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A review of Revisorsnämnden's disciplinary actions

- Swedish reactions to accounting scandals -

Master Thesis in Business Administration within the
Civilekonom program

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Abstract

In the beginning of the 21st century the accounting scandals of Enron and WorldCom took place. After these scandals there was a demand for an improved supervision since the trust of auditors had decreased as a result of the scandals. If the supervision of auditors increases there is a possibility that the auditors will perform the audit more accurate and the material errors in the financial statements will decline. Revisorsnämnden (RN) is a governmental authority that performs supervision of auditors in Sweden. Some of the supervision has been delegated to the Swedish trade organization Föreningen för Auktoriserade Revisorer. When an auditor has failed to fulfill the obligations of an audit a disciplinary action is started and can lead to a disciplinary measure for the auditor.

The purpose of this study is to investigate how the Swedish supervision of auditors works today and also if it is possible to see a change of the disciplinary actions as a result of the accounting scandals. The most common categories of problems will also be examined. To answer the research questions we have conducted a document study of the disciplinary actions of RN. The document study has shown which the most frequently occurring problems of auditing are and which disciplinary measures that have been given.

The document study showed that there is not a clear change of the disciplinary actions as a result of the accounting scandals except for the category of independence/disqualification. The most common categories of problems are independence/disqualification, lack of documentation, inventories, the auditor´s own fault, assets and taxes and fees.

Glossary

Aktiebolagslagen (2005:551) - Companies Act

Analysmodellen - Principal based model for independence

FAR – Föreningen för Auktoriserade Revisorer

FEE – Fédération des Experts Comptables Européens

Förordningen (2007:1077) med instruktion för revisorsnämnden - Ordinance containing instructions for the Swedish Supervisory Board of Public Accountants

IAASB – International Auditing Assurance Standards Board

IFAC – International Federation of Accountants

ISA – International Standards on Auditing

Nordiska revisionsförbundet - Nordic Audit Association

PCAOB – Public Company Accounting Oversight Board

Revisionslag (1999:1079) - Audit Act

Revisionsstandard - Auditing Standard

Revisorslagen (2001:883) - Auditor Act

RN - Revisorsnämnden

SOX - Sarbanes Oxley Act

SEC – Securities and Exchange Commission

Årsredovisningslagen (1995:1554) - Annual Accounts Act

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1 Introduction

This chapter gives the background of the topic which is followed by a problem discussion leading to the research questions that are going to be investigated. The purpose of this study is to investigate how the supervision of auditors works today and also to see which problems of the disciplinary actions that are the most common. The study will also examine if there has been a change of RN's disciplinary actions between 1995-2001 and 2002-2011 as an effect of the greater focus on the accounting profession due to the accounting scandals.

1.1 Background

In 1919 the Swedish chamber of commerce introduced a central committee for auditors with the task to supervise auditors. In 1993 the supervision of auditors changed from the chamber of commerce to Kommerskollegium. In 1995 Revisorsnämnden (RN) was established by the government and the supervision of auditors changed to RN. At the same time the auditing law of 1995 entered into force. The establishment of RN as an independent organization implied a demonstration of the activity's importance for the society and the auditors' prominent role in the battle against the economic crimes (RN, 2012a).

RN is a governmental authority under the ministry of justice and reports to the government. The authority has two main tasks; first they should provide and make sure that there are qualified auditors for the business world. Secondly they should supervise the auditing profession. The disciplinary actions are one part of RN's supervision work and this is where the misstatements done by auditors are being investigated and the disciplinary measures are distributed (RN, 2012b).

During the last decade many scandals have occurred and the accounting profession and the supervision of auditors has therefore been criticized which had led to a demand for more efficient supervision of auditors (Carello, Hermanson & Raghunandan, 2005). Enron and WorldCom were two large accounting scandals that occurred in the United States in the beginning of 21st century (Johansson, Häckner & Wallerstedt, 2005). Enron was the largest gas provider in Great Britain and America and WorldCom was the second largest internet and telecom operator in the United States (Hamilton &

Micklethwait, 2006). Arthur Andersen was the auditing firm of the two companies and as a result of the scandals the firm lost their audit license (Schroeder, Clark & Cathey, 2009). The two companies' accounting records were approved by Arthur Andersen even though they knew that the records were not made in a proper way (Mallin, 2010). The investigation of Enron revealed that all parties involved had failed in fulfilling their obligations including the auditors. The fact that the fraud was not detected showed that there was a lack of supervision of the audit function (Kristoffersson, 2009).

There have also been several scandals in Sweden including Skandia which is one of the world's leading independent providers of quality solutions for long-term savings and investments (Skandia, 2012). An investigation done by an independent review team at Skandia revealed that large rewarding systems had been used and large bonuses had been paid to the top management. The investigation also showed that expensive apartments had been renovated for the company's chief executives and for their family members (Olsson, 2003). The auditors in this case were accused of not having put enough of effort into their work (Fredriksson, 2004). Another Swedish accounting scandal is the one of Prosolviva (Johansson et al., 2005), a successful IT-company with hundreds of employees in the 1990s. In 1998 the company went bankrupt and the auditor were charged for fraud (TT, 2006) but was later acquitted in 2005 (TT, 2010). The scandal of the HQ bank in 2010 was given a lot of attention in media when the company lost their bank provision after they had broken several of the Swedish bank's regulations (Söderlind, 2010). The auditor of the HQ bank was later reported to RN and received a disciplinary reminder due to the lack of documentation (Malm, 2011). Even though some auditors in these cases were not convicted the trust of auditors did decrease as a result of all the attention the scandals got in media. If an auditor's work is more supervised it is possible that the auditor will audit more accurately and therefore the auditor might discover and give notice to more flaws in the auditor's report. By that the auditors trust might be maintained.

The scandals in the US in the beginning of the 21st century were daily news and after Enron's fall in 2001 the US Congress has embraced "*a wider range of perceived corporate, financial and oversight problems that were seen as contributing to massive stock market losses for individual investors*" (Kulzick, 2004, p.43). According to Fritz

Bolkestein (2004) scandals can hurt the financial markets. Due to the scandals investors might not want to invest in the companies and the cost of capital might increase because of it (Fallenius, 2004). As a reaction to the several scandals the US government introduced a new regulation, the Sarbanes Oxley Act (SOX), (Tufesson & Nystrand, 2004). SOX came in force in 2002 in order to improve the internal control of companies and the purpose was to reduce material misstatements and frauds and to help to improve the transparency of a company's financial reporting and financial position (Deloitte, 2012). Another aspect of SOX was the establishment of the Public Company Accounting Oversight Board (PCAOB) in 2002. PCAOB is an US governmental organization working with the aim to increase the transparency and to supervise auditors. PCAOB together with SEC has been delegated the rule-making, interpretation, implementation and enforcement authority of SOX. The Security and Exchange Commission (SEC) is in charge of implementing SOX, including oversight and enforcement over PCAOB (Kulzick, 2004) while the task of PCAOB is to adopt current standards and to develop new ones (Johansson et al., 2005).

Auditing is an important function and a necessity in modern society and the most important task of auditing is to secure the quality and give a higher credibility to the financial information of the company. Without any reliable information both the society and the business world would be affected negatively and in a lot of cases not work at all (Johansson et al., 2005). An auditor can perform different tasks but the most common one is that the auditor gives a statement about the client's financial information. Supervision of auditors is therefore an important factor to ensure legitimacy of the auditors work (FAR, 2006).

In January 2002 a new Swedish auditing law was introduced. The new law focuses more on auditor's independence and its operations among other things. The European Commission has adopted some provisions in order to enhance the supervision of auditors (Fallenius, 2009). In 2006 the member states of the European Union (EU) and the European Parliament approved a new directive, the 8th company law directive, concerning auditing. According to the European Commission, the new directive was an important factor to regain the trust of the financial market's investors and it also

included a small harmonization of the rules concerning auditing in the EU. The Swedish auditing law is in many aspects very similar to the directive (SOU 2006:96).

Quality control is an important part of the supervision of auditors and is performed by both RN and FAR (Föreningen för auktoriserade revisorer) (Bengtson, 2009). FAR is a Swedish trade organization which has one of the leading roles in the development of professional auditing standards, education and does also provide information about the auditing profession. The organization was established in 1996 when the two auditors associations in Sweden; Föreningen för auktoriserade revisorer (FAR) and Svenska Revisorförbundet (SRS) merged together. The association consists of 6500 members of certified public accountants, approved public accountants and other high qualified professionals in the auditing sector in Sweden (FAR, 2012). The quality control has been split between RN and FAR. RN has delegated some of its quality control to FAR which performs quality controls of its members. RN does also secure the quality of FAR's work by every year reviewing the quality of a number of the controls conducted by FAR (Carrington, 2010). When a qualified auditor has failed to fulfill his or hers obligations RN should give the auditor a disciplinary measure. The disciplinary measure could be a disciplinary reminder, a warning or a withdrawal of the approval, certification or registration. Disciplinary actions can arise from notifications from clients, bankruptcy trustees or other authorities but also from RN itself (RN, 2012b).

1.2 Problem discussion

The auditing profession has become an important topic in the past decade and due to the accounting scandals the auditors' work and also the supervision of auditors has been criticized. The accounting profession has also received a lot of negative attention in media due to the scandals and this has led to an increased pressure from investors, banks and tax regulators on the auditors. The supervision of auditors has therefore become more important and makes the stakeholders more confident that the financial information is correct (Malm, 2011).

Due to the globalization and the increase in the capital markets the accounting scandals have affected companies worldwide. In 2005 the International Financial Reporting Standards (IFRS) and the International Accounting Standards (IAS) were implemented

in Sweden. The primary goal of the international rules is to harmonize the accounting standards (Johansson et al., 2005). Auditors play a larger role in today's society and face more challenges and difficult tasks than ever before. In an article by Halling (2008), Peter Strömberg, manager at RN, states that an expectation gap exists due to that there is an incorrect perception in the society that an auditor should control the company and that he or she should investigate all details in the company when performing the audit. An evidence for that the expectation gap exist is the fact that 60 percent of the disciplinary actions is dismissed by RN without any measures being given. This is due to that RN considers that no material misstatements have been done by the auditor or the auditing firm (Halling, 2008).

RN (2012c) argues that the authority through its supervision of auditors and the other activities they perform tries to maintain the investors' confidence and also to make sure that the auditors work is performed with high quality. If RN discovers that a qualified auditor has failed to fulfill its obligations RN will start a disciplinary action. Through disciplinary actions the work of auditors might be improved and therefore supervision is an important issue in order to maintain the credibility of the auditing profession.

The accounting scandals have decreased the trust of auditors (Johansson et al., 2005) and RN receives new complaints of auditors and has to start new disciplinary actions frequently. It would therefore be interesting to see how the Swedish supervision of auditors works today. This paper will also determine if there are any commonly occurring problems in the disciplinary actions and if there is any clear change of the problems between the two periods of 1995-2001 and 2002-2011 as a result of the accounting scandals and the new law. Since RN was established in 1995 we thought that this would be a good starting point for our study. In 2001 the scandal of Enron took place and in Sweden a new auditing law was introduced and therefore we chose to start our second period in 2002 in order to see if there has been any effect of those two events. Is it possible to see a change in the most occurring problems in the disciplinary actions between the two periods as a cause of the new law and the as an effect of the accounting scandals?

1.3 Research questions

- How does the Swedish supervision of auditors work today?
- Which problems are most common in the disciplinary actions of RN?
- Has there been a change of RN's disciplinary actions between the years of 1995-2001 and 2002-2011 as a result of the greater focus on the accounting profession due to the accounting scandals?

1.4 Purpose

The purpose of this study is to investigate how the supervision of auditors works today and also to see if there has been a change of RN's disciplinary actions between 1995-2001 and 2002-2011 as an effect of the greater focus on the accounting profession due to the accounting scandals. The study will also examine which problems of the disciplinary actions that are the most common.

1.5 Delimitations

The disciplinary actions we have chosen for our study are between the two periods of 1995-2001 and 2002-2011. Further we have only chosen those disciplinary actions that are enforced by law. We have made this selection because the disciplinary actions enforced by law are the final decisions and they cannot be appealed in court. We have then chosen to describe the most frequently occurring categories in the disciplinary actions while the other categories have been studied on a more overall level. The study is based in Sweden and therefore only Swedish rules and regulations are discussed in the thesis.

1.6 Disposition

The disposition of the study will be the following:



2 Method

In this chapter we introduce the research methods that have been used in our study. There is also a description on how the document study is conducted and analyzed and how the categories have been created.

2.1 Research strategy

The research strategy describes in which way the study is conducted. The choice of method will also be described.

2.1.1 Qualitative and Quantitative

There are two types of methods that one can use when conducting a study; the quantitative approach and the qualitative approach. The quantitative approach is more formalized and structured and uses statistical method measures while the qualitative approach are mostly based on interviews and observations. The quantitative method is more focused on giving explanations while the qualitative method is more about getting a deeper understanding (Holme & Solvang, 1997). To be able to answer our research questions we have chosen to conduct a document study which will be both qualitative and quantitative. A part of our purpose is to investigate the disciplinary actions of RN between the two periods of 1995-2001 and 2002-2011 to see if there has been any change of problems due to the accounting scandals. We have conducted a document study of the disciplinary actions of RN, which is a qualitative method according to Jacobsen (2000), which focuses on collecting data expressed in words, meanings and stories that already can have been collected by others. Researchers can use the company's annual report, public records, letters etc to collect the information needed. According to Jacobsen (2000) a document study can be specially appropriate for three reasons: when it would not be possible to collect the data in any other way, when the author wants to know how other persons has interpreted a particular or special event, or when the author wants to know what others actually have said and done. We have conducted our document study based on public records which are published on RN's website. Since this information is not available in other way it would be impossible to collect the data ourselves. The document study also helps us to see how RN has interpreted the disciplinary actions and to see who the auditors in the disciplinary actions has failed to fulfill their obligations.

Jacobsen (2000) also argues that a documentation study can be expressed in numbers. Since our document study has been consisting of measuring how often different problems in the disciplinary actions occur and what disciplinary measures that are given, a part of our study will also be quantitative.

2.2 Data collection

There are two types of data; primary and secondary data. In this study only secondary data have been used. The secondary data in this study has been retrieved from RN's and FAR's websites.

2.2.1 Secondary data

Secondary data is data and information collected from already existing information that is not collected primary for the specific study. Secondary data can be documents such as books, articles, annual reports and public records. It is important to have a critical view when using secondary data because the sources where the data is found can be subjective and incomplete (Lundahl & Skärvad, 1999). We do consider the information about the disciplinary actions as reliable and valid because the data is published on RN's website and the disciplinary actions are settled in court. One important issue to consider is that only a number of the disciplinary actions are published on the website so it can be hard to know whether or not the disciplinary actions give a fair view of the reality. The total number of disciplinary actions between the years of 1995 to 2011 is 2317 (I. Blomberg, personal communication, 2012-03-12) and we have studied 724 of them which are those that are published on RN's website. The first period, 1995-2001, consist of 274 disciplinary actions and the second period, 2002-2011, consists of 450 disciplinary actions. RN has on their website chosen to publish those disciplinary actions that either gives a contribution to the case law or those disciplinary actions that gives the auditor a disciplinary measure (F. Bengtsson, personal communication, 2012-04-05). The disciplinary actions which are not published on the website are mostly actions that not have resulted in a disciplinary measure. Another consideration to take into account is the fact that a lot of misstatements performed by auditors are not detected through RN's and FAR's supervision. In these cases the misstatements are not a part of RN's disciplinary actions and thus not a part of the study.

2.3 Theoretical Framework

The chapter of theoretical framework consists of applicable theories about auditing and accounting and also of laws and regulations of auditing and supervision. The chapter of theoretical framework should give guidance in the analysis of the empirical study. The chosen theories are the agent theory and the legitimacy theory. The theories help to explain how the supervision works and if the auditor has fulfilled the expectations of the society.

Laws and regulations have also been used in the study since it describes and regulates how an audit should be undertaken and also how the organizations that work with the supervision should use the laws and regulations in their work. This is important to know in order to be able to analyze if the auditors in the different disciplinary actions have fulfilled what the laws and regulations requires of them. It is also important to explain the laws and regulations that exist in the area of auditing in order to examine if the organizations who works with the supervision meets the requirements placed on them. The theories, laws and regulations described in the theoretical framework should assist in answering the first and third research question.

To all the large problems in the disciplinary actions, laws, case laws or good practice will be presented in order to be able to compare it with the empirical section that presents different disciplinary actions. In the empirical section one disciplinary action will be summarized that is connected to each problem in order to exemplify the different problems. In the analysis section the disciplinary actions will be connected to law, regulations and case law. This should assist in answering the second research question.

2.4 Working process

Information from RN's and FAR's websites has been gathered about the organizations in order to get an understanding of their work. The document study started with reading all the disciplinary actions of RN and then split them up into categories.

2.4.1 Study of the disciplinary actions

The disciplinary actions is to be found on RN's website and the disciplinary actions we have chosen for our study are enforced by law and between the two periods of 1995-2001 and 2002-2011. We find that these two periods will give us sufficient evidence

and that we are able to see if there are any changes between the years. In 2001 the scandal of Enron took place and in Sweden a new auditing law was introduced and therefore we chose to start our second period in 2002 in order to see if there has been any effect of those two events. Out of the 724 disciplinary actions we have been studying we have for each case compiled the outcome, the title of the auditor and what the failure of fulfilling the obligations was. In order to limit the study we have only chosen those disciplinary actions that are enforced by law. We have made this selection because the disciplinary actions enforced by law are those who are the final decisions and that they cannot be appealed in court. In the 724 disciplinary actions we have investigated the auditor was acquitted in 23 of the actions. We have included those disciplinary actions even though the auditor has not got any disciplinary measure. This is because those cases are still important because they add something to the case law which is important for RN when they make judgments in the disciplinary actions.

2.4.2 Categorization of the data

In all the disciplinary actions information about RN's decisions and justification are to be found. After reading through each of the disciplinary actions we have written a short summary of the cases and categories were then created out of the disciplinary actions. According to Saunders, Lewis & Thornhill (2009, p.492) "*categorizing data consist of two activities: developing categories and, subsequently, attaching these categorizes to meaningful chunks of data*". By doing so one should start to see different relationships that can facilitate further development of the categorization of the data (Saunders et al., 2009). Saunders et al. (2009) also argues that "*The categories can be derived from data or from the theoretical framework and categories can be described as "codes or labels that you will use to group your data"*" (Saunders et al., 2009, p.492). When splitting the data into categorizes one should have the purpose of the study in mind which are expressed by the research questions of the study (Saunders et al., 2009). We have derived our categories from our data and each of the problems we have found is then every year grouped together into the different categories. The categories we have found are clearly separated from each other to get a clear distinction of the data. The categories were created after reading through all of the disciplinary actions.

2.4.3 The structure of the disciplinary actions

The documents of the disciplinary actions often start with describing who the informer was and what title the auditor had. There is also a short summary of what the auditor is accused of. Then the auditor defends him or herself by stating their own opinion. Later RN makes its judgment based on the evidence above and announces if the auditor is acquitted or receives a disciplinary measure. The documents of the disciplinary actions are often about ten pages long and it is necessary to read all the pages in order to get an understanding of the case and the judgment.

3 Theoretical framework

In this part the theories that have been used and that can be applied in order to help answering the research questions is presented. Different laws and models that are relevant for the study are also explained.

3.1 Agency theory

The agency theory is a positive accounting theory with the basic assumption that individuals are self centered and will try to maximize their own personal wealth (Schroeder et al., 2009). The principal-agency relationship can be defined as a contract where the principal delegates a task to the agent on its behalf and which involves delegating some authority to the agent. The principal is the shareholder of the firm and the agent is the top manager or the CEO of the firm. According to Fama and Jensen (1983, p.304), “*agency problems arise because contracts are not costlessly written and enforced*” and the principal-agency relationship will therefore often result in an agency cost. The conflicts of interests arose because the goal of the principal is to maximize the shareholders wealth and the agent’s goal is to maximize its own wealth. There are three costs associated with the agency problem; the bonding cost, the monitoring cost and the residual loss (Johnson & Meckling, 1976). The monitoring cost are according to Watts (1977, p. 131) “*expenditures by the principal to control the agents behavior*” by measuring and observing the agents behavior, the bonding cost exist because the principal have to give compensation such as bonuses to the agent in order to guarantee that the agent will not take certain actions to harm the principles interests, the residual loss occurs because the principle and the agent will always behave differently so there will be a wealth effect of this divergence (Watts, 1977). In order to solve the problems you have to align the interest of the principal and the agent by for instance giving payment to the agent (Johnson & Meckling, 1976).

The agency theory can be applied in this study since FAR performs quality controls on the behalf of RN. RN can be seen as the principle delegating some of the supervision work to the agent, FAR, which is helpful when answering the first research question; how the supervision of auditors in Sweden works today.

The agency theory can also be applied by that the shareholders and the users of the financial statements are seen as the principals while the auditors are the agents. The agency problem will then arise if the shareholders and the users are not sure of whether or not the auditors have audited the financial statements with accuracy.

3.2 Legitimacy theory

“Legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs and definitions” (Suchman, 1995, p.574). Before the 1960s legitimacy was considered only in terms of economic performance. The firm was rewarded with legitimization as long as the firm was profitable. Nowadays society’s perceptions of business have changed (Pattern, 1992). Legitimacy theory relies according to Deegan and Unerman (2011) upon the notion that there is a “social contract” between organizations and the society in which they operates. The social contract can be seen as the multitude of the expectations that the society has about how the organizations should perform its operations. If the organizations are operating within the social contract they are also following the bounds and norms held by the society. Lindblom (1993) describes legitimacy as a condition that exists when a company’s value system corresponds with the value system of the society which the company is a part of. Legitimacy is also considered to be a resource on which an organization is dependent upon for its survival (O’Donovan, 2002). However the resource is unlike many others resources, a resource the organization is considered to be able to impact or manipulate. Strategies will be made to ensure continued supply of that resource. These strategies could include targeted disclosures and controlling or collaborating with other parties who in themselves are perceived by the society to be legitimate (Deegan & Unerman, 2011). The legitimacy is a dynamic process due to that the expectations and rules in the social contract are changing all the time (Brown & Deegan, 1998). It is very important for the company to follow the development in the social contract to maintain their legitimacy (Deegan & Unerman, 2011).

The legitimacy theory describes the legitimacy role of the auditor in the society. To be able to maintain the legitimacy the supervision by RN might be helpful in creating

legitimacy for the auditors. The auditor is expected to ensure that the financial reports are free from material misstatements. When the auditor has signed the auditor's report investors expect that the auditor has secured the quality of the financial reports and can therefore make the right decisions based on those statements. Auditors bring legitimacy to the financial statements but that only works if RN's supervision of auditors brings legitimacy to the audit profession.

3.3 Auditing

Auditing is explained by FAR (2006) as a process where the auditor with a professional and skeptical approach should plan, monitor, judge and give a statement about the annual report, accounting records and management. The different stakeholders of a company have to be able to rely on the financial information that the company presents and also on the management's daily operations. Auditing is important since it creates a higher credibility of the financial information in an organization. This part will describe the working process of an audit and in which way it should be undertaken in order to avoid being a part of a disciplinary action.

The objectives of auditing are to be found in the International Standards on Auditing (ISA). The auditor's objective of a financial audit is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements (11§, ISA 200). The auditor should also make a statement about whether he or she approves or opposes the balance sheet and income statement, that the profits is distributed in the management report, and that the board of directors and the Chief Executive Officer (CEO) is approved with discharge from liability. According to ISA the auditor should review the annual report, accounting records and the management's operations to be able to make it possible for him or her to make a comment in the auditor's report about whether the financial statements have been prepared in accordance with Årsredovisningslagen (1995:1554) and thus gives a fair view of the company's result and position. The auditor should also state whether discharge from liability can be approved or not. The audit should also make it possible for the auditor to make other comments or give remarks that can be required from the audit (11 §, ISA 200).

3.3.1 Planning of the audit

Planning is an important part of the audit. The auditor should decide which areas that should be reviewed and also how, when and by whom (2 §, ISA 300). All companies are unique and must therefore be audited according to its own circumstances. The audit process starts with gathering information about the client and its operations in order to get an understanding of the company. A well performed information gathering provides the auditor with prerequisites in order to plan the audit and to concentrate on those areas where the risk for material misstatements is the highest (FAR, 2006).

3.3.2 Management audit and Financial audit

Auditing can be split into management audit and financial audit (FAR, 2006). According to 1 § RevR 209, which are recommendations concerning management audit, management audit is concerned with making sure that the board of directors and the CEO operates in a way that meets the requirements in Aktiebolagslagen (2005:551) (1§, RevR 209). Significant decisions, agreements, measures and relationships of the company will be examined. Financial audit is concerned with reviewing accounts, annual reports and consolidated statements. Substantive testing and internal control testing are two approaches by which a financial audit can be made. Substantive testing controls that the content in different income statement items and balance sheet items are correct. Internal control testing verifies that the companies' internal controls are working as it should. The auditor's audit should result in an auditor's report with an opinion of whether or not the board of directors and the CEO will be approved with discharge from liabilities, a proposed distribution of earnings and a balance sheet and financial statements determination. If the financial statement is not free from material errors information should be given in the auditor's report. Material deviations from the law will result in an adverse opinion (FAR, 2006). Finally the auditor will do an auditor's endorsement of the financial statements (27a §, Revisionslag (1999:1079)). If the financial statements are not free from material errors it should be shown by the auditor's endorsement (27b §, Revisionslag (1999:1079)).

3.3.3 Materiality of the audit

A basic concept of auditing is materiality. It determines where the focus of the audit should be and also how extensive it will be. The audit must focus on those areas where

the risks for material misstatements are the highest. To be able to do that the auditor needs to understand the operations of the company and what the risks might be that can cause material misstatements in the financial statements. He or she must also understand the internal control that the management has in the company. The materiality must be assessed during the planning process of the audit otherwise it is easy to audit the wrong items and forget important areas. Large amounts that can affect the picture of the financial statements must be audited more carefully than small amounts. The limit of what is material or not differs between companies (FAR 2006). According to FAR (2006) it is the auditor's own professional judgment that should determine what is material or not.

3.3.4 Reports

The auditor gives both oral and written reports to the decision makers of the company. The reports can include observations and critical comments that have been made during the audit process. If the auditor gives critical comments the reports do usually include suggestions for improvements. The auditor must give the company the comments about what they need to change as soon as possible so that the errors can be corrected before the auditor's report is issued. A good communication between the auditor and the management is therefore important. Material misstatements have to be reported to the CEO and to the board of directors. If the errors are so big that the annual report is not prepared in accordance with Årsredovisningslagen (1995:1554) or do not follow generally accepted auditing principles the auditor must express this in the auditor's report (FAR, 2006). Some severe material misstatements should be reported to the board of directors and the CEO as a reminder (34 §, Revisionslag (1999:1079)). When irregularities exist the auditor should as soon as possible inform the CEO and the board of directors who are the ones responsible for the measures (FAR, 2006). If the auditor suspects a crime he or she should report it to a prosecutor (7 §, RevU 4).

3.4 Revisorslagen (2001:883)

Revisorslagen (2001:883) is a Swedish law which describes how the auditor should act and perform the audit. RN applies the law when making its judgments of the disciplinary actions.

According to 8 § in Revisorslagen (2001:883) an auditor is allowed to practice auditing only as a sole trader or in a registered auditing firm. In all auditing procedures the company must choose one main auditor responsible for the auditing which has to be an approved accountant or a certified public accountant (CPA). It is the main responsible auditor that should sign the auditor's report and other statements. If the report is signed by several auditors it must be clearly stated who the main responsible auditor is (17 §).

According to Revisorslagen (2001:883) generally accepted auditing standards must be followed by the auditor (19 §) and it is important that he or she will be independent and objective (20 §). If there are reasons for the auditor to believe that he or she cannot perform the assurance engagement without being independent and objective the auditor should not accept the client. Threats of accepting the assurance engagement might be that the auditor has an economic interest in the company or that he or she has a family member or a personal relationship with a person within the company (21 §). Revisorslagen (2001:883) also states that the auditor is not allowed to have any other additional activity that can affect his or hers independence and objectivity (25 §).

It is of a great importance that the auditor documents all the audit evidence gathered since it should be possible for external persons to follow the working process easily and to see what the auditor actually has done (24 §). Confidentiality is also important for an auditor, it is not allowed to share any information about the clients (26 §).

Every sixth year auditors and registered auditing firms has to be a subject of an independent quality control (27a §) and information about the disciplinary actions are to be found in the 32 §. If an auditor intentionally is committing frauds the auditor's approval or certification should be abolished. If there are any mitigating factors the auditor will instead receive a warning and if the auditor's action is not so severe the measure will be a disciplinary reminder (32 §).

3.5 The principal based model for independence

The principal based model for independence helps the auditor to evaluate if there are any existing threats of independence. One step in the model also concerns the disqualification issue which will be further explained in section 3.6.1. The auditor has to consider the principal based model for independence before accepting an audit

engagement. If the auditor does not follow the model there is a risk of violation of independence and the auditor might therefore be a part of a disciplinary action.

Revisorslagen (2001:883) is built on the principal based model for independence and is established from the recommendation issued by the European Commission concerning the auditor's independence in the EU. In the principal based model for independence the auditor should before starting an assurance engagement see if there are any circumstances that can discredit his or hers trust concerning independence and objectivity in the assurance engagement. The model is also used by the International Federation of Accountants (IFAC) in the Code of Ethics for Professional Accountants and is also expressed in the 8th company law directive. An auditor should refrain from the assurance engagement if there are circumstances that can affect the auditor's independence. These circumstances are (FAR 2006):

- Self-Interest Threat: the auditor has an economical or another interest in the client.
- Self-Review Threat: the auditor reviews his or hers own work.
- Advocacy Threat: the auditor act as the clients advocate in a legal proceeding.
- Familiarity threat: strong personal relationships exist between the auditor and the client or someone in the company's management.
- Intimidation Threat: there is a threat that the auditor is influenced of the client or other external threats (FAR, 2006).

If a threat of independence exists the model can be divided into three steps; identification, judgment and documentation (21 § Revisorslagen (2001:883)). The first step is to identify if any of the above mentioned threats is attained or not. Judgment which is the second step describes where there under certain circumstances is possible for the auditor to accept the assurance engagement even though there are some threats of independence or if the auditor can take measures to solve the independent issue himself/herself. In the last step the auditor has to document which independent threats that has been identified and also which measures that has been put in place in order to solve the problem. If none of the above mentioned threats is attained there is no threat of independence and the assurance engagement can be accepted. The above mentioned

steps together with the requirements in the 17§ in Aktiebolagslagen (2005:551), which also concerns independence, improves the credibility of the auditors' independence (FAR, 2005).

FAR has issued a flowchart of the principal based model for independence which can be a tool in order to determine if an independence threat exists or not.

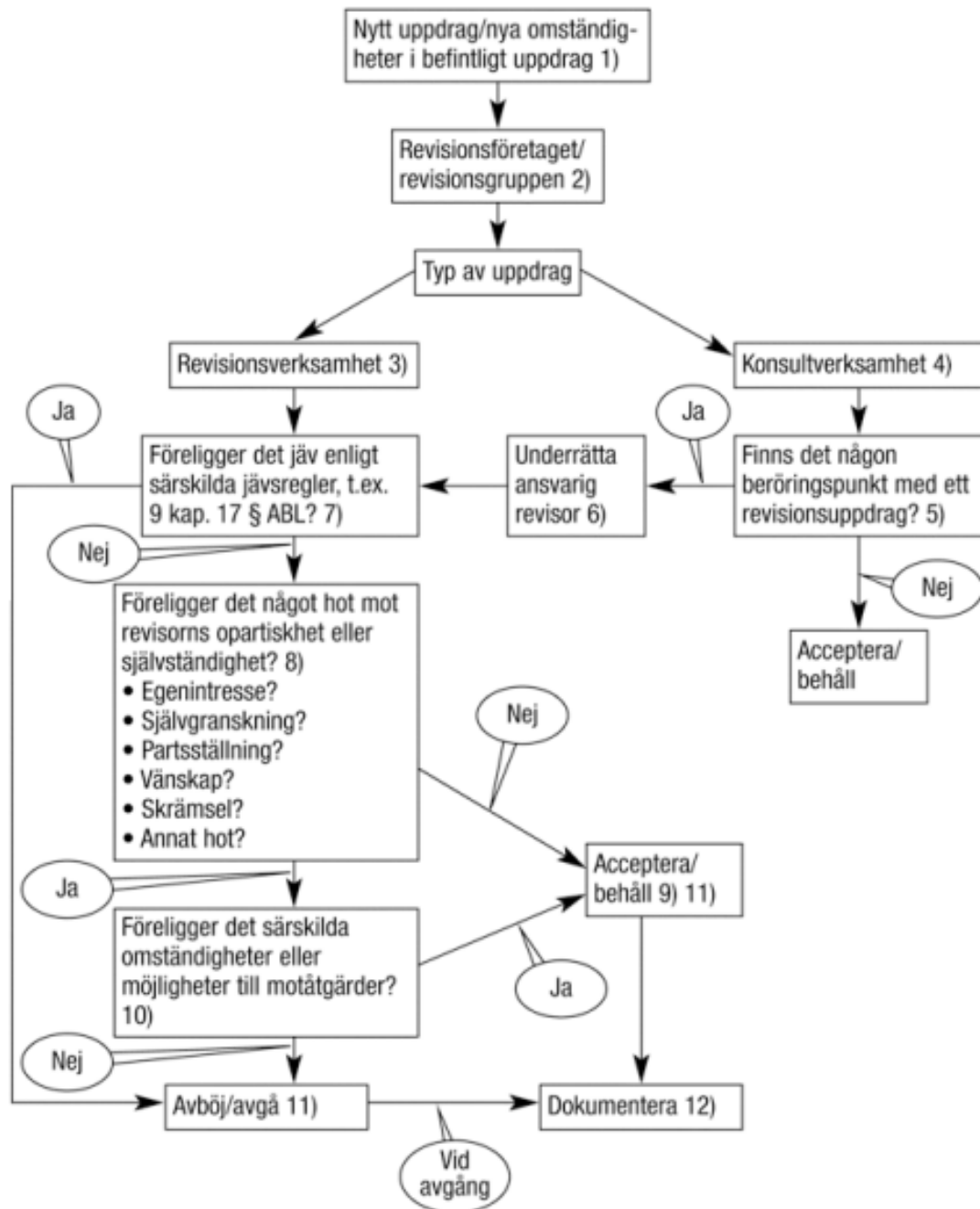


Figure 1. The principal based model for independence (FAR, 2005)

3.6 Revisionslag (1999:1079)

The Revisionslag (1999:1079) is a Swedish law which describes how the audit should be undertaken. The law is applicable when RN makes decisions in the disciplinary actions.

A company should have at least one auditor (3 §), which is appointed by the company (9 §). The appointed auditor should audit the company's financial statements, accounting records and the management's daily operations and the audit should be as comprehensive as required by generally accepted auditing standards (5 §). After each financial year the auditor should leave an auditor's report to the company (6 §). The auditor should also provide and make those statement which are required by generally accepted auditing standards (7 §). The company's management should give the auditor time to perform the audit and provide information that is necessary and they should also provide details required by the auditor (8 §). An auditor has to be independent and cannot for instance be the owner of the client company or a company in the same group, be a part of the management or have a personal relationships with the company (17 §).

The auditor's report should be provided to the management no later than five and a half month after the financial year's end. The auditor should also sign the financial statement with a reference to the auditor's report (27 §). The auditor's report should contain a statement whether or not the financial statement has been prepared in accordance with Årsredovisningslagen (28 §).

In case of a bankruptcy the auditor has to inform the co-auditor, a new auditor or a bankruptcy trustee, and provide necessary information about the business. If the company is undergoing a preliminary investigation of a criminal case the auditor has to provide information about the company's business to the investigator (36 §).

3.6.1 Disqualification

Disqualification is an important issue and deals with that the auditor should perform the audit with objectivity and that the investors and other important stakeholders of the company should feel confident that the auditor has not been affected by other interests that can risk that the auditor's report is incorrect. The stakeholders of the company must be able to rely on the information provided in the auditor's report and to be sure of that

the auditor has not been affected by other interests (FAR, 2006). In 17 § in Revisionslagen (1999:1079) an auditor is not allowed to perform an audit if:

- the auditor own stocks in the company or in a company within the same group,
- the auditor is a board member or the CEO in the company or in its subsidiary,
- the auditor is a part of the companies book-keeping, managements of founds or control,
- the auditor is hired or in any other way have a dependent position to the company or to any other company in the same group,
- the auditor is working in the same company as the person who is responsible for the company's book-keeping, managements of founds or the companies control,
- the auditor is married or is living together, is a sibling or a relative to the person owning the company, or a company in the same group or is a part of the management of those companies,
- the auditor is a brother or a sister in law to the person owning the company, or a company in the same group or is a part of the management of those companies,
- the auditor has a loan to someone in the company or a company that is in the same group.

In the 18 § Revisionslagen (1999:1079) there is one exception of disqualification, which states that if there are an internal auditor at the company the external auditor can hire the internal auditor to the extent that the general accepted auditing standards allows it.

3.7 Generally accepted auditing standards and Professional ethics for accountants

Generally accepted auditing standards are basically the way in which the audit should be performed and deals with knowledge, experience and professional judgment. The professional ethics for accountants are professional codes of conduct that auditors need to follow and one significant rule is to apply the generally accepted auditing standards (FAR, 2006). Generally accepted auditing standards and professional ethics for accountants are set by FAR. RN and the courts' case law work to develop the standards in a good manner (Carrington, 2010). Generally accepted auditing standards are not clearly stated in the law since the standard is always under continuously development and would therefore have to be updated several times a year (Prop. 1997/98:99).

RN should through its regulations, statements and decisions in individual cases be responsible of the standard setting developed in the area in an appropriate manner. It is the court's primarily responsibility to decide the content of generally accepted auditing standards and professional ethics for accountants (Prop. 2000/01:146).

3.8 International standards on auditing

International standards on auditing (ISA) are issued by IAASB and are an international framework which has been developed in order to harmonize standards of auditing all over the world. Nowadays the different countries are to a greater extent affected and dependent upon each other in different areas including auditing. Therefore the financial information must be presented in the same manner in order to secure the usefulness in the financial information for both national and international users (FAR Akademi, 2012).

The 8th company law directive about auditing came into force in June 2006 and stated that ISA should be incorporated into national law in the member states in the EU. From that point in time until the 31st of December 2010 Sweden has been using a framework called Revisionsstandard (RS) which was based on ISA. After the 1st January 2011 ISA is instead used in Sweden and it contains fundamental principles and important approaches with guiding explanations and comments that the auditor should use when performing an audit (FAR Akademi, 2012).

Since ISA is established for an international environment special adjustments for Swedish conditions are needed in particular for the performance of the management audit. These adjustments are controlled by FAR through recommendations and statements done by FAR's policy group of audit. The recommendation concerning management audit, RevR 209, has been developed with ISA as a model. Performing an audit according to ISA does also involve that the Swedish law's, Revisionslagen (2001:883), requirements concerning the audit of the accounting records are fulfilled (FAR Akademi, 2012).

3.9 Förordning (2007:1077) med instruktion för Revisorsnämnden

In the Förordning (2007:1077) med instruktion för Revisorsnämnden one could find instructions that control the operations of RN. The purpose of RN's operations is to maintain the confidence in the auditors' operations and for the authorization system to provide access for different stakeholders with reliable economic information about the company's accounting and management. RN has several responsibilities and some of them are:

- Perform supervision to secure that approved accountants, CPA's and registered auditing firms are running their operation with high quality and fulfill high ethical standards,
- Consider disciplinary actions,
- Provide information about questions concerning the approval, certification, registration and supervision,
- Follow developments in the auditors' sector and especially take into account new national and international conditions that have or may have implications for the supervision of auditors and the auditing firms and for the interpretation and development professional ethics for accountants and generally accepted auditing standards,
- Be representative in the coordinating body for supervision under the ordinance (2009:92) on measures against money laundering and terrorist financing (1§, Förordning (2007:1077) med instruktion för Revisorsnämnden).

3.10 The Supervisory Board

The Supervisory Board is responsible for the performance of the disciplinary actions. According to the Förordning (2007:1077) med instruktion för Revisorsnämnden the Supervisory Board is a decision-making body within RN and their task is to decide about regulations, consider and judge disciplinary actions and give advanced ruling (3 §).

The Supervisory Board consists of one chairman and eight other board members. One of the board members should be the vice chairman (4 §). Both the chairman and vice chairman should be lawyers and have judgment of experience. Two of the other board

members should be approved or certified accountants (5 §). The decision of the Supervisory Board are approved when the chairman or the vice chairman and at least fifty percent of the other board members are attending (6§) (Förordning (2007:1077) med instruktion för Revisorsnämnden).

3.11 ISA 230 Documentation

According to 2 § (ISA 230) the auditor should document items that can be an evidence to support the statements made in the auditor's report. The documentation should also be an evidence of that the audit has been planned and performed in accordance with ISA and applicable legal and regulatory requirements. The audit documentation should also assist in the planning and performing of the audit, in the supervision part of the audit and it should also make it possible for external inspections (3 §). The auditor should prepare documents that are sufficient and an appropriate record of the basis for the auditor's report and evidence that the audit was planned and performed in accordance with ISA and applicable legal and regulatory requirements (5 §). According to the 7 § the auditor should also prepare audit documentation that is sufficient to enable an experienced auditor, who has had no previously connection with the audit, to understand things such as the nature, timing and the extent of the audit as well as the results of the audit procedures performed and the audit evidence obtained. The audit documentation should be collected in an audit file by the auditor (14 §) and after the compiling of the final audit documentation the auditor is not allowed to delete or discard audit documentation before the end of its retention period (15 §).

3.12 Inventories

It is important that the inventories are correct in the financial statements in order for the profit of the year to be correctly showed. Auditing the inventories is a complex area where errors are common and is therefore an important part of the auditing process (FAR, 2006). If the inventories is a big part of the financial statements the auditor should collect appropriate and sufficient evidence of the existence and the condition of the inventories by:

- being physical present at the audit of the inventories in order to evaluate the company's management internal routines and instructions of the registration and to control the outcome of the company's physical inventory's methods.
- observe the applicability of the management's count procedures. This can be done by checking those controls that relates to the company's internal control of stock movements before, between and after the physical inventories, this helps the auditor to ensure that the auditors evidence about the company's managements instructions and physical inventory's methods are good.
- the auditor should also inspect the inventories to make sure that the inventories actually exist and to identify obsolete or damaged goods.
- the auditor also performs test counts where he or she for example select different posts from the company's list of count records to check them against the actual physical inventory in order to get audit evidence to the completeness and correctness of the count records.
- the auditor should also perform the audit to make sure that the company's final accounting of the inventories gives a fair picture of the absolute inventories result (4 §, ISA 501).

If there are no complete stock records the physical inventory have to be made on the balance sheet date in order to secure that all goods that are reported actually exists in the inventories. If a complete stock record exists the physical inventory can be done at another point in time than the balance sheet day. The process is the same as described above but it gets more important to audit the stock records especially the transactions that have been made between the date of the physical inventory and the balance sheet date. When it comes to the moving physical inventory, when there are several physical inventories during the year, the auditor only has to be a part of the physical inventory once or a few times a year and therefore bigger focus is on auditing the internal control in the company (FAR, 2006).

The auditor also has to make a judgment if there is any risk that goods have been calculated several times and if there are any goods that are unpacked that has not been calculated. Therefore the auditor has to audit the invoices carefully and make sure that the goods that has been sold and invoiced during the past year is not calculated in the

physical inventory. Further the auditor also has to consider if the valuation model that the company uses is in accordance with existing rules and generally accepted auditing standards. There should also be an investigation on how the valuation model actually has been applied and for example how goods in foreign currencies have been valued. There also has to be a judgment on how obsolete goods are treated (FAR, 2006).

4 Empirical Findings

In the chapter of empirical findings the supervision work of auditors in Sweden are described. The result of the document study is presented which shows the most common categories of problems in the disciplinary actions together with the disciplinary measures. The data is then graphically showed in tables and diagrams between the two periods of 1995-2001 and 2002-2011.

4.1 Supervision

RN and FAR are two organizations which are responsible for the supervision of auditors in Sweden. RN divides its supervision into four different parts: SUT (systematic and targeting supervision), quality control, disciplinary actions and advanced ruling.

4.1.1 RN activities

4.1.1.1 SUT

In the SUT-operation RN reviews both individual auditors and larger auditing firms. RN conducts its SUT activity in various projects. These are:

- Large auditing firms and auditors elected in listed companies,
- Auditors that have refused FAR to perform quality controls,
- Auditors with a large amount of assurance engagements,
- Auditors for who doubts emerged when applying for a renewal of the approval and authorization,
- Follow through auditors who earlier have had serious flaws in their auditing businesses found out by RN and
- Other projects.

The investigation will be transferred into a disciplinary action if the SUT-investigation reveals serious lack in the auditor's operations (RN, 2012d).

4.1.1.2 Quality control

RN frequently performs quality controls and FAR does also perform quality controls of its members. Some of FAR's controls are reviewed by RN to assure the quality. FAR does also inform RN about those members who have refused to undergo their quality control. RN performs quality controls of those auditors who are not members of FAR

(RN, 2012d). If the quality control reveals serious failures in the auditors' work RN will start a disciplinary action to see if it could lead to a disciplinary measure (RN, 2012d).

4.1.1.3 Disciplinary actions

The disciplinary actions often starts by that RN receives a complaint against an auditor from a company, a private person or another authority. RN can also start disciplinary actions based on information published in newspapers and in media. Another way to start a disciplinary action is on the basis of the information revealed by SUT and the quality controls (RN, 2012e).

The complaint has to be written and contain information regarding the specific auditor, a description of the case and in which way the auditor has failed to fulfilled his or hers obligations. Normally RN cannot investigate events longer than five years back in time so the complaint has to inform at which point in time the event took place. If the complaint shows that the event needs to be investigated further, RN will start a disciplinary action against the auditor (RN, 2012e).

When RN starts a disciplinary action the documents are sent to the auditor in order to give him or her a chance to state their own opinion. RN will consider whether or not any further investigation is needed and once the case is completed they will announce its decision. RN will acquit the auditor if he or she has fulfilled its obligations, otherwise the auditor will receive a disciplinary measure which could be a disciplinary reminder, a warning or a withdrawal of the auditors certification or approval. The disciplinary reminder states that the auditor has violated the generally accepted auditing standard or the professional ethics for accountants. The auditor receives a warning when he or she has failed to fulfill its obligations in a severe way and if it is repeated it can result in a withdrawal of the auditor's approval or certification (RN, 2012e). If RN finds the auditor not guilty the decision cannot be appealed (RN, 2012e).

4.1.1.4 Advanced ruling

Advanced ruling addresses the independent issues of auditors and auditing firms. The case law of RN concerning advanced ruling provides a guideline for independence questions (RN, 2012f). When an advanced ruling has come into force it is binding for RN except in cases when prerequisites changes or if there are constitutional changes of the current question, then the advanced ruling ceases. It is the auditor or the auditing

firm who applies for the advanced ruling. There are two different ways to announce the advanced ruling and the first way is if there are circumstances that are confidence disrupting but the auditor can still continue the assurance engagement because of circumstances in the actual case. The second way is when the auditor is allowed to have another operation which means an operation that not is an auditing business or has a natural connection to the auditing business (RN, 2012g).

4.1.2 FAR activities

FAR is a Swedish trade organization that has one of the leading roles in the development of professional auditing standards, education and also provides information about the auditing profession. The organization does also perform some supervision of auditors which have been delegated by RN. FAR is a member of the Nordic Audit Association (Nordiska revisionsförbundet) and is also involved in the European cooperation body Fédération des Experts Comptables Européens (FEE) and in the global cooperation body IFAC (FAR, 2012a).

4.1.2.1 Quality control performed by FAR

FAR performs quality controls of its own members. The quality assurance is one of the most important tools in order to give assurance to the public and to the supervisory authorities that the auditors and auditing firms perform their work in accordance with the auditing and accounting standards and the rules of professional conduct. The quality controls of the auditing activities should be performed in line with the EC-recommendation about quality assurance of the statutory audit in EU (FAR, 2012b).

4.2 Categories of disciplinary actions

4.2.1 Categories determined

The most common categories of problems in the study are:

- Independence/disqualification
- Lack of documentation
- Taxes and fees
- Auditor's own fault
- Assets
- Cash/Revenues
- Formal errors
- Balance sheet for liquidation purposes
- Inventories
- Other

Some of the disciplinary actions consist of several problems while some consist of just one problem. All the disciplinary actions that consisted of several problems were included in all the different categories because it will give a fairer picture of the most occurring problems. The study of the disciplinary actions answers the second and third research question. The most common problems in the disciplinary actions formed an own category. Independence/disqualification is the most occurring problem which created an own category. Independence and disqualification are combined into the same category since they are similar to each other and often occurred in the same disciplinary actions. The second category was the auditor's lack of documentation. Taxes and fees was also a big problem which also generated an own category. The auditor's own faults was one of the most common categories and was therefore also given an own category. The category auditor's own fault consist of problems concerning for example when the auditor has issued the auditor's report in advance or too late or when the auditor has not registered themselves at the Swedish Companies Registration Office. Assets were another big category and it consists of all the disciplinary actions that have included problems concerning assets. All the assets are included in this category except inventories, receivables, cash/revenues. The biggest assets that were included in this category are equipment, machines and buildings. Both inventories and receivables are assets but they still formed an own category because they were so common. Cash and revenues are combined into the same category since they are similar to each other and often occurred in the same disciplinary actions. Formal errors were another large category which includes errors such as when the client has used the wrong accounting method and not complied with Årsredovisningslagen (1995:1554) or other laws and regulations and where the auditor not had observed the errors. Another category is balance sheet for liquidation purposes. The remaining problems that was not that frequently occurring as the problems mentioned above and consisted of unique or special problems has been placed in other. Because of this the other is not further described in our study. Examples of what is included in other are: planning, working progress, notes and internal control.

In 2011 there were only 23 disciplinary actions which are a small number of actions compared to the previous years. The reason for this is that not all of the disciplinary actions from 2011 have entered into force yet. We still thought it was relevant to

include this year because it contains the newest data available. In 1995 there were also a low number of disciplinary actions, only four, but we have still included that year since that is the year when RN started to perform disciplinary actions.

The most occurring problems of the disciplinary actions will be discussed more in detail while the less occurring problems in the disciplinary actions will be discussed at a more overall level. Four of the most frequently occurring categories of problems in both of the two periods will be discussed more in detail. Three out of four of the most occurring categories are the same in the two periods while one category differentiate so in total six different categories will be discussed more in detail. The most occurring categories of the disciplinary actions are of the greatest interest because it shows where the auditor lacks in knowledge.

4.2.1.1 Independence/Disqualification

In the category of independence/disqualification actions such as when the auditor had a family relationship to the client company or had an economic interest in the company, was included. The disciplinary action, Dnr 2006-1504, has been included in the category of independence/disqualification for several reasons. The auditor had prepared the annual accounts and the annual report which is a violation to the 17 § in Aktiebolagslagen (2005:551) which concerns disqualification. The auditor had also been a board member and a partner in a book-keeping agency and had at the same time been the elected auditor in two other public companies owned by one of the partners in the same book-keeping agency as the auditor. The auditor has therefore violated the 21 § in the Revisorslagen (2001:883) about threats to independence. The auditor had also taken minutes at the company's general meeting which he also was the auditor in. This is also a threat to the auditor's independence according to the 21 § Revisorslagen (2001:883). According to RN the auditor had violated Revisorslagen (2001:883) about the auditor's independence and Aktiebolagslagens (2005:551) rules about disqualification and therefore the auditor received a warning as a disciplinary measure.

4.2.1.2 Lack of documentation

Lack of documentation is a category that occurs frequently in the disciplinary actions. It was often a part of the problems in the disciplinary actions but was seldom the only existing problem. Lack of documentation occurred when the auditor not had

documented the audit he had undertaken. An example of a disciplinary action where the problem was lack of documentation is in Dnr 1999-1174. In this particular action the auditor was a subject of RN's SUT operation which later resulted in a disciplinary action since RN not thought that the auditor had fulfilled the requirements of the audit documentation. When the SUT control started the auditor had about 40 audit engagements and was working in an audit firm where he was the only active employee. To get supporting evidence for a quality control of the auditor's work RN read the documentation made by the auditor in his two biggest audit engagements. RN considered the documentation as very scanty. The notes concerning the audit of the inventories were missing in his documentation in one of the cases and in the other one the only existing documentation was a supporting schedule with information about the total value of the inventories and information about that obsolescence deduction had been made with three percents. Besides that there was no other documentation concerning that item. The auditor had through his documentation not been able to verify any of the controls he said he had undertaken concerning the inventories, not the existence nor the value.

RN argued that in none of the auditor's two audit engagements, that they had monitored, fulfilled the requirements of documentation. The requirement of documented planning had not been fulfilled and the documentation of the performed audits was very scant. To be able to get an understanding of the audit that had been made RN had to ask additional questions to the auditor. The audit measures the auditor said he had performed should have been clear from the documentation. RN concluded that the documentation made by the auditor had not fulfilled the requirements in Revisorslagen (2001:883) nor in the regulations set by RN. Therefore the auditor had failed in his obligations as an auditor and was given a warning as a disciplinary measure.

4.2.1.3 Auditor's own fault

The category of the auditor's own fault consist of many different things that an auditor has broken against. Examples are that the auditor has not signed the auditor's report or has not signed it at the right time or that he or she has not written in the auditor's report that errors exist in the financial statements. In the disciplinary action, Dnr 1999-350, the auditor did emit the auditor's report before the audit was finished. The auditor emitted

the auditor's report at the 28 of September but according to his documentation a part of the audit work was performed in October. The auditor stated that before the audit was finished, he wrote several alternative auditor's reports and that the current auditor's report was not given until he had undertaken additional audit of the company. If the additional audit had affected his view of the company he would have changed the auditor's report.

According to generally accepted auditing standards the auditor's report should be dated and signed immediately or close to when the audit is finished and it should not be emitted until the auditing is completed. This is important due to that the auditor should audit material events after the financial year's end. In this case the auditor emitted the auditor's report in September but finished the audit work in October. The auditor had failed to comply with generally accepted auditing standards and had omitted his obligations as an auditor and was therefore given a disciplinary reminder as a disciplinary measure.

4.2.1.4 Assets

Assets were a big category during the second period and consist of all the disciplinary actions that have included problems concerning assets. In most cases there were both lacks in audit and in documentation. Examples of actions that were included in the category of assets were when the auditor not had audited the records properly or that the assets were recorded at the wrong value and the auditor not gave any remarks on it in the auditor's report.

In the disciplinary action, Dnr 2004-645, the client had bought equipment for 1, 1 million SEK, which was booked to 0, 9 million SEK. The auditor had not during the audit had any supporting documents or notes of those transactions. According to ISA 230 an auditor has the responsibility to prepare audit documentation for an audit of the financial statements, which the auditor in this case not had done. The auditor had not made anything to control the existence and value of the equipment on the balance sheet day. Since the equipment were one of the major items of the balance sheet total in the company and that the acquisition had been made from one of the owners of the firm, RN found that the auditor due to his lack of audit had violated the general accepted

auditing standards and that the auditor therefore received a warning as a disciplinary measure.

4.2.1.5 Taxes and fees

A category that occurs frequently in the disciplinary actions is taxes and fees. In those cases the auditor had not audited the companies' taxes and fees in accordance with the regulations and had then not been able to detect material misstatements in the financial statements. In the disciplinary action, Dnr 1997-1027, taxes and fees were a problem. In this action two companies audited by an auditor has been monitored by RN. In the first company, called the contract company, the CEO invoiced his fee concerning his commitment as the CEO to the company. Associated with a tax audit the tax authority noticed that the CEO not had a F-tax card and that the contract company had not made a deduction of provisional tax or paid employer's contributions for the amount the CEO had received in fees during two financial years. The auditor had noticed that the contract company several times not had paid taxes and fees at the right point in time but he had not noticed the errors regarding the payments to the CEO. According to Aktiebolagslagen (2005:551) the auditor should make a notice in the auditor's report if he or she finds that the company not has fulfilled its obligations concerning taxes and fees and the auditor has also a duty to audit the clients' accounts and payments of taxes and fees. Because of this the auditor failed in fulfilling his obligations as an auditor.

The second company, called the real estate company, acquired a real estate and was then register as liable to pay taxes for rental business which meant that the real estate company was allowed to make deductions for input value added tax connected to the real estate and got an obligation to report output value added tax of the rental income. A few years later the real estate got sold and the value added tax should have been returned by the company but that did not happen. The files of the case show that the real estate company had been liable to pay taxes for the rental business and that they had an obligation in connection to the sale of the real estate to return the value added tax. RN argued that the auditor should have reacted on those errors and that he should had given notice about it in the auditor's report.

The auditor was given a warning as a disciplinary measure since he had omitted his obligations as an auditor.

4.2.1.6 Inventories

In many of the disciplinary actions where inventories were included, the item was often the major asset in the audited companies. In most of the disciplinary actions inventories were also a large part of the balance sheet total. The most common problem in this category was problems concerning the physical inventory. It often dealt with that the auditor had not attended at the physical inventory at all or that the auditor had trusted the management's data about the value of the inventories. The lack of auditing the inventories properly was also a common problem. In many of the disciplinary actions there were some problems with lack of documentation and because of that the auditor had not had any evidence to explain why he or she had accepted the existence and value of the inventories.

In the disciplinary action, Dnr 2008-648, the inventories were the largest part of the balance sheet total and it was therefore of great importance that the auditor should have audited this item carefully. The auditor had made some controls but only about 3 percentage of the total inventories during the financial year. Since the inventories were the largest part of the balance sheet total and that there was no system of the daily stock records and that cash sales existed and the recorded value of the inventories and the sales gross varied a lot between the years, RN's recorded judgment was that the audit of the inventories was not enough because the audit of the inventories was too small and that the auditor therefore had violated the general accepted auditing standards. The auditor had also during one year delegated the physical inventory to one of his co-workers who by a misunderstanding did not perform the control. This was not detected until half a year later which led to that the auditor could not accept the audit of the inventories for the auditor's report. According to RN the auditor should have detected the error earlier and he had therefore violated the general accepted auditing standards and therefore received a warning as a disciplinary measure.

4.3 RN's disciplinary actions 1995-2011

The document study comprehends 724 disciplinary actions that are enforced by law. The disciplinary actions have been divided into two periods, the first period is between the years of 1995 to 2001 and the second period is between years 2002 to 2011.

4.3.1 Disciplinary actions of 1995-2001

In the first period, 1995-2001, independence/disqualification and lack of documentation are the most frequently occurring problems in the disciplinary actions. In 1999 there was an increase of the independence/disqualification cases with almost 50 percent and it did also stayed on that level the following years. Lack of documentation had also a large increase in 1999 and did also continue to maintain the same level. Another common category is taxes and fees and it was the most frequently occurring problem in 1996 but did not occurred at all in 1998. Besides this the category has had the same level of frequency through the years but with a small decrease in 2001. The category of the auditor's own fault has varied a lot between the years in the first period. It decreased from 1996 to 1998 but then began to increase in 1999 and then increased in all the following years until 2001.

The ten most frequently occurring categories between 1995 and 2001 shown in the figure below are; independence/disqualification, lack of documentation, taxes and fees, the auditor's own fault, assets, inventories, cash/revenues, receivables, formal errors and other.

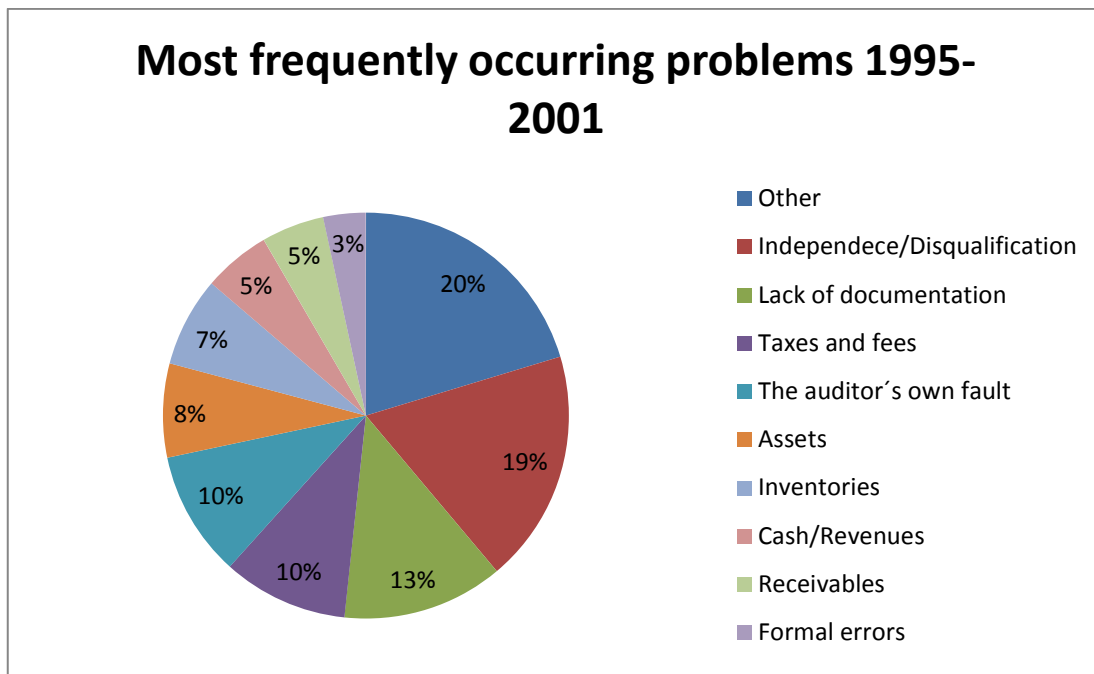


Figure 2: Most frequently occurring problems in the disciplinary actions of 1995-2001.

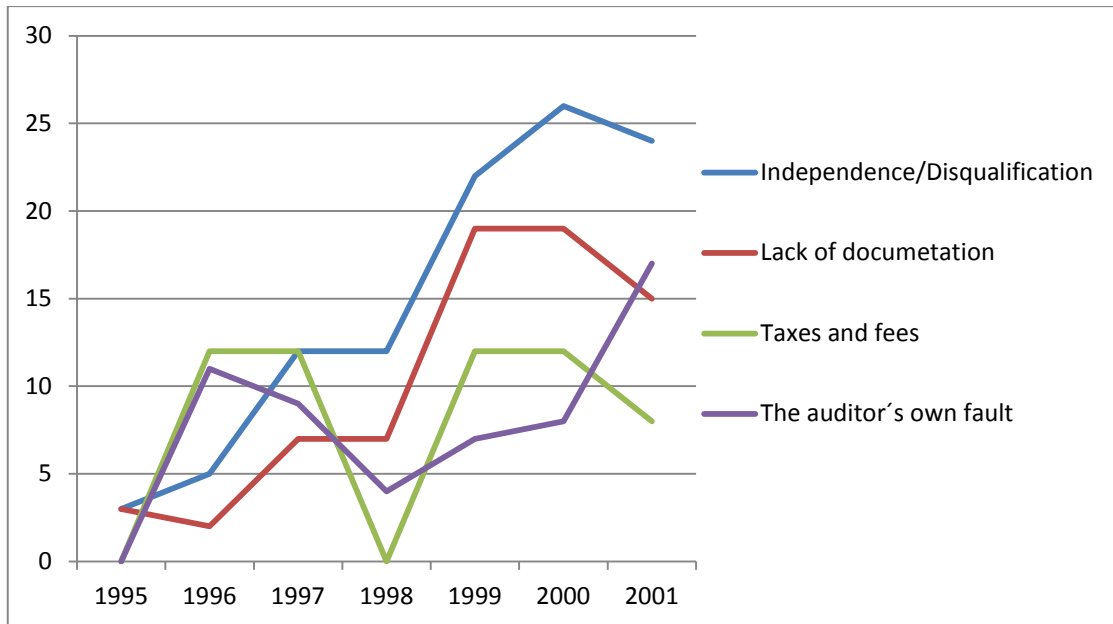


Figure 3: The change in the most occurring categories between the years of 1995-2001.

4.3.2 Disciplinary actions of 2002-2011

In the second period, 2002-2011, independence/disqualification and the auditor's own fault has been the most common categories. During the year of 2002 the disciplinary actions concerning independence/disqualification were higher compared to the other categories and during the year of 2006 there was a small increase in the category. Independence/disqualification has had great decrease from 22 cases in 2002 to 5 cases in 2011. During 2007, 2008 and 2010 the auditors own fault was outstanding from the others compared to 2003-2005 when it was quite low. During the year of 2011 the category of inventories decreased some. Assets have been quite stable during the period. Inventories have also been quite stable during the period but with a decrease in 2010.

The most common problems in the disciplinary actions of the second period are showed in the diagram below, which are: independence, auditors own fault, assets, inventories, lack of documentation, formal errors, taxes and fees, cash/revenues, balance sheet for liquidation purposes and other.

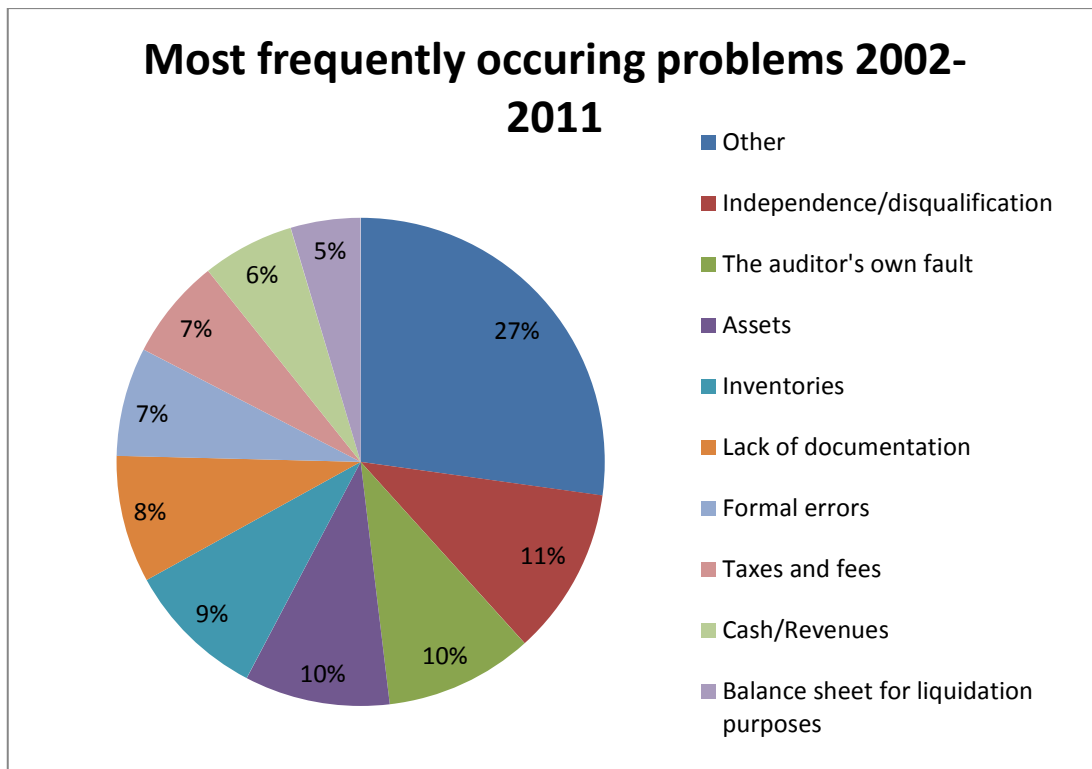


Figure 4: Most frequently occurring problems in the disciplinary actions of 2002-2011.

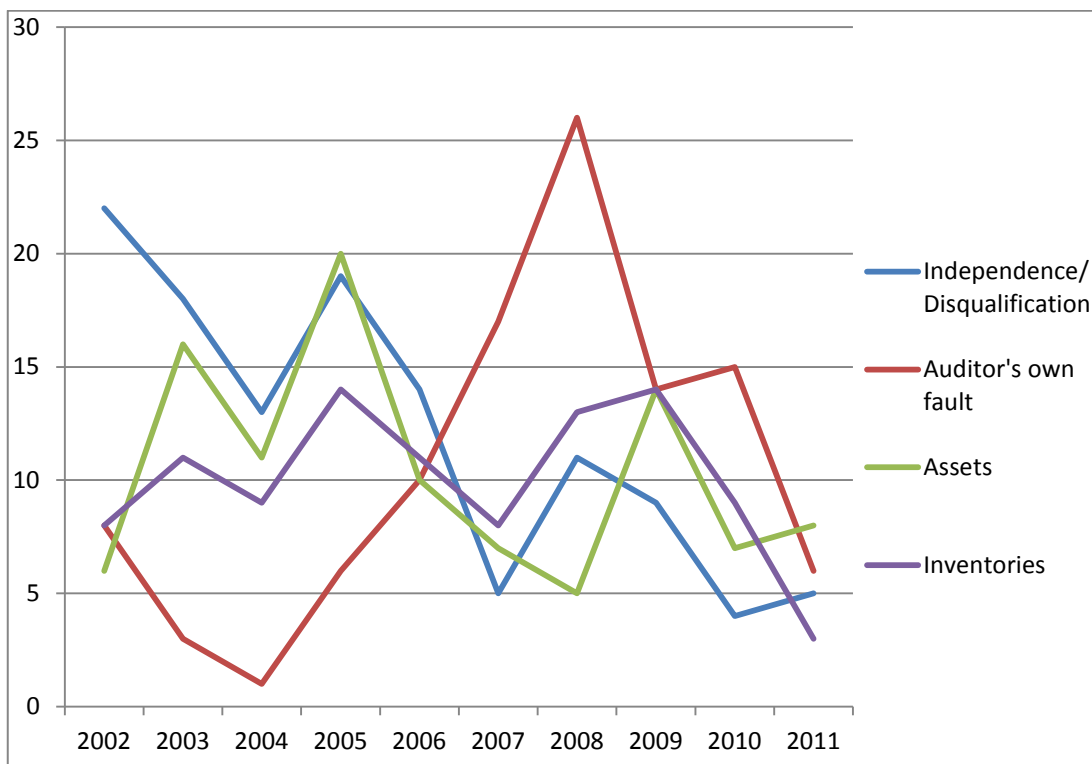


Figure 5: The change in the most occurring categories between the years of 2002-2011.

4.4 Disciplinary measures

When an auditor or an auditing firm not has fulfilled its obligations a disciplinary measure is received which can be a: disciplinary reminder, warning or a withdrawal of the auditor's approval or certification. In some cases when the auditor has received a warning he or she also has to pay a penalty fee. The law does not to a greater extent explains the differences between the measures except that the disciplinary reminder is the mildest degree of measure while the withdrawal of the auditor's approval or certification is the highest degree of measure. Several warnings of an auditor can lead to a withdrawal of the auditor's approval or certification. The figures below show a summary of the disciplinary measures. The most common disciplinary measure an auditor or auditing firm received was a warning.

4.4.1 Disciplinary measures in the first period, 1995-2001

In the first period warning was the most common disciplinary measure that the auditors received. Almost two thirds of the disciplinary measures were warnings. This category had the highest amount every year in the first period. In seven of the disciplinary actions when the auditor received a warning he or she did also get a penalty fee. Disciplinary reminder was the second most occurring disciplinary measure and it was given in 23 percent of the cases. The least occurring disciplinary measure in the first period was when the auditor got acquitted. Withdrawal of the approval or certification was also a disciplinary measure that was not so frequently given. It did only occur in 9 percent of the actions.

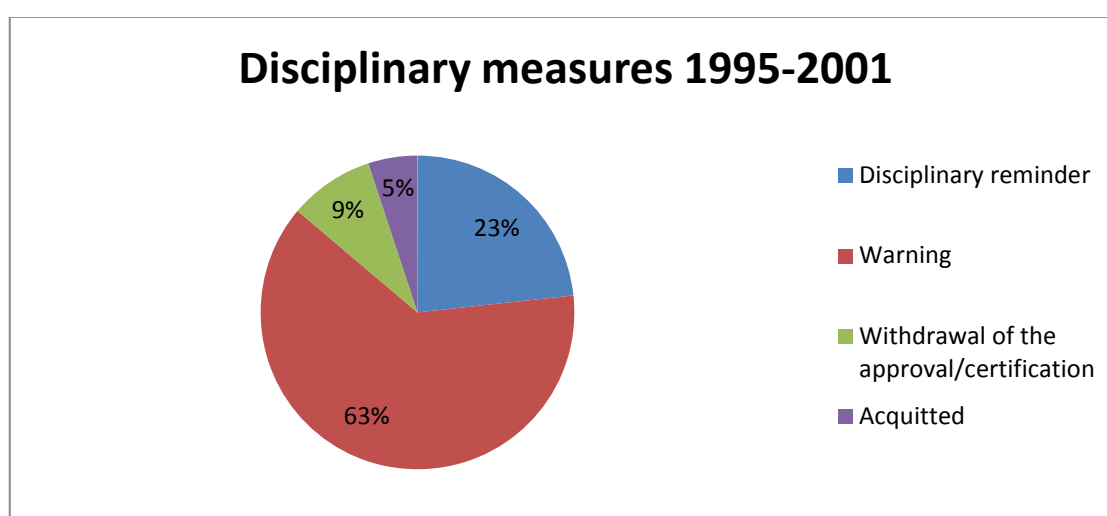


Figure 6: Disciplinary measures in percent 1995-2001

Disciplinary measures in %	1995	1996	1997	1998	1999	2000	2001
Disciplinary reminder	25	22	19	29	27	25	17
Warning	50	56	59	63	57	71	71
Withdrawal of the approval/certification	0	8	9	4	16	4	12
Acquitted	25	14	13	4	0	0	0

Table 1: Disciplinary measures in percent between the years of 1995-2001

4.4.2 Disciplinary measures in the second period, 2002-2011

The most occurring disciplinary measure during the second period is warning which is the most common disciplinary measure during all years. In almost two thirds of the cases warning was the measure. In eleven of the disciplinary actions when the auditor received a warning he or she did also get a penalty fee. The second most common disciplinary measure is the disciplinary reminder and it was given in 28 percent of the actions. Withdrawal of the approval or certification was a disciplinary action that was not that frequently given. It did only occurred in 10 percent of the actions. The cases when the auditor got acquitted were the least common measure in the second period.

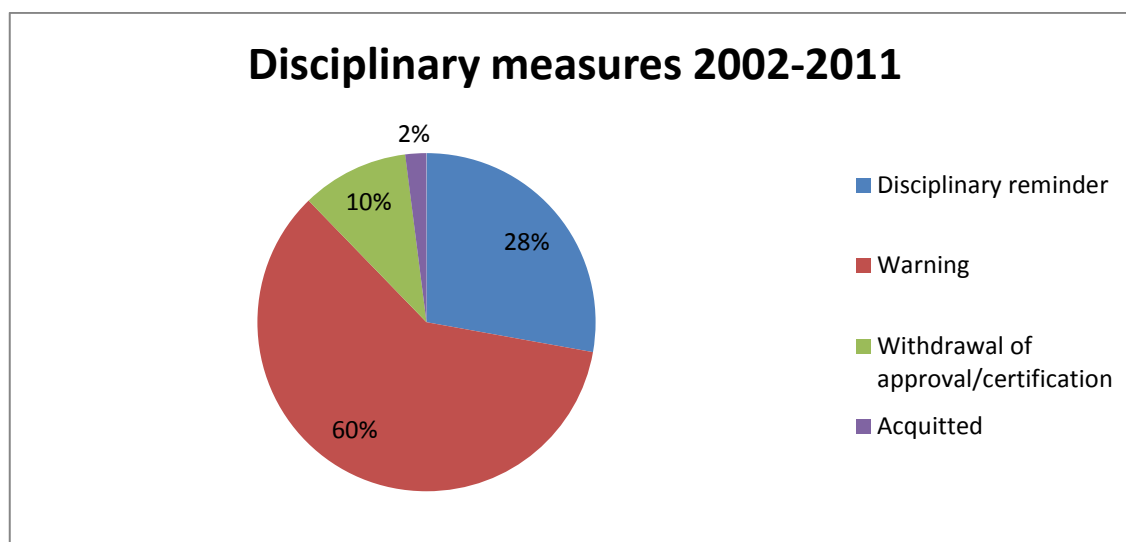


Figure 7: Disciplinary measures in percent 2002-2011

Disciplinary measures in %	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Disciplinary reminder	18	20	29	37	30	20	35	26	38	22
Warning	66	71	47	44	62	70	57	63	51	78
Withdrawal of the approval/ certification	13	9	15	19	4	11	8	8	9	0
Acquitted	3	0	9	0	4	0	0	2	2	0

Table 2: Disciplinary measures in percent between the years of 2002-2011

4.5 Disciplinary actions appealed in court

The number of disciplinary actions that has been appealed in court is not that many during the two periods we have studied. Out of those disciplinary actions that has been appealed only a small number of the disciplinary actions has have changed verdicts by the administrative court of appeal or the county administrative court. The first court one can appeal to is the administrative court of appeal and the second and one is the county administrative court.

5 Analysis

In this part the study's theoretical framework and the result of the empirical chapter is discussed and analyzed. In the beginning the supervision of auditors will be discussed and later the disciplinary actions and the most common problems in the disciplinary actions will be analyzed. The last part analyses if there has been any change of the disciplinary actions of the two periods as a consequence of the accounting scandals.

5.1 The function of the Supervision in Sweden

The supervision of auditors in Sweden seems very structured since the supervision work performed by RN is divided into different parts: SUT, quality control, disciplinary actions and advanced ruling. FAR is also a part of the supervision work since the organization performs quality controls of its own members. Since RN reviews the quality controls performed by FAR an additional audit is undertaken in order to secure the supervision done by FAR. The Supervisory Board is also important in the performance of the supervision work since they are the ones performing the disciplinary actions.

The agency theory (Schroeder et al., 2009) can be applied to RN's supervision work since FAR performs quality controls on the behalf of RN. RN can be seen as the principal who has delegated a part of its supervision work to FAR, which will be the agent that performs the quality controls of its own members. It is important that RN and FAR align their goals with the supervision in order to avoid an agency cost (Johnson & Meckling, 1976). RN does every year review a number of quality controls performed by FAR to secure the quality of their supervision and that can be seen as an agency cost. It is important that the quality controls performed by FAR give a correct result and because of that the agency cost can decrease. If the quality control performed by FAR one year shows a correct result RN might not have to review that many cases next year and the agency cost would therefore be lower. When the shareholders are seen as the principals and the auditors are seen as the agents it is important that RN supervise the auditors work in order to prevent the shareholders' uncertainty of the auditors. RN's supervision is a way to address the agency problem.

It is important that the supervision of auditors is well working since it helps to maintain the legitimacy (Deegan & Unerman, 2011) of the auditors in the society. It is also important that RN's supervision is working well since they are responsible for the biggest part of the supervision of auditors. If the supervision works the auditors get the legitimacy which leads to that the investors are more willing to invest in the companies. The document study has shown that if an auditor has been involved in a disciplinary action and received a disciplinary measure before, for example a warning, RN can give the auditor a withdrawal of the approval or the certification as a measure the next time, which might not have been the case if the auditor not had been involved in a disciplinary action before. This procedure can be seen as a way for RN to obtain a higher legitimacy.

The supervision of auditors in Sweden has been performed since 1919 and is issued by the government. The fact that the supervision has been performed for such a long time could be an evidence for that the supervision in Sweden is a well working operation and since it was established in 1919 the supervision has been able to develop over a long time. An example of the development could be the SUT-operations which started in 1997.

The fact that not that many of the disciplinary actions that has been appealed in court has got changed verdicts shows that RN and the court has the same view. Those disciplinary actions that are changed by the court show that RN not has complied with the rules and regulations that are stated in the law. It can also be that the court has made the wrong decision due to lack of knowledge in the area. When the disciplinary action is appealed the court will probably have experts in the area who makes a statement. This necessarily do not have to mean that this person knows the law better than RN does since the Supervisory Board is working with the issues all the time and consists of at least five persons that makes the decisions' of the disciplinary actions. This might be a reason for why there are not that many disciplinary actions that are appealed in court that have changed verdicts. In cases when the verdicts of the disciplinary actions are changed the trust of RN might decrease which can result in a decrease of their legitimacy which in the end can affect the investors and the companies. If the verdicts are changed this could imply that the investors' trust in the auditors and their work will decrease, since they might believe that the auditors are not supervised in a correct way

and therefore material errors in companies' financial statements might exist. This could result in that investors will be unwilling to invest in the companies and if the investors will be unwilling to invest, the companies will be negatively affected from the changed verdicts.

5.2 The most frequently occurring problems in the disciplinary actions

There have not been any bigger differences between the most frequently occurring categories of the two periods. Even though there has been a great decrease during the second period the independence/disqualification category is still the biggest problem. The two different periods have the same problems in the disciplinary actions even though there are some differences in how often they occur and that some problems occur more frequently in one period compared to the other. There are only two categories that differ between the periods which are the category balance sheet for liquidation purposes and the category of receivables.

5.2.1 Independence/Disqualification

Independence is one of the key words for an auditor which should permeate the auditor's daily work. Since independence/disqualification is an important issue in the auditing process, RN and FAR who performs the quality controls might focus more on that issue and it can therefore be an explanation to why it is one of the most frequently occurring problems in our document study.

RN can also give advanced ruling in the independence matters which might also be an explanation to why it is a big problem. We have not studied the advanced ruling cases in the disciplinary actions, so there could be even more cases concerning the independence problem which could show that the problem of independence is even bigger.

A part of Revisorslagen (2001:883) treats the principal based model for independence, and in Revisionslagen (1999:1079) and in Aktiebolagslagen (2005:551) there are rules concerning disqualification. Since there is a clear explanation of what disqualification is and also a model that auditors should follow the problem should not be as great as it is.

In the disciplinary action, Dnr 2006-1504, the auditor has violated 17 § in Aktiebolagslagen (2005:551) about disqualification and 21 § in Revisorslagen

(2001:883) concerning independence. One could apply the auditor's violation to the principal based model for independence; the auditor audited his own work which is a self-review threat to independence according to the model. Further the auditor had also violated the familiarity threat according to the principal based model for independence. The auditor might have been influenced of the client since they were partners at the same company and the auditor cared about that the other partner's two companies showed the correct result in order to avoid a bad reputation that could affected their company.

5.2.2 Lack of documentation

The documentation issue could be something that RN and the Supervisory Board believe is important since it will affect how fast and smooth their supervision process will be. If there is lack of documentation there is no evidence of that the auditor has performed what he or she says it has. ISA 230 is a standard concerning the documentation issue and it describes what should be documented and in which way. Since a standard exist in this specific area it could be an evidence of that documentation has been a problem for a long time since the standard is probably issued since there was a need for it. The documentation problem might exist because it is a time-consuming procedure. The auditor might think that he or she will not be monitored right at that point in time and therefore does not document his or hers work properly and instead saves time. The auditor might also believe that he or she does not make an equally serious error such as for example if he or she has not made an independent analysis since the quality controllers would be the only ones affected of the lack in the documentation. Maybe the auditor sees a possibility to document and explain afterwards if a quality control of the engagement would be undertaken. The auditor would in this case violate the generally accepted auditing standards since it states that the auditor has to document all the things that are material.

The reason of why the auditor in Dnr 1999-1174 not had documented his audit engagement in a proper way could be that he not thought that he would be a subject of RN's SUT control and therefore saved some time through not document the audit properly. That the auditor has been convicted for lack of documentation does not

necessarily mean that the auditor had lack in the documentation in all of his engagements since it was only two engagements that were monitored.

5.2.3 Auditor's own fault

A reason of why the category of the auditor's own fault was a common problem in the document study could be the aspect of saving time. The auditors might have felt that it could be time saving to sign the auditor's report in advance before the audit was finished. In the cases where the auditors not had un-registered themselves at the Swedish Companies Registration Office or when the annual report had been issued too late the auditors might just have ignored the rules since they not thought it was important. It could also be that the auditors were not aware of that it was something that they had to do and follow. If this would be the case it is important that RN informs the auditors better about those issues that need to be followed. Since the auditors are qualified it should not be a problem since they should be aware of their responsibilities concerning the audit and the audit profession.

In the case, Dnr 1999-350, the auditor signed the auditor's report a month before he had completed his audit work. To his defense he stated that he had made several alternative auditor's reports that he could use depending on what he found during the audit and that he not gave the signed report to the company before some additional audit had been undertaken. If the additional audit would have affected his view of the company he would have changed the auditor's report. Since there is evidence for that the auditor has given the auditor's report to the company before the audit was completed the auditor has neglected the general accepted auditing standards and the regulations set by RN. The auditor might have signed the auditor's report in advance to save time but it seems like making several different reports must have been even more time-consuming.

5.2.4 Assets

A reason of why assets were a common category could be that category consists of several unique problems connected to assets that are merged together. Another reason could also be that it might be difficult to value the assets at the right value using the right method.

In the disciplinary action, Dnr 2004-645, the equipment had been booked to the wrong value. An explanation of why the auditor not had paid enough attention to the equipment when performing the audit could be the time-saving aspect. Further the equipment had also been bought from the owners of the company and not from an external part. When assets are bought from owners of the company the auditor might need to audit the value of the assets more accurate in order to avoid possible material errors or attempts of frauds. In addition the auditor had not prepared enough audit documentation and therefore violated the Revisorslagen (2001:883) and regulations set by RN. As a consequence the auditor had therefore violated the general accepted auditing standards. Since the assets were a large part of the company's balance sheet total it should have been an important area to audit. A reason of why the auditor did not audit the assets and document the audit properly could be the time-saving aspect.

5.2.5 Taxes and fees

Taxes and fees was one common problem in the disciplinary actions and one reason for that might be that taxes and fees in some circumstances can seem to be complicated. Another reason could also be that companies in some cases tried to avoid paying some taxes and fees in order to save some money. Many companies in the disciplinary actions had not paid taxes and fees at all, while in other cases the taxes and fees was paid with the wrong amount or at the wrong date. The auditors have obligations to audit the client's accounting and payments of taxes and fees according to Aktiebolagslagen (2005:551).

In the case, Dnr 1997-1027, one company had not made discounts of the tax or paid the fee for the employer's contribution. The auditor did notice that but did not remarked on it in the auditor's report which he should have done according to Aktiebolagslagen (2005:551). One reason for that could be that he thought the company had corrected the errors he had remarked on but even if that was the case he should still have controlled that it had been done. The other company in this disciplinary action had not paid taxes for their rental business in a proper way. The auditor should have observed this in the audit and remarked on that in the auditor's report. An explanation to why the auditor failed to detect the companies' errors could be that he focused more on other issues but

also that he thought it was a complex situation. If that was the case he should have asked someone else who had more experience and knowledge of that area.

5.2.6 Inventories

According to the document study inventories is a common problem because it has been a frequently occurring item in the audited companies and is also often a big part of the balance sheet total. In the disciplinary action, Dnr 2008-648, the auditor did not take part of the physical inventory and did not make sure that his co-worker had done the physical inventory. In companies where the inventories is a big part of the balance sheet total it can give large effects on the company's profit and is therefore an important part of the audit. According to FAR (2006), auditing the inventories is a complex area where errors are common and is therefore an important part of the audit work. A reason for why auditors are not attending the physical inventory could be that it is a very time-consuming procedure. Auditors often know that they should do a physical inventory but since it is time consuming several auditors, according to our document study, has trusted the management's data about the value of the inventories without performing any control themselves.

5.2.7 The other problem areas

A reason of why all the categories except independence/disqualification, lack of documentation, taxes and fees, assets, inventories, auditors own fault, are not so frequently occurring could depend on several different thing. Those categories are: formal errors, cash/revenues, receivables, balance sheet for liquidation purposes. The reason for why the other problems got a large percentage in the study can be explained by that it includes all the not frequently occurring problems merged together.

An explanation for that balance sheet for liquidation purposes are not so frequently occurring could be that there are laws and regulations about this issue and therefore auditors have a better knowledge of this area. The reason for that formal errors are not that frequently occurring could be that auditors should have good knowledge about what the laws and regulations states about which accounting methods that should be used and how the classification in the financial statements should be done. Since they have the knowledge this should imply that the errors will be detected by the auditors and not lead to a disciplinary action. One reason for why the category of cash/revenues

is not so common might be that the auditors who audits a company with a lot of cash management knows that it is an important area with a high risk for material errors and it therefore needs to be audit more carefully in order to avoid mistakes in the financial statements.

5.3 Disciplinary actions

After the scandals in 2001 together with the new auditing law one could expect that the number of disciplinary actions would have increased due to that the supervision work has increased and that RN therefore detects more problems with the auditors. On the other hand it can be expected that the disciplinary actions might decrease because the supervision has become better and the auditor is more aware of it and therefore performs the audit more carefully. If the auditors would keep themselves updated to case law they would probably not commit those material errors because they would know that it could result in a disciplinary action. When comparing the two periods the numbers of the disciplinary actions have not changed that much. The numbers of disciplinary actions are about 40 to 50 every year during the two periods except from the year of 1995 and 2011 where the number was much lower. In 1995 RN's disciplinary actions was only four. It can be explained by that RN was not established until June this year. In 2011 the number of the disciplinary actions was 23, one explanation might be that not all of the disciplinary actions have come into force yet.

In the document study it is hard to see any change of RN's disciplinary actions between the two periods of 1995-2001 and 2002-2011. The most common categories of the disciplinary actions are similar in the two periods with no distinguished categories. The only category where it is possible to see a change is in the category of independence/disqualification. It can be unexpected that there are no bigger differences of the disciplinary actions between the two periods due to the scandals and the new law. One could have thought that the new law should have resulted in less disciplinary actions due to that the auditors should been aware of the new law and therefore undertaken the audit more accurate and in line with the law. Further, one could also have thought that the attention from the scandals should have brought the auditors attention about that the audit needed to be performed in a more accurate way.

The new Revisorslagen (2001:883) that came into force in 2001 gave more focus on the independence issue of auditors. In the first period there was a great increase in the independence/disqualification category but in 2001 the problem with independence/disqualification started to decrease. During the second period the independence/disqualification problem continued to decrease. The reason for this might be that auditors became more aware of the supervision as a consequence of the accounting scandals and also the fact that there was a new law introduced that gave more attention to the independence/disqualification issue.

5.4 Additional thoughts

In none of the disciplinary actions the auditor's or the auditing firm's names are not mentioned. This may seem a bit strange since if no one knows who the auditor is that has been involved in the disciplinary action, the auditor will not suffer from it and the society will not know which auditors that have failed to fulfill their obligations. What difference will it make if the auditor has received a warning if no one knows about it? Since the name of the auditors or the auditing firms is not mentioned in the disciplinary actions it decreases the transparency of information and can therefore also decrease the investors' trust in auditors. According to RN it is possible to get information about who the auditor was and what disciplinary measure the auditor received but the company or person who wants to get that information must contact RN themselves to get the information (H. Rosenberg, personal communication, 2012-04-27).

In the US it is possible to see a list on the State Board of Accountancy's webpage with the names of the auditors who has been involved in a disciplinary measure and also what measure the auditor has received (appendix 1). This is something that RN could consider and might implement in Sweden. If RN would name the specific auditors and auditing firms that has received a disciplinary measure the transparency to the public would increase. The auditors might be afraid of getting exposed on the list which could result in a bad reputation and therefore would perform the audit more accurately. This could result in less disciplinary actions. The legitimacy would probably decrease for auditors in general since the public could easily see that there are many auditors who have failed to fulfill their obligations as an auditor. On the other hand auditors whose

name is not to be found on the list could get a higher legitimacy because they are perceived as fulfilling their obligations and performs the audit well.

6 Conclusion

This chapter will conclude the research and answer the research questions.

How does the Swedish supervision of auditors work today?

The Swedish supervision of auditors consists of SUT-operations, quality controls, disciplinary actions and advanced ruling. RN has the main responsibility for the supervision of auditors while FAR is delegated some of RN's quality control. One conclusion is that RN through its SUT-operations has increased and improved the supervision of auditors in Sweden and more auditors has been supervised and has received a disciplinary measure. The SUT-operation is also a part of maintaining the investors' trust of the auditors.

Even though there are not that many disciplinary actions that are appealed in court were the verdicts have been changed they still have to decrease in order to maintain the credibility for both RN and the auditing profession as whole. When the verdicts are changed the trust of RN will decrease since it could be seen as they do not have the knowledge of juggling the disciplinary actions. In cases where the auditor is acquitted the trust of him or her will still decrease even though no errors has been made.

Which problems are most common in the disciplinary actions?

A conclusion of the document study is that it is six categories of problems that are most common in the period of 1995-2011. These are independence/disqualification, lack of documentation, inventories, auditor's own fault, assets and taxes and fees. It is not possible to see a clear change between the two periods except from the independence/disqualification problem.

Has there been a change of RN's disciplinary actions between the years of 1995-2001 and 2002-2011 as a result of the greater focus on the accounting profession due to the accounting scandals?

The document study showed that it was not possible to see a clear change between the two periods of the disciplinary actions as a result of the accounting scandals. Independence/disqualification is the only area where it is a change between the two periods. One conclusion is that it is likely that the new auditing law has had an impact

on the independent/disqualification issue and that the auditors therefore have considered the issue more accurate before starting an audit engagement.

It is likely that the same problems will exist in the future since our document study has shown that it has almost been the same problems for nearly two decades. Even though the new Revisorslagen (2001:883) came into force in 2001 there have not been any changes of the problems in the disciplinary actions except the decrease of independence/disqualification. If laws and regulations not become clearer in order to make it more understandable for the auditors, the same problems will exist also in the future since there has not been any change in the periods studied in this research.

A last conclusion is that if RN publishes all the names of the auditors and auditing firms that has received a disciplinary measure and the measures they have received would imply that the auditors should perform the audit more accurate since they might be afraid to get on the list and get their reputation ruined. It is likely that it would result in less disciplinary actions and less disciplinary measures.

7 List of references

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Appendix 1

Source: State Board of Accountancy Ohio, 2012



Name	Type	City	State	Credential	Credential Status
TANNOCK, THOMAS WHITE	INDIVIDUAL	BROOKLYN	NY	CPA.00057	DECEASED
BARKAN, WILLIAM I	INDIVIDUAL	MAUMEE	OH	CPA.02695-REG	ACTIVE
MILLER, WAYNE ELTON	INDIVIDUAL	TOLEDO	OH	CPA.01769	DECEASED
MOSSBARGER, BRENDA KAY	INDIVIDUAL	WASHINGTON COURT HOUSE	OH	CPA.17340	ACTIVE
HICKS, STEVEN L.	INDIVIDUAL	KNOXVILLE	TN	CPA.09806	SUSPENDED
SAUNDERS, HAROLD M.	INDIVIDUAL	CINCINNATI	OH	CPA.03364	RETIRED
DENT, WILLIAM F.	INDIVIDUAL	TRAVERSE CITY	MI	CPA.24788	SUSPENDED
POHL, JEFFREY THOMAS	INDIVIDUAL	CHICKASAW	OH	CPA.24861	ACTIVE
FOREMAN, JAMES TUCKER	INDIVIDUAL	VALPARAISO	IN	CPA.10331	RETIRED
SCHAUMAN, ROBERT S.	INDIVIDUAL	AKRON	OH	CPA.07412	SUSPENDED
STEADLEY, ROBERT F	INDIVIDUAL	AVON	OH	CPA.12547-REG	ACTIVE
MILLER, NEIL N.	INDIVIDUAL	HERNDON	VA	CPA.07938	SUSPENDED
BOWNS, THOMAS O	INDIVIDUAL	CINCINNATI	OH	CPA.12721	ACTIVE
SOLLIE, KEVIN THOMAS	INDIVIDUAL	DUBLIN	OH	CPA.28877-REG	ACTIVE
SCHNEIDER, KEN C	INDIVIDUAL	DUBLIN	OH	CPA.15406	ACTIVE
SHAWVER, STEVEN ALAN	INDIVIDUAL	STRONGSVILLE	OH	CPA.29450	SUSPENDED

SCHMITTGEN, JEFFREY LAWRENCE	INDIVIDUAL	SHEFFIELD	OH	CPA.15579	ACTIVE
HALE, BEECHER B	INDIVIDUAL	PICKERINGTON	OH	CPA.29829	ACTIVE
ROLFES, JAMES PATRICK	INDIVIDUAL	CINCINNATI	OH	CPA.16115	ACTIVE
RABE, DIANNE K	INDIVIDUAL	CINCINNATI	OH	CPA.29977	ACTIVE
MILLER, PAUL D	INDIVIDUAL	NEW ALBANY	OH	CPA.16190	ACTIVE
JORDAN, GREGORY SCOTT	INDIVIDUAL	CANAL WINCHESTER	OH	CPA.19884	ACTIVE
MAXWELL, J.R. THOMAS	INDIVIDUAL	COLUMBUS	OH	CPA.30698	ACTIVE
LEATHART, MARILYNN MARIE	INDIVIDUAL	UNIVERSITY HEIGHTS	OH	CPA.19012-REG	SUSPENDED
HOUSTON, P. JAMES	INDIVIDUAL	RICHFIELD	OH	CPA.19501-REG	ACTIVE
MARININ, MICHAEL ALAN	INDIVIDUAL	MAPLE HEIGHTS	OH	CPA.19207-REG	EXPIRED
THORNTON, WILLIAM MICHAEL	INDIVIDUAL	WESTLAKE	OH	CPA.33678	SUSPENDED
PHILLIP, BARBARA ANN	INDIVIDUAL	POMPANO BEACH	FL	CPA.19712-REG	ACTIVE
KAZURA, SUSAN	INDIVIDUAL	PARMA	OH	CPA.34190-REG	ACTIVE
FOX, MICHAEL EDWARD	INDIVIDUAL	WEST CHESTER	OH	CPA.36917	ACTIVE
BICE, BRIAN R	INDIVIDUAL	MIAMISBURG	OH	CPA.37017	SUSPENDED
ACKLEY, DIANA RENE	INDIVIDUAL	WORTHINGTON	OH	CPA.37108	ACTIVE
HANSEN, KIMBERLY M	INDIVIDUAL	OWINGS MILLS	MD	CPA.37256-REG	SUSPENDED
O'BRIEN, JENNIFER ANN	INDIVIDUAL	BAY VILLAGE	OH	CPA.37762-REG	ACTIVE
YERICH, JAMES MICHAEL	INDIVIDUAL	ATLANTA	GA	CPA.24481-OS	ACTIVE
JONES, BRIAN WILLIAM	INDIVIDUAL	AVON	OH	CPA.40372	ACTIVE
BUSCHUR, JULIE MARIE	INDIVIDUAL	RIVERSIDE	OH	CPA.40759	ACTIVE
ENGLISH, PATRICIA MARY	INDIVIDUAL	COLUMBUS	OH	CPA.42860	ACTIVE
NOVIK, ALEXANDER B	INDIVIDUAL	ORANGE	OH	CPA.42935	ACTIVE
YANKLEY, CYNTHIA WOLCOTT	INDIVIDUAL	FARMINGTON HILLS	MI	CPA.43034	SUSPENDED
GALLIMORE, JOHN D	INDIVIDUAL	PHOENIX	AZ	CPA.43112-OS	ACTIVE
KEMBLE, RICHARD JOSEPH	INDIVIDUAL	Cincinnati	OH	CPA.28307	ACTIVE

HOFFMAN, JAMES MARION	INDIVIDUAL	DAYTON	OH	CPA.01379	DECEASED
BEVAN, SHAUN L	INDIVIDUAL	LEBANON	OH	CPA.43331	ACTIVE
HOLMES, ARTHUR WELLINGTON	INDIVIDUAL	CINCINNATI	OH	CPA.01563	DECEASED
HECK, GLENN DONCASTER	INDIVIDUAL	HUDSON	OH	CPA.01751	DECEASED
THOMAS, EDWARD A.	INDIVIDUAL	POWELL	OH	CPA.20523	SUSPENDED
WEBSTER, KIMBERLY ANN	INDIVIDUAL	HEBRON	KY	CPA.20605-REG	ACTIVE
LANE, HEATHER P	INDIVIDUAL	CHICAGO	IL	CPA.32255	SUSPENDED
DEASCENTIS II, MICHAEL JAMES	INDIVIDUAL	POWELL	OH	CPA.32360-REG	SUSPENDED
LUCKAS, JR, JOHN RICHARD	INDIVIDUAL	STRONGSVILLE	OH	CPA.32423	ACTIVE
HELWAGEN, STEPHEN MACK	INDIVIDUAL	CIRCLEVILLE	OH	CPA.30898	ACTIVE
HIRSCH, NANCY JEANNE	INDIVIDUAL	COLUMBUS	OH	CPA.17533-REG	ACTIVE
SNEIDERMAN, DONALD GERSON	INDIVIDUAL	BEACHWOOD	OH	CPA.04863	RETIRED
REMLINGER, ROGER ALLEN	INDIVIDUAL	THE VILLAGES	FL	CPA.04987-REG	SUSPENDED
MINDICK, RICHARD STEVE	INDIVIDUAL	CLEVELAND	OH	CPA.05269	DECEASED
GALLOWAY, ROBERT NELSON	INDIVIDUAL	LAKEWOOD	NJ	CPA.02318	RETIRED
PARKS, THOMAS DUANE	INDIVIDUAL	ZANESVILLE	OH	CPA.33144	ACTIVE
DOEGER, JAMES W.	INDIVIDUAL	CINCINNATI	OH	CPA.05846	SUSPENDED
DISTELHORST, RICHARD N.	INDIVIDUAL	POWELL	OH	CPA.06788	RETIRED
ESTEPHAN, DORA D	INDIVIDUAL	STRONGSVILLE	OH	CPA.36037-REG	ACTIVE
PATTERSON, WILBUR R.	INDIVIDUAL	COLUMBUS	OH	CPA.07659	RETIRED
WOODWORTH, SUSAN LIPKA	INDIVIDUAL	MADISON	OH	CPA.36180-REG	ACTIVE
LEWIS, CHARLES EDWARD	INDIVIDUAL	CINCINNATI	OH	CPA.36397	ACTIVE
KRAMER, BRENDA S	INDIVIDUAL	AKRON	OH	CPA.36438	EXPIRED
SIEBER, THOMAS LEE	INDIVIDUAL	ZANESVILLE	OH	CPA.08473-REG	SUSPENDED
WAUFORD, JERRY RONALD	INDIVIDUAL	FINDLAY	OH	CPA.09192	SUSPENDED
FLAMENT, THOMAS P	INDIVIDUAL	BRUNSWICK	OH	CPA.12238-REG	ACTIVE

JUSTL, THOMAS MICHAEL	INDIVIDUAL	COLUMBUS	OH	CPA.25487	SUSPENDED
SCHAEPER, NATALIE KATHLEEN	INDIVIDUAL	LOVELAND	OH	CPA.25564-REG	ACTIVE
ARNOLD, BRENDA M	INDIVIDUAL	GALENA	OH	CPA.25634-REG	ACTIVE
NYE, DONNA K.	INDIVIDUAL	COLUMBUS	OH	CPA.12486	SUSPENDED
RITCHEY, DENNIS M.	INDIVIDUAL	BLACKLICK	OH	CPA.11518-REG	SUSPENDED
BACH, ELLEN M	INDIVIDUAL	CINCINNATI	OH	CPA.37539-REG	ACTIVE
BOGGS, TIMOTHY CHRISTOPHER	INDIVIDUAL	TWINSBURG	OH	CPA.23934-REG	SUSPENDED
WIERDA, JON	INDIVIDUAL	GROOSE POINT PK.	MI	CPA.40335-OS	SUSPENDED
OKADA, MEGUMI	INDIVIDUAL	COLUMBUS	OH	CPA.41939	ACTIVE
FACKLER IV, GEORGE HUGH	INDIVIDUAL	BLACKLICK	OH	CPA.42001	ACTIVE
DENLINGER, THOMAS E	INDIVIDUAL	TROY	OH	CPA.14087	ACTIVE
MCGILL, KEVIN ANDREW	INDIVIDUAL	MARETTA	GA	CPA.42485-REG	ACTIVE
CALAWAY, CHRISTIN	INDIVIDUAL	MASON	OH	CPA.42378	ACTIVE
PACKER, DONNA GAY	INDIVIDUAL	DAYTON	OH	CPA.14475	SUSPENDED
DAKIN, ALICE MAE	INDIVIDUAL	ALLIANCE	NE	CPA.14768	RETIRED
PISTNER, CRAIG MATTHEW	INDIVIDUAL	UNIVERSITY HEIGHTS	OH	CPA.42767	ACTIVE
GEISMAN, SHARON	INDIVIDUAL	MIDDLEBURG HTS	OH	CPA.14684	ACTIVE
TOWNSLEY, R. SCOTT	INDIVIDUAL	DAYTON	OH	CPA.15139-REG	SUSPENDED
LOOFBOURROW, CLARK ERNEST	INDIVIDUAL	COLUMBUS	OH	CPA.02098	DECEASED
OGDIN, CLYDE WALLACE	INDIVIDUAL	COLUMBUS	OH	CPA.02335	DECEASED
GRAVES, CATHEY STRICKER	INDIVIDUAL	MANHATTAN BEACH	CA	CPA.15302-REG	ACTIVE
ALDER, BRADBURY C.	INDIVIDUAL	MASSILLON	OH	CPA.03901	RETIRED
BAILEY, RICHARD DOUGLAS	INDIVIDUAL	DUBLIN	OH	CPA.17983	SUSPENDED
KAJAN, ELLIOTT HUGH	INDIVIDUAL	WASHINGTON	DC	CPA.04874	RETIRED
MOYER, JOHN CHARLES	INDIVIDUAL	EL PASO	TX	CPA.04531	DECEASED
DONAHUE, JOHN THOMAS	INDIVIDUAL	WATERTOWN	NY	CPA.04629	DECEASED

HONIGFORD, KEVIN J.	INDIVIDUAL	PHILADELPHIA	PA	CPA.18333	SUSPENDED
SUKYS, JAMES JOSEPH	INDIVIDUAL	HUDSON	OH	CPA.18449-REG	ACTIVE
AMBROSE, WILLIAM PAUL	INDIVIDUAL	WADSWORTH	OH	CPA.21974	ACTIVE
HARRINGTON, DANIEL J	INDIVIDUAL	SOUTH EUCLID	OH	CPA.05908-REG	ACTIVE
DROCKTON, JACQUELINE ELAINE	INDIVIDUAL	SAULT SAINTE MARIE	MI	CPA.21573-REG	ACTIVE
HARIG, LUKE F JR	INDIVIDUAL	CINCINNATI	OH	CPA.06344	EXPIRED