Opting Out of Audit
What are the Swedish companies experiences?

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Abstract

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**Title:** Opting Out of Audit – What are the Swedish companies experiences?

**Background and Problem:** Recently there has been a relaxation process regarding audit regulations going on in EU. The goal was to lessen the administrative burdens by 25 % by 2012. As a response to this the Swedish government decided to abolish the statutory audit for small companies in 2010. Many European countries have come further in their relaxation process but the real effects of the Swedish change in legislation are as yet unknown.

**Aim of study:** This thesis has investigated whether expectations stated by different actors prior to the change in legislation, from a small companies perspective, have been fulfilled. By applying generally accepted economic theories to the observed outcomes the authors hope to explain and understand what have affected small companies experiences.

**Methodology:** Information regarding expectations was gathered by reviewing the position on the topic given by different representatives and institutions prior to the change in legislation. By using a web survey these expectations were then compared with the views of companies who had opted out of audit.

**Analysis and Conclusion:** One of the main objectives with the changed legislation was to increase Swedish companies global competitiveness by reducing cost and administrative burdens. The research, however, found that the majority of small Swedish companies did not operate on a global market. Despite this the companies have made large cost savings even though many of them still employ complementary services similar to the services previously provided by the auditor. 85 % of the respondents claimed that they were satisfied with their decision to opt out of audit and the vast majority did not consider missing out on any added value. The explanation to the above, may be, that economic theories are often used to describe the purpose, benefits and demands of audit for big companies and therefore seems inadequate when the same principals are applied to small companies. The research points to an overall satisfaction amongst the surveyed companies in their decision to opt out of audit, hence making the initiative successful.

**Keywords:** small companies, statutory audit, opting out of audit, Fourth Council Directive, SOU 2008:32, added value
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When starting the process of this thesis both authors nurtured a belief that the coming six months would be a smooth journey. Quite soon it was, however, realized that the journey had taken another significantly more staggering and bumpy path. We are very grateful that our tutor Mikael Cäker has provided us with thoughtful insights and guided us in the right direction.

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The journey has now come to an end and in retrospect, the process has offered us both joyful moments as well as a great deal of new and interesting information.

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**Glossary**

**BFR** -
**Erhvervs- og Selskabsstyrelsen** – Is the Danish business authority.

**FAR** – Is the professional institute for authorized public auditors, approved public auditors, and other highly qualified professionals in the accountancy sector in Sweden.

**Företagarna** – Is Sweden’s largest association, representing the interests of small businesses.

**ISA** – “*International Standards on Auditing*”, are professional standards for the performance of financial audit of financial information.

**Skatteverket** – The Swedish Tax Agency

**Svenskt Näringsliv** – “*The Confederation of Swedish Enterprise*”, is the largest business federation in Sweden, representing 60 000 member companies.
1. Introduction

In this chapter a background to the problem and a review of the ongoing processes in the EU will lead up to a problem discussion that turns into a disclosure of the problem statement. The purpose of the thesis and limitations will also be discussed.

1.1 Background

During the last few centuries the auditor has had a prominent role in the Swedish economy. It had been common practice in companies during the 19th century to have an auditor but law first stipulated it in the Companies Act of 1895.\(^1\) The auditors’ role was to act as a means to ensure that information given to the stakeholders of the company was accurate and reliable.

In the early 1980s the Swedish Companies Act was reformed. The government found that the supply of approved auditors at this time was sufficient enough to force every limited company into appointing an authorized or qualified auditor.\(^2\) In 1983 the Companies Act was revised not only due to the increase in qualified auditors but also because of a drive from the Swedish government to crack down on financial crimes. Statutory auditing was now a fact.\(^3\)

1.1.1 A new Era of Auditing Regulations

The processes regarding legislation and regulation have changed following the Swedish entry in the European Union. The decision-making has in many ways transformed from mostly being influenced by domestic demands and opinions to a wider perspective where consideration has to be given to EU-directives and legislation.\(^4\) EU directives today heavily influence the way auditing and accounting regulations are stipulated in Sweden.\(^5\)

The directive that ultimately governs the statutory auditing in the EU is the Fourth Council Directive, introduced into legislation on the 25\(^{th}\) of July 1978. This legislation serves as a basis to coordinate financial reporting in the EU. The Swedish auditing regulations in limited companies are to a large extent based on these directives.

\(^1\) Öhman P & Wallerstedt E, (2012), p. 244
\(^3\) Johansson, Häckner, Wallerstedt (2005), p.39
\(^4\) SOU 2008:32
\(^5\) European Commission, (2012)
The Fourth Council Directive also provides an option for each member state to exempt certain companies from the statutory audit. For a company to utilize this exemption rule they have to qualify as either a small or a medium sized company. Note that an exemption from the statutory audit is not permitted for publicly traded companies.6

1.1.2 Simplification Process
In 2007 the European council stressed the importance of lessening the administrative burdens for small companies by 25 % by 20127, in order to make European small companies more competitive on a global market.8 The Swedish government conducted an investigation, which concluded that the cost for accounting and auditing in small and medium sized companies was particularly burdensome, and that these companies would experience favorable marginal effects if the burdens were lessened. The investigation also found that an abolishment of the statutory audit might lead to a reduction of costs by as much as 5.8 billion SEK per year for small businesses. These findings resulted in that a bill was passed on the 1st of November 2010, which abolished statutory audit for small companies.9 However, the threshold of the audit exemption for small businesses was set at a very low level in comparison to both the initial proposition and the thresholds set for other European member countries.

1.2 Problem Discussion
Today most EU countries have abandoned statutory audit for small businesses, a change in line with the Fourth Council Directive. The UK, for example, was an early adopter in the field and abandoned the statutory audit as early as 1994. The initiative has been a success and during a 10-year period the UK-thresholds have gradually increased and finally matched the EU maxima thresholds in 2004. Many other countries in the European Union have had the same experience from utilizing the audit exemption rules.10 Sweden, however, was a late adopter and the real effects of the changed legislation are as yet unknown.

The change in Swedish regulation that took effect in 2010 was based on the government investigation SOU 2008:32. The investigation’s main focus was

7 Communication from Commission, (2007)
8 SOU 2008:32
9 ibid.
exempting small businesses from the audit requirement even though the proposition also stated several other ways of removing some of the economic and administrative burdens.\textsuperscript{11}

It was never questioned whether an abolishment of the statutory audit was to be executed or not. The discussion that followed mainly focused on what level the thresholds should be set at, and the investigation suggested the EU maxima thresholds to be used.\textsuperscript{12}

The bill was revised several times before it was passed and the thresholds were finally set at the lowest possible level accepted by EU and the Fourth Council Directive.\textsuperscript{13} With the set thresholds it was estimated that approximately 250 000 entities, corresponding to 70\% of the Swedish limited liability companies, were to be exempted from the audit requirement.\textsuperscript{14} The decision to set the thresholds at the minimum levels allowed was due to concerns raised by several different actors. The Swedish tax agency, “Skatteverket”, feared an increase in the tax gap\textsuperscript{15} and the Secretary General of FAR, Dan Brännström claimed that a change in regulation might lead to “chaos à la Big Bang”\textsuperscript{16}. FAR questioned whether the administrative burdens would actually be lessened considering that the change in regulation would probably come at a cost, including increased tax checks, transaction costs and more difficulties for companies to obtain credit.\textsuperscript{17}

Other actors disputed these claims. Svenskt Näringsliv and Företagarna, two associations representing the interests of small businesses in Sweden, were positive about the development. They claimed that the benefits of abolishing the statutory audit would exceed its costs and that companies alone can make rational decisions on whether to be audited or not.\textsuperscript{18 19}

\textsuperscript{11} SOU 2008:32
\textsuperscript{12} See Appendix I
\textsuperscript{13} See Appendix I
\textsuperscript{14} Regeringskansliet, (2010)
\textsuperscript{15} SOU 2008:32
\textsuperscript{16} Balans, (2008)
\textsuperscript{17} ECON (2007)
\textsuperscript{18} Thorell P & Norberg C (2005)
\textsuperscript{19} Företagarna (2010)
Despite the polarized debate and the different expectations brought forward by all actors involved, both those in favor of change and those against, they all agreed on one aspect: it was the interests of the small companies that should be considered.\textsuperscript{20}

With these preconditions it is interesting to examine what experiences the business owners have had during the three and a half years elapsed since the legislation was passed in November 2010.

1.3 Problem Statement
The previous discussion led to the following problem statement:

- How have Swedish companies been affected by their decision to opt out of audit after the change in regulation experience, have they experienced the anticipated effects stated by external actors involved in the design of the changed legislation?

1.4 Purpose
The purpose of the thesis was to explain the anticipated effects of an abolishment of the statutory audit and whether these expectations had been met. Furthermore, an analysis of the actual outcomes was to be made, based on generally accepted economic theories, in an attempt to explain and understand what has affected businesses’ experiences regarding the changed legislation. By evaluating the experienced outcome from the changed legislation in Sweden and comparing these to the stated expectations, the objective was to conclude whether the initiative had been favorable for small business owners. By doing so, the aim was to contribute to further knowledge in the debate regarding relaxation of audit regulations.

1.5 Limitations
Several previous investigations have attempted to highlight the socioeconomic effects of an abolishment of the statutory audit. The investigations suggested that the changed legislation would probably lead to a number of societal and socioeconomic effects. This thesis was, however, based on the direct perspective of small business owners, the ones that the legislation is ultimately intended to target, regardless of other economic effects accompanying the changed legislation.

\textsuperscript{20} SOU 2008:32
2. Method
In this chapter the bases of the research will be presented. The scientific approach, the research design chosen to conduct the study and the way the thesis will analyze findings will also be discussed.

2.1 Research Philosophy
The thesis was driven by a positivistic research philosophy. Research conducted in a positivistic manner strives to be both value-free and objective. A thesis with a positivistic research philosophy starts by developing a theoretical framework, providing theoretical expectations that then are tested to see which of these supports or reject the theoretical forecasts, and whether these forecasts can be generalized for an entire population.\(^{21}\) The thesis theoretical framework was intended to serve as an explanation, investigating the general forces affecting small businesses’ views on audit. By conducting a survey revealing the business owners’ experiences of the changed legislation, the theoretical hypotheses were tested.

2.2 Research Design
The thesis objective was to compare the entrepreneurs’ expectations of the changed legislation with the actual outcomes. The objective was not to examine whether expectations were consistent with the outcome of individual companies, but what the overall view of the changed legislation was among affected business owners. The answers given by the entrepreneurs were then linked to the theoretical framework based on different widely accepted theories, both coherent and contradictory. The linkage between the conducted research and applied theoretical framework served as a tool to draw conclusions on why entrepreneurs experienced the anticipated effects the way they did.

In order to conduct a study of this nature, the authors had to find out what the actual expectations were before the change in legislation. One possible approach would have been to conduct a pre-study, examining what the expectations were on a specific group of companies, followed up by another study that investigated the actual outcomes. A study of this magnitude would have been time consuming, and to construct a study based on vague memories from business owners expectations’ from several years ago would in the authors’ opinion not serve as a strong base from which to draw conclusions. Instead information regarding expectations of the abolishment of

\(^{21}\) Blumberg B, p. 20, (2005)
the statutory audit was gathered by reviewing the position on the topic given by representatives from different associations and institutions at the time.

2.2.1 Research Method
To be able to compare and draw conclusions from the research, a great number of respondents were needed. A qualitative research method would have been able to capture business owners’ opinions regarding the changed regulation. However, such a method would only have supplied a limited scope and would not have enabled an objective comparison between the answers given. A quantitative method approach was chosen to satisfy the criterion of a larger scope as well as supply objective and comparable data. It would also enable the possibility to draw statistical conclusions. The advantages of the quantitative approach were believed to best fit the purpose of the thesis.

2.2.2 Survey
The research conducted was based on a web survey sent out to companies that prior to the changed legislation had an auditor but choose to opt out of audit.

A web survey is easy to analyze objectively and can be conducted at a low cost, with fast responses and it allows collected data to be easily compiled. The main disadvantage of this data-collection method was the risk of low response rates. Therefore, it was important to follow up with a reminder at the end of the timeframe given for them to answer.

The tool that was used for conducting the research was the web-based service, webbenkater.com.

The most straightforward way to collect the entrepreneurs’ opinions would have been to conduct a survey based only on yes or no questions. However, this would have given the respondents little or no leeway to express subjective views on the matter and it might have forced them into express opinions that differ from their actual view. The survey therefore consisted mainly of questions asked as statements, where the respondents answered on a semantic differential rating scale graded from 1 to 5, a so

23 Bryman & Bell, p. 662-669, (2011)
called Likert-type scale, where 1 represented “strongly disagree” and 5 “strongly agree”. This type of scale is common and was considered to fit the purpose of the data collection well. The responses were interpreted as ordinal data. This interpretation means that the responses have a rank order, but the intervals between the values cannot be presumed to be equal.24

2.2.2.1 Withdrawn Question
Question number 14 in the survey regarded the administrative routines the auditor provided as an added value, and how an abolishment of the statutory audit may have caused companies to suffer structural losses. The question was included in the survey because there were indications that public companies in some cases had experienced an increase in administrative burdens after guidelines and regulations had been abolished. The authors hoped to find evidence that this was also the case in private small companies, and that these companies suffered the same consequences. The question was included in the survey despite a lack of theories supporting the argument but to allow for more time to browse through academic literature. Despite a rigorous search effort no literature was found that supported the indications. Based on the situation it was decided to remove the question from both the theoretical framework and the analysis.

2.2.3 Sample
2nd of February 2014 there were 194,83325 Swedish companies that had chosen to opt out of audit. In order to compare expectations with outcomes the target population had to consist of companies that have had experience of employing an auditor. Therefore this study targeted companies that prior to the 1st of November 2010 had an auditor but chose to opt out of audit when the option became available. Another criterion that had to be met was that the companies included in the study still had to be active. With these criteria met, the population amounted to 87,291 companies.26 To be able to conduct the study pragmatically, the scope of respondents had to be limited.

A simple random sample was the most fair selection process as this gave each company equal chance to be included in the survey. With the population size of

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25 Retriever business (17/2-14)
26 ibid
87,291 companies, an estimated confidence interval of 90% and a margin of error at 6%, the sample size needed was approximated to 189 companies.\textsuperscript{27} Initially, the survey was sent out to 600 companies but as the risk of low response rate was imminent the random sample was raised to 1100 companies. Due to the population size and the sample size required, every 80th company on the list was chosen.

E-mail addresses to the companies were sought online. The companies to whom addresses could not be found were deleted and the company below on the list was chosen instead.

2.3 Theoretical Data Collection
Data collected from secondary sources served as the foundation to support the theoretical framework as well as the problem and empirical background. The data was mainly collected through the University of Gothenburg’s library search engines, e.g. Web of Science and Retriever, where scientific peer-reviewed articles were found. Library books served as a complement to these sources. Furthermore information published by public institutions such as the Swedish government and Skatteverket was found on their respective websites.

Phrases and words used in search engines include: \textit{audit, voluntary, statutory audit, audit society, mandatory audit, regulations, Denmark, UK, Fourth Council Directive, and added value.}

2.4 Analysis Method
When analyzing the empirical data, the tool provided by \textit{webbenkater.com} was used. This tool provided comprehensible data that were easy to summarize and analyze. When using a method that provides ordinal data, it is not possible to analyze the findings with parametric statistical methods. To be able to analyze the ordinal data, non-parametric statistical methods were used. The thesis responses were analyzed by calculating median numbers from individual questions in an attempt to find whether the outcome matched the expectations. The Likert-type scale was graded from 1 to 5, where alternatives 4 and 5 indicated that the respondents agreed that the expectations had been met. Therefore, a median number greater than 3 was considered a match between the stated expectation and the experienced outcome.

\textsuperscript{27} Appendix II
To fulfill the full purpose of the thesis, an expanded explanation of the observed matches/mismatches had to be conducted. Every expectation was based on theories (see Table of Expectations). By combining questions with the proper expectations, coupled with the theoretical framework, a more valid view on why business owners thought and experienced the situation the way they do may be found.

2.4.2 Analysis Limitations
In the survey one response option was ”unchanged”. This option may be interpreted differently depending on the question stated. The answers ”unchanged” can in some cases be interpreted as both ”agree” and ”disagree” e.g. in question 15 regarding cost savings the answer ”unchanged” is more likely to represent a disagreement with the statement. This misdemeanors have, however, been noted and this has been taken into account when analyzing the answers given.
3. Theoretical Framework

This chapter will provide a theoretical framework for the thesis. In this chapter generally accepted economic theories will serve as a base in trying to explain the purpose and demand of audit. As an antipode to these theories Michael Power’s view of increasing pressure due to audit will also be discussed.

3.1 A Brief History of Audit

To monitor and check up on each other is part of the rational individual. Often pursued unconsciously, but if a sense of doubt, conflict, mistrust or danger is perceived an intensified examining of accounts occur. If this is regarded to be the case, receipts are checked carefully and bank statements scrutinized. The human need for measuring, reviewing and auditing are not new ideas; they can be traced far back in time. During the 13th century, mankind wanted to audit their successes in miscellaneous areas, such as agriculture and trade. Societies in different times have focused on different areas of measurement and audits.\(^{28}\)

The financial audit stretches back longer than other forms of audit present in today’s society. Financial audit has existed as long as there been commerce. It is thought that the earliest forms of financial audit were an oral tradition. Over time it has evolved to keep up with the volume and complexity of transactions, developing accounting records and statements to serve as an evidential base, supplementing the oral traditions of proof.\(^{29}\)

3.2 The Purpose of Financial Audit

As the financial audit developed, questions concerning its primary objective and purpose arose. One view is that early forms of the audit process were to review every transaction, making sure that assets were not embezzled. This view placed no emphasis on management and their performance in managing the allocated resources, nor on the verification of financial statements. This points to a close historical relation between audit and the detection of fraud and error, a view that is still today used by some to explain the purpose of financial audit.\(^{30}\)

The detection of fraud and error has served as a basis in the international debate regarding the purpose of audit for a long period of time. Some authors, mainly

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\(^{29}\) Power M, (1997)

\(^{30}\) Power M, (1997)
American and British, however, claim that the verification of financial statement has been the objective since as early as 1840. This conceptual confusion between two widely differing audit legislation theories was not fully resolved until after 1940, when it was generally agreed that fraud was not the main objective of audit. Instead the provision of a qualified opinion on the financial statement became the primary purpose.

This purpose is well aligned with the Swedish legislation concerning the auditors’ present role. The Swedish auditors’ task is to review a company's annual report and accounting together with a review of the management’s administration. At the end of the fiscal year it is the auditors’ duty to hand down an audit report. An auditor’s statements function as assurance towards the stakeholders of a company, assuring them that the information presented is trustworthy and correct. Another piece of evidence that the detection of fraud and economic crimes are not the main purpose of audit is the fact that, e.g. Skatteverket conduct their own audits. These audits are independent from the work of the financial auditor, often more risk oriented and areas such as unreported income are reviewed.

3.2.1 The Expectation Gap
Practitioners and textbooks may have their version of what the primary purpose of audit is, and this is sometimes misaligned with the perception held by society and businesses. Often when the public asks for audit services, they expect the auditor to search for fraud. If and when auditors fail to uncover fraud, it is often perceived as though the auditing process has failed and that the auditor is to blame. This mismatch is often described as the “expectation gap”, which is the gap between what the public expects from audit, i.e. the detection of fraud, and what auditors claim they should deliver. There are many thoughts and theories, which try to explain the underlying causes to the “expectation gap” phenomenon. Peter Clemedtson, the former chairman of FAR SRS, claims that the “expectation gap” depends on two different institutional factors; the statutory audit and the common framework constructed for companies.

31 Chandler et al. (1993)
32 Brown, (1962), p. 21
33 Lee, (1986)
34 Revisionslag 5-6§
36 SOU, (2008)
37 Humphrey C, et al. (1992)
ranging from small to global. Large portions of the Swedish regulatory framework regarding audit are based on ISA, conceived to serve the needs and demands of large companies. This has led to complex and detail oriented regulations causing a collision between the audit processes in small and large companies. The lion’s share of small companies can be audited. The corresponding audit in large companies can only review a fraction of the posts, a situation contributing to the “expectation gap”. In Sweden, recently revealed corporate scandals have focused not on the scandals themselves but on the role of the auditor involved. This is thought to have further increased the expectation gap as this promotes the society’s view of the auditor as a safeguard against fraud.

There are some practitioners claiming that the “expectation gap” plays a less significant role in owner-managed companies than in big publicly held companies. This can be explained by the fact that the auditor in owner-managed companies often has a relatively close trust relationship with the manager/owner. This relationship enables the owner to participate and comprehend the audit process, thought to decrease the “expectation gap”.

The existence of the “expectation gap” phenomenon has led to widespread political demands set by society, which regard greater transparency and accountability in the service providing public organizations. These increased pressures in the public sector have resulted in the same pressures emerging into the private business area. In times of economic distress and corporate failures, politicians often blame audit in an attempt to dodge criticism, subsequently leading to reformations in the audit processes. The politicians promise stricter and intensified “codification” of the audit processes every time a failure occurs. This could be seen as an attempt to ensure protection against failure in a general fashion to a specific problem. At first sight the “expectation gap” may seem as an obstacle for politicians, but its ambiguous nature has instead made it a tool for politicians to use in showing the public that everything is under control.

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38 Balans, (2007)
40 Balans, (2007)
41 Johansson, Häckner, Wallerstedt (2005), p. 197
44 ibid. p. 23
The outcome of the increased pressures and political agendas is a society with a sense of comfort and a wide set of new auditing regulations.\(^{45}\)

### 3.3 The Demand of Audit

#### 3.3.1 Principal Agent Theory

The need to audit originates from the trust relationship between the two parties in an economical exchange. Human nature is assumed to be weak, untrustworthy and therefore needs a mechanism to maintain trust. This is especially important in cases where trust is not a commodity and there is a relation of accountability between the principal and the agent.\(^{46}\) As economic transactions have become larger and more complex, a simple handshake is insufficient in providing the trust required for a business deal to be upheld. Instead, an artificial trust mechanism is required.\(^{47}\) The increasingly complicated business environment distances the principal from the agent’s actions, thereby making it hard for the principal to verify the actions undertaken by the agent.\(^{48}\) Business owners (principals) cannot govern the entire organization themselves and therefore agents in form of e.g. management and employees are employed to act on the principals’ behalf.\(^{49}\) In cases where the principal and the agent do not have aligned interests and the agent is better informed than the principal, a situation of information asymmetry might emerge. The agent exposes the principal to moral hazard by exploiting the information asymmetry to make personal gains.\(^{50}\) Auditing is essentially a risk-reducing practice that hinders the possible value-reducing actions conducted by the agent, thereby benefiting the principal. The principal will demand audit up to the point where the marginal benefits tangent the marginal costs.\(^{51}\) Audit mainly benefits companies where the shareholders and management are separated and there is a wide distance between the principal and agent.\(^{52}\)

#### 3.3.2 Stakeholder Theory

A limited company is a separate legal entity and the owner and management of such a company is not personally liable for obligations that arise within it. This limited

\(^{46}\) Flint D, (1988)  
\(^{47}\) Baron & Myerson, (1982)  
\(^{48}\) Flint D, (1988)  
\(^{49}\) Heery & Noon, (2008)  
\(^{50}\) Flint D, (1988)  
\(^{51}\) ibid.  
\(^{52}\) Artsberg K, (2005)
liability puts particularly high demands on the external information presented. The traditional view is that the external financial information is presented in the best interest of the share- or stockholders. The decisions made by these groups should be based solely on the information presented. This view is known as “shareholder theory”. The shareholder theory indirectly states that the shareholders of a company are the main stakeholders.\(^5^3\) This view corresponds to the Swedish Companies Act where it is stated that the main goal for a limited company is to allocate profits among the shareholders.\(^5^4\)

In Sweden, however, a new view has flourished during recent decades due to political pressures. It is argued that shareholders are not the only actors dependent on the financial information presented by the companies. Several other stakeholders rely on the audit statements and must also be taken into account. The shareholder theory has developed into a “stakeholder theory”. This new and developed view has been widely acknowledged by the audit profession in Sweden and the audit association FAR has adopted the ideas.\(^5^5\)

The Swedish Trade association for accountants, auditors and advisors FAR states that auditing is of great significance for a number of stakeholders. The stakeholders that benefit from auditing are according to FAR:

\(^{53}\) FAR Online  
\(^{54}\) ABL 3:3§  
\(^{55}\) Agevall & Jonegård (2013), p. 39
The audit statements provided by the auditor are quality assured. The financial information serves as a basis for the stakeholders in their decision-making. When companies decide to opt out of audit, they force the stakeholders to conduct the information quality assurance process themselves. This situation may harm some stakeholders as they might lack both the resources and the means necessary. The statutory audit functions as a uniform system, favoring all stakeholders, independent of their financial situation. Creditors and tax-agencies often have the necessary resources, enabling them to establish their own quality assurance systems. These kinds of systems were, however, already prior to the abolishment of the statutory

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56 FAR Online
57 ibid.
Suppliers are the most vulnerable stakeholders due to the fact that they are heavily dependent on the information given to them and often lack the means to produce the information themselves. Studies conducted in the USA have shown that when companies opt out of audit and creditors have been forced into creating their own quality assurance systems, it has resulted in an increased cost of capital. Due to the fact that small companies answer to a significantly lower number of stakeholders in their daily operations, they do not reap the same benefits from audit as big companies might do. Quality-assured information is not demanded in the same extent, as a lower number of stakeholders require the information.

### 3.3.3 Added Value of Audit

Audit is a service provided to companies, contributing with assurance to the stakeholders. The audit report is intended to give the output of assurance, rated at how reliable the financial statements are. The use of quality-assured information differs amongst stakeholders; creditors might use it to set their credit score, investors as a base for investments and management for conducting business. The audit procedure itself is, however, a costly task. Inputs in the form of taking samples, inspecting assets, producing working papers etc. all come with a cost. The auditors’ resources to conduct audits are not infinite and the auditors face tradeoff choices between assurance levels and costs. It is the relation between the different cost inputs and the assurance produced that is called the added economic value of audit. When companies have the choice to opt out of audit, they will only demand the service in cases where the added economic value (the marginal benefit) is more or equal to the marginal cost. There is a correlation between the input and the assurance level but the measurement of the actual added economic value provided by audit is hard to ensure. One way of describing added economic value from a theoretical point of view is through the shape of a cost-assurance function. But it still remains difficult to apply it empirically other than in broad terms. The graph below shows that there is a
diminishing return to audit expenditures, making it impossible to assure that 100% of the financial statements reviewed are “true and fair”.  

![Fig. 1 The cost-assurance function for financial audit. The motion of the curve explains the diminishing quality returns to audit expenditures.](image)

Auditors do not know how to demonstrate their output in a good way, and instead auditors appeal to their expert judgment; “in the end auditors must be trusted about what it is they produce”.  

3.4 The Burdens of Audit - The Audit Society

Today everything is auditable. There are, for example, financial audits, management audits, and environmental audits. The development today is such that society is striving towards a meticulous monitoring and control of activities and behavior. Never before have audits played such an important role. The British researcher and former auditor Michael Power calls the society in which we are currently living, or at least face living, “The Audit Society”. There is much evidence that Sweden is heading in the same direction as the UK, crumbling from the ever-increasing burdens of audit. Power’s theories are an exaggerated exposition of what society is becoming but it can nevertheless be useful in illustrating the pitfalls facing

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65 Power M, (1997)  
66 Ibid. (1997)  
67 Ibid. (1997)  
68 Power M, (1994)  
69 Kärnborg (2011) & Sydsvenskan (2011)  
70 Humphrey & Owen (2000)
contemporary businesses if the prophecy of “The Audit Society” comes true. His theories can be seen as an antipode to the present, generally accepted theories regarding the demand and purpose of audit. Maybe Power’s somewhat extreme opinions can serve as a piece of the puzzle in trying to understand and explain the deregulation process regarding financial audit currently ongoing in EU.

3.4.1. Audit Explosion and The Audit Society
During the late 80’s and early 90’s, audits began to play a prominent role in society. An increasing number of individuals and organizations found themselves subject to new and more intensive accounting and auditing regulations. Power labeled this hunch that something systematic in society was going on beyond the traditional financial auditing, “The Audit Society”. To understand “The Audit Society”, it is not sufficient only to quantify and measure the increase in audits going on. The financial audit has evolved from its original concept of collecting and evaluating evidence. It has become more of an idea or model circulating in the institutional environment, used by both practitioners, executives and politicians, being blamed and praised, in order to regulate and reform.71

3.4.2 Consequences of The Audit Society
As stated earlier in the thesis the demand for audit is based on certain fundamental pillars, of which one is the “Principal Agent Theory”. The business environment is getting more complex, and the trust relationship between the principal and the agent is eroding, making the relationship more impersonal. Financial auditors’ services are today demanded mainly because of their function as a bridge between those involved in business, to maintain and promote the contemporary fragile trust relationship.72

With trust comes risk: they depend on each other.73 A prerequisite for risk to occur is a relationship of trust between two or more parties.74 In reality real business risk is replaced with the financial risk carried by the auditor. Financial auditing risk is often permeated by legal risk, particularly imminent in the audit processes of large corporations.75 This legal risk opens up for liability exposure towards parties having a stake in the company and is affected by the audit conducted. This has created an audit

73 Giddens A, (1990), p. 34-35
74 Moran M, (1986), p. 85
process where everything has to be accounted and argumented in favor for, a defendable manner in order to protect the auditor. It is of less importance if an error has been made; what matters is that the audit process has been conducted in conjunction with the best practice of audit. In cases where liability exposure leads to trial, it is not the body of knowledge that is questioned; it is instead the individual enactment of the auditor involved. The best practice, mostly designed for large corporations, also heavily influences the audit processes in small companies. To ensure a minimum liability exposure, the best practice formed is based on the premises of defendability, a stance that according to Power has corroded the production of assurance. 76

The legal risk that both companies and auditors are exposed to has led to a situation where externally presented documents lack scope and only produce empty comfort. The official documents are designed to maximize the amount of discretion, thus increasing the defense capability of auditors. These often bland presentations have to some extent eroded the trustworthiness of auditors. The question that arises is if audit really benefit the companies and provide them with added value, or whether the statements only serve as certificates of approval to calm stakeholders, creating an artificial facade of credibility and transparency. 77 The way of verifying and checking varies but the different processes always have one common denominator: it is always costly. There is uncertainty about whether companies today invest too much in these shallow rituals of verification at the expense of other added value activities. 78

76 Power M, (1997), p. 139
77 ibid. p. 139-140
78 ibid.
4. Pre-Empirical Work

In this chapter a short review of the development in other countries will be made. Furthermore all the stated expectations on the changed legislation will be presented. Finally a more comprehensive table will summarize the stated expectations.

A number of actors were involved in the preliminary investigations leading up to the changed legislation regarding statutory audit. Their opinions were spread across a wide spectrum and resulted in miscellaneous expectations, both positive and negative. The expectations of these actors were based partly on theoretical models but mainly on the previous expectations identified amongst other European countries that had already abolished their statutory audit. Two countries that were especially interesting to examine, due to their geographic and demographic proximity, were the UK and Denmark.

4.1 The Development in other Countries

4.1.1 The UK

The UK has the ambition to be the most entrepreneurial country in the EU and strives to achieve this by reducing costs and lessening the administrative burdens for small companies. To accomplish this the government has during a 20-year period, together with other measures, eased the regulation regarding statutory audit.79

In 1994 the UK government chose to utilize the legislation easement regarding statutory auditing, permitted by the Fourth Council Directive since 1978.80 The UK government has continuously raised the thresholds for audit exemption, and in 2008 the threshold was compliant with the EU-maxima.81 (See Appendix I)

The audit exemption legislation changes follow a strict UK regulation philosophy. The philosophy is based on the idea that if the benefits of a forced legislation do not exceed their costs they should be removed from law. The amount of legislation easements the UK government has implemented since 1994 indicates that the outcomes of the changes in regulation have been successful and have contributed to cost savings for small companies.82

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80 Collis, (2008)
81 ibid.
82 Thorell P & Norberg C (2005)
A 2003 study conducted on behalf of the UK Department of Trade and Industry (DTI), by the reputable researcher in the field Jill Collis, had the purpose of examining the underlying factors of small companies’ decision to opt out of audit. The study showed that the main reason was due to cost savings. Collis has conducted a number of interesting studies but as she has investigated factors contributing to the opt-out decision and not comparing expectations with outcomes, most of her findings are not directly applicable to this study.

4.1.2 Denmark
In 2006 the law “L50” concerning audit exemption for small companies in Denmark came into effect. The government's main goal with the changed legislation was to lessen the administrative burden for small companies by 25% by 2010 and to reduce costs in an attempt to increase the country’s small enterprise international competitiveness. At the time of implementation the thresholds were set at approximately the same levels Sweden would later use as their initial thresholds in 2010, which were significantly lower than by EU allowed maxima. 75,000 Danish small companies were calculated to be affected by the new legislation (See Appendix I).

In March 2005 a survey was conducted by Erhvervs- og Selskabsstyrelsen, in which it was found that in a scenario where all of the affected companies were to choose audit opt out, it could lead to cost savings of 677 million DKK/year. Another study investigating the development that had taken place since the law came into place was conducted by the same agency in 2010. The study was based on the 74,761 companies eligible to opt out of audit. Out of these companies 17,104 actually chose to exempt their auditor. These companies corresponded to 22.8 % out of the total eligible companies. It was found in sampling that one third of the companies’ still chose to use other services provided by their previous auditor. It was calculated that the actual cost savings were 155-160 million DKK/year, compared to the estimated 677 million DKK. A similar development of low percentages of companies choosing to opt out of audit took place in the wake of the abolishment of the statutory audit in the UK. The UK experienced a lag-effect where a low number of companies initially chose to

83 ibid.
84 Balans, (2007)
85 ibid.
opt out of audit, followed by an increasing number of companies opting out each year. These lag-effects can be explained by the lack of information both received and sought after by the companies affected.\footnote{Collis, (2003)}

Some concerns were raised regarding the possible increases in the tax gap, financial crime and error frequency in the financial statements.\footnote{Balans, (2010)} The Danish Tax agency found that there were more errors in the unaudited companies; error frequency had increased from 24,4\% to 29,5\% in the financial statements. The report, however, stated that this was not significantly higher and that the errors made were in many cases formalities and did not affect the quality of the reporting. It was also found that there was no increase in financial crimes since the change in legislation. Therefore, the concerns raised can be seen as somewhat exaggerated.\footnote{ibid.}

\textbf{4.2 Expectations}

\textbf{4.2.1 Cost Savings}

The cost that the audit entails is both significant and burdensome for small companies.\footnote{Thorell P & Norberg C (2005)} Opinions have differed regarding the annual cost reduction a company would enjoy from being exempted from the statutory audit. The Swedish government estimated that before the bill was passed, a small company spent 15 000 SEK/year. However, Svenskt Näringsliv made another estimate, their findings showed that the cost of audit for a small company was approximately 10 000 SEK/year. This number excluded the estimated cost savings made from the lessened administrative cost burdens. Svenskt Näringsliv concluded that the total annual anticipated cost savings per year would amount to approximately 2 billion SEK, to be compared to the somewhat higher cost reduction of 2,8 billion SEK per year estimated by the Swedish government.\footnote{SOU, (2008) & Thorell P & Norberg C (2005)}

In practice a distinction between audit and consultations services in small companies is not easily made. Even though the auditor is recruited to review already finished accounting and financial statements, the auditor more than often functions as a consultant helping the company correct deficiencies in the accounting. The
government anticipated that the abolishment of statutory audit would lead to small companies having to compensate these lost elements in other ways, often in the form of other complimentary services, resulting in alternative costs. The audit and accounting industry foresaw this development and intensified the development of alternative services even before the changed legislation was in place. It was anticipated by Företagarna that increased competition for audit related services would lead to a wider range of services with lower prices.

A general assumption made by audit practitioners is that another alternative cost, in the form of increased cost of capital, might arise due to an abolishment of the auditor. Banks and creditors might have to increase the use of their own quality assurance systems or suffer the loss of lower financial statement quality, forcing them to increase the interest rates to compensate for this loss.

4.2.2 Lessened Administrative Burdens
One of the most stated expectations that came with the change in legislation regarding the statutory audit was that the new legislation, as part of a more extensive package of measure, would lessen the administrative burdens by as much as 25 %. It was assumed that a reduction of the administrative burdens would lessen companies’ administrative costs on average by 5000 SEK, a change that could save a total of 0,6 billion SEK/year for the companies.

The correlation between administrative burdens and costs is high in organizations. Assignments that are time-consuming are almost always costly. However, it is important to distinguish between the costs that are directly related to the audit, and the peripheral costs that come with the handling of the audit. When speaking of the term administrative burdens from a company’s point of view, it does not refer to the direct costs of audit. Instead it refers to the peripheral costs surrounding the audit process, i.e. the costs that companies are ultimately forced to bear.

91 SOU, (2008)
92 FAR SRS Info, (2008)
93 Thorell P & Norberg C (2005)
94 SOU, (2008)
95 Thorell P & Norberg C (2005)
96 ibid.
Skatteverket has raised concerns regarding an increase in financial crime rates, especially tax fraud. They believed that an abolished statutory audit drastically would increase the incentive of financial crimes as well as a reduced tax moral. This expectation would not have any direct economic consequences for the companies. However, additional costs in the form of enhanced tax controls could occur, additional costs that were thought to add to the overall administrative cost burdens of companies.\textsuperscript{97}

\subsection*{4.2.3 Fitted Services}
Advocates of an abolishment of the statutory audit clearly maintain that it is not the audit itself that they are opposing; it is mainly the fact that the audit is statutory. A company that benefits from the audit service will still demand it, although instead on a voluntary basis.\textsuperscript{98} Acquiring the audit services on a voluntary basis would enable companies to better choose the best fitted services for their type of company. This is instead of being subject to complex and wide spanning rules and regulations, constructed and designed mainly for large corporations.\textsuperscript{99}

A more customized range of services, as a result of the changed legislation, were according to the chairman of FAR, Peter Clemedtson, expected to decrease the expectation gap. This is because companies were allowed to freely choose and adapt their range of accounting and auditing services to the most adequate combinations.\textsuperscript{100}

\subsection*{4.2.4 Global Competitiveness}
By lessening the administrative burdens it was thought that Swedish small companies global competitiveness would be strengthened. Both the Swedish investigation and Svenskt Näringsliv considered that the cost that the audit entails is both significant and burdensome for small companies.\textsuperscript{101} A statutory audit requirement has, according to the association Företagarna, also led to that Swedish companies have been unable to tailor the services they demand.\textsuperscript{102} This has resulted in that Swedish small companies have had a disadvantage in comparison to similar companies in the

\textsuperscript{97} ECON, (2007)
\textsuperscript{98} Thorell P & Norberg C (2005)
\textsuperscript{99} FAR SRS Info, (2008)
\textsuperscript{100} Balans, (2007)
\textsuperscript{102} FAR SRS Info, (2008)
European Union. With an abolishment of the statutory audit the competitiveness of small Swedish companies is suggested to have increased.\textsuperscript{103}

There are proponents claiming that the opposite is true. FAR’s opinion is that the statutory audit in Sweden that spans across every Swedish company is a unique phenomenon that benefits the Swedish market. Instead of being a burden for these companies, it functions as a competitive advantage towards other European companies, and ensures that every company maintains high quality in their accounting. The requirements imposed on the Swedish auditors by law are designed in a way that have contributed to ensure and maintain the high quality accounting that Swedish companies are known for.\textsuperscript{104}

\textsuperscript{103} SOU, (2008)
\textsuperscript{104} ibid.
4.3 Table of Expectations
Based on the pre-empirical work of expectations the following table was developed, mapping the perceived expectations to the specific questions of the web survey.

<table>
<thead>
<tr>
<th>Anticipated effects from opting out of audit</th>
<th>Effects on Swedish micro companies after the change in auditing regulations</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cost Savings</strong></td>
<td></td>
</tr>
<tr>
<td>+ Estimated cost reduction by 10 000 SEK per company from saving on auditing services.</td>
<td>Svenskt Näringsliv 15, 16, 3 Audit society/Added Economic Value/ Stakeholder</td>
</tr>
<tr>
<td>+ Estimated cost reduction by 15 000 SEK from saving on auditing services</td>
<td>SOU (2008:32) 15, 16, 3 Audit society/Added Economic Value/ Stakeholder</td>
</tr>
<tr>
<td>+ Total savings for Swedish companies of 2 billion SEK</td>
<td>Svenskt Näringsliv 15, 16, 3 Audit society/Added Economic Value/ Stakeholder</td>
</tr>
<tr>
<td>+ Total savings for Swedish companies of 2.8 billion SEK</td>
<td>SOU (2008:32) 15, 16, 3 Audit society/Added Economic Value/ Stakeholder</td>
</tr>
<tr>
<td>- Alternative costs in form of auditing and consulting services</td>
<td>SOU (2008:32) 8, 9 Added Economic Value</td>
</tr>
<tr>
<td>+ Wider range of alternative services</td>
<td>Företagarna 11 -</td>
</tr>
<tr>
<td>+ Lower price of alternative services</td>
<td>Företagarna 12 -</td>
</tr>
<tr>
<td>- Increased cost of capital</td>
<td>Svenskt Näringsliv 13 Stakeholder</td>
</tr>
<tr>
<td><strong>Administrative Costs</strong></td>
<td></td>
</tr>
<tr>
<td>+ Administrative burdens lessened</td>
<td>SOU (2008:32) 6 Principal agent theory</td>
</tr>
<tr>
<td>+ Annual cost reduction 5000 SEK</td>
<td>Svenskt Näringsliv -</td>
</tr>
<tr>
<td>- An increase in visitations from Skatteverket, which is accompanied by higher administrative costs</td>
<td>FAR SRS (ECON) 17 The Purpose of Audit</td>
</tr>
<tr>
<td><strong>Fitted Services</strong></td>
<td></td>
</tr>
<tr>
<td>Expectation Gap</td>
<td>Peter Clemendtsson 7 Expectation gap</td>
</tr>
<tr>
<td>+ Better fitted services</td>
<td>Företagarna 10 Expectation gap</td>
</tr>
<tr>
<td><strong>Global Competitiveness</strong></td>
<td></td>
</tr>
<tr>
<td>+ Increased competitiveness on a global market</td>
<td>SOU (2008:32) &amp; FAR 4, 5 Audit Society</td>
</tr>
</tbody>
</table>
5. Empirical Presentation/Analysis

In this chapter the findings of the survey will be presented. A discussion on why business owners perceive the expectations the way they do will also be made.

5.1 Response Rates

<table>
<thead>
<tr>
<th>Surveys Dispatched</th>
<th>1100</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of respondents</td>
<td>197</td>
</tr>
<tr>
<td>Response rate</td>
<td>17.90%</td>
</tr>
</tbody>
</table>

The number of respondents amounted to 197, which was above the sample size required, with a total response rate of 17.90%. There is always a risk of low response rates when using web-based surveys. It is therefore hard to estimate a reasonable response rate. This thesis’ response rate of 17.90% is, however, well above the response rate suggested for this type of survey by Saunders, Lewis and Thornhill’s, who estimate an acceptable response rate of 11%.105

5.2 Number of Owners

<table>
<thead>
<tr>
<th>Number of owners</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>134</td>
</tr>
<tr>
<td>2</td>
<td>47</td>
</tr>
<tr>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>6</td>
<td>1</td>
</tr>
</tbody>
</table>

Average number of owners 1.4

*Owner Table: shows the number of owners in the responding companies*

5.3 Cost Savings
5.3.1 Cost Reduction

Has the choice of opting out of audit (despite employing other complementary services) led to cost reductions?

<table>
<thead>
<tr>
<th>Question</th>
<th>Median</th>
<th>Match/Mismatch</th>
</tr>
</thead>
<tbody>
<tr>
<td>+ Cost Reduction</td>
<td>15</td>
<td>5</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Respondents</th>
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<th>Disagree</th>
<th>Unchanged</th>
<th>Agree</th>
<th>Strongly Agree</th>
<th>Missing/No opinion</th>
</tr>
</thead>
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<tr>
<td>Count:</td>
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<td>1</td>
<td>14</td>
<td>28</td>
<td>113</td>
<td>34</td>
</tr>
<tr>
<td>Percentage:</td>
<td>4.3 %</td>
<td>0.6 %</td>
<td>8.6%</td>
<td>17.2%</td>
<td>69.3%</td>
<td>-</td>
</tr>
</tbody>
</table>

Most advocates of an abolishment of the statutory audit were united in their view that the changed legislation would lead to significant cost reductions for companies opting out of audit. The amount of cost reduction each company would enjoy was, however, disputed, ranging from 10-15 000 SEK/year, and expected to amount in total cost savings up to 2.8 billion SEK for all Swedish companies combined. This study indicates a clear match between the expectations about the abolishment leading to cost reduction and the actual outcome perceived by the surveyed companies. It is evident that the majority of companies that have chosen to opt out of audit consider their decision to be economically beneficial. However, to calculate the cost savings made in exact numbers is difficult, as noted by the different calculations made in connection to the legislative proposition. This may explain why 34 of the respondents either skipped the question or had no opinion on the matter. Companies may experience difficulties in calculating their own cost savings. The survey limits the respondent’s ability to issue an accurate answer as the options given are divided into specified intervals.
Table 1: Demonstrates the total amounted costs savings companies have made each year since the changed legislation. Question 16.

Approximately 34% of the responding companies estimate cost saving of more than 10,000 SEK/year. To be able to compare and analyze the data, and due to the survey limitation mentioned above, an assumption is made that the companies targeted in the > 10,000 SEK/year interval also saved this exact amount. When adopting this assumption, the average cost savings made by all companies in the study amount to 7,265 SEK/year per company. This number is more aligned with the estimations made by Svenskt Näringsliv, who predicted cost savings of 10,000 SEK/year, than that of SOU, whose corresponding estimation was 15,000 SEK. Note, however, that due to the interval limitations of the study, the total amount saved by the companies might be higher than the calculations show.

When the lowest possible number was used for > 10,000 SEK cost savings interval, the total cost savings was calculated to be 1.4 billion SEK, slightly lower than expected. It is, however, possible that the estimated cost savings expected are accurate, if the companies cost savings in the > 10,000 SEK strata are on average higher than the number used in this study.

The UK and Denmark experienced lag-effects that hindered companies from taking full advantage of the changed legislation, reducing the possible cost savings. The same tendencies are not, according to this study, as substantial in Sweden as observed in the UK and Denmark.

106 Appendix II
108 Appendix II
The companies, just like auditors, are faced with a trade-off between quality-assured information and the costs it entails. Companies will choose audit only in those cases where the marginal benefit exceeds the marginal cost. The study clearly indicates that small companies in Sweden do not perceive the marginal benefits necessary to justify the audit costs and therefore have chosen to opt out of audit. The “Cost assurance function” shows a diminishing marginal benefit of audit. 34% of the respondents claim they saved more than 10 000 SEK/year which could indicate that the experienced marginal benefit of each SEK spent on audit is relatively low.\textsuperscript{110}

What causes these non-perceived marginal benefits? Power raises concerns about whether audit in its entirety adds economic value to companies. He claims that audit today has created a best practice where the companies’ best interests are not always in focus. Instead the focus of audit has become to create audit processes that can easily be vindicated in an attempt to minimize the auditors’ liability exposure. Companies might experience that the service no longer provides the added economic value it is intended to. This could also explain why small companies have chosen to opt out of audit and hence been able to reduce their costs. The companies may perceive the auditors’ statements as nothing more than certificates of approval to calm stakeholders, providing statements that lack scope and produce nothing but empty comfort.\textsuperscript{111}

\textsuperscript{110} Flint D, (1988) & Fig. 1
\textsuperscript{111} Power M, (1997), p. 139
The most important stakeholders are owners and customers.\textsuperscript{112} A vast majority of the companies affected by the changed legislation only consist of one to two owners\textsuperscript{113} and these owners often have full insight in daily operations. Small companies where owner and management are the same do not benefit from audit as much as big corporations, for whom major parts of the audit regulatory framework are intended to serve. This can lead to situations where the information presented to companies may seem redundant, as stakeholders highly regarded by the companies do not demand it.\textsuperscript{114}

Regardless of whether companies perceive audit to be beneficial or not, it always becomes a matter of costs. Since the companies have chosen to opt out of audit, they seem to believe that the money previously spent on audit is better used on other value-adding economic activities.\textsuperscript{115}

\textsuperscript{112} Table 2
\textsuperscript{113} Owner Table
\textsuperscript{114} Thorell P & Norberg C (2005)
\textsuperscript{115} Power M, (1997), p. 139
5.3.2 Alternative Costs of Complementary Services

Have complementary services been utilized in order to replace functions previously provided by the auditor?

![Pie chart showing 76.3% and 23.7%]

Table 3: shows the proportion of companies utilizing complementary services. Question 8.

In the government investigation prior to the change in legislation, concerns were raised that companies choosing to opt out of audit would lose the professional expertise provided by the auditor. It was thought that costly complementary services would have to fill the void left by the absence of the auditor. When examining the empirical data, it is observed that the concerns raised by the government investigation were partially correct. ¼ of the companies surveyed have contracted complementary services.

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116 SOU 2008:32
Table 4: Demonstrates which complementary services the respondents who answered, “yes” in table 3 have employed. Question 9.

The most requested services among these companies are accounting and advisory services. These services are to a large extent similar to those the auditor previously might have assisted with when active.\textsuperscript{117} The majority of the companies in the study have, however, chosen not to employ complementary services. Companies that choose to lay off their auditor might not recognize the added economic value lost from this decision. It is hard to describe the added economic value of audit, other than in broad theoretical terms. This poses a problem, not only to companies missing out on added economic value, but also to the audit profession as it may lack the ability to showcase its output. Auditors have to be able to make companies trust their expert judgment; otherwise it might lead to companies excluding the service.\textsuperscript{118}

\textsuperscript{117} Table 4
\textsuperscript{118} Power M, (1997)
5.3.3 Range and Price of Complementary Services

Has the supply of complementary services increased since the abolishment of the statutory audit?

<table>
<thead>
<tr>
<th>Question</th>
<th>Median</th>
<th>Match/Mismatch</th>
</tr>
</thead>
<tbody>
<tr>
<td>+ Increased supply of complementary services</td>
<td>11</td>
<td>4 Match</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Respondents</th>
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<th>Unchanged</th>
<th>Agree</th>
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<td>96</td>
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<tr>
<td>Percentage:</td>
<td>4 %</td>
<td>1 %</td>
<td>36.6 %</td>
<td>45.5 %</td>
<td>10.9 %</td>
<td>-</td>
</tr>
</tbody>
</table>

Have the prices on complementary services decreased since the abolishment of the statutory audit?

<table>
<thead>
<tr>
<th>Question</th>
<th>Median</th>
<th>Match/Mismatch</th>
</tr>
</thead>
<tbody>
<tr>
<td>+ Decreased price on complementary services</td>
<td>12</td>
<td>3 Mismatch</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
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<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Unchanged</th>
<th>Agree</th>
<th>Strongly Agree</th>
<th>Missing/No opinion</th>
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<tr>
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<td>41</td>
<td>25</td>
<td>16</td>
<td>85</td>
</tr>
<tr>
<td>Percentage:</td>
<td>13.4 %</td>
<td>13.4 %</td>
<td>36.6 %</td>
<td>22.3 %</td>
<td>14.3 %</td>
<td>-</td>
</tr>
</tbody>
</table>

The new legislation was expected to lead to harshened competition between audit bureaus. It was thought that the new competition would lead to a wider range of services followed by a price reduction. The study indicates a match in wider range of services but a mismatch regarding the expected price reductions. It is, however, important to note that in both questions a large proportion of the respondents did not answer, or had no opinion on the matter. This may be due to the fact that many companies did not choose to employ complementary services and therefore could not form an opinion about the new market situation.

The audit firms were proactive to the change in legislation and adapted their range of services to fit their clients’ new requirements, which may serve as an explanation as

119 FAR SRS Info, (2008)
120 Table 4
to why the companies have experienced a wider range of services. The companies are no longer bound by generic audit solutions and this has forced auditing firms to be innovative and customize their services to create solutions that better fit the new needs of their clients.\footnote{Balans, (2007)}

### 5.3.4 Cost of Capital

Has opting out of audit led to an increased cost of capital?

<table>
<thead>
<tr>
<th>Question</th>
<th>Median</th>
<th>Match/Mismatch</th>
</tr>
</thead>
<tbody>
<tr>
<td>13</td>
<td>1</td>
<td>Mismatch</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Respondents</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Unchanged</th>
<th>Agree</th>
<th>Strongly Agree</th>
<th>Missing/No opinion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Count:</td>
<td>86</td>
<td>10</td>
<td>52</td>
<td>13</td>
<td>6</td>
<td>30</td>
</tr>
<tr>
<td>Percentage:</td>
<td>51,5 %</td>
<td>6 %</td>
<td>31,1 %</td>
<td>7,8 %</td>
<td>3,6 %</td>
<td>-</td>
</tr>
</tbody>
</table>

Before the change in legislation took place, several advocates raised concerns that the new regulations could lead to increased cost of capital, in similarity to other countries.\footnote{Blackwell, et al. (1998)} The abolishment of the statutory audit was suggested to lead to deteriorating financial statement quality, forcing banks and creditors to increase interest rates in order to compensate for greater risk.\footnote{Thorell P & Norberg C (2005)} A clear mismatch between the expectation of increased cost of capital and the views of companies could, however, be observed in the study.

One way to explain this observation is to examine the working processes of banks and creditors. These institutions had in most cases already prior to the change in legislation adopted their own quality assurance systems or alternatively initiated collaborations with credit agencies. Therefore, the impact on banks and creditors was not as harsh as expected, leaving the cost of capital intact.\footnote{ibid.} The fact that only 6 out of 195\footnote{Table 3} respondents were of the opinion that creditors are one of their most...
important stakeholders supports the theory of banks and creditors being able to supply themselves with the information necessary.\textsuperscript{126}

### 5.4 Administrative Costs

**Has time spent on administrative work decreased?**

<table>
<thead>
<tr>
<th>+ Time spent on administrative work has decreased</th>
<th>Question</th>
<th>Median</th>
<th>Match/Mismatch</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respondents</td>
<td>Strongly Disagree</td>
<td>Disagree</td>
<td>Unchanged</td>
</tr>
<tr>
<td>Count:</td>
<td>25</td>
<td>10</td>
<td>97</td>
</tr>
<tr>
<td>Percentage:</td>
<td>13.8 %</td>
<td>5.5 %</td>
<td>53.6 %</td>
</tr>
</tbody>
</table>

The Swedish government considered the administrative pressure on Swedish companies to be far too great. The government stated that an abolishment of the statutory audit could lessen these burdens by as much as 25 %. It was also anticipated that it could lead to additional cost savings of 5000 SEK/year per company, directly related to the lessened administrative burdens.\textsuperscript{127} The study shows that companies have not experienced lessened administrative burdens. The outcome indicates a mismatch. It should, however, be noted that there is a strong correlation between costs referable to administrative burdens and the total cost savings made, which makes it hard to distinguish administrative cost savings from others.\textsuperscript{128}

The essence of audit is its risk-reducing function, which hinders companies from participating in value-reducing actions. As companies choose to opt out of audit they lose the control and risk-reducing function that the auditor previously provided. When the control function is removed, the companies alone have to prevent value-reducing actions and shoulder the former duties conducted by the auditor. The shift of duties

\textsuperscript{126} Thorell P & Norberg C (2005)
\textsuperscript{127} SOU 2008:32
\textsuperscript{128} Thorell P & Norberg C (2005)
from the auditor to the companies may explain why the perceived experience regarding lessened administrative burdens has not been as prominent as expected.\textsuperscript{129}

### Have the visitations of Skatteverket increased, leading to more administrative work?

<table>
<thead>
<tr>
<th>Question</th>
<th>Median</th>
<th>Match/Mismatch</th>
</tr>
</thead>
<tbody>
<tr>
<td>17</td>
<td>3</td>
<td>Mismatch</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Disagree</td>
</tr>
<tr>
<td>Count: 70</td>
</tr>
<tr>
<td>Percentage: 42.7 %</td>
</tr>
</tbody>
</table>

Both Skatteverket and BFR were concerned that when the statutory audit was abolished this would lead to an increase in economic crimes. It was feared that Skatteverket would have to act in order to prevent the expected development and that the number of unexpected visitations would increase, entailing new administrative pressures on companies.\textsuperscript{130} The empirical data, however, disproves this expectation and the outcome indicates a mismatch. Prior to the statutory audit abolishment in Denmark, the same concerns were raised. Studies conducted in Denmark stated that the economic crime rate only marginally increased and that the crimes detected often regarded small misdemeanors, not affecting the validity of the financial statements.\textsuperscript{131}

Because it has been established that fraud detection is not the main purpose of audit, Skatteverket has not been able to blindly trust the assumption that criminal activities are not occurring, even if the auditor in a company has given his/her approval and provided a clean audit statement.\textsuperscript{132} Regardless of whether the financial statements have been audited or not, Skatteverket already conducted independent audits prior to the abolishment. Evidently these audits were sufficient in fulfilling the purpose of detecting financial crimes, thus explaining why the companies have not experienced an increase in visitations from Skatteverket.\textsuperscript{133}

\textsuperscript{129} ibid.  
\textsuperscript{130} ECON, (2007)  
\textsuperscript{131} Collis, (2003)  
\textsuperscript{132} Revisionslag 5-6§  
\textsuperscript{133} SOU 2008:32, p.257
5.5 Fitted Services

Before opting out of audit, did you consider the auditor to conduct the services expected?

<table>
<thead>
<tr>
<th>The auditor conducted the expected services</th>
<th>Question</th>
<th>Median</th>
<th>Match/Mismatch</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>7</td>
<td>4</td>
<td>Match</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Respondents</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Unchanged</th>
<th>Agree</th>
<th>Strongly Agree</th>
<th>Missing/No opinion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Count:</td>
<td>20</td>
<td>35</td>
<td>25</td>
<td>31</td>
<td>70</td>
<td>16</td>
</tr>
<tr>
<td>Percentage:</td>
<td>11 %</td>
<td>19,3 %</td>
<td>13,8 %</td>
<td>17,1 %</td>
<td>38,7 %</td>
<td>-</td>
</tr>
</tbody>
</table>

An expectation was that of a decreased “expectation gap” as an effect of the abolishment of the statutory audit. In order to test whether the expectation was met, it had to be concluded if the respondents actually experienced an expectation gap prior to the changed legislation. The match observed above indicates that the respondents prior to the changed legislation did not experience an “expectation gap”.

The occurrence of an “expectation gap” is often explained by the misconception regarding the expected role of an auditor. A business owner often lives in the false belief that an audit’s primary objective is to detect fraud when in reality it is quality assurance of the financial information. Some practitioners, however, accentuate the fact that the “expectation gap” is not as prevalent amongst the owners of small companies. The close relationship between the business owner and the auditor often makes it possible for the owner to have full insight in the auditing process, prohibiting the emergence of an expectation gap. This might serve as one explanation as to why the majority of the surveyed companies did not experience an “expectation gap”.

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134 Balans, (2007)  
135 Balans, (2007)
Are these services now better aligned with your expectations?

<table>
<thead>
<tr>
<th>Question</th>
<th>Median</th>
<th>Match/Mismatch</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>5</td>
<td>Match</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Respondents</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Unchanged</th>
<th>Agree</th>
<th>Strongly Agree</th>
<th>Missing/No opinion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Count:</td>
<td>1</td>
<td>0</td>
<td>9</td>
<td>8</td>
<td>24</td>
<td>3</td>
</tr>
<tr>
<td>Percentage:</td>
<td>2,4 %</td>
<td>0 %</td>
<td>21,4 %</td>
<td>19 %</td>
<td>57,1 %</td>
<td>-</td>
</tr>
</tbody>
</table>

* The respondents who answered, “yes” on the question: “Complementary services has been utilized in order to replace functions previously provided by the auditor?” were the only respondents eligible to answer question number 10, hence the low number of respondents.  

It was anticipated that a potential expectation gap would decrease with an increase in the range of complementary services. The factors contributing to a decreased expectation gap were agreed to depend on the fact that companies would be able to tailor the services demanded to fit better in line with their expectations and needs. The study indicates that the complementary services utilized now are better aligned with the companies’ expectations: a match is observed which may be explained by the fact that companies experience the range of services having increased, providing them with better fitted services.

Logically it is hard to explain how companies did not perceive an expectation gap prior to the changed legislation but still claim a better fit afterwards. An explanation to this phenomenon could, however, be found in the statement of Peter Clemendtson, former chairman of FAR, who states that the “expectation gap” can be derived from the fact that the audit has been statutory. When companies today employ an auditor or a complementary service, it is done so on a voluntary basis. The companies are involved in the entire process, stating their own expectations of the service demanded. Obviously, this contributes in making the services chosen more aligned with the expectations designed by the companies themselves.

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136 Table 3  
137 Balans, (2007)  
138 Question 11, p…  
139 Balans, (2007).
5.6 Global Competitiveness

Table 5: showing the percentage of companies currently operating on a global market. Question 4.

Has the global competitiveness of your company increased due to opting out of audit?

<table>
<thead>
<tr>
<th>+Global competitiveness has increased</th>
<th>Question 5</th>
<th>Median 3</th>
<th>Match/Mismatch Mismatch</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respondents</td>
<td>Strongly Disagree</td>
<td>Disagree</td>
<td>Unchanged</td>
</tr>
<tr>
<td>Count:</td>
<td>11</td>
<td>3</td>
<td>27</td>
</tr>
<tr>
<td>Percentage:</td>
<td>22.4 %</td>
<td>6.1 %</td>
<td>55.1 %</td>
</tr>
</tbody>
</table>

* The respondents who answered, “yes” on the question: “Do you operate on a global market?” were the only respondents eligible to answer question number 5, hence the low number of respondents.

One declared expectation prior to the change in legislation was that Swedish small companies would, due to the abolishment of the statutory audit, benefit from an increase in their global competitiveness. By cost savings and better fitted services the global competitiveness was supposed to increase. The companies have experienced both cost savings and better tailored services but there is still an observed mismatch, with the majority of companies stating their global competitiveness to be “unchanged”.

140 Table 5
142 Table 1 & Question 10
FAR considered the high quality assurance standards entailed by the statutory audit to be a competitive advantage, inconsistent with the views of the proponents. Maybe it is this fact that caused the respondents to see no increase in their global competitiveness.\textsuperscript{143}

It is, however, important to note that only approximately 27\% of the companies surveyed actually operated on a global market. The eased regulations and the benefits entailed were all supposed to result in an increased competitiveness towards countries where these simplifications had already been implemented. This political approach to increasing the global competitiveness can be seen as rather ineffective since such a small proportion of the companies are affected by the changed legislation.\textsuperscript{144}

The study rejects the notion that global competitiveness has increased. By applying Power’s theory of audit as a model circulating in the institutional environment, both the underlying philosophy to the expectations of the changed legislation, as well as the outcome may be explained. Power argues that audit is no longer solely a service performed on behalf of the companies but has evolved into an idea circulating in today’s society, an idea, both blamed and praised, used as a tool by politicians. Politicians use audit regulations to show the public that they actively strive for a better business climate. Of great importance is which impression the politicians give by conducting the promised politics: the actual outcome is irrelevant. Prior to the change in legislation, audit was blamed for restraining small companies acting on a global market. By removing these restraints, politicians were portrayed as energetic and decisive, despite the fact that the changed legislation, according to this study, has had no real impact in the companies affected.\textsuperscript{145}

\textsuperscript{143} SOU 2008:32
\textsuperscript{144} Table 5
\textsuperscript{145} Power M, (2000)
5.7 Overall Impression

Are you satisfied with the decision to opt out of audit?

<table>
<thead>
<tr>
<th>+Satisfied with the decisions to opt out of audit</th>
<th>Question</th>
<th>Median</th>
<th>Match/Mismatch</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respondents</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strongly Disagree</td>
<td></td>
<td></td>
<td>Match</td>
</tr>
<tr>
<td>Disagree</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unchanged</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agree</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strongly Agree</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Missing/No opinion</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Count:</th>
<th>2</th>
<th>5</th>
<th>20</th>
<th>14</th>
<th>143</th>
<th>13</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage:</td>
<td>1.1 %</td>
<td>2.7 %</td>
<td>10.9 %</td>
<td>7.6 %</td>
<td>77.7 %</td>
<td>-</td>
</tr>
</tbody>
</table>

The intended purpose with the regulation regarding voluntary audit was to promote the Swedish business climate, in an increasingly competitive Europe.\(^{146}\) 78 % of the respondents did “strongly agree” with the statement. The median value was 5, thus indicating a match.

Which factors can explain why companies to such a large extent experienced their decision to opt out of audit as favorable? In order to answer this question it is necessary to state the factors contributing to the opt-out decision.

What/which of the following statements led to the decision to opt out of audit?

Table 6: Companies’ main reasons for opting out of audit

\(^{146}\) SOU 2008:32
In accordance to the UK development, the respondents claim the main reason for opting out of audit to be the observed cost savings put in relation to the experienced benefits from audit.\textsuperscript{147} \textsuperscript{148} A great number of respondents also stated that the auditor did not provide any real value to the company. Audit is sprung from needs that occur due to the problems following a principal-agent relationship, often prominent in large and complex corporations. In the regulatory framework surrounding auditing, little consideration has been noted concerning the fact that small companies often do not operate under these circumstances.\textsuperscript{149} When the preconditions of principal-agent issue do not exist, neither does the demand for audit. Under the pressure of statutory audit and the preconditions which legitimize the demand, the companies have been forced into utilizing a service, which does not always provide them with real value.\textsuperscript{150}

The main purpose of audit is to ensure the quality of financial statement, allowing stakeholders to make rational decisions based on the information provided. However, some respondents claimed that one of the reasons for opting out of audit was that the stakeholders did not demand the financial information presented.\textsuperscript{151} The audit process is from a company point of view costly, and if no stakeholder demands the assured information, the service becomes redundant.\textsuperscript{152} There are in some cases stakeholders demanding the assured information but the costs entailed by audit might cause companies to experience a marginal benefit less than the marginal costs. The companies may have difficulties measuring the benefits provided by audit in a sufficient manner.\textsuperscript{153}

\textsuperscript{147} Thorell P & Norberg C (2005)
\textsuperscript{148} Table 6
\textsuperscript{149} Saphiro S, (1987), p. 623-58
\textsuperscript{150} Flint D, (1988)
\textsuperscript{151} Table 6
\textsuperscript{152} Hanlon G, (1994)
\textsuperscript{153} Flint D, (1988)
Do you consider yourselves to be missing out on added economic values due to the decision of opting out of audit?

Table 7: demonstrates if companies’ perceived any added value losses due to the decision to opt out of audit

The results are striking. Approximately 90% of the respondents have not experienced any loss in added value due to their decision.154 This result can indicate one of two things: either the companies did not feel that the auditor provided any added values, or the fact that measuring added value provided is difficult, causing the respondents to not perceive the value of audit. The overall satisfaction from the respondents on their decision to opt out of audit may point to the fact that their views are consistent with Power’s description of the society evolving into an “Audit Society”, a society where the frequent use of audit as more of an idea than its actual intended purpose has corroded the profession, causing it to lose its legitimacy towards the small business owners. Maybe there could be some truth to Power’s suggestive ideas of a society crumbling from the pressure of ever increasing audit. Companies affected by these pressures can be relieved from their burdens by a decrease in the regulatory framework.155

There is currently a counter movement going on that opposes the audit professions’ dictating forces that affect the daily operations of small companies. The auditors have to prove that the service, which for so long has been a vital part of both society and

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154 Humphrey & Owen (2000)
business, still provides companies with added value and promotes commerce of all kinds.\textsuperscript{156}

\textbf{6. Conclusion}

In this final chapter a discussion based on the problem statement will be presented regarding the thesis findings. In the end thoughts about future research will be presented.

Prior to the change in legislation regarding the statutory audit many expectations were stated, both positive and negative, all having different views on what the outcomes would be. In hope of being able to influence the design of the new legislation, all actors had different agendas when stating their expectations, making them somewhat biased in an attempt to highlight the expectations important to the representatives of each actor. This study becomes interesting as it has combined all of these biased expectations and investigated the outcome for which the changed legislation ultimately governs, the small companies. All the stated expectations were not matched with the outcomes but the overall impression of this study suggests that the initiative has been successful in promoting small companies. The changed regulation has in comparison to other European countries quickly gained ground and on the 2nd of February 2014 there were 194,833 companies that had chosen to opt out of audit, 85\% of the companies eligible.

The generally accepted economic theories seems inadequate in describing the purpose and the benefits of audit for small companies, as the theories to a large extent are based on the premises of phenomena often occurring in big and complex organizations. The study shows that neither principal-agent nor expectation gap problems are prevalent, and the fact that small companies answer to only a few number of stakeholders also makes the stakeholder theory somewhat inapplicable. The wide spanning, complex, regulatory framework is constructed to fit the needs of bigger companies, and the fact that 78 \% of the companies “strongly agreed” with the statement: “You are satisfied with the decision to opt out of audit”, indicates that the audit regulations have become a burden too heavy for small companies to bear. This is further confirmed by the notion that the majority of the surveyed companies have experienced cost savings.

\textsuperscript{156} Power M, (1997)
The development of society into an audit society might have corroded audit, making it nothing but shallow rituals of verification. The overall compliance with the change in legislation where 90% of the companies surveyed did not consider missing out on any added value when opting out of audit, can be seen as a countermovement to the Audit society. However, it can be observed in the study that there still are companies that have chosen to employ complementary services, services that to a large extent are similar to the services previously performed by the auditor. The auditors’ expertise is apparently demanded and in some way adding value to the company. To measure the output of audit is difficult and maybe it is the lack of auditors’ ability to showcase the added value contributed that have caused the companies to opt out of audit. The responsibility of re-establishing the trustworthiness and legitimacy now lies in the hands of the audit profession itself to prove their services still contribute to business.

6.1 Further Discussion
The development in other European countries that have chosen to relax their regulations regarding audit is similar to that of Sweden. All of these countries have found that the initiative has been successful and the thresholds for audit exemption have gradually been raised. This study shows that the abolishment of the statutory audit in Sweden, from a small company’s perspective, has been successful. Due to the successful outcome it would be interesting to see if it is possible for Sweden to further raise the current low thresholds, to a level more aligned with other European countries.
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FAR SRS Info, 2008:116

Appendix I

EU maxima thresholds

- Total assets: 4 400 000 €
- Net turnover: 8 800 000 €
- Number of employees: 50

Swedish translation to EU maxima

- Total assets: > 41 500 000 SEK
- Net turnover: > 83 000 000 SEK
- Number of employees: 50

Swedish thresholds

- Total assets: > 1 500 000 SEK
- Net turnover: > 3 000 000 SEK
- Number of employees: 3

UK thresholds, 2008

- Total assets: > 3 260 000 £
- Net turnover: > 6 500 000 £
- Employees: > 50

Denmark thresholds, 2006

- Total assets: > 1 500 000 DKK
- Net turnover: > 3 000 000 DKK
- Employees: > 12
Appendix II

Sample size

\[ n = p\% \times q\% \times \left(\frac{z}{e\%}\right)^2 \]

where
- \( n \) is the minimum sample size needed
- \( p\% \) is the proportion belonging to the specified category*
- \( q\% \) is the proportion not belonging to the specified category*
- \( z \) is the z value corresponding to the level of confidence required
- \( e\% \) is the margin of error required.

\[ n = 50 \times 50 \times \left(\frac{1.96}{0.6}\right)^2 \]

\[ n = 189 \]

*: Proportion unknown, therefore 50 % is used as an estimation of proportion belonging to the specified group.\(^{157}\)

**Average cost savings**

\( n = \) number of respondents

\( Y = \) total cost savings

The middle-number of the interval is used.

\[ Y = (10 \times 1000) + (30 \times 3500) + (32 \times 6250) + (37 \times 8750) + (56 \times 10000)/165 \]

\[ Y = 7265 \]

**Total cost savings**

\[ Y = y \times z \]

where
- \( Y \) = total cost savings
- \( y \) = average cost savings
- \( z \) = number of companies that have chosen to opt out of audit

\[ Y = 7265 \times 87291 \]

\[ Y = 634,169,115 \text{ SEK} \]

\(^{157}\) Saunders, Lewis, Thornhill, (2007)
Appendix III

Question 1

How many employees does your company have?

<table>
<thead>
<tr>
<th>Number of employees</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>26</td>
</tr>
<tr>
<td>1</td>
<td>90</td>
</tr>
<tr>
<td>2</td>
<td>43</td>
</tr>
<tr>
<td>3</td>
<td>13</td>
</tr>
<tr>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>5+</td>
<td>15</td>
</tr>
</tbody>
</table>

Average number of employees

Question 2:

How many owners does your company have?

<table>
<thead>
<tr>
<th>Number of owners</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>134</td>
</tr>
<tr>
<td>2</td>
<td>47</td>
</tr>
<tr>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>6</td>
<td>1</td>
</tr>
</tbody>
</table>

Average number of owners  1.4
**Question 3:**

Which stakeholders are the most important to your company?

![Bar chart showing responses to Question 3](chart.png)

**Question 4:**

Is your company currently active on a global market?

<table>
<thead>
<tr>
<th></th>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>54</td>
<td>143</td>
</tr>
</tbody>
</table>

**Question 5:**

Has the global competitiveness of your company increased due to opting out of audit?

<table>
<thead>
<tr>
<th>Respondents</th>
<th>Strongly disagree</th>
<th>Disagree</th>
<th>Unchanged</th>
<th>Agree</th>
<th>Strongly disagree</th>
<th>No opinion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Count:</td>
<td>11</td>
<td>3</td>
<td>27</td>
<td>5</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Percentage</td>
<td>22,4%</td>
<td>6,1%</td>
<td>55,1%</td>
<td>10,2%</td>
<td>6,1%</td>
<td>-----</td>
</tr>
</tbody>
</table>

**Question 6:**

Has time spent on administrative work decreased?

<table>
<thead>
<tr>
<th>Respondents</th>
<th>Strongly disagree</th>
<th>Disagree</th>
<th>Unchanged</th>
<th>Agree</th>
<th>Strongly disagree</th>
<th>No opinion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Count:</td>
<td>25</td>
<td>10</td>
<td>97</td>
<td>31</td>
<td>18</td>
<td>12</td>
</tr>
<tr>
<td>Percentage</td>
<td>13,8%</td>
<td>5,5%</td>
<td>53,6%</td>
<td>17,1%</td>
<td>9,9%</td>
<td>-----</td>
</tr>
</tbody>
</table>
**Question 7:**
Before opting out of audit, did you consider the auditor to conduct the services expected?

<table>
<thead>
<tr>
<th>Count:</th>
<th>20</th>
<th>35</th>
<th>25</th>
<th>31</th>
<th>70</th>
<th>10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage:</td>
<td>11,0%</td>
<td>19,3%</td>
<td>13,8%</td>
<td>17,1%</td>
<td>38,7%</td>
<td>-----</td>
</tr>
</tbody>
</table>

**Question 8:**
Have complementary services been utilized in order to replace functions previously provided by the auditor?

<table>
<thead>
<tr>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
<tbody>
<tr>
<td>45</td>
<td>145</td>
</tr>
</tbody>
</table>
Question 9:

What services?

<table>
<thead>
<tr>
<th>Services</th>
<th>Strongly disagree</th>
<th>Disagree</th>
<th>Unchanged</th>
<th>Agree</th>
<th>Strongly disagree</th>
<th>No opinion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax Consultant</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounting consultant</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Advisory</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Question 10:

Are these services now better aligned with your expectations?

<table>
<thead>
<tr>
<th>Count</th>
<th>1</th>
<th>0</th>
<th>9</th>
<th>8</th>
<th>24</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage</td>
<td>2,4%</td>
<td>0,0%</td>
<td>21,4%</td>
<td>19,0%</td>
<td>57,1%</td>
<td>-----</td>
</tr>
</tbody>
</table>

Question 11:

Has the supply of complementary services increased since the abolishment of the statutory audit?

<table>
<thead>
<tr>
<th>Count</th>
<th>4</th>
<th>1</th>
<th>39</th>
<th>46</th>
<th>11</th>
<th>88</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage</td>
<td>4,0%</td>
<td>1,0%</td>
<td>38,6%</td>
<td>45,5%</td>
<td>10,9%</td>
<td>-----</td>
</tr>
<tr>
<td>Question 12:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Have the prices on complementary services decreased since the abolishment of the statutory audit?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Count:</strong></td>
<td>15</td>
<td>15</td>
<td>41</td>
<td>25</td>
<td>16</td>
<td>72</td>
</tr>
<tr>
<td><strong>Percentage</strong></td>
<td>13.4%</td>
<td>13.4%</td>
<td>36.6%</td>
<td>22.3%</td>
<td>14.3%</td>
<td>-----</td>
</tr>
</tbody>
</table>

| Question 13: |
| Has opting out of audit led to an increased cost of capital? |
| **Count:** | 86 | 10 | 52 | 13 | 6 | 20 |
| **Percentage** | 51.5% | 6.0% | 31.1% | 7.8% | 3.6% | ----- |

| Question 14: |
| Removed from thesis |

| Question 15: |
| Has the choice of opting out of audit (despite employing other complementary services) led to cost reductions? |
| **Count:** | 7 | 1 | 14 | 28 | 113 | 5 |
| **Percentage** | 4.3% | 0.6% | 8.6% | 17.2% | 69.3% | ----- |
Question 16:

By what amount?

<table>
<thead>
<tr>
<th>Amount</th>
<th>Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-2000</td>
<td>18,18%</td>
</tr>
<tr>
<td>2000-5000</td>
<td>6,06%</td>
</tr>
<tr>
<td>5000-7500</td>
<td>33,94%</td>
</tr>
<tr>
<td>7500-10000</td>
<td>19,39%</td>
</tr>
<tr>
<td>&gt; 10000</td>
<td>22,42%</td>
</tr>
</tbody>
</table>

Question 17:

Have the visitations of Skatteverket increased, leading to more administrative work?

<table>
<thead>
<tr>
<th>Count</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>70</td>
<td>42,7%</td>
</tr>
<tr>
<td>2</td>
<td>1,2%</td>
</tr>
<tr>
<td>87</td>
<td>53,0%</td>
</tr>
<tr>
<td>4</td>
<td>2,4%</td>
</tr>
<tr>
<td>1</td>
<td>0,6%</td>
</tr>
<tr>
<td>24</td>
<td>-----</td>
</tr>
</tbody>
</table>

Question 18:

What/which of the following statements led to the decision to opt out of audit?

<table>
<thead>
<tr>
<th>Statement</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>6,06%</td>
<td>33,94%</td>
</tr>
<tr>
<td>18,18%</td>
<td>19,39%</td>
</tr>
<tr>
<td>19,39%</td>
<td>22,42%</td>
</tr>
<tr>
<td>0-2000</td>
<td>6,06%</td>
</tr>
<tr>
<td>2000-5000</td>
<td>18,18%</td>
</tr>
<tr>
<td>5000-7500</td>
<td>33,94%</td>
</tr>
<tr>
<td>7500-10000</td>
<td>19,39%</td>
</tr>
<tr>
<td>&gt; 10000</td>
<td>22,42%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Category</th>
<th>Count</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-2000</td>
<td>60,14%</td>
<td>18,18%</td>
</tr>
<tr>
<td>2000-5000</td>
<td>18,18%</td>
<td>6,06%</td>
</tr>
<tr>
<td>5000-7500</td>
<td>33,94%</td>
<td>33,94%</td>
</tr>
<tr>
<td>7500-10000</td>
<td>19,39%</td>
<td>19,39%</td>
</tr>
<tr>
<td>&gt; 10000</td>
<td>22,42%</td>
<td>22,42%</td>
</tr>
</tbody>
</table>
Question 19:
Do you consider yourselves to be missing out on added economic values due to the decision of opting out of audit?

<table>
<thead>
<tr>
<th>Reason</th>
<th>Strongly disagree</th>
<th>Disagree</th>
<th>Unchanged</th>
<th>Agree</th>
<th>Strongly disagree</th>
<th>No opinion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inferior view of the company's finances</td>
<td>2</td>
<td>11</td>
<td>1</td>
<td>7</td>
<td>165</td>
<td>0</td>
</tr>
<tr>
<td>The auditor's consulting</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inferior accounting quality</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less control of accounting and internal controls</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>None of the above</td>
<td>31</td>
<td>95</td>
<td>25</td>
<td>31</td>
<td>31</td>
<td>0</td>
</tr>
</tbody>
</table>

No stakeholders demanded the information
The cost of audit exceeded the perceived benefits
The audit did not match our expectations
Did not consider the auditor to add any real value
None of the above
Question 20:

Are you satisfied with the decision to opt out of audit?

<table>
<thead>
<tr>
<th>Count:</th>
<th>2</th>
<th>5</th>
<th>20</th>
<th>14</th>
<th>143</th>
<th>3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage:</td>
<td>1,1%</td>
<td>2,7%</td>
<td>10,9%</td>
<td>7,6%</td>
<td>77,7%</td>
<td>-----</td>
</tr>
</tbody>
</table>
Appendix IV

Hello,

We are two students studying Business and Economics at the Gothenburg School of Business, Economics and Law. We are currently writing our Degree Project in the field of audit and the purpose of our thesis is to investigate whether expectations stated prior to the abolishment of the statutory audit have been favorable for you.

You have been randomly selected to participate in our survey by the criterion that you after the change in legislation choose to opt out of audit.

To increase the reliability of our study a high response rate is necessary, therefore every answer is important to us.

All answers will be confidentially handled and every respondent are completely anonymous.

We are grateful for your time, your answers make a difference. You will be linked to the survey through the link below.

LINK TO WEB SURVEY

Thank You!

Regards,

Alexander Andrén
Oskar Ysander