of translation – what does it mean if professional judgment is mediated through different levels of translation?

The foregoing discussion also implies that if rules, regulations and standards are translated by audit firms and the translations then used by auditors, a significant part of the profession lies with the audit firm rather than with individual auditors. I suggest that it is important to further explore, ask questions about and stress such assertions and their implications.

What is auditor comfort about? How is comfort produced?

When it comes to producing comfort for the agent (for legitimating purposes) and for the principals (to reduce uncertainties), auditors seem to be much more in focus than the audit. The audit is not "visible" other than in the audit report. Hence, as Carrington (2007:37) suggests, it is not the audit but the auditors that produce comfort. Hence both performance and appearance become important.

I suggest, however, that auditors do not primarily strive towards producing comfort for agents and/or principals. They struggle to become comfortable to make sure that they produce high-quality audits. Hence, for auditors it does not seem to be much about agents and principals being comfortable; it is rather that they themselves are comfortable so they can produce and deliver high-quality audits.

Auditing and producing comfort seem to be about making structured judgments. The content of a judgment and its "direction" is decided upon by the auditor. The system obstructs, restrains, limits, facilitates, stimulates and/or enables (depending on how you see it) such judgments, by indicating what kinds of judgments to make and when to make them. However, as auditing to a great extent appears to be about achieving an emotional state of comfort, and that such emotions cannot be steered or defined by a system (though using the system can contribute to the feeling of comfort), there ought to be more to it than using a system.

Auditing and producing comfort also seem to be about trusting the system. The firms claim that their systems are designed to be "better than the standards". Hence, to be sceptical, it seems as if the auditor must be better than the standards and the system used.

Trust in the audit system among "outsiders" has experienced some shocks recently, but since expert system "auditing" is still used and since people still invest money, there is still trust in it. As we know, all kinds of communication have both senders and receivers. From this study, I cannot say anything about the experience and perception of the receivers, I have however tried to say something about the senders.

The level of trust in the audit system among "insiders" seems high. Auditors want to do a good job, and they think they do so by adhering to the system. There is some scepticism towards the overall audit system (macro-level) – whether or not it leads to high audit quality for all clients (agents) – but there is not much scepticism towards the micro-level system (the firm system) – how the system is used/applied/interpreted at the micro-level). The causes and effects of such circumstances need to be further understood.

How does structure influence judgment?

As I see it, using systems with structure and judgment is not the big issue. The systems are there, and it would be very difficult for auditors in today's complex environment to carry out quality audits without them. Instead, I suggest that auditors have an important commitment to make (and to some extent I have a feeling that there are efforts in that direction, at least when it concerns commitment in mind) – to become the masters of those systems rather than being mastered by them. To do so, considering the social elements of auditing, there must also be commitment to that effort in appearance.

Sullivan (1984:63) suggests that one should consider whether the methodology used at audit firms is sufficiently flexible. In line with this, I suggest that instead of discussing whether the audit systems used at audit firms are structured or unstructured, perhaps the issue to discuss is whether the systems used are sufficiently flexible.

Hence, I suggest that the issue is not really about the structure/system itself. A more aggravating concern from my perspective is the great amount of trust that I sense auditors put into such structure and such systems. There is certainly room for

judgment within the structure and within the system. Also, there are ways to alter the system, but my concern is that such opportunities are still part of the system – i.e. the method of making alterations is itself part of the system. Another concern is that even these alterations seem very uncommon. There seems to be quite a limited sceptical attitude towards the system in use – for example, there seems to be no doubt that "following the system means applying ISA" (as well as applying it in an appropriate way).

My fear is that "more" regulations and requirements as well as "stronger" audit firm approaches constrain audit practice and auditor professional judgment as they, for example, constrain individual auditor creativity. As Auditor G puts it:

> … your auditor's costume must never be so tight that you do a bad job… you adapt your work to the situation and don't walk around with the auditing bureau's manual and methods… for it would be… completely devastating if you did a good audit but that it was the wrong audit… you must carry out the right audit... and then you must allow it to be wrong with regard to the methods… (Auditor G)

An important question for the future, then, is how the audit profession can develop so that auditors are not merely subordinates to a system?

What is high audit quality about?

Czarniawska (2007) claims that practice is defined by practitioners and that the meaning and purpose of their activities is redefined through practice. I suggest that high audit quality (from an auditor perspective) is defined by auditor practice which is driven by audit firms. I also suggest that auditor practice is, at least partly, defined in terms of comfort (by auditors). If so, it is important for regulators and standard setters to consider – one must reflect on and realize that, for example, "audit quality" cannot solely be defined by persons other than the practitioners. The people who perform daily auditing activities by means of the system(s) are the ones that realize "audit quality". This does not mean that what is stated in the rules, regulations and standards does not matter. It means that rules, regulations and standards cannot be seen as "deciding" what audit quality is; they should not serve as "checklists" or similar; instead, they should be seen as a part of the auditor "tool kit" – something auditors "use".

I believe that individual auditors have a will and a capacity to "produce" high-quality audits. I suggest that to produce high-quality audits, auditors need to apply the system rather than comply with it. If so, they have a greater potential to also apply professional scepticism, not only towards the clients, their "numbers", economic actions, disclosures and business, but also towards the system they are using. In a situation where there is an emphasis on complying with a system, the possibilities to do so are reduced. Hence, I believe that "meaningful" professional scepticism cannot be forced or restrained; it must be developed and expressed on a more "voluntary" basis. Scepticism expressed as a result of a perceived notion of what is "correct" according to a system (whether it is developed and promoted by the audit firm, by the profession at large or by regulatory regimes), does not seem to be genuine "professional scepticism".

What is "being a professional" about?

That auditors are working at audit firms that are business corporations seems to be a relevant matter. This is apparent when talking to auditors at all levels in the hierarchy. It is, however, more tangible when talking to auditors at the highest levels.

It seems that there is both an individual and a collective side of being an auditor performing audit work. The collective side, however, seems to be dominant and so governs, disciplines and influences auditor work. There appears to be little room left for the individual side. On these grounds, it is tempting to suggest that "being a professional" is being undermined and that "belonging to a profession" is more prominent. My belief is that if auditors carry out their work under too strong an influence of the collective aspects of discipline and "supremacy", they are not acting as "pure" professionals, and they are not developing as professionals. I propose that if they are not given the space and freedom to act and develop as professionals, their "professionalism" is undermined.

What could "being a professional" be about?

As they create, impose, advocate and develop the system (i.e. the structure), the regulators, professional associations, oversight bodies and especially audit firms decide the rules of the game for the audit profession. When they do so, they are defining matters that ought to be important for professionals (at least to some extent) to define themselves. By letting the system determine what it means to be a professional auditor, auditors themselves might not reflect on matters related to "being a

professional" to the same extent as more engagement at the individual auditor level could lead to.

Discussing academic engagement, Humphrey (2008:189) argues that is about constructive, sensitive, conceptual and challenging engagement. Just as Humphrey (2008:189) states, "[t]here is also value in researchers approaching such work with open minds and not ones which are fixed in a ready acceptance of existing traditions, approaches and hierarchies", I perceive that there would also be value in auditors doing so. More reflection at the individual auditor level ought to be important for a dynamic ongoing process of professionalization. A system might be able to determine "the letter of professionalism", but "the spirit of professionalism" probably has to be determined and maintained through constant reflection by each and every auditor. In doing so, auditing could be performed, developed and altered in a way that to a higher degree would be defendable and meaningful for practitioners.

Humphrey (2008:195) further claims that "[i]n qualitative research, it is vital that creative thinking is encouraged and that we do not emphasize the pursuit of process over the development of ideas". I sense that this is important also for auditor work, but I have a feeling that "creativity" and "thinking outside the box", even though they might be encouraged *per se*, are difficult to actually pursue. It might be that creativity has come to be negatively associated (creative bookkeeping, etc.) and therefore not "acknowledged". Also, creativity indicates using a high level of judgment and some level of risk. Hence, "creativity" might neither produce legitimacy nor comfort. Rather, as stated by Medawar (1976) and emphasized by Humphrey (2008). there is most likely (even though, considering "true and fair" etc.) more value in giving attention to producing relevant outcomes than producing objective ones. A question to ask is then if "creativity" can become a beneficial and "positive" aspect of auditing. How can individual auditors become part of audit knowledge creation and development instead of just using it and reconstructing it (and not just seeing it as something created for them by someone else)?

The engagement and efforts made by each individual auditor seem to be of vital importance. Following Giddens' (1990) discussion on reflexivity, I propose that rather than "auditing" being something reinterpreted and clarified, individual auditor knowledge and experience could contribute to a more dynamic development and practice of "auditing", where traditions are justified instead of being taken for granted. In such a setting, auditing knowledge cannot wholly be incorporated into a system as it would then be recognized as something unstable (not certain).

A final point on auditing research

Francis (2011) and Humphrey et al. (2011) have suggested that regulators and standard setters must embrace (i.e. not only be aware of but also make use of) research about auditing and auditors. As the audit profession (including audit firms and auditors) and the business world which is its primary focus is constantly changing and developing, such interest in research must be of a continuous nature.

Humphrey et al. (2011) emphasize the importance of professional, regulatory and academic circles recognizing, (especially in relation to the issues addressed in the EU Green Paper), the complex contextual dimension of auditing and the auditing field. They argue that discussions and efforts must to a greater extent consider knowledge of professional practice and, for example, insights on the exercise of auditor judgment. Humphrey et al. (2011) argue that while the Green Paper suggests that auditors need to "actively challenge management" (EC, 2010:7), it fails to consider why auditors are not doing so; and while the Green Paper suggests that professional scepticism needs to be reinforced (EC, 2010:9), it fails to consider why auditors are not exercising sufficient professional scepticism. They also claim that the Green Paper seems to assume that reinforced auditor independence is "the solution" to enhanced professional judgment and higher audit quality, and they criticize the fact that such assumptions are not the result of a well-informed nor well-grounded discussion of impacts, consequences or factors influencing and shaping audit processes. The risk is one of unintended effects and dysfunctional consequences (cf. Humphrey, 2008). They further claim that "[i]ndeed, some of the reforms appear to be premised more on the need to generate greater confidence in the work of auditors rather than delivering substantive improvements in audit quality" (Humphrey et al., 2011:442).

From my attempt to gain understanding of audit practice, I suggest that auditor mind-sets, the search for comfort and audit firm aspects, rather than regulations and standards are determining factors for audit outcomes. Hence, regulations and standards cannot themselves create high-quality audits; they must be used (interpreted and realized). Consequently, without (the use of) a better understanding of this perspective, it is difficult to imagine how any reforms (etc.) will lead to "better" auditing.

Even though there is a great amount of research on audit quality, I suggest that this study implies a necessity of even more research on audit quality and related issues – especially from the perspective of the practitioners, i.e. the auditors. The ideas I have presented here are in need of further investigation, especially due to the changing

nature of audit work (cf. Bell et al., 1997). Important questions include what it means if audit quality from an auditor perspective is about auditor comfort and how structured judgments affect audit quality.

Just as discussed by Humphrey (2008), there seems to be little interest in academic auditing research among auditors themselves. They appreciate the value of academics studying day-to-day audit work at close hand (as it enhances the understanding of what auditing is "really about"), but they do not seem to appreciate the idea that academic audit research could be of value for their day-to-day audit work. I agree with Humphrey (2008) that auditing (and accounting) academics have much to offer in today's global auditing arena. They not only have contextual, contemporary and historical knowledge – they also have the ability to study auditing processes and auditor behaviour and gain understanding of it from an outside perspective that ought to be important (for example, the degree of socialization in the profession that sometimes might bias reflections and understandings). Hence, academics could make important "objective" contributions by identifying, for example, effective and ineffective processes and behaviours as well as their consequences.

This study has been based on what I have seen and experienced during my fieldwork at Big 4 audit firms as well as on the responses I received to my questions during interviews with auditors. The analysis is based on notes I made, from experiences I gained and from impressions I received. It is hoped that this makes some kind of sense or that it at least may stimulate discussion and generate questions important for further research in the field of auditing.

I now choose to bring this dissertation to an end. I have drawn somewhat closer to understanding the day-to-day work of auditors and just as Humphrey and Moizer (1990:234) endeavoured, I have tried to "strip away some of the mystiques associated with audit practice". Yet, I also believe there is still much more to be "realized" from situated audit work.

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Appendix 1 – Interview guide in Swedish

1. Inledande frågor

1.1 Ålder?

1.2 Antal år i branschen som revisor?

1.3 Annan erfarenhet från branschen?

1.4 Typ av uppdrag (ev. specialisering)?

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2. Kontorsarbete

2.1 Hur skulle du beskriva det revisionsarbete och de arbetsuppgifter som du utför på kontoret?

2.2 Hur skulle du beskriva skillnaderna/likheterna med revisionsarbete på kontoret i jämförelse med revisionsarbete utanför kontoret (dvs. hos klienter)?

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3. Revisionsprofessionen

3.1 Hur skulle du beskriva och karakterisera begreppet ”professionalism”?

3.2 Vad betyder ”att vara professionell” för dig?

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4. Revisionskvalitet

4.1 Vad tycker du kännetecknar revision med hög kvalitet? (Dvs. vad är revisionskvalitet?)

4.2 Hur vet du och hur förvissar du dig om att du som revisor att du gjort ett bra och tillräckligt omfattande revisionsarbete?

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5. Struktur vs. Omdöme (Structure vs. Judgment)

5.1 Hur skulle du förklara och karakterisera begreppet ”professionellt omdöme”?

5.2 I vilken utsträckning skulle du beskriva revisionsarbetet som strukturerat?

5.3 Hur skulle du beskriva balansen mellan struktur och omdöme i revisionsarbetet?

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6. Kritiska aspekter

6.1 I vilken utsträckning litar du på att det system som den byrå du arbetar på använder leder till revision med hög kvalitet?

6.2 Vilka möjligheter finns det för dig att (om det skulle behövas) frångå någon del av det revisionssystem som revisionsbyrån du arbetar på använder?

6.3 Finns det möjligheter för dig som revisor att ifrågasätta, kritisera och/eller förändra det sätt på vilket revisionsarbetet utförs?

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7. Resultat och påståenden utifrån observationer

7.1 Följande arbetsuppgifter har observerats på kontoret eller framkommit under pilotstudien. Reflektioner? Saknas något?

Kommunikation

Administration (tidsrapportering, fakturering, planering, etc.)

Förberedelser (inför möten, etc.)

Granskning

Dokumentation

Utvärdering, feedback till medarbetarna

Kvalitetssäkringsarbete

Konsultation

Byråaktiviteter (planering av nätverksträffar, etc.)

Försäljningsaktiviteter (offertarbete, etc.)

Läsa standarder, lagar och föreskrifter

Uppdateringar (läsa newsletters, etc.)

7.2 Följande påståenden baseras på en analys av resultatet från observationer på kontoret hos en godkänd revisor på en Big 4 revisionsbyrå. Hur ställer du dig till följande påstående?

a) Att som revisor vara bekväm med och känna ”comfort” kring det arbete man utfört är en viktig del i att uppnå hög revisionskvalitet.

b) Att känna tilltro till det revisionssystem och de revisionsverktyg som finns att tillgå är en viktig del i denna ”comfort”. Det revisionssystem som används på den byrå där du arbetar bidrar till att du känner ökad ”comfort”.

c) *Utöver de revisionssystem och de revisionsverktyg som används på den byrå där du arbetar används egna (individuella) rutiner och system för att känna ökad ”comfort”.*

d) *De kvalitetskontroller som utförs på olika nivåer bidrar till att du känner ökad ”comfort” kring det revisionsarbete som du utför.*

e) *Om du som revisor följer det revisionssystem och använder de verktyg (t ex Manualen) som finns att tillgå utför du revisionsarbete med hög kvalitet.*

f) *Uttrycket/begreppet ”revisionskvalitet” används sällan eller aldrig i det vardagliga revisionsarbetet.*

g) *Revisorer är experter som följer lagar, regler och standarder.*

h) *En viss grad av struktur är nödvändigt i revisionsarbetet.*

i) *Revisorer gör strukturerade bedömningar. Struktur och ”professionellt omdöme” (professionella bedömningar) går att kombinera och bör därför inte ses som två separata och skilda tillvägagångssätt.*

j) *Professionella bedömningar handlar om att göra strukturerade bedömningar så att du kan fatta beslut som du är bekväm med inom ett system som du som revisor har tilltro till.*

Appendix 2 – Interview guide in English

Q1. Introductory questions

1.1 Age?

1.2 Years working as an auditor?

1.3 Other experiences from the business world?

1.4 Type of engagements (e.g. specializarion)?

Q2. Office work

Q2.1 How would you describe the audit work and the tasks carried out at the office?

Q2.2 How would you describe the differences/similarities between audit work at the office compared to office work outside the office (i.e. at the site of the client)?

Q3. The audit profession

Q3.1 How would you describe and characterize the concept "professionalism"?

Q3.2 What does "to be a professional" mean to you?

Q4. Audit quality

Q4.1 What do you consider to characterize high-quality audits? (i.e. what is audit quality?)

Q4.2 How do you know and how do you make sure that you as an auditor has done good and sufficiently extensive audit work?

Q5. Structure vs.Judgment

Q5.1 How would you explain and characterize the concept "professional judgment"?

Q5.2 To what extent would you describe audit work as structured?

Q5.3 How would you describe the balance between structure and judgment in audit work?

Q6. Critical aspects

Q6.1 To what extent do you trust that the system used at the firm where you work lead to high-quality audits?

Q6.2 What possibilities are there to (if necessary) deviate from the audit system used at the firm where you work?

Q6.3 Are there possibilities for you as an auditor to question, criticize and/or change the way audit work is done?

Q7. Results from and statements based on the observations

Q7.1 The following work tasks (activities) have been observed at the office and from the pilotstudy. Reflections? Is there something missing?

Communication

Administration (time reporting, invoicing, planning, etc.)

Preparations (for meetings, etc.)

Reviewing

Documentation

Evaluations, feedback to co-workers

Quality assurance

Consultation

Firm activities (planning network meetings, etc.)

Sales activities (draw up offerts, etc.)

Reading standards, laws and regulations

Updating (read newsletters, etc.)

Q7.2 The following statements are based on an analysis of the results from observing an auditor at the office of a Big 4 audit firm. What is your attitude towards these statements?

a) As an auditor an important part of achieving high audit quality is to be comfortable with and have a feeling of comfort for the work you carry out.

b) To trust the audit system and the audit tools available is an important part of such comfort.

c) ***Besides the audit systems and audit tools used at the firm where you work own (individual) routines and systems are used to attain an increased feeling of comfort.***

d) ***Quality controls performed at different levels contribute to an increased feeling of comfort for the audit work you perform.***

e) ***If you as an auditor follow the audit system and use those tools available (e.g. The Manual) you perform high-quality audit work.***

f) ***The expression/concept "audit quality" is rarely or never used in everyday audit work.***

g) ***Auditors are experts that follow laws, regulations and standards.***

h) ***A certain degree of structure is necessary in audit work.***

i) ***Auditors make structured judgments. It is possible to combine structure and professional judgment and they should therefore not be seen as two separate approaches.***

j) ***Professional judgment is about making structured judgments so that you can make comfortable decisions with within a system that you as an auditor trust.***

Appendix 3 – Statements for respondent validation (in Swedish)

S1) Revisorns arbetsdag (framför allt på kontoret) är ofta splittrad och inkluderar en mäng olika arbetsuppgifter.

S2) ”Kommunikation” (så som att läsa/skriva e-mail, telefonsamtal, möten, feedback, etc.) är en av de vanligaste aktiviteterna för revisorer under en arbetsdag på kontoret.

S3) Revisionsstandarderna är ”inbyggda” i ”revisionsprogrammen/-manualen” som används på byråerna och revisorer går sällan tillbaka och läser själva standarderna.

S4) Professionalism, att vara professionell, handlar om att:

- vara skeptisk
- vara lojal mot rollen
- att uppföra sig på ett, för branschen, lämpligt sätt
- vara oberoende, opartiskt och självständig
- ha integritet
- vara modig
- vara kompetent
- ha tillräcklig erfarenhet
- ha social kunskap (att kunna delta i ett socialt samspel, föra diskussioner och få fram svar och jobba med olika typer av människor och företag)
- vara ansvarstagande/ansvarsfull
- kunna jobba i ett team
- vara intresserad och engagerad
- vara ifrågasättande
- skaffa sig förståelse för kunden och dess verksamhet

- anpassa revisionen efter kunden

S5) En revision med hög kvalitet kännetecknas av att…

- … revisorn har gjort rätt saker snarare än saker rätt
- … det inte finns några väsentliga felaktigheter i kundens rapportering
- … revisionsmetodiken har följts och anpassats när det behövts
- … det finns tillräckliga revisionsbevis för riskposterna (och inte gör det ”jämntjockt”, dvs. t ex revisionsbevis på alla poster)
- … rapporteringen är tydlig
- … kunden har fått ut mer än en revisionsberättelse (t ex förslag på förbättringar), dvs. att revisionen ger någon typ av mervärde för kunden
- … kunden är nöjd

S6) Revisorn vet att han/hon gjort ett bra och tillräckligt omfattande revisionsarbete när han/hon…

- … inte känner någon oro
- … inte tycker att finns några frågetecken eller tveksamheter kvar
- … tycker att dialogen inom teamet varit öppen och bra
- … ställer frågor och får tydliga och tillförlitliga svar från teamet
- … ser att ”allt hänger ihop”
- … känner att han/hon ”har kontroll på det hela”
- … känner att han/hon lagt fokus på det som var väsentligt
- … känner att han/hon har förstått kunden och dess verksamhet
- … tycker att det finns tillräckliga revisionsbevis
- … känner ”comfort” kring revisionen

S7) Revisorer litar i hög utsträckning på att det system som den byrå de arbetar på använder leder till revision med hög kvalitet.

S8) Det finns sätt för revisorer att frångå delar av det system som byrån där de arbetar använder om så krävs.

S9) Att som revisor vara bekväm med och känna ”comfort” kring det arbete man utfört är en viktig del i att uppnå hög revisionskvalitet – om revisorn känner ”comfort” är revisionen sannolikt kvalitetsmässig.

S10) Det finns olika grader av ”comfort” – revisorn kan ha en högre eller lägre grad av comfort kring revisionen (för ett specifikt uppdrag).

S11) Att känna tilltro till det revisionssystem och de revisionsverktyg som finns att tillgå är en viktig del i att känna ”comfort”. Det revisionssystem som används på den byrå där revisorn arbetar bidrar till att du känner ökad ”comfort”.

S12) Revisorer använder generellt sett inte egna rutiner (utöver de revisionssystem och revisionsverktyg som används på byrån där de arbetar) för att känna ökad ”comfort”.

S13) De kvalitetskontroller som utförs på olika nivåer bidrar till att revisorer känner ökad ”comfort” kring det revisionsarbete de utför.

S14) Genom att följa det revisionssystem och använda de verktyg som finns att tillgå på den byrå där revisorn arbetar tycker han/hon att han/hon utför revisionsarbete med hög kvalitet.

S15) Begreppet ”revisionskvalitet” används sällan eller aldrig i det ”vardagliga revisionsarbetet”.

S16) En hög grad av struktur är nödvändigt i revisionsarbetet.

S17) Revisorer gör strukturerade bedömningar. Struktur och ”professionellt omdöme” (professionella bedömningar) går att kombinera och bör därför inte ses som två separata och skilda tillvägagångssätt.

S18) Professionella bedömningar handlar om att göra strukturerade bedömningar så att revisorn kan fatta beslut som han/hon är bekväm med inom ett system han/hon har tilltro till.

Appendix 4 – Statements for respondent validation (in English)

S1) The auditor work day (first and foremost at the office) is often fragmented and includes a large number of different activities (tasks).

S2) ”Communication” (e.g. reading/writing e-mails, phone calls, meeting, feedback) is one of the most common activities for auditors during a day at the office.

S3) Auditing standards are built-in to the audit programs/the audit manuals used at the audit firms and the auditors rarely turn back and read the actual standards.

S4) Professionalism, to be professional, is about:

- being skeptic
- be loyal towards the role
- behave according to a, for the audit industry, appropriate manner
- being independent, impartial and “self-governed”
- having integrity
- being brave (courageous)
- being competent
- having sufficient experience
- having social skills (to be able to participate in a social interplay, to be able to discuss and get answers as well as to be able to work with different kinds of people and companies).
- being responsible
- being able to work in a team
- being interested and devoted
- being questioning
- gaining understanding of the client and its business

- adjust the audit to the client

S5) A high-quality audit is characterized by that…

- … the auditor doing things right rather than doing the right things
- … there is not any significant (material) errors in the client's reporting
- … the audit methodology has been followed (complied with) and adapted as needed
- … there is sufficient audit evidence when it comes to risk items (and that it is not "equally thick", i.e. audit evidence for every item)
- … the reporting is clear
- … the client has obtained more than an audit report (e.g. suggestions for improvement), i.e. that the audit provides some kind of additional value for the client
- … the client is satisfied

S6) The auditor knows that he/she has done a good and sufficiently extensive audit work when he/she…

- … do not feel any anxiety
- … do not think that there remains any question marks or doubts
- … consider the dialogue within the team ta have been open and good
- … has asked questions and got clear answers from the team
- … can see that everything is coherent
- … feels that he/she has everything under control
- … feel that he/she has focused on the things that was material
- … feel that he/she has understood the client and its business
- … considers the audit evidence to be sufficient
- … is feeling comfort for the audit

S7) Auditors rely heavily on that the system used at the audit firm where he/she works lead to high-quality audits.

S8) It is possible for auditors to deviate from the audit system used at the firm where they work if it is necessary to do so.

S9) To be comfortable with and have a feeling of comfort for the work carried out is an important part for auditors when it comes to achieving high audit quality – if the auditor is feeling comfort the audit is most likely f high quality.

S10) There are different degrees of comfort – the auditor can feel a higher or lower degree of comfort for the audit (for a specific engagement)

S11) To trust the audit system and the audit tools available is an important part of feeling comfort. The audit system used at the firm where the auditor works contributes to increased comfort.

S12) In general, auditors do not use their own (individual) routines and systems (in addition to the audit systems and audit tools used at the firm where they work) to gain an increased comfort.

S13) Quality controls performed at different levels contribute to auditors gaining an increased feeling of comfort for the audit work they perform.

S14) By following the audit system and use those tools available (e.g. The Manual) at the firm where the auditor works, he/she considers him-/herself to perform high-quality audit work.

S15) The expression/concept "audit quality" is rarely or never used in everyday audit work.

S16) A high degree of structure is necessary in audit work.

S17) Auditors make structured judgments. It is possible to combine structure and professional judgment and they should therefore not be seen as two separate approaches.

S18) Professional judgment is about making structured judgments so that the auditor can make comfortable decisions with within a system that he/she as trust.