Swedish Auditors’ View of Auditing: Doing Things Right versus Doing the Right Things

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ABSTRACT This paper aims to describe and analyse the thought patterns of Swedish auditors with regard to the way in which they audit information provided by listed companies, and possible changes in their duties. Eighty-two auditors were interviewed using the repertory grid technique and open-ended interview questions. To check the stability in the thought patterns of the respondents, six retests were made and, to validate the findings, an expert panel and two reference groups consisting of auditors and other representatives of the accounting and auditing professions were consulted. Distinct patterns emerged in the mean grid of the thought patterns of all the respondents. One dimension was related to the time perspective, past versus future, and another to auditing practice. Auditors devote a relatively long time and considerable effort to objects that can be satisfactorily verified, but not to objects that they perceive as being of primary importance to investors and other stakeholders. This inconsistency in the thought patterns of the auditors is similar to the gap between auditing in practice and stakeholders’ expectations of auditing, which is a phenomenon frequently found in previous research. Moreover, the auditors were very reluctant to make statements about any information except that elicited according to current practice. In addition to this traditional view, the auditors appear to be more concerned about their own situation than that of the parties they are meant to be protecting. Doing things right seems to be more important than doing the right things. That the auditors spend much time on objects that they themselves do not consider to be of primary importance for the investors and other stakeholders, and their unwillingness to change current practice is of great concern in Sweden, where there is a strong belief in self-regulation of the auditing profession.

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1. Introduction

The significance of the auditing function and the trustworthiness of auditors is widely recognised (Flint, 1988; Lee, 1993) and comes into focus when 'shady' annual reports are accompanied by vague audit reports that cause severe losses to investors (cf. Chandler and Edwards, 1996). Accounting scandals occur all over the Western world, including Sweden, even if the magnitude of the scandals is not generally as immense as in the case of the Enron scandal in the USA (Morrison, 2004). As a consequence, the gap between the result of auditing and what the investors and the general public expect auditors to do (cf. Epstein and Geiger, 1994; Koh and Woo, 1998; Wolf et al., 1999; McEnroe and Martens, 2001) is accentuated. This expectation gap brings into question the value of current auditing practice and audit reports (Power, 1997, p. 125; Boyd, 2000/2001).

Auditors have been criticised for not drawing enough attention to the discovery of omissions and fraud (Humphrey et al., 1993; Sikka et al., 1998), for not being able to assure the viability of audited firms (Godsell, 1992; Arnold et al., 2001), and for their inability to protect investors and the public interest (Lee, 1995).

According to basic auditing textbooks and Swedish national auditing guidelines (FAR, 2004), financial, operational and compliance audits are considered important in Sweden. The auditors do not only audit companies’ financial information in the annual reports, they are also obliged to examine the management’s administration of the firm, that is, the stewardship of management (cf. Burrowes and Persson, 2000). Furthermore, as the state in Sweden is relatively strong, the auditors are obliged to check up on the audited firm’s taxes and other charges, and to report suspected economic crimes to the authorities (cf. Larsson, 2005). The internationalisation of auditing in recent years (cf. Humphrey, 2001) has also forced Swedish auditors to comply with international accounting and auditing standards: IFRS (International Financial Reporting Standards) and ISA (International Standards on Auditing).

The auditing profession in Sweden has traditionally been in a strong position (Jönsson, 1988) and self-regulation of auditing practice has been considered preferable to tightening the net of laws and mandatory regulations (Edenhammar and Hägg, 1997). However, the recent accounting scandals have raised questions about the effectiveness of self-regulation in Sweden and there have been public enquiries into the possible need for a more regulated system of legal control. One issue discussed is the possibility of forbidding auditing firms to offer non-auditing services to their clients. The Swedish auditing profession is strongly opposed to such a restriction of their domain, and so far the profession has been successful in its attempts to maintain the present situation.

An important factor in self-regulation is the auditors’ perceptions of the state of affairs and their willingness and ability to do something about the current situation. It is important to discover whether there is consistency between what auditors do in practice and what they regard as important to investors and other
stakeholders. The purpose of this paper is to describe and analyse the views of Swedish auditors on:

- their auditing of information provided by listed companies, according to Swedish legislation and practice, and
- their statements about the information provided by listed companies, if the auditors were permitted to disregard present legislation and practice.

The rest of the paper is structured as follows: Section 2 presents the frame of reference. Section 3 is a description of the empirical research setting. In Section 4 the findings of the empirical study are presented. The discussion in Section 5 concludes the paper.

2. **Frame of Reference**

**Auditors’ Tasks in an Accountability Model**

The role of accounting information is based on accountability (Spira, 2001). The overall purpose of company accounting is to provide investors and other stakeholders with useful information about the firm and its operations. The investors are dependent on auditors to ensure the quality of the information provided (Wolnizer, 1987, p. 45) and to present the outcome of the audit (Flint, 1988, p. 116). The auditors are obliged to observe professional secrecy and not expose the company to any harm unless the law stipulates that it is necessary for them to inform the authorities (cf. Warming-Rasmussen and Jensen, 1998).

Based on the theories of Ijiri (1975) we have included three significant parties: the accountee, the accountor and the auditor, in an accountability model to discuss the relationships between them and information flows.

It is impossible for auditors to audit all objects and all the information provided by the accountor (Morrison, 2004), and the examination of factual material by auditors has gradually been replaced by examination of the audited firms’ internal control (Power, 1997, p. 82). In the model (Figure 1), some information (a) goes directly to the accountees without first being quality-assured by the auditors. Accountors can choose what information to distribute and when this should take place. Some other information is first presented to the auditors (b) for quality assurance before it is distributed to the accountees (c). Laws and regulations stipulate that certain information must be presented to the auditors, while the accountors can decide about the content and form of the remainder of the information in arrow (b). Furthermore, the accountors must provide the auditors with additional information – bookkeeping, vouchers, documents, contracts, etc. – from which they can make an assessment of the quality of the information presented to the accountees in arrow (c). Thus, not all the information delivered to the auditors is forwarded to the accountees.
A widely discussed aspect of the relationship between accountor and auditor in the model is the auditor's degree of independence. The business orientation of auditing firms, with high revenues from non-audit services, may jeopardize the independence of auditors (Jeppesen, 1998; Arnold et al., 1999; de Ruyter and Wetzel, 1999). There is a risk of auditors neglecting their main duty to protect investors and other stakeholders and instead becoming the advocates of the management of the audited firms (Haynes et al., 1998; Jenkins and Lowe, 1999). In line with this, it is argued that auditors tend to be less concerned about inflicting harm on anonymous stakeholders than on the management of the audited firm (Bazerman et al., 1997). Thus, the auditors may pay more attention to arrow (b) than arrow (c) and/or disregard arrow (a) in the model.

One of the core activities of auditors is to obtain and evaluate written documents and other types of evidence (Flint, 1988, p. 32), but there are no definitive guidelines for this evaluation process. Even if auditing is a regulated function, it is based on the professional judgement of the auditors, especially when judging whether accounting information provides a true and fair view. Differences in the application of auditing routines have been described in terms of 'structure vs. judgement' (Dirsmith and McAllister, 1982). This refers to the difference between a formal approach and allowing for individual judgement. The former is dependent
on guidelines, instructions, computer support, etc., while the latter allows auditors to bring a variety of aspects into consideration and to make assessments accordingly. The merits of increased structure in auditing have often been debated (cf. Messier, 1995) and the strict guidelines in the new international auditing standards, ISA, can be seen as 'more structure and less judgement'. Power (2003) claims that the trend towards greater structure in auditing is about legitimacy and control, which is not necessarily consistent with better or more efficient auditing. A formal structure can also be related to the auditors' 'search for comfort' (cf. Pentland, 1993) in their work. Consequently, there seems to be an inherent risk that formality and routines are primarily used as a way to protect the auditing profession and the auditors in the field.

Auditors' Perceptions of their Tasks in an Accountability Model

Auditors' thought patterns

In this study a key assumption is that thought patterns form the basis of selective noticing (Gavetti and Levinthal, 2000), action and behaviour (Patterson, 1996). Within strongly regulated social spheres, such as accounting and auditing, people tend to employ elaborated thought patterns and frames of reference. The issues addressed in this study take place in the accounting and auditing context and deal with the core activities of auditors and, to some extent, their professional identities, that is, issues that can be assumed to be of great psychological significance to them. Well-developed thought patterns tend not only to be more complex and more balanced, but also more conservative and more difficult to change than other thought patterns (Hellgren and Löwstedt, 1997, p. 50).

Some empirical studies have adopted a rather holistic approach to studying the way auditors perceive their tasks, for instance, three studies that have used a cross-sectional survey design and factor analyses. Beattie et al. (1999) investigated the way British auditors, that is, partners in auditing firms, perceive threats to their ability to protect investors. It was found that auditors feel that economic dependence on a large client is a major threat to their independence. Umar and Anandarajan (2004) studied the pressures on auditors in the USA and Australia in their duty to serve investors. It was found that auditors in both countries perceive their situation quite similarly and that they face pressures from the management of both the audited firm and the auditing firm. Pressure to retain the client and pressure to conform are seen as crucial threats to their independence. Herrbach (2001) investigated the way French auditors perceive their work situation. It was found that auditors feel committed to a 'psychological contract' with the management of the auditing firm, and that this contract has an impact on the way that auditors perceive the quality of their work.

In a study of how Swedish auditors perceive their work, Eklöv (2001) reports that even experienced auditors complain about the shortcomings of the rules and recommendations regarding objects such as intangibles. Since this makes these items rather difficult to audit, the auditors appear to be strongly motivated to
document everything they do in their work. In another study of Swedish auditors, Burrowes and Persson (2000) report that the auditors think that there are shortcomings in the rules and recommendations for auditing the management’s administration of the firm, and also that audit reports, as they are today, limit the credibility of auditors and increase the expectation gap.

**Similarities between different auditors**

On the one hand, it seems reasonable to assume that there is a high degree of homogeneity in the thought patterns of Swedish auditors which makes it possible to describe a general picture. Professional auditors have a similar education and often face similar situations in their work (Eklöv, 2001). Auditors follow guidelines and instructions, they seek support from their colleagues and they are involved in ongoing interaction with other members of their profession. This phenomenon is not limited to Swedish auditors. Fischer (1996) claims that auditors have a tendency to rely on objectified knowledge such as ‘what was done last year’ when planning and executing their work, and that they appear to be highly constrained by the conventions with regard to how to conduct an audit. Routines and existing working methods in general tend to be taken for granted and are not questioned (Bédard, 1989; Fischer, 1996). Thus, auditors seem to be dependent on a common structure (cf. Power, 2003) and also to show a high degree of socialisation.

On the other hand, there are arguments that imply a certain heterogeneity in the thought patterns of auditors, due to possible differences in the organisational culture of their firms. It is reported that an audit can, in some respects, be carried out differently in different auditing firms (Grey, 1998) and in different auditing teams (Pentland, 1993). Furthermore, the individual’s knowledge and understanding develops gradually through new experiences and in the process of socialisation (cf. Bannister and Fransella, 1986; Patterson, 1996) and also during the auditors’ career (Bonner and Pennington, 1991; Solomon and Shields, 1995). However, with respect to the issues focused on in this study, we believe that the professional socialisation promoting homogeneity is stronger than possible differences between different auditors in Sweden, with respect to auditing firm, experience, etc.

3. Method

*The Repertory Grid*

Thought patterns can be represented and analysed at the actor level using cognitive maps (Fransella et al., 2003). We also argue that it is meaningful to analyse cognitive maps on a group level (cf. Tschudi, 2000; Jankowicz, 2004). The auditor makes sense of his or her world, interprets the situation at hand and acts accordingly. The subjective view of the individual auditor can be inter-subjective
among auditors as a group, and may thus come to be perceived as objective by the actors (cf. Berger and Luckmann, 1967).

To chart the thought patterns of the auditors, we have used a special method for cognitive mapping developed by Kelly (1955) for exploring personal construct systems in a structured manner (Stewart and Stewart, 1981). The repertory grid technique is a well-tested and widely used method. It has, for example, been used in market research and organisational and business applications (see Fransella et al., 2003) and in studies of the investment decisions of venture capitalists (Hisrich and Jankowicz, 1990). We have not, however, been able to find similar studies of auditors. A search in extensive databases, such as Science Direct, Academic Search Elite and Business Source Premier, and a review of papers presented by research organisations devoted to the use of personal construct theory, for instance, European Personal Construct Association, revealed a lack of auditing studies using the repertory grid technique to its full potential.

**Steps in developing a grid**

When collecting empirical data there are three specific steps to be carried out. In the repertory grid framework these steps are: (1) selecting elements; (2) eliciting constructs; and (3) eliciting ratings of the elements in terms of the constructs.

Objects that can be examined by an auditor such as bad receivables, attest routines, productivity, etc. are used as elements in this study. In general, either the researcher or the respondent can select relevant elements in the domain of interest (Reger, 1990). Previous studies can serve as a basis for the choice of elements or the respondents can choose their own elements. A third possibility is to combine the two procedures.

To make sense of the elements (the auditing objects), constructs need to be elicited. The classic way to elicit constructs is to use Kelly's triadic method (1955). The respondent is faced with three elements and asked to describe in what way two of them — for instance, bad receivables and attest routines — are similar and how the third one — for instance, productivity — is different. This results in a description of two contrasting poles and one of the elicited constructs in this study is 'easy to audit — difficult to audit'. The procedure continues until a sufficient number of bi-polar constructs have been generated. A variety of other methods of elicitation have also been suggested (Stewart and Stewart, 1981; Epping et al., 1993).

Having established a relevant set of elements and constructs, the respondent is asked to rate each of the elements (the auditing objects) on a scale formed between the two poles of the construct (Jankowicz, 2004). The respondent rates each element, for instance, on a seven-point scale, to indicate his or her perception of the position of the elements in relation to the two poles of a construct. The element or elements that are closest to one of the poles (e.g. 'easy to audit') are given the lowest score (1) and the element or elements that are closest to the contrasting pole (e.g. 'difficult to audit') are given the highest score (7). The remaining elements are then given scores in between. The procedure is repeated for the next construct and so on until each square in the grid form has been given a score.
The normal method for analysing grids is the principal component analysis (PCA) (Tschudi, 1998; Fransella et al., 2003). The main result of this analysis is a map representing the thought patterns of the respondents. On this map, constructs that are highly correlated will form tight clusters. Components are used to describe these clusters quantitatively and the elements are also located in relations to the components.

Sample
A sample of Swedish auditors was selected in order to allow a certain degree of generalisation to be made from the findings of the study. The entire population of auditors in a medium-sized Swedish city was selected to be studied. According to statistics from the Supervisory Board of Public Accountants there were a total of 43 active auditors in the area. Two of them were excluded as they had prior knowledge of the study. There were four non-responses due to lack of time, leaving 37 to be interviewed. All 37 took part and produced complete data. To include auditors from more than one city, 30 auditors from two larger cities and 15 auditors from a small town were also included, making the total number of respondents 82 (see Table 1). Access was the most decisive criterion when additional auditors were selected, but it was also considered important that different categories of auditors were represented with respect to background variables such as location, auditing firm, gender, seniority level and experience.

Research Design
Data were collected and analysed in four consecutive steps within a period of 14 months, from October 2002 to November 2003. Firstly, a pilot study was carried out over a period of two months. Secondly, the main study was carried out from the end of November 2002 to January 2003. Thirdly, retests with six of the auditors who participated in the main study were held five months after the original interviews. Fourthly, an expert panel and two reference groups consisting of auditors and representatives of the accounting and auditing professions and regulative institutions were consulted in the summer and autumn of 2003.

Pilot study and interview forms
The pilot study was performed in order to receive qualified feedback regarding our prior knowledge and assumptions, to decide which elements and constructs should be included in the grid form, and to test the methods of data collection. Two senior authorised auditors from two of the big four auditing firms in different cities cooperated as 'co-researchers' (cf. Häckner, 2001). This choice was justified because of the dominant position of the big four firms in Sweden. With the help of the co-researchers, the grid form and the manuals for the data collection process were continuously revised and improved.
<table>
<thead>
<tr>
<th>Location</th>
<th>Auditing firm</th>
<th>Gender</th>
<th>Seniority level</th>
<th>Experience</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>Big four</td>
<td>Male</td>
<td>Authorised</td>
<td>0–4 years</td>
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<tr>
<td>Big cities (30)</td>
<td>24</td>
<td>21</td>
<td>30</td>
<td>3</td>
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<td>&gt; 250,000 inhabitants</td>
<td>6</td>
<td>9</td>
<td>–</td>
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<tr>
<td>Medium-sized city (37)</td>
<td>28</td>
<td>24</td>
<td>22</td>
<td>9</td>
</tr>
<tr>
<td>100,000–250,000 inhabitants</td>
<td>9</td>
<td>13</td>
<td>15</td>
<td></td>
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<tr>
<td>Small town (15)</td>
<td>10</td>
<td>12</td>
<td>10</td>
<td>9</td>
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<tr>
<td>&lt; 100,000 inhabitants</td>
<td>5</td>
<td>3</td>
<td>5</td>
<td></td>
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<tr>
<td>(82)</td>
<td>62</td>
<td>57</td>
<td>62</td>
<td>21</td>
</tr>
</tbody>
</table>
A preliminary list of more than 100 auditing objects was compiled through consulting textbooks, Swedish national auditing guidelines, previous research results and suggestions from the two co-researchers. Through repeated discussions with the co-researchers, the list of auditing objects was reduced to 16. To elicit constructs from the selected elements we used Kelly's triadic method, but supplemented this with a less constrained conversational approach and informal discussions with the co-researchers (cf. Stewart and Stewart, 1981). The elicited constructs refer both to information provided according to present legislation and practice, and statements outside this legislation and practice. Fourteen elicited constructs were used as seven-point scales for the evaluation of the elements, representing a wide range of aspects relevant to the inherent problems in the accountability model.

The grid form generated in the pilot study was analysed statistically using PCA. An examination of the results and discussions with the co-researchers resulted in adjustments being made to the grid form to be used in the main study. The final grid form was limited to 14 elements and 12 constructs. The Appendix presents the grid form used, the mean ratings for the 82 respondents and the auditing objects divided into financial, operational and compliance audits.

In addition to the grid interviews, background questions and questions of an open-ended character were included. The background questions were used to categorise the auditors. The reason for the open-ended questions was to increase the flexibility and to give the respondents a chance to go beyond the framework of the grid form. Two of these questions focused on whether the respondents considered it possible to audit any objects or issues less extensively without this having negative effects on the quality of the information to investors and other stakeholders, and whether they considered it possible to audit any objects or issues more extensively in order to provide more relevant information. The third and final open-ended question addressed the auditors' opinions about the possible effects and consequences of expanding the auditing domain. They were asked to comment on their feelings about making statements regarding information not normally commented on in current practice.

It was found that auditors were only likely to be prepared to devote rather limited time to this non-profit-generating activity. It was therefore decided that the interview sessions should not exceed 90 minutes. This was the main reason for not using more than 14 elements and 12 constructs in the grid form and for not using more than three complementary open-ended questions.

In the instructions for the interview sessions it was emphasised that the respondents should use their experience as auditors and relate their answers to auditing a listed company when filling in the grid forms (with the fixed elements and constructs) and answering the complementary open-ended questions. In addition to the instructions for the grid interviews, a brief description of a fictive information technology company was provided as an illustration and common starting point for the respondents.
Data collection and data analysis in the main study
Each interview session took place at the respondent’s office and was conducted by one of the participants in the research team. Most of the interviews were carried out with only one respondent, but for practical reasons two or more auditors from the same auditing firm were in some cases interviewed simultaneously. All of the respondents produced their data without communicating with anyone, except for the interviewer. The respondents were encouraged to rely on their intuitive feelings, rather than to try to ‘analyse’ the scores of the elements on the construct scales. Most respondents took 60–90 minutes to read the instructions, fill in the grid form and give responses to the complementary open-ended questions.

To analyse the individual grids and to compare the grids and analyse the homogeneity in the thought patterns of the auditors, we used computer programs (Tschudi, 1998, 2000) to perform the PCA. The answers to the open-ended questions were categorised and analysed in the light of the analyses of the grids.

Basically, PCA extracts a set of components, and each component explains a maximum part of the total variance. These components may lead to the identification of basic underlying dimensions in the thought patterns that are essential to the respondent, but which may be difficult to see and articulate. Identifying basic dimensions of thought patterns is facilitated if they coincide with clear-cut clusters of constructs. It is usual to rotate the axes of the principal components to achieve this. Elements and constructs are conceived of as being embedded in a geometrical space. The coordinates for a construct are known as factor loadings and the coordinates for elements are called factor scores.

To interpret the dimensions of thought patterns it is useful to examine a plot (map) of the elements and constructs. It is usually easier to interpret the dimensions of thought patterns from a graphical presentation of factor loadings and factor scores. Interpretation is, however, a subjective process and consequently we have discussed our interpretations extensively both with the co-researchers, the auditors participating in the retests and with the expert panel and reference groups.

One commonly used measure of the degree of complexity in a grid is the variance described by the first component, which largely coincides with the mean intercorrelation between constructs. If a high percentage of the variance is described, the thought patterns have a one-dimensional character. This indicates low complexity. A supplementary way of determining the degree of complexity is to find out how many of the components can be interpreted in a meaningful way when the data structure is compared with theoretical models, prior knowledge of the field studied and data collected using other methods.

In order to compare individual grids, each grid was treated as a vector (string) of 14 * 12 = 168 numbers (no. of elements * no. of constructs). These vectors can then be correlated and the principal components describing the respondents can be computed.

Furthermore, each person can be described by a vector, in which the values for each person are either factor scores of elements for the first principal component
or factor loadings of constructs for the first principal component of the person’s grid. Regardless of which of these options is used, high correlation between respondents or between mean values from categories of respondents represents homogeneity in the thought patterns of these groups.

Retests
One way to check the stability in the thought patterns of the respondents and the reliability of the data collection is to make some retests (Fransella et al., 2003). Therefore, six of the respondents were interviewed a second time, five months after the main interviews. They were presented with the same elements and constructs, but this time placed in a different order in the grid form.

Furthermore, the six respondents were asked to interpret graphical presentations of the grid data and to comment on our interpretations. They were also asked about possible explanations to any differences between the first test and the retest, and about possible errors or omissions concerning the choice of elements and constructs. This can be seen as an attempt to examine the validity of the study.

The expert panel and reference groups
After the interviews and the retests, an expert panel and two reference groups were consulted. These groups of experts included auditors and representatives of the Swedish accounting and auditing professions and regulative institutions, who were invited to comment on the findings of the study. The expert panel took part in a public seminar with almost 70 invited delegates. About 20 of the seminar participants took an active part in the discussions. The two reference groups included 10–20 participants each.

The expert panel and the reference groups were consulted to check and verify the findings, including the interpretations of the grid data. Another reason for consulting these external groups was to try to compensate for the weakness of the limited sample of auditors in the main study. This fourth step in the research design can be seen as an attempt to increase validity and reliability when making generalisations from the findings.

4. Findings
The General Thought Pattern
The general picture for the 82 auditors shows moderate homogeneity. The homogeneity of the full grids is relatively low, according to the mean intercorrelation (0.360) between the variables. The same conclusion applies when looking at the results of a PCA in which the auditors are treated as ‘constructs’ and their vectors of factor scores on the first component as elements (0.330). Regarding the constructs, the homogeneity is higher (0.469), but still rather moderate. One possible interpretation of the finding that the mean intercorrelation is higher for constructs
than for elements would be that the auditors have a more common 'language' related to their use of constructs than similarity when they use that language to characterise the elements.

When using the vectors of factor scores or factor loadings, the percentage of the variance that is explainable clearly increases (from 42 to 60% and 73%, respectively). This shows that when 'noise' is filtered away, the first principal component purifies inherent patterns in the data.

In each of the three approaches above, we can think of the person as a 'construct'. A two-dimensional PCA analysis of these 'constructs' reveals possible clusters. A distinct cluster (of respondents) would represent a specific point of view. Had there been many such clusters, a common frame of reference for all the auditors could not be posited. We did not, however, find any such clusters, but the majority of points clustered around the central axis, so the overall mean grid can be said to give a fair representation of the respondents' thought patterns.

One measure of complexity used was the percentage of the variance in the unrotated mean grid explained by the components. Component 1 explains 52% and components 1 and 2 together explain 76% of the variance. These findings indicate a moderate complexity in the auditors' thought patterns.

Figure 2 is a plot presenting a varimax rotated mean grid for all 82 auditors. As a relatively high explanation value was represented by two of the components, while the third component did not allow an easy interpretation, the rotated mean grid was further analysed in two dimensions. The PCA of this plot shows a distinct pattern and the relations between the constructs that form three clusters give rise to the following interpretations.

In the first cluster, five constructs are included. These constructs are highly intercorrelated; the mean intercorrelation is 0.702. To the right end of the first axes we find 'very prediction dependent' (one pole for construct number 3), 'statements significant for share price' (8), 'statements very valuable for investors' (2) and even 'industry considerations required' (9) and 'internal control not important' (4). This cluster can be interpreted as judgements of information related to the future. The contrasting poles of the five constructs (to the left end in the plot) represent the past.

In the second cluster, three constructs are represented. To the upper right in the plot we find 'very oral information dependent' (12), 'statements significant for company image' (11) and 'difficult to audit' (1). These have to do with judgements based on soft information that is difficult to verify. The contrasting poles of the three constructs (to the lower left in the plot) focus on hard information that is possible to verify.

In the third cluster, four constructs are represented. At the top of the plot we find 'seldom audited' (5), 'limited effort (time)' (7), 'low audit precision' (10) and 'competence not sufficient' (6). These can be interpreted as judgements requiring a creative and comprehensive view. The contrasting poles of the four constructs (at the bottom of the plot) represent 'number crunching' of selected parts.
The two axes in the mean grid represent two essential dimensions of the respondents' thought patterns. The location of both the constructs and the elements in the plot supports the interpretation that the first dimension has to do with the time perspective. Auditing objects such as attest routines and CEO comments are two opposites on the time axis. Attest routines (element L) represent information from the past, while CEO comments (element E) represent information about the future. When auditing a firm's attest routines the auditors feel that they can rely to a great extent on internal control, but auditing CEO comments requires industry considerations and oral information. The second dimension has to do with auditing practice. The auditors devote a relatively large amount of time to objects such as some balance sheet items, for instance, bad receivables (element C). They feel well qualified to audit
these objects. On the other hand, objects such as productivity (element M), strategies (element N) and environmental crime (element K) are seldom examined and the auditors do not feel qualified to audit such matters with high precision.

The interpretations of the mean grid also indicate a gap between what auditors actually do and what is perceived as important for investors and other stakeholders. The auditors devote a relatively large amount of time and effort to objects that are not of major importance to investors or share prices. This is illustrated by the dotted line from the corner of the lower left square to the corner of the upper right square in Figure 2 – the dimension that explains most of the variance in the unrotated mean grid. The ‘hard’ cluster is related to both the ‘past’ and the ‘number crunching’ clusters. We are tempted to label that area the ‘auditors’ corner’. The ‘soft’ cluster is related to the ‘future’ and the ‘creative comprehension’ clusters. That area may be labelled the ‘investors’ corner’.

To what extent can the overall mean grid be said to characterise the different categories of auditors according to location, auditing firm, gender, seniority level and experience? One approach to this question is to see how similar the mean grids for the different categories of auditors are. Computing a total mean intercorrelation for all the categories gives a mean correlation of 0.877. This indicates that the mean grids for different categories of auditors are quite similar to each other. No typical thought patterns could be found in any city or auditing firm. Neither could significant differences be found between men and women, between authorised public accountants and approved accountants or between auditors with great or little experience. We also made a separate analysis of each category of auditors, and in all categories the clusters identified in the overall mean grid – both for constructs and elements – could be recognised as described above, although in two or three cases the clusters were fairly weak.

Open-Ended Questions

The answers of the respondents to the open-ended questions revealed a traditional view. Around 20% of the 82 respondents were entirely negative to changes and most of the respondents only wanted to see small changes in the way in which auditing is carried out. Of those respondents who were not entirely negative to changes, half argued that supervising taxes and other charges, such as employers’ contributions to social security, is primarily the duty of the tax authorities. Some of the respondents also criticised the fact that they are obliged to report economic crimes. They commented on the fact that criminal law is not included in the basic auditor training. Among those respondents who felt that more extensive auditing might help investors and other stakeholders, one in three mentioned strategies and future prospects. Some of the respondents also argued that an increased emphasis on auditing internal conditions would be
useful, but no single auditor mentioned the need for more focus on the detection of fraud.

In general, the respondents were very negative to the idea of making statements about any information except for that elicited according to current practice. Only 7% of the respondents were in favour of making statements that go beyond current legislation and practice. Despite the general reluctance to make additional statements, all of the respondents considered such statements significant to investors and other stakeholders.

Retests

Although we failed to detect any clear differences between the grids of different categories of auditors, there may still be individual differences between respondents. If no genuine individual differences existed, the similarity between two grids from the same person would be of the same magnitude as the correlation between any two grids from different respondents. For the six auditors that participated in the follow-up tests the mean intercorrelation between the first test and retest was 0.573. Although this is not an impressive degree of reliability it is clearly larger than the mean intercorrelation between different individuals, which was 0.360.

When asked about possible explanations of the differences between the first test and the retest, the six respondents argued in rather similar ways. Their frames of reference were not significantly affected, but they were influenced by experiences in their daily work and events relevant to their work or their business. Some of the respondents testified that specific events had influenced their opinions and, consequently, some of their answers on the grid form.

The six auditors were relatively satisfied with the selection of elements and constructs, as well as with the interpretations of the grid data, thus substantiating the fact that a thorough pilot study had been made and increasing the confidence in the validity of the study. Their confirmation indicates that the elements are representative of the domain and that the interpretations made make sense.

Expert Panel and Reference Groups

The comments of the expert panel and reference groups confirmed almost all the findings of the study, for instance, that it is reasonable that the general picture of the thought patterns of auditors shows moderate homogeneity and complexity, and that there is a gap between what auditors do and what is perceived as especially important for investors and other stakeholders. The discussions also confirmed the reluctance of auditors to make more statements in the audit reports. The comments of the expert panel and reference groups will be further discussed in the next section.
5. Discussion and Conclusions

Auditor Tasks

According to the general thought pattern, there are two different kinds of tasks that can be carried out by auditors. One kind is the traditional task that focuses on either historical events or hard facts and number crunching, and involves checking certain parts of the company’s business. This is where Swedish auditors feel at home. The information that is quality-assured by the auditors – arrows (b) and (c) in the accountability model in Figure 1 – can be described as primarily hard, historical and fragmentary. When auditing this kind of information, the auditors feel relatively comfortable (cf. Pentland, 1993). The auditing objects, for example, attest routines and some balance sheet items, can be audited using established auditing procedures and according to given laws, recommendations and other guidelines. As can be seen by the pole for construct number 4 in the lower left square in Figure 2, the auditors can also, to a relatively high extent, rely on the audited firms’ internal control when auditing these objects (cf. Power, 1997). When auditors have objectified knowledge to work with (cf. Fischer, 1996), the responsibility is partly shifted from the individual level to the auditing firm and the auditing profession. The auditors feel that this shift reduces the risk of their being held personally liable to pay damages.

The second kind of task that can be carried out by auditors focuses on information seen from the perspective of investors and other stakeholders. This kind of soft, future-oriented and comprehensive information is more difficult to audit. The lack of reliable auditing procedures makes Swedish auditors feel rather insecure (cf. Burrowes and Persson, 2000; Eklöv, 2001). This kind of information is rarely audited and commented on by the auditors. They tend to leave this area of information to the companies, financial analysts and journalists. As a consequence this information – arrow (a) in the model – is normally presented to the accountees without being quality-assured.

Swedish auditors do not seem to be particularly eager to incorporate a more forward-looking quality control into their auditing domain. A possible explanation is that they feel secure on their own territory, including offering assistance and consulting services as a complement to traditional auditing. Revenue from non-audit services is of great importance as auditing firms seek to increase their profitability (cf. Jeppesen, 1998; Arnold et al., 1999). For an employee working for a private auditing firm and committed to a ‘psychological contract’ (cf. Herrbach, 2001) this may be preferable to jeopardising one’s reputation in new and perhaps dangerous areas.

The expert panel and reference groups confirmed the auditors’ reluctance to see a more forward-looking quality control as part of the auditing domain. The representatives of the auditing profession used expressions such as ‘back to basics’, ‘cleaner review’ and ‘not playing financial analysts’ when they discussed the findings of the study and the auditing domain. The common feeling was that auditors should audit and comment on some of the information – primarily hard,
historical and fragmentary – provided by the accountors and delivered to the accountees. This kind of information can be dealt with using a ‘structural approach’ (cf. Dirsmith and McAllister, 1982). Arguments from auditors in the two reference groups also emphasised the increased importance of checking the audited firms’ internal control regarding this kind of information.

Auditor Focus

Beattie et al. (1999) and Umar and Anandarajan (2004) report that auditors perceive various threats to their independence. In line with this, it is argued that auditors have, to some extent, abandoned their duty of protecting investors and other stakeholders (cf. Lee, 1995; Haynes et al., 1998). The findings of this study point in the same direction. Swedish auditors appear to be more focused on the content of the information rather than the usefulness of the information to accountees. They seem to consider themselves less responsible to the accountees than to both themselves and the accountors (cf. Bazerman et al., 1997). Two findings indicate that this is the case. Firstly, Swedish auditors do not concentrate on auditing objects of major importance to investors and share prices. Instead they devote a relatively large amount of time to objects that can be satisfactorily verified. Secondly, only a few respondents were prepared to make statements about any information other than that elicited according to current praxis. A possible reason for this is that the auditors are in an exposed position and that professional secrecy and caring for the accountor are considered more important by auditors than their duty of providing information to the accountees (cf. Warming-Rasmussen and Jensen, 1998). Accordingly, Swedish auditors seem rather uninterested in contributing to an increased information value in arrow (c) in the model.

The gap between auditing practice and what auditors perceive as important to investors and other stakeholders can be compared with the expectation gap (cf. Humphrey et al., 1993; Koh and Woo, 1998; Sikka et al., 1998; McEnroe and Martens, 2001). The inconsistency in the thought patterns of auditors observed and described here is, however, a gap of another and maybe even more interesting kind: the gap seems to have been internalised. The auditors do not spend their time auditing objects that they themselves consider to be of primary importance to the accountees.

The auditors’ work does not violate laws and regulations, but it does not focus primarily on protecting investors and other stakeholders. The ‘investors’ corner’ in the upper right square in Figure 2 is a rather unfamiliar area for Swedish auditors. The soft, future-oriented and comprehensive information is primarily seen as a task for financial analysts to take care of. On the other hand, auditors can be regarded as the main guardians of the hard, historical and fragmentary information. However, regarding the supervision of taxes and other charges, auditors feel that tax authority officials should take more responsibility. A reason for the reluctance to audit taxes and other charges can be found in the relation between auditors and accountors (cf. Beattie et al., 1999; Umar and Anandarajan, 2004)
and the unwillingness of Swedish auditors to accept a role of authority vis-à-vis their clients.

At the seminar with the expert panel, representatives of the shareholders expressed the need for more independent auditors, that is, auditors with integrity who are not afraid of questioning managers and who are willing to start a dialogue with investors. The representatives of the accounting and auditing professions were, however, more interested in discussing the fact that laws and recommendations had become more detailed and that there is a risk that in the future auditors will be expected to act more like lawyers when auditing accounting information.

It was also evident from the expert panel and the reference groups that auditors perceive their situation to be very exposed. The reason for this is partly due to the fact that the auditor is legally and individually responsible for his or her auditing work and audit reports. Litigation and the risk of losing one’s job threatens if he or she makes mistakes that cause harm to the client. As a consequence, Swedish auditors seem to be concerned with their own interests. For example, more than two-thirds of the respondents in the main study referred to the problems it would cause them, as an argument for their unwillingness to provide statements not normally commented on in current practice. The need for Swedish auditors to protect themselves seems to be stronger than the desire to protect investors and other stakeholders, even if they are aware that their audit reports are uninformative (cf. Burrowes and Persson, 2000).

Auditor Traditionalism

The lack of differences between different categories of Swedish auditors can be interpreted as indicating a relatively rapid process of socialisation into the auditing profession, and also the relative importance of structure and traditionalism (cf. Fischer, 1996; Power, 2003). Swedish auditors seem to work to a great extent according to legislation, practice and habits, without really considering if things can be done in any other way. Doing things right seems to be more important than doing the right things.

The expert panel and reference groups confirmed the finding that Swedish auditors are generally traditionalists. According to representatives of the auditing profession, external pressures have only succeeded in bringing about two significant changes in the work of auditors in Sweden in the last 25 years. One of the changes was that auditors should check up on taxes and other charges. In this study more than 40% of the respondents explicitly argued that it is primarily a task for the tax authorities. The other change was that auditors are now obliged to report suspected economic crimes, another thing criticised by auditors in this study.

Swedish auditors seem rather unwilling to (1) handle these two items related to the compliance audit, (2) accept an active role in the detection of fraud, (3) focus on future-oriented information of importance to the audited firm as a going concern and (4) provide statements about information not elicited according to
current practice. This indicates that the auditors are not only traditional, but also rather uninterested in reducing the expectation gap. The traditionalism of Swedish auditors is of concern for auditing practice as it is a self-regulated domain. Consequently, it makes it rather difficult to transfer some of the information flow in arrow (a) to the information flow in arrows (b) and (c) in the accountability model.

Limitations and Generalisations

How reliable is the repertory grid technique and how valid are the results that are produced when using it? Even if the technique provides a reliable representation of the thought patterns of the respondents (Reger, 1990, p. 301; Fransella et al., 2003, p. 168) there are some weaknesses. A crucial problem for validity is to determine and use a set of elements that are representative for the domain and the research questions being studied (Stewart and Stewart, 1981). If the elements used are not representative or if they do not cover enough of the range of possible elements, the validity of the findings will be uncertain. Accordingly it is necessary to use procedures for selection with this in mind. In this study we used two qualified auditors as co-researchers and made serious efforts to choose relevant elements, drawing on their extensive experience. The large number of elements covering financial, operational and compliance audits was gradually reduced by eliminating ‘overlapping’ elements. Also, the retests and the sessions with the expert panel and reference groups confirmed that the selection of elements was reasonable.

Another problem with the repertory grid technique is to carry out the interviews without bias (Borell, 1994). For instance, respondents can be influenced by the interviewer and adapt their answers. An effort was therefore made to avoid introducing any preconceived notions into the interviews (cf. Häckner and Tschudi, 1994). Furthermore, it is important to bear in mind that there is always a risk that the respondents may make insufficient effort or be careless when filling in a grid form (Fransella et al., 2003). Generally the respondents in this study appeared to be motivated and to have no problems in filling in the grid forms or answering the other questions. Another drawback with the technique can occur if researchers interpret the statistical analysis, plots, etc. on their own (Stewart and Stewart, 1981). Feedback from the respondents, as well as allowing them to change their scores and make their own interpretations, are crucial for the validity of the findings. We tried to meet these requirements in the study by making retests.

To what extent can the findings be generalised to apply to all Swedish auditors? One limitation of this study is that we did not use a random sample. The basic question is whether the pattern in the mean grid in Figure 2 is representative for Swedish auditors. Much of our research design was devoted to this question. To the best of our ability we have tried to give auditors every opportunity to accept or contest the dominant pattern in the mean grid and indicate alternative
patterns. The discussions in the expert panel and the reference groups did not reveal any pronounced disagreement in relation to the dominant pattern. The six auditors participating in the retests also agreed that the pattern in the mean grid for all 82 respondents gave a good representation of their view.

Some of the statistical analyses point in the same direction. We had included five background variables in the sample, creating several different categories of auditors and allowing different comparisons between the respondents to be made. One way of analysing possible differences between different categories of auditors in our sample was to correlate mean grids across the different categories of auditors. The mean correlation between mean grids was high (0.877). This is an indication that the dominant pattern is pretty much the same for all categories of auditors. The fact that the findings between different categories of auditors did not reveal any significant difference implies that if we had a different distribution of these background variables, it would be unlikely that this would have produced major differences in the main findings.

Any one of these arguments may not by themselves be conclusive, but considering that they all point in the same direction – and that it was not possible to see any clear alternative pattern – we have reason to believe that the findings give a fairly representative picture of Swedish auditors.

Possible Future Reforms and Suggestions for Further Research

Regardless of whether the information is controlled by laws and regulations or not, it would be helpful to the accountees if the information for their decision-making is quality-assured. However, Swedish auditors emphasise that it is not exclusively their duty to protect investors and other stakeholders, but that they share this responsibility with financial analysts (regarding the soft, future-oriented and comprehensive information) and tax authority officials (regarding supervising taxes and other charges). It may be argued that the new international accounting and auditing standards may have some impact on how Swedish auditors work. The findings of this study make it reasonable to question whether these changes will make the auditors more inclined to do the right things, or if they will be even more concerned about doing things right. On the one hand, impairment testing of goodwill in group accounts implies an increased future orientation of the accounting information. On the other hand, the new auditing standards may increase the structure of the auditors’ work and their focus on traditional tasks. There is a risk that formality and routines will overshadow the importance of motivated judgements concerning soft, future-oriented and comprehensive information.

Considering the traditional view of Swedish auditors and the self-regulation of the profession, the other parties in the accountability model must take action if any real changes are to be made. Without pressure from the accountees it will be difficult to reduce the inconsistencies in the thought patterns of auditors.
Consequently it will also be difficult to increase the information flow in arrows (b) and (c) in the model. However, if it became easier to attract capital to companies that allow auditors to make their internal memoranda public, this could be a driving force towards increased openness and a larger proportion of quality-assured information.

If the auditors are to quality assure the soft, future-oriented and comprehensive information for accountee decision-making, some changes need to be made. Improved procedures for auditing and assessing this kind of information need to be developed. To some extent these procedures can build upon the familiar procedures for hard, historical and fragmentary information, which the auditors in Sweden spend time and effort on today. Serious judgements of future-oriented information can hardly be made without considering what has happened earlier. However, this is not sufficient. For example, in order to check and judge CEO comments, the auditors must be capable of making trend analyses and industry-related judgements. An extension of the domain of auditors to serve investors and other stakeholders requires a change in the professional training of auditors (cf. Rezaee, 2004). The goal of such training can be to develop a deeper understanding of creative judgement and a more comprehensive approach, in addition to the more traditional elements of the training.

It is unrealistic to assume that every auditor should be able to audit all sorts of events. Instead, auditors could specialise on different tasks, and they could cooperate to produce more comprehensive auditing than at present. A retrospective auditor could be a team-member that focuses on information that can be verified relatively easily. A future-oriented auditor could, with assistance from internal and external experts, concentrate on information of great importance to investors, for instance, concerning the status of the audited firm as a going concern. The question of the level of quality assurance of this kind of information must be discussed further, because soft and future-oriented information cannot be verified to the same degree as hard and historical information.

One suggestion for further research is to investigate whether the findings of this study are also valid regarding auditors in other countries. This is of interest in the perspective of the ongoing internationalisation of auditing (cf. Humphrey, 2001) and the coordinating of work in multinational auditing firms (cf. Barrett et al., 2005). We believe that both local and global approaches (cf. Lukka and Kasanen, 1996) could be important in this respect. Another suggestion for further research is to link the accountability model to field studies. There are few studies into the practice of auditing in its real life context and little research that can be called ‘field-work’ has been conducted in the sphere of auditing (Gendron and Bédard, 2001; Power, 2003). We therefore suggest that there is a need for more field studies in auditing research, that is, in-depth research and longitudinal studies of what auditors really do, what tasks they work with, how they interact in working groups, and how they work with and perceive clients, investors and other stakeholders.
Swedish Auditors’ View of Auditing

As it is also relevant to discover how other actors perceive auditing and auditors, it is important to focus attention not only on the auditors (cf. Carcello et al., 1992; Humphrey et al., 1993; Behn et al., 1999). The accountability model can be used to compare the thought patterns of accountors (management representatives) and accountees (investors and/or other stakeholders) regarding their view of the way in which auditors work and make statements about information provided by different kinds of companies.

Acknowledgements

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References


Appendix. Grid Form

The grid form consists of 14 elements (A–N) and 12 constructs (1–12). Each row shows the set of ratings for a construct and each column the set of ratings for an element. In each square the mean ratings for the 82 respondents is noted.

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The elements represent financial, operational and compliance audit objects as follow.

Financial audit objects: (Purchase of shares, Stock price drop, Bad receivables, Capitalisation organisation expenses, Interim report, Financial plan, Transfer prices)

Operational audit objects: (CEO comments, Employment terms, Data security, Productivity, Strategies)

Compliance audit objects: (Attest routines, Environmental crime)