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Conflicting logics within the audit practice
*- a result of the new regulation regarding
sustainability reporting*

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Abstract

Title: Conflicting logics within the audit practice - a result of the new regulation regarding sustainability reporting

Aim: This study aims at exploring what logics are the key drivers of change within the audit practice due to the new regulation regarding non-financial reporting. The study further aims to see how and why the audit firms have interpreted the legislation the way they have.

Methodology: To answer the research questions of this study an interpretative study has been performed in the form of interviews with eight respondents from the six largest audit firms in Sweden. Due to the confidentiality of the documents, the authors could only see the checklist document in some cases, but in most cases just having them described orally. The interviews were held in person with three of the respondents and by telephone with the other five respondents. The interviews were semi-structured and open-ended questions were used to eliminate the possibility of influencing the answers of the respondents.

Findings and Conclusion: Three logics have been identified as key drivers of change within the audit practice due to this new regulation. The first two are the traditional audit logic (TAL) and the emerging sustainability audit logic (SAL). This study shows that there is a gap between these two logics which is resulting in different interpretations of the law, but also different levels of requirements in their internal checklists. To bridge the gap between TAL and SAL the financial auditors need more guidance and education regarding sustainability audit. The third identified logic affecting the audit industry is the competitive logic, which is shown by how the audit firms have interpreted the new sustainability law. For instance, two of the interviewed audit firms have higher requirements of what a sustainability report should contain than the Swedish annual reporting law (ARL) has. This is due to the fact that they want to become market leaders within the sustainability audit field and thereby create a competitive advantage against the other audit firms. This is shown through higher requirements in their internal checklists used as guidance and to do lists when checking the sustainability reports against ARL.

Contribution: This study contributes to the research area of sustainability audit through its findings of which logics have affected the audit practice due to this new regulation. It is shown by it being a legislation that leaves space for interpretations and thereby the different logics will affect the decisions made when designing the checklists. This can be useful in the future, but also to understand the effect new legislation regarding sustainability can have on the audit practice. This research also fills the gap of a broader research, not only focusing on sustainability accounting but on sustainability auditing as well. In addition to previous accounting and auditing research, this study proposes a wider perspective on sustainability, not only focusing on the environmental matters.

Keywords: audit practice, sustainability report, institutional logics, sustainability reporting, sustainability audit

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1 Introduction

The introduction presents the background and problem of the chosen area. Further, the aim of the research and the research question will be conferred.

1.1 Background

The audit and accounting practices have been involved in and affected by the globalisation during several years (Arnold & Sikka 2001; Arnold 2005). An interrelation has been found between globalisation and audit, as well as the accounting profession, due to the influence globalisation has on the institutions of accounting (Caramanis 1999, 2002). This creates tension and conflicts in several different ways, both among professional firms and their clients, between professions (Suddaby & Greenwood 2005), and within accounting firms (Cooper, Greenwood, Hinings & Brown 1998). In the globalisation process, audit practice has been influenced by various supranational regulations, for example by such international reporting standards as International Financial Reporting Standards (IFRS). In accounting terms, the globalisation is revealing itself in the desire to harmonise the practice and the regulatory context (Arnold & Sikka 2001; Arnold 2005). The international standards are the answer to this desire. Within EU, the member countries national standards and audit regulations are also affected by the decisions from the European Parliament. The new EU Directive 2014/95/EU is an attempt by the European Parliament to harmonise sustainability reporting within the member countries.

Implementing new standards could be difficult due to different contexts (Mennicken 2008). Thereby, it may be difficult to translate the standards into the day-to-day activities of accountants and auditors since a straightforward implementation is not enough. The audit standards are always to some extent idealised, meaning that they are more a goal of practice than a realisation. The international auditing standards show more of a neoliberal dream of control and governance than including helpful instruments for the actors to use when trying to implement the standards and organising the audit practice. Instead of guiding the auditors in how they act in their day-to-day work, the standards describe the procedures and plans that the auditors and audit firms shall develop. Hence, the standards become something that should be interpreted, and the auditors' work can thereby differ in some extent from different institutions. As much as it requires actions from the managers, it is driven to the same extent by the day-to-day activities performed by the local actors. It is also dependent on that the staff shares the same dreams and values of a more globally integrated world.

The new EU Directive, 2014/95/EU is one of the recent regulatory initiatives to harmonise accounting. The Directive states that larger entities are obliged to disclose information regarding environmental matters, employees, respect for human rights, anti-corruption and bribery (European Parliament 2014). In other words, it includes both environmental and social matters. The Directive is the first attempt to mandate non-financial information in all member countries of the EU. The Directive is not only affecting the organisations' reporting practices, but also the audit practice since they are required to assure that the sustainability reports are prepared in accordance with the law.

According to Triple Bottom Line (Elkington 1994), accounting for sustainability involves three important areas: economic, environmental and social. In the past, the audit practice has mainly focused on auditing and the assurance of the financial information disclosed in the annual reports. There have been several studies regarding the relevance of having financial auditors auditing the environmental information (e.g. Bebbington, Gray, Thomson & Walterws 1994; Collison & Gray 1997). Different groups within the society who cherish the environment have put pressure on the business community when it comes to disclosing information regarding environmental matters (Dixon, Mousa & Woodhead 2004). This pressure concerns, for instance, accepting the organisation's environmental accountabilities and disclosing the information of its environmental performance. According to Collison and Slomp (2000), every auditor should have the knowledge and ability to evaluate the consequences of environmental issues in relation to the financial statements. Since environmental issues are or will be important for some companies, auditors should have a general awareness of what impacts these could have on the financial statements. However, very little is still known regarding the auditors' knowledge and current practices when it comes to the audit of environmental matters (Chiang 2010).

As mentioned above, sustainability is more than only the environmental aspect. The need for assurance of sustainability reports, reports which also contain information regarding all three areas of sustainability (social, economic and environmental), have also been articulated (Simnet, Vanstraelen & Chua 2009). Together with the concern of the reliability and completeness of these reports (Moser & Martin 2012). Unfortunately, the broader perspective of sustainability within accounting and auditing has not been studied to the same extent as environmental matters in prior research. Hence, many of the prior research referenced in this report has a larger focus on environmental matters.

1.2 Problem

The EU Directive and its influence on the Swedish annual reporting law¹ (ARL), (SFS 1995:1554 ARL), does not only affect reporting practices of companies, but also the practices of financial auditors (European Parliament 2014). There have been prior discussions in literature regarding audit and sustainability. Some examples are the increasing need for integrating the audit of environmental matters with the financial audit (see e.g. Bebbington and Gray 1990; Collison & Slomp 2000; Dixon et al. 2004) and the financial auditor's ability and knowledge to audit non-financial information (see e.g. Chiang 2010; Collison 1996; Dixon et al. 2004). It has been stated that it is necessary for financial auditors to include environmental matters into the regular audit (e.g. Bebbington et al. 1994; Collison & Slomp 2000; Dixon et al. 2004). The main reason for this statement is the effect that events connected to environmental matters have on financial information. The new directive could be seen as an answer to the studies mentioned above, however, what does this really mean for the audit practice?

¹ In Swedish - Årsredovisningslagen (ÅRL)

Another problem is that the practice of sustainability audit and also sustainability reporting itself, are missing a benchmark. Both national and international legislations shall be followed, but the legislations do not involve much guidance, which opens up for interpretation (Öhman & Wallerstedt 2012). When adapting to an international standard there are different contexts linked to different logics and worlds that affect the interpretations (Mennicken 2008). These different contexts are formed by heterogeneity and different backgrounds leading to a missing common reference point (Mennicken 2008; Arnold & Sikka 2001; Arnold 2005). This missing reference point is a problem for the harmonisation of reporting and auditing. Further, sustainability aspects add even more complexity to the problem with missing reference points since different actions of sustainability are material for different organisations (EY 2017). The current guidelines in how the audit of sustainability reports should be performed are few and do not require much of the auditor (European Parliament 2014). The only requirement is that it should be assured that there actually is a non-financial report. In this study, it will be investigated how the legislation has been interpreted by the largest Swedish audit firms and how it influences the audit practice.

1.3 Aim

This study aims at investigating what logics are the key drivers of change within the audit practice due to the new regulation regarding non-financial reporting. The study further aims to explore how and why the audit firms have interpreted the legislation the way they have.

1.4 Research question

- How and why do the auditing firms interpret the new law in practice?
- How does the new legislation in Sweden change the auditor practice?

1.5 Outline

In the first chapter of this thesis, the introduction was presented, containing background, problem, aim and research question. The second chapter presents the theoretical framework of this study, where previous research and the chosen theory are presented. The third chapter presents the method used in this paper when choosing respondents, collecting data and performing the data analysis. The fourth chapter presents the empirical findings in the study, i.e. the data generated from the interviews, followed by the fifth chapter where the result of the study is analysed through the theoretical framework. The final chapter, chapter six, presents the conclusions of the study. The contribution of the study and proposals for further research are also presented in chapter six.

2 Frame of reference

The frame of reference presents the previous knowledge within this chosen research area together with the concepts and the meta-theory that are connectable to the auditing practice and organisational change.

2.1 The auditor practice and its development over time

Defining the audit practice is difficult since there is no exact agreement regarding what auditing really is (Power 1999). However, it can be stated that it is a way of creating trust, where the core idea is that the audit provides credibility for the financial statements (Collison 1996). Auditing as a profession emerged in the middle of the 19th century, due to the separation of ownership and control (Öhman & Wallerstedt 2012). This resulted in an increase of the companies' dependency on external investors. In Sweden today, there is a common idea that auditors should not only act on the behalf of the shareholder, but the society in general should also be taken into account when performing the audit (Jönsson 1991; Larsson 2005). Auditors have a responsibility to ensure that the public interest is met and that the financial statements are credible (Oliverio 2004). There is a considerable high amount of information that the auditors need to bear in mind when performing their day-to-day practice (Bedard & Graham 1994). Some examples are the characteristics of clients, business environment, technical auditing standards, and a risk analysis where potential audit risks connectable to the client shall be identified.

The audit practice has had the similar looking practice and meaning almost from the start in the middle of the 19th century (Öhman & Wallerstedt 2012). Hence, the practice has not developed dramatically over time. The focus since the start of the profession has been on financial information and the auditors are expected to adapt their audit to new regulatory requirements, both international and national. However, in recent years the digitalisation came into the business world, affecting also the audit profession and its practices (KPMG 2017). As discussed in the introduction, globalisation has also influenced the audit practice, in a harmonising sense (Suddaby, Cooper, & Greenwood 2007). Prior international standards like IFRS and now the EU Directive, are answers to the need of harmonisation.

Increases in legislation and improvements in governance is a large driving force in the development of the practice (ACCA 2016). Globalisation and harmonisation is another driver to keep developing and maintaining e.g. technical knowledge, ethics, and interpersonal behaviours. Connected to the global and harmonising drivers is the expectations on the accounting and auditing practice. When the wide public raises awareness of different problems they will require more from the auditors and accountants. Sustainability is an issue that has an increased focus on society, which affects businesses all over the world as well. Investors and other stakeholders expect more from companies, which also influences the audit profession and practices. To meet these growing expectations the professionals will need to adapt their practices.

2.2 Audit of sustainability disclosures

The new EU Directive is the first in EU and Sweden regarding sustainability reporting, that includes private companies and makes the disclosure of non-financial information mandatory for all larger entities. Since the legislation came into force in December 2016, the reports will be read by an auditor for the first time in 2018, hence there is no previous research regarding the outcome. However, sustainability accounting and audit, mainly with a focus on environmental matters, have been discussed in prior literature (e.g. Bebbington et al. 1994; Blokdiik & Driehhuizen 2006; Chiang 2006, 2010; Chiang & Northcott 2012; Collison & Slomp 2010). However, the literature is more extensive on accountants than auditors, but since auditors face similar problems, the literature regarding the accountants and environmental matters is relevant also in this case (Bebbington et al. 1994; Deegan, Geddes & Staunton 1996; Jaggi & Zhao 1996).

According to prior literature, the accounting and auditing practices have not developed enough within the sustainability area (Bebbington et al. 1994; Chiang & Lightbody 2004; Deegan et al. 1996; Jaggi & Zhao, 1996). Hence, they do not fulfil what the stakeholders expect. Some factors have been found to be the reasons for the lack of development within the sustainability area. For instance, that accountants' and auditors' do not have the full understanding of how environmental information should be audited and how that information impacts the financial information, have been discussed (Bebbington et al. 1994; Chiang 2006, 2010; Chiang & Lightbody 2004). There is also insufficient education in how to recognise and respond to challenges outside the recent audit and accounting techniques. Further findings are that auditors are reluctant to include environmental matters with financial information when performing the financial audit. A tool to help the auditors include the environmental information is an environmental checklist for the audit of annual accounts (Blokdiik & Driehhuizen 1992). The checklist could make the environmental risk analyses easier and help them to see the financial consequences of the risks. The European Parliament does also recommend a standardised checklist on environmental and social issues, in order to enhance consistency (EU 2004).

Prior research has examined how concerned auditors were to involve environmental matters with the audit of financial statements (Chiang 2006). The survey showed that auditors were reluctant to include environmental matters since they perceived their current role as demanding enough. Chiang and Northcott (2012) explored what factors that drive the change of audit practices into including the audit of environmental matters in the audit of financial reports. One finding was that the audit practice would be forced to change if the audit of environmental matters became a legislative requirement. Education was another important factor when shaping the attitudes of the auditors. This was considered the first step on the road to practice improvement among several respondents. Research, integrated with education and practice, could increase financial auditors' knowledge regarding environmental matters (Dixon et al. 2004). In order for the financial auditors to cope with the demand of the audit of environmental matters, they will need professional guidance that could address items such as environmental disclosures and independent verification. Further, coercive factors were concluded to be the central incentive when changing the attitudes and practice of the auditors. Also, Collison (1996)

found that even if environmental matters occasionally is included in the audit, it is rarely a top priority.

Chiang and Northcott (2012) described in their article why the auditors and accountants are not ready for the challenges connected to environmental matters and stated the reasons in five key arguments. First, it is argued that the practitioners do not have enough technical or scientific environmental knowledge to be considered as environmental professionals (Clarke & O'neill 2005). Second, to prepare accountants and auditors for dealing with new professional challenges, like environmental issues, the development of social and ethical aspects is crucial in the accounting education (Dixon et al. 2004). Third, it has been suggested that the professional engagement with environmental issues is affected by accountants and auditors own concerns and beliefs for the environment (Bebbington et al. 1994; Deegan et al. 1996). Hence, the auditors' attitudes need to shift, not only as individuals but also as a group of professionals (Deegan et al. 1996). To grow personal and professional attitudes, who care for a sustainable future, is one key driver of practice change. Fourth, one strong force that could help to evolve the involvement with environmental matters within the professions is the globalisation (Newson & Deegan 2002). Globalisation is affecting local organisations and auditors when there is a need to be able to validate the sustainability reports towards foreign consumers and investors (Newson & Deegan 2002). The sustainability reports should meet international standards regarding environmental reporting. In other words, sustainability reporting should be harmonised. Fifth, environmental crises have made stakeholders and other public parties aware of potential problems due to the impact entities have on the environment (Dillard, Brown & Marshall 2005) The demand from these groups can therefore be seen as a potential driver of change within the environmental audit practice.

2.3 Regulatory context

There are some differences in regulation when it comes to the audit of financial and non-financial information. The regulatory context within the financial audit is extensive with international accounting standards, like IFRS/IAS and international auditing standards (ISA), as well as national accounting standards, like Sweden's ARL (Annual reporting law) and K-regulation (Humphrey, Loft & Woods 2009). The use of the international standards for the preparation and audit of financial reports were supposed to make it more transparent for global investors. It was expected to create a 'level playing field', where national standards might mislead. The international standards and an international financial architecture have been needed to harmonise the audit process. However, these kinds of standards do not exist when it comes to the preparation and audit of non-financial reports. The only existing regulatory frameworks for non-financial reporting, like Global reporting initiative (GRI) and Integrated Reporting, is voluntary (GRI 2017; Integrated reporting 2018). There has not been any previous international regulation that requires non-financial reporting, hence the new EU Directive is the first mandatory regulation affecting private firms. However, there is yet no standards like IFRS or IAS developed for the mandatory non-financial reporting.

2.3.1 EU Directive 2014/95/EU and ARL

Regardless of the issues discussed above regarding the auditors' lack of knowledge to deal with sustainability challenges, European auditors are now forced to take on sustainability reports due to the new EU Directive. The Directive concerning sustainability reporting shall be applied by the targeted companies from the financial year of 2017 (European Parliament 2014). This new legislation is decided upon by the EU and the companies concerned by this law is the ones that have fulfilled at least two out of the three following requirements in the last two fiscal years: at least 500 employees, balance sheet total over 175 million SEK and net sales over 350 million SEK (Tidningen Balans 2017a). However, the member countries can choose to use a tougher limit in their national laws and thereby target a higher number of companies. Such as Sweden has done when choosing to lower the limit to 250 employees in ARL (Seminar EY 2017). By having the lower limits, approximately 1600 Swedish companies will be forced to report on the non-financial information presented in the ARL.

This law affects different areas of sustainability and not only the environment (European Parliament 2014). Those areas are the environment, societal conditions, employees, human rights and anti-corruption (Tidningen Balans 2017b). There is also a requirement to describe the companies' business model and the risks associated with the policies on the areas mentioned above. The companies shall account for their diversity policy applied for management and supervisory bodies, and in cases where they do not have any policy, they shall describe why. EU has also encouraged the organisations producing their sustainability reporting to rely on recognized frameworks such as GRI.

2.3.2 Critique against the new directive

The new EU Directive is something stakeholders have been longing since the increased amount and published information will make the consumers more informed about the sustainable and unsustainable actions made by companies. However, the Directive has also been criticised to a fairly great extent for its missing quality control of the disclosures (Seminar EY 2017). In a traditional financial audit, the auditor's task is to check the information written in annual reports against supporting documents and verifications to offer the stakeholders a quality guarantee (SFS 2005:551 ABL 9:39). According to research, the quality of sustainability information has increased during 2008-2015, however, it is doubtful that the usefulness and value relevance has increased to the same extent (Tidningen Balans 2017). Especially when it comes to the possibilities in valuing, tracking and comparing the companies' performances within sustainability. This will not change with this new law either since the auditor's task is not the same when auditing the non-financial information as when auditing the financial information. The aim of the sustainability audit is not to ensure that the information disclosed is the most essential or use verifications in the audit. Instead, the aim of the audit of the sustainability reports is for the auditor to give an opinion if the sustainability report has been prepared in accordance with ARL (FAR 2017). To ensure this the auditor only needs to see if the headlines are included and that the information within each section is relevant to the client. Thereby, they do not have to guarantee that the information is truthful.

Hence, the critique is built upon the low level of trust in the information given in these reports, since it will not be audited as a traditional financial audit. According to Pavan Sukhdev (Balans 2016), “the auditors have the ability to save the world”, in that sense that most of the information offered to stakeholders is aimed at investors and potential investors. Without a quality control of the sustainability information, the “owner-capitalism” will remain instead of developing a “stakeholder-capitalism”. With an audit of the sustainability reports the companies’ actions will matter more and in the future the people and environment can stop paying the price of the companies’ profits.

2.4 No reference point in auditing or sustainability

One problem when it comes to the audit practice and the introduction of the new EU Directive is the lack of reference point in auditing. The most difficult aspect of adapting to an international standard is the multiple contexts that shall be connected (Mennicken 2008). For instance, the ISA does even as one organisation contain multiple contradictory contexts that both promote the connection between different parts of the world, but also disconnecting others. In the case of Mennicken’s (2008) study, the different worlds are the west and the east right after the fall of the Soviet Union. The different contexts have to be identified and understood, which could be a very difficult task in some cases. Every association connected to audit are built upon heterogeneity and diverse historical background which have shaped these different contexts.

Power (2015) confirms the previous statements claiming that the research he has performed on UK universities shows that accounting never just begins but is always driven by multiple possibilities. These possibilities gather and become drivers of change at both a field and an organisational level. This shows that there is a missing reference point in accounting and auditing, the practices are originating from different drivers. They are still affected by multiple drivers in the form of different practices that become incorporated in the field. Accounting is always changing due to changes in some of these drivers, for instance, the growing platform organisations as eBay, Uber, and Airbnb represent a disruptive phenomenon in a contemporary capitalism according to Kornberger, Pflueger and Mouritsen (2017). With the change of accounting, the audit practice will adapt to these changes, especially the bigger changes as this new sustainability law. O’Dwyer (2011) states that sustainability assurance and e-commerce assurance are the things creating the competitive advantages for the most prominent actors within the audit field. According to the article, the most important thing for an auditing firm in the 21st century is to be able to translate the core competence that they have within the financial audit into the growing non-financial disclosures.

Another problem is that there is no reference point in sustainability either. The framework of sustainability accounting is described as measuring performance towards sustainability (Lamberton 2005). Figge and Hahn (2013) have tried to create a model of value drivers of corporate eco-efficiency, where actions connected to sustainability, like CO₂ emissions are incorporated in the traditional capital efficiency model. In their eco-efficiency model, they have put monetary values on the CO₂ emissions to gain a number of the sustainable level of the firm. This model should be used to make it easier to measure sustainability. Sustainability is all about measuring performance towards sustainability, but it is needed to have a model to be able to

measure it. However, the eco-efficiency model has not yet been drawn from literature to the practitioners (Peter Beusch 2016).

2.5 Institutional logics perspective

Institutional theory focuses on explaining why organisations tend to appear homogeneous in their practices (Meyer & Rowan 1977; DiMaggio & Powell 1983). Over time, the theory has developed arguments highlighting the importance of actors, their interpretations and logics that shape the organisational practices. This developed approach of institutional theory is called institutional logics perspective (ILP). It is an expansion of scope that focuses on social actors and organisational heterogeneity rather than homogeneity and institutional isomorphism. ILP developed in the roots of criticism regarding neoinstitutionalism's acknowledgement trying to explain how organisations tend to behave and look similar due to its surroundings i.e. institutional forces (DiMaggio & Powell 1983; Meyer & Rowan 1977). Instead of focusing on the similarities, ILP aims at describing how institutional rationality can stipulate the foundation in explaining practice variations among organisations. This is highlighted through the alignment between ILP and institutional sources of actor behaviour. There are multiple definitions of ILP, for instance, Lounsbury (2008 p. 353) denoted that ILP is:

“broader cultural beliefs and rules that structure cognition and guide decision-making of actors in a field”.

ILP is an approach that merges several theories, i.e. a meta-theory, on how the underlying logics in institutions shape change, heterogeneity and stability in organisations, and individuals (Thornton & Ocasio 2008). The development of ILP as a new approach to institutional analysis was a counterforce to the institutional isomorphism and diffusion studies (Lounsbury 2008; Thornton, Ocasio & Lounsbury 2014). The focus in ILP has moved towards heterogeneous behaviours and forms due to a variety of cultural meanings and how it diverges by institutional order. In 1991, Alford and Friedland argued that the diffusion of organisational models is the result of the effects of multiple and concurring logics on the institutional context (Lounsbury 2008; Thornton, Ocasio & Lounsbury 2014). The most prominent explanation to why one logic becomes dominant within a field is power (Eriksson-Zetterquist 2009). The key of ILP is to explain different actions depending on how organisations and individuals are located within and influenced by contrasting institutional orders rather than about making a distinction between rational and non-rational actors. Each and every institutional order provides a unique rationality, which then affects the actor within the institution (Thornton, Ocasio & Lounsbury 2014). There are different logics and combinations of logics that can be identified as influencing and dominant in different situations and organisations, hence there is no general list of logics that can be applicable for each specified situation.

ILP has been used as a theoretical lens in prior research within accounting. This accounting research has shown that conflicting and coexisting institutional logics can influence the use or design of, for instance, accounting information systems (Hyvönen, Järvinen, Pellinen & Rahko 2009) and environmental management accounting (Järvenpää & Lämsiluoto 2016). Canning and O'Dwyer (2016) researched how independent oversight bodies break through the international

accounting regulatory environment. They also studied how shifting regulatory logics both shape and are shaped by different institutional work that has been undertaken.

Ramirez (2013) studied what situations of perceived injustice created by institutional change that could occur within the audit profession. In the study, it is discussed how corporate logic supplanted fiduciary logic. Corporate logic is described as an empowerment of how management influences on the governance of professional audit firms. In turn, fiduciary logic considered that professional practice is about selling and building legitimacy. Ramirez (2013) also discusses how institutional logics carry beliefs, norms, and values that may contradict each other in times of changing logics.

2.6 Motivation to the frame of reference

The frame of reference has its focus on the audit practice and its development. It also shows some of the existing discussions regarding the relevance of having auditors auditing and assuring non-financial information. Previous studies have focused more on the audit of environmental matters, but there is also some research on sustainability reports which include social matters. Further, the lack of a reference point will be discussed in this thesis and thereby previous literature on the subject was presented. This frame of reference has been chosen in order to answer the research questions which focus on the change in the audit practice and interpretation of the new legislation.

In order to understand why the interpretations of the law have been done the way they have; the theoretical framework will be an essential tool in the analysis. Due to the new EU Directive and the change of the national legislation, ARL, both the companies and the audit firms are affected. Hence, it is a relevant subject to discuss. ILP will be used as a theoretical lens and the logics creating the change in the audit practice and the heterogeneity between audit firms will be identified. This frame of reference will help the authors of this thesis to understand the complexity that the audit practice is facing when adjusting to the new legislation.

3 Method

In this section, the chosen method for this research will be presented, together with a presentation of the respondents. This is followed by a description of how the analysis of the empirical data has been performed and ends with a critical discussion regarding the research quality of this study.

3.1 Research approach

To answer the research questions of this study, how and why the auditing firms have interpreted the new regulation the way they have and how the new legislation has changed the auditor practice in Sweden, an interpretative method has been used (Collis & Hussey 2013). Through an analysis of qualitative data, in the form of subjective thoughts of the respondents, an interpretative method is the most suitable. According to Silverman (2006), the choice of method shall be based on what you want to find out. The most difficult part of doing a research based on qualitative data is finding a middle way between representation and reality. By interviewing the largest audit firms in the industry and comparing them in this thesis a middle way is found between these two. The research is based on each respondent's subjective answers; however, it is put in a greater perspective by comparing it to other actors within the industry, and in two of the audit firms another respondent at the same firm.

The research questions shall be answered using information gathered through interviews with eight respondents working at the six largest auditing firms in Sweden. For a description of the selection of respondents and audit firms see the following two sections.

3.2 Selection of audit firms

The new regulation affects almost 1600 of the largest companies in Sweden, making it mandatory for them to disclose non-financial information (Tidningen Balans 2016). The largest auditing firms were chosen to represent the auditing profession and practice in this research. The so-called "Big six" containing PWC, EY, KPMG, Deloitte, BDO and Grant Thornton represent 72% of the auditor market share in Europe (Auditanalytics 2016) and the "Big four", which excludes BDO and Grant Thornton from the top auditing firms, audited 90% of the companies listed on NASDAQ Stockholm in 2010 (Affärsvärlden 2010). Thereby the choice of interviewing representatives from these six firms was made, hence this thesis will contain the largest audit firms within the industry. Further, the assumption is made that the large companies targeted by the new sustainability law are audited by the largest audit firms.

3.3 Selection of respondents

The respondents were chosen on two parameters; they shall be working with the audit of these new sustainability reports and/or they are in the specialist group of sustainability within the audit industry association FAR (FAR 2018). This selection was made to gain both the perspectives of the auditors who will review the sustainability reports and those who have worked with the interpretation of the legislation on a national level. These FAR specialists provided an industry perspective on the subject, but also described the method of creating guidance documents.

Due to the fact that the sustainability reports are not required to be audited in the traditional financial sense, there are not only financial auditors that perform the “audits”². In AF3 they have sustainability specialists, which are consultants and not auditors, who are doing the “audit” of the reports. Therefore, we decided to interview one of the representatives from this consultant group (Respondent 3), even though the respondent is not an auditor. This to be able to compare the audit firms. However, it has been noted that this interview does not provide information about how the auditors’ tasks have changed. Hence, the decision was made to interview another representative from this audit firm (Respondent 8*), who has a background as a financial auditor but is now working solely with sustainability reporting. Respondent 8* is also a specialist member of FAR. Due to this second interview, the complete picture of both the work with the “audit” of the sustainability reports, the auditor’s role within sustainability “auditing”, and also the FAR perspective from this audit firm was collected.

At AF6 the same issue was discovered, there were only sustainability specialists that were consultants and none of them were auditors. The decision was made to only interview one of the consultants (Respondent 7) and none of the auditors. The respondent could describe how much of the “audit” of the sustainability reports were made by the auditors, and which day-to-day tasks that were connected to these new reports.

² As mentioned in the literature review, there are no quality requirements for the information disclosed in these new sustainability reports. In other words, they are not audited as the financial information is, they are just “looked at” as the respondents prefer to call it. However, in this thesis, the researchers have here on decided to call it “audited” since the report is still read through and the auditor shall decide whether or not the information presented is relevant and trustworthy based on the knowledge of the company. Hence, when the term “audit” or “audited” is mentioned in this report, it means that the auditor has read through the information but has not checked it against supporting documents and verifications as in the financial audit.

3.4 Data collection

Date	Type of interview	Audit firm	Type of position at the audit firm	Respondent
23-02-18 08.00	In person, Gothenburg	AF1	Auditor and sustainability reporting specialist	Respondent 1
02-03-18 13.00	Telephone, Stockholm	AF2	Auditor and member in FARs specialist group of sustainability	Respondent 2*
06-03-18 10.00	In person, Gothenburg	AF3	Consultant and sustainability reporting specialist	Respondent 3
13-03-18 09.30	Telephone, Stockholm	AF4	Auditor and sustainability reporting specialist	Respondent 4
19-03-18 10.00	Telephone, Stockholm	AF5	Auditor and member in FARs specialist group of sustainability	Respondent 5*
19-03-18 13.00	Telephone, Stockholm	AF1	Auditor and member in FARs specialist group of sustainability	Respondent 6*
27-03-18 14.00	In person, Gothenburg	AF6	Sustainability reporting specialist within FAR, but not a member of the specialist group	Respondent 7
28-03-18 15.30	Telephone, Stockholm	AF3	Auditor and member in FARs specialist group of sustainability	Respondent 8*

Table 1 Showing the interviews that has been done

The respondents marked with a "" are members of the FAR specialist group*

3.4.1 Interviews

The interviews were semi-structured (Silverman 2006). The questions were prepared in advance and sent to the respondents before the interview, in order to give them a chance to prepare themselves. During the interview, the questions were not asked in the exact same order as they are written and the focus was on open-ended questions. The conversation was adapted to the situation and the questions asked was connected to the previous answer from the respondent. Sometimes some answers covered multiple questions and in those cases the questions were ticked off without being asked. Depending on the respondent, two different question forms were used, one just for auditors/consultants (Appendix 1) and one for the FAR members (Appendix 2). The FAR members were also asked selected questions from the first form. However, not the ones that were similar to the ones from the “FAR form”. The questions were written in Swedish at first and the interviews were also performed in Swedish. This due to the fact that in all cases the respondents and authors of this thesis have Swedish as native language and the result of this research was assumed to be better if all participants expressed themselves in the language they are most comfortable in. Therefore, the interviews were also transcribed in Swedish and then translated into English when writing the empirical data section.

The in-person interviews were recorded and both authors of this report took part in the conversations. However, a problem arose when doing the telephone interviews. It was difficult to have a three-person conversation over the phone without the participants accidentally interrupting each other. Thereby, the decision was made that only one of the authors talked during the interview and the other sat stand-by and helped keep track on which questions to ask next. By using this method, the times where the author and respondent interrupted each other was decreased and it enhanced the structure of the interview.

The respondents’ names and respective audit firms are not revealed in this thesis to increase their incentives to open up and tell us their real opinions. Thereby, the respondents are numbered and the audit firms as well. As shown in the table above there are two audit firms that were represented by two people. This was done due to the fact that the respondent in Audit firm 1 from the Gothenburg office is not a FAR member (but still an auditor and a specialist within sustainability reporting) and at AF3 Respondent 3 was not an auditor, but performed the audit of sustainability reports at their audit firm. Therefore, interviews were performed both with the representative doing the audit in Gothenburg, but also interviewing FAR members working with the audit of sustainability reports at the Stockholm office to broaden the answers from these audit firms.

3.4.2 Document review

The only documents used by the audit firms were the checklists, which serve as a function that structures the audit of the sustainability report. All six audit firms used an internally created checklist to help them with their audit procedures. Due to the fact that this type of documents is confidential, the respondents could not send us the checklists. However, in the telephone interviews, the respondents were asked to describe their checklists in detail and how it was structured. When performing the interviews in person (in two out of three cases) the respondent

showed us the checklist and described the way of working with it. This was a way to go around handing them out, but still providing the information needed to make this study.

3.5 Data analysis

The empirical findings have been structured in accordance with the research questions, by answering how the interpretation of the new law has been done and how the audit practice has changed. The analysis section covers the answer to why the interpretation has been done the way it has in the interviewed firms, structured according to the model presented below. Silverman (2006) suggests that the result shall not be presented by starting in an evasive way, instead, the major point shall be presented first and then followed by the information that leads up to that great point. This has been chosen to be followed in this thesis in that way that the structure is to answer one part of the first question directly in the first sections and the second question in the second part of the empirical findings. The presentation will not be evolving in any other way than that the other part of the first question will be answered in the analysis section.

3.5.1 Analysis model

To analyse the empirical findings through the literature review, the following analysis model will be used. The model shows how the interpretations made in the audit firms are influenced by different logics that shape the interpretations. These interpretations made are then believed to have an impact on different tools used by the auditors and the change of the audit practice. The design of the tools is in turn believed to also be affected by institutional logics. The change in audit practice is believed to not only being influenced by institutional logics but also other drivers of change. The analysis model has been created by the authors of this thesis in order to structure the analysis. The inspiration when creating the model comes from institutional logics and Thornton and Ocasio (2008).

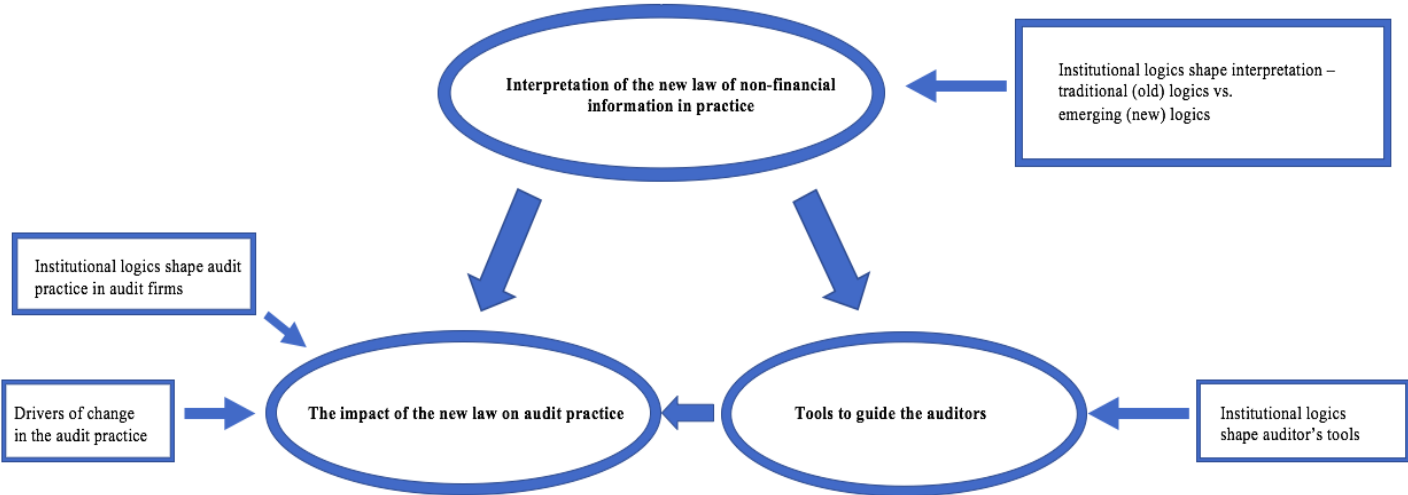


Figure 1. The analysis model of the thesis

3.6 Research quality

Research literature regarding methodology describes reliability and validity as two factors to determine the research quality, however, there has been a discussion regarding their relevance when using qualitative data (Bryman & Bell 2013). Hence, an adaptation of this concept has been made to better fit the qualitative data. However, the authors of this thesis agree with many of the researchers on the subject, that a research based on qualitative data shall not be evaluated on concepts better fitting to quantitative data. The critique is based on the fact that reliability and validity presume that there is only one true picture of the social reality, while qualitative data is based on the subjectivity of the people contributing to the research. Thereby, alternative criteria presented in Bryman and Bell (2013) are chosen to determine the research quality of this thesis. This alternative method is based on the concept of trustworthiness, including the four criteria credibility, transferability, dependability, and confirmability. This instead supports the subjective picture of the words captured in the qualitative data, but still makes the researchers reflect upon the authenticity of the information provided in this thesis.

To fulfil the criteria of credibility in this study the respondents have been granted the ability to read through the result before the final draft to confirm that the researchers have grasped a fair picture of their reality (Bryman & Bell 2013). Multiple respondents have accepted this offer. Another methodological aspect that strengthens this, is the use of multiple sources when gathering literature; seminars, lectures, books, journals, and web pages. This to be able to compare information from different sources and increase the credibility of it.

The second criteria, transferability, focus on the aim of having thick descriptions in the result to make it transferable to another environment (Bryman & Bell 2013). This criterion confirms the external validity and is often a problem for qualitative studies since they are often based on case studies. In this thesis, the focus lies within the auditing practice and the effect of the new sustainability reporting legislation. This is a fairly narrow subject and is not that transferable into another industry that does not function in the same way as the auditing industry. However, this research is still transferable into other subjects within the auditing profession and/or practice since it focuses on the changes within audit firms.

According to the third criteria, the dependability of the research shall be stated, meaning that information shall be provided in the research that helps make it repeatable with consistent findings (Bryman & Bell 2013). The information given through e.g. the collection and analysis of data helps to provide the information needed to fulfil this criterion.

Lastly, the fourth criteria presented by Bryman & Bell (2013) is conformability, which covers the aspect of objectivity. To fulfil this criterion the researchers have used open-ended questions for the interviews to reduce the risk of affecting the respondents' attitude based on own opinions or known literature.

4 Empirical findings

In the following section, the data generated from the interviews and document reviews will be presented. The empirical findings have been divided into two sections. The first section describes how the audit firms have interpreted the new law of non-financial reporting and the second focuses on how the audit practice has changed.

4.1 How have the auditing firms interpreted the legislation?

To understand how and why the auditing firms have interpreted the legislation the way they have a larger perspective is tried to be reached by looking at the work of the Association of Chartered Accountants in Sweden called FAR. Then a drill down is made to see how the work has changed within the individual audit firm. The findings will be presented in the sections below.

4.1.1 The FAR specialists

FAR is a norm-setting organisation that provides consultancy and guidance to professionals in the areas of audit, accounting, and taxation (FAR 2018). FAR has a group of specialists focusing on sustainability reporting who are also members of the five largest auditing firms in Sweden. The two largest audit firms in Sweden, PWC and EY have two representatives each, while Deloitte, Grant Thornton, and KPMG only have one representative from their firm. The participants in this group mainly have their background in auditing and they are meeting once a month. Some of them have moved from a financial auditing background towards a sustainability consulting focus, for instance, Respondent 2* and 8*. Respondent 5* and 6* are still working with financial auditing and are specialists at their audit firms within sustainability reporting and auditing.

Respondent 6* described the main activities within this group as deciding “god sed” (fairly equal to “good practice” in English) and answering referral cases and different questions regarding sustainability reporting. They also try to interpret the sustainability legislation and try to provide guidance to auditors in different sustainability questions. Further, they are the judges when the best voluntary sustainability report is elected each year. According to Respondent 8*, most discussions in the group during the past year have been linked to the new Directive from the EU. This Directive has been interpreted in ARL and thereby incorporated into Swedish law. The FAR specialist group has helped the industry with guidance on how to interpret the law from ARL. They have also tried to guide the audit firms in how the legislation shall be applied in practice, both for auditors and their clients. Respondent 8* stated that they have officially provided the industry with two documents that shall help with this guidance. Alongside with these documents, they are answering specific questions brought to the group directly from their respective audit firm. One of the prepared documents is an FAQ which the auditors can use when “auditing” and clients when producing the reports (FAR 2017). To provide further guidance to the industry they have also translated an example report originally released by the EU. This is something that almost all of the respondents felt that their clients and also fellow auditors were requesting. However, the respondents from the specialist group found this to be problematic. Firstly, it is yet too early, meaning that there are not enough published reports to find a good example. Secondly, all organisations are facing different

problems when it comes to sustainability, hence it is difficult to develop a template that is applicable to all organisations.

To help the auditors further, Respondent 6* explained that there have been possibilities for education within the FAR academy and Redovisningsrådet Rekommendation. However, these have not been plenty. Respondent 8* stated that the main task of this specialist group is to develop a best practice within the industry. The group has tried to find consensus among all audit firms when it comes to the interpretation of the legislation and how it should be applied. This in order to create the desired best practice and to harmonise the audit practice. However, each audit firm can choose how they want to work at a more detailed level.

4.1.2 From assurance of voluntary sustainability information to the assurance of mandatory sustainability information

There are multiple differences between the audit of sustainability reports and the audit of financial information. Especially since there is no requirement of a traditional audit of the new sustainability reports, hence the sustainability information is not assured in the same way as the financial information. As Respondent 5* described it, the text is only supposed to be “audited”, the information is not assured through verifications. The sustainability reports thereby become an additional concept that is included in the audit practice. Then there are the voluntary sustainability reports that can be assured in accordance with the traditional audit if it is requested by the client. Respondent 5* argued that these different practices in how to perform an audit might be the issue with the legislation. This together with the space for interpretation, which will be discussed later.

Common within all the interviewed audit firms is that they have all experienced sustainability reports and the assurance of them before. However, even between the audit of a voluntary sustainability report and the sustainability report that should be prepared in accordance with ARL, there are differences (ARL 1995). Respondent 1 described that the voluntary reports are often prepared from existing standards like GRI and these reports should then be audited in accordance with this framework. The voluntary sustainability report has previously been performed by public and larger organisations and many of them have chosen to have the reports assured by an auditor. However, it is not mandatory to have the voluntary report audited by an auditor. The organisation needs to buy it as an additional service and the auditors who have knowledge of the sustainability area have been the ones performing this audit. Hence, prior the new legislation there has not been any requirement for regular auditors to have any knowledge regarding sustainability issues.

All respondents stated that the new legislation leaves space for interpretation. Four out of the six audit firms therefore have decided to have higher requirements in their “audit” in order to make it more concrete for the auditors. These requirements will be discussed further in the next section when presenting the checklists.

4.1.3 Auditor's checklists

All of the six interviewed audit firms use a checklist as a tool to remember to ensure that all the information that the sustainability report should contain is included. They also use the checklist to document and structure their "audit". Further, the checklist has a function of making the legislation less interpretational for the auditors and the tasks to be done more hands on. All six of the audit firms use an internally created checklist, however, they do not all contain the same requirements. Only two of the audit firms, AF1 and AF6, noted that their audit is set at the same level as ARL. Meanwhile, the four other firms have slightly higher requirements internally for their "audit", their internal checklists go a little further than legislated by ARL. In AF2 for instance, they have their own perception of what a good sustainability report should look like, they call it "our point of view". Respondent 2* described it as they have some requirements that are connected to some kind of best practice. These are higher and require more from the client's report than ARL states in the sixth chapter.

Respondent 5* stated that their checklist goes further than the requirements from ARL, forcing their auditors not to just read through their clients' sustainability reports, but also to decide if the information presented is reasonably right. This is not controlled against underlying documents, but against the knowledge that the auditor shall have about the client. The auditor shall be able to state whether or not the information presented is reasonable. AF3, where Respondent 3 showed us the checklist and Respondent 8* described it, are united in the opinion that their checklists are fairly equal to the requirements set in ARL. However, one thing makes them go further and that is their requirement of a thorough description of the company's sustainability risks. Within their checklist there is also a description of what a sustainability risk is and how to find it in the sustainability report.

Respondent 2* continued to describe the aim of their checklist, which is to work as a step-by-step guide to the financial auditors. However, it is supplemented with examples to make it even clearer for an auditor not specialised within sustainability. Respondent 2* explained that the checklist is based on two parts, where the first part covers the sustainability information and the second one regards the business model. AF2 wants their clients' disclosures regarding the business model to be longer than three sentences, which it could be by only following ARL's requirements. By describing the business model in a more detailed way it is believed that it is easier for the reader to understand everything that supports the information. The checklist at AF2 is also more detailed with descriptions in general terms to make it easier for the financial auditor to understand what has to be done and what the sustainability report should contain. According to Respondent 2*, multiple of the sustainability areas are very abstract and need to be clarified for the auditor before starting the "audit", which their checklist helps with. Respondent 2* continued:

"We want to be the best in class, hence we have developed more guidance in our checklist and thereby also require more from our clients."

Respondent 2*, 2018-03-02

At AF4, Respondent 4 mentioned that they have gone further than the legislated requirements by ARL:

“We go further in the way that we want to look at how the client has reached the information that they have presented in their report. We shall check if they have had a stakeholder dialog, have done a materiality analysis, what risks they can see and what processes they have applied within the organisation. Then it is the auditor’s task to identify which of these areas that are applicable to which companies. Smaller companies that have not really started their sustainability work yet, may not be suitable to go into that much detail when “auditing” them, but the questions are still there to guide the auditors”.

Respondent 4, 2018-03-13

Both Respondent 1 (AF1) and Respondent 7 (AF6) discussed the fact that there is no requirement in ARL that says that the board of directors have to sign the sustainability report. However, they mentioned that RevR 12 state that a rep letter has to be collected from the board of directors in this case. The auditor shall not have to sign a report that the board of directors does not stand for by not signing it. AF1 and AF6 are the audit firms that mention that their checklists are completely aligned with the ARL requirements. However, they add the requirement that the board of directors needs to sign the sustainability report in accordance with RevR 12.

4.1.4 No reference point in sustainability auditing

The respondents agree that there is a problem when it comes to the non-existent reference point within sustainability and the difficulties in setting a materiality level on sustainability information. They state that it is not impossible, however it is more difficult than with financial information since all organisations are facing different sustainability issues and different parts of sustainability, e.g. social, environment, corruption, have different materiality for different organisations. Therefore, more focus is put on what is fair when it comes to the disclosed sustainability information, in comparison to the financial information. For instance, Respondent 8* stated that it is possible to have a materiality level, but there needs to be a completely different assessment. In financial auditing only one materiality level in one unit is needed, this is not the case with a sustainability report.

“It will require a greater analysis and reflection to be able to set relevant materiality levels on the environmental data, on the diversity data, on the supplier data and so on. Then you also have to think about materiality levels as set from thoughts of risk and materiality, and that has to be done on each and every area within a sustainability report”.

Respondent 8, 2018-03-28

Respondent 2* at AF2 explained it as:

“It is very rare that we have audit today, (on sustainability information) it is not matured and the controls and processes do not exist in the same extent as for financial information, neither the system support. Generally, the reliability is not as high, even if some organisations have come quite far. We do not do an audit really, it is more of a review, with a lower degree of security.

Respondent 2*, 2018-03-02

Since this is the first year the sustainability reports will be published, it will be a trial year according to the respondents. There is no sustainability report that neither the organisations preparing the reports or the auditors performing the “audits” can use as a template. The respondents believe that it will become easier in the future when there is something to compare with. Then the ratios prepared by the client can be compared to the presented ratios previous years and controlled by calculating the financial figures.

According to Respondent 4, the knowledge regarding the organisation is important in the “audit” of sustainability reports, since there is no requirement of a traditional audit. As mentioned, the auditors do not need any documents as support when accepting a sustainability report and the disclosed information. However, as presented earlier, it is not enough from some auditors’ side to ensure that the correct headlines are used to conclude that the areas are covered. They also need to ensure that what is presented in the text is not complete lies. The presented business model should reflect the real work with sustainability and the important information should be disclosed. According to Respondent 4, you need to use your own common sense since the law is formed as it is with no requirement of a traditional financial audit. You have to look at the whole picture:

“You have to look at the complete report, ‘yes, here I think that what they have written is overall in accordance with what they actually do and what I have known for several years that they do, by actually knowing the business from the financial audit, so to speak”.

Respondent 4, 2018-03-13

4.2 How did the law influence audit practice?

The interpretations done by the audit firms when adapting the new law into practices in the audit have affected the audit practice in some ways. This will be discussed in the following sections.

4.2.1 The proactive work of an auditor

All respondents stated that the new law has not only affected the practice when it comes to auditing the annual report and sustainability report, there has also been the proactive work when preparing the organisations for the change. As mentioned, there have been some organisations that already voluntarily reported on sustainability, however, these were mostly large corporations and public entities. Due to Sweden’s government’s choice to lower the

requirements from 500 employees to 250 employees there are more than 1600 organisations being targeted. Many of these organisations did not disclose non-financial information before this new regulation. This has led to clients in need of support and answers to their questions since they have no experience, but also due to the fact that the law has led to a great extent of confusion because of its need to be interpreted. Therefore, there has been a need for the audit firms to put some extra focus on these smaller organisations, especially from the sustainability specialists at the audit firms' sides.

The new law did not only affect the audit process of annual accounts, but also the practice of the auditor during the whole year. All the respondents except Respondent 7, stated that they have been working proactively with trying to change their clients' behaviour and thoughts regarding sustainability, not only coaching them in sustainability reporting. Respondent 7, on the other hand, mentioned that they focused on supporting their clients and informing them of how to report on sustainability according to ARL:

“I experience that many of our clients today that are preparing their report for the first time are like “We want to do as little as possible this year. Just enough to fulfil the law, and then we will see”. Then it might not be time to say ‘Yes, but maybe you should establish this too’. Maybe there is no space for selling other types of services, but this can be seized afterward and maybe in the second wave”.

Respondent 7, 2018-03-27

Respondent 2* explained the difficulties of having auditors with different preferences regarding sustainability in the firm:

“We try to standardise within our audit firm to ensure that one has the same requirements, but the auditor's knowledge and personality will control how much you challenge and how proactive you work with your client. (...). It can be different levels of ambition, but there must be some kind of minimi-level. Then there is the audit standard from FAR that you should follow. This is what you need to do as an auditor in order to write the certificates. There is an industry standard.”

Respondent 2*, 2018-03-02

Some of the respondents also commented that the thought behind the law might not be to get sustainability reports with an extreme amount of information regarding the companies, as much as getting organisations to think and act more sustainable. Or as Respondent 8* expressed it:

“The legislature was probably not interested in 1600 reports per year, but rather wanted the organisations to start working with these questions more hands-on and weave them into the organisation”.

Respondent 8*, 2018-03-28

One realisation during the interviews has been that the audit practice is more than the “audit” of the reports and controlling that the information presented is reflecting the organisation's

business. In AF5 they have had meetings with their clients in a proactive purpose, to inform them about the legislation and get them to think about sustainability early. The key ratios that will be presented should represent the whole year, hence it is necessary to consider the sustainability matters during the whole year. The proactive work has also been done in order to get the client to think about sustainability and about their sustainability processes and how these could be improved. This shows that the auditors not only check their clients' reports but has taken the responsibility to try to make them change their actions into a sustainability direction too. Respondent 5* described the work with clients regarding sustainability issues as:

“Overall we try to get it into the business. Strategies and really try to think about sustainability, to make it a natural part of their organisation.”

Respondent 5, 2018-03-19

Further, Respondent 2* explained:

“We have tried to have a discussion with the clients. How does the sustainability work look like, which are the most important questions, how do you control your work, do you have policies in place, how does the division of responsibilities look like, have you set any goals and ratios that you have a follow up on? And had the organisations to work more with sustainability issues and the follow-up. When this is in place it is easier to write a report.”

Respondent 2*, 2018-03-02

4.2.2 Who is performing the “audit”

In four out of the six auditing firms, the auditors are doing the “audit” of the sustainability reports. In the other two (AF3 and AF6) there are almost only sustainability consultants that will “audit” most of the mandatory sustainability reports. These consultants have worked with sustainability questions for a longer time and are therefore more experienced in the matter. They do also have most of the contact with the customer, regarding sustainability questions. Further, the consultants have been managing the proactive work, both with the customers and preparing the auditors. In AF3 the consultants started to prepare the checklist two years ago, even before it was completely settled how the legislation would look like. Respondent 8* answered the question of who is doing the audit at their audit firm:

“If we are just talking about reading the reports according to ARL, then I cannot answer if we are (the consultants and not the auditors) looking at all of them since I do not see the ones that are not sent to us. There can be reports were the auditor decides themselves to read them. I am completely sure of that it is that way. Then there is some that contacts us, but I do not have the whole picture, then it is difficult for me to answer that question. But substantially I would like to say that I believe that most of them are asking us to have a look at the reports”.

Respondent 8*, 2018-03-28

When asked the same question Respondent 3 at AF3 stated:

“It is mostly us (the consultants) that do the audit, assure that everything according to ARL is in the report. (...), but then I thought that it would come out information from our head of PIE-assurance that all of these audit procedures shall go through our sustainability specialists, but it has actually not happened”.

Respondent 3, 2018-03-06

Even though the consultants do most of the “audit” today in AF3 and AF6, the respondents of these audit firms stated that there might be some financial auditors who choose to do the “audit” themselves. Respondent 3 (AF3) mentioned that the auditors are interested and want to learn more about sustainability reporting and auditing. These auditors want to have the knowledge in order to complete the “audit” independently in the future.

How extensive and how much an organisation discloses might depend on what preferences about sustainability the auditor on that assignment have. According to some of the respondents, there might be a large spread in the sustainability reports that are to be published during 2018, depending on both the clients’ and the auditors’ interests in sustainability. Respondent 1 stated regarding the differences between sustainability reports:

“There are huge differences. If we only look at the reports we have gotten this far; there are 40 pages reports with fancy pictures, it is flashy, great information. It is important people, like skilled people in the organisation who have done them. Then there is those which have been written by an economic assistant. (...). It is difficult, what is good enough? And would you put the signing auditor on the assignment and compare these reports you would also see tendencies, that this auditor lies within the range of very good reports while this other auditor is more like: ‘They are good enough.’”

Respondent 1, 2018-02-23

4.2.3 Educating auditors within sustainability

The education of the auditors in preparing them for the “audit” of the sustainability reports have differed in some ways between the audit firms. Common within all responding firms is that there have been multiple emails sent with information regarding the new legislation and where to find additional and more detailed information. This is, according to Respondent 1, how it is usually done when a new standard is published. The issue here is that the auditors need to take responsibility and learn about the new legislation themselves. AF3 has not had any education dedicated only for sustainability, but they have included it into the fundamental educations and the information is provided ongoing in e-learnings and on the intranet. AF1 has had multiple internal education opportunities. Respondent 6* also stated that since the legislation does not have any requirements of a traditional audit there will be a focus on the feedback from the stakeholders. Other audit firms have provided lectures for their auditors. Still, there is a common perception among the respondents that there is a lack of knowledge within the audit practice when it comes to sustainability matters. Respondent 2* argued that one problem that

arises with the knowledge gap is that the auditors do not dare to discuss the subject with the client:

“Some auditors feel uncomfortable to discuss sustainability with the client since they do not really have the knowledge in the area. That is where we come in, my colleagues in the FAR group, in our respective firm. If an auditor has to take a tough discussion and challenge a client then it is rather the specialists’ role, to contribute in conversations and meetings and try to start a discussion regarding how they should think and broaden the client’s perspective. Of course, we have tried to educate our auditors and provide tools to help them, but as an industry, I believe that there is a need to continue to educate within this question.”

Respondent 2*, 2018-03-02

5 Analysis and discussion

In the analysis, the empirical findings will be presented in relation to the frame of references. The analysis has been divided into three sections structured according to the model presented in the method. In the first section, the logics behind the interpretations are discussed. The second section discusses the logics behind the design of the tools. In the last section, the change of the audit practice due to the new law of non-financial reporting is examined.

5.1 Logics behind the interpretation of the new law of non-financial information

There are different drivers behind decisions and interpretations that influence the actions. According to ILP, different logics can be used to explain the actions of organisations (Thornton & Ocasio 1999). By using ILP to analyse how and why the change in the audit practice resulted in the current way of performing a sustainability audit, two main affecting logics have been identified. These two logics are the logic of the traditional financial audit practice (traditional audit logic, TAL) and the logic of the emerging (new) sustainability audit practice (sustainability audit logic, SAL). TAL is equal to the audit practice connected to the audit of financial reports. In this historical audit practice, the auditors focus on the fact that the information reported shall be truthful and the auditor shall verify it through supporting documents to give the reports credibility (Collison 1996). On the other hand, the new emerging sustainability audit logic does not have the same legislated requirements on how an audit should be performed. In SAL, there is an increased focus on non-financial information, which forces financial auditors to adapt to handling the new sustainability information and a new form of audit practice. SAL is based on the requirements of the new law where no traditional audit based on verification of the information has to be made (Seminar EY 2017). Instead, the reports should only be checked and read through to be able to answer if there is a sustainability report that fulfil ARL's requirements. ARL only require the information regarding four areas of sustainability, including societal conditions, employees, anti-corruption, human rights, and environment, with an addition of risks and business model (Tidningen Balans 2017b). If all these headlines are there and the somewhat reasonable information is given under each of them, the report should be approved by the auditor (Seminar EY 2017).

The differences in standards and regulation between the two audit logics are something that has been apparent during this study. Auditors are used to being controlled and guided by many rules and standards when performing the traditional financial audit (Humphrey et al. 2009). However, now SAL is emerging, which is unfamiliar and more difficult for the auditors to connect to their old logic and traditional practice. It can thereby be seen as if the main task of the FAR specialist group is to try to decrease the differences between TAL and SAL within the audit practice. With the right guidelines, the auditors will be able to connect their traditional practice to the emerging new one, and thereby start merging these practices thanks to an increased understanding of the new sustainability "audit". Meaning that the FAR specialist group has to create tools that will help guide the auditors and answer questions to make the auditors able to connect their knowledge regarding the financial audit to the new "audit" of sustainability information. However, the FAR specialists have not changed into only being driven by the sustainability audit logic themselves yet. Since they are also doing the separation between TAL

and SAL, it implies that there is still a gap between the traditional audit practice and the emerging logic even according to the specialists on the subject.

5.1.1 Conflicting logics

All eight respondents stated that the new legislation leaves space for interpretation. This space makes it difficult to harmonise the audit of non-financial reports within the audit practice, which is desired (Arnold & Sikka 2001; Arnold 2005). However, this space is not uncommon within the audit practice. As Mennicken (2008) stated, the auditing standards are always to some extent idealised, resulting in that they are more of a goal than a description of how the day-to-day tasks shall be performed. Therefore, this is a phenomenon within this industry that the audit firms are used to. They have to interpret the laws into their practice and create their own tools to be able to perform their audits. Hence, this is not something new connected to the emerging SAL. The difference in lack of verification of the sustainability report is also contributing to the conflict between TAL and SAL. Further, one difference compared to previous legislation affecting the audit in Sweden is that all of them (except the sustainability reporting requirement for public companies from 2008) regards the financial audit (TAL). Thereby this sustainability focus is unfamiliar for the financial auditors. The auditing and accounting standards within the financial reporting are also much more extensive than within sustainability reporting. The financial accounting and auditing are regulated by, for instance, IFRS, IAS and ISA (Humphrey et al. 2009). There are not yet these kinds of mandatory standards within sustainability reporting.

Even if the auditors are used to interpreting standards and laws they still believe that the legislators have complicated their work by leaving too much space for interpretation in this new regulation. No benchmark for sustainability audit has been set, and that is the problem according to the respondents. Within the financial audit a benchmark has grown into place over the years. Since all reporting is done in monetary terms the traditional financial audit is easier to perform. By having a common unit, the same materiality level can be set for the whole company. This is not the case with sustainability audit. Within sustainability reporting the units are different for each area. There could for instance be emissions given in CO₂ and the number of persons representing each gender employed at the firm. As Respondent 8* mentioned, setting a materiality level for a non-financial audit is possible, however it needs to have different levels for each area. Meaning that the environment materiality level needs to be set differently compared to the materiality level of employee information. This complicates things but does not make it impossible according to the Respondent. In some ways, this contradicts to the literature where Figge and Hahn (2013) tried to create the eco-efficiency model to be able to value non-financial actions, CO₂ emissions for instance. According to the respondents in this research, there are no need for such a thoroughly created model. Instead they could just decide upon a non-monetary reasonable materiality level for each area and each company. The missing reference point within sustainability is therefore not as large of a problem as stated in literature. Hence, an audit of a sustainability report can be performed in a fairly similar way as the financial audit.

A difference noticed in this study is the auditors' large focus and interest in the financial measures, which creates conflicts between the TAL and the emerging SAL. Ramirez (2013) discussed how institutional logics carry beliefs, norms, and values. These can contradict each other in times of changing logics which is an example of what happens here between TAL and SAL. To solve the problem with no existing benchmark, the FAR specialist group functions as a discussant group where the largest audit firms try to set general guidelines and spread their view of a benchmark within the industry. This to create some kind of harmonisation on a general level, however on a detailed level and especially the internal requirements set for the "audit" of these new sustainability reports, it still differs among the responding audit firms.

According to AF2, their main reason for having a more detailed guidance and higher requirements of their internal checklist is that they want to be the "best in class". As Respondent 2* stated, they do not want their clients to just settle for the lowest amount of information in their sustainability reports. They want them to write more thoroughly and they will require it in their "audit". Thereby, they have created their own best practice. By requiring more from the clients, their sustainability reports will be better, and their financial auditors will become better at sustainability audit. This will both lead to a higher sustainability reporting and audit quality, which will give the respective audit firms competitive advantages within the industry. This is aligned with what O'Dwyer (2011) stated, that sustainability assurance is creating competitive advantages for the most prominent actors within the audit field. Both AF2 and AF4 have focused on this. AF4 wants their clients to communicate in what way they have reached the information written in the sustainability report. AF2 and AF4 are more motivated to move from TAL towards SAL due to their goals of greater market shares. These competitive advantages could be seen as a competitive logic influencing some actors (especially AF2 and AF4) and thereby make the organisations within the industry heterogeneous in this matter (Thornton & Ocasio 1999). This also shows that the audit firms' ambition to become market leaders within sustainability audit, reflects upon how they have chosen to interpret the legislation. With higher set ambitions, the requirements are set according to those goals.

5.2 Logics behind the tools

The checklist is the most evident finding in how the audit firms have interpreted the new law. This tool helps and guides the auditors when performing the "audit" of the non-financial reports. How the checklist has been designed in each audit firm depends on how they have interpreted the law at their firm. Both Blokdiik and Drienuizen (1992) and the European Parliament (2004) discussed checklists as a good tool when auditing environmental and social matters. The checklist can help the auditors with the problems they have with the reluctance of including environmental matters in the financial audit (Bebbington et al. 1994; Chiang 2006, 2010; Chiang and Lightbody 2004). By having the checklist, it is easier for the auditor to know what they are looking for. Also, since the financial auditors do not have great knowledge regarding sustainability auditing, the checklist is thereby a necessary tool. Especially due to the vague requirements of the legislation.

How the checklists have been formed and the decisions have been made behind the documents can also be analysed through the lens of institutional logics (Thornton & Ocasio 2008). The conflicts between TAL and SAL is lower when it comes to the checklists since the same tool is used within both the audit of financial information and the “audit” of non-financial information. However, there are still differences in what a checklist for the traditional audit require, and the requirements in a checklist for the sustainability audit since the audit of financial information is based on a benchmark, clearer guidelines and more standards. The fact that the conflict between TAL and SAL is lower when it comes to the checklists shows that the logics can coexist. This gives an indication that the conflict in practice also can diminish over time. When the auditors become more familiar with the audit of sustainability reports and especially if more verification will be used in the sustainability audit the logics will move towards coexistence and the conflict diminishes.

According to prior research (see e.g. Hyvönen et al. 2009 and Järvenpää & Lämsiluoto 2016), it has been found that conflicting and coexisting logics can influence how the design and use of accounting information systems and environmental management accounting look like. This thesis shows that the same holds true for the design of the checklists within the audit practice. How the checklists are designed depend on which logic that holds the most power in the “audit” of non-financial reports and therefore becomes dominant in the audit firm (Eriksson-Zetterquist 2009). Hence, an audit firm more driven by SAL will have higher requirements in their checklists while an audit firm driven by TAL will not require more in their checklists than what ARL has literally stated. The audit firms driven by SAL wants their client to improve their work with sustainability and work more proactively to ensure an improvement. Therefore, their checklist will also require more information in the sustainability report. In addition, when the tool is recognisable like the checklists are, the reluctance against sustainability from the financially focused auditors is lowered.

However, even if the concept of a checklist is familiar within the audit practice, both the aim and the content of it differs between the audit firms. AF2 is driven by a desire to be, as Respondent 2* mentioned, the “best in class” (O’Dwyer 2011). This has already been analysed in the perspective of TAL and SAL and it has been stated that the competitive logic is affecting the actions in some of the audit firms. However, the competitive logic has also been found to be a driver in the design of the checklist. It is a driving force when producing the checklists, and the foundation to why especially AF2 decided to have higher requirements than what is required by ARL. In the competitive logic, there is a desire to become the best, in this case, to be the market leading audit firm when it comes to the “audit” of sustainability reporting. This can be reached by being the most prominent actor within sustainability “audits” (O’Dwyer 2011). There are financial gains related to being the market leader. It results in more clients and also more sustainable-focused clients, who want to have some kind of quality control of the information presented in the sustainability reports.

5.3 The impact of the new law on the audit practice

Sustainability reporting is not new for all auditors. Prior the new law of non-financial reporting there are companies who have published voluntary sustainability reports. Many of these companies have chosen to have the reports assured by an auditor, which required a methodology more in line with TAL where a verification of the information has been done. In these cases, the organisations usually followed some guidelines like GRI or Integrated Reporting, which the auditors then could use for guidance when performing the audit.

According to Collison (1996), the audit practice is a way of creating trust. The traditional audit practice contains more credibility since the financial statements are required to be verified against supporting documents. However, by having the auditor “audit” the sustainability report, it gives the report more credibility compared to not having any audit at all (Collison 1996). Even though the information is not verified through supporting documents, it is at least read through by an auditor, which still provide some kind of credibility. In addition, the auditor will also sign the sustainability report if he or she believes that the information presented is reasonable, this is an indication for the society that what is stated in the report is trustworthy, even if TAL has not been applied. Jönsson (1991) and Larsson (2005) stated that it is a common idea in Sweden today that the auditor should also act on the behalf of the society, not only the shareholders. This especially holds true when it comes to the “audit” of sustainability reports since sustainability is something that affects the entire world. More stakeholders are being affected by the companies’ impact on the environment and the society than the companies’ financial result. This study has also shown that it is a voluntary responsibility that the auditor can incorporate into their practice, to actually set higher requirements than the ones given in ARL, to support the society’s interest.

5.3.1 What has changed in the audit practice?

Chiang and Northcott (2012) discussed the audit of environmental matters and found that the audit practice would be required to change if there was coercive pressure from a national level in form of a legislation. Now when there is a law, can we see a change in the audit practice? By analysing the answers from the respondents, it can be stated that there is actually a change in the audit practice. However, it is not revolutionary. The traditional audit performed by the auditor looks quite the same even after the legislation. Since the new legislation does not require verification of the information in the “audit” of the sustainability reports it does not take up an extreme amount of the auditors’ time. However, a new emerging logic is affecting the practice, which requires that the financial auditors develop and increase their competencies within an additional field. The most prominent change that has been noticed in this research is within the proactive sustainability work the auditors are doing. This proactive work is performed to put pressure on the clients to make them consider how they can improve their actions and operation in a more sustainable direction.

Though there are not only the pressure being put on the clients but the auditors themselves are forced to learn about sustainability reporting which is a completely new field for most financial auditors. This is a step towards bridging the gap between TAL and SAL. From the interviews

with the eight respondents, it can be stated that seven of them share the opinion that the audit firms should put pressure on their clients to actually change their actions and not only report on them. Thereby the legislator fulfils both the goal of offering the stakeholders information regarding the companies' sustainability work, but also affecting the companies' actions, which is the most important effect of this new legislation. However, the original plan was to make the information reachable for the stakeholders (EY seminar 2017) and that the stakeholders, in turn, would pressure the companies, but the audit firms have already taken that responsibility upon them. In this sense, Chiang and Northcott (2012) were right, that the audit practice has changed due to a legislation. The change has not been in what is usually related to the audit practice, the audit of annual accounts. Instead, the legislation has made more auditors and clients think about sustainability on a daily basis. This is one step on the path towards an audit practice driven more by the SAL. As many of the prior researchers have shown (see e.g. Chiang & Lightbody 2004; Chiang 2006; Collison 1996), and what this thesis mentioned earlier, auditors are still lacking knowledge and do not yet care enough about sustainability matters to be able to say that a dramatic change in the audit practice can be seen.

The differences in preferences is also an obstacle to the change from TAL to the emerging new SAL and hence the audit practice. As discussed by e.g. Bebbington et al. (1994), there is a lack of engagement from the auditors when it comes to sustainability matters. They also found that the auditors are reluctant to include environmental matters in the financial audit. This was confirmed by some of the respondents who stated that there is a great deal of differences between what the auditors require from the sustainability report depending on their own interest in sustainability. According to Deegan et al. (1996), personal and professional attitudes regarding a sustainable future is a key driver for change. This is confirmed by the interviewed respondents, describing different interests in learning about the new legislation and how to perform the "audit". Some of the auditors are asking many questions and wants help with double-checking the report and some need to be reminded that the "audit" should even be done. These are further indications of the conflict between TAL and SAL. Some auditors are more influenced by the new legislation and by the emerging SAL. Others are stuck in TAL and want the financial audit to remain in focus without putting too much effort on the sustainability report. As long as these differences in preferences remain it will be difficult to change the audit practice in a radical way.

5.3.2 The need for guidance and education

The sustainability specialists at the audit firms are having an important role during this new influence of SAL. Not only in the design of the checklists, but also in the sharing of their knowledge to all auditors at their firm. According to Dixon et al. (2004), the auditors need professional guidance in order to cope with the demand of auditing environmental matters. This can be related to the demand of "audit" of sustainability matters as well. Since the "audit" of sustainability matters, and hence the SAL, is new to most auditors, the specialists need to guide them through the process. They need to share their knowledge within the "audit" of sustainability matters to facilitate the change from TAL to SAL. One simple way to share knowledge is through education.

As mentioned, how the audit firms adapt to the emerging SAL creates heterogeneity in the performed audit between the organisations. In this case, the ILP explains the differences between organisations by contrasting logics that affects the practice (Thornton & Ocasio 2008). Some of the audit firms have focused more on educating their staff and clients, and thereby increasing their opportunities for a shift in logics. Respondent 2* stated clearly that the lack of knowledge regarding sustainability questions prevent the financial auditors to dare to discuss these questions with the clients and also making them uncomfortable putting pressure on the clients to enhance reporting quality. With a higher degree of education and preparation before the new legislation was introduced, the auditors would be able to perform better when having discussions with the clients (Dixon et al. 2004).

As mentioned above, there is a varying amount of education offered to the auditors when looking at the six audit firms. At AF3 the main “audit” work is done by consultants and sustainability specialists, thereby the auditors have not received any education within this area. This does not increase the incentives for the financial auditors to start acknowledging that sustainability reporting is an important field within the audit practice. As previously mentioned, according to O’Dwyer (2011) sustainability assurance is creating competitive advantages. Further, Chiang (2006) stated that auditors have been concerned with involving environmental matters in the audit of financial statements. According to that research, auditors did not want to do this, since they thought their current role was demanding enough. This matter combined with the missing education do not enhance the possibilities of creating the competitive advantages that O’Dwyer (2011) mentioned. Thereby, it can be seen that there is a need for more education to enhance the auditors’ understanding of SAL.

Further, Chiang and Northcott (2012) described why the auditors and accountants are not ready for the challenges and changes connected to environmental matters, stated in five key arguments. The two first arguments regard the technical knowledge of the auditor (Clarke & O’neill 2005) and the preparation that auditors and accountants have gotten to handle the professional challenges of sustainability reporting and auditing (Dixon et al. 2004). This confirms the previous statement, that the education within sustainability auditing is inadequate. This does not help the existing gap between the TAL and the SAL, it is actually making it even bigger. The knowledge gap decreases the auditors’ ability to connect their knowledge between the TAL and the SAL.

The third presented problem is the lack of professional engagement within environmental questions for the auditors (Bebbington et al. 1994; Deegan et al. 1996). In order to realise the importance of learning about this new field, the auditors have to be driven by the competitive logic and the demand of assurance of sustainability information from the stakeholders. The problem lies with the fact that the auditors are not being able to make a connection between the old routines in the financial audit to the new ones within the sustainability “audit”. Another problem is that they believe that these new tasks are too time-consuming to learn anything about. The auditors and audit firms have to be pressured, either by the legislators or other stakeholders of the company to create a best practice. Again, this last suggestion is also

confirmed by Deegan et al. (1996), stating that the attitude does not only have to change on an individual level, but also at a professional level.

The fourth argument concerns the globalisation's effect on actors all over the world (Newson & Deegan 2002). This can in one way already be seen as if it has happened. With the new EU Directive, all member countries have to adapt to this new law that affects both the reporting organisations, but also the audit firms that have to perform the “audit”. By introducing the thoughts of sustainability reporting and auditing, the globalisation effect can improve the reporting, but it may also improve the auditing of these report by having an international best practice forcing all actors to improve their performances. Hence, the practice will become more harmonised (Arnold & Sikka 2001; Arnold 2005). The last argument is that the stakeholders are the key drivers of this new field. By pressuring the actors within the business to actually take their responsibilities and making more sustainable actions. In addition, they also learn about the effects of sustainability reporting and auditing, hence they can drive the development of the audit practice within sustainability even further (Dillard et al. 2005).

6. Conclusion, contribution and proposals for further research

The conclusion will present the main findings in form of answers to the research questions. In addition, suggestions for further research and contributions of this study to the research area will be presented.

6.1 Conclusion

The aim of this study is to explore how and why the six largest auditing firms in Sweden have interpreted the new law of non-financial reporting within the ARL, which is the national version of the EU Directive 2014/95/EU, the way they have. Further, this study aimed at answering how the new legislation has changed the audit practice in Sweden.

The main empirical findings of the study and the answer to how the law has been interpreted are shown through that all eight respondents stated that the new regulation leaves a great space for interpretation and thereby the different audit firms have interpreted the law in different ways. This is shown through the different levels of requirements of the “audit” that the audit firms have. Four out of six audit firms have set their internal requirements higher than what the ARL require. The two most prominent audit firms in this case were AF2, who requires a larger amount of information from their clients, alongside AF4, who requires their clients to inform on how they have reached the non-financial information presented. Another important finding in this study is the proactive work done by five out of six responding audit firms. The auditors have not settled with just “auditing” the information. They have also worked proactively with their clients during the whole year to make them think about their actions and talk them into making more sustainable actions, not only report on them.

ILP is used as a theoretical lens in this study to describe and analyse the actions and thoughts of the auditors (Thornton & Ocasio 1999). The different interpretations of the audit firms are identified and analysed through two main logics in this study, which also answers to why the interpretations have been done the way they have. The first logic is the logic of traditional financial audit practice (TAL). In the TAL, the focus of the auditors is on financial matters and the verification of the disclosed information in the annual report is necessary. On the contrary to the emerging (new) logic of the sustainability audit practice (SAL). In this logic, the focus is on “auditing” non-financial disclosures and there is no requirement of verification of the information against supporting documents. These two logics have been found to be conflicting due to the difference in requirements of verification and focus. The auditors are missing clear guidance and education according to this study and thereby a gap is created between the two logics. However, these logics were found to be less conflicting in the design of the checklist. The checklist is used by the audit firms as a tool for guidance and a to-do list when performing the sustainability “audit”. This shows that when the auditors recognise the practice or the tool the conflict between the logics diminish and the logics can coexist. Hence, this indicates that the conflict between the logics in practice can diminish in the future when the “audit” of non-financial information becomes more similar to the traditional financial audit. Hence, the logics can move from conflicting to coexisting.

In addition to the two main logics a third affecting logic has been identified, the competitive logic. As mentioned, four out of six responding audit firms have set higher internal requirements on the reporting of their clients and the audit of them. The reason for that can be seen as these firms have seen a potential competitive advantage through sustainability audit and thereby they want to be in the lead of setting a best practice within this area. One example of that is AF2's desire to be the "best in class". The heterogeneity described in ILP is shown clearly in this case and without clear directives and guidelines, the ambitions of the firms and its employees will result in different interpretations of the same regulation. The reason for why the audit firms have interpreted the law the way they have is thereby these three affecting logics. Where the level of acceptance of the SAL is affecting the firms' ability to adapt to this new type of audit. Alongside the competitive logic which is identified as the logic that creates the differences in the audit firms' ambitions, which creates different interpretations as well.

To conclude, the audit practice has not changed dramatically as a result of this new law. However, this study has shown that the audit practice serves the regulation to its actual purpose. Where the legislator does not want 1600 sustainability reports that shall be "audited" (Seminar EY 2017) but instead using the auditors to make the organisations think more sustainable. Even though there is no requirement of the auditor verifying the information reported against supporting documents in the law, most of the audit firms have chosen to take on the responsibility of working proactively with their clients. This has been done by expecting and supporting the clients to change their actions in a more sustainable direction and not only report on them. As mentioned in the literature review, the EU Directive has been criticized due to the lack of quality requirements of the information (Seminar EY 2017), however, the stakeholders that are positive to this law probably care more about the actions of the organisations than the reporting of the sustainability information.

6.2 Contribution

The empirical findings of this study contribute to the research area and literature of sustainability audit through its findings that there are two identified main logics that affect the audit firms' interpretations, the TAL and the SAL. There is no list which describes the different existing logics, hence the findings of TAL and SAL is identified through this study and thereby contributes to the research area of sustainability audit. It also contributes to the knowledge of how the interpretations in audit firms of a new sustainability legislation are driven by different institutional logics. The findings show that by having a legislation that leaves space for interpretation, the different logics will affect the decisions made when designing the checklists, which is the tool for the "audit". This study also contributes by presenting how the audit practice in Sweden is affected by the new legislation in an early stage.

This study has thereby contributed by extending the research literature with knowledge regarding institutional logics within the whole sustainability field, not only the environmental aspect, and the audit research, not only the accounting research. While prior research has mainly focused on environmental matters e.g. Chiang and Northcott (2012), Bebbington et al. (1994) and Clarke and O'neill (2005), who states that auditors still need more knowledge regarding environmental matters. This thesis agrees with the findings of mentioned research, and also

adds that there is a lack of knowledge in the wider perspective of sustainability, not only environmental matters. Previous research is also more focused on the accounting practice rather than the audit practice (e.g. Bebbington et al. 1994; Deegan et al. 1996; Jaggi & Zhao 1996), hence this study contributes with an audit perspective. The use of ILP in this study has not contributed to the theory itself, but it has contributed with an additional use of the theory, which is positive for the still fairly new developed version of the institutional theory.

6.3 Proposals for future research

This study has been performed at an early stage of the implementation and adaptation process of this new law, thereby a proposal for a future research is to perform a similar research at a later stage. Several of the respondents mentioned this phase as a “trial period”. Thereby, it would be interesting to see the affecting logics and the audit practice in two to five years’ time. This to be able to see if these years have affected the day-to-day tasks of an auditor even more and if the financial auditors are educated to a greater extent within non-financial auditing. This study can also be used to compare similarities and differences in how the audit practice in other member countries of EU have been affected by the EU Directive. Finally, to offer a greater depth to the subject it would be of interest to read a case study of the auditors’ day-to-day work when it comes to the “audit” of sustainability reports.

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Appendix 1

Interview questions for auditors

1. Can you describe what your position is at your audit firm and how your work has been affected by the fact that your clients are producing sustainability reports?
2. Can you describe what the law requires you to audit in these reports?
 - Which are the largest differences compared to the audit of the financial reports?
3. Do you have an internally set requirements for how the audit of the sustainability reports shall be performed? (For example, checklists etc...)
4. How was it before the new legislation, did you consider environmental risks then?
5. How long does usually an audit of a legislated sustainability report take?
6. Do you work proactively with sustainability with your clients, to get processes in and not only get the reporting in place?
 - If yes, how do you perform this work?
 - How has this been granted by the clients; do they want to work with sustainability?
7. How do you see the fact that there are no quality requirements for the information written in the reports?
8. Do your internally audit requirements reach further than what the legislation tells you to do to try to reach some kind of quality on the information given in the reports?
9. Who performs the audit at your audit firm? (will it only be performed by sustainability specialists?)
 - If yes, if only a thorough audit shall be performed, why does specialists has to do it?
 - If yes, is there any plan for the future to spread this knowledge to a greater part of the organisation?
 - Do you have any special educations within the firm for how this audit shall be performed?
 - Have your work tasks changed anything with this new legislation?
10. Is it possible to audit this type of information? (missing reference points within both audit and sustainability)
 - Does it affect your work that there is no benchmark within the industry?
 - Is it possible to set any type of materiality level when auditing non-financial information?

Appendix 2

Interview questions for representatives of the sustainability specialist group of FAR

1. What do you do in this specialist group at FAR?
2. How have you developed the support and guidance from the new EU-directive?
3. Have you met any problems during this process of interpreting the law?
4. How has the legislation been aimed to be adaptable to all the different types of organisations and the different sustainability information that is essential for each entity?
5. Who is it supposed to do the audit of these kind of reports in the future?
6. How does it look for educating auditors within sustainability auditing, do you have any educations already today or is it something FAR plan to start in the future?
7. What is your opinion of the auditors' knowledge today when it comes to the audit of non-financial information?