



Auditor client relationship and audit Quality

The effects of long-term auditor client relationship on audit quality in SMEs

Authors: *Suhaib Aamir*
Umar Farooq

Supervisor: *Kim Ittonen*

Thesis information

Academic institution: Umeå School of Business, Umeå University

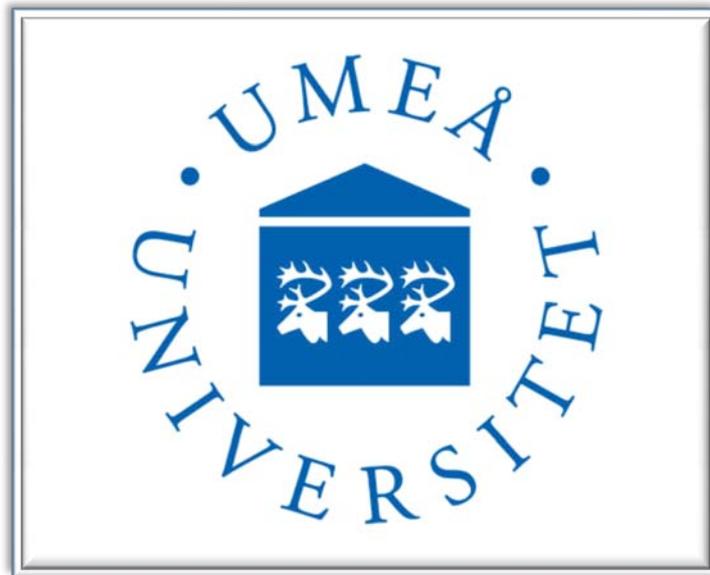
Course level: Master in Accounting

Supervisor: Kim Ittonen

Authors: Suhaib Aamir and Umar Farooq

Thesis topic: Auditor client relationship and audit quality

Title: Effects of long-term auditor client relationship on audit quality in SMEs.



Date: May, 2011

Thesis submitted in partial fulfillment of the requirements of the Masters Degree in Accounting from the Umeå School of Business at Umeå University.

Acknowledgements

In the acknowledgement of this thesis we would like to present our gratitude and regards to different people who directly or indirectly contributed to our thesis via their time, efforts, knowledge, expertise, financial support and prayers.

We would like to acknowledge the efforts, support and guidance of our supervisor, Kim Ittonen. Kim has provided us his feedback and supervision throughout the research work in a professional manner, which has all the way long kept us on the right track. Similarly, his criticism and suggestions were utilized in the most adequate way as far as the improvements in the thesis were concerned.

We would like to thank our family and parents for the moral and financial support which they have provided us throughout the research process. We would also like to convey our thanks to the seven interviewees for giving us the opportunity to interview them, out of their very busy schedules. As such we are thankful and obliged to:

Mr. Henrik Bergdahl	<i>Chief Financial Officer (CFO) of Umeå Biotech Incubator (UBI).</i>
Mr. AUDITOR X	<i>Chartered Accountant in one of the Big4 audit firms.</i>
Mr. Anders Rinzen	<i>Authorized Public Accountant and partner in Deloitte.</i>
Mr. Carl Rehnberg	<i>Owner of Fit Well Group Company.</i>
Mr. Kjell Hedström	<i>Financial Controller in VITEC.</i>
Ms. PERSON X	<i>Financial Controller in FIRM X.</i>
Mr. Anders Mårdell	<i>Authorized Public Accountant in Ernst & Young (E&Y).</i>

At last but not the least, we want to thank our families, friends and loved ones back in our home countries for their prayers and motivational support.

**Suhaib Aamir
Umar Farooq**

Abstract

Different scandals around the globe during the past, in specific during the last decade, have intrigued the stakeholders to question the roles of both auditors and management. But most of the fingers since then have been raised on the role of auditors, because it is the auditors who are entrusted with the responsibility to detect any errors or frauds in the financial reports of the client-firm. Apart from this, the long-term auditor client relationship has been the center of attention in most of the discussions and debates as well. Numerous studies have been conducted by the academic researchers, financial and professional analysts, regulatory authorities and governing bodies, and in some cases by the auditors and the firms as well regarding the effects of long-term auditor-client relationship on audit quality, equity risk premium, financial reports quality, audit pricing etc. These studies provide us with different results, both with the positive and negative associations and effects of long-term auditor-client relationship on the basis of different factors and contexts.

For long, auditing has been discussed in different studies and research areas but mostly in association with publicly listed companies. Less attention has been paid to the relationship of auditors and clients as far as clients in SMEs are concerned. In any country around the globe, SMEs are of major contribution in terms of backing the economy, giving it both the boost and the stability, as they collectively form the major chunk of the economy. If we specify our study to the SMEs in Sweden, then 99% of the enterprises in Sweden represent the SME sector; in addition they employ around 60% of the manpower. Based on these facts, and due to less attention given to auditor-client relationship in terms of SMEs, instead of; we have directed our concerns towards the study of effects of auditor-client relationship on audit quality in SMEs in this particular research study.

In this study, we have opted for qualitative research with semi-structured interviews to be used as the tool for data collection. Interviews were conducted with two different groups of interviewees, one group representing the auditors and the other group representing the client-firms (SMEs). A total of seven interviews were conducted in order to strengthen and validate the results for our research question. Due to the limitations of this study, mostly in terms of cost and time, samples were selected from Umeå, Sweden. The data interview structure, data analysis and discussion, and conclusions were all made based on existing theories summarized in the theoretical review of this study. The results of this study suggests that (1) long-term audit tenure is beneficial for the audit quality if certain risk factors like risk of auditor independence and risk of developing complacency are controlled; and (2) factors such as NAS, industry specialization, knowledge and experience of the auditor, internal control in the client-firm, professional ethics, proper audit plan, providence of unbiased information by the client, and appointment of the auditor by the client-firm itself enhances the audit quality.

Keywords: Audit quality, auditor-client relationship, auditing in SMEs, auditing in Sweden, International Standards on Auditing (ISA), role of auditor, auditor size, auditor rotation, non-audit services, and auditor independence.

Table of Contents

CHAPTER ONE – INTRODUCTION	1
1.1 INTRODUCTION	1
1.2 PROBLEM BACKGROUND	2
1.3 RESEARCH QUESTION	4
1.4 PURPOSE OF THE STUDY	4
1.5 LIMITATIONS OF THE STUDY	4
1.6 DEFINITION OF CONCEPTS.....	5
1.7 ABBREVIATIONS.....	5
1.8 DISPOSITION OF THE STUDY	6
CHAPTER TWO – THEORETICAL REVIEW.....	7
2.1 BACKGROUND TO AUDITING AND ROLE OF AUDITOR.....	7
2.2 AUDITOR SIZE AND AUDIT QUALITY	9
2.3 AUDITOR-CLIENT RELATIONSHIP AND AUDITOR ROTATION	11
2.4 AUDIT QUALITY THEORY BY WATKINS ET AL.	14
2.5 NON-AUDIT SERVICES	17
2.6 TENURE, INDEPENDENCE, AND PERCEPTIONS OF AUDIT QUALITY.....	18
2.6.1 <i>Perceptions of investors & information intermediaries about audit tenure.....</i>	<i>19</i>
2.6.2 <i>Industry-Specialists' knowledge.....</i>	<i>20</i>
2.7 AGENCY THEORY AND AUDIT QUALITY	20
2.8 INTERNATIONAL STANDARDS ON AUDITING (ISA).....	21
2.9 AUDITING IN SWEDEN.....	23
CHAPTER THREE – RESEARCH METHODOLOGY	26
3.1 CHOICE OF SUBJECT.....	26
3.2 PRE-UNDERSTANDING.....	26
3.3 RESEARCH PHILOSOPHY.....	27
3.4 PERSPECTIVES	28
3.5 RESEARCH APPROACH.....	28
3.6 RESEARCH DESIGN	29
3.7 RESEARCH STRATEGY	30
3.8 DATA COLLECTION	31
3.8.1 <i>Collection of primary data</i>	<i>31</i>
3.8.2 <i>Collection of secondary data</i>	<i>32</i>
3.8.3 <i>Criticism of secondary sources.....</i>	<i>33</i>
3.9 SAMPLE SELECTION	33
3.10 QUALITY CRITERIA.....	34
3.10.1 <i>Credibility</i>	<i>34</i>
3.10.2 <i>Transferability</i>	<i>34</i>
3.10.3 <i>Confirmability.....</i>	<i>34</i>
3.10.4 <i>Dependability</i>	<i>35</i>
3.11 ETHICAL CONSIDERATIONS	35
CHAPTER FOUR – EMPIRICAL FINDINGS.....	36
4.1 PROFILES OF INTERVIEWEES.....	36
4.2 AUDITORS' OPINION.....	37

4.2.1	<i>Long-term auditor-client relationship and its effects on the audit quality</i>	37
4.2.1.1	Long-term relationship allowing the auditors to have much knowledge	38
4.2.1.2	Complacency of auditor due to long-term auditor-client relationship	38
4.2.1.3	Auditor-client relationship and the bilateral monopoly	38
4.2.2	<i>Role of auditor and audit quality</i>	39
4.2.2.1	Success of audit in reducing material misstatements	39
4.2.2.2	Uniform level of audit quality over the years	39
4.2.2.3	Role of audit-firm size and brand-name in maintaining audit quality	39
4.2.2.4	Audit quality during the early years of audit engagement	40
4.2.2.5	Auditor reputation in terms of perceived competence and perceived independence	40
4.2.2.6	Effects of audit on the information credibility and information quality	41
4.2.2.7	Perception of investors and information intermediaries about long-term relationship	41
4.2.2.8	Overcoming the issues of agency problem due to long-term relationship	41
4.2.3	<i>Auditor rotation</i>	41
4.2.3.1	Regulations for auditor rotation	41
4.2.3.2	Cost-benefit analyses of auditor rotation	42
4.2.3.3	Appointment of the auditor by the regulator rather than the client	42
4.2.4	<i>Reasons for an audit failure and its consequences</i>	43
4.2.5	<i>Professional ethics of auditing and auditing standards followed in Sweden</i>	44
4.2.6	<i>Acquisition of non-audit services from the auditors and its effects on audit quality</i>	44
4.2.7	<i>Dependence of local audit firm on specific clients</i>	45
4.2.8	<i>Effects of industry specialization over the audit quality and its fees</i>	46
4.2.9	<i>Enforcement or sympathizing of the auditor by the client</i>	46
4.2.10	<i>Concluding opinion about the affect of long-term relationship on audit quality</i>	47
4.3	CLIENTS' OPINION	47
4.3.1	<i>Long-term auditor-client relationship and its effects on the audit quality</i>	47
4.3.1.1	Long-term relationship allowing the auditors to have much knowledge	48
4.3.1.2	Complacency of auditor due to long-term auditor-client relationship	49
4.3.1.3	Auditor-client relationship and the bilateral monopoly	49
4.3.2	<i>Role of auditor and audit quality</i>	50
4.3.2.1	Success of audit in reducing material misstatements	50
4.3.2.2	Appointment of auditor	50
4.3.2.3	Auditor reputation in terms of perceived competence and perceived independence	51
4.3.2.4	Consideration of auditor-size and brand-name during the appointment of auditor	52
4.3.2.5	Effects of audit on the information credibility and information quality	52
4.3.2.6	Perception of investors and information intermediaries about long-term relationship	52
4.3.2.7	Overcoming the issues of agency problem due to long-term relationship	53
4.3.3	<i>Auditor rotation</i>	54
4.3.3.1	Regulations for auditor rotation	54
4.3.3.2	Cost-benefit analyses of auditor rotation	54
4.3.3.3	Appointment of the auditor by the regulator rather than the client	55
4.3.4	<i>Reasons for an audit failure and its consequences</i>	55
4.3.5	<i>Role of internal control in ensuring the audit quality</i>	56
4.3.6	<i>Acquisition of non-audit services from the auditors and its effects on audit quality</i>	57
4.3.7	<i>Willingness to pay high audit fees for higher audit quality and industry specialization</i>	58
4.3.8	<i>Enforcement or sympathizing of the auditor by the client</i>	59
4.3.9	<i>Concluding opinion about the affect of long-term relationship on audit quality</i>	59
CHAPTER FIVE – ANALYSIS AND DISCUSSION		61
5.1	LONG-TERM AUDITOR-CLIENT RELATIONSHIP AND ITS EFFECTS ON THE AUDIT QUALITY	61
5.1.1	<i>Long-term relationship allowing the auditors to have much knowledge</i>	61
5.1.2	<i>Complacency of auditor due to long-term auditor-client relationship</i>	62

5.1.3	<i>Auditor-client relationship and the bilateral monopoly</i>	62
5.2	ROLE OF AUDITOR AND AUDIT QUALITY	62
5.2.1	<i>Success of audit in reducing material misstatements</i>	62
5.2.2	<i>Uniform level of audit quality over the years</i>	62
5.2.3	<i>Role of audit-firm size and brand-name in maintaining audit quality</i>	63
5.2.4	<i>Audit quality during the early years of audit engagement</i>	63
5.2.5	<i>Auditor reputation in terms of perceived competence and perceived independence</i>	63
5.2.6	<i>Effects of audit on the information credibility and information quality</i>	63
5.2.7	<i>Perception of investors and information intermediaries about long-term relationship</i>	63
5.2.8	<i>Overcoming the issues of agency problem due to long-term relationship</i>	64
5.2.9	<i>Appointment of auditor</i>	64
5.2.10	<i>Consideration of auditor-size and brand-name during the appointment of auditor</i>	64
5.3	AUDITOR ROTATION	64
5.3.1	<i>Regulations for auditor rotation</i>	64
5.3.2	<i>Cost-benefit analyses of auditor rotation</i>	64
5.3.3	<i>Appointment of the auditor by the regulator rather than the client</i>	64
5.4	REASONS FOR AN AUDIT FAILURE AND ITS CONSEQUENCES.....	65
5.5	ROLE OF INTERNAL CONTROL IN ENSURING THE AUDIT QUALITY	65
5.6	ACQUISITION OF NON-AUDIT SERVICES FROM THE AUDITORS AND ITS EFFECTS ON AUDIT QUALITY	65
5.7	RELIANCE OF LOCAL AUDIT FIRM ON SPECIFIC CLIENTS	66
5.8	PROFESSIONAL ETHICS OF AUDITING AND AUDITING STANDARDS FOLLOWED IN SWEDEN	66
5.9	EFFECTS OF INDUSTRY SPECIALIZATION OVER THE AUDIT QUALITY AND ITS FEES	66
5.10	WILLINGNESS TO PAY HIGH AUDIT FEES FOR HIGHER AUDIT QUALITY AND INDUSTRY SPECIALIZATION	66
5.11	ENFORCEMENT OR SYMPATHIZING OF THE AUDITOR BY THE CLIENT.....	67
5.12	CONCLUDING OPINION ABOUT THE AFFECT OF LONG-TERM RELATIONSHIP ON AUDIT QUALITY	67
CHAPTER SIX – CONCLUSION, RECOMMENDATIONS AND FURTHER RESEARCH		68
6.1	CONCLUSION.....	68
6.2	RECOMMENDATIONS	70
6.3	FURTHER RESEARCH	70
REFERENCES		71
APPENDIX I - INTERVIEW GUIDE FOR AUDITORS		76
APPENDIX II - INTERVIEW GUIDE FOR CLIENTS		78

Tables

Table 1.....	5
--------------	---

Figures

Figure 1.....	15
---------------	----

Chapter One – Introduction

This chapter provides an insight into the problem background along with the research question and the purpose of this research study. The limitations of the study, concepts definitions and chapters' disposition are also discussed in this chapter.

1.1 Introduction

Small and medium-sized enterprises (SMEs) play a vital role in the economy of any country, and their growth brings positive impact for the overall economies. As per the European Commission report, Small and Medium-sized Entities (SMEs) represent 99% of all the entities operating in Europe, and have been important for both the social and economic developments in Europe. In Europe, micro-enterprises within the SMEs are considered to be the real giants of European economy, and are the ones with fewer than 10 employees. As per the stats of Eurostat, 67% of the private-sector jobs in Europe are created by SMEs, which represents a major share in the overall economy of a country (European Commission, 2008, p. 7).

Mostly SMEs encounter limited financial as well as non-financial resources. They depend upon the creditors like banks and other financial institutions, or private equity. In this regard, banks have become one of the major sources for SMEs fulfilling their financial requirements. However, banks are less likely to provide loans without any reasonable assurance of creditability of the firms. Banks generally rely on the financial information of the firms. They do prefer credible audited financial statements by independent auditors as a matter of assurance. In other words, most banks view auditing as a guarantee for the quality of information disclosed in companies as well as a foundation for their credit rating process. Banks believe that the credit rating would be unsure without audit obligation Andersson & Paulsson (2005, cited in Ademi & Stigborn 2010, p. 41).

Quality audit is a positive and constructive process used to assess, verify and validate the quality of activities. If both the words in quality audit are defined separately then the word audit has been defined as an evaluation process designed to evaluate: “the degree of adherence to prescribed norms (criteria and standards)”, which in turn results in the judgments. Whereas, quality has been defined as the entirety of features and characteristics of a system, process, and product or service that bear the ability to satisfy given needs (Mills, 1989, p. 1-4). In a nutshell quality audit is an official, step-by-step assessment and evaluation of the activities and/or decisions opted, in reference to records, to ensure their applicability to meet the required criterion or characteristics with in a system, program, process etc (Mills, 1989, p. 4). One of the important attributes of auditing is related to audit quality in a way that audit-firms lower the information risk by providing the firm-specific financial reports integrity and improving its quality. Audit quality is positively associated to the integrity of firms' financial reports and negatively associated with the firm-specific information risk and its cost of equity capital. The quality of the firms' disclosed information is enhanced by the audit quality, which in turn lowers the information asymmetry along with the detection and avoidance of accounting errors and misstatements (F. Hakim, Omri & I. Hakim, 2010, p. 152). The audit quality is normally related to the ability of the auditors to identify material

misstatements in the financial statements and their willingness to issue an appropriate and unbiased audit report based on the audit results (Turley & Willekens, 2008, p. 3).

1.2 Problem Background

During the past decade, scandals and economic events have made audit tenure and audit quality center of attention for a lot of debate. Questions are raised from time to time that either auditor should be rotated on regular basis or they should be allowed to build a long-term relationship with the client. The effect of auditor tenure on audit quality is contentious. Previous studies entail mixed relation, both positive and negative associations, between auditor tenure and audit quality. Prior studies which argue that there is a positive relation between audit tenure and audit quality support their arguments with two different explanations. The first explanation is that the short-tenured relationship between auditor and client would weaken the audit quality because the auditors do not acquire sufficient client-specific knowledge (Meyer, Rigsby, & Boone, 2007, p. 66; Shockley, 1981, p. 785). The second explanation states that in the long-tenured auditor-client relationship the audit quality enhances due to the fact that the clients' operations and reporting issues become much familiar and known to the auditor (Carcello & Nagy, 2004, p. 55; Mansi, Maxwell & Miller, 2004, p. 755). On the other hand some argue that long tenures decreases auditor independence and objectivity, and as a result reduce the audit quality. The opposing view is that sympathy between the auditor and the client increases in the long-tenured relationship, which leads to the reduction in audit quality because the auditors' become more prone to the dangers in order to 'turn a blind eye' on inappropriate managerial actions (Fairchild, 2008, p. 23).

Auditing evolved to cater the needs of different users, for instance it provides unbiased facts regarding actual/potential risks, and effectiveness and inefficiencies of systems and processes for the decision making of management (Russell, 2005, p. 10). Credit and loan officers, as users of audit reports, portray better comprehension of implications of audited financial statements based on their routine exposure to the audit reports and financial statements (Lin, Tang & Xiao, 2003, p 13). Jensen and Meckling (1976, p. 331) have identified auditing as one of the methods for monitoring and controlling the activities in the agency theory, where both the parties try to maximize their utilities. Due to information asymmetry, which means that, in general the manager knows much more than what is known to the owner in terms of the firm's financial position and performance; auditing plays a vital role in the principal-agent relationship (Eilifsen, Messier Jr, Glover & Prawitt, 2010, p. 7).

Audit tenure has been associated with many factors of auditing for instance audit quality, audit independence, audit learning, audit liability etc. Arguments related to auditor learning states that the audit tenure affects the audit quality in a positive way, because in the initial audit-client relationship the material errors are difficult to detect which poses a threat to the integrity of clients' accounting reports, and thus audit quality improves with the increase in audit tenure (Johnson, Khurana, & Reynolds, 2002, p. 654-655; Boone, Khurana & Raman, 2008, p. 117). On the contrary, the long-term audit tenure leads to the identification of mutual interests by the auditor with the client firm's management. The factor of closeness developed due to long-term tenure between the auditor and the client, pushes the auditor to become less skeptical towards auditors' rigorousness in terms of the audit procedures opted by the auditor and the accounting practices adopted by the client (Johnson et al., 2002, p. 654-655; Boone et al., 2008, p.

117). The relaxation involved in the auditor-client relationship developed over the time poses the threat to the independence and objectivity of the auditor which might be reflected in the form of decreased audit quality. Thus, one school of thought supports the argument that due to increased auditor learning involved in the long-term tenures the audit quality would increase. While the other school of thought supports the view that decrease in the audit quality would be witnessed due to the closeness involved in the auditor-client relationship, impairing both the auditor independence and objectivity (Boone et al., 2008, p. 117).

Stakeholders and regulators due to their concerns for the audit quality have criticized the auditing profession. Concerns are shown towards both the competence (discovering a problem or making a correct judgment) and the independence (disclosure of the problem by the auditor) of the accounting firm (Duff, 2004, p. 1). These concerns regarding the accounting profession have been significantly witnessed after the events that took place in 2001, which led to the enactment of Sarbanes-Oxley Act in US (Geiger, Raghunandan & Rama, 2005, p. 33). European Union in order to harmonize and improve the quality of the statutory audits also enacted recommendations from time to time. From 2005 European Commission has envisaged the use of International Standards on Auditing (ISAs) by all the EU member states in their statutory audits (Commission of the European Communities [CEC], 2003, 7). Sweden adopted the ISAs according to the plan of Swedish accounting and auditing authority (FAR SRS), which is a member of International Federation of Accountants (IFAC), with certain modification in accordance the Swedish legal and taxation requirements (eStandardsForum, 2010). In Sweden the FAR SRS has suggested principle based model for independence which obliges the auditors in Sweden to carry out their assessments based on this model to ensure that the threats which are presented in the model does not impair the independence of the auditor. Thus the auditors in Sweden on the basis of this assessment should decide that whether they could overcome these threats or if not then they should refrain from offering their services to such a client (SFS 2001:883, cited in Chia-Ah & Karlsson, 2010, p. 7).

For both the researchers and regulators, audit tenure has been a major concern, bringing into focus many of the factors associated with audit tenure. Different countries in order to enhance the audit quality require companies to change their audit firms under mandatory audit firm rotation. For instance, both Brazil and Italy requires its public listed companies to rotate their auditors after a period of five and nine years, respectively (Jackson, Moldrich and Roebuck, 2008, p. 421). In the US, in reference to the SOX Act after the collapse of Enron, the time period for audit tenure has been set to five years (Healy & Kim, 2003, p. 10). The study of Jackson et al. (2008, p. 421), states that mandatory firm rotation does not increase the audit quality, rather the cost-benefit analysis of mandatory firm rotation shows that its costs are higher than its benefits due to the development of auditor and client relationship in the early stages. While others suggest that mandatory firm rotation would help in the prevention of the collapse of large corporate firms, as is evident from the collapse of Enron, WorldCom, Tyco, Quest and Computer Associates which alone contribute to market capitalization loss of USD460 billion (Healey & Kim, 2003, p. 11). The auditor's ability to detect irregularities is reduced by regular auditor replacement because auditor may need time to gain the expertise in the business that they audit (Fairchild, 2008, p. 24).

Different studies by different researchers in different contextual environments with different samples and different factors present us with different results and opinions regarding the positive and negative associations between audit-tenure and audit quality (Johnson et al., 2002; Boone et al., 2008; Meyer et al., 2007; Mansi et al., 2004). Thus at this point we would not try to support any specific opinion regarding the positivity or the negativity of the relationship between audit tenure and audit quality as far as Sweden is concerned. This study would make contribution to the existing literature on audit-tenure and audit-quality from the Swedish perspective based on the regulations and standards adopted and followed by auditors in Sweden.

1.3 Research Question

The research question for this study is:

“How does the long-term auditor-client relationship affect the audit quality in SMEs?”

1.4 Purpose of the Study

The aim of our research is to determine that either long-tenured audit may cause increasing sympathy and ‘blind eye turning’ (unethical behavior by the auditor) leading to higher frauds and ultimately lower audit quality; or it increases auditors’ knowledge, abilities and skills to detect irregularities and frauds (auditor remaining ethical in his behavior) leading to lower frauds and higher audit quality. We want to gain a better understanding of the auditors' attitude towards their client when there is extended audit tenure.

1.5 Limitations of the Study

The study would be subjected to several limitations of which the allocated time-period is regarded in specificity and the financial resources regarded in generality. The limitations are:

- ❖ In the literature review chapter emphasis would be laid on the issues and debates pertinent to audit-tenure and audit-quality in specific, the purpose of the study, but along with this other associated factors like auditor-independence and auditor-rotation would be discussed in general due to their relevance to the research question.
- ❖ Interviews would be conducted from the Big4 audit firms in Umeå and from the SMEs in Umeå.
- ❖ The defined boundaries for the study are confined to Sweden in specific and European Union in general with certain references from US market and regulators.
- ❖ This study would neither discuss the International Standards on Auditing (ISAs) nor any other standards or principles formulated by the regulators and authorities.
- ❖ The sample size would be only limited to Umeå, Sweden and the respondents would be categorized into two groups of: audit-firms and client-firms.
- ❖ Swedish language would be a restrictive factor in the study as most of the rules and regulations regarding both auditing and accounting, and the annual reports of the firms are only available in Swedish language.

1.6 Definition of Concepts

Auditing

“Auditing is a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria and communicating the results to interested users” (American Accounting Association [AAA], 1973).

Auditor

“An auditor is an approved or authorized accountant with the capacity to carry out audit, not to be declared bankrupt or subject to trading and consultancy prohibitions, have an education and experience required for the audit business, have passed the examination of professional competence as an approved or authorized accountant set by the Supervisory Board of Public Accountants or Supervisory Board of Authorized Accountants, and be fit and proper person to carry on audit process” (Revisorslag [SFS] 2001: 883, cited in Chia-Ah & Karlsson, 2010, p. 10).

Audit Quality

“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 that breach” (DeAngelo, 1981, p. 186).

Audit tenure

“The audit firm’s (auditors’) total duration to hold their client or number of consecutive years that the audit firm (auditor) has audited the client” (Johnson et al., 2002, p. 640).

Auditor independence

Neutrality or “independence of mind” is crucial for the exercise of professional judgment. Auditor independence refers to the independence of both the internal auditor and the external auditor. The concept requires the auditor to carry out his or her work freely and in an objective manner. It is quite possible that an auditor could be objective when auditing of a company held by a close relative but he would not be “seen to be independent” (Byrne, 2001).

Non-audit Services

Non-audit services are all those services provided by audit firms which do not involve audits, for instance, bookkeeping, tax services, and management advisory services including investment banking assistance, strategic planning, human resource planning, computer hardware and software installation and implementation, and internal audit outsourcing (Jenkins, 1999; cited in Al-Eissa, 2009, p. 57).

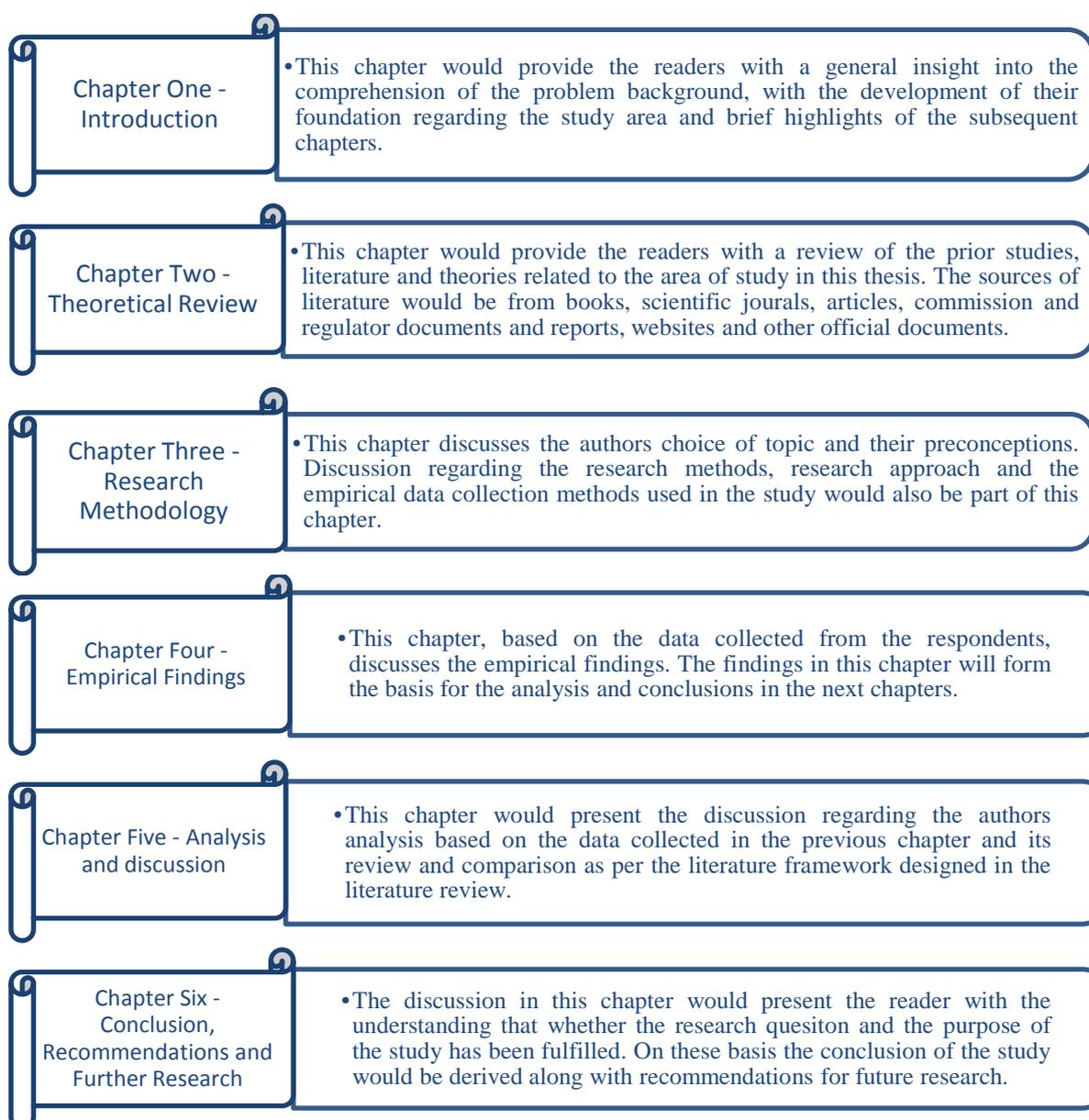
1.7 Abbreviations

AAPA	American Association of Public Accountant
AIA	American Institute of Accountant
AICPA	American Institute of Certified Public Accountant
EC	European Commission
EU	European Union
FAR	Föreningen Auktoriserade Revisorer

IAASB	International Auditing and Assurance Standards Board
IFAC	International Federation of Accountants
ISA	International Standard of Auditing
NAS	Non-Audit Services
POB	Public Oversight Board
SEC	Security Exchange Council
SOX	Sarbanes-Oxley Act
E&Y	Ernst and Young
IASB	International Accounting Standard Board
PwC	PriceWaterHouseCoopers

Table 1: Abbreviations

1.8 Disposition of the Study



Chapter Two – Theoretical Review

This chapter will provide the readers an insight into the different existing theories related to our study regarding the effects of long-term auditor-client relationship on the audit quality. This chapter will help the readers in understanding the concepts related to this study, along with developing their knowledge regarding what opinions different researchers and authors hold regarding the topic of research. Similarly, this chapter would help the authors of this study in a way that it will provide them with a platform on the basis of which they will proceed further. The interview guide for this research study will be based on literature reviewed in this chapter, and finally the analysis and conclusion of this study would be based on it as well.

2.1 Background to Auditing and Role of Auditor

Financial markets crisis since 2007 has unfolded many issues regarding the supervision of financial institutions, financial reporting and auditing as of core importance to many regulatory bodies in order to ensure proper-functioning framework in the internal market. An audit, along with both adequate supervision and corporate governance, can contribute towards the financial health of the companies by providing assurance in terms of bringing financial stability into their reports (European Commission [EC], 2010, p. 3). The assurance provided by the auditors reduces the risk of misstatements and ultimately the cost of failure to be suffered by the firm's stakeholders' also reduces. Market trust and confidence is restored by the audit as it contributes to the protection of investors' investments and reduces the cost of capital for companies. Therefore, the auditors have been entrusted by the law to conduct statutory audits and that their role is of importance towards financial health. This entrustment has been based on the societal roles of an auditor in terms of providing an opinion based on truth and fairness of the financial statements of client firm audited. Events in the past decade such as the demise of Arthur Andersen after the Enron case has left the economy with much of skepticism, and a handful of globally known audit firms (the Big 4) are available to perform their audits on large complex institutions. The potential collapse of one of these audit firms would damage the trust and confidence of investors along with its gruesome impacts on the financial stability as a whole (EC, 2010, p. 4).

DeAngelo (1981, p. 186) describes audit quality in terms of the joint probability that an assigned auditor will both find out a breach in the client's accounting system and would then report that breach. Arguments based on his study are related to the relationship between size of audit firm and audit quality, which states that there would be a decrease in the value of the services of auditors if there were revelations that the auditor either failed to discover the breach or failed to report that breach. As auditors earn client-specific rents therefore auditors who have got a strong client-base would be much prone to damages in case of an audit failure. Due to these facts related to the strong reputation of audit firms and the auditor independence, which is related to the likeliness of reporting a breach in clients' reporting, the audit firms have got more incentives to provide higher audit quality. Large audit firms that has got small chunk of percentage as part of the revenue generated from any particular audit engagement are more in position to resist the pressures from the client related to the reporting of accounting breaches (DeAngelo, 1981, p. 186).

By law, the annual accounts of limited liability companies need to be audited; but this does not mean that the auditor is obliged to ensure that the companies' audited accounts are perfectly free from misstatements. As far as the trueness and fairness of the financial statements is concerned auditors can provide "reasonable assurance" in accordance to relevant financial reporting framework that holistically the financial statements are free from material misstatement either due to fraud or error (EC, 2010, p. 6). According to the EC notes (2010, p. 6), the evolution of statutory audits can be related to the verification of income, expenditure, assets and liabilities to a risk based approach. From the perspective of users, stakeholders should be provided high level of assurance by the auditors on the balance sheet components and their valuation at the date of balance sheet. As the primary responsibility in terms of delivering sound financial information depends on the management of the audited firm, therefore the auditors play their role in challenging the management on behalf of the users. Consideration needs to be given to the extent of information that should be provided and communicated to the public, for instance this information could be related to the firms' exposure to risk/events/intellectual property or other adverse affects on the intangible assets etc. But along with this what should be considered regarding better external communication is the timeliness and frequency of communication from the auditors to the stakeholders (EC, 2010, p. 7).

In accounting academic research, the relationship between audit tenure and audit quality has been of much debate and concern. Recently much research studies have been taken up on the relation between audit quality and audit firm tenure. Some of the recent events and issues have stimulated the academicians to research more on the relation between audit quality and firm tenure. Worldwide interest in auditor value and earnings management has been noticeably manipulated due to a series of corporate scandals of high profile and reform efforts directed towards comprehensive corporate governance (Rusmin, Zahn, Tower & Brown, 2006, p. 167). According to Hills (2002, p. 7) in order to maintain and further develop the audit quality, it is necessary that the auditors should be retained for longer periods of time. As far as the retaining of auditor is concerned the company along with decreased costs will also be in a state to enable the auditors to learn more about its personnel, its business operations and its core values. But if the auditors are changed from time to time then over these different periods the benefits would shrink for the company (Hills, 2002, p. 7).

Auditors, in order to keep the audit quality high, need to take the internal communication into consideration as well and in order to keep the internal communication better a regular dialogue should be assured between the firm's audit committee, statutory auditor and the internal auditors. Internal control ensures that the loopholes are eliminated in the total coverage of compliance, risk monitoring, and the substantive verification of assets, liabilities, revenues and expenses (EC, 2010, p. 8). Auditors to a great extent focus on the audits of historical financial information. But a look into the future information is vital as well as far as the role of auditors in concerned and the auditors should provide an outlook of economic and financial information of the company based on the privileged access to the key information. The Directive on Statutory Audit (EC, 2010, p. 10) requires that statutory auditors be subject to principles of professional ethics and lays down a number of principles for independence, ranging from behavioral aspects to considerations around ownership, fees, rotation or companies' governance and audit committees.

The entity that needs to be audited appoints and pays for the auditor as part of a commercial tendering process. Distortion within the system is created due to the fact that auditors' responsibility is to the shareholders of the audited company and other stakeholders while being paid by the audited company. According to European Commission (2010, p. 11), the Commission is considering the feasibility of a scenario where the audit role is one of statutory inspection wherein it would be the responsibility of a third party, for instance a regulator, rather than the audited company to decide regarding the appointment, remuneration and duration of the engagement of an auditor. This concept may be of great relevance for the audit of the financial statements of large companies and/or systemic financial institutions. The exploration of this matter is needed due to the risk of increased bureaucracy on one hand and, the possible societal benefits of demonstrably independent appointments on the other hand (EC, 2010, p. 11).

Audit firms along with the audit services do provide non-audit services as well. Debates concerning the non-audit services provided by the audit firm to the audit clients have been on the tables for long. But as far as European Union as a whole is concerned there are no official bans on the auditors preventing them from the offerings of non-audit services except from the article 22 of the directive which states that audit services should not be provided in the cases where "an objective, reasonable and informed third party would conclude that the statutory auditor's or audit firm's independence is compromised (EC, 2010, p. 12)". This directive have been implemented across EU in a divergent manner, for instance France has implemented complete ban in regards to the provision of non-audit services by the auditor to its clients. While in other EU states the rules are still relax regarding the provision of non-audit services to the audit client by the auditor. Whereas the EC is looking forward to examine the reinforcement of the prohibition of non-audit services by the auditors in order to build the system of pure audit firms, because auditors should provide an independent opinion on the financial health of companies without any interest being held in the companies to be audited (EC, 2010, p. 12).

2.2 Auditor Size and Audit Quality

Auditors in the capital market provide their services for a valuable function of lending their credibility over the financial statements of public listed companies in an attempt to reduce the information risk. The fairness and credibility of the audit depends upon the nature of the attestation provided by the auditors (Lu & Sivaramakrishnan, 2009, p. 71). For audit quality the size of the city-based audit office can be a crucial determinant to be taken into consideration along with the size of the national-level audit firm, due to the fact that the city-based offices of audit-firms serve to be semi-autonomous with their own client base. Thus, it is the local audit office which gets into direct engagement with the client-firm with their direct administration and implementation of audit operations with the deliverance of audit services and audit opinions (Choi, Kim C, Kim J & Zang, 2010, p. 74). Choi et al. (2010, p. 94) in their study have found that there is positive association between office size and the audit quality, and that audit-offices of large size with large number of clients are less dependent on a particular client making them less prone to the risks of issuing either substandard or biased reports According to the pressures from the client. Their other findings related to the high levels of audit quality provided by the large local offices that in return for the audit quality charge higher fees, which in the market of audit services is known as fee premium, than does the small

local audit-offices. Thus, the results of Choi et al. (2010, p. 94) conclude that audit-firm size is one of the crucial determinants of both audit quality and audit pricing. Their suggestions seek concerns from both the regulators and the audit firms in terms of directing their attentions towards the behaviors of small audit offices as their dependency over the specific clients can be higher and are more prone to the dangers of compromising the audit quality. This holds true particularly for the small local audit offices of the Big 4 audit firms for whom such strategies should be designed on the basis of which poor-quality audits should be avoided by keeping a homogeneous level of audit services across all the offices. This is important due to the fact that if a small local office provides lower quality then it would significantly damage the reputation of entire firm as is evident from the Enron-Andersen case, where the Arthur Andersen's local office of Houston was involved in the audit of Enron (Choi et al., 2010, p. 94).

Audit quality has been defined by DeAngelo (1981, p. 186) as the joint probability assessed by the market that a breach will be discovered in the accounting system of the client based on the audit procedures and the technological capabilities of the auditor, and that this breach will be duly reported by the given auditor. An independent verification in the form of an unqualified opinion on the firm's financial data with consideration of quality is the output of audit quality. Audit quality has been divided into two categories; one of them is functional audit quality and the other technical audit quality (Dassen, 1995, p. 30-31). Functional audit quality refers to the degree to which the expectations of stakeholders' are met in terms of the processes involved in conducting the audit engagement and then communicating the results of the audit. Users of audit services, comprising of auditees and the 3rd party beneficiaries such as bankers and stakeholders, for the assessment of audit quality base their assessments on the reliability and responsiveness of the auditor. Technical audit quality refers to the degree to which the expectations of stakeholders' are met in terms of the success an audit engagement to detect and then report any errors or irregularities regarding the financial reports of an audited firm (Dassen, 1995, p. 30-31).

In order to evaluate the audit quality costs are incurred by the consumers, in order to assess the capabilities of an auditor to both discover and then report any breaches in the audit of a client (DeAngelo, 1981, p. 186). The consumers of audit services comprise of the current and the potential shareholders and bondholders, business managers, customers, employees and the government agencies. The cost of evaluating audit quality is significant due to the fact that firstly the consumer generally does not observe the audit procedures employed by the auditor in their audit engagement, and secondly the consumer has got no or little information regarding the incentives agreed in the contract between auditor and client. Another aspect of consumers' evaluation of audit quality costs is that auditors should specialize in the uniformity of the audit quality levels both over time and across clients. The reason for this is that the consumers tend to re-evaluate the audit quality over time if the auditor varies in the levels of audit quality from one time period to another; or if the auditor varies in the level of audit quality from one client to another. Thus consumers would want to compensate for those auditors who could relatively maintain consistency in the levels of audit quality and could avoid the costs of evaluation by the consumers. Maintaining the levels of audit quality have been of consideration to the auditors themselves as well because the auditors can demand more fees as an incentive for specializing in uniform levels of quality (DeAngelo, 1981, p. 186-187).

According to DeAngelo (1981, p. 188), there is bilateral monopoly in the relationship between clients and their current auditors due to the presence of transactions costs and start-up fees. Bilateral monopoly in this case refers to the established relationship between auditors and clients due to the incentives involved and the high cost of switching to a perfect substitute. The termination of the relationship will result in higher costs for both the parties. For instance, the client specific auditor will lose the revenue stream from the client; while the client would have to bear the transaction cost of switching and the start-up costs of duplication with the associated costs of new auditors training. Based on the threat of termination the client can obtain accounting concessions from the client-specific auditor, and the incumbent auditor would become less independent from the client in terms of reporting the discovered breach. Rational consumers are aware of this fact that it is difficult for an incumbent auditor to be independent from its client, therefore they in turn lower the prices which they are willing to pay for the securities of such firms who try to retain their auditors for long-term. In short, the lower level of expectancy over the independence of the auditor is reflected in the reduction of the client firm's value. In order to overcome this issue and avoid the consequences of negative valuation, rational clients try to choose those auditors whose perceived independency in the market is higher and has got little interest in the incentives that could lead them to cheat in a way to retain their client (DeAngelo, 1981, p. 188-189).

The so-called incentives to cheat factors in order to retain any of its clients by the auditor is reduced, when the auditors work with a number of client-firms and the client-specific costs/rents are identical across these firms. This ultimately makes the auditors more independent and provides higher level of audit quality due to the magnitude of collateral losses involved. Auditor size serves as a surrogate for the audit quality when the client-specific costs/rents vary across the clients because for large auditors the collateral is higher. From the consumer point of view, the auditor-size alone cannot serve as the surrogate to audit quality and for this reason the consumers develop other quality surrogates as well. For brand-established audit firms the collateral associated with the brand-name is considered to be more if any misrepresentations are provided (DeAngelo, 1981, p. 193).

2.3 Auditor-client Relationship and Auditor Rotation

In early years the quality may be impaired in auditor-client relationship. Carcello and Nagy (2004, p. 57) found that generally there is no evidence which proves that if auditor tenure is long, audit quality is impaired. There are certain reasons to why audit quality is supposed to be lower in the early year. One reason could be that in early years, the auditor is new to the client and doesn't possess much knowledge about the client's business, operations, controls, accounting policies and systems. Another reason could be that the new auditor is unaware of the industry error patterns. A relationship between both financial statement error patterns and fraudulent financial reporting, and, industry group has been revealed by previous studies. Fraudulent financial reporting prevails more to an extent where you have a fresh auditor having less knowledge about the client's industry. Summarizing, in early years of auditor client relationship, those individuals and groups who are against audit firm rotation would find that the fraudulent financial reporting is highest but when the auditor tenure is longer, it is lowest (Carcello & Nagy, 2004, p. 58-59). According to Geiger and Raghunandan (2002, p. 67), auditors prior to a bankruptcy filing in early years of auditor-client relationship are more likely

to issue a clean audit report. In the study conducted by Lee, Mande and Son (2009, p. 87) it has been concluded that as the auditor tenure increases the audit delays decrease due to the increased efficiency of the auditor over the time, and thus oppose the views regarding mandatory auditor rotation with the opinion that it would imply additional costs on the markets as the announcement of the audited earnings would be delayed.

Myers, Rigsby & Boone (2007, p. 73-74) findings have associated long audit-tenures with higher earnings quality. They used absolute abnormal accruals and absolute current accruals to proxy for earnings quality. They propose that given the longer auditor tenure the audit quality tends to be higher. Another finding from Davis, Soo & Tromperter (2000, p. 2) indicates that discretionary accruals increase with auditor tenure. They have also found that as the auditor tenure increases the management gains additional reporting flexibility. Casterella (2002, p. 3) found that audit failures are more likely when auditor tenure is long and less likely when auditor tenure is short. She argues that audit quality is lower given longer auditor tenure. Fraud, auditor reporting and litigation against the auditor are combined prior to bankruptcy because the relation between tenure and SEC enforcement actions is not analyzed separately.

Auditor rotation and auditor retention has been discussed by the concerned bodies over the last 25 years from time to time in order to enhance the audit quality and auditor independence. Auditor rotation of mandatory nature requires that the client firm does not retain an auditor for more than specified period of time. This concept is supported by the idea that auditor rotation would not allow the auditors to have incentives in terms of seeking future economic growth from its clients and in a way would reduce the likeliness of biasing the reports in favor of the client's management. On the other hand, auditor retention relates to the concept of retaining an auditor for a specified period of time. This concept is supported by the idea that as the auditors would not face any risks of dismissal within the specified time period of retention therefore they can operate more independently of the management (Comunale & Sexton, 2005, p. 235-236). In general the accounting firms due to reasons provided below in the bullet form oppose mandatory auditor rotation and retention:

- cost-benefit analysis suggests that the costs exceeds benefits;
- diminution in the audit-quality due to loss of audit-knowledge and experience over a client;
- auditor rotation cannot completely eliminate the risks of financial frauds;
- safeguards like engagement partners rotation, peer reviews and second partner reviews are already in the system;
- changes in the composition of audit teams and clients' management takes place normally (Comunale & Sexton, 2005, p. 236).

The scandals of Enron, WorldCom and Parmalat have ignited debates over the merits and demerits of many practices related to auditing, such as auditor rotation. One of the most promoted benefits of auditor rotation is its usefulness towards the restoring of investors' confidence on the financial accounting system. The stakeholders lost their faith over both the corporate governance in general and financial reporting in particular after the big scandals over the last decade, which needs to be overcome in order to make them comfortable over their long-term investment. Along with stakeholders' faith and confidence, the other benefits which are linked to auditor rotation are that it would develop an effective peer-review system that would discourage aggressive accounting

practices by encouraging critical reviews upon each auditor turnover; conflicts of interest which would arise during the long-tenure auditor-client relationship could be prevented; and a more competitive market would be promoted for the audit firms leading to the audits of higher quality. Auditor rotation would also pressurize the audit firms in a way to separate their non-audit services from their core audit-services (Healey & Kim, 2003, p. 10-11). Start-up costs associated with auditor rotation has been one of the major detractors. Both monetary and non-monetary start-up costs are frequently discussed by the auditors, clients and the stakeholders associated with the audit firm turnover. The other demerit of auditor rotation which is of much discussion is the fall in the audit quality due to loss of knowledge held by the auditor of the clients' businesses and operations as the ongoing relationship of auditor and client is disrupted by the auditor rotation (Healey & Kim, 2003, p. 10-11).

It is argued that long-tenured auditor-client relationships results in making the auditors to become more complacent and slack in their role as an attester (Lu & Sivaramakrishnan, 2009, p. 71). Carey and Simnett (2006, p. 673) in their study while examining the going-concern modified opinions found that the auditor's inclination towards the issuance of fair opinions in the relation established over audit-partner tenure do diminish if other factors that could affect the propensity are controlled. Supporters of the mandatory audit firm rotation argue that the incumbent auditor either faces pressures from its client or their long-term relationship makes the auditors feel more comfortable, and thus affecting the operations of auditors in an adverse manner to deal with the issues related to the financial reporting which can affect the financial statements in its materiality. While the opponents of the mandatory audit firm rotation are of the opinion that the new auditor lacks the knowledge of the client-firms' operations, information systems and practices of financial reporting thus making the relationship complex during the initial years by increasing the time required to gain firm-specific knowledge along with the risk of not detecting the material errors in the financial reporting of the firm (General Accounting Office [GAO], 2003, p. 13).

During the initial years, when an auditor is changed under audit-firm rotation, the audit costs would tend to be higher in order to acquire much of the necessary knowledge related to the client firm than the audit costs in the subsequent years. Other costs that would be incurred by the client firm are the auditor selection cost and the auditor support costs (GAO, 2003, p. 6). According to the study of GAO (2003, p. 8) they believe that audit-firm rotation is not the most efficient way of enhancing either the auditor independence or the audit quality if the additional financial costs and loss in the firm-specific knowledge is taken into consideration. Results of the survey conducted by GOA of Fortune 1000 public companies shows concerns over the risks of an audit failure during the initial stages of audit firm rotation because the new auditor at initial stages is in the process of learning the knowledge regarding the client firms' operations, systems and financial reporting practices. Although the additional costs associated with mandatory audit-firm rotation are certain, the benefits to be achieved from it are difficult to either predict or quantify. Supporters of audit firm rotation believe that the value associated with fresh-look which would protect those stakeholders who rely on the financial statements outweighs the additional costs associated with it. Conversely, those who oppose mandatory audit firm rotation are of the opinion that the costs would be increased for the audit firms and the public companies resulting in the costs outweighing the value associated with the fresh-look (GAO, 2003, p. 13). The increased costs associated with the mandatory audit firm-rotation include:

- *marketing costs* incurred by the audit firm in order to either attract new audit-clients or to retain the existing ones;
- *audit costs* incurred by the audit firm in order to carry out an audit over the financial statements of client-firm;
- *audit fees* refers to the amount that is being charged from the client-firm by the auditor for performing the audit of their financial statements;
- *selection costs* are the internal costs incurred by the client-firm in an attempt to select a new audit firm to audit their records;
- *support costs* are the internal costs incurred by the client-firm in order to support the auditor in terms of understanding the client-firms' operations, systems, and financial reporting practices (GAO, 2003, p. 27).

2.4 Audit Quality Theory by Watkins et al.

Audit quality and perceptions of audit quality have been considered as two different concepts by Watkins, Hillison & Morecroft (2004, p. 153). In order to keep the distinction between these two concepts Watkins et al. (2004, p. 153) uses factors like “monitoring strength” and “reputation” to refer to the actual and perceived audit quality. The monitoring strength helps in influencing and maintaining the quality of information in the financial statements, whereas the reputation of auditors can influence the credibility perceived by the stakeholders regarding the auditors. The auditors monitoring strength can be measured via the components of audit quality which are auditors' degree of competence and independence. The same degree of competence and independence of auditors' measured as components of audit quality from the perception of market then it would refer to auditor reputation. Auditor reputation is difficult to observe or measure due to the fact that they are based on the users' beliefs. The audit quality framework presented by Watkins et al. (2004, p. 153) in figure 1 captures the relationship between audit quality components, audit quality products and the influences over the information in financial statements. The two products of audit quality which are influenced by the components of audit quality are information credibility and information quality.

Variations in the auditor monitoring strength can be reflected in the financial reports in the form of trueness in the economic circumstances of the client firm. Thus, auditor monitoring strength in a way reduces the differences between the economic circumstances reported by the client and the true but unobservable economic circumstances of the client firm. The credibility of information or the reliability of information is impacted by the perceived reputation of the auditor. Auditor reputation is considered to be consistent over the period of audit engagement while audit monitoring strength may vary over the period of audit engagement. The relationship between audit quality and either demand drivers (client risk strategies and agency conflicts) or supply drivers (audit fees and auditor risk management strategies) has been presented in the framework of audit quality presented by Watkins et al. (2004, p. 154).

Watkins et al. (2004, p. 156) has summarized the client risk strategies which is one of the demand drivers of audit quality, that high-quality information is signaled by the companies by demanding auditors with highly-acclaimed brand-name. But this may not be the case for risky clients, for whom both the demand and the ability of signaling high-quality information is being mitigated by the pricing of the brand name audits.

Trade-offs would be done by the riskier client-firms between the additional costs and the benefits attached to the selection of brand-name auditor. Management of the agency conflicts is the other driver of demand for higher audit quality (Watkins et al., 2004, p. 156-157).

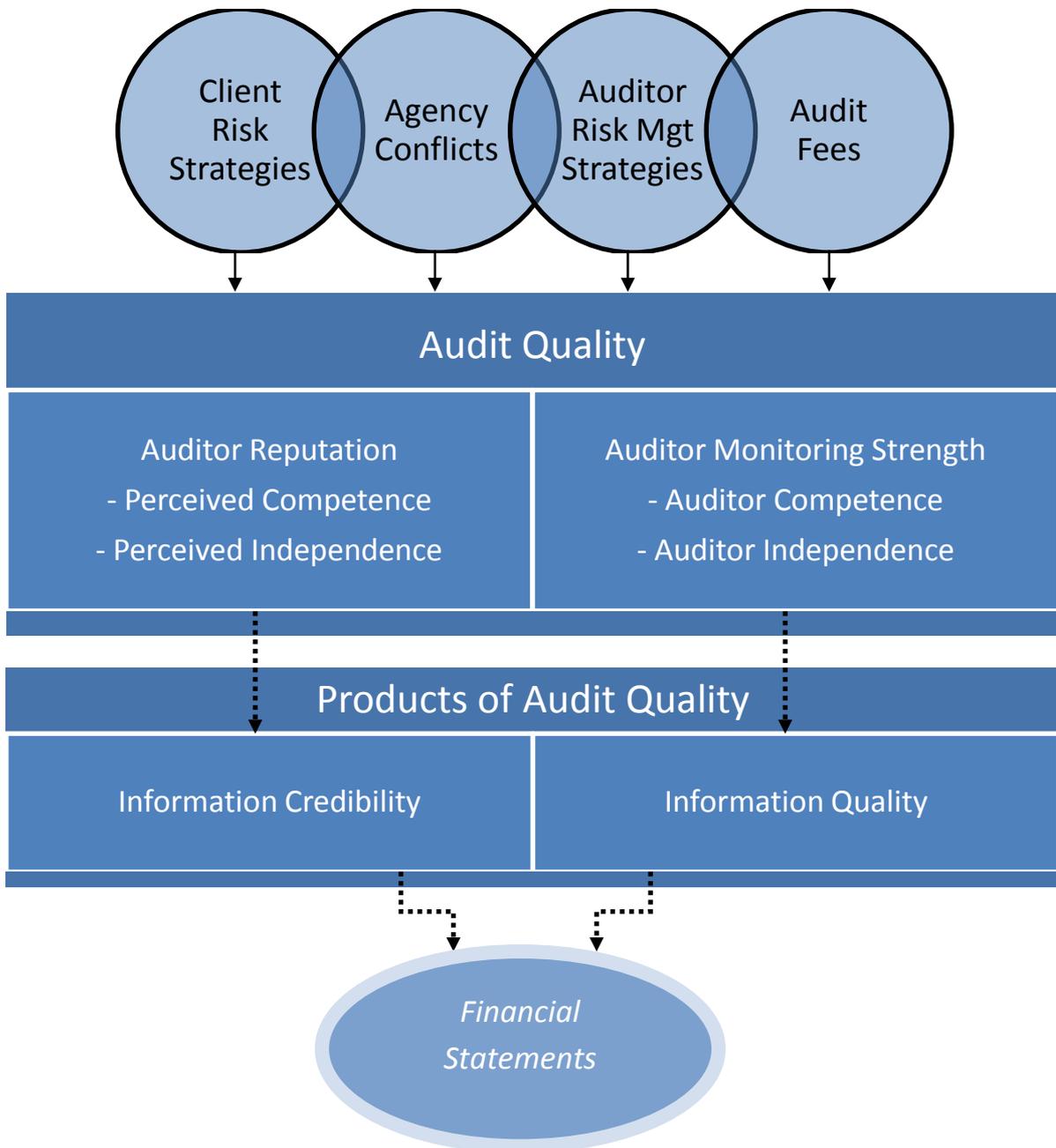


Figure 1: Framework for audit quality by Watkins et al. (2004, p. 157)

Jensen and Meckling (1976, p. 336) in their study identify that there is information asymmetry between the principal (stakeholder) and the agent (management) in an agency setting which might be of moral hazards due to the fact that agents would strive for their self-interest at the cost of the principals. An audit of independent nature can be beneficial to both the agents and the principals in a way to reduce the moral hazards, because an independent audit can reduce the information asymmetry and improve the

information regarding the clients' performance. Thus greater the agency conflicts in terms of the conflicts between managers and stakeholders, the greater would be the demand for audits of high quality which would increase the agency costs. Brand name serves to be the most common proxy for measuring auditor reputation in terms of audit quality (Watkins et al., 2004, p. 157-160).

The supply of audit quality by the auditors is also of core importance to the comprehension of overall audit quality. Auditors in order to manage their risk via strategies they take into consideration the client risk, and the evidences show that auditors show sensitivity to the factors associated with the client risk (Watkins et al., 2004, p. 161). High-risk clients are avoided by the brand-name auditors or if they do then much emphasis is laid on the monitoring strength in order to mitigate the risk. It is mostly the non-branded auditors who seem to be supplying the audit services to the high-risk clients. Thus, with the increase in the client-specific risk the risk of auditor litigation increases along with the increases in the auditor monitoring strengths in terms of audit planning and audit hours which in way leads to the decrease in the supply of audit quality. Non-brand-name auditors show their willingness to accept the risky clients but the results show that the non-brand auditors then are hardly able to provide the required levels of auditor monitoring strength (Watkins et al., 2004, p. 165-167).

Studies suggest that large audit firms due to the monopolistic conditions prevailing in the audit market can demand or charge higher audit fees from their clients, but this monopoly could lower the demands for external audits due to lower quality (Watkins et al., 2004, p. 168). In general, a positive association has been generated between the audit quality and the audit fees with studies ensuring the higher quality of the audit services for which the auditor charges higher fees. Lowballing, which relates to the offering of audit services for significantly low prices during the initial stages, has been the concerns for different studies. But there exists none specific empirical studies which could assure that time and budget pressures along with the threats of termination make it difficult for the auditors to be either independent or maintain the audit quality (Watkins et al., 2004, p. 168). Industry specialization serves to be another factor through which audit firms based on their maturity in the industry find new techniques to differentiate their products. Thus auditor specialists of particular industry are expected to provide much higher quality as compared to those auditors who are non-specialists in any specific industry. Industry specialization can be achieved through fee premiums, or via economies of scale obtained through the deliverance of both audit and non-audit services. In this way industry specialist auditors are perceived to be providing more monitoring strength rather than the industry non-specialists (Watkins et al., 2004, p. 168-170).

The products of audit quality which has been pointed out by the Watkins et al. (2004, p. 176) in their study relate to the information credibility and information quality. Information credibility relates to the confidence which the stakeholders or users place over the information provided in the financial statements by the auditors with their abilities to influence this particular confidence. Information credibility can be either related the size of the auditor and the number of clients thus leading to less incentives that could lead to lower quality, or related to the brand-name of the auditors with which many observable characteristics are associated with quality lowers the risk of impeding the audit quality. The other product of audit quality, which is information quality, relates to the wellness of financial statements in reflecting the economic conditions of a

company in a true sense. Audit firms that have been capitalizing more on the reputation of the firm tend to be more precise in terms of disclosing the information. Information quality can be evaluated in terms of its ability to predict the future probabilities. Regulators have been of the view that if there is a risk involved in losing the revenue stream from non-audit services then the auditors seem to be less inclined towards the disclosure of breaches in the client's financial statements. But much of the opinions from the academics do not coincide with the views of the regulators regarding the auditor independence being compromised by auditors when they offer non-audit services to the audit clients. They are of the stance that the cost involved in compromising the independence by the auditors should be considered and the possibility that offering non-audit services would actually increase the audit quality as much information is available to the auditors in such cases (Watkins et al., 2004, p. 176-181).

2.5 Non-audit Services

The theory of relationship marketing describes that the long-term relationship between the buyer and seller has the potential to bring benefit to both parties. In the audit firm context, the organizational auditor-client relationship is essential marketing tool for them to sustain existing service and promote cross-selling (Clark and Payne, 1994). Additionally, it also reduces costs for example setup costs can be amortized over a longer customer lifetime. The value-adding solutions and reduced set-up costs are generally benefits from the auditees' point of view. These benefits mainly persuade the auditee's willingness to purchase NAS from current audit firms (Clark and Payne, 1994).

The continuity of relations dictates that sellers become more knowledgeable about their customers' requirements, desires and needs, which in turn permit them to modify their services to accomplish the finest result. As such, it is typically normal that clients have more conviction in getting a value-adding solution from those suppliers who have demonstrated a steady capability and reliability through past transactions. From the auditing perspective, previous research has acknowledged that the knowledge and trust enlarged from prolonged audit firm tenure is decisive to the audit process (Ghosh and Moon, 2005, p. 15; Myers et al., 2007, p. 73). This reason can be logically extended to NAS. Like other personalized services, NAS necessitates a profound and intense awareness of the clients' business before it can truly add value to their business. An auditor-client relationship builds up specific belongings with the passage of time that are fundamental to the competence of the audit firm, and more prominently, it builds up the client's trust in the audit firm's ability to provide such NAS. The latter one straightforwardly sways the client's willingness to procure NAS from current audit firms (Ye, Carson, & Simnett, 2006, p. 5).

Growing a commercial relationship invokes both parties making a non-transferable investment in the relationship. These investments may be in the shape of money, time, effort, or other particular acknowledgments, and thus obliges a huge set-up cost for both parties. From the client's stance, the cost of appointing a new supplier for NAS engages searching for the most suitable one, contracting the price and other circumstances, getting them recognizable with the business and the requisite, and giving the seller with both material and labor supports (Ye et al., 2006, P. 5). However, large amount of these costs could be saved if the NAS is awarded to the present audit firm, which has already

overtaken the preliminary investment stage. Apart from start-up costs, which are only the initial specific investment, appointing a new supplier gives climb to the opportunity cost of wasting the specific assets that accumulate over successive audits (Arrunada and Paz-Ares, 1997, p. 31). To the extent that these specific assets can be transferred to the provision of NAS, audit firms can conduct NAS efficiently. Auditees tend to acquire the NAS services from their current audit firms due to the involvement of factors such as set-up costs and knowledge spillovers. The perception of the clients regarding these costs is higher when they remain in relationship with the specific auditor for specified period of time. Short tenure hiring a supplier of non-audit Services (NAS) will increase huge setup costs, which includes costs of searching for the supplier and familiarization with the business; and the risk of receiving low quality (Rusmin et al., 2006, p. 167).

Based on the above argument, it is concluded that long-lasting audit firm tenure brings about a better knowledge sharing between audit firm and client, as well as decreased costs comparatively to engaging a new supplier. Thus, clients based on the above-mentioned factors have incentives to purchase the NAS from their current auditors rather than opting for the unknown suppliers of NAS, therefore enhancing the positive relationship between the auditor and the client in terms of audit-tenure and the levels of NAS (Ye et al., 2006, p. 5-6). But on the other hand the economic bond between auditor and client has increased due to the provision of more non-audit services, which impairs an auditor's independence. A large portion of non-audit fees received from clients could be a reason for auditor to compromise his independence (Rusmin et al., 2006, p. 167).

The long-term audit tenure has huge impact on discretionary accruals in case if auditor is specialist and has sufficient knowledge about client's financial statement. According to Balsam, Krishnan, & Yang (2003, p. 71) customers of industry specialist auditors' have lower discretionary accruals and higher earning response coefficient than customers of non-specialist auditors. Krishnan (2003, p.1) concludes that a specialist auditor can constrain accruals-based earnings management more effectively and effectively than non-specialist auditors. Fung, Gul & Jaggi (2007, p.13) discover higher discretionary accruals for short tenure auditors when they are non-specialists, but find no relation between tenure and discretionary accruals for specialists. The study of Lee et al. (2009, p. 88) summarizes a negative association between non-audit fees and audit delays by suggesting that when an auditor offers non-audit services to its clients then the auditor is in much stronger position to conduct the audit in a much quicker way due to the increase in the auditor learning about the client firm. In reference to the provision of non-audit services by the auditor to its client, Lee et al. (2009, p. 88), have highlighted the provision of tax services in specific with the suggestion that synergy exists in the provision of tax services along with audit services.

2.6 Tenure, Independence, and Perceptions of Audit Quality

Independent auditors are assumed to be a "gatekeepers" of the public securities markets (SEC, 2001, III.A). However, sudden increase in accounting irregularities has led many to question auditor independence. Some argue that as the length of the audit engagement increases the auditors are more likely to agree with managers on important reporting decisions. On the other hand obligatory limits on auditor tenure is expected to improve audit quality by reducing client firms' influence over auditors. But conflicting opinion is that problem audits arise more frequently for newer clients because auditors have less information about these firms. Client-specific knowledge of items such as

operations, accounting system, and internal control structure is critical for auditors to identify material errors and misstatements. In meticulous, Johnson et al. (2002, p. 624) argue that lack of sufficient client-specific knowledge during short tenured audit reduces the probability of detecting material errors and misstatements. As the auditor-client relationship lengthens, firm-specific expertise allows auditors to rely not as much on managerial estimates and become more independent of management (Solomon, Shields & Whittington, 1999, p. 206).

Independent auditors are playing a vital role to increase the reliability of financial statements because:

- they are more likely to prevent or detect and correct material misstatements /omissions, and
- they ensure that financial statements follow generally accepted accounting principles.

How tenure affects auditor independence is the main focus of all recent debates. Promoters of compulsory auditor rotation allege that extended auditor tenure erodes independence, which in turn impairs audit quality. Imposing argument is that independence and audit quality boost with longer tenure because of superior auditor expertise from finer client-specific knowledge (Dopuch, Gupta, Simunic, & Stein, 2003, p. 68).

2.6.1 Perceptions of investors & information intermediaries about audit tenure

The long-term auditor tenure plays a vital role for independent rating agencies and financial analysts. Independent rating agencies give information regarding the creditworthiness of issuers and those credit ratings play an important role in investment decisions. Existing research finds links between earnings and debt ratings/stock rankings issued by independent rating agencies, telling that perceptions of earnings quality could be an important input in determining rankings/ratings (Bhojraj and Sengupta 2003, cited in Ghosh, & Moon, 2005, p. 6). Similarly, financial analysts also play a major role as information intermediaries in capital markets because of their ability to incorporate value-relevant information in their published reports, which impacts security prices. Preceding research finds that analysts rely on earnings releases to forecast future earnings, it means estimated future earning might vary with perceptions of earnings quality (Barron, Byard, Kile, & Reidl. 2002, cited in Ghosh, & Moon, 2005, p. 11) . Now If auditor tenure is perceived as enhancing earnings quality, all else equal, the influence of reported earnings on rankings/ratings and earnings forecasts is expected to become larger with longer auditor tenure because reported earnings are viewed as more informative about future earnings. The converse is true if information intermediaries perceive longer auditor tenure as eroding earnings quality. The extended auditor tenure has great impact on earnings quality, stock rankings and debt ratings. The investors & financial analysts perceive earnings quality as improving with auditor tenure. The pressure of reported earnings on stock rankings becomes larger with extended tenure, although the influence of reported earnings on debt ratings does not be different with tenure (Ghosh, & Moon, 2005, p. 26). However, Chen et al. (2004, p. 755) states that auditor quality and tenure are negatively and significantly related to the cost of debt financing.

2.6.2 Industry-Specialists' knowledge

Few current researchers have investigated performance by industry specialists. Industry specialists are those individuals assigned by their firms and who have complete knowledge, familiarity and experience of a particular industry. There is a huge performance difference among those industries that have industry specialists' auditors. Taylor (2000, p. 693) study shows that industry specialist auditors of banking sector differ in their risk assessment from the non-industry specialists in terms of evaluating loans receivables while not much differences could be identified while evaluating generic accounting heads like property, plant and equipment. Additionally, Wright and Wright (1997, p. 273) notify that specialist auditors with in retail industry are expected to produce more reasonable hypotheses than those non-specialist auditors with in the retail industry. According to Krishnan (2003, p. 15) more effective audits are conducted by specialist auditors who focus on a particular industry than non-specialists. Another finding from (Solomon et al., 1999, p. 193) indicates that as compared to non-specialist auditors, industry specialist auditors possess more precise acquaintance with frequency of financial statement non error explanations for unexpected ratio fluctuations. Moreover, this expertise could be improved if specialist auditors instead of non-specialists invest more in staff recruitment, training and developing; information technology; and state of the art audit technologies.

2.7 Agency Theory and Audit Quality

Auditing plays a vital role in reducing both: information asymmetry by empirically confirming the validity of financial statements and agency problems. The principal-agent conflict illustrated in agency theory, where principal (owner) lack reasons to believe their agents (managers) because of information asymmetries and contradictory motives. Information asymmetry deals with the study of decisions in transactions where one party has more or superior information than other. The contradictory motives such as financial rewards, labor market opportunities, and associations with other parties that are not directly related to principals can, for example, consequence for agents to be more optimistic about the economic performance of an entity rather than a performance of whole company. Differing motivations and information asymmetries decrease reliability of information, which cause breach of trust that principals will have on their agents. Therefore auditors as a third party used to try to align the interests of agents with principals and to let principals to gauge and manage the behavior of their agents and strengthen trust on agents. This, however, brings new concept of auditors as agents, which leads to breach of trust, threats to objectivity and independence. When auditors perform an audit they are acting as agents for principals and this liaison therefore arising similar issues of trust and confidence as the director-shareholder relationship, prompting questions about who is auditing the auditor. Agents (either directors or auditors) may be trustworthy without further incentives to align interest or monitoring strategies such as audit or increased regulation. However, the simple agency model would recommend that agents are untrustworthy because managers, auditors will have their own interests and motives. Independent auditor from the board of directors is of huge importance to shareholders and key factor to deliver high audit quality. However, an audit obliges a close working relationship with the board of directors of a company. The fostering of this close relationship has led question mark on the independence of auditors and ultimately question mark on audit quality (The Institute of Chartered Accountants in England & Wales, 2005, p.6-10).

2.8 International Standards on Auditing (ISA)

International Standards on Auditing (ISA) deals with the overall objectives set out for an independent auditor with its nature and scope allowing the independent auditor to meet these objectives in terms of conducting the audit of financial statements. The intended users audit financial statements on certain standards in order to enhance the degree of confidence over the financial statements. This is done in a way that the auditor provides an opinion regarding the trueness and fairness of financial statement in comparison with certain financial reporting framework that do the financial statements with all the material aspects of the framework (IFAC, 2010, p. 72). ISA neither imposes responsibility over the management nor on those responsible for the governance in an entity and ISAs also do not supersede the laws and regulations in that entity for the governance and responsibilities. Before the issuance of an audit opinion, the auditor is required by ISAs to confirm the reasonable assurance, which is the high level assurance but not the absolute assurance, that the financial statements as a complete package are free from material errors either due to fraud or error. ISA provides the support to the auditors in order to help them in obtaining the reasonable assurance in accordance to the objectives, requirements and applications designed and presented in ISA. What is required by ISA from the auditors is:

- to enforce professional judgment along with maintaining professional skepticism while planning and performing the audit;
- identification and assessment of the risks associated with material misstatement either due to fraud or error, according to the comprehension of the entity and its environment;
- for the response to the assessment of the risk, sufficient and appropriate evidence should be sought regarding the existence of material misstatements;
- drawing conclusion in the form of an audit opinion regarding the financial statements based on the audit evidences obtained (IFAC, 2010, p. 73).

Apart from the aforementioned responsibilities, an auditor might have certain responsibilities in terms of communicating and reporting results to the users, management, and to the stakeholders both inside and outside the entity. ISA suggests that an auditor should either disclaim or withdraw itself from the engagement if the auditor is unable to acquire a qualifying or justifiable opinion regarding the financial statements or the obtained results are insufficient for the purpose of reporting them to the intended users. Audit evidence which refers to the information used by the auditors in order to reach certain conclusion on the basis of which audit opinion is formulated. Audit evidence is formulated on the basis of information from both the accounting records in the financial statements and the other information concerning the entity. For the purpose of ISA audit evidence is evaluated on two criterion such that both on the basis of quantity and quality of audit evidence. Quantity of audit evidence provides the sufficiency of audit evidence needed to affect the assessment of auditor regarding the risks of material misstatements, while quality of audit evidence provides the relevance and reliability of it in terms of supporting the conclusions drawn for the audit opinion. Associated with the audit evidence is the audit risk, which refers to the risk that the auditor would present an inappropriate audit opinion regarding the financial statements which are materially misstated. This audit risk is a function of material misstatements risk and detection risk. Where detection risk refers to the risk involved in the procedures conducted by an auditor in order to reduce the audit risk would to an acceptably low

level would not be able to detect a misstatement that exists and that could be material on the basis of individuality or in combination with other misstatements (IFAC, 2010, p. 75).

Risk of material misstatements refers to the risk that the financial statements are materially misstated prior to audit. This has been classified into two components which are the inherent risk and the control risk. Inherent risk refers to the susceptibility of an assertion in the financial statements item in terms of class of transaction, account balance or disclosure to a material misstatement either in its individual presence or in aggregation with other material misstatements before driven under any related controls. Whereas control risk refers to the risk that a material misstatement that could be present in an assertion about a class of transaction, account balance or disclosure either individually or when aggregated with other misstatements, could not be avoided, or detected and corrected, on a timely basis by the internal control of an entity. The misstatement which has been often used refers to the difference between the amount, classification, presentation, or disclosure of a financial statement item being reported and the amount, classification, presentation, or disclosure that was required for the financial item to be in accordance with the identified financial reporting framework. Professional judgment that is required in an audit by the IAS refers to the application of relevant training, knowledge and experience in an audit engagement with in the specified context of auditing, accounting and ethical standards, in a way to smoothen the economic decision making regarding the courses of action that are feasible to the circumstances of the audit engagement. Whereas the professional skepticism in an audit refers to the attitude of an auditor in accordance to their questioning of mind, being alert to conditions which may provide any signs of possible misstatement due to error or fraud, and a critical assessment of audit evidence (IFAC, 2010, p. 76-77).

An auditor needs to comply with the relevant ethical requirements such as independence, integrity, objectivity, professional competence and due care, confidentiality and professional behavior as identified by International Ethics Standards Board for Accountants (IESBA), relating to financial statement audit engagement. According to IESBA code, independence is described as both independence of mind and independence in appearance. The independence of the auditor from its client tends to safeguard the abilities of an auditor to formulate an audit opinion without being affected by any pressures and influences that could lead to a compromise over the opinion. This auditor independence improves an auditors' ability to engage with integrity, to be objective and to maintain an attitude of professional skepticism. For the critical assessment of audit evidence it is necessary to have professional skepticism. This refers to the questioning of audit evidence which is contradictory and the reliability of documents and responses to inquiries along with other information acquired from management and the ones responsible for governance. The auditor rules cannot be expected to disregard the past experiences of honesty and integrity of an entity's management and the ones responsible for the governance (IFAC, 2010, p. 85-86).

For auditor's opinion and reporting it is necessary that it should be supported by the audit evidence. This audit evidence is obtained via audit procedures performed during the audit engagement and are cumulative in nature. Other information sources which could contribute towards the audit evidence include information obtained from previous audits such as identification of the changes by the auditor that could have occurred since previous audit and which could affect the current and be relevant to it. A firm's

procedures for quality control in terms of accepting and continuing with the clients could be another source which could form the basis for audit evidence. Apart from this the accounting records of an entity are also important contributors towards audit evidence. In certain cases, the absence of information or managements' refusal to provide the requested information could be used by the auditor as audit evidence. The sufficiency and appropriateness of audit evidence are interrelated and are measured via quantity of audit evidence and quality of audit evidence, respectively. An auditor needs to perform the audit engagement both in accordance to the ISAs and the auditing standards of a particular jurisdiction or country (IFAC, 2010, p. 88-94).

In case of recurring audits, the auditor should assess the circumstances under which the terms of audit engagement are required to be revised, and check if there exists a need to remind the entity regarding the existing terms of audit engagement. But terms of engagement should not be changed until and unless there is no reasonable justification for doing so. Both the auditor and the management of the entity shall agree upon the changes into the terms of audit engagement, and should form a written agreement. Quality control procedures should be taken into consideration during the audit engagement level which could provide the auditor with reasonable assurance regarding the compliance of audit with the professional standards and applicable legal and regulatory requirements; and report issued by the auditor is under appropriate circumstances. The engagement partner should remain alert throughout the audit engagement by making necessary observations and inquiries in order to check for evidences of non-compliance with relevant ethical requirements by members of engagement team on the basis of which the audit partner in consultation with other could determine the appropriate action in case of failure by the engagement team to comply with the ethical requirements (IFAC, 2010, p. 125).

2.9 Auditing in Sweden

Sweden ranks to be one of the largest and the most populated country in the Nordic region. Taking the history of business establishments in Sweden into consideration, we see that the corporate enterprises in Sweden date back to the 13th century. A copper mining firm, Stora Kopparberg in Dalarna province, for the smooth operations of their management they required the need of having accountability reports. Thus the Swedish Company Law states that since then all the public listed firms, whether large or small in size, are required to be have their financial reports audited by the independent auditors, with a considerate opinion from the auditor regarding the quality of financial information and the duties carried out by the management of the firm. Global enterprises such as Volvo, Electrolux, ABB, SAAB etc operating in Sweden do needs finances on the platform of international markets, and for that reason audited financial reports are needed in order to authenticate their reports and bring credibility to it (Burrowes & Nordström, 1999, p. 302-303).

It was under the Companies Act of 1895, when for the first time it was specified that limited firms in Sweden should have one or more auditors, who would be elected in the annual general meeting by the shareholders (Wallerstedt, 2001, p.847). But then the auditors were mostly elected on the basis of good relations of the elected auditor with the firm's management or with the firm's owner. As the criterion for appointing an auditor was different therefore only a few of the auditors possessed the knowledge or expertise of conducting an appropriate audit to detect the material errors in the accounts.

Due to this fact, firms were able to do fraud and embezzle both the auditors and the shareholders. Thus, it was by the end of nineteenth century when debates and discussions started to breakout regarding the revision of the laws concerning audit of the firms. In 1899, Svenska Revisorsamfundet (SRS) which was the Swedish Society of Auditors was founded, and the auditors of SRS argued that official auditors should be appointed by the state. Then in 1923, Föreningen Auktoriserade Revisorer (FAR), which was the Swedish Institute of Authorized Public Accountants, was founded. FAR was founded due to the debates over the authorization of auditors, as the Stockholm Chamber of Commerce set a criterion that for being designated as an authorized auditor one should have qualification from Stockholm School of Economics; whereas the members of SRS were unable to match this criteria and thus in 1920 SRS decided to authorize the auditors themselves (Wallerstedt, 2001, p.847-848).

The Kreuger fraud which was discovered in 1932 which was a critical incident incited the further development of auditing profession in Sweden. It took almost ten years for the auditing profession in Sweden to recover from the damages caused by the Kreuger case. Due to the embarrassment which was caused by the Kreuger fraud to the auditing profession, debates, discussion, reactions and committee meetings, everything and everyone tried their best to bring back harmony to the auditing profession. Thus the new Companies Act of 1944, which was enacted due to the extensive efforts of committee work since from 1933-1941, provided exclusive protection to the designation of authorized public accountant, when the audit of limited companies by an authorized public accountant was made mandatory. But it was in 1983, when the demand for qualified auditors matched the supply of qualified auditors, and thus all the limited companies by then were obliged to have at least one authorized or approved auditor (Wallerstedt, 2001, p.853-854). During the last hundred years the profession of auditing in Sweden has developed with great deal. This development has resulted on the basis of external factors such as “market condition, commercial interests, state authorities and critical events” and internal factors such as “individuals, firms and professional societies”. In Sweden the auditing market now comprises of the Big4 audit firms namely Ernst & Young, Price Waterhouse Coopers, Deloitte and KPMG along with other small and medium size audit firms (Wallerstedt, 2001, p.863).

Föreningen Auktoriserade Revisorer (FAR, 2011, p.1), which is a Swedish professional institute of authorized and approved public auditors, in their latest version of general terms for audit of Swedish enterprises and organizations, the scope and objective of audit has mentioned that an audit should be intended to assure the market about the quality of an entity’s financial information. The audit firm should audit both the entity’s annual financial statements or the annual accounts, and book-keeping (accounts audit) and the audit of management in terms of their administration, with the conclusions being reported in the annual report. In Sweden, the audit engagement and any other supplementary engagements by the audit firm should be executed in accordance with the Auditing Act (1999:1079; 2001:883) along with generally accepted auditing standards and professional ethics for accountants and other associated laws which seems to be applicable. The plans and executions of an audit firm should be directed towards the attainment of reasonable assurance that the financial statements or the annual accounts are free from material misstatements. The other things which need to be audited include the examining the evidences supporting the amounts and disclosures in the accounts; assessment of the accounting principles and their application; and issuing of statement regarding the administration of the entity. If the client firm appoints the

audit firm, then it's the responsibility of the audit firm to appoint an active auditor to be in charge of the audit (FAR, 2011, p.2-3).

FAR in 2001 adopted the principle based model (Analysmodell) which outlines different steps and criterions which should be adopted in order to ensure the auditor independence which ultimately leads to audit quality. This model helps in assessing the threats to the auditor's independence by an audit engagement, which refers to the threats of self-interest, self-review, advocacy, familiarity/trust, intimidation and other threats. If the assessment any of these threats to the auditor independence are identified then in the next step assessment of the safeguards against the threats take place, so as to check that up to what extent these threats could be either controlled or eliminated. The assessment of these threats and the safeguards against these threats decision is being made as to accept or retain the audit engagement or decline or resign from the audit engagement. In both cases if the assignment is accepted or rejected based on the assessment of independence it needs to be documented before any audit report and other statement is being issued by the auditor (FAR, 2011, p. 2).

The threats to the auditor independence which are being identified by the principle based model for independence are self-interest, self-review, advocacy, familiarity/trust, intimidation and other threats. Self-interest threat refers to the threatening of confidence due to either direct or indirect financial interest in the audit of the client firm. Self-review refers to the difficulty involved in conducting an unbiased audit engagement due to the fact that the auditor or one of engaged member have either direct or indirect influence on the audit. Advocacy refers to the 'might be' undermining of the confidence due to the fact that in other contexts either the auditor is acting or has acted either in order to support or oppose the standpoints of the client on matters related to legal or financial concerns. The threats of familiarity or trust refer to the strong ties or relationship between an auditor and a client that could bias the opinion of an auditor. Intimidation threat refers to the feeling of intimidation by the auditor due to either the dominance or the external pressure from the client. Similarly, there might be other threats under different circumstances which might be in a position to threaten the independence of an auditor (FAR, 2011, p. 3).

Chapter Three – Research Methodology

This chapter will describe the methodology that was used in order to follow and understand how we have worked with our thesis. We will describe and discuss the different steps of methodological assumptions we used namely, choice of subject, preconceptions, perspective, research approach, research methods, research design, and data collection methods for our study.

3.1 Choice of Subject

Since we were both studying business with a specialization in accounting and auditing, it was natural to write our master thesis in this area. The choice of subject has been based on the auditing concerns that how can long-term tenure of auditors' affect the audit quality. There has been much debates and discussions during the last decade regarding long-term tenure and audit quality due to scandals and economic events. In the course of Advanced Auditing, we discussed some case studies in the form of assignments regarding current accounting scandals in the U.S. and Europe, where the auditors and the management of companies to be audited has misled the public in order to favor their own interests. In the same course, there were discussions about the Enron scandal, in which the accounting firm Anderson, who was Enron's auditor, had more advisory fees (NAS) than audit fees. This meant that the auditors became less independent of the client, thus reducing their ability to carry out an impartial and independent investigation. The course attracted our interest to study and immerse ourselves into the problems that can arise when auditors and clients tend to develop long-term relationship and along with that have dual roles, i.e. to provide consultation on a company and work as an auditor for the client. Due to the reasons explained above we find subject is interesting and topical and that's why we adopted this mission.

3.2 Pre-understanding

For the concerns over the objectivity in a research study, the authors or the researchers are supposed to have both the keen interest and involvement in that specific study field. On the basis of these developed interests and involvement, the selection of methods and tools to be used during the research process gets easier to be selected. Obscure understanding of the research topic or limited knowledge regarding the research would tend to complicate the job for the authors in terms of progressing with their study because they will swing like a pendulum around different theories and opinions from the prior research, and would not be able to concentrate on a specific track that could lead them to the successful concluding results for their study. Thus, the setting of an appropriate and well-thought objective for the study is of prior concern for us, and therefore we the authors based on our competences and knowledge tried to reach the most appropriate objective for our study, which is depicted in our research question. Our defined objective for this study is to examine how the long-term auditor-client relationship affects the audit quality in Small and Medium Enterprises (SMEs).

We as the writers of this study have worked last year on research study related to the adoption of IFRS for SMEs. During that research study, we had to interview both the auditors and the SMEs, and during the data collection process we realized that most of

the SMEs either have long-term relationship with their auditors or intend to have long-term relationship. We the authors of this study took up a debate and discussion regarding the effects of long-term auditor-client relationship, and we found that both of us were supporting two opposite views, such that, one in the favor of long-term relationship and the other against it. Therefore, we had the concerns for this topic on the back of our minds, and finally our interests suggested that what would be the final conclusion of this study if we looked at it in a research study with practical assessment, we opted for this study.

3.3 Research Philosophy

We probably consider research as something very abstract and intricate. It can be, but if we comprehend the different parts or phases of a research and how these fit together, it is not nearly as convoluted as it may seem at first glance. There are suppositions all around the research regarding how the world is perceived and how it can be understood in an adequate and appropriate way. For sure, no one really knows how best we can comprehend the world, so all we're trying to find is the answer to the question that how we know about the world around us.

Research philosophy relates to the development of knowledge and the nature of that knowledge. It contains important assumption about imagination of researcher i.e. how he views the world within a particular tradition. It underpins research strategy and helps in choosing the most appropriate research design for answering the research questions. There are two major ways of thinking about research philosophies: the epistemological philosophy and the ontological philosophy. Each contains important differences, which will influence the way in which we think about the research process (Saunders, Lewis & Tornhill, 2009, p. 106-109). Epistemology concerns what constitutes acceptable knowledge in a field of study. It refers to the ways to acquire the knowledge. It describes how it is possible to know about the world, such that how we can study about the reality (Bryman & Bell, 2007, p. 16; Saunders et al., 2009, p. 106). Epistemology is further divided into two parts: Positivism and Interpretivism (phenomenology). Positivism is the study of social reality and beyond that is how the social world can be scrutinized as natural science. While, interpretivism deals with people and their institutions which are basically different from those of natural sciences and as such should not be used to study social reality. It associates with the elements such as values, norms and subjective position of researcher (Bryman & Bell, 2007, p. 17).

Ontological on the other hand is concerned with researcher's view of the nature of reality; which can either be subjective or objective depending on the researcher. It deals with nature of the world and what we can know about it (Saunders et al., 2009, p. 106; Bryman & Bell, 2007, p. 22). The ontological assumption is alienated into Objectivism and Constructionism. Objectivism is a normative emphasis that asserts that social entities exist in reality external to social actors. On the other hand, constructionism, grasps that social phenomena are created from the perceptions and consequent actions of those social actors concerned with their existence. It implies that reality of social world is constructed and does not exist out there. Social phenomena are not only produced through social interaction but that they are in a constant state of revision. Objectivism confers an objective view of what reality is, whereas constructionism paints a subjective view to reality (Saunders et al., 2009, p. 110; Bryman & Bell, 2007, p. 23).

Following these concepts in relation to our research for the epistemological stance we take the interpretivist position while for the ontological stance we take the constructionist view point. A reason being that in our research, the main purpose is to determine how long term client auditor relation can influence the audit quality. There are no hard and fast rules and laws about this relationship i.e. no reality exists. There are both possibilities either the long-tenured client auditor relationship leading to high audit quality or low audit quality. That is why positivism stance is not compatible with our research work. The interpretivist approach states that the researcher based on their norms and values will be identifying and deducing the influence of long-term tenure on audit quality. The adoption of constructionism view point as the ontological assumption will lead the researchers in accomplishing their conclusive result by their analysis of the knowledge acquired. Subjective judgment of the respondents in expressing their viewpoint in support of easing the tasks of interpretation and opinion building will be considered vital. Since an assorted respondents are going to articulate their individual standpoints based on their subjective judgment this will be in support of the interpretive and constructional view points.

3.4 Perspectives

Eriksson and Wiedersheim-Paul (1997, cited in Arey and David 2008, p. 7) asserts that perspective gives a broad set of opinions about the problem question. After analyzing it from different dimensions one can finally choose the most appropriate option that best fits the situation in question. Choice of perspective may vary from one person to another because all individuals' perception and judgmental abilities differ from one another. That is to say that individuals look at reality from different angles. Apart from individual's perception his/her field of study also influences his choice of action to an extent that he/she makes an educated rational choice which helps him/her to conduct the research in a better way. The perspective can be determined by the problem and for us to create an understanding of the problem and get the information that the study needs.

Our research question: "*How does the long-term auditor-client relationship affect the audit quality in SMEs?*" will be studied from an auditing perspective; both practically and theoretically in terms of the prior research related to auditing. Another thing is that since this study focuses on both the auditors and the clients who use audit services; and heedful of the fact that we are accounting students with plentiful auditing knowledge, we will be undertaking this study specifically from the auditors' perspective both theoretically and practically. We believe it is important to take note of both the auditors and the clients approach to the problem area to get a more detailed picture and to gain a better understanding of the auditors' attitude towards their client. The findings and conclusions would have been different if we chose another perspective.

3.5 Research Approach

The research approach is concerned with the way in which you collect data to answer your research question (Saunders et al., 2009, p. 106). Thus, the implementation of suitable method to achieve the best foundation of the study will be essential for any research. Since, there can be numerous concerns at stake but two stands out in particular. First, there is the question of what form of theory one is talking about.

Secondly, there is the matter of whether data are collected to test or to build theories (Bryman & Bell, 2007, p. 7).

According to Bryman & Bell, research approaches can be separated into three different types; inductive, deductive and abductive approaches. Deductive approach is the overriding research approach in the natural science, where laws present the basis of explanation, permit the expectancy of phenomena, envisage their occurrence and therefore let them to be controlled (Collis & Hussey, 2003, cited in Saunders et al., 2009, p. 124). It engrosses the development of a theory that is subjected to a scrupulous test. The main step of deductive approach is: deducing a hypothesis from the theory, indicating how the concepts and variables are to be measured, test the hypothesis, examining the specific outcome of the inquiry and last if necessary, modifying the theory in the light of the findings. This is normally from general to particular approach and data is collected to test the theories. The alternative approach of deductive is inductive in which we would collect data and develop theory as a result of our data analysis. In other words, the process of induction involves illustrating generalizable conjecture out of observations. This is usually from particular to general approach and data is collected to generate the theories (Saunders et al., 2009, p.125; Bryman & Bell, 2007, p.11, 14). Lastly, there is a research approach called abduction which is a combination of both the deductive and inductive approaches.

In this study we used an abductive research approach where we have taken note of the existing theories, scientific articles and expert opinions. On the basis of these theories, we prepared the interview guide for the semi-structured interviews. Semi structured interviews will be conducted for empirical findings. In analysis part empirical data will be tested against existing theories and finally new knowledge will be built on the basis of our analysis. We believe it can be difficult to investigate the research object without having studied previous research and theories in the field. If instead we should avail ourselves of only the inductive approach in which we as researchers are based on reality and study the problem without taking note of previous studies or theories would lead to difficulties, for instance, when we are constructing our interview questions for the respondents. Furthermore, we are interested to explore effects of long-term auditors' tenure on audit quality in Sweden by making use of the existing theories laws and tools available. Here with, we consider the abductive approach which enhances our ability to better understand the problem area by looking at the existing scientific articles and abstracts and after this we will have opportunities to build new knowledge through interaction between theory and empiricism. This means that this study may extend our theoretical framework, if we for example in interviews with our respondents encounter theories that we are not treated in our theoretical framework.

3.6 Research Design

There are five types of research designs; experimental, cross-sectional, longitudinal, case study and comparative designs (Bryman & Bell, 2007, p. 45). The research design that we will use in our study is the Cross-sectional design. It is also entitled as social survey design. "*Cross-sectional design involves the collection of data on more than one case (usually quite a lot more than one) and at a single point in time in order to collect a body of quantitative or quantifiable data in connection with two or more variables (usually many more than two), which are then examined to detect patterns of association*" (Bryman & Bell, 2007, p. 53). The reasons for this choice are entrenched

with purpose of this study which requires that we acknowledge whether audit quality influenced positively/negatively by long-tenured client auditor relationship. To achieve this, we will contemplate auditors from different audit firms, auditing different clients, taking into consideration their tenures; to ensure that we can make a better distinction between the circumstances involved when they undertake their audits in comparison with their audit quality. It is termed as a survey when a number of cases are seemed at one single point in time. We use semi-structured interviews for the different cases relating to our study. The variation between these cases is supportive for us and this can only be achieved when more cases are examined. The data collection is finished at a single point in time for all case contemporarily. This means that the respondents are expected to answer most of the questions asked in the interview, and their feedback is collected promptly. Through this data we shall obtain useful findings which will help us in exploring our research question. Using this design, we will try to make sure that the representativeness of the sample being studied in relation to the overall population is adequate. The key strong point of this research design is thus derived from its representation of the different cases, which we get through analyzing different reactions of our respondents.

3.7 Research Strategy

There are two research methods, which are normally the most used in the collection of data; these are identified as the following: quantitative and qualitative methods. The quantitative method consists of the systematic empirical studies which involve quantifying through the assistance of mathematics and statistics (Bryman & Bell, 2007, p. 26). Data is collected and transformed into numbers, which are empirically tested to see if a relationship can be found in order to be able to draw conclusions from the results gained. In other words, quantitative methods are related to numerical interpretation, whereas qualitative research does not deal with statistics or number. The quantitative methods employ measurement that can be quantifiable while qualitative cannot be measured. It could also be differentiated by the connection between theory and research which helps in determining which methods to be used (Bryman & Bell, 2007, p. 27).

We use qualitative research strategy for our work and as a consequence we conduct semi-structured interviews for the collection of data. We choose qualitative research strategy for many reasons. Firstly, we have main concern with words, images rather than numbers because we want to conduct interviews to get deeper knowledge about our study. We consciously took the decision and avoided the quantitative approach because it is most suitable for scientists who use statistical processing and analysis models. Moreover, it was natural for us to select the verbal analysis method i.e. qualitative method. This is due to the fact that we as researchers in this study want to interpret and understand the respondents' experiences or underlying patterns concerning the problem area. As we mentioned earlier, the researcher's interpretation and experience of the object of study plays a central role in the qualitative method. Would we rather avail ourselves of the quantitative where the researcher is interested in issues that have mathematical or statistical features were, according to us meant that we would lose the flexibility that the qualitative method offers. Thus, we believe that the qualitative approach suits us better.

3.8 Data Collection

Data collection is the process of gathering data from different sources. We always need relevant and authenticated information in order to answer our research question. There are mainly two sources (primary data and secondary data sources) which are used to collect data. Primary data is derived from a new research study which provides first hand information regarding the identified research problem. Tools used for collecting primary data include experiments, observations, interviews and surveys. On the other hand, secondary data refers to previously published material and comprises of articles, books, journals and web based data about a specific subject area. We look for secondary data first because what others have already researched (though their purpose might be different from that of ours) needs not to be researched again (Ghuri & Gronhaug, 2005, p. 91-102).

3.8.1 Collection of primary data

To get first hand data, we have decided to conduct face to face interviews. Our respondents will be selected from Big 4 audit firms and different companies registered in Umeå, Sweden and we will use a semi-structured interview approach. This type of interview method allows the researcher to structure flexible questions which depending upon the situation may be altered or more questions can be added as a result of interviewees' response. Furthermore, it provides the ease of producing a list of questions on particular topic and can be formulated together in an interview guide (Bryman & Bell, 2007, p. 466). We plan to use open-ended questions in the interview guide which do not restrict the respondents to simply 'yes' or 'no' response rather give them freedom to express their views in a broad way. In semi-structured interviews, the sequence of questions might vary, but it is considered ideal to follow the order by the interview guide (Bryman & Bell, 2007, p. 467). In order to give the respondents an idea of what they are going to be asked (so that they might come with little preparation), the interview guide will be sent in advance i.e. a week prior to formal interview. The structure of interview guide will be broken down in two parts. The first part will deal with background of the respondents and information about their designation profiles and experiences etc, whereas the second part will cover mainly those questions which will help in solving issues pertaining specifically to the research question. The interview guide will be attached in the appendix section of this thesis.

Face to face or one to one interview is the most common method which involves a direct meeting between the interviewer and interviewee. It is preferred over other methods because it ensures full and accurate data. Moreover, it gives more confidence and ease of understandability to both parties. For example, in contrast to a telephonic interview, it erases the doubts where one party cannot see the other party. Reservations are cleared on spot. The interviewer can tailor the questions according to the mood of respondent by judging his non-verbal gestures which provide clues about discomfort, boredom or misunderstanding. Based on these clues, the interviewer can rephrase or even skip some questions. The purpose of interviews is to generate the maximum possible outcome from respondent's open views in accordance with the research question (Bryman & Bell, 2007, p. 479).

The environment setting where the interviews will take place plays a vital role in getting accurate response; therefore it will be made as comfortable as possible. The meeting

point will be selected after discussion with the respondent so that it should be suitable and easily accessible to the interviewee. On average, the length of interview will be between 35-50 minutes. Ethical concerns will not be neglected at all, and the respondents were asked if they would like their identities to be disclosed or kept anonymous. No recorders will be used during the interview until and unless the respondents agree. The purpose of recording will be only to ensure that we don't miss valuable information afterwards and not to concentrate on other activities going on, if any. From the recording, relevant data will be extracted with respect to its preciseness to the research question. Finally, the excerpts need to be organized and put into a specific format.

3.8.2 Collection of secondary data

We begin with collecting data from secondary data sources in order to base the construction of our theoretical framework. Selection of specific and relevant secondary sources in accordance to the topic in question is not an easy task to do. We spent a lot of time in searching literature that would match the needs of our research. For this purpose we got hold of both previous and updated quality literature that paved our way towards understanding our research question in a profound way. We identified all the appropriate and relevant secondary data throughout our thesis work. We extensively used the electronic search engine Umeå University's library to find authenticated articles and journals for referencing. Furthermore, books on shelves at Umeå University's library also proved to be of great help in obtaining a large amount of secondary data. Apart from library's physical and electronic data bases, internet was used as another tool to access data from different sources.

Keywords: Audit quality, auditor-client relationship, auditing in SMEs, auditing in Sweden, International Standards on Auditing (ISA), role of auditor, auditor size, auditor rotation, non-audit services, and auditor independence.

The secondary sources that we drew from existing literature and used in this study consist of previous theories as scientific articles and scientific literature and previous research. When we as researchers have an abductive approach, we need to study before collecting secondary sources which will illuminate our knowledge and will be useful for our research problem. As our study deals with the audit tenure, audit quality and statutory auditors' independence requirements that's why we have chosen to use the standards and rules governing these requirements such as Companies Act, Accounting Act, the analysis model. We have also availed ourselves of scientific papers and noted the previous research in the problem area. Other theories that we have used is Agency theory that highlights the conflicts of interest that may exist between shareholders and management, and auditors' role in avoiding these conflict. Much of the available literature in what auditors must do and must not do are regulated in various laws such as Companies Act, auditors and auditing laws and more. We have included the different rules that we felt were relevant for our paper to enable a better understanding of the problem area for us and for the reader. In addition to the laws and the existing theories that we have included in our thesis, we have also extended the theory of material as mentioned earlier with some scientific articles that touched on our subject.

3.8.3 Criticism of secondary sources

It is important for us to critically assess and assure that the sources we used in our study are significant, relevant and reliable for the study. The criticism we direct against our secondary data is thus that we are well aware that different researchers have different opinions about the studied problems. This has led us to take note of several research articles and resources to portray the problem area and thus have a broader view of the problem. Therefore, we have throughout the course of the study have studied theories with a critical approach. Most of our research articles are selected on the basis of their extremer relevance and we have consciously tried to take advantage of relevant and current articles in our problem area.

We believe that we reached theoretical saturation on the scientific articles that we have availed in this study. Since then we have treated more articles, it has led to us receiving the same information as before. Furthermore, we are well aware that researchers in a Master's thesis focused on theoretical framework of scientific articles. But in that auditors must follow laws and Regulations, meant that we also have taken up the rules and regulations pertinent to auditing. We have therefore in this study combined our theories, laws, and scientific articles with one another in the analysis.

3.9 Sample Selection

The subset of the whole population is known as sample, and the suitable selection of sample is important for the reliability of the research (Bryman and Bell, 2007, p. 195). The main focus of this study is to understand the auditors' attitude towards their client when there is long auditor client relationship. Our sample will not only consist of the respondents from audit firms, but we would also select respondents from the different firms (SMEs) to better understand this relationship. All the samples will be selected from Umeå, Sweden. We would try to conduct at least 7 to 8 interviews in order to congeal the quality criteria of our research work. The basis for selecting sample from Umeå is due to the limitations of resources in terms of cost and time. Sample selection will be based on judgmental (purposive) sampling for the selection of sample from audit firms; while convenient sampling will be choose for the selection of sample from SMEs. Both of them are type of non-probability sampling. The reason, why we have opted for these two different types of sampling methods is that for audit firms experts we had pre-defined groups in our minds from where would select the sample. In case of audit firms, the pre-defined group consists of the big-4 audit firms operational in Umeå, who will be approached for the interviews. The reason for selecting convenient sampling method for approaching the SMEs was that, they are scattered over a wide range from a sole-proprietorship firms to the medium-sized firm employing approximately 250 employees. Due to the complexities and limitations involved in selecting the sample from such a large population, convenient sampling has been used which provides the ease of selecting the sample due to the convenience of researchers.

Firstly, the Big4 audit firms operating in Umeå will be approached for interviews. Audit firms provide accounting and consulting services to all kind of SMEs and public-listed companies, and do the auditing for most of the public listed firms. In the second group, we will approach the small and medium-sized companies operating in Umeå and we would try to interview their Chief Financial Officers (CFOs), accountants or managers.

3.10 Quality Criteria

There are different criteria that can be used for the assessment and evaluation of qualitative studies. However, Bryman & Bell (2007, p.410-411) presents some of these and we have chosen to verify the scientificity of this study through the following criteria: Credibility, Transferability and Confirmability.

3.10.1 Credibility

Credibility deals with how the reader understands the conclusions made by the authors as trustworthy in relation to the reality and is it easy to replicate this study and test it into reality once more (Bryman & Bell 2007, p. 411). However, we have used open questions to a major extent and thus making our interviews a dialog between the interviewee and us. This has gained us some new perspectives and approach angles. Using a semi-structured interview technique has brought our respondents the opportunity to come up with their own answers and arguments using their experience as a point of reference. To be sure that we have understood our respondent we have recorded and transcribed the interviews in order to assure that no misinterpretations or mistakes has been done.

3.10.2 Transferability

Transferability is examining how our result in this study can be refined into more practical situations and surroundings (Bryman & Bell 2007, p. 411). We are conscious of the fact that our view of reality will influence the transferability of this study. We have interviewed people from different companies and audit firms that we have a lot of experience from. The respondents have in turn different perspectives, views and background from which we made our own interpretations about relation between long term audit tenure and audit quality. Going through the different interviews we found out that the respondents had a lot of things in common, they just expressed themselves in different ways. We stress that this will increase the transferability of this study since we received similar answers to the same questions even if the respondents belonged to different companies.

3.10.3 Confirmability

There is hard to be objective in a qualitative study as it is something that we are cognizant about. This is parallel to objectivity. Confirmability is concerned with ensuring that research would be conducted properly and also researchers would act with relevant personnel in good faith (Bryman and Bell, 2007, p. 414). For this purpose we will prepare interview questions that we think is in compliance with our study purpose and problem and will be based on theoretical framework. We will send these interview questions to our respondents before the interview dates to ensure that they have sound knowledge and get prepared for the interview. Also to avoid biasness and inaccuracy of information we decided to interview six to eight respondents from different categories; certified auditors of big four audit firms and certified accountants of SMEs. In interview we will use questions which are easily understandable by respondent. However, in case of complexity we will explain the questions to the respondents. Thus, generally the confirmability of our research will be high.

3.10.4 Dependability

Dependability criterion is matching with reliability of quantitative studies. Dependability means to ensure that complete records are kept of all phases of the research process that is problem formulation, selection of research participant, fieldwork notes, interview transcripts, and data analysis decisions and so on in an accessible manner in order to inform the readers that proper procedures have been followed (Bryman and Bell, 2007, p.414). We will keep records of all the different stages of our research, from the problem formulation, references, interview recordings, transcribing and previous versions of our research paper. Apart from this, peers will employ who would then act as auditors for judging how far this study follows proper procedures. We will use this to assess the degree to which our theoretical inferences can be justified (Bryman and Bell, 2007, p. 414). Due to this, we can state that the dependability of our research is good.

3.11 Ethical considerations

Ethics are usually defined as codes and conducts which every researcher should follow in his research. Ethics are linked with norms, values and corporate social responsibilities. As we are using qualitative research and primary data analysis as a method for collection, it is our responsibility to maintain high ethical standards during the whole process because it is obligatory and essential not to break ethical rules. Ethical issues cannot be ignored because they relate directly to the integrity of the research (Bryman and Bell, 2007) and it is a way to do the work honestly and responsibly. The literature we have used in our research work such as books, journals and other sources are appropriately cited and referenced to avoid plagiarism. In addition, in our study the four main areas of ethical principles categorized by Diener and Grandall (as cited in Bryman and Bell, 2007) are never violated: harm to participants, lack of informed consent, invasion of privacy and deception. We try our best to avoid in our work all these four unethical factors with special contemplation and emphasis. When we contacted companies to see if they are willing to participate, we told them what we want to investigate and what role they would have in the investigation. The use of recorders during the interviews will be by the discretion of the respondents. The respondents will be granted with all kind of confidentiality because the topic we are investigating can be intimate and personal. Our study is also based on those employed views and experience of audit and client firms their views can be poor so that they may not want others to know what they think of their past and the current audit firm. Therefore, we began all interviews by giving an option to the interviewee if they would want to keep their identity anonymous or not. Other than two respondents none of them had any issues with the anonymity of their identities. We think it gave the respondents some security to speak openly about their experiences.

Chapter Four – Empirical Findings

In this chapter we would be discussing the results obtained from the interviewees in the form of semi-structured interviews. The interviewees were divided into two groups, such that one group represents the auditors and the other group represents the clients. These groupings have been done on the basis of their firm operation, nature of business and the suitable category into which their businesses fall. This chapter has been divided into three different sections. The first section would present brief profiles of the interviewees which were selected and interviewed for the research study. The second section would present the views, opinions and feedback of the auditors collected from them to the questions in the interview guide. The third section would brief-out the opinions and views of the clients who annually purchase the services from the audit firms.

4.1 Profiles of interviewees

Henrik Bergdahl works as Chief Financial Officer (CFO) at Umeå Biotech Incubator (UBI). Apart from working for UBI, Henrik Bergdahl has his own business in the form of an accountancy firm, where he provides accounting services to other SME firms as well. UBI deals in biotech business and is a non-profit organization, which helps the small firms in getting started with their businesses. UBI provides assistance and support to the Umeå University students in terms of helping them with their research work and facilitating them with high tech labs.

PERSON X works for FIRM X, which is a software developing company operating in Umeå, Sweden. FIRM X develops software for firms from all the different industries ranging from biotech companies to financial firms. FIRM X itself is an SME, but is owned by an international listed company.

Carl Rehnberg owns the Fit Well Group Company, which builds and develops gym equipments. This company has been started by Carl six months ago, and is in the early stages of its business development. Prior to that Carl, has worked as an Investment Director in Armarium, and was its regional head for Norrland. Armarium was a privately owned finance company and provided financial services to the customers in the equity and corporate sector.

Kjell Hedström, works as a financial controller in VITEC. VITEC is a computer software developing company, and provides services to different industries e.g., energy companies and real estate companies. VITEC is still an SME, and is planning to be listed on OMX by the end of this year.

Anders Rinzen works both as an Authorized Public Accountant and as a partner in Deloitte. Anders has been working for Deloitte for the last 20 years. Anders audits around 250 client firms annually out of the total of 600 client firms to which Deloitte provides their services in Umeå, Sweden.

Anders Mårdell works as an Authorized Public Accountant in Ernst & Young (E&Y), and has been working for E&Y for around 35 years, and has been partner in E&Y for almost 20 years. Anders works part-time for the E&Y and handles from 25 to 30 client firms annually.

AUDITOR X is a Chartered Accountant, working for one of the Big4 audit companies working here in Umeå, Sweden. He has been working for this specific company for almost 25 years. AUDITOR X annually audits around 150 SMEs, which ranges from sole-proprietorship firms and family owned businesses to the governmental firms and non-profit firms.

4.2 Auditors' Opinion

4.2.1 Long-term auditor-client relationship and its effects on the audit quality

According to Anders Mårdell, long-term auditor-client relationship is important for both the audit and the audit quality because auditor needs time in order to get to know the client firm, its processes, its risks, etcetera. That is the reason why an audit is difficult during the first as compared to the successive years. Thus, at least three to five years are needed in order to provide good audit quality. But Anders Mårdell was also of the opinion that extensive long-term relationship could be dangerous as well due to the build-up of too close relationship in between the client and the auditor, which might affect the independence of the auditor. To the same question Anders Rinzen answered in such a way that for the SMEs long-term relationship seems much beneficial and works out well as compared to the public listed companies, if the other associated factors like objectivity and integrity are controlled. Thus, being an auditor Anders Rinzen does not have any issues with the long-term relationship of an auditor and client because if an auditor sticks to professional conduct and integrity in an audit engagement then nothing is at risk.

AUDITOR X mentioned that long-term auditor-client relationship is very useful because there is a lot of learning and experience involved in working with the same client for long term. In this way the auditor can get knowledge about the firm and understand the thinking of the personnel, which can be used in an audit engagement especially in terms of risk evaluation and calculation. It is part of auditing process to know the person behind the business and develop some kind of audit specific relationship with him. AUDITOR X style of auditing is that he discusses matters with the management during the audit engagement for instance discussing what is happening inside the company, and what kind of situations he has at home, and the kind of relationships or problems he is into in his personal life, which could indirectly help in the audit. Although AUDITOR X has long-term relationship with most of his clients, he always makes sure that it does not affect his audit independence in any way, and due to that reason he does not play any golf with them (with a smile), or meet them in private. And even if AUDITOR X helps them in giving them private advice he still makes sure that he keeps the auditing separate and distant from it. This quality of keeping the auditing separate from other things develop over the years of experience as an auditor. AUDITOR X added that he gives such impressions to the clients that they can trust him, share their secrets with him, and tell him whatever is necessary to the audit, and that nothing should be hidden from the auditor.

4.2.1.1 Long-term relationship allowing the auditors to have much knowledge

Anders Mårdell totally agrees with the opinion that long-term relationship between an auditor and client definitely results in an increase in the knowledge of an auditor regarding the client firm, which then helps in an efficient and effective audit with good audit quality. Even Anders Rinzen was of the opinion that long-term relationship under the factors of objectivity and integrity would lead to an increased knowledge acquired by the auditor regarding the client firm over the years. To this question, the answer of AUDITOR X was an absolute yes and that this knowledge developed over the years form the basis for good audit quality. But AUDITOR X is worried about the next generation auditors who might only look at the books and take into consideration only figures of the client-firms and would not walk an extra mile to get to know the client-firm well and develop good relations.

4.2.1.2 Complacency of auditor due to long-term auditor-client relationship

Anders Mårdell, in his opinions also agree with the prior researches and their study results that as the relationship between the auditor and the client develops over long period of time the auditor tends to get more complacent. It usually happens that at certain point of time during the relationship the auditor feels more attached and close to the company and becomes more relaxed and less independent in his audit engagement. Because of the involvement of complacency factor, Anders Mårdell supports the regulation of the Swedish government regarding the mandatory rotation of auditor after 7-years. According to Anders Rinzen, it is true that level of audit quality would lower due to long-term relationship between an auditor and client but it would not decrease to such a level that might be riskier for both the entities. Complacency does come into the action due to build up of relationship but still both the parties would tend to keep it at the professional level.

According to AUDITOR X there is always the risk of complacency due to long-term relationship but the auditors are trained in such a way that they can handle such situations. But on the other hand if the auditor knows the person and his personality that the mistake was due to error then the auditor should look into it and give another thought to it, rather than trying to damage the whole business or career due to a mistake which was due to error. So there should be some human feelings involved in an audit as well, and it should not be solely taken as a hardcore job. The risk to the independence of an auditor lowers with the time and experience as an auditor. AUDITOR X based on his more than 30 years experience as an auditor knows how to avoid the risk of complacency and the risks to his auditor independence.

4.2.1.3 Auditor-client relationship and the bilateral monopoly

Anders Mårdell stated that he would not agree with the opinion that there exists any bilateral monopoly in the relationship between an auditor and client. According to Anders Rinzen also there is no bilateral monopoly in between the auditor and the client. Even AUDITOR X, was of the opinion that there does not exist any bilateral monopoly in between auditors and client-firms.

4.2.2 Role of auditor and audit quality

4.2.2.1 Success of audit in reducing material misstatements

According to Anders Mårdell, the success of an audit in reducing the material misstatements depends upon the good knowledge of the client-firm, which ultimately depends upon the audit planning. An auditor can develop good knowledge regarding the client firm on the basis of his long-term relationship with the firm and their understandings of the firm. Anders Rinzen's reply was that an audit is not merely successful it is very successful in reducing the risk of material misstatements in financial reports. The audit process, the methods, tools and techniques used in the audit engagement all of them are geared to reduce the risk of material misstatements. According to AUDITOR X, an audit mostly and in most of the audit engagements for sure covers up the risk of reducing the material misstatements, and that is the reason an audit is conducted in first place in order to reduce the risks of material misstatements.

4.2.2.2 Uniform level of audit quality over the years

According to Anders Mårdell depending on the auditor-client relationship the audit quality might start deterioration after the span of 7 – 10 years, and might not remain the same. If the members of the audit team, which is part of the audit engagement, were changed annually then there would be some uniformity in the levels of audit quality but if the members of the audit team remain the same over the years then it would be tough to maintain the audit quality over the years. The combination of audit teams makes it easy for the inexperienced members to learn from the experienced members in the team. According to Anders Rinzen, long-term relationship in between an auditor and client not only results in uniform level of audit quality but it also increases over the years. The reason for this is that each year in an audit engagement the audit team goes through all the basic steps, and that is why it is being complained that audit is an expensive service and that for the same kind of business operations and activities the client has to pay for the audit each year.

According to AUDITOR X, long-term relationship in between an auditor and client can for sure produce uniform level of audit quality, and for this reason AUDITOR X each year gets new recruited employees to work with him who could provide a new and fresh look to the audit. In this way the risk for reduced audit quality is minimized, and it is not that the reliance is placed over the audit manuals because what is necessary for the uniform level of audit quality is the audit plan. The procedures, tools and techniques used during the auditing are mostly similar and what differs is the understanding of their operations and systems in different companies.

4.2.2.3 Role of audit-firm size and brand-name in maintaining audit quality

According to Anders Mårdell in reference to the theory mentioned that an auditor of large-size based on his capabilities and resources would tend to keep the audit quality higher. On the basis of these resources the audit-firm develops tools and technologies that help in improving the audit quality. Thus, it could be said that large audit firms with big brand-name do provide high audit quality as compared to small audit firms. According to Anders Rinzen, audit-firm size surely matters in maintaining the audit

quality because the volume and size does matter in maintaining the competent staff that could provide high audit quality in an audit engagement.

According to AUDITOR X, the audit quality is generally better now a day for the entire audit firms irrespective of size and name, which was very low during the past. FAR and FARSRS in the past has worked a lot in reference to uplifting the quality and standard of auditing in Sweden. If only the Big4 or Big5 firms are taken into consideration, then of course they have resources to develop the audit process and go forward with it, and educate its employees. Based on these facts the big brand names are considered to better with variety of in-house experts.

4.2.2.4 Audit quality during the early years of audit engagement

In reply to this question, Anders Mårdell mentioned that the risks of audit failure are higher during the initial years and the audit quality would be low due to lack of knowledge. Similarly during the extended years of audit-engagement also the audit quality might decrease due to increase in complacency. According to Anders Rinzen it cannot be stated that during the early years of audit engagement the audit quality would be lower, it might be that the audit firm does not have the sufficient knowledge about the particular client's business due to which something might be missed. But the auditors are used to uptake of new audit engagements from time to time, and it is about the audit planning and the audit processes which would define the audit results. Over the years, involvement of an auditor in different audit engagements, the auditor knows that in a new audit engagement where he should focus and where he could identify any risks. Thus, it would not be completely true to say that the audit quality is lower during the initial years.

According to AUDITOR X, he is of the opposite opinion and mentioned that during the early years of audit engagement the audit quality would not be low because you are excited about the new audit engagement and want to know more about the client firm, and thus the audit is conducted with much spirit and enthusiasm. AUDITOR X pointed out that during his early years with the audit engagements, he has much more to say during the initial years but there are always certain things, which might be hidden during the early years and would take some time to be discovered. So, it is always good to have new eyes to look at the client-firm, and due to this fact auditor rotation can be of benefit in order to get fresh look to financial reports. Thus it is not a risk rather it is an opportunity.

4.2.2.5 Auditor reputation in terms of perceived competence and perceived independence

According to Anders Mårdell, it is absolutely necessary that an auditor should be independent both in appearance and in reality. In Sweden, it has been stated in the Swedish law that an auditor should be independent, for instance, an auditor could not own the shares in the company which he is going to audit, which an auditor might do in some other countries. Anders Rinzen was also of the similar opinion that auditor reputation would surely strengthen the audit quality, and vice versa. But A. Rinzen did not have much to say about the perceived competence and perceived independence. According to AUDITOR X, the auditor reputation matters a lot in terms of perceived competence and perceived independence.

4.2.2.6 Effects of audit on the information credibility and information quality

According to Anders Mårdell, an audit definitely affects the information credibility and information quality of financial reports. Anders explains his views with the help of an example that if a local bank in Umeå knows which of the three auditors is more credible and reputable then financial reports signed by that auditor would for sure be of more value to their assessment because they would be sure that the financial reports signed by this specific auditor are presenting true and fair picture. According to Anders Rinzen if the audit firm is highly reputable, highly respected with large size then it provides some level of comfort in terms your opinion and signature providing the information credibility and information quality. According to AUDITOR X also an audit increases the information credibility and information quality of financial statements.

4.2.2.7 Perception of investors and information intermediaries about long-term relationship

According to Anders Mårdell, stakeholders' especially financial analysts do not pay much interest towards who has been auditing the client firm; rather it should be the audited financial report, which should stand out for the client firm. Anders Rinzen regarding this question did not have much to say, as he was not so sure about the exactness of the perception of investors and information intermediaries. According to AUDITOR X, the information intermediaries e.g. banks and financial analyst's concern is with the audited financial reports and they would not pay so much attention to the specific names of the auditors that it has been signed by whom, as they do not know if the person who has signed this document can be trusted or not.

4.2.2.8 Overcoming the issues of agency problem due to long-term relationship

In Anders Mårdell's opinion, as for the small firms the ownership and the management is one and the same thing, an audit would not make much difference. Where as in big firms, the auditors very rarely meet the owners and it is mostly the management with which the auditors work with and develop the understanding and the long-term relationship. So it would not be true to say that an audit could help in completely overcoming the issues of agency problem. According to Anders Rinzen, for the large clients the long-term relationship in terms of overcoming the agency problem does not matter because it is mostly the audit committee that the auditor meets and reports. Thus, the auditor in such firm neither gets into direct contact with the shareholders or the management of the firm. According to AUDITOR X, as he mostly works with the SMEs, so he is not sure if he could answer this question propely because the ownership and the management in the SMEs is mostly the same.

4.2.3 Auditor rotation

4.2.3.1 Regulations for auditor rotation

Anders Mårdell said that there are regulations in Sweden regarding the mandatory audit firm rotation but it applies only to the public listed companies. According to this regulation, a firm is required to rotate their auditor after a period of 7-years. In the Swedish law it is not necessary for the client-firm to rotate the audit firms, rather the

rotation of auditor within the same audit firm could serve the purpose as well, which does not seem to be that logical in terms of auditor-rotation. According to Anders Rinzen also there is a 7-years mandatory auditor rotation regulation in Swedish laws. Anders Rinzen also related auditor rotation to the EU Green Paper but he was not sure that what laws are being produced in that paper regarding the auditor rotation. As Anders Rinzen is not an elected auditor in any listed firm, so he is not sure of much of rules and regulations related to auditor rotation in public listed companies.

According to AUDITOR X there are no such rules of mandatory auditor rotation for the small companies for which he mostly works as an auditor. But discussions did take place regarding the mandatory auditor rotation and setting certain time limit for the rotation of the auditor, but nothing has been so far decided and regulated by the regulators for the SMEs. But AUDITOR X on behalf of himself, each year he evaluates his long-term relationship with his clients, and assesses if there are any risks to his auditor independence, and if there are then he tends to take a break, or asks another of his colleague with in the office to take the client's audit engagement.

4.2.3.2 Cost-benefit analyses of auditor rotation

In reply to the question regarding cost-benefit analyses of auditor rotation, Anders Mårdell answered that due to the auditor rotation the client-firm might find different auditors in the market offering competitive prices, which might be lower than the usual audit price. For the auditor it would not be much about the cost-benefit analyses, so the entity, which is going to be at the maximum stake of cost-benefit analyses, is the client firm. In the non-monetary terms the cost that the client-firm might face during the initial years would be due to the lack of in-depth details of the firm's knowledge by the new auditor. According to Anders Rinzen, as far as cost-benefit analyses of auditor rotation are concerned he cannot see much of the benefits of it, although the costs for the client firm would be higher during the initial years.

According to AUDITOR X, the benefits of auditor rotation would be that new eyes would be involved in the audit, which could provide a fresh look which the old eyes of the audit could not provide. AUDITOR X added that he normally gets different colleagues to work with him in different audit engagements and they are rotated after a couple of years and new colleagues are brought in for the audit. Thus in a way these colleagues working together with AUDITOR X tend to be his eyes which could provide a new and fresh look to the audit. Keeping the same audit team for the client-firms year by year would not be beneficial for both the entities. The costs would be the transfer of knowledge from one auditor to another auditor, and the loss of already built up knowledge pool, experience and relationships. Other than the financial costs for the client firms depends on the type and size of the business, and mostly the first year of an audit engagement is both tough and costly. AUDITOR X added that it is very interesting and challenging to get the new clients and work with them.

4.2.3.3 Appointment of the auditor by the regulator rather than the client

According to Anders Mårdell, the selection of an auditor for the client by a regulator or government authority has been a topic of discussion in Sweden for number of years but the results were that it should be the client firm itself who should appoint the auditor. The main users of audit financial reports are the shareholders, so there is no point that

someone other than the representatives of shareholders appoints the auditor. So the feasibility of this scenario does not seem to be a successful at all if ever applied. According to Anders Rinzen, the appointment of an auditor by a regulator rather than client firm itself would be the most “stupid thing” (with an outburst of laughs) that could ever happen. According to AUDITOR X the current system where the client-firm itself appoints the auditor is the most suitable system because in it both the entities have trust on each other. If the auditor was appointed by the regulator then the audit engagement would have been conducted as a formality, and less information would have been shared, and the audit overall would have been a boring task. So it is not a good option that a regulator appoints the auditor for the client.

4.2.4 Reasons for an audit failure and its consequences

According to Anders Mårdell, one of the foremost but uncommon reasons for audit failure would be an attempt of sophisticated fraud from the client’s side, which is that a client purposefully wants to hide certain material misstatements so that the auditor could not detect it. The most common reason for the audit failure would be that an audit itself was not effective and efficient, or that the audit was not planned in a proper way. Due to the lack of proper planning, it is difficult for an auditor to assess the main and significant risks are present in the client firm, so in this way the auditor focuses on wrong aspects rather than the ones which need to be scrutinized. Weak knowledge of the auditor regarding the client firm is another factor, which could lead to an audit failure. Anders Rinzen, when asked about the reasons for audit failure answered that it would be due to the fact that complete information or scenarios were not presented by the client to the auditor in a clear and adequate, and the opinion presented by the auditor has been on the availability of provided information. According to Anders, an audit failure is not due to the process of audit involved in the audit engagement rather it is due to the unavailability of information. The consequences of an audit failure could be that an auditor is being sued due to the issuance of wrong audit opinion concerning the financial reports, or maybe you do not get paid for the audit services (with a smile). But the authorities do look into the case and decide that who was guilty party in the audit failure and based on that the guilty party is subject to the charges in the law.

According to AUDITOR X one of the reasons for audit failure is the time allocated for the audit engagement. For instance sometimes there are only 10-hours allocated out of which you have to both detect the problem and keep communication and coordination with colleagues. Due to budgetary concerns the time limit could not be extended and therefore it turns out to be difficult to discover problems and detect material errors within such short period of time. Other than this an audit failure could be due to improper audit planning, and due to mistakes in the planning process you can miss important factors in the audit of the client firm. And sometimes a risk is detected in the audit but then it is difficult to eliminate the risk because the time allocated to you do not allow you to do so. The consequences for the audit firm is that it would need to use the insurance in order to cover its mistakes within the audit. Other than this there is a governmental organization, which investigates the audit engagements of auditors and in reference to illegal or bad audit the license of the auditor could be cancelled as well. AUDITOR X also added that apart from this the auditor loses his reputation as well, and the clients feel hesitant to work with such auditors, and in general would have its negative impacts on the brand name of the audit firm as well.

4.2.5 Professional ethics of auditing and auditing standards followed in Sweden

Regarding the professional ethics of auditing that should be followed in an audit, Anders Mårdell replied that in Sweden all the auditors who are registered members of FAR are suppose to follow the ethics rules developed by FAR. These rules are not actually the laws or regulations but if an auditor does not follow it then the consequences that an auditor would be facing are equivalent to breaking a law or regulation, because the registration or license of the auditor could be cancelled by FAR. Apart from these rules developed by FAR, the Big4 audit firms have developed their own entity-specific global code of ethics as well which needs to be followed by the personnel working for any of the specific entity. According to Anders Rinzen, they follow both the state-defined professional ethics as well as those codes of ethics which are being constructed on firm-level. The firm-level codes of ethics, guidelines and regulations, for instance in the case of Deloitte, are much stronger than those defined by the authorities or the supervisory board. There are a lot and a lot of professional ethics regarding auditing, and learning them alone would take around 7 years.

According to AUDITOR X, an auditor needs to follow the professional ethics formulated for them both by the specific audit firm and by the regulators in general. Apart from it, an auditor needs to be independent, and should be having societal respect as a responsible citizen. Also the auditors should avoid the element of cheating, and he should not talk bad about his colleagues. There are professional ethics and code of conduct from the FAR, which are to be followed by all its registered members. It provides the auditors with the rules that how to do an audit and how to behave in an audit engagement. AUDITOR X added that most the rules of ethics are easy to follow if you already are a responsible citizen.

According to Anders Mårdell, from January 1st, 2011 it has been made mandatory for all the audit firms in Sweden to follow International Standards on Auditing (ISA). According to Anders Rinzen, the Swedish regulations that are in compliance with ISA are followed in Sweden. But A. Rinzen was not sure if ISA has been mandatory from 1st of January 2011. According to AUDITOR X, they are currently following Revision Standard (RS) but from the next year they are going to follow International Standards for Auditing (ISA). Although RS is similar to ISA but ISA standards are more of international nature.

4.2.6 Acquisition of non-audit services from the auditors and its effects on audit quality

According to Anders Mårdell, his firm provides NAS services mostly to the small firms, but the auditors do not provide these NAS services as other members of the audit firm mostly provide them. In Sweden, audit firms are prohibited from providing accounting services to the public listed client firms, although there is no prohibition on providing other NAS services like tax consultancy etcetera. Anders added that audit quality would be comparatively higher if an audit firm provides other NAS services to its client especially if it provides the accounting services and prepares the financial report for them. This is due to the difference in the competences of both the auditing and the client firm. But both the audit services and non-audit services needs to be segregated from each other so that the NAS services do not impair the independence of the auditor. The

providence of both the audit and non-audit services would lower the risk of audit failures and enhance the audit quality. According to Anders Rinzen, his firm do provide non-audit services but they are not on regular basis. The NAS which are provided by A. Rinzen's firm are services related to tax, business consultancy, and pay-rolls etcetera. According to A. Rinzen, as different teams are involved in providing the both the audit and the non-audit services there the audit quality would increase, as it is just the different services you offer to the client without any involvement in their management or other strategic decisions. What could be dangerous is if the auditor provides services related to restructuring, mergers and acquisitions etcetera, which would lower the audit quality and risk the auditor independence.

According to AUDITOR X, his firm surely provides non-audit services to its client firms just like the other audit firms, which provide the NAS services to its clients. AUDITOR X's firm has variety of personnel who are experts in different services for instance tax-services, advisory services, planning and development, corporate finance etc. In Umeå's office of AUDITOR X, auditing contributes only 30-40% of the total revenue. And out of the total of 50-employees working at Umeå's office, around 25 employees are working with the accounting services provided to different clients. As there are different personnel within the audit firm for different kind of jobs therefore the providence of NAS services to the client-firms would not affect the audit quality. Rather it is good for the audit quality because within the audit firm the auditor could ask the accounting personnel who were responsible for the accounting of the client-firm and therefore get hold of documentation and other information within the firm. Thus if the same firm provides the NAS to the client firm then it will both increase the knowledge and would bring down the costs for the auditing.

4.2.7 Dependence of local audit firm on specific clients

According to Anders Mårdell, the existence of any such situation where an audit firm relies on some specific large client is very rare. Because a large client firm would tend to purchase the audit services for his firm from a strong competitive big audit firm rather than relying on a small local firm. For instance, Volvo in Umeå would not rely on a local auditor from Umeå rather they would want to have their financial reports audited by someone from the Stockholm or Gothenberg auditing office. One scenario where such an event would take place is if a newly started audit firm tries to rely on some specific clients during the initial stages and does not want to lose them at this startup stage of their business venture. According to Anders Rinzen, he does not agree with the researcher at all whose findings have concluded in the reliance of an auditor over the specific client. For A. Rinzen's firm, it never really mattered that they should rely on a specific client or a group of clients and thus compromise over the quality due to the fear of losing that specific client or group of clients. Auditors often lose and acquire clients of regular basis, so retaining of clients over some compromises does not seem to be a valid reason.

According to AUDITOR X, as far as the reliance of local audit firms over specific clients is concerned then practically it does not hold true. Although AUDITOR X alone has around 150 client-firms, and around 5 to 6 of them are big clients, still it has never happened that he or his firm would solely rely on some of these client-firms. The audit firm, where AUDITOR X works keeps a centralized check and balance on all its offices so that neither the audit firm nor any of its clients rely on any specific client. It might be

true for small audit firms who might have only a couple of clients firms, and does not want lose the revenue stream from them.

4.2.8 Effects of industry specialization over the audit quality and its fees

Ander Mårdell, when asked about the affect of industry specialization over the audit quality was of the opinion that industry specialization for sure affects the audit quality because certain company in specific industries, for instance, the companies in financial industry like banks and insurance firms has special rules and regulations that needs to be taken care of during the audit engagement, and might need specialized skills. Industry specialist auditors are provided with specials skill and trainings in order to prepare them for the special audits with certain specialized industries. According to Anders Rinzen, industry specialization for sure would increase the audit quality. According to AUDITOR X, industry specialization matters a lot in terms of determining the audit quality in certain industries.

In the opinion of Anders Mårdell, it is only in some cases where the auditor would charge high fees for higher audit quality and industry specialization, but it is not that often. The client firms mostly look into the overall audit fees and would not be willing to pay for the individual competences of the auditor. So it would be just like one out of ten firms who would tend to measure the competence of the auditor or would be willing to pay higher for the reputable audit firms. Anders suggests that client firms should be willing to pay higher based on the competences and industry specialization of the auditors, as it would be of great value to their financial reports. The simple answer that we got from Anders Rinzen in reply to this question was a one word 'Yes'. According to AUDITOR X also it is appropriate to charge higher fees for industry specialization and audit quality because you have the expertise and they are worth it. Auditing services are not something which comes for fixed price, and the prices for it do varies among the companies, and similarly different clients have different willingness to pay for the audit services. Some clients might be willing to pay extra for the industry specialization and audit quality while others would not.

4.2.9 Enforcement or sympathizing of the auditor by the client

Regarding this question, Anders Mårdell answered that it seldom happens that an auditor is being forced by the client-firm to modify his opinion, as it is something very unusual. But other than this usual discussion in between both the auditor and the client regarding what needs to be more explained or changed in the financial statements do take place. According to Anders Rinzen, he has been enforced or sympathized several times over the year in order to modify his opinions. The clients do ask for an opinion, which is much favorable to him, that the auditor might write something which is much favorable for the client. It is that there always might be discussions over the errors detected in the financial report. It is much easier for the auditor to issue a clean audit report if the auditor was there during the whole year assisting and guiding the client at different stages. But mostly it is that the auditor audits the company by the end of the fiscal year and the damages which are already took place during the year are unavoidable by the auditors to remark on them in their audit report.

According to AUDITOR X, he has manipulated the audit opinions but it has been on the basis of discussions in between the auditor and the client, and not due to enforcement.

Sometimes the element of sympathizing gets involved because the auditors are humans as well and they can understand that there were certain issues which the client had already presented in a fair way. This is where the auditor needs to use his intelligence and experience in order to check that what the auditor is saying is true and fair, and is there any room for modifying the audit opinion or not.

4.2.10 Concluding opinion about the affect of long-term relationship on audit quality

The concluding opinion of Anders Mårdell about the affect of long-term relationship on audit quality was that to a certain extent the long-term relationship would positively affect the audit quality but then a point reaches where the audit quality might start to get lower due to the increased complacency and decreased independence in the relationship. So an audit-client relationship up to 7 years seems to be favorable as after that the risk of negative consequences might start arising. According to Anders Rinzen, for SMEs the audit quality is not affected in a negative way due to the long-term relationship between an auditor and client because the auditor for an SME becomes a specialist over the time, and the audit reports for such clients are 100% correct, because an auditor knows everything about the firm from the basics to the very complex details. Whereas, for the large firms depending upon the complexity of their businesses it is necessary to have mandatory auditor rotation which would provide new eyes and new angles to look at the firm, its operations and financial information. Because there the audit firm might develop a state of trust where the auditor thinks that everything seems to work and might not give a deep thought or concern to the minute details. According to AUDITOR X, he is of the opinion that auditor client relationship affects the audit quality in a positive way but the auditor needs to keep an eye on the risks involved in long-term relationship and try to minimize them on the basis of proper audit planning.

4.3 Clients' Opinion

4.3.1 Long-term auditor-client relationship and its effects on the audit quality

In reply to the question regarding the long-term auditor-client relationship and its effects on the audit quality, PERSON X, of U-firm replied that long-term relationship would increase the audit quality due to the fact that the auditor over his engagements with the client firm across the years acquire great deal of knowledge regarding the business operations and financial information of the firm. To the same question, Henrik Bergdahl answered that if the relationship between the auditor and the client were working out well then the audit quality would for sure be higher. The audit quality would further enhance if in the auditor-client relationship the auditors focus on auditing the company more than learning about the company. It will be very rare that the auditor gets too complacent with the client that could affect the audit quality in a negative way, but generally as a result of long-term auditor-client relationship the audit quality tends to be higher. Henrik also added that personal relations in the auditor-client relationship play a vital role, and he has switched among couple of auditors due to unfavorable personal relationships with them.

According to Carl Rehnberg, there should not be long-term relationship between an auditor and the client. Along with this Carl added that he is totally against those auditors

who along with the audits provide the book-keeping or the accounting services to the clients, which is a common practice in Sweden and provides the ground for sloppy auditing. Thus, it affects the credibility of the auditors and in turn lowers the audit quality. The sole service that an assigned auditor should offer to the client is the auditing, but this does not mean that the audit firm should quit offering other services in a relationship; it is just that the same auditor within a firm should not be doing both the book-keeping and the auditing. Because if the same auditor does the book-keeping and the auditing then he in a way is auditing his own work, and there is no room left for credibility. Also, in long-term relationship the auditor develops dependency on the clients especially the big-clients which may put the audit quality at risk. According to Kjell Hedström, before their current auditor, which has been with them for four years, they had a relationship of ten years with their ex-auditor. He was of the opinion that he and his firm are willing to change their auditors after certain period of time, because keeping an auditor for long has a tendency to affect the price for auditing. Kjell's opinion was that long-term auditor-client relationship is of much comfort but there are both positive and negative aspects of it. Audit quality in a long-term relationship depends on the auditor and his personality and what kind of relationship he builds with the client firm.

4.3.1.1 Long-term relationship allowing the auditors to have much knowledge

When asked about the increase in knowledge due to long-term auditor-client relationship, PERSON X answered that long-term auditor-client relationship for sure increase the auditors knowledge regarding the client because the auditor gets to know all the basics of the firm, and doesn't need to review or check them in that detail during each audit engagement. Rather, an auditor can concentrate more the current fiscal year's items and concerns of the firm. Henrik Bergdahl agrees with the opinion of the prior researcher regarding the knowledge which the existing auditors posses in auditor-client relationship. To this Henrik added that teaching a new auditor is equivalent to teaching a child. While the existing auditor based on his knowledge of the company can go through the important information during an audit rather than trying to understand the firm at first place.

Carl Rehnberg replied that long-term auditor client relationship would make the auditors more knowledgeable and efficient, but Carl added that he is not sure if an efficient audit would refer to a secure and reliable audit as well. The reason for this is that the auditor over the years might feel that he has done that before and knows the procedures, which would lax his audit engagement. So, if efficiency is viewed in the context of reliability then long-term relationship might not serve that purpose. According to Kjell Hedström, due to long-term auditor client relationship the knowledge which the auditor acquires tends to grow over the time, for instance an auditor with one-year relationship would not have as much knowledge as a seven-year held auditor-client relationship holds. But after certain period of time, the relationship could not generate more knowledge, for instance, there would not be much difference in the knowledge of in a four-year old relationship as compared to seven-year old relationship. For Kjell, he and his firm does not chooses an audit firm, they choose the auditor, and for that reason they look into experience, knowledge, capabilities, competences and personality of the auditor rather than the audit firm itself.

4.3.1.2 Complacency of auditor due to long-term auditor-client relationship

To the question regarding the complacency of auditor due to long-term auditor-client relationship, PERSON X said that as there are both pros and cons of long-term auditor-client relationship, due to long-term relationship the auditors and the management would feel like partners and this might lower audit quality. Henrik Bergdahl, while answering to this question said that involvement of complacency might be present in the relationship in between an auditor and client but it does not always affect audit quality in a negative way. But he is totally against this opinion as he himself knows some of the auditors who are very complacent and their audit is all about charging high bills and providing an audit opinion to the desires of the client, which lowers the audit quality.

According to Carl Rehnberg, the factor of complacency is surely involved in the long-term auditor client relationship, which makes the reliability of an audit questionable. According to Kjell Hedström he is not sure if this holds true for the large-companies, and it might be dependent much on the size of the client firm. It would be very rare for the large firms to develop such a relationship with the auditor where he would feel complacent, and as a result audit quality might decrease. But it might hold true in small companies where the owner earns his living from the operations of that firm, and thus might develop such relations with the auditor where complacency might get involved, and the personal relationship would affect the audit quality.

4.3.1.3 Auditor-client relationship and the bilateral monopoly

PERSON X in reply to the question regarding the existence of bilateral monopoly in between auditor and client mentioned that the existence of bilateral monopoly is true for small firm for instance sole-proprietorship and a local audit firm of small size, as both of them would rely on each other for specific interests. According to Henrik Bergdahl, there exist the bilateral monopoly between an auditor and the client, because both the entities tend to have long-term relationship with each other and it is very rare that either of the entities would want to change the other party.

According to Carl Rehnberg, it is the auditor who might have the more benefits in an auditor client relationship and from the retaining of the client-firm because the client-firm might turn to another auditor at any point of time, especially for the listed-companies because there is not much difference in the audit fees. The audit firm might compromise over the credibility in order to retain the client-firm, and due to this fact the auditors should be rotated and appointed by the regulators. According to Kjell Hedström, the presence of bilateral monopoly would hold true for the family-owned businesses but if for a large company with board of directors then the risk for bilateral monopoly diminishes to the lowest level. The auditor and the CEO, even in the large firms might develop close relationship but again there is the presence of board of directors who could control things. According to Kjell, it would interesting to conduct a research on the subject that how often the large firms change their auditors, and the results would show that the large firms change their auditors more often than the change of auditors by the small firms.

4.3.2 Role of auditor and audit quality

4.3.2.1 Success of audit in reducing material misstatements

PERSON X mentioned that the success of auditors in reducing material misstatements could be evident from their audit engagements in different businesses and industries. For instance, the company U-firm where PERSON X is a financial controller mentioned that as her firm deals with software development, so for them the major concern is the software revenue recognition and thus the auditor based on their experience knows which item they should look into for the material errors. Concerns are that when the revenue should be recognized and when it should not be, and how they should be spread over the year. According to Henrik Bergdahl, the success rate of audits reducing the material misstatements is much higher if the client-firm itself does not want to hide material errors as a fraud, because it is a bit tough to detect those misstatements of the client-firm, which are purposeful.

According to Carl Rehnberg, an audit is quite successful in minimizing the risk of material misstatements which are there in the book-keeping but the inventory of a company is very seldom audited. It is just that a list of inventory items is prepared without any insight into those inventory items. For instance, there would be a machine listed in the inventory which might not be either functioning or might not even exist in reality but it is still valued in the inventory. This is of great material risk, and for this reason Carl takes the net value of the firm into account. It is not that the firm wants to cheat but there might be a machine, which has broken down for a year or two but is still out there in the inventory list with no one to take notice of it, which is a common error and needs to be audited.

According to Kjell Hedström, the auditors are successful in reducing the risk of material misstatements because they know what they should focus on during their audit. In case of VITEC, where Kjell Hedström is a financial controller, has many complex heads in their financial reports, for instance highly intangible assets, so the auditors would tend to focus more on them. Similarly impairment tests of the goodwill would be another area of concern for the auditors to focus on during their audit engagement due to complexity involved in it. It is not exact science that the material misstatements detected by the auditors would be fair in nature because as far as defending of goodwill and impairment testing is concerned then its value is planned over the years.

4.3.2.2 Appointment of auditor

PERSON X's reply was that U-firm appoints an auditor on the basis of their knowledge regarding the Swedish regulations and also the US GAAP along with their familiarity with the software revenue recognition system. Other than this the price is also an important factor, which is being considered while appointing an auditor. In reply to the question regarding the appointment of the auditor, Henrik Bergdahl answered that for him the appointment is more on the basis of his personal relationship with the auditor based on his past experiences with them. The trust element plays a vital role as far as personal relationship between an auditor and clients are concerned because the trust goes both ways, and this can lead to a hassle-free smooth conduct of audit engagement. Otherwise, if the personal relationship is not involved then the auditor would tend to

audit both the firm and the personnel responsible for maintaining the firm's financial information.

According to Carl Rehnberg in order to appoint an auditor he would look into the stability of the audit firm, and apart from that it depends upon the size of the client firm that whether the firm can afford to have one of the Big4 audit firms as their auditor or they could appoint a local auditor. For Carl's firm, he is comfortable to have any kind of certified auditor who could serve the purpose, but according to him along with the time if his company grows to be a listed company then he would have to take into consideration the size and qualities of the audit firm. Along with this Carl added that he would give audit fees a thought as well during the selection process, although they tend to vary not too much between the firms but the prices for the accounting services purchased from the auditor vary a lot. So Carl said that it would be a good option to have the audit services from a certified auditor or may be from one of the Big4, and the accounting or the bookkeeping services from a small accounting firm. According to Kjell Hedström, they appointed the auditor on the basis of his or her knowledge regarding the IFRS, which was essential for VITEC and thus it came to the personal competences and qualities of the auditor and not of the audit firm.

4.3.2.3 Auditor reputation in terms of perceived competence and perceived independence

The opinion of PERSON X regarding the auditor independence was that it surely is an important factor for the audit quality, and she would hesitate to have an auditor who might have been an ex-employee of U-firm but is currently employed at an audit firm due to the reasons of familiarity and complacency involved in the relationship. As far as reputation is concerned then the large audit firms for instance the Big-4 have the reputation of possessing competent and internally trained auditors, which ultimately leads to higher audit quality. According to Henrik Bergdahl, he does not give much importance to the auditor reputation, because of the high prices charged by the highly reputable auditors. Because even the small audit firms based on their expertise can carry out a good audit work for less money. It is just that the reputation especially of the Big4 has been overstated, or else the only element of difference would be that Big4 might have special experts, who are specialized in specific industries. Small audit firms due to lack of expertise might find it difficult to assess and solve the mysteries involved in the audit of client-firms of specialized industries.

According to Carl Rehnberg, it is the reputation or the perceived competence and independence of the audit firm that is being taken into consideration rather than the competence and independence of the auditor itself. The most common reputation that can be discussed at auditor's level is whether he is a good or bad auditor. So, it is mostly the reputation of the audit firm which is of value to the customers, for instance if one of the Big4 firm's is appointed as the auditor then they are perceived to have good reputation. According to Kjell Hedström, he would rate the auditors' reputation, which is the perceived competence and perceived independence of the auditor quite high as they are essential for the uptake of the audit quality.

4.3.2.4 Consideration of auditor-size and brand-name during the appointment of auditor

According to PERSON X, they do take into consideration the auditor-size and brand-name while appointing an auditor and her firm has been directed by the parent company to appoint one out of the Big-4 audit firms. As U-firm has E&Y as their auditor, which has got global network with its offices in USA as well, so it is easy to utilize their network and services with the help of which they could easily coordinate and collaborate with their parent company. The simplest answer, which Henrik Bergdahl provided to us regarding this question was a one word 'No' answer.

According to Carl Rehnberg, at the moment with his company being at the start-up phase of its business life cycle, the auditor-size and the brand-name does not matter to him during the appointment of an auditor. But down the line if his company grows to the level of being a listed company then he would give value to the auditor-size and brand-name of the auditor due to their expertise and audit engagements with listed companies. According to Kjell Hedström, he was of both the yes and no opinion regarding this question because he does not compare KPMG and E&Y, and then choose the most popular and famous brand in between them. But if you are a listed company then you might have to select one of the Big4 or Big5 companies because they have much more knowledge and experience in terms of working with listed companies. So in the case of listed companies the brand-name matters but it is still not their brand-name it the kind of big-clients experience they have.

4.3.2.5 Effects of audit on the information credibility and information quality

PERSON X in her reply to the effects of audit on information credibility and information quality said that an audit surely increases the information credibility and information quality because the client firm provides their annual reports with the financial information to the auditors, who review it and provide their feedback and opinion over it. According to Henrik Bergdahl, an audit definitely affects the information credibility and information quality because banks and investors want the year-end financial information to be audited. For small firms with one or two owners, audit financial reports would not be of much interest but to large firms with external capital, audited financial reports are of great value.

According to Carl Rehnberg, an audit does affect the credibility and information quality of financial information and that is why Carl is so critical about financial reports as he wants it to be credible as it is the most essential part to take a look into by all the stakeholders. According to Kjell Hedström, an audit surely affects the information credibility and information quality, and as VITEC is moving to be listed on OMX it is much essential for them to have both the information credibility and information quality. As the size of the firm grows the need for the credibility and quality of information grows as well.

4.3.2.6 Perception of investors and information intermediaries about long-term relationship

According to PERSON X, intermediaries for instance the credit rating agencies consider the long-term auditor-client relationship to be a good sign for both the rating and the

higher audit quality. If a firm often changes their auditor then the intermediaries get skeptical that something is wrong with the firm and for that reason they are trying to change the auditors. The change of auditors serves as a warning to the intermediaries that they should have a deeper look into the client firm regarding the issues that why they have changed the auditor. Henrik Bergdahl answered that for small companies it would not matter that much but it surely matters for large firms where most of the investors and information intermediaries rely on the audited financial information. According to Kjell Hedström, he does not have any idea regarding this question.

According to Carl Rehnberg based on his past experience as financial analyst and consultant said that they perceive the long-term relationship between an auditor and client to be not good for audit quality. The relationship should be of certain time limit otherwise both the entities would develop inter-dependency on each other, which could lower the audit quality. According to Carl Rehnberg for investors, decision-makers, banks, credit-rating agencies and other intermediaries only the audit of book-keeping of a company is not enough. Along with the book-keeping the business processes and systems needs to be audited as well. For instance the audit of a company might present the stakeholders with the information that how well the company is operated by identifying if all the possible decisions that were formulated by the board of directors were brought into operation by the CEO and the subordinates. Thus, the health of the company and the routines in a company needs to be audited as well in order to keep the intermediaries and other stakeholders well informed.

4.3.2.7 Overcoming the issues of agency problem due to long-term relationship

In the opinion of PERSON X, as the auditors are chosen by the owners therefore they are the ones who report any issues regarding the management to the owners. But it's mostly the auditors and the management who are in contact with each other and the auditors and the owners meet on rare occasions. It is a three path network where the auditor makes sure that the owners should know what they are supposed to know about the operations and conduct of the management. Thus the auditors as a backup can make the owners better understand what the management has to say because for the U-firm it is hard to explain their financial information and the Swedish regulations to their American parent company. According to Henrik Bergdahl, long-term relationship would not overcome the issues of agency problem in between the owners and the managers because, the auditors mostly work with the managers in close relationship and the auditors on rare occasions meet with the owners. Based on this reason the owners might sometimes not trust the auditors and might want to change it so that the new auditor would not have that close relationship with the management of the client-firm.

According to Carl Rehnberg, he was of the opinion that he being the owner of the firm would have issues with the long-term relationship between the auditor and the client, and would not consider it to be good for the audit quality. Carl added that it is very seldom that the owners and the managers would have agency problems among themselves, and that an audit might help them in overcoming it. According to Kjell Hedström, on one hand it is good for the audit firm to have long-term relationship as the auditor gets to know much about the client firm, and the auditor knows that there are not many bricks under which he has not looked up. The negative thing can be the development of personal relations in between the auditor and the client, which is not good for the audit. For a newly recruited auditor there are many rocks and stones to lift,

and look under for hidden stuff. If the auditor is the right person for the job then he will overcome the issues of agency problem or it will be the other way around.

4.3.3 Auditor rotation

4.3.3.1 Regulations for auditor rotation

PERSON X answered with her opinion that auditor rotation is only mandatory for the public listed companies. As Umetrics is an SME they do not have any regulations regarding the change of auditor after a specific period of time, and for that reason they have been having Ernst & Young as their auditor since 1987. PERSON X mentioned that even the rules for having an auditor are changed, and except public listed companies the SMEs can chose to have the auditor by will. But most of the companies in Sweden chose to have their financial information audited because it is a good way to keep track of your business that it is doing well. Apart from this audited financial reports are of great use to the banks if a firm needs to have good relations with them and want to have loans from the banks. The answer of Henrik Bergdahl regarding this question was also that there are no specific regulations for the SMEs in Sweden to rotate their auditors after a specific period of time, and thus a company can have an auditor for even 50 years.

According to Carl Rehnberg, he is not aware of any such regulations in the European law but as far as his knowledge regarding the regulations in Swedish law for mandatory auditor rotation is concerned then there is no such regulation in Swedish law. According to Kjell Hedström E&Y, which was their ex-auditor could not continue to audit their firm, but he was not sure that if it was due to any internal rules and regulations they has for auditor rotation or due to any government laws. But when we reminded him of the seven years auditor rotation rule in Sweden for listed companies, then he could recall that yes it was due to the seven years rule due to which E&Y had to quit their audit engagement.

4.3.3.2 Cost-benefit analyses of auditor rotation

In answer to the question regarding cost-benefit analyses of auditor rotation, Person X replied that due to auditor rotation the initial costs would be higher than the benefits. The costs would be higher because you have to provide the new auditor with the information from the scratch, and as it will take longer the company would be supposed to pay more to the auditor. The benefits would be only that the firm would get fresh and new views from the new auditor. Henrik Bergdahl, in his reply to this specific question answered that during the first year of auditor rotation it gets very costly for the firm, because the auditor has to learn everything about the company from scratch. The only benefit during the initial years could be that the new auditor would have a thorough examination of the firms, and would even look into those information heads, which the existing auditor used to skip due to his confidence over it, resulting in a fresh insight into the firm.

Carl Rehnberg said that he does not see many benefits of auditor rotation other than this that the credibility would increase due to the involvement of a new auditor. There is no need to rotate the audit firm as a whole; even if the auditor with in an audit firm is rotated it would still serve the purpose. According to Kjell Hedström, the benefits for

the client firm are that the price of the audit goes down when you hire a new auditor, and as the relationship builds the price of the audit tends to rise up again. So for the client firms it is a good option to rotate the auditors as it lowers the price for the audit.

4.3.3.3 Appointment of the auditor by the regulator rather than the client

According to Person X, if the appointment of auditor is to be done by the regulator rather than the client then the regulator needs to stipulate the costs of it as well because this might double the price for the client-firm. Thus, a client-firm usually should have the option of choosing their auditor themselves rather than a regulator appointing the auditors. Henrik Bergdahl in his answer said that the relationship between an auditor and client is personal and the regulator should not be involved in the selection of an auditor for the client firms. The reason for this is that if the auditor is selected by the regulators who do not have any relationship with the client then the auditor would tend to audit the manager at first, that how he works, rather than focusing on the financial information at first place.

According to Carl Rehnberg, it would be a good option if the regulator rather than the client firm selects the auditor for the audit engagement. The answer of Kjell Hedström was opposite to that of Carl Rehnberg, and Kjell was of the opinion that it does not sound proper for auditor to be selected by a regulator for the client. Kjell's opinion was that it is more adequate when the owners choose the auditor, and is then appointed for the audit engagement.

4.3.4 Reasons for an audit failure and its consequences

According to Person X, audit failure can be damaging for both the audit and the client firm. For the clarification purposes she quoted the example of Enron case from USA, where both the auditor and the client firm had to face the damages of complete destruction. For her firm, she as a financial controller of the firm and the auditor signs a letter where it has been mentioned that the auditor would not be responsible for any undetected errors. This in a way secures the job of an auditor in terms of their audit engagement. Henrik Bergdahl mentioned the main reason for an audit failure is the client's firm itself and the people working in that firm. The reason for this is that it is easy for an auditor to detect un-purposeful errors rather than detecting those errors, which are purposefully, designed by the firm, for instance, the information which the firm wants to hide and does not want to reveal it. Regarding the consequences of audit failure, Henrik was not so sure of it but on his assumptions he replied that penalties would be charged against the auditors if they were found guilty of involvement in the fraud.

Carl Rehnberg in his answer to the reasons for audit failure said that an audit might either fail due to the complacency of an auditor due to long-term relationship or due to the audit of the bookkeeping that has been prepared by the auditor himself. The other reason would be that the auditors might not take into account things outside the book-keeping, for instance the contracts signed during the year by the client firm or any other business deals along with the decisions taken by the board. According to Carl Rehnberg, due to audit failure the client firm would get into financial problems because the banks for instance would find such information which was not present in the financial reports due to which they might pull their loans, and could result in a financial

distress for the client firm. For Carl he sees the audit as the proof of a company's net worth and the actual credit the company can carry. It is very seldom that an auditor gets into any problems due to an audit failure, as the audit union, which comprises of the auditors from the audit firms, conducts the audit of the auditors.

According to Kjell Hedström, an audit might fail if the client-firm tends to hide anything from the audit firm and does not provide with the accurate and true information. Because of this reason Kjell keeps telling his colleagues and subordinates that they should not hide anything from the auditor and should tell them everything in a true and fair way. Kjell added that if once you start to lie or hide anything from the auditors then you form a web of lies, which you yourself cannot control, and it is hard to remember that you have told which audit representative what information. So this could be one of the main reasons for audit failure. For Kjell's firm another reason could be the complexity in their balance sheet because they have goodwill, development costs, and software codes for millions, and to evaluate and value them on the balance sheet is a complex task. The other complexity that Kjell mentioned lies in the impairment of goodwill each year and that how do you defend the impairment tests of the goodwill. Thus these complexities might lead to an audit failure as well. The consequences of the audit failure for the client-firm if the firm fails to materialize proper impairment testing then there will be huge write-offs by the firm. Due to this reason the firm would have to take the goodwill out of the balance sheet and consider it as a cost. Along with this the company would get into the issues of not presenting true and fair picture to the users. Therefore, the stakeholders especially the shareholders would find it hard to believe the company in future if the firm is willing to buy another company. Now that the shareholders would not have faith in the financial reports of the firm it would be hard to explain to them the purchase of for instance 20 million worth of material rights. The share prices would drop because of the cost of write-offs and the loss of faith by the shareholders over the firm. The consequences for the audit firm would be that lawsuits would be filed against them, just like it has been done against KPMG in recent years.

4.3.5 Role of internal control in ensuring the audit quality

In response to the question regarding the role which the internal control and the accounting department can play in ensuring the audit quality, PERSON X mentioned that they have internal control system where they keep track of their routines, which later helps the auditor in relating the financial items back to the routines written down for that specific financial item. As U-firm is owned by a parent company in USA, the internal control and audit would not be sufficient as the management in USA is not aware of the Swedish laws and regulations, thus external audit helps in validating the financial information provided by the help of internal control. According to Henrik Bergdahl, if a firm has got internal control or an accounting department with qualified personnel in it who could do an internal audit of the firm, then that firm would not need to have the services from an external auditor. Thus, internal control plays a vital role in ensuring the audit quality by controlling and correcting much of the firm's financial information before an external auditor is checking it.

According to Carl Rehnberg, the internal control in a well-run company could give better figures than an external auditor. Internal control is very essential for a firm in order to keep track of the economy of the company on the basis of which decisions are taken by the top management. Internal control provides you with instant figures, which

make the decision making more efficient and effective, rather than relying on an auditor who might provide the figures after a month. It is difficult to know about the liquidity of a company on daily basis without the presence of an internal control in the company. In order to run the company, liquidity is the most important figure to know, which provides you with the information regarding the cash available at hand to run the operations. If the liquidity of a firm is low or falls below an assigned level of liquid cash then the chances of the company to go bankrupt are higher.

According to Kjell Hedström, internal control is very essential in ensuring the audit quality. Due to this fact, VITEC focuses a lot on improving and maintaining the internal control because of the enormous growth in their firm. They have gone up from a very small firm to a large firm with 300 employees. The reason for strong internal control, given by Kjell, with in a firm is because the auditors could not go through each and every single transaction, thus this shortcoming is overcome by the internal control. The auditors only rely on flow-charts and models to develop the assessment of the level of control in the firm. According to Kjell, they have from time to time discussed the necessity of internal control and accounting department in their firm, but now that their firm has grown so much they are taking considerable notice of it, in terms of further improving the quality of their internal control.

4.3.6 Acquisition of non-audit services from the auditors and its effects on audit quality

According to PERSON X, the U-firm doesn't acquire any non-audit services from their current auditor. In the past they used to acquire the non-audit services from their auditor in terms of maintaining the pay-rolls but now the U-firm acquires this service from another company. When asked about the effects of NAS on audit quality, PERSON X answered that the audit quality would deplete if the same person who is responsible for the audit provides the NAS as well. The reason for this is that the auditor would not audit the NAS provided by him. Thus, if a firm purchases NAS from the same audit firm then it should be made sure that it is not the same person who is responsible for both the audit and the NAS. According to Henrik Bergdahl, Umeå Biotech Incubator (UBI) seldom acquires non-audit services from their auditor, for instance, when UBI needs to have extra capital then it is required that an auditor looks through it, so the NAS are not that often used and are subject to acquisition to the needs of the firm. But NAS services do affect the audit quality in a positive way because with the help of NAS the auditor gets more detailed insight into other areas and operations of the firm.

According to Carl Rehnberg, he does not acquire any non-audit services from the auditor nor is he willing to acquire them due to the concerns for the credibility of the audit, and that he wants to keep the auditor for the sole purpose of an audit. The only service which Carl tends to acquire from the auditor is during the buying of another firm by his firm, and it is during that time that he would need the services of an auditor in order to audit the target firm, so still it is an audit service in itself. Non-audit services would lower the audit quality and would lower the credibility over the audit engagement. Currently, the problem with the audit firms is that they are stopping to be an audit firm and they tend to provide variety of non-audit services which is a threat to the credibility of an audit itself. It is dangerous if the same audit firm helps the client firm with almost everything in their business operations. Carl mentioned that he does not want the audit firms to stop providing the non-audit services rather he is of the

opinion that the audit firms should keep them separated in a way that the independence of the auditor is not affected by it.

According to Kjell Hedström, his firm VITEC does not acquire so much of the non-audit services from their audit firm. But according to him, the more the auditors' takes part in creating the figures then it would be difficult for them to make true and fair audit of their own work, which ultimately lowers the audit quality. Therefore, Kjell's firm VITEC, acquires auditing services from KPMG while the accounting services from E&Y. Kjell does not discuss the accounting problems with KPMG at all, and are only discussed with E&Y. Kjell pointing four years back said that when they were hiring a new auditor, then all the nominated auditors in their presentation mentioned that they solely will provide the audit services and would not provide any advices related to the accounting of the firm. So that was something very common about all of the auditors, and they took notice of it in real-sense.

4.3.7 Willingness to pay high audit fees for higher audit quality and industry specialization

In reply to the question regarding the willingness of client firm to pay high audit fees for higher audit quality and specialization, PERSON X answered that her firm would be willing to pay high audit fees for the audit quality, and they already pay high audit fees for it. As far as industry specialization of the auditor is concerned then U-firm is not willing to pay high audit fees for the industry specialization of the auditor, because it is common for the big auditors to have knowledge of different industries and businesses in the competitive market. According to Henrik Bergdahl, industry specialization matters a lot as far as audit quality is concerned because of the complex nature of the businesses, thus the specialized auditors who have industry expertise knows what should be audited as they have the knowledge of the industry, and how businesses in that industry operate and how should the audit engagement be conducted. According to Henrik Bergdahl, he is not willing to pay either for the higher audit quality or for the industry specialization of the auditor because as far as his firm is concerned it doesn't value much.

According to Carl Rehnberg, industry specialization of an auditor is of great impact to the audit quality at certain situations, for instance for a firm which would be heavily relying on acquiring authorizations then in such cases a specialized auditor would be needed. The authorizations may vary from environmental authorizations to financial authorizations. In such circumstances, an auditor is required to sign the fulfillment of the requirements to the specific authorization. But for a regular firm with regular operations, the industry specialization of an auditor does not come into question. Carl added that he would be willing to pay high audit fees for the audit quality and industry specialization if it is being required to the contextual needs of his firm. But it is mostly the listed companies, which pay much attention to the higher audit quality and industry specialization and pay high fees for it.

According to Kjell Hedström, the auditors look for the obvious risks but sometimes due to lack of industry specialization and expertise it is difficult to assess those risk and evaluate them. For instance, an auditor who is used to working with the mechanical industry would not have much knowledge regarding the intangible assets on the balance sheet of VITEC, which operates in software industry. Kjell's opinion was that if he shows intangible assets in the form of software codes, and tells the auditor that it is

worth 10 million then it would be difficult for him to accept it or explain it in detail to him, if he is not an industry specialist in such kind of industry. So for Kjell, they would prefer such an auditor who has got some kind of industry specialization, and who could provide them with the appropriate audit results by the end of the audit engagement. Kjell added that his firm would not be willing to pay higher audit fees in terms of audit quality if an auditor is competent and is already doing his job properly and his audit is credible then there is no need of paying extra for increasing the audit quality unnecessarily.

4.3.8 Enforcement or sympathizing of the auditor by the client

In PERSON X's opinion regarding the enforcement or sympathizing of auditor by the client, she said that the client discusses things with the auditor on a fair scale rather than either enforcing them or sympathizing them to modify their opinion. The discussion takes place during the audit engagement regarding what has been done and how it has been done, which is beneficial in terms of clarifying different financial items. And it is necessary that auditors have better understanding with the client regarding why something has been done by the client in some specific way. So it is not all about having a good coffee with the auditor and modifying his opinion over the table. According to Henrik Bergdahl, the modification of opinion does take place in between the auditor and the client, because the client might look at things from the point of view, which is beneficial to the company while the auditor might look at it from the book. Thus, the good relationship in between an auditor and the client would lead the client to enforce the opinion which is fair for his company due to better understanding with the auditor in the relation.

According to Carl Rehnberg, he had never in his professional life and career ever enforced or sympathized an auditor to modify his or her audit opinion, and Carl considers it as a crime. According to Kjell Hedström, he has absolutely tried to modify the audit opinion but more on the basis of discussions with the auditor rather than sympathizing or enforcing them to change their audit opinion. Discussions take place on the basis of it something is perceived differently by the auditors based on their rules or comfort level, and these discussions are not directed with the consent of cheating or doing fraud. And we have to keep this in mind that even the auditors are humans are prone to errors, so it is better to be safe rather than to be sorry. It is not always that the auditor would have to listen to us and change his audit opinion but at least on the discussion the minds could be cleared of both the parties. According to Kjell, it is not always about right and wrong or black and white, it is about looking at the problem from different views, perspectives and angles such that the auditors might have looked at it in one context while the client-firm in another context.

4.3.9 Concluding opinion about the affect of long-term relationship on audit quality

According to PERSON X, she thinks that it is beneficial to have long-term relationship with the auditor, as both the entities get to know more about each other and it in a way gives value to the client firm for having long-term relationship with the specific auditor. And according to long-term relationship the client-firm gets different professional and experienced input from the auditor because of their experiences with different businesses and industries. Henrik Bergdahl mentioned that it is a good gesture to have

long-term relationship in between the auditor and the client because its benefits outweigh the costs or the issues of long-term relationship.

In the opinion of Carl Rehnberg, he is not in favor of or would not support the long-term relationship between an auditor and the client, because along with the time both the entities might get too friendly and the auditor would get lax and complacent in his audit engagement. According to Kjell Hedström, it is a good option to change the auditors from time to time, because for a new auditor everyone in the client-firm needs to be on their toes and be alert in order to provide the new auditor with his required information. Everyone in the firm has to answer such questions, which they might have not answered to during the last five years. Although the new audit engagement takes time and is a difficult task but it keeps the client firm alert. According to Kjell, he recommends auditor rotation on the basis of his firm's size but if he owned a small firm he would have not considered auditor rotation as an option.

Chapter Five – Analysis and Discussion

This chapter would provide the readers of this study with a collective and combined insight into the analysis of the empirical findings, from both the auditors' and clients' perspective, which were presented in the previous chapter, with its comparison to the theories presented in the theoretical review chapter, which was chapter two of this study. The analysis and discussion in this chapter are regarding the long-term implications of the auditor-client relationship on audit quality in SMEs. In reference to auditor-client relationship and audit quality, we would be analyzing and discussing the role of auditors, auditor rotation, non-audit services, auditor selection, and auditing standards etcetera. Thus, the chapter would provide the knowledge regarding how the auditors and the client-firms look at auditor-client relationship and audit quality in practical with the comparison to the theories that exists in theory regarding them.

5.1 Long-term auditor-client relationship and its effects on the audit quality

The audit quality is frequently related to the ability of the auditor to identify material misstatements in the financial statements and his/her willingness to issue an apt audit report based on the audit findings (Turley & Willekens, 2008, p. 3). In order to enhance the audit quality the concerned bodies discussed from time to time the matter of auditor rotation i.e. what is the suitable tenure after which the client firms should rotate their auditors for auditing purposes. The relation between auditor tenure and audit quality is the underpinning upon which those for and against mandatory auditor rotation base their arguments. From our empirical data we have analyzed that almost all the respondents are in the favor of long-term auditor client relationship and that the audit quality for sure would be higher because auditor needs time to get familiar and knowledgeable with the client firm, its processes and its risks. There are scores of knowledge, familiarity and experience regarding the client's business, operations, controls, accounting policies, systems and financial information of the firm involved in working with the same client for long term. The new auditor might be unaware of the industry error patterns, which automatically reduces the audit quality. However, few respondents replied that long-term relationship could be precarious, owing to the build-up of too close relationship in between the client and the auditor, which might affect the independence of the auditor. Another reason, which was in favor of short audit tenure, was that keeping an auditor for long has a tendency to distress the price for auditing.

5.1.1 Long-term relationship allowing the auditors to have much knowledge

The factors associated with the long-term auditor-client relationship such as knowledge, familiarity, competence, capability and character of the auditor are very significant in terms of improving the audit quality. All the respondents entirely agree with the opinion that long-term relationship under the factors of fairness, integrity and trustfulness certainly fallouts in an increase in the knowledge of an auditor regarding the client firm, which then helps in an efficient and effective audit with good audit quality. The auditor gets to know all the basics of the firm, and doesn't need to review or check them in that detail during each audit engagement. The knowledge will grow for a certain period of time after which the acquisition of more knowledge would saturate. For example, after

certain period the relationship could not engender more knowledge and understanding such as, there would not be much difference in the knowledge of a four-year old relationship as compared to the seven-year old relationship. But an auditor has more knowledge when the tenure of relationship is 5 to 7 years instead of 1 year.

5.1.2 Complacency of auditor due to long-term auditor-client relationship

There are both advantages and disadvantages of long auditor-client relationship. When the disadvantages of long-term auditor client relationship were analyzed from the empirical findings in comparison to the existing theory of Lu and Sivaramakrishnan (2009, p. 71), it was concluded that as a result of long-term relationship the auditors and the management might feel like partners and this might reduce audit quality. It generally occurs at certain point of time during the relationship when auditor feels more attached, friendly and close to the company and becomes more tranquil and less independent in his/her audit commitment. To avoid the effect of complacency the auditors should be professionally trained and based on their experience and knowledge they must know how to avoid the risk of complacency.

5.1.3 Auditor-client relationship and the bilateral monopoly

All the interviewees who belonged to the client firms rejoined the theory of DeAngelo (1981, p. 188) that the risk of bilateral monopoly exist in family-owned and small business (e.g. a sole-proprietorship firm and a local audit firm of small size because both are relying on each other for specific purposes and have long term relationship with each other and it is exceptional that any entity want to change the party). On the other hand the response of audit firm's respondents is totally different from literature about bilateral monopoly. They are not agreeing with the opinion that bilateral monopoly exists in the relationship between an auditor and client. If auditor is competent, professionally trained and has complete clutch in his/her work then he/she would not be worried about incentives and risk of losing revenue stream from the client.

5.2 Role of auditor and audit quality

5.2.1 Success of audit in reducing material misstatements

The purpose of an audit of financial statements is to facilitate the auditor to articulate an opinion whether the financial statements are primed, in all material respects, in accordance with an applicable identified financial reporting framework. The long-term relationship of client and auditor is also vital for the success of an audit in reducing the material misstatements. The success of an audit depends upon the good knowledge of the client-firm and as we explained above long tenure client auditor relationship builds enormous knowledge, familiarity, skill and understanding for both parties. However, it can be manifest from auditor's audit engagement in different business and industries. It means he should hold command in all those critical area of firm that might be open to the risk of material misstatements.

5.2.2 Uniform level of audit quality over the years

The opinion of the respondents regarding uniform level of audit quality is the same i.e. it is not gained through long tenure relation. If the members of the audit team were

recruited annually then there would be some uniformity in the levels of audit quality. In long tenure there might be decline in audit quality after the span of 7 – 10 years, and might not remain the same. In contrast the procedures, tools and techniques used during the auditing are fundamental for uniform level of audit quality.

5.2.3 Role of audit-firm size and brand-name in maintaining audit quality

All respondents are agreeing with theory that audit-firm size and brand-name definitely matters in maintaining the audit quality because big audit firms have a lot of resources which small/local audit firms don't have and through these resources they develop tools and technologies that facilitate in improving the audit quality.

5.2.4 Audit quality during the early years of audit engagement

In the early years of audit engagement the audit quality would be lower due to lack of knowledge about the particular client's business. Conversely, the audit is conducted with much spirit, passion and enthusiasm because auditors are eager about the new audit engagement and this might cause improving audit quality.

5.2.5 Auditor reputation in terms of perceived competence and perceived independence

Auditor reputation and auditor independence are important factors for audit quality. An auditor should be independent both in appearance and in reality and this would surely fortify the audit quality, and vice versa. The Swedish law affirms that an auditor should be independent and could not own the shares in the company which he is going to audit. The opposing view is that some firms do not provide much importance to the auditor reputation, because of the high prices charged by the highly reputable auditors.

5.2.6 Effects of audit on the information credibility and information quality

An audit definitely influences the information credibility and information quality of financial reports because the review and feedback of auditors on the client's annual report would increase information credibility and information quality. The need for the credibility and the quality of information grows with the size of the firm.

5.2.7 Perception of investors and information intermediaries about long-term relationship

The investors and intermediaries do not pay much attention towards long-term relationship of clients and auditors because they don't need to know who has been auditing the client firm and who has signed the audit report. Whereas in case of credit rating agencies long-term auditor-client relationship is considered good sign for both the rating and the higher audit quality. The regular auditor rotation by a firm creates uncertainty for credit rating agencies that something is wrong with the firm and for that reason they are trying to change the auditors.

5.2.8 Overcoming the issues of agency problem due to long-term relationship

In small firms the ownership and the management is same thing, and that is why an audit does not create any difference. The other thing is that the auditor meets and reports only to audit committee and managers not the owner of firm. Thus it would not be true to say that an audit could help in completely overcoming the issues of agency problem.

5.2.9 Appointment of auditor

In Sweden the client firms usually appoint auditors on following basis like: their knowledge regarding the Swedish regulations and also the International Financial Reporting Standards (IFRS), personal relationship and past experience because trust element plays a vital role, considering stability and size of audit firm etc. Apart from these the price is also an important factor, which is being considered while appointing an auditor.

5.2.10 Consideration of auditor-size and brand-name during the appointment of auditor

The SME's in Sweden do not take into consideration the auditor-size and brand-name while appointing an auditor. But in case if they try to expand their businesses the big 4 audit firm is the first choice because they have much more knowledge and experience in terms of working with both the large firms and the listed companies.

5.3 Auditor rotation

5.3.1 Regulations for auditor rotation

There is no regulation for auditor rotation for the small companies and SMEs because single auditor might work most of the time and serve one client firm for more than 50 years. These regulations mostly apply to the public listed companies and according to Swedish laws a 7-years period is mandatory for auditor rotation. Moreover, a firm can also rotate their auditor after a period of 7-years but Swedish law confer that the rotation of audit firms is not necessary, rather the auditor may rotate in the same audit firm which fulfill the purpose and which does not seem a logical reason in term of auditor rotation.

5.3.2 Cost-benefit analyses of auditor rotation

It is strongly believed that the auditor rotation directly affects the cost of first year and mostly the cost of client firm is increased because new auditor acquires information from the scratch. Mostly new auditor takes time in adjustment and does not prove to be beneficial, even though he/she might show his/her involvement to enhance the credibility. Sometimes new eyes provide a fresh look which the old eyes of audit cannot provide and although it is tough and costly, the work with new clients is interesting.

5.3.3 Appointment of the auditor by the regulator rather than the client

The trend shows that the appointment of the auditor by the regulator is less significant rather than by the client. The main reasons in this regards are stipulation of cost which

might double for the client-firm and sharing less information due to formality involved and the overall audit would be a boring task in this case. The appointment of auditor by a regulator is considered an illogical thing but in current system where client firm appoint auditor itself is regarded as a good thing because in it both the entities have trust on each other. The relationship between auditor and client is personal which is based on trust so that is why regulator should not be involved in the selection of auditor.

5.4 Reasons for an audit failure and its consequences

The basic and common reasons for audit failures are incomplete information, unclear scenario and poor planning. These are the main factors involved to perform an audit effectively and efficiently. Due to lack of information about client firm and in rare cases hiding information from clients' side are the causes of audit failure and create difficulty for the auditor to calculate the risk of the client firm.

For the success of an audit, client firm should always show the complete information to the audit firm instead of hiding something which may be a cause of failure and create difficulties in auditing process. In the consequences of the audit failure mostly an auditor is being sued due the issuance of wrong audit opinion on financial reports of the firm and the audit firm will need to use the insurance to cover its mistakes within the audit engagement. Apart from those governmental organizations investigates the audit engagements and in case of frauds and failure to adhere to the audit rules and regulations the auditors' license might be cancelled as well. And in most of the cases the clients feel hesitated to work with the auditors who have bad reputation.

5.5 Role of internal control in ensuring the audit quality

The main role of internal control is to keep track of firm's routines which help the auditors in doing their audit and in some cases might provide better figures than external auditors. It provides instant figures which make the decision making more proficient and helpful to calculate liquidity on daily basis. It also plays a crucial role in ensuring audit quality by controlling and correcting much of the firm's financial information before an external auditor checks it.

5.6 Acquisition of non-audit services from the auditors and its effects on audit quality

In Sweden, acquisition of accounting services (e.g. book keeping) from the auditors are prohibited for public listed client firms but there is no prohibition on providing other NAS services like tax advice, consultancy, pay-rolls, mergers and acquisition etc. As different teams are involved in providing both the audit and the non-audit services therefore the audit quality would enlarge, as it is just the different services you offer to the client without any involvement in their management or other strategic decisions. The acquisition of NAS from the auditors might lower the credibility of some of the stakeholders over the audit engagement. But according to opposite view audit quality might be increased if an auditor provides other NAS services to its client due to the difference in the competences of both the auditing and the client firm.

5.7 Reliance of local audit firm on specific clients

The local audit firms in Sweden do not rely on a particular client or a group of clients and do not compromise over the quality because of the fear of losing them, because they acquire new clients on regular basis. Large audit firms or the Big4 audit firms have centralized check and balance on all its local offices so that neither the audit firm nor any individual auditor relies on any specific client. It might be true for small audit firms who have few clients but for large audit firms with a spread out network this would occur in extremely rare cases. Therefore, a large client firm would tend to purchase the audit services from a strong competitive big audit firm rather than relying on a small local firm.

5.8 Professional ethics of auditing and auditing standards followed in Sweden

In Sweden all the authorized auditors are registered member of FAR, and follow the ethics rules set by the FAR for the auditors. The members who do not follow these laws would have to face the risk of cancellation of their membership/registration by FAR. Apart from these FAR rules, the Big4 audit firms also have their own code of ethic. The firm level codes of ethic are much stronger than those defined by the authorities or supervisor boards. It is mandatory for all the audit firms in Sweden since Jan, 2011 to follow International Standards on Auditing (ISA). But it is not sure if ISA has been mandatory from 1st of Jan 2011 because according the AUDITOR X, they are currently following Revised Standards (RS) for auditing. Furthermore, RS are similar to ISA but RS have been formulated on the basis of Swedish rules and regulations whereas ISA standards are more of international nature and scope.

5.9 Effects of industry specialization over the audit quality and its fees

The industry specialization certainly influences the audit quality because industries have their own specific rules and regulations that needs to be taken care of during the audit engagement, and might need specialized skills. For these purposes industry specialist auditor is best suitable option because he knows each and every rule and regulation regarding his specialized field. These kinds of auditors usually charge higher fees because they have the expertise and they are worth it. On the other some client firm look into the overall audit fees and are not willing to pay higher fees for the individual competences of the auditor.

5.10 Willingness to pay high audit fees for higher audit quality and industry specialization

The client firms in Sweden prefer to pay higher audit fees for both higher audit quality and industry specialist auditors. In businesses with complex nature, industry specialist auditor matters a lot in improving the audit quality. The lack of industry specialization and expertise may create difficulties in assessing and evaluating specific risks associated with specific industries. Some firms are not willing to pay high fees for industry specialization of the auditors, because it is common for the big auditors to have knowledge, familiarity and awareness of different industries and businesses in the competitive market. Some firms are reluctant to pay higher audit fees for the audit

quality because they already have competent auditor, doing his/her job properly and his/her audit is credible then there is no need to pay extra for increasing the audit quality unnecessarily.

5.11 Enforcement or sympathizing of the auditor by the client

It rarely happens that an auditor can be forced by client-firm to change or modify his/her opinion but some of the auditors have been enforced or sympathized several times over the year by different client due to different reasons and in different contexts. It should not be the client firm who decides what should be written in the audit report because it is the auditor's responsibility to write a clean and flawless report on his/her audit engagement in the firm. Sometimes, the discussions in between the auditor and the client may lead to the modification in the opinion of the auditor, which might be fair because the auditor as per the risk of human error might have perceived something in a different way. The auditors are human and some time element of sympathizing get involved and that is why auditor should be intelligent and experienced in order to check that what the client is saying is true or false and there is any need to modify the auditor opinion or not. It would be very impish act of an auditor, if by having a cup of coffee with the client the auditor modifies his opinion over the table.

5.12 Concluding opinion about the affect of long-term relationship on audit quality

Analysis of the empirical finding from the auditors' perspective shows that the auditors do consider long-term auditor client relationship to have positive relationship to the audit quality but only over certain period of time, after which the audit quality might not increase, but rather it would tend to decrease due to the risks of complacency and independence involved in the relationship. On the basis of this seven-year auditor-client tenure is suggested to be favorable for both the relationship and its impacts on the audit quality. But the scenarios might be different on the basis of the size of the client-firm; for instance for an SME long-term relationship of more than seven-years would not have negative impacts on the audit quality as compared to large firms, especially the public listed firms. Whereas the analysis of the empirical finding from the clients perspective provide us with a balanced view, with two-firms favoring the long-term auditor client relationship while the other two-firms in favor of changing the auditors after a certain period of time. The firms in favor of long-term relationship defended their points with the argument that it provides more knowledge and understanding in between the auditor and the client, provides value to the client firm for maintaining long-term relationship, and the firm gets professional and experienced feedback from the auditors. Those firms which were against the long-term auditor-client relationship presented the arguments which were related to the lax and complacency factors associated with the auditors developed over a long relationship with the client, and apart from that it makes both the auditor and the management of the client-firm alert when an auditor is changed.

Chapter Six – Conclusion, Recommendations and Further Research

The aim of this chapter is to provide authors conclusion regarding the empirical findings and analysis of this research study. Along with the conclusion, recommendations regarding the further research would also be part of this chapter, where those grey areas would be highlighted, which still needs to be further researched and explored.

6.1 Conclusion

This research study was taken up in order to study the effects of long-term auditor-client relationship on audit quality. Although the effects of the long-term relationship were limited to the audit quality, the research topic still seemed to be broad and obscure. Apart from this less attention has been paid in the previous research on the relationship between audit-client tenure and audit quality in small and medium-size enterprises (SMEs). And as SMEs tend to formulate and contribute to the major portion of any nations economy especially that of Sweden, we further refined our research topic and distilled it to study the relationship between audit tenure and audit quality in SMEs in Sweden. For this reason all the associated factors related to the audit tenure, auditor-client relationship and audit quality were identified in the literature review by previous studies, on the basis of which empirical evidence were collected, analyzed and now concluded in this chapter.

The results from the finding of this study shows that although majority of the respondents were in favor of long-term auditor-client relationship and that it is favorable for the audit quality, some of them in their answers to specific question did mention that certain risks that may lower the audit quality exist in the long relationships. These factors of risks being identified in this study are in accordance to those discussed in the previous literature, for instance, the risk of complacency, risk to the auditors' independence, and risk of bilateral monopoly etcetera. If these risks could be either avoided or minimized then both the entities such that the auditors and the SMEs, does not have any issues with long-term relationship. Long-term relationship does increase the knowledge of auditor regarding specific client-firm but the complacency which develops in between both the parties over the years could not be avoided.

The audit opinion provided by the auditors over the financial reports of a client-firm is regarded of much value in terms of the success of an audit in reducing the risk of material misstatements, and enhancing the quality and credibility over the financial reports. But the findings of this study cannot justify that long-term audit tenure would provide uniform level of audit quality over the years. Findings further suggest that audit quality saturates after a period of seven to ten-years, and that audit quality would be either high or uniform if the members of the audit team are rotated annually. As far as the audit-firm size and the brand-name are concerned then they do matter in keeping the audit quality higher because of the firms' reputation, resources, and expertise. During the early years of audit engagement, although the audit quality might be lower but the engagement is taken up by the auditor with great enthusiasm and zeal. This portrays the value which an auditor might give to the auditors' reputation, which is the perceived competence and independence, such that the independence of an auditor both in appearance and in reality affects the audit quality to a great extent.

Findings of this study regarding the overcoming of issues related to the agency problem by the long-term relationship, we conclude that irrespective of the size of the firm, an auditor might not overcome the issues in between the management and the owners. As far as SMEs are concerned, then the owners cannot be segregated from the management, and mostly they are one and the same thing in SMEs, but if we take public listed companies into consideration then even in these large firms the auditors either have the relationship with the audit committees or with the management, and very rarely meets and interacts with the owners. Appointment of auditors is based on the consideration of different factors, such as their expertise, knowledge, specialization, knowledge of accounting and auditing standards, understanding of tax laws and government rules and regulations etcetera. In case of SMEs, brand-name and size of the audit-firm does not matter to a great deal during the selection of an auditor, but with the growth of the firm the requirements and considerations for the selection of an auditor might change. Client-firms on the basis of the complexity of their businesses and size of the firm are willing to pay high fees for the industry specialization and audit quality, but for SMEs they are not willing to pay for either of it.

As far as mandatory auditor rotation is concerned, the laws in Sweden regarding mandatory auditor rotation are only valid for the public listed companies to rotate the auditor after a period of seven years. Apart from this there does not exist any specific regulations either in EU-law or the Swedish law regarding mandatory auditor rotation for SMEs rather than for the public listed companies. Although auditor rotation is costly for the client-firms but it surely provides new eyes to look at the financial reports, and thus give a fresh look to the financial information. The appointment of auditor by the regulators rather than the client firms has been regarded as illogical and unjustified, and might not be valuable both to the relationship and the audit quality, and might lead to an audit failure. The other reasons for the audit failure could be improper planning by the auditor and incomplete information from the clients' side either due to error or fraud. The risks of audit failure can be minimized by improved internal control within the client firm, which would both help the client firm in their daily business operations due to their controls, and provide assistance to the external auditor during their audit engagement.

In Sweden, there is prohibition on the purchase of accounting services, as a non-audit service (NAS), from the same auditor who is involved in the audit engagement with that particular firm. Other than this, client firms are allowed to purchase any kind of NAS from their auditors, for instance taxation services, pay-roll management, consultancy, advice regarding mergers and acquisitions etc. The purchase of NAS from the auditor is regarded as good for the audit quality as per the findings of this study, as it enhances the knowledge of the auditor regarding the systems and operations of the client-firm. Auditors in Sweden are supposed to follow different kind of professional ethics both on the firm-level and on the state-level (ISA, RS, FAR). In the relationship of an auditor and client, the auditor is at time subjected to discussion regarding the audit opinion, and the opinions might be modified either due to justification or due to sympathy involved as far as the complexity or the nature of the error or problem is concerned. So there are no hard and fast rules, that whatever has been decided by the auditors is the final verdict and cannot be modified.

The overall research study concludes that in case of SMEs, long-term auditor-client relationship is beneficial, if the risk of auditor independence and the risk of complacency which might develop during the relationship can be avoided or minimized. Apart from this the other factors which could increase the audit quality are NAS, industry specialization, knowledge and experience of the auditor, internal control in the client-firm, professional ethics involved, proper planning by the auditor, providence of true, fair and complete information by the client to the auditor, and appointment of auditor by the client-firm itself rather than the regulators.

6.2 Recommendations

The recommendations that could be drawn from this study are that although the client-firms are in favor of having long-term relationship with their clients, there should be a limit set on the number of years for which both the auditors and the clients can be in the relationship. Even the auditors who were in favor of long-term auditor-client relationship at some point favored the idea of rotating the auditors for the client-firms after certain period of time due to the risks of complacency and independence associated with the long tenure. Apart from this, the auditor who is responsible for the audit engagement should not provide the NAS services to the client-firm, rather it should be provided either by a totally different firm or by other personnel within the same firm who does not have to do anything with the audit. Because if the same person provides both the audit services and the NAS services, then the auditor in a way would be auditing his own work and would lead to leniency and biasness in his audit opinion. During the appointment of an auditor by SMEs, consideration should be given to the independence and competence of an auditor, so that later at any point during the audit-tenure they should not develop any bilateral monopoly, and in a way lower the audit quality. Dialogues and discussions in between the auditor and the client should be conducted over certain issues, problems and complexities that have been identified by the auditors during their audit engagement. As both the parties are prone to risks of human errors and difference of opinion, which could be clarified with the help of discussions and debates. Thus, the auditor should not be strict in forming the one sided audit opinion based on hard and fast rules and without any consultation and discussion with the firms' management.

6.3 Further Research

Both during the study of previous literature and during the collection of primary data from the selected sample we were struck by many suggestion which could be feasible for further research in reference to auditor-client relationship and audit quality. As the scope of this study was limited to the SMEs and auditors in Sweden only, therefore the study should be conducted and replicated in other European countries in order to test and verify the results of this study. Research should be conducted on the effects of auditor rotation on the audit quality in public listed companies in Sweden that whether it enhances the audit quality or lowers it. Research in the form of case study could be taken up on the implementation of International Standards on Auditing (ISA) in Sweden and that how would it improve the quality of audit services. Non-audit services which contribute to the major portion of audit-firms revenue stream should be studied in a research topic that are they beneficial to the audit quality if the same audit firm provides both the audit and non-audit services to the same client.

References

- Ademi, A., & Stigborn, A. (2010). *To audit or not to audit? - How is auditing being used in banks' credit rating processes?*. Bachelor Thesis. Kristianstad: Kristianstad University.
- Al-Eissa, A.I. (2009). *Non-audit services and auditor independence, the case of Saudi Arabia*. PhD Thesis. Victoria University.
- American Accounting Association. (1973). *Committee on basic auditing concepts. A statement of basic auditing concepts*. Sarasota, FL: American Accounting Association.
- Arey D. and David M. (2008). *Demand For Auditing In Small Firms An Impact On Small Companies In Sweden That Are Not Required By The Legislation To Have Their Accounts Audited*. Master Thesis. Umeå: Umeå University.
- Arrunada, B. & Paz-Ares, C. (1997). Mandatory rotation of company auditors: A critical examination. *International Review of law and Economics*, 17(1), 31-61.
- Balsam, S., Krishnan, J. and Yang, J.S. (2003). Auditor industry specialization and earnings quality. *Auditing: A Journal of Practice & Theory*, 22, 71-97.
- Boone, J.P., Khurana, I.K. & Raman, K.K. (2008). Audit firm tenure and the equity risk premium. *Journal of Accounting, Auditing & Finance*, 23 (1), 115-140.
- Bryman, A. & Bell, E. (2007). *Business Research Methods*. 2nd edition. New York, USA: Oxford University Press 2007.
- Burrowes, A. & Nordström, J. (1999). An alternate approach in implementing the 4th directive – a territorial claim to financial reporting and auditing in Sweden. *Managerial Auditing Journal*, 14(6), 302-307.
- Byrne, P. (2001). Auditor independence: an update. ACCA - the global body for professional accountants, <<http://www.accaglobal.com/archive/2888864/31241>> [Retrieved 2011-02-25]
- Casterella, J. (2002). *Auditor Tenure and Rotation: The Auditors, Are They A-Changing?* Working paper, University of Florida.
- Carcello, J.V. & Nagy, A.L. (2004). Audit firm tenure and fraudulent financial reporting. *Auditing Journal of Practice and Theory*, 23(2), 55–69.
- Chia-Ah, E. & Karlsson, J. (2010). *The impact of extended audit tenure on auditor independence*. Master Thesis. Umeå: Umeå University.
- Choi, J.H, Kim, C., Kim, J.B. & Zang, Y. (2010). Audit office size, audit quality and audit pricing. *Auditing: a journal of practice & theory*, 29 (1), 73-97.

- Clark, M., & Payne, A. (1994). *Achieving long-term customer loyalty: a strategic approach*. Working paper, Centre for Services Management: Cranfield School of Management.
- Commission of the European Communities. (2003). *Reinforcing the statutory audit in the EU*. Brussels: Commission of the European Communities.
- Comunale, C.L. & Sexton, T.R. (2005). Mandatory auditor rotation and retention: impact on market share. *Managerial auditing journal*, 20 (3), 235-248.
- Dassen, R.J.M. (1995). *Audit quality: an empirical study of the attributes and determinants of audit quality perceptions*. Doctoral Dissertation. Maastricht: Maastricht University.
- Davis, L.R., Soo, B. & Trompeter, G. (2000). *Auditor tenure, auditor independence and earnings management*. Working paper: Boston College.
- DeAngelo, L.E. (1981). Auditor size and audit quality. *Journal of accounting and economics*, 3, 183-199.
- Dopuch, N., Gupta, M., Simunic, D. A., & Stein, M. T. (2003). Production Efficiency and the Pricing of Audit Services. *Contemporary Accounting Research*, 20 (1), 47-77.
- Duff, A. (2004). *AUDITQUAL: dimensions of audit quality*. Great Britain: Antony Rowe Ltd.
- Eilifsen, A., Messier Jr, W.F., Glover, S.M. & Prawitt, D.F. (2010). *Auditing and assurance services*. Second international edition. London: McGraw-Hill.
- EStandardsForum. (2010). International Standards on Auditing. eStandardsForum webpage <<http://www.estandardsforum.org/sweden/standards/international-standards-on-auditing>>. [Retrieved 2011-02-21].
- European Commission. (2008). *Putting small businesses first: Europe is good for SMEs, SMEs are good for Europe*. [Booklet]. European Commission.
- European Commission. (2010). *Green paper; audit policy: lessons from the crisis*. Brussels: European Commission.
- Fairchild, R. (2008). Auditor tenure, managerial fraud and report qualification: a behavioural game-theoretic approach. *International Journal Behavioural Accounting and Finance*, 1(1), 23–37.
- FAR. (2011). Audit of Swedish enterprises and organizations. Stockholm: FAR.
- FAR. (2011). Flow-chart – Principle based model for independence. FAR website, <http://www.far.se/portal/page?_pageid=114,344286&_dad=portal&_schema=PORTAL> [Retrieved 2011-04-08]

- Fung, S.Y.K., Gul, F. and Jaggi, B. (2007). *Auditor tenure, auditor specialization and earnings quality*. Paper presented at 2007 Auditing Section Midyear Conference, Charleston, SC, 11-13.-
- Geiger, M., Raghunandan, K. & Rama, D. (2005). Recent changes in the association between bankruptcies and prior audit opinions. *Auditing: A Journal of Practice and Theory*, 24 (1), 21–35.
- General Accounting Office (GAO). (2003). *Public accounting firms: required study on the potential effects of mandatory audit firm rotation*. Washington, DC: General Accounting Office.
- Ghauri P. & Gronhaug K (2005). *Research methods in business studies: a practical guide*. 3rd Edition. New Jersey: Prentice Hall.
- Ghosh, A., & Moon, D. (2005). Audit tenure and perceptions of audit quality. *The Accounting Review*, 80(2), 585–612.
- Hakim, F., Omri, M.A., & Hakim, I, (2010). Audit quality and equity liquidity: some evidence on the role of auditor tenure and auditors' industry specialization in Tunisian context. *International Journal Business Continuity and Risk Management*, 1(2), 151-165.
- Healey, T. & Kim, Y. (2003). The benefits of mandatory auditor rotation. *Regulation*, 26 (3), 10-11.
- Hills, R. M. (2002). *Oversight Hearing on "Accounting and Investor Protection Issues Raised by Enron and Other Public Companies."* Senate Committee on Banking, Housing, and Urban Affairs. 107th Cong., 2nd sess. 12 February.
- International Federation of Accountants, IFAC. (2010). *Handbook of International quality control, auditing, review, other assurance, and related services pronouncements*. 2010 Edition, Part I. New York: IFAC.
- Jensen, M.C. & Meckling, W.H. (1976). Theory of the firm: managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, 3, 305-360.
- Johnson, V., Khurana, I. & J. Reynolds. (2002). Audit-Firm Tenure and the Quality of Financial Reports. *Contemporary Accounting Research*, 19 (4), 637–660.
- Krishnan, G.V. (2003). Does Big 6 auditor industry expertise constrain earnings management? *Accounting Horizons*, 19, 1–16.
- Lee, H., Mande, V. & Son, M. (2009). Do lengthy auditor tenure and the provision of non-audit services by the external auditor reduce audit report lags? *International Journal of Auditing*, 13, 87-104.
- Lin, Z.J., Tang, Q. & Xiao, J. (2003). An experimental study of users' responses to qualified audit reports in China. *Journal of International Accounting, Auditing & Taxation*, 12, 1-22.

- Lu, T. & Sivaramakrishnan, K. (2009). Mandatory audit firm rotation: Fresh look versus poor knowledge. *Journal of Accountancy and Public Policy*, 28 (2), 71-91.
- Mansi, S. A., Maxwell, W.F. & Miller, D.P. (2004). Does auditor quality and tenure matter to investors? Evidence from the bond market. *Journal of Accounting Research*, 42 (4), p755-793.
- Meyer, M.J., Rigsby, J.T. & Boone, J. (2007). The impact of auditor–client relationships on the reversal of first-time audit qualifications. *Managerial Auditing Journal*, 22(1), 53–79.
- Mills, C.A. (1989). *The quality audit: a management evaluation tool*. [e-book] USA: McGraw-Hill, Inc. Available via: Google books <http://books.google.com/> [Retrieved 2011-02-19]
- Rusmin, J.L.W., Zahn, V.D.M., Tower, G., & Brown, M.A. (2006). Auditor independence, auditor specialization and earnings management: further evidence from Singapore. *International Journal Accounting, Auditing and Performance Evaluation*, 3(2), 166–193.
- Russell, J.P. (2005). *The ASQ auditing handbook. 3rd Edition*. [e-books] USA: America Society for Quality, Quality Press. Available via: Google books <http://books.google.com/> [Retrieved 2011-02-20]
- Securities and Exchange Commission (SEC). (2001). Final Rule: Revision of the Commission's Auditor Independence Requirements. File No. S7-13-00.
- Saunders M., Lewis P. & Tornhill A. (2009). *Research Methods for Business*. 5th edition. England: Pearson Education Limited.
- Shockley, R. (1981). Perceptions of auditors' independence: an empirical analysis. *The Accounting Review*, 56(4), 785–800.
- Solomon, I., Shields, M. and Whittington, O.R. (1999). What do industry-specialist auditors know. *Journal of Accounting Research*, 38(1), 191–208.
- Taylor, M.H. (2000). Bounded rationality, uncertainty, and competence: The effects of industry specialization on auditors' inherent risk assessments and confidence judgments. *Contemporary Accounting Research*, 17, 693-712.
- The Institute of Chartered Accountants in England & Wales. (2005). *Audit Quality Agency theory and the role of audit*. Audit and Assurance Faculty, ISBN 1 84152 404 2.
- Turley, S., & Willekens, M, (2008). *Auditing, Trust and Governance: Regulation in Europe*. 1st edition. Oxon, England: Routledge.
- Watt, R.L., & Zimmerman, J.L. (1998). *Positive Accounting Theory*. Englewood Cliffs, NJ: Prentice Hall.

- Watkins, A.L., Hillison, W. & Morecroft, S.E. (2004). Audit quality: a synthesis of theory and empirical evidence. *Journal of accounting literature*, 23, 153-193.
- Wright, S. & Wright, A. (1997). The effect of industry experience on hypothesis generation and audit planning decisions. *Behavioral Research in Accounting*, 9, 273-294.
- Ye, P., Carson, E., & Simnett, R. (2006). *Threats to auditor independence: The impact on non-audit services, tenure and alumni affiliation*. Working Paper, University of New South Wales.

Appendix I - Interview Guide for Auditors

1. Tell us about your firm, and the approximate number of client firms audited annually?
2. What are your opinions regarding the long-term relationship of an auditor and client?
3. Generally, how long is the relationship of your firm with the clients?
4. Are there any specific regulations either in Swedish or European Law regarding the mandatory auditor rotation?
5. What are the cost-benefit analyses of auditor rotation?
6. European Commission is assessing the feasibility of a scenario where auditor would be appointed by the regulator rather than the client firm itself. Would it be a good option if a regulator rather than the client firm itself decides the appointment of an auditor?
7. Prior research says that long-term relationship is beneficial in a way that an auditor has much knowledge about the client firm, which could help them in efficient and effective auditing. What are your opinions about it?
8. Prior research also holds the view that long-term relationship makes the auditor complacent either by developing good relations with the client's management or by feeling sympathized for the client-firm, which could decrease the audit quality. How do you see this?
9. What are the reasons for an audit failure, and what could be its consequences for the audit firm?
10. What are the professional ethics of auditing that should be followed in an audit?
11. How successful an audit is in reducing the risk of material misstatements in financial reports?
12. Do you provide non-audit services to the client-firms as well?
13. How can the non-audit services affect the audit quality?
14. Research shows that as the local audit firms might rely on specific clients therefore they are more prone to the dangers of compromising over audit quality? What are your opinions about this being a local firm?
15. Can long-term auditor-client relationship result in uniform level of audit quality over the years?

16. Can long-term auditor-client relationship lead to bilateral monopoly?
17. What role can the auditor-size and brand-name play in maintaining the audit quality?
18. Do you agree with the opinion that during the early years of audit engagement the audit quality is lower, and the chances of detecting material misstatements are lower?
19. How would you rate the auditor reputation, which is the perceived competence and independence of auditor, in terms of audit quality?
20. How much can the industry-specialization of an auditor affect the audit quality?
21. Can an auditor on the basis of higher audit quality and industry specialization charge higher audit fees from the clients?
22. How can an audit affect the information credibility and information quality of the client's financial information?
23. In your relationship with the client, were you ever enforced or sympathized by the client to modify your audit opinion?
24. How can long-audit tenure affect the perception of investors and information intermediaries (e.g. credit rating agencies and financial analysts) regarding the audit quality?
25. Does the long-audit tenure help in overcoming the issues of agency problem in between the owners and the management?
26. What auditing standards, do auditors in Sweden follow?
27. Finally, what are your concluding opinions regarding the affects of long-term audit-client relationship on audit quality?

Appendix II - Interview Guide for Clients

1. Tell us about your firm, its operation and the industry in which it operates?
2. By whom your financial reports are audited, and for how long you have had the relationship with this auditor?
3. What are your opinions regarding the long-term relationship of an auditor and client, and how can it affect the audit quality?
4. Are there any specific regulations either in Swedish or European Law regarding the mandatory auditor rotation?
5. What are the cost-benefit analyses of auditor rotation?
6. European Commission is assessing the feasibility of a scenario where auditor would be appointed by the regulator rather than the client firm itself. Would it be a good option if a regulator rather than the client firm itself decides the appointment of an auditor?
7. Prior research says that long-term relationship is beneficial in a way that an auditor has much knowledge about the client firm, which could help them in efficient and effective auditing. What are your opinions about it?
8. Prior research also holds the view that long-term relationship makes the auditor complacent either by developing good relations with the client's management or by feeling sympathized for the client-firm, which could decrease the audit quality. How do you see this?
9. What are the reasons for an audit failure, and what could be its consequences for both the client firm and audit firm?
10. How successful an audit is in reducing the risk of material misstatements?
11. What role can the internal control and the internal accounting department play in ensuring the audit quality?
12. Do you acquire non-audit services from the auditors?
13. How can the non-audit services affect the audit quality?
14. Can long-term auditor-client relationship lead to bilateral monopoly?
15. On what basis and qualities an auditor is appointed?
16. How would you rate the auditor reputation, which is the perceived competence and independence of auditor?

17. Does the audit firm size and auditor's brand-name matter during the selection process?
18. How much can the industry-specialization of an auditor affect the audit quality?
19. Will your firm be willing to pay high audit fees for the higher audit quality and industry specialization of the auditor?
20. Does an audit affect the information credibility and information quality of financial information?
21. In your relationship with auditor, did you ever try to enforce or sympathize the auditor to modify his audit opinion?
22. How do investors and information intermediaries (e.g. credit rating agencies and analysts) perceive the long-term auditor-client relationship?
23. Does the long-audit tenure help in overcoming the issues of agency problem in between owners and managers?
24. Finally, what are your concluding opinions regarding the affects of long-term audit-client relationship on audit quality?



Umeå School of Business
Umeå University
SE-901 87 Umeå, Sweden
www.usbe.umu.se