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Audit Quality from a Client Company Perspective

*Drivers of audit quality and the effects of a voluntary audit firm
rotation*

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Abstract

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Background and Problem: Auditing failures in the last decades have sparked a discussion regarding audit quality, which has resulted in a new EU requirement regarding mandatory audit firm rotation. The discussion has been obstructed by the lack of a standard definition of audit quality. Research has shown that the definition is dependent on user perspective and research on client company perspective is scarce. The new requirement of mandatory audit firm rotation may increase the frequency of companies rotating audit firms, which would increase the value of a definition of audit quality from a client company perspective for both audit firms and their clients.

Aim of study: The aim with the thesis is to describe how three Swedish listed companies defines audit quality and what factors they identify as drivers of audit quality and how these are affected by a rotation of audit firm. The authors also seek to examine the listed companies' experiences in relation to the most common arguments put forth in the debate regarding mandatory audit firm rotation.

Methodology: In order to obtain a client company perspective semi-structured interviews were conducted with CFOs and audit committee members at three Swedish listed companies that had experienced an audit firm rotation within recent years. Due to the lack of previous research the questions were of an open nature. The interviews were coded to enable interpretation of key concepts.

Analysis and Conclusion: It is concluded that the general descriptions found in previous research does not give a detailed description of client companies' perception of audit quality. A model is presented illustrating that the companies' perceptions are based on personal attributes in combination with practical functions being met. Drivers of this combination are personal qualities of the auditor resulting in trust in the auditor. The model could help client companies evaluate audit quality. The level of quality declined in the years following a rotation of audit firm. It is also concluded that the companies' experiences of firm rotations support the arguments against the requirement of mandatory audit firm rotation.

Keywords: audit quality, audit firm rotation, auditor independence, mandatory audit firm rotation

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Sara Hagman Mendonca

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List of Abbreviations

ACC	Audit Committee Chair
AP	Audit Partner
Big Four	The four largest international audit firms; PwC, KPMG, Deloitte and EY
CFO	Chief Financial Officer
EC	European Commission
EU	European Union
FAR	Swedish Professional Institute for Authorized Public Accountants, Approved Public Accountants, and Other Highly Qualified Professionals in the Accountancy Sector
FEE	Federation of European Accountants
FRC	Financial Reporting Council
GAO	US Government Accountability Office
IAASB	International Auditing and Assurance Standards Board
IESBA	International Ethics Standards Board for Accountants
IFAC	International Federation of Accountants
ISA	International Standard on Auditing
ISQC	International Standard on Quality Control
NAS	Non-Auditing services
SOX	Sarbanes-Oxley Act

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1. Introduction

The opening chapter illustrates the background and the problem discussion related to the thesis. Thereafter, the specific problem statement and aim of the thesis are stated. Finally, the contributions of this study are presented.

1.1 Background

Major accounting and auditing failures at high-profile business corporations in the last decades and the collapse of several important financial institutions during the global financial and economic crisis of 2008 have highlighted the vital importance of high-quality financial reporting. In addition, the critical events have focused the attention of capital market participants and other stakeholders on audit quality, seeing as external auditing is considered playing a significant role in achieving a high-quality financial reporting. When high audit quality exists external auditing contributes to the establishing of credibility and trust in financial reports and in the capital markets. Thus, audit quality is considered a matter of significant public interest and of high importance to regulatory and supervisory bodies worldwide (Le Vourc'h & Morand, 2011; IFAC, 2011a; European Union, 2008).

1.1.1 Legislative Measures

In response to the turbulent events in the corporate and financial sectors in the last decades, a number of regulatory and legislative measures have been enforced and further measures are waiting to be introduced. The new policies aim to restore investor confidence in the world's capital markets and the audit profession by enhancing auditor independence and audit quality. Auditor independence is viewed as a prerequisite for high audit quality. Hence, to ensure high audit quality, auditor independence also has to be taken into account (Le Vourc'h & Morand, 2011).

One of the first laws that were introduced subsequently to the accountability failures at Enron, WorldCom and several other widely known business corporations was the Sarbanes-Oxley Act of 2002. The stated purpose of the act was to *“to enhance auditor independence and audit quality and to restore investor confidence in the nation's markets”* (GAO, 2003, p.11). The impact of the reforms reached far beyond American public-interest entities as it also affected foreign companies whose transferable securities were admitted to trading on regulated markets in the U.S. Stricter regulatory measures were also implemented in Sweden and the European Union in the beginning of the 21st century. For example, measures introduced included the Swedish Accountants Act, the Recommendation on statutory auditors' independence in the EU (2002/590/EC) and the Recommendation on Statutory audit of annual accounts and consolidated accounts in the EU (2006/43/EC). The objectives of the regulatory measures were to enhance auditor independence and objectivity by mitigating threats of familiarity that may arise during an audit engagement (European Commission, 2002; European Union, 2008; Revisorsnämnden, 2003).

As a reaction to the events of the global financial and economic crisis, the European Commission issued its proposals for a reform of the audit market in November 2011. The proposals emanated from their Green Paper on audit policy from 2010. According to the Commission, situations where the same audit firm has been appointed by a company for decades seem incompatible with desirable standards of independence. Despite the existing

requirement of mandatory audit partner rotation in the Recommendation on statutory audit, 2006/43/EC, which forces key audit partners to rotate regularly, the Commission argued that the threat of familiarity persists and still constitutes a risk to the independence, thus audit quality (European Commission, 2010). Therefore, a requirement of mandatory audit firm rotation was a key element in the proposals for a reform of the audit market.

1.1.2 The Legislative Package on Reform of the Audit Market

After years of discussions a legislative package for the reform of the audit market in the European Union was approved by the European Parliament on April 3, 2014 and was formally adopted by the Council of EU on April 14. The new legal framework is made up of two legislative instruments: A new regulation on specific requirements regarding statutory audit of public-interest entities and a Directive amending the existing Statutory Audit Directive 2006/43/EC (Council of the EU, 2014; European Parliament, 2014). Public-interest entities are defined as listed companies, credit institutions and insurance undertakings. In addition, member states can designate other undertakings as public-interest entities that are of significant public relevance, because of their nature or their business, their size or the number of employees (European Union, 2013b). According to the Council the reform is aimed at increasing transparency and confidence in the audit market by enhancing the credibility of audited financial reports of public-interest entities. Furthermore, it is argued that the new rules will provide a wider choice of audit firms by increasing the competition in the market, which is currently highly concentrated to a few big accounting firms (Council of the EU, 2014; European Union, 2014a).

1.1.3 Mandatory Audit Firm Rotation

One of the requirements introduced in the new legislation, which has sparked widespread discussion, is the requirement of mandatory audit firm rotation. The policy implies that audit firms and auditors of public-interest entities will be required to rotate after a period of 10 years. After a maximum engagement period of 10 years, member states may extend the period by up to 10 additional years. However, an extension will only be allowed if the audit contract is put up for bid, allowing other audit firms to compete for the audit engagement. In case of joint audit, e.g. if the company being audited appoints more than one audit firm to carry out its audit during the entire engagement period, member states may allow an extension of the engagement period by up to 14 additional years. It will only be possible to extend the audit tenure once, upon tender (Af Ekenstam & Brännström, 2014; Council of the EU, 2014; European Union, 2013a).

Table 1 Rotation periods	One audit firm	Joint audit
Maximum engagement period	10 years	10 years
Maximum possible extension period	10 years	14 years

When a public-interest entity has received audit services from an audit firm for a maximum period of time the entity will not be allowed to enter into or renew the audit engagement with the audit firm until a given period of time has elapsed (European Union, 2014b). In addition, beside the new mandatory audit firm rotation requirement, key audit partners will still have to rotate after a maximum period of 7 years with a cooling-off period of three years (FEE, 2014). The legislative package was published in the Official Journal of the European Union on May

27, 2014. The directive will enter into force 20 days after its publication, and member states will have two years to put in place the provisions necessary to comply with the revised regulatory framework. The regulation will also enter into force 20 days after its publication and will come into effect two years later. However, to avoid a cliff-edge effect when the new rules become applicable, the regulation sets out transitional periods which are based on the duration of the ongoing engagements between the public-interest entities and their auditors or audit firms (European Union, 2014b; FEE, 2014).

1.2 Problem Discussion

As mentioned earlier the requirement of mandatory audit firm rotation has been widely debated for a long period of time and the most important consideration in the debate has been whether mandatory audit firm rotation can achieve its central objective of increasing auditor independence and audit quality (European Union, 2013a; Singh, 2012). The subjective nature of audit quality obstructs the setting of a standard definition as it is dependent on the user's perceptions of quality. These perceptions often correlate with the level of direct involvement in audits, indicating that definitions of audit quality differ amongst stakeholders (IFACa, 2011; Broberg, 2013).

Seeing as audit quality cannot be directly observed, truly objective measures of audit quality do not exist and in order to study audit quality the use of proxies is needed (Quick, 2012; Broberg, 2013) The IAASB emphasizes that every audit is unique with specific conditions (e.g. regarding size, industry, corporate governance) and that high quality audits are the results of competent individuals using their experience to make appropriate judgements (IFAC, 2013a). These are circumstances complicating the setting of standard measurements of audit quality. The majority of audit quality research has been based on quantitative archival empirical research, using various observable outputs as proxy for audit quality, such as, audit opinions, auditor selection and change decisions, financial statement outcomes, and analysts' forecasts. The studies analyses the correlation between the proxy measures and various potential quality determinants, for instance; audit firm and audit partner rotation; the impact of corporate governance characteristics; and the impact of audit firm review and inspection (Beattie et al., 2013). A common example is using audit fees as a proxy for high audit quality, assuming that "more" audit equals higher quality. Consequently, the proxy suggests that lower audit fees represent lower quality due to risk of it implying low-balling or auditors adapting the audit process to suit budget restrictions (Broberg, 2013). Auditor reputation is also used in many studies as an indicator of high audit quality, using "Big Four"¹ firms as a proxy. This is based on the assumption that larger firms stand for higher audit quality, with possible explanations being that larger firms have more to lose than smaller firms and that users' confidence in financial reports is influenced by audit firm reputation (Broberg, 2013; DeAngelo, 1981b; FRC, 2006). The benefits of these approaches are that they are based on real-world data. However, criticism has been expressed regarding the use of proxies due to *"the difficulty in identifying valid proxy variables and the risk of omitted variables"* and that the *"causal connection between the variables of interest is not always clear-cut"* (Beattie et al., 2013 p. 59). Considering the multifaceted nature of audit quality, direct methods are advantageous as it allows for analysis of causation and evaluation of a wider range of factors (Beattie et al., 2013). Despite the vast research conducted on audit quality there is a lack of congruity and homogenous and firm conclusions in the results (Beattie et al., 2013; Broberg, 2013; Le Vourc'h & Morand, 2011). Several EU regulators have expressed that this is an

¹ Depending on when in time the research is conducted different numbers of "Big" audit firms were used, e.g. "Big Six", "Big Eight".

issue of importance and that there is a need for further research (IFAC, 2011a; Le Vourc'h & Morand, 2011; Quick, 2012).

By introducing a requirement of mandatory audit firm rotation EU legislators and regulators are trying to enhance audit quality by solving a perceived problem regarding threats to auditor independence with a measure which has not been proven to actually solve the perceived problem and truly enhance audit quality. On the contrary to the legislators' perception, many practitioners in the audit profession do not experience there to be any problems regarding threats to auditor independence. Moreover, seeing as no evidence has been provided that the measures introduced to solve the perceived problem will actually achieve its objectives, many practitioners question if the measures, such as the requirement of mandatory audit firm rotation, will solve the EU's perceived problem.

Seeing as the requirement of mandatory audit firm rotation, according to the legislators and regulators, is set out to increase auditor independence and enhance audit quality, it is important to take into consideration how audit quality is affected by audit firm rotations. Situations where companies rotate audit firm constitutes occasions during which audit quality is brought to the fore and companies reflect on drivers of audit quality. Therefore, the experiences of such rotations could provide valuable insight into how companies perceive audit quality.

1.3 Problem Statement

Auditing failures have sparked the discussions resulting in the new requirement put in to place in order to strengthen audit quality. The discussion has been complicated by the lack of a standard definition of audit quality, resulting in different opinions on how it is best enhanced. What is agreed upon is that the perception of audit quality differs amongst stakeholder groups. The requirement of mandatory audit firm rotation means that the frequency of companies rotating audit firms may increase. For this reason, the authors find it interesting to study audit quality from a client company perspective, especially considering that to the authors' knowledge previous research on this topic is scarce. Many effects of audit firm rotations are similar regardless of whether the rotation is voluntary or mandatory, therefore this thesis also examines and compares some of the most common arguments in the debate about mandatory audit firm rotation with a few Swedish listed companies' experiences with voluntary audit firm rotations.

- How do three Swedish listed companies define audit quality and what variables affect their perception of audit quality?
- How is audit quality affected by an audit firm rotation and what are three Swedish listed companies' experiences in reference to the most common arguments in the debate regarding mandatory audit firm rotation?

1.4 Purpose

The aim with the thesis is to describe how three Swedish listed companies define audit quality and what factors they identify as drivers of audit quality and how these are affected by a rotation of audit firm. The authors also seek to examine the listed companies' experiences in

relation to the most common arguments put forth in the debate regarding mandatory audit firm rotation.

1.5 Contributions of the Study

This study will contribute to the field by providing a better understanding of how Swedish listed companies define audit quality. The authors hope that the findings of this study will contribute by adding empirical evidence to the largely un-researched field of audit quality in a client company perspective. Additionally, the possible increase of audit firm rotations could further enhance the benefits of the results of this study.

2. Frame of Reference

This chapter presents the literature which is essential to the study. The chapter is divided into sections and begins with a presentation of why there is a need for auditing, associating it to the agency theory. Additional chapters include auditor independence, audit quality, the expectation gap, discussions and international studies regarding audit firm rotation. Finally, literature on voluntary audit firm rotation is presented.

2.1 Auditing and the Agency Theory

To gain a more thorough insight into the ongoing debate about audit firm rotation a fundamental understanding as to why there exists a demand for auditing is required. This section therefore attempts to explain the emergence of the audit demand and associates it with the widely used agency theory.

The size and complexity of many business organizations have increased considerably over the last centuries. Companies have grown from owner-operated entities employing only a handful of people, to vast multinational corporations with thousands of employees. The growth has been made possible by the development of capital markets, which have enabled growing corporations to raise the capital necessary to finance expansions from a wide variety of small investors and creditors (Eilifsen, 2009; Porter et al., 1996).

As business organizations have grown in size, the ownership of modern corporate entities has come to consist of diverse groups including thousands of small investors who are not directly involved in the companies' operations. In turn, managements have gone from consisting of shareholder-owners to small groups of professional managers appointed by the owners to run the business on a daily basis. Thus, over time business organizations have been subject to an increasing separation of ownership by investors and control by managers (Chow, 1982; Eilifsen, 2009; Porter et al., 1996). The relationship between owners and managers can be described through the agency theory, which is based on the premise that there is a separation of ownership and control. The agency relationship is established by a contract between the owners (principals) and the managers (agents) under which the owners engage the managers to run the company on their behalf (Jensen & Meckling, 1976). Because the relationship between the parties often results in information asymmetries, in that the manager generally has more information about the company's "true" financial position and operating results than do the shareholders, and because managers are assumed to maximize their own self-interest rather than those of the owners, it leads to an information risk for the owners. To reduce the risk of managers' opportunism and the information risk, monitoring devices are often used. Owners may force managers to periodically produce financial reports as an assurance that the owners' resources are not misused (Eilifsen et al., 2009). However, in the absence of verification of the reports, managers have incentives to misrepresent the company's financial condition and make the business appear better than it actually is. The incentives arise because the financial reports are used to evaluate the managers' performance, which is not directly observable by the absentee owners. Hence, there exists a demand for confirmation of the reports. An alternative is to allow an independent third-party, an external auditor, to review the company's financials and thereby confirm the credibility of the produced reports (Antle, 1984). Effectively, the auditor can be seen as an intermediary between the management and the outside stakeholders of the company (Porter et al., 1996).

Auditing has been recognized as an essential part of the framework which contributes to financial stability and the re-establishing of trust and confidence in the capital markets (Beattie & Fearnley, 2002; Quick, 2012). In addition, it gives credibility to managers' financial statements, contributes to shareholder protection, reduces perceived investment risk and enables stakeholders to receive a true and fair reflection of the company's financial affairs. However, for the audit to really fulfil these functions it is essential that the auditor is, and is seen to be, independent from the company, its management and other interested parties (Beattie & Fearnley, 2002; European Commission, 2002; Porter et al., 1996; Quick, 2012).

The assurance of auditor independence is of vital importance to all stakeholders who rely on the auditor's opinion of the financial statements to create their own opinion regarding the company's performance (Moore et al., 2006; Quick, 2012). If the external auditor is not seen to act independently by the users of the financial statements the audit loses its purpose and value to all parties (Beattie & Fearnley, 2002).

2.2 Auditor Independence

Independence has been recognized "*as the cornerstone of the accounting profession*" (Quick, 2012, p.22). In addition, auditor independence is viewed as a prerequisite for high audit quality, thus, to truly understand audit quality it requires an understanding of the problems associated with auditor independence (Le Vourc'h & Morand, 2011). Due to auditor independence being considered a prerequisite for audit quality, companies cannot have a perception of audit quality that is unaffected by auditor independence. Consequently, companies' perceptions of audit quality could never involve elements threatening independence, as well as in order for the lowest level of audit quality to be achieved the auditor must have conducted the audit independently. Because of its importance to audit quality, this section examines the concept of auditor independence as well as factors that may compromise it.

The concept of independence has been widely discussed for decades and while there is a widespread agreement by regulatory bodies, academics and oversight bodies that auditor independence is fundamental to the reliability of the auditor's report, the concept of independence has proven difficult to define (Antle, 1984; Beattie et al., 2002). There is no definition of independence that has reached universal recognition but the concept of auditor independence has been defined in a number of regulatory frameworks and academic research papers. In many of the frameworks auditor independence is separated into two dimensions: independence in mind and independence in appearance (see Figure 1).

Independence *in mind* refer to an auditor's true independence and implies that the auditor possesses an independent mind-set when planning and executing an audit and therefore provides an independent opinion in the audit report (Dopuch et al., 2003). When referring to independence in mind regulatory bodies also use the term independence in fact. This form of independence is the core of the independence requirement and the form which all regulatory bodies aim to secure. Although it is possible to require independence in mind, it is of great difficulty to control whether such independence actually exists. This is due to independence in mind being unobservable, thus, difficult to regulate (Pott et al., 2009; Beattie et al., 1999).

Independence *in appearance* relates to the auditor appearing to be independent by an informed investor or third party. This is the form of independence that is observable. Despite it being observable, and therefore verifiable, even a questioning of the independence could be enough to undermine trust and confidence not only in financial reporting but also in the audit process and the auditor's reliability. The fact that auditor independence can be impaired just by the auditor not appearing to be independent is due to independence in mind being unobservable (Pott et al., 2009).

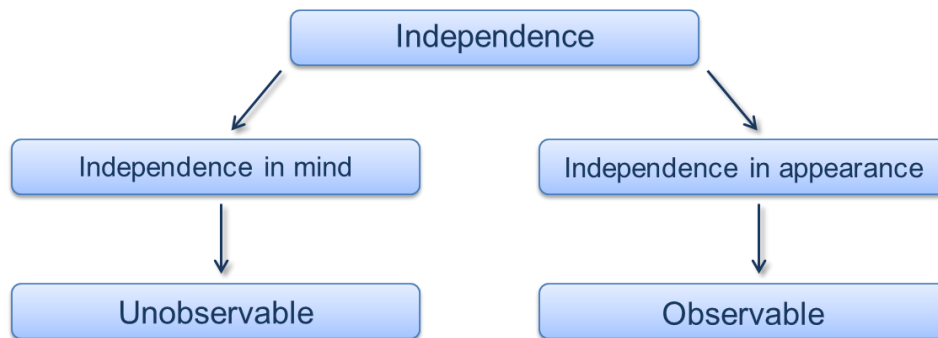


Figure 1

The IESBA has developed a definition of independence in the “Code of Ethics for Professional Accountants”, which is published by IFAC (IFAC, 2013a, p.44). Swedish FAR applies the same definition of independence (FAR, 2014). The definition makes a distinction between independence in mind and independence in appearance:

- **Independence in mind:** *“The state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity and exercise objectivity and professional skepticism”.*
- **Independence in appearance:** *“The avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that a firm’s, or a member of the audit team’s, integrity, objectivity or professional skepticism has been compromised”.*

In a research paper by DeAngelo (1981a, p.116) auditor independence is defined differently. The level of auditor independence is defined as *“the conditional probability that, given a breach has been discovered, the auditor will report the breach”*. Another study identifies auditor independence as *“the ability of auditors to resist management pressure”* (Knapp, 1985, p.203).

Two key principles that are reflected in many definitions and that underline the auditor independence are objectivity and professional integrity. These principles are also listed in the European Commission’s Recommendation on statutory auditors’ independence published in 2002 as two of the most important principles for auditor independence. According to the EC, the main way by which an auditor can demonstrate that the audit process is performed in accordance with the principles is by acting, and being seen to act, independently (European Commission 2002). Objectivity refers to the auditor’s state of mind and his ability to remain unbiased while carrying out a statutory audit and professional integrity refers to the auditor’s willingness to express an opinion that presents a true and fair reflection of the evaluation of what was discovered during the audit (Beattie & Fearnley, 2002).

According to regulations and various academic research papers, independence is not an absolute standard which all auditors must achieve. This is due to the fact that some form of dependency or relationship with another person is considered impossible to avoid. Hence, an auditor's independence is rather seen as a matter of degree, which can be compromised by various threats (European Commission, 2002; Beattie & Fearnley, 2002). In order to mitigate threats and risks to an auditor's independence, and indirectly to audit quality, it is of great importance to identify various threats that may compromise the independence.

In the "Code of Ethics for Professional Accountants", which is developed by the IESBA and published by the IFAC, five categories are identified in which many threats to auditor independence may fall into; threats of self-interest, familiarity, self-review, advocacy and intimidation. To eliminate identified threats or reduce them to an acceptable level various safeguards are applied (IFAC, 2013a). When no safeguards are able to reduce the threats to acceptable levels the frameworks contain a prohibition to eliminate the threats (IFAC, 2013a). The European Commission has come to the conclusion that the existing safeguards of auditor independence are inadequate and that they need to be strengthened. This has created new investigations and proposals for additional safeguards, which could reduce the threats to independence and audit quality to a greater extent. One of the proposed safeguards is mandatory audit firm rotation.

2.3 Audit Quality

In this section the concept of audit quality is described and the difficulties in finding a globally accepted definition are described. Attempts to model the drivers behind audit quality is presented, with an emphasis on Broberg (2013)'s compilation of research findings.

2.3.1 Lack of Standard Definition

One of the main difficulties when researching audit quality is the lack of a standard definition (IFAC, 2011a). Despite numerous attempts to define the essence of what is audit quality none has reached global recognition and acceptance (FRC, 2006). DeAngelo (1981b p. 186) defines audit quality as the "*market-assessed joint probability that a given auditor will both (a) discover a breach in the client's accounting system and (b) report the breach*". The definition emphasizes two rudimentary qualities of the auditor: the technical competence in the ability to discover misstatements in the financial statements and the independence of the auditor in his/hers willingness to report misrepresentations found (DeAngelo, 1981b; Quick, 2012; FRC, 2006). In addition, the phrase "*market-assessed joint probability*" indicates that high audit quality is also dependent on the reputation of the auditor. Although an auditor's or audit firm's technical competence and reputation should correlate over time this is not always the case in any given individual audit. Audit failures have often been caused by high reputation audit firms failing to deliver high quality audits (FRC, 2006). The definition has been criticized, primarily regarding that it focuses solely on attributes of the audit outcome but fails to address the audit process itself, suggesting that "*these two technical aspects of competence and independence do not represent the whole spectrum of audit attributes*" (Beattie et al., 2013 p. 57).

Possible causes have been presented to explain the underlying factors to the difficulties in setting a "*standard definition*", one being the inherent subjectivity of the audit report. When conducting an audit it is an unattainable task, both in terms of cost and time effectiveness, to assure the absolute accuracy of the financial statements. An audit report could therefore never present a definitive assertion of the correctness of the financial statements; it gives a statement

of that a true and fair view is presented in the financial statements. The statement should be supported by evidence giving “reasonable assurance” as to the accuracy of the financial statement. What qualifies as “reasonable” is, however, up to the individual auditor in each specific audit, because of this the audit report will always present a subjective opinion. This is further complicated by the fact that each specific audit presents its own risk profile, with variations of qualities of the entities, such as size, industry and corporate governance arrangements (FRC, 2006).

2.3.2 Models of Audit Quality

The difficulty in agreeing upon a universal definition of audit quality also makes it difficult to measure audit quality. Reports published by auditors often lack both sufficient and useful information, making the evaluation of audit quality difficult even for the clients themselves (Le Vourc’h & Morand, 2011). In order to facilitate measurement of audit quality the IAASB has suggested that a differentiation be made between intrinsic audit quality and perceived audit quality. Intrinsic audit quality is factual, or actual, audit quality that can be measured, such as choice of audit methodology and audit process. Perceived audit quality, on the other hand, is interlinked with the perceptions of audit quality held by stakeholders (Le Vourc’h & Morand, 2011). Another way to explain audit quality proposed by IAASB is that it can be viewed in terms of five fundamental aspects that increase the probability of high quality audits: inputs, outputs, processes, interactions and context factors (IFAC, 2014 p. 3). To explain the correlation between the factors IAASB presents the example: “[For example]... law and regulations (context) may require specific reports (output) that influence the skills (input) utilized” (IFAC, 2013b p. 20).

Input factors can be grouped into two categories:

- the auditor having suitable values, ethics and attitude,
- the knowledge, skills and experience of the auditor and the willingness to allocate sufficient time to the audit.

Output factors are linked to perceived audit quality and consist of reports and communication between the auditor, audit firm, entity and audit regulators, such as auditor reports and auditors’ communication with management. High quality audits result in useful and timely outputs. An issue connected with this is that auditor’s reports over the years have developed into largely standardized documents. Research indicates that some users request changes to the structure and wording of the report and also a higher level of information, both regarding the entity and the audit process, than what is currently provided in order to facilitate their evaluation of the audit. (Le Vourc’h & Morand, 2011; IFAC 2014; IFAC 2013b)

The inputs and outputs of audit quality are greatly affected by the audit process. In order to achieve a high quality audit the auditor needs to practice a meticulous and effective audit process and quality control procedures that comply with laws, regulations and standards (IFAC, 2014; IFAC, 2013b). The fourth factor affecting audit quality is interaction amongst stakeholders and auditor. It is of importance that these communications are conducted properly as they have the possibility to influence the behaviour and views of others and thereby contribute to improvements in audit quality (IFAC, 2013b). The fifth factor is context, including elements such as business practices, litigation environment, laws and regulations. These factors are likely to, either directly or indirectly, impact audit risk, the efficiency of the audit process and the quality of financial reporting (IFAC, 2014; IFAC, 2013b).

2.3.3 Drivers of Audit Quality

Given the difficulties in defining the concept of audit quality many regulators and researchers have instead focused on identifying key drivers influencing audit quality. In a compilation of research findings from the academic literature, professional bodies and actors Broberg (2013) has identified key aspects of audit quality:

- The audit process,
- Auditor's personal attributes,
- Audit methodology,
- Professional scepticism and judgement,
- Auditing standards, and
- The "tone at the top"

These aspects are interlinked in their influences on audit quality and in order to understand the underlying features of audit quality an elaboration is necessary.

2.3.3.1 The Audit Process

There are several components of the audit process that have to function properly in order to achieve a high quality audit. These include audit teams having adequate structure, experience and knowledge; audit quality control system procedures being effective, understood, applied and monitored and sufficient resources being available (FRC, 2006). Audit methodology, sufficient technical support arrangements and the effectiveness of the audit tools are also important inputs to audit quality that needs to be well-maintained and continuously improved to avoid stagnation (Broberg, 2013; IFAC, 2013b). Therefore, audit firms are required to continuously invest in technology and knowledge management systems in order to not risk falling behind the development of regulation (Broberg, 2013). Risks to audit quality associated with the audit process are the overuse of computerised audit methodology, over-prescriptive regulation and a lack of independence between auditor and client management (FRC, 2006). The customs of the audit process have over the years evolved from a practice concentrated on verifications of posts on the balance sheet to a risk-based proceeding. The European Commission has expressed a wish to study the possibility of "*going back to basics*" in focusing more on the balance sheet verifications and lessening the reliance on compliance and systems work, suggesting that these primarily are the responsibility of the client and controlled through the internal audit (European Commission, 2010 p.7).

2.3.3.2 Auditor's Personal Attributes

The subjective nature of an audit is inherently dependent on the auditor as a person and his/her judgement, effecting factors such as risk assessment, audit procedures and processes (ISA520:2009, A4). In order to obtain a high quality audit the auditor's personal attributes must include expertise, experience, high ethical values, business knowledge and integrity (FRC, 2006; IFAC, 2011a).

2.3.3.3 Audit Methodology

High quality audit methodology is a requirement for high quality audit. Thus, there is a probability that in order to be a high quality auditor investments in methods that reduce the risk of conducting low quality audits are needed (FRC, 2006). A high quality methodology is well structured and designed to comply with auditing standards whilst still encouraging professional judgement in individual team members. It should also facilitate the attaining of

appropriate audit evidence. A high quality methodology requires a good documentation system which assists the engagement team to plan and perform audits, assists in supervision and enables engagement teams to be accountable for their work. The FRC (2006) identifies several threats to high quality audit methods, including reduced flexibility and an increased use of computerised audit methodologies, which may distance auditors from the company being audited. Over-prescriptive audit methodologies, in some cases due to litigation, could lead to a failure to adapt the audit to the specific company and that the producing of documents is done to the detriment of performing the audit procedures correctly. It also prevents the reliance on auditor judgement and drives the trend of auditing being seen as a “box-ticking” exercise (FRC, 2006; IFAC 2011a). Research conducted by Öhman et al. (2006) shows indications of auditors being more concerned with avoiding legal actions than with reducing the risk for stakeholders, resulting in a prioritization of “verifiable” objects rather than matters they recognize as important for investors and other stakeholders. The study concludes that “*doing things right seems to be more important than doing the right things*” (Öhman et al., 2006 p. 107).

Khalifa et al. (2007) suggests that a shift has been made in the language used to describe audit quality, from “business value” to “audit quality”, a shift initiated by regulations and standard setters such as SOX and IAASB. The shift implies a move away from risk-based perspectives towards a focus on audit quality where there “*seems to be a need for auditing to be auditable*” (Khalifa et al., 2007 p. 830; Broberg, 2013).

2.3.3.4 Professional Scepticism and Judgement

In today’s fast-moving business environment the professional judgement of the auditor plays a pivotal role. Financial reporting is becoming more complex in requiring more estimations, forecasts and valuations. With this grows the need of high quality judgement and scepticism, making it more important to auditing than ever before (FRC, 2006; FAR 2010; Broberg, 2013).

In order to give a clean audit opinion the auditor is to “*obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements*” (ISA 200:2009 p. 73). What qualifies as “reasonable” is, however, a matter of judgement since it differs with each specific audit. The quality of the audit opinion is therefore dependent on the quality of the judgement of the auditor (Broberg, 2013; FRC, 2006). The question of whether sufficient audit evidence has been obtained is listed in the ISA 200 standard as one of the decision situations where professional judgement is especially necessary (ISA 200:2009). Given the fact that no two companies are the same and that even an individual entity’s situation changes from one year to another, each high quality audit must, through professional judgement, be individually tailored. In order to achieve a correct tailoring a deep understanding of the client company is vital and obtaining such an understanding is a cumulative process (Broberg, 2013).

In order for auditors to reach high quality judgements integrity, objectivity and scepticism are important qualities (Broberg, 2013). The need for professional scepticism is defined in the ISAs as “*Maintaining professional skepticism throughout the audit is necessary if the auditor is, for example, to reduce the risks of:*

- *Overlooking unusual circumstances*
- *Over generalizing when drawing conclusions from audit observations*

- *Using inappropriate assumptions in determining the nature, timing and extent of the audit procedures and evaluating the results thereof* (ISA 200:2009 p. 85).

2.3.3.5 Auditing Standards

When discussing significant inputs to high audit quality the IAASB states that auditing standards, such as ISA and ISQC, “*provide an important foundation*” for audit quality (IFAC, 2013b p.15). It is emphasized, however, that the standards alone are insufficient tools for reaching high audit quality; they merely serve as either a framework for judgement or need judgement for them to function properly. Several regulatory bodies stress the importance of auditing standards as key drivers of high audit quality (e.g. Broberg, 2013; IAASB 2013; European Commission, 2010). The FRC (2006), on the other hand, suggests that standards and regulations, though being of high influence on audit quality, denotes a minimum standard of audit quality rather than a motivation for higher quality. An appropriate audit opinion is therefore not to be regarded as a sign of high quality but rather a minimum requirement. It is also suggested that increased regulation could decrease audit quality in “*encouraging a compliance only mentality*” (FRC, 2006 s. 64). Broberg (2013 p.112) suggests, that in order to avoid this problem, auditors should “*follow not only the letter but also the spirit of standards*”.

2.3.3.6 The “Tone at the Top”

There are several important drivers of high audit quality in connection with the “tone at the top”, such as culture, policies, strategy and reward systems (ISQC1:2009). As these aspects are to a great extent not observable by the client company, and therefore out of the scope of this research, it will not be further examined in this study.

2.3.3.7 Summary of Drivers

In her literary review Broberg (2013) lists the following a summary of drivers of audit quality:

- Auditor personal qualities and characteristics matters
 - Ethical values; sense of professional obligation; independence; integrity; objectivity; rigour; scepticism; perseverance; robustness; expertise; business knowledge; technical competence; experience; the auditor having updated and developed knowledge and skills.
- Auditor practice matters
 - Auditor effort; actions; behaviour; mind-set; compliance with ethical and professional conduct standards; applying professional scepticism; making objective, reasonable and appropriate professional judgements and giving attention to the letter and spirit of audit quality policies and procedures.
- Audit team-related matters
 - Having appropriate team structure with sufficient experience and knowledge; strong teamwork with a clear understanding of roles, responsibilities and effective communication.
- Client-related matters
 - Adapting the audit to the client companies; a comprehensive understanding of the companies and their business, expecting and requiring commitment to audit quality from clients; acknowledging that relationships with representatives

from client companies serves both as a promise (due to information and understanding) and a threat (due to independence issues); importance of openness and honesty as well as mutual trust and respect; provision of NAS serving both as a promise (due to gaining and enhancing expert knowledge) and threat (due to independence issues).

- Audit firm-related matters
 - Firm culture: supporting audit quality through policies, communication, expectations, compliance, reward systems, sanctions, strategies; making an effort to create an environment (culture) where audit quality is embraced.
 - Leadership: tone at the top; attitudes; efforts in recruitment; training and promotion of managers.
 - Processes: methodology; tools; resources such as provision of technical support and a supporting information infrastructure; performance evaluations; performance appraisal systems that are well communicated and formally documented; constructive monitoring systems.

2.4 Expectation Gap

The expectation gap, i.e. the discrepancy between the public's understanding of what an audit entails and the auditors' perceptions of their role and responsibilities, is a contributing cause to the difficulties surrounding audit quality. The agency theory describes why there is a need for audit, while the expectation gap explains why audit has not completely solved the problems.

The objective of an audit is to ensure that the financial statements of business organizations, on which the auditor is issuing a report, presents a true and fair reflection of the company's financial position and are not misleading (Porter et al., 1996). However, rules and regulations concerning auditing contain terms such as "professional scepticism" and "reasonable", "material", which can be interpreted in different ways by auditors and various shareholders (Zikmund, 2008). Prior research has found that there is a difference between the public's understanding of the role and responsibilities of an auditor, with regard to detecting and reporting financial fraud, and the actual role and responsibilities of an auditor (Commission on Auditors' Responsibilities, 1978; Porter, 1993; Zikmund, 2008). The extensive criticism of auditors in the last decades following several highly publicized corporate collapses and financial scandals, which have resulted in a number of litigations against auditors, also suggest that there is a gap between the public's expectations of the auditor's performance and the actual performance of an auditor (Porter, 1993). This discrepancy is commonly known as the "expectation gap". The definition of the expectation gap varies among researchers and has evolved through the years. Porter (1993, p.50) suggested that the gap should be entitled the "audit expectation-performance gap" and should be defined as "*the gap between society's expectations of auditors and auditors' performance, as perceived by society*".

The European Commission has also acknowledged the existence of the expectation gap and recognizes it to be a substantial problem. According to the Commission it is important to improve transparency on the conduct and outcome of the audit in order to close the gap (European Commission, 2011). The new legislative package for the reform of the audit market in the EU is aimed at increasing transparency (Council of the EU, 2014) and is therefore related to the closing of the expectation gap. However, critique has been voiced

regarding the implementation of reforms aimed at improving audit quality when studies researching the drivers thereof are inconclusive and lack congruity.

2.5 Discussions and International Studies Regarding Audit Firm Rotation

This section discusses some of the most common arguments put forward by proponents and opponents regarding a requirement of mandatory audit firm rotation. Moreover, studies conducted on mandatory audit firm rotation in Italy are further examined.

As mentioned earlier, the issue of audit firm rotation has been highly debated by governments, regulators, academics and professional bodies for several years. The discussions have primarily focused on whether a requirement of mandatory rotation of audit firms would enhance auditor independence and audit quality, and thus strengthen the public's confidence in the capital markets and prevent dishonest and fraudulent reporting in the future in both the corporate and the financial sectors.

2.5.1 Arguments in Favour of Audit Firm Rotation

One of the most frequent arguments by proponents of mandatory audit firm rotation has focused on the avoidance of excessive familiarity between the auditor and the client (FEE, 2004). There is a belief among proponents that auditor independence and auditors' professional scepticism could deteriorate as the length of auditor tenure increases and therefore increase the likelihood of audit failures (Casterella & Johnston, 2013; Geiger & Raghunandan, 2002). The belief is based on the premise that there is a tendency for auditors who have been working in close contact with a management over a period of years, to gradually begin to identify themselves with the management's wishes and interests rather than those of the public. Thus, the auditor's independence may be compromised (Casterella & Johnston, 2013; Geiger and Raghunandan, 2002; Hoyle, 1978). A long association between the auditor and the management of the client corporation and the possibility of over-familiarity could also lead to the auditor finding it difficult to point out shortcomings and significant errors in the financial statements of the client. To prevent the existence of any long-term auditor-client relationships, proponents believe that audit firms should be required to rotate engagements after a limited period of time. They claim that such a policy would result in higher audit quality due to enhanced independence and objectivity. This is based on the perception that a newly appointed audit firm would not be affected by any previous compromises and judgments (Casterella & Johnston, 2013; Hoyle, 1978; Ball et al., 2012).

Other arguments have also been put forward for mandatory audit firm rotation. Proponents argue that such a requirement would bring an opportunity for a fresh perspective at the company's financial reports every new engagement period and that an audit firm would not become economically dependent on any client. Thus, the auditor would be in a better position to raise issues that could have been overlooked in the past and have greater incentives to withstand pressure from the client (Tan, 1995; Hoyle, 1978; Ball et al., 2012). Finally, critics in favour of mandatory audit firm rotation argue that it would promote a more competitive market for audit firms, which in turn would lead to higher quality in the audits (Healey & Kim, 2003).

2.5.2 Arguments against Audit Firm Rotation

While there are several arguments for a requirement of mandatory rotation of audit firms there are also many opponents of such a policy. Over the years a number of arguments against mandatory rotation have been promoted and while many acknowledge the potential benefits of enforced rotation rules opponents argue that the negative effects exceed the estimated gains.

One of the most commonly discussed issues of mandatory audit firm rotation is the added start-up costs it would result in for the company being audited, the audit firm and the public. The size and the complexity of many companies have increased considerably over the years. Hence, a greater time commitment by both the auditor and the management of the audited company is required in order for the auditor to gain knowledge and experience about the company's business, operations and systems (Arruñada & Paz-Ares, 1997; Catanach Jr & Walker, 1999; Healey & Kim, 2003; Hoyle, 1978).

Opponents argue that an external rotation would mean that a substantial amount of specific expertise that has been gained by the auditors over time would be lost and would have to be rebuilt every new engagement period, consequently increasing the total costs of auditing (Arruñada & Paz-Ares, 1997; Healey & Kim, 2003). The costs of audits for the client company would increase as they more frequently would face time-consuming and expensive procedures to select a new audit firm and familiarize the new auditors with the company. The audit fee would also increase due to audit firms increasing the price of their services based on the increase of time spent on getting to know the new client in the beginning of every new engagement period (Arruñada & Paz-Ares, 1997; Catanach Jr. & Walker, 1999).

While proponents argue that a rotation could give the benefit of a fresh perspective to the audit, opponents on the other hand argue that there is an increased risk that irregularities in the financial statements would be overlooked by a new auditor. This argument is based on the perception that an auditor's knowledge of a client is lower in the beginning of an engagement period. Opponents also question if there is enough competition in the audit market to make it possible for a fresh perspective. Seeing as the audit market is very concentrated to primarily four audit firms and most of the major corporations currently receive some sort of service from every one of the "Big Four" audit firms, it is argued that there is only a limited opportunity for a rotation to result in a fresh perspective (Ball et al. 2012).

Arguments regarding over-familiarity have also been put forward. Opponents of mandatory audit firm rotation have argued that over-familiarity arises between individuals involved in the audit process and not the companies. They therefore argue that many parts of the benefits that can occur from taking a "fresh perspective" may be obtained by rotating only the key audit partners. Given that a requirement of partner rotation is already in place in the European Union, the opponents argue that a policy for mandatory audit firm rotation would not likely add any significant benefit, especially when also taking into account the increased cost such a policy would generate (Ball et al., 2012).

Opponents argue that an external rotation may reduce auditors' willingness to specialize in specific industries that require special knowledge if they were periodically forced to relinquish an industry (Arruñada & Paz-Ares, 1997; Catanach Jr. & Walker 1999). It is argued that this could result in a lack of client-specific knowledge, consequently causing short audit tenures to have greater risks of audit failures, thus negative effects on audit quality (Casterella & Johnston, 2013).

2.5.3 International Studies of Audit Firm Rotation

Until 2012 Italy was the only country in the European Union to have adopted a policy for mandatory audit firm rotation. The rules have been in place in Italy since 1974 and a number of studies have been carried out by researchers to examine the impact the policy of mandatory firm rotation has had on aspects such as audit quality (Le Vourc'h & Morand, 2011).

In 2002, a study was published by independent academics of the SDA Bocconi School of Management in Milan, regarding the impact of mandatory audit firm rotation in Italy. The researchers looked at mandatory rotation on an empirical basis to establish whether the system had improved audit quality and had resulted in any real benefits to shareholders. The study identified that audit firm rotation appears to have certain benefits, but that these are outweighed by a number of disadvantages. The quality of audits was measured with a proxy, which was based on the number of partner suspensions made by Consob, the Italian regulatory authority. Two years after the first study was published the authors collected new evidence to update their original study. In both studies it was concluded that the highest number of suspensions took place in the initial year of the new engagement period, which suggests that mandatory audit firm rotation has a negative impact on audit quality. It also implies that the benefits of a fresh perspective are outweighed by the loss of detailed knowledge of the audited client. In addition, the researchers found that the policy appears to lead to additional costs for both the clients and the audit firms due to lack of knowledge, a greater concentration of audit work among the largest audit firms and the fact that the stock market is indifferent to the effects of the rotation policy (Cameran et al., 2005; Dalocchio, 2005).

In another study, Cameran et al. (2009) examined the effects of mandatory audit firm rotation on audit quality in Italy. They used a sample of non-financial Italian listed companies between the years of 1985 and 2004. To measure audit quality a proxy based on abnormal working capital accruals was used. The empirical results of the study suggested that audit quality tends to improve rather than worsen with audit tenure; this indicates that there is an important learning process for the auditor which is a benefit that outweighs the deterioration of auditor independence over the engagement period, consequently leading to an improvement of audit quality over time. To gain a deeper understanding of mandatory audit firm rotation, a comparison of audit quality levels in the period immediately following a mandatory rotation of audit firms versus the period following a voluntary audit firm rotation was also made. The findings showed no significant difference in the level of audit quality after a mandatory change compared to a voluntary change. Thus, the authors conclude that the results of the study strengthen opponents' doubts about the effectiveness of a mandatory audit firm rotation policy (Cameran et al., 2009).

2.6 Voluntary Audit Firm Rotation

Until the requirement of mandatory audit firm rotation comes into effect in the EU, public-interest entities themselves have the opportunity to choose when to change audit firms. This study aims to examine what three Swedish listed companies believe are the main factors of audit quality and what aspects they believe to be affected by voluntary audit firm rotations in the past. Therefore, it is important to understand the underlying factors that affect public-interest entities' decision to change audit firms as well as factors that are of importance in the selection of a new auditor. This section examines the various reasons for changing auditors

and audit firm, as well as audit firm characteristics that are important in the selection of a new audit firm.

Francis and Wilson (1988) suggest that the decision to change auditor should be divided into a two-step process. First, a decision is made by a company to change auditor and secondly a new auditor is chosen. This distinction is made since the reasons to replace the former auditor might be unrelated to the specific choice of criteria used in selecting a new auditor. An auditor change consideration may also be motivated by factors which are unconnected with the current audit firm's performance. For example, company circumstances such as a change in top management or a takeover by another company may initiate a switch in auditors and audit firms. Therefore, the reasons for consideration of change are not necessarily related to audit firm characteristics or involved in the selection of a new auditor or audit firm (Beattie and Fearnley, 1995).

Previous studies have found many factors which may elicit a change in auditors. In a research paper by Williams (1988) three concepts are discussed that explain why companies might consider switching auditor or audit firm. The first concept is changes in client contracting environment. It is argued that when a company's management changes, the new managers could demand an auditor change, since the former auditor is closely associated with the previous management or since the new managers may want to bring in a fresh perspective. Secondly, auditor effectiveness is discussed. If an auditor is ineffective the company may consider a change of auditor. An auditor's effectiveness or ineffectiveness may be related to industry specialization. If an auditor possesses industry-specific knowledge audit services can be improved as a result of an enhanced industry understanding. Additionally, economies of scale may be achieved because of a better understanding of client-specific environmental influences. However, if an auditor does not have industry-specific knowledge the client company may consider an auditor change. The third concept discussed by Williams as an event that can initiate an auditor change is client reputation. If managers perceive that their reputation is being damaged or if they have received an undesirable audit opinion the managers might want to replace the auditors.

Beattie and Fearnley (1995) provide an overview of the reasons companies give for switching auditors. In order to elicit views on reasons contributing to a consideration of an auditor change, a questionnaire addressed to listed companies in the United Kingdom and Ireland was used in the study. Two of the most common reasons stated for auditor change were the level of audit fee and dissatisfaction with audit quality. Some of the other important reasons for considering auditor switches were changes in company's top management, company growth requiring an increased technical capacity from the audit firm, high turnover of audit engagement staff, personality clashes with audit partner/staff, poor working relationships with audit partner/staff, need for additional services and merger/takeover with/by another company (Beattie & Fearnley, 1995).

As mentioned earlier, the second decision in the auditor choice process is to select a new auditor. A number of audit firm characteristics affect the type of audit firm selected. In 2013, FEE issued a publication showing the results of their survey on the auditor selection process. The findings were based on the views of 244 respondents consisting of stakeholders involved in large companies and included a review of specific criteria disclosed by the respondents as used to select auditors. Some of the most cited criteria include technical skills, experience, need for quality-oriented audit firm/auditor, value for money, reputation, team composition and geographical coverage. Price level was also mentioned by several respondents as

important, though rarely as the main criterion. Two additional factors specified by the respondents were that business-specific knowledge and auditors' skills and experience should be in accordance with the company's needs (FEE, 2013).

3. Methodology

The methodology of the research is presented in this chapter. A description is given of how the collection of data and the interviews were conducted. An explanation and motivation is presented to the study's limitations, validity, reliability and the choices made by the authors.

3.1 Research Methodology

The aim of this study is to describe how three Swedish listed companies define audit quality, which factors they identify as key drivers of audit quality and how the factors are affected by an audit firm rotation. To address these questions the authors tried to thoroughly investigate any previous research made. It was found that research on audit quality in general was inconclusive and research on client company perspective in specific was scarce. In regard to the subjective nature of the subject interviews were found the most suitable way to attain relevant information as it allows for discussions on the subject and for individual follow-up questions to answers which need to be further clarified or developed. The lack of previous research led to the conclusion that the interview questions needed to be of an open nature. Due to the scarcity of studies on client company perspective it was decided to compare the findings of this study to a description of audit quality in general in order to attain a relevant analysis. For this purpose Broberg (2013) was chosen as it represented a recent compilation of international views on audit quality, however, with a Swedish viewpoint.

There are scarce findings examining audit quality from the authors' chosen perspective, however an article by Beattie et al. (2013) was found especially useful for this study. It presents a newly conducted survey examining how different drivers of audit quality are valued by listed companies. The study examines "*to what extent chief financial officers (CFOs), audit committee chairs (ACCs) and audit partners (APs) of UK listed companies believe key factors in the (2007 UK) regulatory framework and audit environment enhance or undermine audit quality*". The impact on audit quality of each factor were to be evaluated on a scale ranging from 1-7, where 1 = seriously undermines; 2 = moderately undermines; 3 = slightly undermines; 4 = no effect; 5 = slightly enhances; 6 = moderately enhances; 7 = greatly enhances. The respondents were asked two additional questions:

- "*How valuable is audit to your company?*" with a five-point scale where 1 = not at all; 2 = of little value; 3 = moderately valuable; 4 = valuable; 5 = very valuable.
- "*In your opinion what changes to the regulatory framework, or to the behaviour of auditors, would most improve audit quality?*" was posed as an open-ended question.

Empirical studies suggests that enlisting a large firm auditor is considered a quality signal (Francis, 2004), the results of the Beattie study supports this as "Big Four audit firm" is ranked in the top five factors and "non-Big Four audit firm" is considered an undermining factor. The most frequently suggested measure that would improve audit quality given by the respondents were *a move away from rules and box ticking* and *a widespread concern that many aspects of the changed regime were largely process and compliance driven (i.e. rules-based)*. This evidence is supported by research showing that auditing used to be based on the trust in the judgement and integrity of the auditors but has now moved towards a complex process-driven activity (Beattie et al., 2011). The findings are also consistent with Hirshleifer's (2008) psychological bias theory of regulation which suggests that there is an inherent tendency for over confidence in the legal framework. Other measures frequently

proposed were to improve competition and choice in the audit market and to promote a period of stability in regulation.

In order to examine whether the results of this study is in concurrence or discord with international findings the interviews were complemented with a questionnaire containing factors found in the Beattie et al. (2013) study. Despite the fact that this study examines the views of Swedish listed companies and the research done by Beattie et al. (2013) examines British listed companies the comparison is still of value since they to a great extent are affected by the similar legislation. In accordance with the survey by Beattie et al. (2013) the answers to the question on “*how valuable is audit to your company?*” was evaluated using a scale ranging from 1-5. Beattie et al. (2013) also asked the respondents to evaluate 36 factors of audit quality on a scale of 1-7 in the part that focused on closed-form questions. In order for the results in this study to be comparable with the results in the earlier conducted study by Beattie et al. (2013) the same scale was used in this study to evaluate the factors. However, only 16 factors were used, this was due to some factors being irrelevant for the aim of this study and others not adaptable to the Swedish listed companies’ situation.

3.2 Frame of Reference

The literature presented in the thesis was acquired from search engines available at the Economic Library at the Gothenburg School of Business, Economics and Law. Search engines that were used in the process of collecting data included Web of Science, Scopus, Emerald, Business Source Premier, Science Direct, FAROnline and Google Scholar. Literature was gathered through the combinations of keywords such as “audit firm rotation”, “mandatory audit firm rotation”, “audit quality” and “auditor independence”. The keywords were used in searches in both English and Swedish. Translated into Swedish the keywords used were “byrårotation”, “obligatorisk byrårotation”, “revisionskvalitet” and “revisorns oberoende”. The reference lists of the gathered literature such as academic articles, research papers and dissertations were used as sources in gaining a deeper knowledge of similar literature in the field. To collect information about the European Union’s requirement of mandatory audit firm rotation the primary source used was the European Union’s website.

3.3 Selection of Respondents

The authors’ aim was to interview CFOs and members of audit committees at Swedish listed companies that had experienced an audit firm rotation within recent years. The reason behind the decision to conduct interviews at listed companies was that the authors had come to understand that there is an interest in the audit industry to find out more about what listed companies consider to be audit quality, what factors they perceive as drivers of audit quality and how these were affected by the company’s most recent audit firm rotation. This interest was partly based on that these companies will be the ones affected by the European Union’s requirement of mandatory audit firm rotation, which may lead to an increase in the frequency of rotations in this company segment.

In order to gather information about suitable respondents, a list of Swedish listed companies that had switched audit firm within the last four years (2010-2013) was provided by one of the authors’ supervisors. Companies that rotated within the last year were excluded due to the risk that the full effects of the rotation on audit quality might not be visible yet. This left a sample containing circa 40 listed companies and all of the companies were contacted through e-mails and telephone calls.

When contacting the companies, a short presentation of the study and the authors' contact information were provided. If no response was received after the first contact a second contact was established. Finding companies that were willing to participate in an interview proved difficult. A theory may be that the subject concerns issues that are sensitive to the companies and that there is reluctance from the companies to disclose this form of information. Additionally, it seems to be a difficult subject to discuss both in term of it being a subjective matter but also a subject that is not addressed often within the companies.

In the end the efforts resulted in three positive answers, which in turn led to three interviews with four respondents, three CFOs and one audit committee member. All of the respondents had experience from at least one audit firm rotation. In order for the participants to prepare in the best way possible, an interview guide was sent to each of the participants a few days before the interviews. However, the questionnaire was not presented until the end of the interviews, in order to lessen the risk of influencing the answers to the open-ended questions presented in the interview guide. The interview guide and the questionnaire used during the interviews are presented in appendix 1 and 2. All respondents and companies are kept anonymous in the thesis, since some information which may be considered sensitive to the companies was described during the interviews. What may be disclosed is that there is wide geographical dispersion of the listed companies head offices and the industries in which they operate in vary among the companies.

3.4 Interviews and Questionnaire

The three interviews were conducted during a two week period in April of 2014 and each interview lasted approximately 60 minutes. All of the interviews with the respondents took place at each of the listed companies' headquarters and the meetings were held in Swedish. During the interviews notes were taken, but in order to get complete documentation and be sure that essential information presented was not missed all of the interviews were also recorded. None of the interviewees expressed any discomfort with being recorded, given that the answers would be presented anonymously. A semi-structured method was used to conduct the interviews. An interview guide with structured questions, which had been prepared in advance, was used during the interview but the authors also allowed for new questions to be asked during the interview. The interview took the form of a discussion based on the questions in the interview guide and when answers needed to be further clarified or developed supplementary questions were asked. After each interview had been conducted the answers were transcribed to facilitate the process of analysing the results. At the end of each interview the respondents were asked to fill out a questionnaire on how valuable they believe audit is to their company and their views on factors affecting audit quality. A combination of closed-form and open questions was used.

3.5 Analysis

The recorded interviews were transcribed in order to facilitate the analysis. To interpret the answers given in the interviews a coding was conducted in order to see reoccurring themes and key words. The method of coding was based on techniques presented in Hjerm & Lindgren (2010). An interpretation of the key words was made based on context in the interviews in order to try and see the underlying factors or influences. Key words found, and answers in general, were compared to information found in the frame of reference. When references are made to the responses given in the interviews in this thesis the translation from Swedish to English has been made to the best of the authors abilities.

3.6 Validity and Reliability

In an attempt to increase the validity of this study the authors chose CFOs and ACCs as interviewees as these were considered most likely to be able to represent the audit opinion of listed companies. Companies that rotated earlier than 2010 were discarded as candidates for this study due to the risk of CFOs not remembering the event to a satisfactory level, as was companies that rotated within the last year due to the risk that the full effects of the rotation on audit quality might not be visible yet. The study's reliability was a priority when designing the interview questions. To avoid influencing the interviewees only a portion of the questions were sent out beforehand and the order of questions went from general to specific, for that reason the questionnaire was not presented to the interviewees until the end of the interviews.

3.7 Limitations

The aim of this study is to research *perceptions*, with it comes an innate subjectivity, both in the subjectivity of the answers given by the interviewees and in the authors' interpretation and analysis of these answers. As well as perceptions and definitions of audit quality differ within different stakeholder groups; the authors acknowledge that it is likely to differ within the groups as well. There is a limitation in the number of interviews conducted, it is uncertain whether additional interviews would have broadened the analysis but it would have given assurance to the results. There is also a risk that the recording of the interviews increased restrictiveness in the answers, despite the fact that anonymity was ensured. The risks of companies having experienced discontentment with their audits and auditor being more willing to do interviews and companies rotating due to changes in management showing a disinterest in participating in interviews, and also "dishonest" companies being more reluctant to answer questions regarding their experiences could result in a bias in this study. Also, the choice to interview CFOs and ACCs were based on the assumption that their views would best correspond with the views of the company, however, the authors make reservations regarding that this might not be the case and that their views might differ from others within the company and those of the management.

4. Empirical Findings

In this chapter a review of the information obtained by the authors during the interviews is presented, demonstrating three Swedish listed companies' perceptions of factors of audit quality and their experiences of recent audit firm rotations.

In order to keep the companies and the interviewees anonymous the years during which the companies' most recent audit firm rotation took place are not disclosed. For the same reason, the exact period of years the companies' former audit firms had been appointed at the time of the replacement are also not revealed. The authors acknowledge that the answers provided in the interviews represent the experiences and views of the interviewees and not necessarily those of the companies.

4.1 Interview Company A

4.1.1 Audit Firm Rotation

When Company A's most recent audit firm rotation took place the former audit firm had been appointed to conduct the audit for a longer period of time (<10 years). The decision to change the former audit firm was based on a number of reasons. According to the CFO some of the most important reasons that contributed to the decision to change audit firm was that the CFO along with the CEO and the Board of Directors felt that focus was not placed in the areas where attention was most needed and that the audit process had become perfunctory. Moreover, they questioned the level of audit fee as they noted that the audit fee increased each year while their dissatisfaction with the service received grew. To give an example, the experience of the three parties was that the former auditor put a lot of attention on checking the accounting of transactions that the company considered was easy to identify and that were not containing high levels or risk, such as pension bills for which statements are provided regularly from pension companies. Instead, the CFO along with the CEO and the Board wanted the auditor to place a greater focus on areas that they believed contained a higher risk, such as the tax area and major customer contracts. Because of a smaller finance department there was also a need for an auditor who could act as a sounding board and who the CFO could consult in difficult business events. However, the CFO did not feel that such assistance was being received.

The process of changing audit firm started with the CFO reviewing the needs of the company regarding audit and non-audit services and choosing eligible audit firms that could meet their demands. The company chose to request for tenders from the "Big Four" audit firms and one smaller firm. Audit firm characteristics that were of importance in the selection of a new audit firm were technical competence, ability to provide additional tax services, ability to provide additional consultancy services, international expertise and availability in the sense of the audit firm having a local office.

During the process one audit firm was excluded early on due to the firm's involvement in an audit failure which was reported in the media. The CFO believes that a company and their audit firm have to be able to be transparent to each other to reach a high level of audit quality, but in order for a company to feel that they may be transparent a mutual trust and respect between the company and their audit firm have to be established. Following the particular

audit firm's negative media coverage their credibility and the company's trust in them were impaired. Therefore, the audit firm was excluded early on in the audit process.

Determining factors in the final selection of a new audit firm were personal attributes of the auditor, personal chemistry between the key audit partner and the CFO and a showing of commitment. For example, the audit firm which was ultimately selected to conduct the audit for Company A had shown a commitment during the audit process by calling members of the Board in order to form their own opinion of the company and increase their knowledge of the industry in which Company A operates. The initiative was regarded as an indication of seriousness and long-term effort.

4.1.2 Audit Quality

The CFO believes that audit is of importance to the company. It is seen as a quality control that provides credibility and establishes trust in the financial statements. Regardless if a company is listed or not, the CFO emphasizes that audit is a prerequisite for obtaining external financing. A company must be able to verify the financial information presented to the stakeholders.

When asked to define audit quality the CFO could not provide an exact definition. Instead, important characteristics and actions of an auditor that are believed to be essential in order to reach a high level of audit quality were described. The CFO believes that an audit has to have more to it than only the laws being followed for a high level of audit quality to be achieved. It was emphasized that an auditor has to be perceptive, have a good working knowledge of the company and the industry it operates in and be capable of assessing risk and placing the focus on the areas with high levels of risk. Furthermore, it was described that an auditor should have a high technical competence to be able to consult and detect errors in the financial statements. In the CFO's own words, "*An auditor should help us make the right decisions so that we meet all requirements imposed on us*". Other key factors which the finance director believes have a great impact on audit quality include meticulousness, a pragmatic view on auditing and a showing of effort and dedication.

When asked how they evaluate audit quality it was explained that the evaluation is based on the audit experience of the CFO, the CEO and the Chairman of the Board. During each year all parties have separate ongoing dialogues with the auditor in order to discuss the internal control and monitor the external control. The evaluations of audit quality are then made based on the experiences from these dialogues.

According to the CFO, the level of audit quality was significantly impaired in the period that followed the firm rotation. The first year subsequent to the rotation was very complex and time consuming for all parties, in view of the fact that the new firm had to gain knowledge about the company's business, operations and systems. Moreover, new working relationships had to be developed between the firm and various parties within the company such as the CFO, CEO and the Board in order to establish mutual trust. As a consequence to the impairments both the effectiveness of the audit process and the quality of the audit was negatively affected. It is believed that when one audit had been conducted, i.e. one year had elapsed, the audit quality had returned to a decent level. However, it took additionally two years for the audit to reach a level that was considered to be high and that the company was satisfied with.

4.1.3 Requirement of Mandatory Audit Firm Rotation

Following the European Union's introduction of a requirement of mandatory audit firm rotation, which will affect Company A as it is a listed company, the CFO was asked to share his/her own views on the new reform. The CFO explained that s/he understands why the issue of mandatory audit firm rotation has become a widespread topic of debate in the European Union. The CFO agrees that there is a point to the requirement as it is believed that companies should rotate audit firms from time to time in order to not become too comfortable with their audit firm, in terms of the audit becoming perfunctory. In their own case, Company A felt that they had become blind to obvious flaws due to mechanical habits in the accounting process and that the former audit firm had become indolent after being appointed for a longer period of time. For that reason they felt that a replacement of the audit firm was necessary. Impaired independence, objectivity and professional scepticism were never experienced as issues, and therefore not part of the reasons to rotate audit firm.

Even though the CFO believes that it is important to rotate audit firm occasionally s/he is opposed to the requirement of mandatory audit firm rotation. The perception is that companies themselves should have the option to choose when to switch audit firms and not have the obligation to do so. Further arguments expressed by the CFO against the policy are that a switch is very time consuming and would result in significant costs not only for the audited company but also the audit firm. To compensate for increased costs the CFO believes that there is a risk that audit firms will increase their audit fees. Moreover, the interviewee does not believe that the policy of mandatory audit firm rotation is an effective way to reach the stated goal of enhanced independence and audit quality. The rotation period of 10 years, with the possibility of extension, is questioned as it is believed that engagement periods of such length do not eliminate perceived threats of over-familiarity, which may have negative effects on auditor independence and audit quality.

According to the CFO, an issue of equal importance to mandatory audit firm rotation and a suitable alternative is a requirement of mandatory rotation of board members. The view is that a requirement of mandatory rotation of board members would be a more effective measure in the aim of changing the ethics and morals within a company. This is based on the perception that board members may become very interdependent while also having a great influence on the ethics and morals within a company.

4.2 Interview Company B

4.2.1 Audit Firm Rotation

Following a merger with another company, Company B has grown over the years, with the merger being the reason for the company's former audit firm rotation. However, since dissatisfaction with the firm's work grew stronger throughout the years the company decided to replace the particular audit firm. Thus, leading to the Company B's most recent audit firm rotation taking place within recent years.

According to the CFO the most important reasons that contributed to the decision to change audit firm were based on a combination of dissatisfaction with the audit quality and the level of audit fee. By changing audit firm the company wanted to ensure that audit fee and audit quality was on par. Moreover, the selection to change audit firm was due to the audit firm's lack of industry-specific knowledge, which impacted the effectiveness of the audit process in the sense of the auditor not focusing on the risk areas most important to the company.

The process of selecting a new audit firm started with the company compiling a quotation request, including a description of the company and its needs regarding both audit and non-audit services. Request for tenders were sent out by the CFO to the “Big Four” audit firms and two smaller firms. The procedure of the audit firm selection process had been determined in advance by the management. According to the CFO, the decision to contact the “Big Four” audit firms was self-evident, since *“they have a broad expertise”* and *“are good at being in the forefront regarding accounting and auditing issues”*. An audit engagement with a listed company requires extensive resources and the CFO wants to be able to have confidence in that the audit firm they appoint can and will provide the services expected. Determining factors in the selection of a new audit firm were technical competence, ability to provide additional consultancy services, good reputation, level of audit fee, capability of developing good working relationships and personal chemistry between the key audit partner and the CFO. Additionally, some of the most important factors in the final selection were personal attributes of the key audit partner and that the new audit firm would have industry-specific knowledge in order for the audit process to become more effective than it had previously been.

4.2.2 Audit Quality

The CFO believes that audit is valuable to the company. It is seen as a confirmation of quality, both internally; to the management and the Board concerning the monitoring of internal control systems, and externally; to shareholders, stakeholders and banks concerning the financial statements. For example, the CFO emphasized that the audit is a prerequisite in obtaining external financing; *“the company has to be able to show financiers and banks how their investments are managed”*. It is believed that companies need to have some type of external scrutiny and evaluation, even if there had not been a legislative demand, in order to monitor and improve the internal control system and verify that the numbers in the financial statements reflect a true and fair view of the company’s financial position.

When asked to define audit quality the CFO could not provide a definition but instead described several factors that are believed to be essential for a high level of audit quality to be achieved. The CFO is of the opinion that an audit has to focus on more than that the laws are being followed to reach a satisfying level of audit quality. It was emphasized that the company wants to get value for the money spent on the audit and non-audit services. For that to be achieved the company has to be able to trust the auditor and have confidence in that s/he examines the financial reports with objectivity and professional scepticism. In addition, the CFO believes that the auditor should act as a sounding board, which can be consulted when accounting issues arise. According to the interviewee it is important that the additional advisory services do not affect the auditor’s independence, objectivity and professional scepticism. However, it was disclosed that there has never been any issues regarding an auditor’s independence, seeing as each party knows their role.

Other key factors which are thought of by the finance director of having great impact on audit quality are personal chemistry between the CFO and the key audit partner, personal attributes of the auditor such as social competence and quality in the working relationship with the entire audit team. Moreover, it was described that an auditor should have high technical competence and good working knowledge of the company and the industry it operates in to be able to consult and detect errors in the financial statements.

When asked how the audit quality is evaluated, the CFO explained that the company does not have a systematic process or method when evaluating the quality of audits. Instead, the evaluation is based on the experiences of the CFO, the management, the Board and the employees in the finance department. After each completed engagement year all parties evaluate their experiences from the ongoing dialogues and meetings they have had with the key audit partner and the audit team during the year. These reviews are then passed on by the CFO to the key audit partner during a meeting held after each completed engagement year.

According to the CFO, the level of audit quality declined the first years subsequent to the rotation. It was perceived that the effectiveness of the audit process was impaired in the period following the rotation seeing as more time had to be spent in order for the audit firm to gain knowledge about the company's business and operations. Moreover, new working relationships had to be established and a mutual trust between all parties of the audit firm and the company had to be developed. The CFO believes that it took two years for the audit quality to return to a level that the company considers as high. It is perceived that the audit approach of the new audit firm is slightly better and that the firm has a more appropriate risk-based approach than the previous appointed firm due to a more in-depth industry specific knowledge.

4.2.3 Requirement of Mandatory Audit Firm Rotation

The CFO at Company B believes that companies should rotate audit firms occasionally in order to avoid mechanical habits in the accounting process. It was described that an audit firm rotation may have positive effects in the sense that it can bring in a fresh perspective and a more critical view at the financial reports. However, the CFO is opposed to the European Union's requirement of mandatory rotation of audit firms, as the perception is that companies themselves should have the opportunity to choose when to change audit firm. An argument against the requirement is that an audit firm rotation is costly for the company as well as the audit firm. In addition, if a company is in the position where the audit process is run effectively and the perceived level of audit quality is at a high level, the CFO does not think that the company should be forced to rotate audit firm. In the same way other service providers are exposed to competition, companies themselves should be capable of exposing audit firms to competition and request for tenders from time to time. The CFO questions if the requirement of mandatory rotation will achieve the stated objectives of enhanced auditor independence and audit quality, since the confirmed rotation period of 10 years, with the possibility of extension, in the CFOs opinion may be too long to actually lessen the perceived threats to an auditor's independence. It was also emphasized that the requirement of audit firm rotation is not enough to make the smaller audit firms equal competitors to the "Big Four" companies, seeing as the audit firm appointed still needs to have a high level of expertise and that the smaller firms would need to make substantial investments to reach such a level.

When considering if there are any alternative measures that would be more effective in achieving the objectives of enhanced independence and audit quality, the CFO could not think of such a measure. However, the CFO described that even though s/he is of the opinion that there currently is a high level of competence in their appointed audit team, audit quality would be enhanced if the practitioners would gain even more company specific knowledge. It is believed that the audit process then could become even more effective.

4.3 Interview Company C

The results of the interview with company C are based on the answers from their CFO and ACC. The opinions of the interviewees were mostly in concurrence and their answers are therefore presented as the views of the company and only separated when clarity benefits from it.

4.3.1 Audit Firm Rotation

Company C has in recent years grown rapidly through several company acquisitions and penetrations of new markets, in combination with these activities they have also ventured into new stock markets. Through this the entity has changed and with it its audit needs. During the journey the CFO and the board felt that their former auditor did not recognize the growth and the changes it made necessary in the audit engagement, as stated by the CFO: “*we outgrew the auditor*”. The communication was not perceived as optimal and the dialogue both between auditor and CFO and between auditor and board was malfunctioning. This in turn damaged the relationship between auditor and board which led to a diminished trust. The CFO expressed that it is of extra importance for a company to feel comfortable in the relationship with the auditor during an expansive period given the multitude of new questions and issues arising under such conditions. Both the ACC and the CFO believed that the problems experienced boiled down to a lack of judgement on the part of the auditor, rather than a lack of knowledge, both in terms of not realizing the changed need and in failing to correctly assess the risk prioritizations in the new business situation. With the many grey zones in accounting and auditing it is, according to the ACC, of importance that the board and auditor address problems from the same viewpoint. The CFO also expressed a frustration in the auditor spending too much time on verifiable issues that even if they were incorrect never would become a material error and not addressing new risk areas emerging from the penetration of new markets and stock markets. The ACC felt that the approach of the company was more risk based whilst the auditor had a stronger focus on verifiable issues and accounting technique, therefore their attitudes towards problem areas greatly differed.

When discussing the circumstances surrounding the rotation both the CFO and the ACC emphasized the importance of the possibility to carefully choose the right time to rotate. In their own case, both the board and CFO of Company C had been dissatisfied with the main auditor for more than two years before the change was initiated. When asked why the rotation was delayed they explained that with the expansive situation that Company C was going through, with both company acquisitions in new markets and entering a new stock market, a change of audit firm at the same time would impose too much uncertainty on the company.

The rotation process started with the audit committee, CFO and the chairman of the board selecting audit firms eligible for choice. On first approach the “Big Four” firms were obvious choices. However, one of them was excepted due to the firm’s involvement in a failure with national coverage resulting in substantial damages. The CFO elaborated that it would have been odd to accept a tender from the firm considering the uncertainty such circumstances are likely to cause within the firm.

The ACC emphasized the need for auditors to have sufficient support and knowledge within their firms, such as experts in specific areas and technical support. For Company C it was of importance to select an audit firm with a wide knowledge regarding specific foreign markets, tax regulation and their line of business. The CFO felt a need for the auditor to function as a sounding board and support, especially concerning accounting questions where grey zone interpretation is required and also regarding the new situations the company were facing. An

additional important function to the CFO was an auditor's ability to draw upon experience from companies in similar situations to properly advise their company.

In the selection process three main factors influenced the decision: price, technical competence within the firm and the personal attributes of the intended main auditor. However, price was not considered a major factor as long as it was not completely unjustified and neither was technical competence given that all candidates were "Big Four" audit firms, as quoted by the ACC: "*All the [Big Four] firms have the same competence but not everything is a legal framework*". Therefore, in the final stages of the selection process the decidedly most important factor was the attributes of the intended main auditor based on the chemistry in the personal meetings. Company C viewed this as a strong indicator for trust. According to the ACC and CFO it was apparent early in the process which auditor they preferred and that the process after that was "*more of a process to get the details concerning the set-up to align*" with Company C's needs.

Rotating audit firms is described as a decision of great importance and an arduous process for most companies where the learning curve for both firm and company is highly time consuming. For an auditor to perform a high quality audit exhaustive knowledge of the audited company is a necessity, facilitating continuity which decreases the possibility of erroneous risk profiles. Additional risks associated with rotation of audit firm, emphasized by the ACC, are the risks of "*knowing what you have but never what you are going to get*" and mistakes in the selection process resulting in hiring an audit firm unsuitable for the company.

The question of rotation of audit firm is normally not a frequently discussed issue at Company C; it is only brought to the fore when someone within the company feels that the cooperation is not optimal. Moreover, there is no systematic process or method of assessment concerning the perceived audit quality within the company. The work of the audit firm is evaluated mostly based on how well the risk profile of the auditor corresponds with that of the company during meetings between auditor and audit committee. The CFO explains that it is to a great extent determined by gut feeling.

4.3.2 Audit Quality

The importance of audit to Company C, and other companies at large, is evident in several different areas according to the CFO. Though CFOs in general can read laws and regulations adequately themselves an auditor could be of help applying the laws to the real and complex situations of the company, to be of assistance in finding where in the grey zones the solution of the individual company lies. Since auditors have experience from numerous companies they can often use that to find useful solutions based on industry specific knowledge. The auditor could also function as a support for the CFO in discussions within the company concerning disagreements on accounting solutions. Both the CFO and the ACC agrees that the auditor should work as a solution-oriented sounding board. The function of verification of the accuracy of the operative internal control system and the possibility for the auditor to note flaws, risks and possibilities are mentioned by the ACC. Viewing the importance of auditing in a wider perspective, the ACC says that in theory should auditing be redundant in that the objectives investigated in an audit are of most importance to well-functioning companies. Given the fact that there is, however, a need for it the value, especially to the board, of receiving a confirmation of the quality of the internal control system from an external part with an objective mind-set and with experience from other companies is of great importance.

When asked to define audit quality the two representatives of Company C describe an auditor as someone who has long experience, who is capable of assessing risk and who can be objective. Other factors of great influence, in addition to the afore mentioned, are: that the audit process should be carried out systematically throughout the year with consistency and accuracy and not only before annual, or quartile, reports; that the audit is tailored to the company and its individual preconditions.

According to the interviewees the level of audit quality was affected by the rotation the ACC explained that they as a company would never allow the level of quality to decrease the efficiency, and therefore the level of quality, of the audit process was, however, affected as it required more time and resources to maintain a high quality audit throughout the rotation.

4.3.3 Requirement of Mandatory Audit Firm Rotation

The representatives of Company C are both strongly averse to the proposal of mandatory rotation of audit firm. The argument of increased independence is not considered valid as this, according to them, is already addressed by the requirement of mandatory partner rotation and the natural employee turnover within both audit firms and companies. The ACC believes that the many benefits associated with a long-term relationship between company and firm (e.g. continuity, efficiency, understanding and knowledge of the company) are being sacrificed for a solution to a problem that does not have a material impact. S/he emphasizes the many risks associated with rotations of audit firm and that these risks outweigh the theoretical benefits. The effects of the requirement at large was questioned by both as they doubted if the objectives would be reached considering the long rotation periods, rendering it an unnecessary regulation put on companies. In addition, the ACC emphasizes that it is not enough to get frequency in the rotation of audit firms in order to make smaller audit firms a real option for most companies and lessen the concentration in the audit firm market; it also requires substantial investments from smaller firms to procure an adequate knowledge base.

Instead of focusing on audit firm rotation Company C suggests that the measure most likely to improve audit quality would be a review of the legal framework where the role and task of the auditor would be more clearly defined. The difficulty in defining audit quality is proof that the regulations are of poor quality, according to the ACC. A clearer definition would facilitate measurements of audit quality and minimize the risk of auditing failures caused by expectation gaps between what the public expects of auditors and what their engagement actually includes. On the basis of his/her experience from several companies, the ACC questions whether audit regulations have kept up with the modernisation of the industry and market. The CFO clarifies that they request neither more nor less regulations, but instead that an auditor's role and engagement would be more clearly defined.

4.4 Findings Questionnaire

Table 2 shows the results of a question asking respondents to specify how valuable audit is to them. The results show that all of the respondents consider audit to be valuable to their company.

Table 2 How valuable is audit to your company?

	A	B	C - CFO	C - ACC
Response, No.	4	4	4	4

¹ Response scale; 1. Not at all, 2. Of little value, 3. Moderately valuable, 4. Valuable, 5. Very valuable.

Table 3, shows the respondents perceptions of the impact of factors affecting audit quality and illustrates the rank for each of the 16 factors listed based on the median. It can be noted that the two factors considered by the respondents of having the most positive impact on audit quality are “Big Four” audit firm” and “Competition among audit firms”. These responses are consistent with the answers provided during the interview to the open-ended questions. It was indicated that the appointment of a “Big Four” audit firm may be considered a quality signal given their vast technical competence and high level of expertise.

Moreover, the factor which has been ranked third and is seen to moderately enhance audit quality is “Those in a position to influence the outcome of an audit not to have direct or indirect financial interest in the client or business relationships with the client”. Even though the respondents expressed that they had not experienced issues regarding auditor independence, this finding indicates that an auditor’s independence, objectivity as well as professional scepticism is of importance to the respondents. The rating may also be closely linked to the companies’ feelings of the need to be able to trust the auditors and the quality of their work. Furthermore, it may be acknowledged that the factor received an identical ranking in the study by Beattie et al. (2013).

While it is noted that the factor “Big Four audit firm” is ranked as having the most positive impact on audit quality among the listed factors, it is of equal note that “Non-Big Four audit firm” is considered the most undermining factor to audit quality. Among all 16 factors this has been ranked last, which is identical to the ranking in the study by Beattie et al. (2013).

Two additional factors which are thought of as undermining audit quality are “Audit engagement partner or independent review partner not to act for more than five consecutive years” and “management time and costs incurred in changing auditors”. All respondents described that their most recent audit firm rotation was time-consuming and the rating demonstrates that the factor has a negative impact on audit quality.

Table 3 Perceptions of the impact of factors affecting audit quality

Rank	Factor ¹	A	B	C-CFO	C-ACC
1	Big Four audit firm	5	7	7	7
2	Competition among audit firms	5	6	6	7
3	Those in a position to influence the outcome of an audit not to have direct or indirect financial interest in the client or business relationships with the client	6	6	4	6
3	Audit firm to establish monitoring procedures to ensure compliance with its policies	6	6	5	5
5	Audit committee is primarily responsible for recommending the appointment, re-appointment and removal of auditors to the board	4	6	5	5
6	One audit committee member has 'recent and relevant financial experience'	4	5	5	5
6	Risk of damage to audit firm's reputation from public scandals	5	6	4	4
6	Risk of damage to audit partner's personal reputation	5	6	4	4
6	Audit firm to establish policies and procedures to ensure that partner and staff are not rewarded/promoted for selling non-audit services to their audit clients	6	5	4	4
10	Disclosure of non-audit fees paid to auditor with detailed breakdown	4	4	5	5
11	Total fees from listed client not normally to exceed 10% annual fee income of firm	6	4	4	3
12	Partners' desire not to lose status by losing key client	4	3	4	4
13	Budget pressures imposed by audit firm on staff	3	3	4	4
14	Audit engagement partner or independent review partner not to act for more than five consecutive years	4	4	2	2
15	Management time and costs incurred in changing auditors	3	3	3	3
16	Non-Big Four audit firm	3	1	2	2

¹ Factors are shown in decreasing rank order.

² Response scale; 1. Seriously undermines, 2. Moderately undermines, 3. Slightly undermines, 4. No effect, 5. Slightly enhances, 6. Moderately enhances, 7. Greatly enhances.

5. Analysis

This chapter connects and analyses the theoretical framework and the empirical research in an attempt to provide a presentation of audit quality from a client company perspective and answer the questions that was stated in the problem statement. A model of audit quality from a client company perspective is presented.

5.1 Audit Quality

Comparing the compilation of audit quality definitions made by Broberg (2013) to the findings in this study it is evident that not all elements mentioned in Broberg is mentioned in this study but most elements mentioned in this study is mentioned in Broberg, however, with different emphasis and classifications. This finding is not surprising as the Broberg study aims to describe audit quality in general whilst this study aims to describe it from a client company perspective. An example of the differences is that the auditor as a person and his/her judgement are strongly emphasized as drivers of high quality by both studies, however, the classification of drivers differs as judgement is an individual category in the Broberg study whilst the companies views judgement as a subcategory to audit personal attributes. Examples of notable corresponding observations are:

- The companies all emphasize experience, expertise and business knowledge of the auditor as important factors of audit quality.
- In order for audit firms to be considered serious candidates it requires continuous investment in management systems.
- Threats to audit quality mentioned in Broberg (2013) correlate with opinions of the companies, for instance, company A and C agrees that threats to a high quality audit methodology is reduced flexibility and that over-prescriptive audit methodologies risk resulting in a failure to tailor the audit to the client company.

Some factors are mentioned by the companies but not emphasized as strongly as in Broberg (2013), such as high ethical values and integrity, a theory for this being that companies take these factors for granted. This is illustrated by the CFO of company C's comment on integrity and independence; *"It is not really an issue; everybody knows their role"*. Another example is sufficient technical support and supporting information infrastructure, which "Big Four" audit firms are presumed to have and a reason for not involving non-"Big Four" firms in the tender process by company A and C. Out of the factors of audit quality mentioned in Broberg (2013) none was described by the interviewees as lacking importance to audit quality, some factors are, however, not mentioned at all. These include several of the factors stated by Broberg (2013) under the categories "tone at the top" and audit methodology, such as reward systems, auditing technique and culture within the audit firm. The reason for this is likely that these factors are not visible to the client firm. Broberg's (2013) compilation of audit quality gives a good description of audit quality in general, but due to the differences in categories and emphasis it does not give a detailed and helpful description of client companies' perception of audit quality.

When analysing the interviews in order to abstract a definition of audit quality it is evident that the reasons to *why they rotated audit firm, why the new audit firm was selected and what their definition of audit quality is* are all based on the *personal qualities* of the auditor. Neither company had an outlined definition of audit quality, however, analysing the commonalities of

the answers given in the interviews and abstracting the concepts, a model over perceived audit quality of client companies can be seen (see Figure 2). The model depicts that for a client company to perceive high audit quality a number of practical functions need to be met, chiefly providing adequate consultancy and in-house and external confirmation of quality of the internal control systems, preventing errors and attaining a risk profile corresponding to that of the company. In order to perform these functions properly four main auditor qualities works as drivers: experience, reputation, objectivity and judgement. In addition to these practical functions and drivers the client company must perceive a number of personal attributes of the auditor enabling the practical functions and the aim of audit quality. The manner of which companies evaluate the presence of these drivers is if they have trust in the auditor and the audit, and the means in which companies decide whether trust is existent is through gut feeling.

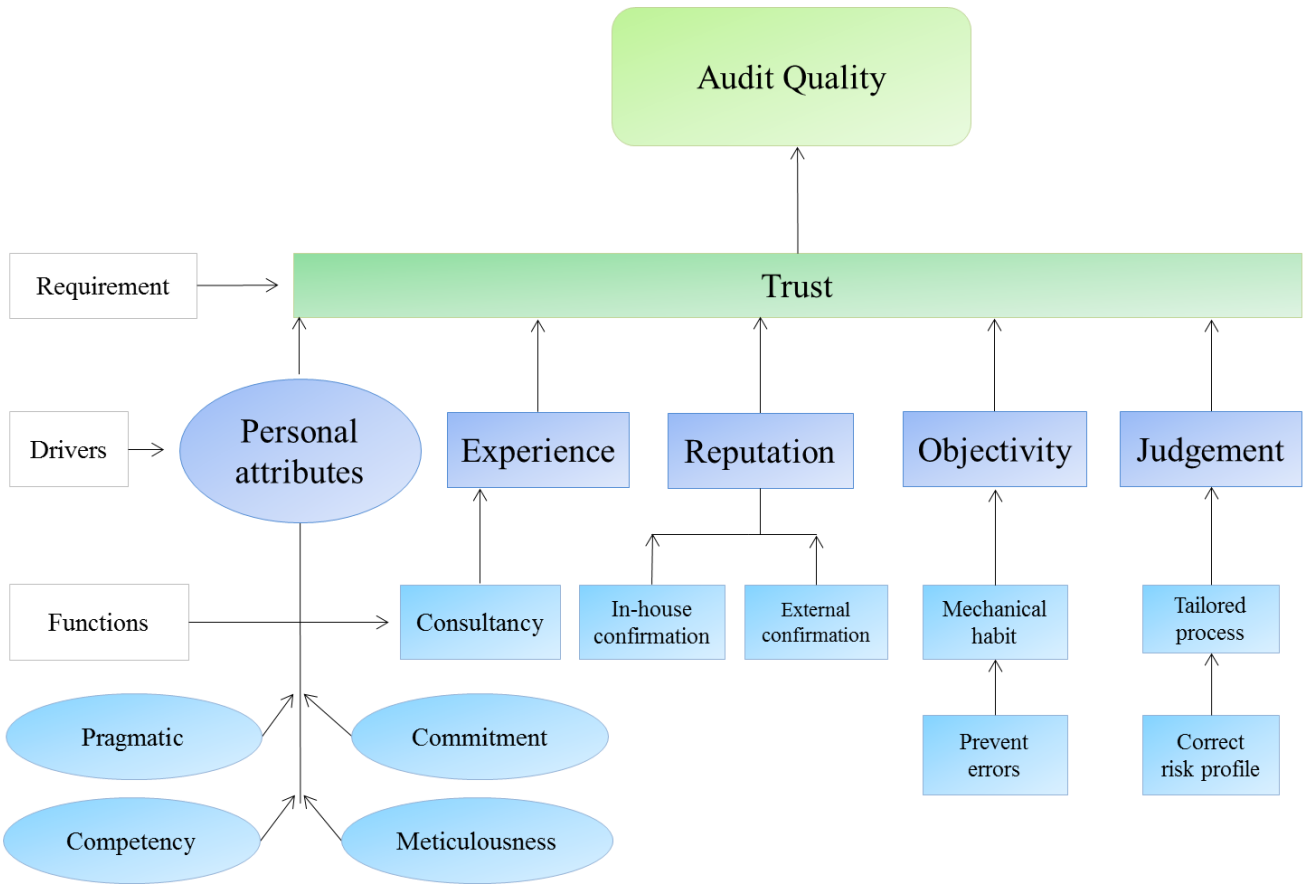


Figure 2

In detail, for the client companies to perceive the audit as being of high quality they want the auditor to:

- Be able to provide adequate *consultancy* in order for the companies to improve their accounting and give guidance on how to manage difficult and complex accounting situations in the best way possible for the individual company. In order for the auditor to provide relevant guidance through the grey zones, s/he needs to have *experience* from companies with similar prerequisites.

- Audits are needed to attain **confirmation of quality**; both in-house, to the board and management regarding the internal control system, and externally, to shareholders and credit institutions regarding the financial reports. In order for the opinions of the auditor to be considered valid and true a good **reputation** is required.
- Detect errors made by the client company and in doing so help improve internal systems, which will increase the chances of **preventing errors** from occurring again. This requires the auditor being **objective** in order to detect faulty routines being used due to mechanical habit.
- Have a **correctly** assessed **risk profile**, which in this case means a risk profile corresponding to that of the company. A requirement to attain this is that the audit **process** is adapted and **tailored** to the company, requiring both in-depth knowledge of the company and, foremost, good **judgement**.

In order for the auditor to achieve these functions a number of personal attributes of the auditor were considered essential by the companies. These include:

- **Meticulousness**: a fundamental trait in order for the auditor to instil trust in his/hers capability of ensuring a thorough audit.
- **Commitment**: the auditor needs to be committed to the company, care and reserve enough time and effort in order to meet the audit needs.
- **Competency**: a wide and adequate competency with both general and specific knowledge, such as industry specific knowledge.
- **Pragmatism**: all of the respondents said that the auditor needs not only to have vast knowledge, it is of great importance that s/he knows how to apply the theoretical knowledge to the complex situations of reality.

This study suggests that the drivers of audit quality according to companies are based on subjective traits and are dependent on the receiver, which could offer an explanation to the difficulties of both defining and measuring audit quality even within the same group of stakeholder. Using a model based on practical, more easily observed and defined functions could in some part counteract the subjective difficulties. Additional studies are needed to ensure the accuracy of this model, but the use of a model based on practical functions such as this one, could be of worth to both audit firms and client companies. Audit firms could use the concrete activities mentioned in the model in their communication to client companies and the engagement of main auditors. The model could be used as a basis for evaluating audit quality. Neither company in this study had an evaluation system, a problem shared by many companies (Le Vourc'h & Morand, 2011).

According to the agency theory there is a need for the function of auditing due to the incentive for management to falsify the financial statements caused by the misalignment of interest of the owners and management and the information asymmetry. The companies acknowledges these conditions saying that the mere innate suspicion of the possibility that management could distort the numbers is too big of a risk to take, and that there would be a need for the

function of auditing even if there had not been a legislative demand. The companies state that they need auditing in order to:

- Receive freedom of liability for the work carried out
- Remove doubt regarding the correctness of their work internally to the board
- Remove doubt regarding the correctness of the financial reports externally to the shareholders
- Detect errors, based on a wish to do right
- Improvement of internal control systems

When discussing the effects and importance of audit to the company the cooperation with the auditor is emphasized and when discussing definitions of audit quality, reasons for rotating and choosing a new audit firm the role and personal attributes of the auditor are the strongest arguments.

5.2 The Effects of Audit Firm Rotations

With the use of a model it would be easier to determine the effects of rotation of audit firms on audit quality. The interviewees in this study all said that the level of quality declined the first years after a rotation, if not directly then indirectly in terms of more time spent reaching the same level. However, they had difficulties in defining exactly in what way audit quality was affected. It seems as it is easier for companies to see the effects of rotation in terms of effects on functions. The use of a model such as the one presented in this study could help reduce the blind reliance on “gut feeling” and specify what functions were affected by the rotation and to what extent audit quality in general were affected. For instance, all three companies stated that much time was spent on, in their opinion, unnecessary, low-risk issues. This was believed to be caused by a mutual lack of trust. When analysing the interviews it becomes evident that this resulted in an incorrect risk profile, hindrance of prevention of errors and a lower quality of consulting.

Both Company A and C had recently grown rapidly and felt that the auditors were not responsive to their change of needs in the audit engagement. Company B rotated due to a lack of industry specific knowledge, resulting in the auditor focusing on the wrong risk areas and a sense of the auditor not caring enough. This is consistent with findings in the Williams study (1988), which showed that one of the three most commonly stated reasons for companies to change audit firms is auditor ineffectiveness, with insufficient industry specific knowledge as a contributing factor. The other two reasons mentioned is change in client contracting environment and a change in auditor reputation. A higher willingness to be interviewed when having rotated due to dissatisfaction with the auditor’s work, as opposed to managerial change or the potential embarrassment of having an audit firm involved in a scandal, could present a possible reason to the consensus in this study. Companies A and C did, however, take auditor reputation into account in the selection process as they both removed candidates from the tender process because of their involvement in audit failures.

Another study researching reasons for auditor rotation, conducted by Beattie & Fearnley (1995) showed that level of audit quality and audit fee were two of the most common reasons. All three companies mentioned audit fee as a contributing reason for rotating. Company A had seen audit fees rise from year to year without an added value and Company B wished to ensure that fee and quality was on a par. Other reasons in the Beattie & Fearnley (1995) research paper relevant to this study are:

- company growth requiring increased technical capacity, which was part of the reasons for rotation by both Company A and C, and also in C's former rotation,
- merger with another company, being the reason for Company B's former rotation,
- disagreement between auditor and client over reporting matters, being a complaint and underlying reason for all three companies.

An observation to be made is that the reasons stated by the companies to why the rotations were initiated differed from the reasons used to select a new audit firm. The motives for rotation were as mentioned, practical functions such as misaligned risk profiles and lack of industry-specific knowledge. However, the most important factors affecting the selection of a new audit firm were personal attributes of the main auditor. The practical functions were still important but were not considered the main prioritization. The companies' experiences of selecting audit firms were in concordance with the survey conducted by the FEE (2013), however, with a stronger emphasis on the main auditor as a person.

Reports from the European Commission state that auditing has evolved from a verification of posts on the balance sheet to a risk-based proceeding. The findings in this study do not support this as all the companies stated that their former auditors had a risk profile greatly varying from that of the companies. Company A and C both said that there was too much focus on verifiable, low-risk areas and that the auditors focused on accounting and auditing technique rather than the risk focus preferred by the companies. This is consistent with Öhman (2006) that showed indications of auditors prioritizing verifiable objects rather than those of high risk, being more concerned with avoiding law suits than ensuring audit quality. Khalifa et al. (2007) has examined this from another point of view, finding that a shift has occurred in the language used to describe the aim of auditing from "*business value*" to "*audit quality*". The shift supports the theory of a move away from risk-based perspectives towards audit quality-ones where there "*seems to be a need for auditing to be auditable*", which, according to the interviewees of this study, is a less desired direction. If this is correct it could be argued that if companies think that the risk-based perspective is of higher quality than the audit quality-based, then the discussion itself regarding audit quality could be harming the overall level of audit quality.

The companies were asked about their experiences during their rotations regarding factors mentioned in arguments in the mandatory audit firm debate. Their experiences are from voluntary audit firm rotation but the perceptions of changes of level of quality of specific factors could still prove to be valuable in the discussion of mandatory audit firm rotation (Cameron et al. (2009).

A well-used argument is higher start-up costs and loss of specific knowledge, such as presented by Cameron et al. (2005). The interviewees in this study all expressed a frustration at the time-consuming work at the beginning of an audit engagement due to the auditor's lack of knowledge regarding the company resulting in low quality in consulting, error prevention and risk profiling. An additional disadvantage due to the lack of knowledge is the reduced likelihood of discovering errors due to much time being spent on low-risk issues, a problem not perceived as being counteracted by increased objectivity. An additional argument in the debate is that a requirement of rotation would increase the competition on the audit firm market; it is, however, questioned by the interviewees if a requirement alone would have this effect. The CFO of Company B and the ACC of Company C states that frequency in rotation is not enough and that it requires heavy investments from the smaller firms in order to be an electable competitor to the "Big Four" firms. The argument of over-familiarity between audit

firms and client companies is not recognized by the interviewees, one interviewee describes it as an “us and them”-situation where it is never unclear where the line of appropriateness goes. The importance of timing was highly emphasized by two of the companies. Company C explained that due to a complicated business situation they waited before rotating auditor despite the need being evident for some time. When discussing the timing of the rotation both ACC and CFO expressed a strong aversion towards a mandatory audit firm rotation regulation as they stated the need of audit firm rotation being subordinated to business situations. The companies, seeing the advantages with a newly assigned auditor providing a fresh perspective, did, however, feel that the disadvantages of a rotation strongly outweighed this benefit. This is consistent with findings made in a study conducted at the SDA Bocconi School of Management in Milan (Dallocchio, 2005). The focus of the Bocconi-study was the impact of mandatory audit firm rotation, whilst this study examines the effects of voluntary rotations. The findings in the studies are similar despite the differences initiating the rotations.

The measurement most suitable to heighten the level of audit quality according to Company C is to specify the definition of what an auditor should do and what an audit engagement should involve. They blamed the many recent audit failures on the expectation gap between the public’s understanding of the role and responsibilities of the auditor and to the actual role and performance. Understanding the difficulties in changing the expectations with the public they suggested a change in the definition instead, that a more specified description would disambiguate the role and clarify the engagement, thus remove many of the insecurities surrounding the role of the auditor.

One of the major goals for the proposal of mandatory audit firm rotation is increased independence, the companies do not, however, perceive independence as an issue. This could be explained by the interviewees seeing the issue from the inside and their focus is not how it is perceived by external stakeholders, as such their perspective is that of independence in mind and not independence in appearance which is what the proposal is aimed at affecting. The companies still emphasise the importance of independence in it being a prerequisite for audit quality. The faith in current regulations and in capability of self-regulation permeating the answers of the companies should also be seen in the light of the theory presented by Hirshleifer’s (2008) which suggests that there is an inherent tendency for over confidence amongst client companies that a useful regulatory intervention exists. Key principles of independence are objectivity and personal integrity, which, as stated before, the interviewees seem to be taking for granted. This should be seen in the light of the assumption that no “un-ethical” companies would agree to be interviewed for a study such as this and that the legislatives are not aimed at the honest.

6. Concluding Discussion

This chapter presents conclusions drawn from the analysis in an attempt to answer the research questions of this thesis. Suggestions of further studies are also given.

How do three Swedish listed companies define audit quality and what variables affect their perception of audit quality?

The respondents in this study do not have an outlined definition of audit quality. During the interview it became evident that audit quality was not something that was frequently discussed in the companies. Instead of giving a definition of audit quality different factors and drivers of audit quality was mentioned. In order for the companies to perceive high audit quality a number of practical functions needed to function well, primarily providing adequate consultancy and in-house and external confirmation of quality of the internal control systems, preventing errors and attaining a risk profile corresponding to that of the company. All of the respondents stated that in order for these functions to operate adequately a number of personal qualities of the auditor is required, mainly experience, reputation, objectivity and judgement. In addition to these drivers a set of personal attributes is considered enabling factors to audit work of high quality in general, namely meticulousness, commitment, competency and pragmatism. All of the companies stated that a lack of trust was the underlying reason to a perceived low quality when functions were not being performed satisfactory. Neither company had an evaluation system of audit quality, the manner of whether trust was felt in the relationship with the auditor or not was determined through gut feeling.

When comparing the results of this study to prior research by Broberg (2013) it is found that the description used to describe audit quality in general does not give a helpful explanation of audit quality from a client company perspective. Instead, the findings in this study is used as a foundation of a model over the drivers, functions and underlying reasons to a perceived audit quality by client companies. Further studies are required to ensure the accuracy of the model but the use of such a model could prove valuable both for audit firms and client companies.

All of the interviewees agreed that the quality of the audit decreased in the first years after a rotation of audit firm, although they had some difficulties in defining how it was affected. The performance of all of the practical functions presented in the model were said to decrease in quality and a lack of trust determined to be the reason.

How is audit quality affected by an audit firm rotation and what are three Swedish listed companies' experiences in reference to the most common arguments in the debate regarding mandatory audit firm rotation?

The companies' experiences support the arguments and studies stating that a rotation causes higher start-up costs and loss of specific knowledge, a disadvantage which, according to the interviewees of this study, is not outweighed by increased objectivity. Regarding the goals of the requirement to enhance auditor independence and audit quality, the companies question if these will be achieved. In addition, the companies states that in order for the requirement to increase competition in the audit market, heavy investments are required from the smaller firms and that frequency in rotation alone is not sufficient. The findings in this study suggest that companies are unsupportive of the requirement of mandatory audit firm rotation because their experiences support the arguments against the requirement. Furthermore, they strongly

believe that companies themselves should be able to choose when to switch audit firm and not be forced to do so.

6.1 Further Research

The scarce research on audit quality from a client company perspective in combination with the limitations posed on this study in number of companies examined gives great possibilities for further research. A few suggestions being:

- A repetition of the empirical work conducted in this study to test the validity of this model
- Test the model in different industries to check for industry-specific preferences
- It would also be of interest to repeat the study in a few years when the requirement of mandatory audit firm rotation has been put into effect in order to see if perceptions have altered

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8. Appendices

8.1 Appendix 1 Interview Guide

Voluntary Rotation

When did your most recent rotation of audit firm take place?

At the time of the rotation, for how long had the previous audit firm been enlisted?

What factors influenced the decision to change audit firm?

Audit quality

How valuable is audit to your company?

How would you define audit quality?

In your opinion what factors are the main influences of audit quality?

Was these factors affected during your most recent rotation and if so, how?

Mandatory audit firm rotation

A requirement of mandatory audit firm rotation will be implemented in the European Union in order to enhance auditor independence and audit quality. What are your views regarding the new requirement?

In your opinion what are the advantages and disadvantages with mandatory audit firm rotation?

How do you believe audit quality will be affected by the requirement of audit firm rotation?

In your opinion what changes to the regulatory framework, or to the behaviour of auditors, would most improve audit quality?

Additional information

Studies on audit quality have highlighted specific factors that may affect audit quality. At the end of the interview you will be asked to fill out a questionnaire in which you will be asked to rate these factors.

8.2 Appendix 2 Questionnaire

	Not at all	Of little value	Moderately valuable	Valuable	Very valuable
How valuable is audit to your company?	1	2	3	4	5

In your view, how do the following factors affect audit quality?

	Seriously undermines	Moderately undermines	Slightly undermines	No effect	Slightly enhances	Moderately enhances	Greatly enhances
	1	2	3	4	5	6	7
Management time and costs incurred in changing auditors	1	2	3	4	5	6	7
Big Four audit firm	1	2	3	4	5	6	7
Non-Big Four audit firm	1	2	3	4	5	6	7
Competition among audit firms	1	2	3	4	5	6	7
Partners' desire not to lose status by losing key client	1	2	3	4	5	6	7
Budget pressures imposed by audit firm on staff	1	2	3	4	5	6	7
Risk of damage to audit firm's reputation from public scandals	1	2	3	4	5	6	7
Risk of damage to audit partner's personal reputation	1	2	3	4	5	6	7
Disclosure of non-audit fees paid to auditor with detailed breakdown	1	2	3	4	5	6	7

In your view, how do the following factors affect audit quality?

	Seriously undermines	Moderately undermines	Slightly undermines	No effect	Slightly enhances	Moderately enhances	Greatly enhances
Audit firm to establish policies and procedures to ensure that partner and staff are not rewarded/promoted for selling non-audit services to their audit clients	1	2	3	4	5	6	7
Audit engagement partner or independent review partner not to act for more than five consecutive years	1	2	3	4	5	6	7
Those in a position to influence the outcome of an audit not to have direct or indirect financial interest in the client or business relationships with the client	1	2	3	4	5	6	7
Total fees from listed client not normally to exceed 10% annual fee income of firm	1	2	3	4	5	6	7
Audit firm to establish monitoring procedures to ensure compliance with its policies	1	2	3	4	5	6	7
Audit committee is primarily responsible for recommending the appointment, re-appointment and removal of auditors to the board	1	2	3	4	5	6	7
One audit committee member has 'recent and relevant financial experience'	1	2	3	4	5	6	7