



DISSERTATION

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What did you expect?

- A study on how the relationship can affect the expectations on an auditor

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Abstract

Problem: That the clients expectations could be influenced by the relationship either positively or negatively. The relationship phases were redefined by Ruyter and Wetzels in 1999 describing the relationship in depth.

Purpose: This paper's purpose is to identify if there are any patterns in the relationship phases regarding the expectations and to discover how high expectations every phase has.

Method: We have chosen positivism as our research philosophy and used a mix of a qualitative and quantitative study where we interviewed eight micro-company managers in Sweden. The paper is based on a deductive approach where we try to validate theories that have already been made.

Theory: Our study contains theories discussing the audit profession, relationship phases, and the role of auditors, rules to keep an auditor unbiased, expectations on auditors and how an auditor can keep his objectivity, impartiality and independence.

Conclusions: The conclusions of our study are that the expectations vary depending on which relationship phase they are in. Another conclusion is that the communication itself could be a major factor in building their relationship. We noticed that there were patterns between the two.

Keywords: Micro companies, auditors, relationship phases, expectations and communication.

Preface

First of all we would like to thank the people who have taken time out of their lives to participate in our interviews.

We would also like to thank our supervisor Eva Löfstål for helping us when we needed advice and giving us inspiration for our paper.

Kristianstad, June 2012

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1 Introduction

Here we discuss the background as well as describe our problem statement and its purpose. The introduction will be followed by explaining our problem's limitations and our dissertation's key words. We finish the introduction with a disposition where the lay out of this paper is described.

1.1 Background

There has been an on-going debate whether an auditor can keep his independence due to the auditor having a personal relationship with their clients. According Ruyter and Wetzels (1999) having too much commitment to your auditor may have negative consequences to the company. This debate has become more significant due to several audit report failures in recent time. Another issue between micro companies and their auditors have been the pricing of individual services and pricing overall according to Barkess and Simnett (1994). They also consider that the relationship might be affected by the number of individual services you purchase. Morgan and Hunt (1994) believe that both parts in a relationship are equal and there are no buyers and sellers when it comes to building a relationship. They propose that building a relationship is similar to exchanging resources but instead of exchanging money for a product you get communication and information traded in between each other.

The relationship structure has evolved in recent years due to the auditor providing more services to their clients. According Kleinman and Palmon (2000) the auditor has to work for the client not only externally but also internally nowadays, where the auditor gives suggestions how to run a company to their clients. Kleinman and Palmon (2000) believe that there needs to be specific characteristics for a healthy relationship. An auditor also has regulations to follow when building up his or her relationship with clients. These regulations are also known as generally accepted auditing standards and generally accepted auditing principles (FAR 2009). An auditor should also try to keep his or her independency and remain unbiased when working for a client. This may be more difficult than it sounds since most auditors obviously want their clients to do well (Wallerstedt 2005).

1.2 Problematization

The relationship between auditors and Swedish micro companies could affect the micro company's expectation on its auditor. Whether an auditor is important to a micro company is something that has been discussed many times in Sweden. These discussions has been researched by Tobias Svanström, Svanström mentions that auditors in smaller companies have a key role as an advisor but can be very costly to a small company to hire. According to Ruyter and Wetzels (1999) there are five main phases of a relationship. These five phases can be specifically categorized depending on several factors for example the relationship length, intensity and benefits According to Svanström, the smaller companies have a very lacking knowledge of what an auditor is supposed to achieve and that higher knowledge of this would give them a better relationship (Svanström, 2004). There are many perspectives you can choose from to observe the relationship, it can be viewed from the auditor's, the small company manager's or the examiner's perspective. A factor that might explain the relationship could be that the employer has not created a clear understanding of what auditor is supposed to do and not to do. This factor could affect their behaviour towards each other. A friendly relationship does not have to be the optimal one for the company and could backfire due to the auditor no longer being independent, it could almost be as bad as not having a relationship at all (Cassel, 1996, s.190-192). The micro company's perspective will be of great importance and it is the primary focus of this paper.

In Sweden, auditing has constantly evolved for the last hundred years and to find how much they feel liable towards the company is therefore important as it might affect the expectations, also the credibility and completeness can be criticised. There are two main aspects of credibility that are identified as internal and external. The external credibility is mainly sustained by third-party statements, while the internal credibility is concerned with the quality of such things as the audit system and policies. Adams's study highlights the significant lacking of completeness in today's reporting (Adams and Evans, 2004). Consulting practices have become increasingly popular and sometimes the client wants to see the auditor as their advisory as well. They also discuss that most errors aren't made due to the auditor and the client working together, but due to objectivity and impartiality being impossible for the auditor to maintain (Bazerman, Morgan and Loewenstein, 1997).

Previously articles have put their energy on studying the expectations gap and how it affects the relationship, this paper will study the relationship development itself and how it can affect the expectations. The relationship itself could affect the expectations and therefore be the reason behind a so called expectations gap. This paper will not focus on other external factors that might affect the expectations other than the relationship and the communication between the client and auditor.

1.3 Research questions

Research Question:

How does the perception of expectation between micro companies and auditors relationship develop?

1.4 Purpose

The purpose of this paper is to explore how the relationship is built between a micro company and their auditor. The goal will be to find out if there are any patterns in the expectations of the micro company in comparison to its relationship phase and if there is a gap between what the micro companies expect from their auditors and what they actually do. It is important to note that we are exploring the client's expectations and not vice versa.

1.5 Definition on micro companies

Our definition of micro companies is companies with less than 20 employees and with revenue of less than 20 million SEK annually.

1.6 Key words

Micro Companies

Auditors

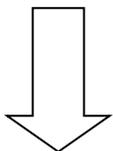
Relationship phases

Expectations

Communication

1.7 Disposition

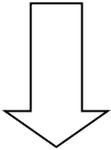
Introduction



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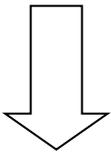
dissertation's key words. We finish the introduction with a disposition where the lay out of this paper is described.

Method



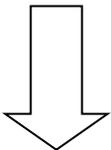
In the method chapter we explain our choice of research method and scientific approach. We also discuss both our primary and secondary data used and provide a short description of the differences between the two.

The theoretical frame of reference



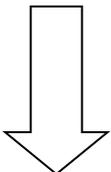
In this chapter we are starting to describe what an auditor is supposed to do and what regulations there are on auditors. We also describe the importance of an auditor's impartiality, objectivity and independence. We finish the chapter by describing different relationship phases, expectations and how the role of auditing has evolved.

Empirical findings



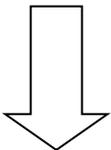
In the empirical findings chapter we present the results of the interviews and give a short summary of the expectations of the different clients. We also discuss the relationship and give a more qualitative description of it; also the communication will be mentioned. Eight interviews have been conducted where eleven relationships have been discussed. The questions to these interviews are available in the appendix in Swedish.

Analysis



In the analysis chapter we relate the empirical findings with the theoretical frame of reference to make our own analysis. We will try to categorise all the clients into different relationship phases after our own assessments. For simplicity, they will be grouped after how their relationship fits in with their attributes.

Conclusion



In this chapter we provide our conclusions and our reflections regarding the papers purpose. Here we try to explain what the analysis really means and bring our paper to an end. We also provide how you can do further studies on our work.

2. Background facts

In this chapter we describe what an auditor is supposed to do and what regulations there are on auditors. We also describe the importance of an auditor's impartiality, objectivity and independence.

2.1 The objective of auditors

It might be good to understand what revision is to get a better explanation of the purpose of auditors. According to FAR (FAR 2009) Revision is with a sceptical view plan, investigate, examine, judge and discuss a company's annual report, accounting and administration.

The auditor shall annually provide an audit report to the company. The purpose of the audit report is to give legitimacy to the numbers provided from the company. This gives stakeholders as well as the client a more reliable source of information and validity that the information is more than likely correct (FAR 2009). The board and the CEO also get trustworthiness from the audit report and confirmation that they are achieving their assignment.

It is very important that the auditor knows what he or she is supposed to do, when the auditor expresses opinions about the annual report, so that the auditor doesn't spend too much time on things that are not relevant for the audit report.

2.2 Generally accepted auditing standards and generally accepted auditor principles

An auditor has many regulations they need to follow, in the Swedish law book there are two important conducts which an auditor must follow. They are called generally accepted auditing standards and generally accepted auditor principles. Generally accepted auditor principles, also called GAAP and generally accepted auditing standards, also called GAAS are explained in FAR SRS. According to FAR (2009) these two conducts explain how an audit report should be conducted and how an auditor should behave ethically.

2.2.1 Generally accepted auditing standards

GAAS is regulated by the ninth chapter of the Aktiebolagslagen and in the fifth paragraph of "Revisionslagen". Revisionslagen explains that it is important for an auditor to know how much in depth and how extensive the company's audit report should be, it also explains how the accounting and the board's management should be conducted. This law has given the

auditor a more practical description of what GAAS really is and it is easier to understand what an auditor is supposed to do, which has been missing before (FAR 2009). GAAS does not only explain this but also tries to give a clear view of auditor's required knowledge, experience and professional judgement.

2.2.2 Generally accepted auditor principles

GAAP contains the ethical regulations an auditor should follow and is explained in paragraph 19 of "Revisorslagen". Revisorslagen mentions that the auditor should follow GAAP on all types of assignments which the auditor might perform. The three key words of GAAP is considered to be objectivity, impartiality and independence. GAAP doesn't only apply to individual assignments but also should be followed when an auditing firm is organized, when marketing is shaped and how an auditor should behave outside his working environment (FAR 2009).

2.3 The independence of auditors

The reliability of an auditor's work has increased since the profession started. The requirements of an auditor being independent and questions surrounding this is therefore important, because of the increase new laws have been written both in Sweden and abroad. Auditor independence is something that is constantly debated (FAR 2009).

Being independent could mean a lot of things. Out of a financial perspective this means that an auditor is independent in their relationship to their clients. According to Diamant (2004) an auditor's independence has to be achieved for an auditor to be able to work and conclude his objectives correctly and without being partial. Diamant (2004) also believes that it is important to be impartial, objective and independent as an auditor and it is the auditor's responsibility to protect this.

In the Revisionslagen (FAR 2009) explains that an auditor needs to follow out their assignments with validity and independence. They also have to be objective and impartial when they make a decision. FAR (2009) also explains how firms of accountants should be organized to maintain these requirements.

There are a lot of situations where it is hard for an auditor to keep his independence. Johansson (2005) gives out a few examples of such situations where the relationship with the company's management is one of them. It can be hard for an auditor when he is asked to assess and evaluate information which has nothing with numbers. This situation sets high demands of the auditor and his character. When an auditor assesses this information he/she can sometimes affect how the company is controlled and managed. An auditor has to keep his integrity which is something almost impossible when dealing with confrontations like this (Johansson 2005, p. 143-144).

2.3.1 Rules to keep the auditor unbiased

As explained earlier the auditor's independence is of great importance for the audit report to be done correctly. An auditor should not work on other interest in the company than what the auditor should do. To make sure that they do not affect business decisions not concerning an auditor a group of rules to keep the auditor unbiased has been set in place. These are in Swedish called "jävsregler". Auditors should work according to the governing laws in Aktiebolagslagen (in the future referenced as ABL). According to ABL in FAR(2009) an auditor is not unbiased if:

- The Auditor owns shares or stock in a different company within the same division,
- Is hired by or in any way dependant to the company as a subordinate,
- Is married to or related as a close family member both in older and younger generations,
- Is in debt to the company or another company within the same division or has obligations to another company within the same division.

Diamant (2004) believes that the Swedish law system should clearer when it comes to regulating independence. Revisionslagen is not considered to be clear enough concerning because they haven't explained specifically what is forbidden like it is in Denmark. In Denmark there is a much clearer regulation of what an auditor is prohibited to do while in Sweden there is more a space to give arguments if a conflict arises. Diamant (2004) is not ready to accept such reasoning and thinks that these conflicts should be part of Aktiebolagslagen and in depth explained there (Diamant 2004, p. 279)

3. Theoretical frame of reference

In this chapter we describe different relationship phases, expectations and how the role of auditing has evolved.

3.1 The auditor and micro companies relationships

According to Kleinman and Palmon (2000) the relationship between an auditor and a client needs to have four specific characteristics. One of the key aspects is the longevity of the relationship. To achieve the best relationship it needs to be possible for them to have a long relationship. It is also important that they have frequent communication and the relationship stays intense. The connection should be equally jointed, where both parties require each other. The fourth and least importance aspect is that they should be bound together and have incentives to keep working together; this can be done either by law or signing a contract.

Kleinman and Palmon (2000) mentions that the relationship has changed drastically in recent years, where the audit firms are not just acting as external auditors but also work internally, giving advice and suggestions on business decisions such as how to allocate their investment dollars. The so called big five auditing firms are performing consulting services as well as auditing services which could affect business decisions. The authors have chosen to use the role episode model based on Kahn et al (1964). This model describes the client and auditor relationship based on several factors such as environmental factors.

3.1.1 Exchange of relationship phases

In every relationship there are exchanges and this is also true regarding the relationship phases between an auditor and a micro company. Ruyter and Wetzels (1999) believe that every relationship has five phases a relationship can go through. The first phase is called *awareness*, which basically explains that before a relationship can occur, the client needs to be aware of the audit firms' existence. After awareness comes *exploration*, where they test the relationship and try to perceive what the benefits and burdens of maintaining this relationship could be. If the benefits are of more value than the burdens, the relationship becomes stronger and an *expansion* of the relationship occurs. During this phase the level of trust has increased so that they can give out more information between each other, therefore increasing the benefits of the relationship even more (Dassen, 1995).

The difference between this phase and the exploration phase is the longevity of the relationship and how this has affected the burden and trust issue. The fourth phase is called *commitment* and it is the phase which is developed when a relationship has reached its strongest point. Here the client and the audit firm have almost pledged an allegiance, where they try to stick together at almost any cost. There could for example exist a more profitable audit firm in the district for the specific client, but they will stick with the current audit firm

because they have worked together for such a long time. The fifth and final phase is called *dissolution*. In this phase the relationship is no longer considered beneficial for one or both parties and they publicly dissolve. This could occur when a party privately debates his or her dissatisfaction with the relationship (Dwyer, 1987).

Commitment is the most important phase in the relationship according to Dwyer (1987). Dwyer believes that commitment is the key item for a long, successful and beneficial relationship. Without commitment a relationship cannot be maintained and the relationship dissolves.

3.2 Expectations on the auditor

A common misconception is that clients only expect of auditors what is written in GAAS and GAAP but this is not the case. Clients usually come to expect more of the auditors than what is mandatory by law. The difference between what the client expects and what the auditor believes is necessary is called a gap of expectations. This gap has been examined countless times by several economists and professors. According to Khong (2005) the expectations of auditors have decreased dramatically due to several audit failures. Khong believes that the fraudulent audit reports have increased due to the auditor's lack of professionalism and due to the fact that the abiding rules of auditors have in the past been too lenient. The auditor has therefore gone from being an investigator to a simple servant for the client. The fact that the auditor's role has changed into also being a consultant is a factor which is believed to decrease the auditor's objectivity and independence which as earlier mentioned is a vital part of the auditor's work to function properly.

3.2.1 Split of expectations

In the relationship between an auditor and its client there occurs different viewpoints of what the theory says an auditor should do and what an auditor really does. These Expectations often differ depending on which view point you choose to take. Some of these misconceptions are though usually possible to identify, for example that an auditor is supposed to have supervision rather than observing which norms and regulations that have been taken by the examining party (Cassel 1996, p.189).

The examinations made by auditors often appear in the audit reports by terms such as GAAS, but only a few clients have an idea of what this conduct means according to Filip Cassel. This example shows how easy the expectations can be split and what the client thinks the auditor has done and what the auditor really did (Cassel 1996, p. 208).

According to Cassel it is very hard to make any conclusions regarding the expectations between an auditor and the client. He also believes that the problem lies as early when the client chooses an auditor to perform an assignment. The representatives of the audited firm which aren't able to influence the choice of an auditor could therefore receive a faulty understanding which in some regards makes it impossible for them to take in the client's position. Another reason to why the expectations can be split could be that the auditors and their organization are not able to clearly explain the different roles of an auditor. When a split in expectations occur, the trust between each other could be completely shattered and after that it could be hard for them to achieve any cooperation at all (Cassel 1996, p. 208).

The split of expectations can be both due to the client's expectations on what the auditor is supposed to do is too high, or that the auditors seem not to achieve what the client think an auditor reasonably should be able to accomplish. Are Client's expectations on auditors in today's environment too high or are the auditor's workings not of substantial value? These two problems have been summarized by Porter (1993) where it's called reasonableness gap and performance gap. The reasonableness gap discusses the gap between what societies expect from auditors and what auditors can be likely to undertake within reason while the performance gap discusses what society can expect an auditor to achieve and what the auditor seemingly achieves. According to Koh (1998) there can be several different reasons for a split in expectations, where the auditor's changing work regulations and a lack of communication seem to be the main problems.

3.2.2 The direction of Auditing

To understand which expectations a client can have it's good to know a little about how the profession has changed. As many people can imagine the profession has evolved a lot from the 16th century. Auditing used to be simple bookkeeping but has now evolved into an independent auditing consultant. The direction of where the auditing profession should go is very different between the economists. We can therefore not assume that the role of auditing is fixed and won't be changed again. While Koh (1998) believes that the auditor has lost its

independence due to being a consultant as well as an auditor and therefore the role of being a consultant should be removed by law, there are many who believe the profession of an auditor should be expanded.

One of these people are C. Richard Baker (2009) who believes that the auditor should also comment on if the company is competently managed, if the company will fail, if there is concern of fraud and make comments about the financial statements to present a more accurate view of the financial position of the company. To do all of this along with what the auditor already does would make the auditor's profession more investigative again according to Baker and therefore maintaining independence. For an auditor to do all of this however, they must stay in touch often and the relationship between the auditor and the client must strengthen. Some auditors do not meet with their clients frequently making it increasingly hard for an auditor to estimate such figures and the auditor's opinion on things like this might hurt the auditor's objectivity. Baker also believes that auditing can only work properly if the corporate governance is improved and mentions that a critical perspective on auditing would be the best.

3.2.3 Expectations on small businesses

Small business owners are expected to focus on providing family income, because of this they are considered to be less innovative and creative when it comes to problem solving. The small business manager expects more out of his risk taking opportunities than the corporate manager but not as much as an entrepreneur (Watson 1999). This had to do with the fact that small business owners have different goals than entrepreneurs and corporate companies. The small business company manager doesn't focus on growth like an entrepreneur would do but instead focuses on longevity to keep the business afloat while getting a solid pay check every month. The Small business company is also considered and expected to have a lower achievement motivation and isn't very focused on completing their objectives as quick as possible. The reason behind this could be because of the fact that they generally do not focus on growth according to Watson (1999).

3.3 Positive accounting theory

According to Watts and Zimmerman (1978) a micro company chooses the auditor which would benefit them the most. Individuals who run the companies are assumed to be rational

and the bosses are only trying to increase the company's profits if it's in their interest. The main goal of PAT is trying to predict the choice of accounting recommendations and reactions to new recommendations in different companies (Scott, 2003). Positive accounting theory claims that the choice of accounting recommendations is a part of the company's needs to cut costs.

A person who only does things for self-benefit is considered an opportunist. The opportunistic behavior in PAT is based around three different hypothesis, these are called *compensation agreements*, *loan contracts* and *political impact* (Scott, 2003).

3.3.1 Compensation agreements

If the company's director's salary contains either a bonus or compensation in a relation to the profit of the company, the directors will choose an auditor whose accounting recommendations will potentially show higher profits and thus giving them a higher bonus (Holthausen and Leftwish, 1983). The directors can use several methods to increase the period's profits, for example moving future profits to current period to increase their own bonus without actually doing anything (Scott, 2003).

3.3.2 Loan contracts

When signing a loan contract it often has several regulations and clauses which the company must follow to keep the lender satisfied. If the company cannot follow these regulations or clauses it is best for them to show high profits in their audit report to not get sanctioned by the lender (Holthausen and Leftwish, 1983). According to Scott (2003) a company which has broken a lender's regulations will want to show as good of a result as possible and will choose an auditor who will much more likely show a higher profit. It is also in this case probable that the directors will try to choose auditing recommendations which moves future profits into the current period (Scott, 2003).

3.3.3 Political impact

When a company does well or has significant size it can attract attention from the media. The media is constantly looking for news stories to attract viewers and increase their profit. To be in the eye of the media often means that you are in the eye of the judiciary. When the judiciary notices that a company is doing almost too well or has become too big for the good of the populace, it will want to regulate and/or tax that company to prevent it from having too much influence on the population (Watts and Zimmerman, 1978).

Obviously a company does not want to be more regulated or have to pay more taxes than it already does in the positive accounting theory. Scott (2003) believes it is therefore common that a company who has a very high profit or a very large size in a small region to want to choose auditing recommendations which will move current profits into the future profits period.

3.4 Reasons for relationship issues

There can be many reasons why a relationship just does not work. It could be due to the lack of auditor's independence, cultural issues, pricing and conflict of interest between the client and the auditor. Barkess and Simnett (1994) believe that the pricing of individual services provided by the auditor is one of the main reasons to why a relationship does not work. According to Moore et al (2006) the two main reasons are the lack of independence and the auditor having different interests than the client. Tsui (1996) describes how a relationship might have problems due to cultural differences.

3.4.1 Pricing issues

Public accounting firms have evolved providing more non audit services in recent times. The pricing of these services might vary a lot in between different audit firms. According to Barkess and Simnett (1994) the knowledge of the auditor is often not spilled over to the client even if the client is paying for individual services. The study also showed that the clients who bought individual services often paid more in relation to the clients who didn't pay for non-audit services. If an auditor is too expensive for a client, the client will try to find an auditor who is more cost effective (Barkess and Simnett 1994).

3.4.2 Conflict of interest and independence

Conflicts of interest and independence have been discussed many times where researchers have assumed that the auditor is either completely independent by carrying out an unbiased audit report or choosing to collude with a company director. This theory has been criticised by Moore et al (2006) where they explain that it is probably more common that the auditor has an unconscious bias to help the company than being morally corrupt.

Barkess and Simnett (1994) believe that if the client has purchased non audit services they will be less likely to disagree with a company manager since a disagreement may result dismissal. When having an interest to secure a company's longevity the auditor might get selective perception, which means that the auditor evaluates information partially even when trying to be unbiased (Moore et al 2006).

3.4.3 Cultural issues

Another issue can be cultural differences between clients and their auditor. Tsui (1996) believes that an auditor's culture and upbringing may affect the ethical reasoning when writing audit report. An auditor who has had a much disciplined upbringing is considered to be more likely to be able to resist management pressure in a conflict between an auditor and the client. The culture also affects the auditor's behaviour when performing services to the client, cultures which value ethical decisions differently will also create auditors who value reports differently (Tsui 1996).

3.5 Relationship model

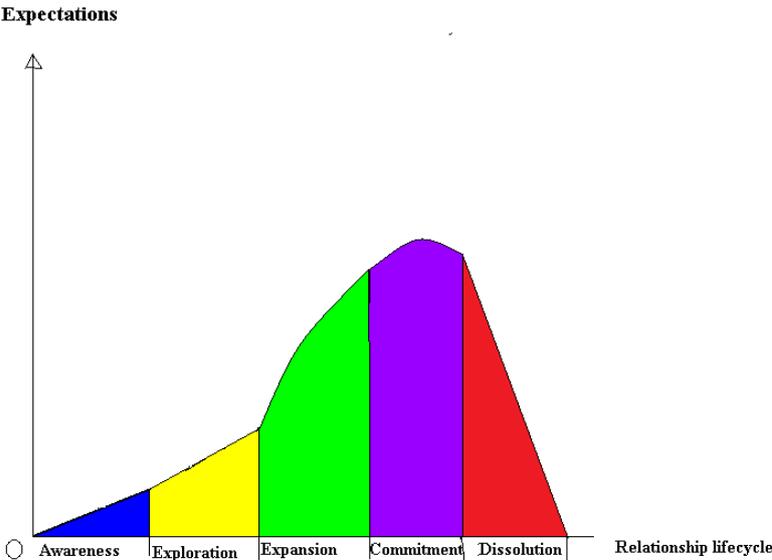
We have chosen to create an own model after the literature we have used in theoretical frame of reference. The model shows us the different relationship phases that exist between a client and its auditor and compares with how large the expectations should be. According to Ruyter and Wetzels (1999) the expectations should peak during the commitment phase and decline radically in the dissolution phase. We have used Kleinman and Palmon's (2000) description of characteristics to be able to measure the relationship phases easier in combination with Ruyter and Wetzels (1999) main theory.

When creating the model we had to think of how the expectations develop in a relationship. Khong (2005) mentions that the expectations are higher than the ones in GAAS and GAAP; this explains why the expectations are different in each lifecycle. Had GAAS and GAAP been completely followed, the expectations would have been the same all over the lifecycle.

The model's phases aren't based around time intervals but according to characteristics from the Kleinman and Palmon (2000) study as mentioned above. You can't use time intervals as explained by Cassel (1996) who mentions that it's very hard to make conclusions regarding expectations at all since there are too many variables to discuss. We however believe that it is possible to find key points in a relationship.

According to PAT the client will choose the auditor who will help the company achieve its goals the most. PAT affects the expectations since if you have worked together for a long time you will know what the other part wants from you. If a person has done something questionable for them before to help the company they might do it again which increases the trust to the auditor.

While we have considered problems which occur in a relationship, it has not affected the construction of the model but will be discussed in the analysis and conclusions chapters.



4. Method

In the method chapter we explain our choice of research method and scientific approach. We also discuss both our primary and secondary data used and provide a short description of the differences between the two. We also discuss the validity and reliability of our work and how we conducted our interviews.

4.1 Research philosophy

There are two main research philosophies to choose from when writing a dissertation; hermeneutics and positivism. According to Andersson (1979) these two philosophies are each other's opposites. Hermeneutics is based on that every contact and communication is unique and every person behaves differently. It's impossible to make generalizations using hermeneutics since every human being is considered unique and way too complex in comparison to numbers. The main purpose when using hermeneutics is to create understanding by using words instead of numbers.

Anderson (1979) believes that positivism should be treated in a similar way as science. According to Saunders (2009) Positivism is based on that you from empirical data make conclusions and try to find patterns without putting in personal values. When using positivism you're trying to discover a more general view of what you study. The main goal of positivism is trying to explain the reason why something happens and what happens (Saunders 2009). When using Positivism you're trying to put numbers into your research to be able to measure the results.

Positivism tries to describe information using numbers to more easily be able to quantify it and be able to easier make comparisons, while in hermeneutics you try to describe something with words to be able to go more in depth thus being more qualitative.

4.1.1 Our research philosophy – Hermeneutics

Our study is based on a hermeneutic view where you try to describe information using words to create understanding. In our study we're trying to understand how the micro companies and their auditors' relationship develop and how it affects expectations. We're also using words to describe the clients' relationships with their auditor and how vast the expectations are. Our results cannot be used as a generalization for society and does not reflect a global result in Sweden or anywhere. We're not using numbers to describe our results; instead we use words and phrases to be able to compare them with each other. According to Andersson (1979) that is what hermeneutics is and that's the reason for our choice of research philosophy.

4.2 Research methods

There are several possible research methods to choose among when you make a study. There is no universal method which is considered the best because they are all dependent on the purpose of the study itself. Two of the more common methods are the quantitative and qualitative research method. The quantitative research method is most commonly done via surveys and focuses on measurable questions on a scale, with this you can make mathematical models and see correlations between certain groups of people. The qualitative research method focuses instead on observations and interviews. It tries to bring more depth to questions which cannot be simply answered with a numerical equivalent (Saunders 2009).

4.2.1 Our research method – Qualitative

The purpose combined with the research question has made us come to terms with using a qualitative research method. By conducting interviews with micro company managers our study could get the legitimacy and depth it requires. The relationship between the auditor and the client, and the expectations on the auditor are the focus points and it's very hard to

quantify a relationship, forcing us to categorize them in phases as mentioned before. By conducting as many as eight interviews and studying eleven relationships we can however be able to see patterns in the qualitative answers to be able to quantify the expectations with the other subjects. To relate to our research question which will be answered using words and analysing our discussions with the subjects, the qualitative research method will be the best one suited for us. A quantitative research method will not be suitable for us since it would require a much larger sample as well as being difficult to answer, since questions regarding a relationship are hard to describe in numbers.

4.3. Scientific approach

The main three scientific approaches are the inductive, abductive and deductive approaches. The inductive observes reality and tries to find patterns that can be explained in theories and models, this approach can be studied successfully without reading previous theoretical studies. The deductive approach means that you start with a certain theory and try to validate it, once you have done that you can go to the empirical and make models explaining what happens with the theory. Abduction occurs when both of the previous approaches get mixed together and you use both observations as well as theories to validate your work (Saunders 2009).

4.3.1. Our scientific approach – Deductive

This paper is based on a deductive approach as it describes several already existing theories and tries to validate them with the empirical findings. The empirical findings are trying to find answers to the theories by letting the people being interviewed answer questions to be categorized; it is after these two important steps are made that you can make an analysis and try to come to a conclusion regarding the work's research question. The conclusion itself can either try to confirm and validate the previous researcher's theory or discover a different answer and make it possible for a new theory to arise.

4.4 Data collection

To be able to make conclusions and analyzing the research question we need to collect data. By collecting and managing data the researchers receive knowledge regarding the question at hand. In ideal situations you can use several types of data to validate and confirm the data itself to be more legitimate (Christensen 2010).

4.4.1. Primary and secondary data

There are two types of data you can use, which can depend on several factors for example the paper's purpose. These two types of data are called primary data and secondary data and are defined by who collected the data.

Primary data is the data that the researcher has collected by himself or herself via surveys, interviews or group discussions. This paper's primary data consists of the eight phone interviews conducted, by having the respondents answer qualitative and quantitative questions (Christensen 2010).

Secondary data is data that has been collected by someone else previously which the researcher has chosen to use for the paper. Examples of secondary data are magazines and literature and media outlets in general where scientific discussions and arguments are held. In this paper the secondary data consists of literature (Christensen 2010).

4.4.2 Interviews

The data collection for the empirical findings has been conducted via phone interviews. The interviews have been conducted at the college campus. The choice to have the interview via phone gives the respondents power to end the interview and have it when it feels suitable for them. After all the respondents comfort and safety needed to be thought about when conducting the interviews.

All the respondents have given us permission to record the interviews, which was of great help when the empirical findings were put together. Some of the clients have however chosen to be anonymous and therefore all of the cases will be nicknamed after profession instead to ensure their anonymity.

The interviews were not structured with different response options, instead we left the respondent open to answer the questions anyway they liked. The distance and the time it would take us to conduct the interviews personally was too great for us, so our obvious choice was to conduct them via telephone (Christensen 2010). This method was to us much more

time and cost effective. Before we conducted the interviews we practiced by interviewing our friends to make sure it was easy to understand and that the questions were clear. After doing this we decided to write down the things we needed answered on a separate paper and checked them off when the specific question was answered. Another good reason to conduct the interview via telephone was when something wasn't clear; it was easy to correct it during the interview itself.

4.4.3 Choice of respondents

We have chosen our respondents after the company size and where they are geographically put. We chose to focus on companies in southern Sweden as it was easier for us to come in contact with them. Our choice can therefore be considered to have been made out of convenience. Denscombe (2009) believes that a lot of studies have chosen their respondents after convenience since it would cost a lot of time and money to choose a different method. We also decided to use companies close to us since we thought it would increase our chances of the interviews being accepted. Since we used an entire catalogue from Kristianstad's municipality which listed all companies in the Skåne region matching our criteria, the choice should be considered to still be a random choice.

4.5 Validity and reliability

The quality of a study is often determined by its validity and reliability. These two terms sounds similar but they have different meanings. Validity tries to explain if a paper is relevant and valid while reliability tries to explain if a paper is believable and trustworthy. This is the basis of having validity and reliability in a paper (Christensen 2010).

When trying to see if a paper is valid you can ask yourself if we really are researching what we want to research. If the information collected answers the question you had the paper can be considered valid (Christensen 2010).

When trying to see if a paper is reliable you can check how true the information that researchers collected really is. A high reliability means that the consistency and trustworthiness of the sources is also high. In qualitative interview it is harder to confirm how high the reliability is because of the small sample size, you have to rely on that the questions have been answered truthfully (Christensen 2010).

4.5.1 Our study's validity and reliability

When collecting our data we have tried to maintain as high validity and reliability as possible. To do this we conducted several interviews and asked them to describe both the relationship with the current auditor or a previous one if they have had a previous one. This gave us more relationships than the amount of interviews collected. In total we contacted around 50 company managers where eight of them accepted to answer our interview questions. This means that roughly 82% of the people asked did not want to answer our questions. This had an impact on the amount of interviews in total but we still believe that we have a large enough sample to make sure it is both valid and reliable from a qualitative standpoint.

5 Empirical findings

In the empirical findings chapter we present the results of the interviews and give a short summary of the expectations of the different clients. We also discuss the relationship and give a more qualitative description of it; also the communication will be mentioned. Eight interviews have been conducted where eleven relationships have been discussed. The questions to these interviews are available in the appendix in Swedish.

5.1 Explanation of our empirical findings

The purpose of our study as explained before was to find out how the relationship between a micro company and their auditor works. To do this we asked them several questions about how they feel towards their auditor and what they think the auditor is supposed to do for them and what they actually do. In the text below you can see our empirical findings in the following order to the questions asked; *the micro companies' occupation, short description of the entrepreneurs, the communication and the relationship with the current auditor, the relationship in depth and expectations on the auditor.* We feel that by asking several similar questions we could more easily understand their relationship and expectations.

5.2 The micro companies occupation

The micro companies that were interviewed had different occupations and specializations. To maintain their anonymity, the people will be named after their profession. The table below gives a short description of the company's size, year it was founded and what they work with also what they will be called in this paper.

Will be called	Company occupation	Year founded	Number of employees
Broker	Real estate	2010	3

Designer	Architecture	2004	10
Gas	Gas station	2009	4
Microsoft	Computer service	1984	4
Nurse	Medical service	2008	2
Painter	Painting	2006	8
Repair man	Service station	1994	5
Teacher	Educational service	2010	6

5.2.1 Short description of the entrepreneurs

- *The Broker* is a real estate manager and buys properties to build apartments on and sell them for a profit. The entrepreneur runs a multiple number of companies but they are all smaller firms. He started the company with an investor after they found interest in his project. The Broker's auditors help him with the audit report, financial statements, and bookkeeping and give advice regarding potential investments. He also hires what he calls tax specialists to observe his real estate sales.
- *The Designer* works with designing buildings and structures. Previously he worked as a building supervisor and made sure the buildings followed current regulations. He has run his company since 2004. The Designer only hires an auditor for the audit report itself.
- *Mister Gas* owns a gas station and has been doing this since May 2009. He runs it together with a co-founder and they started it together. The Gas station also has a store where you can buy goods. Mister Gas lets his franchiser contact the auditor about audit reports, he doesn't speak auditor personally so he can't get any advice from him.
- *Mister Microsoft* works with computer repair and also sells business systems. He has a lot of contact with different auditors due to the fact that he sells the business system to them. He has run this company since 1984 but has changed direction from copiers to computers in 1986. Mister Microsoft hires an auditor to do his bookkeeping and the financial statements.
- *Mister Nurse* runs a website which offers medical services like CPR. The Nurse makes himself available for medical training for companies who need knowledge about it. He

also sells equipment which instructs how to do CPR successfully. Mister Nurse wants guidance from his auditor as well as financial statements.

- *The Painter* has been a painter in over 30 years but created a company six years ago. The company paints walls and ceilings for both companies and individuals. The Painter employs an auditor to help with the financial statement.
- *The Repair* man runs two Gas stations with different specializations, while both of them sell fuel the first one he created specialized in car repairs while the newer one works with car cleaning and goods. The Repair man hires an auditor to do both the bookkeeping and the financial statements.
- *The Teacher* provides both education and care to its customers. They specialize in psychiatric care but also deal with securities and apartments for people with disabilities. They have technically been around for five years but were recreated in the beginning of 2010. The Teacher has an auditor to help him with the bookkeeping, the audit reports, financial statements and help via consultations.

5.3 The communication and the relationship with the current auditor

How often the entrepreneur is in contact with their auditor will have a vast effect on the relationship. The results of how often they spoke varied a lot between the clients. In the table below you can see how long they have had an auditor and how often they are in contact, please keep in mind that most of these companies have been required by law to have an auditor.

Micro-company nickname	How long they have had an auditor	How often they are in touch with their auditor
Broker	2 years	Several times a week
Designer	8 years	Once a year
Gas	3 years	2-3 times a year
Microsoft	18 years	Once a year
Nurse	Do not have an auditor now but first 3 years	None
Painter	6 years	Once a year
Repair man	18 years	Once a month
Teacher	2 years	Once a month

5.3.1 Description of the communication with the current auditor

- *The Broker* contacts his auditors frequently and asks them for advice concerning business decisions. He has several auditors who help him both with the bookkeeping and the financial statements. His company is a subsidiary of a much larger company which is the reason why he can maintain such great help from auditors.
- *The Designer* only is in contact with the auditor when its time or the audit report. He believes that the auditor knows what he is doing without him and he is not concerned with the auditing itself.
- *Mister Gas* is part of a franchise and the franchiser hires the auditor for him. He therefore rarely discusses anything with the auditor and only speaks with him two to three times a year. In general he is happy with their communication and trusts that the franchiser knows what they are doing.
- *Mister Microsoft* is in contact with several auditors in his workplace and believes that he doesn't need to have an auditor for consultation. He only speaks with his auditor once a year and when it's time to create the financial statements.
- *Mister Nurse* doesn't have an auditor at the moment because the previously auditor didn't consider it necessary. He lets her mother do the bookkeeping and his friend help with the financial statements but he isn't required to have an auditor.
- *The Painter* sees his auditor once a year and they focus on the financial statements. He also mentions that sometimes they speak on the telephone but it's very uncommon. He believes that the auditor is needed because he thinks he needs someone who is more knowledgeable with regarding their finances.
- *The Repair* man speaks more frequently with his auditor. He actually has a separate auditor for two different tasks. One of the auditors focuses on financial statements and the other one focuses on the bookkeeping. The person he speaks to concerning bookkeeping is the one he contacts more often. The auditor who works with the financial statements isn't in much contact with the Repair man, maybe two to three times a year.
- *The Teacher* contacts his auditor personally, via phone or by e-mail. He contacts them about consultations and to write the financial statements for the company. He

personally likes the auditor's advice and is the reason to why he has chosen the specific auditor.

5.4 The relationship in depth

Some of the clients have had more than one auditor since the start of their company, and that's why there are eleven relationships to examine. The relationships were quite different because of how often they were or were not in contact and how long they have had the same auditor. The relationship is dependent on trust and what the client thinks about the auditor and vice versa. Since there are eleven relationships to discuss they will be grouped after how often they are in contact with their auditor, starting with the least occurring.

5.4.1 The relationships with the least occurring communication

Mister Microsoft, The Painter, The Designer and the previous auditor of Mister Repair man were all just in contact with their client once a year. This is the group of relationships who had the least amount of contact with each other. Even though they had similar contact with their auditors; the relationships were described quite differently.

The Painter and the Designer are very positive about their relationship towards the auditor and mention that they are very happy with their auditor's work. When the Painter (2012-05-24) was asked about if he had any problems with the auditor in the past he answered: "No nothing, rather on the contrary". The Painter describes his own company as very small and mentions that the auditor probably feels that auditing his company is a piece of cake. It's very clear that he has a very high opinion of his auditor. The Designer has very high demands on his auditor and wants help with investment opportunities. He mentions that he needs an auditor because he is unable to do it himself. He believes that since they have been working together for such a long time the auditor knows what he is doing and trusts the auditor completely.

Mister Microsoft and the previous relationship of The Repair man were not as positive when describing their relationship with the auditor. Mister Microsoft says that it is not important to look at what the auditor does because he cannot understand it anyway. He states that while he likes the auditor, he believes that the auditor should audit the firm more often as a book keeper and not only once a year when it's time for financial statements. Sometimes he wonders what the auditor is actually doing for the company. He also mentions that auditors a

part of his costumers and he can sometimes ask them for advice instead but if he really needs help he goes to his banker instead. The Repair man switched auditors because this one only wanted him to sign the financial statements and didn't discuss any of the statements with him. He didn't feel that the auditor put much effort into the work and chose to change. The Repair man wanted a closer relationship and wanted explanations from the auditor but didn't get them which was concerning to him, therefore the level of trust must stayed low.

5.4.2 The relationships with frequent communication

Mister Gas, the Repair man, the Teacher, Mister Nurse and the previous auditor of the Broker and Mister Microsoft were all in contact more often, from a few times a year up to once a month. Here the relationships are also described quite differently even though they have a similar amount of communication.

Mister Gas, Mister Nurse, the Repair man and the Teacher were all positive concerning their current relationship with the auditors. Mister Gas is mostly happy with his auditor's work. He has not encountered any problems in his relationship with the auditor and believes the franchiser has chosen a good auditor for him. He considers that his auditor takes responsibility for his work and has a high level of trust to his job. Mister Nurse recently parted ways with his auditor but claims to have had a good relationship before. He believes that the auditor made an effort in his work, but didn't consider him necessary because it is such a small firm and he receives help from his mother who he claims knows a lot about bookkeeping. He trusted his auditor enough to listen to him when the auditor said that an auditor is not meaningful in his company.

The Repair man said he has great communication with his auditors and he is really happy with their relationship. He thinks his current auditors put more effort in to their work than the previous one. He feels that he doesn't need to worry when his auditors are doing their job as well as they are now and he seems to trust them completely. The Teacher is pleased with his current auditor because the auditor helps him more than he thinks he must. Generally he has confidence in his auditor and feels that he knows that the auditor is doing his profession with care. He also thinks of his auditor as his friend.

Mister Microsoft's previous relationship with an auditor wasn't as successful as his current one. When talking about their relationship he said: "It was what I consider to be really expensive" (2012-05-24). It's clear that he wasn't happy the pricing of the audits and was

therefore not happy with the relationship. He later said that he understands that the pricing of different audit firms can be different but he didn't want to put in more resources than necessary. The Broker's previous relationship wasn't described as any good. He said that the previous auditor underachieved and charged way too much just to read documents. He said that: "...Sometimes he charged more than the lawyers just to read the documents the lawyers wrote" (2012-05-25). The pricing being so high had obviously a negative effect on their relationship and he felt a switch was necessary.

5.4.3 The relationship with the most frequent communication

The Broker had the most frequent communication with his current auditor of all the interviews. They work continuously with each other and he has a really high belief in his auditor. He likes his auditor because he delivers on what he says he will do. He considers his new auditor to be little of an overachiever which is always good when you start to work together. When it was asked about why he has an auditor he said: "... A good auditor doesn't cost you anything and I earn more than what it costs to hire one" (2012-05-25).

5.5 Expectations on the auditor

In this part of the empirical findings the results of expectations are presented. The interviewed answered the questions about which expectations they had on their auditor and if the auditor fulfilled their expectations. The expectations from the clients varied a great deal between them. Take note that the clients in a lot of cases had different tasks for the auditor to achieve.

5.5.1 The Clients with the highest expectations on the auditor

The Broker, the Repair man and the Designer all have very high expectations on their auditor. All three believes that the auditor should offer consultation and warn the client if they think the company is doing something wrong, it is not enough for them that the auditor does the bookkeeping and the financial statements.

The Broker expects that his auditor should keep him well informed so he can follow all the responsibilities a broker has to follow. He also thinks he should help him with planning

regarding taxes so he doesn't have to pay more than he has to. The auditor should also come up with own ideas to keep the administration costs low. He also expects his auditor not to charge a lot of money for the services provided and the Broker wants the auditor to verify his documents weekly. The current auditor achieves these expectations according to the Broker. The Broker clearly explained what he expected from his auditor and that the auditor should explain what the auditor wants from him.

The Repair man expects his auditor to give him advice to make things better because there is no reason for him to have to spend money without purpose. He especially wants the auditor to give him a heads up if things aren't going as well as they should. He expects the auditor to always be available to contact and answer his questions. The Repair man clearly stated that he does not want any negative surprises in the audit report and expects the auditor to tell him immediately if something is going wrong. Since they have had their relationship for such a long time he expects that the auditor knows what is expected from him and doesn't need to inform him about it.

The Designer expects the auditor to give suggestions about different ways to make dividends and also mentions if they need to invest in anything. The auditor should make things as good as possible for the company and always be available for consultation either in person or by phone. The Designer thinks that the auditor knows what he is doing and expects him to do his job in a proper manner. He wants the auditor to answer questions regarding taxes and questions regarding the audit report. They have had a very long relationship and the auditor knows because of that what is expected of him.

5.5.2 The Clients with average expectations on the auditor

Mister Microsoft, the Painter and the Teacher have average expectations on their auditors. Mister Microsoft and the Painter expect the auditor to do the financial statements but basically nothing more, the Teacher however also wants advice concerning taxes and regulations during the year. The Teacher doesn't expect that the auditor will be able to answer his questions immediately and uses him more as a reference to how things could be done instead of should be done. They all expect their auditor to do the audit reports correctly. The Painter believes that the auditor doesn't need to put much time in his company because it is so small and it's not anything complicated. Mister Microsoft thinks that the credibility of his company

increases for the reason that he has an auditor. They all feel that their auditors live up to their expectations and wishes continue their relationship.

5.5.3 The Clients with lower expectations on the auditor

Mister Gas is the client with low expectations on his auditor. Since his franchiser talks with the auditor more than he does he isn't very sure of what he does. It is easy for the auditor to live up to his expectations when the client doesn't know what to expect from him. While he does know that the auditor is someone who helps with finances he isn't sure of any specific tasks the auditor should do.

5.5.4 The clients who chose to get rid of their auditor

Mister Nurse, the Broker, Mister Microsoft and the Repair man have decided to switch auditor or not have an auditor anymore in the past. Out of these four it was only Mister Nurse who felt that the auditor lived up to his expectations. Mister Microsoft changed auditor because of the pricing and decided to switch to what he considers a more cost effective auditor. The Broker and the Repair man both felt that their previous auditors didn't put enough effort into their work and because of that didn't live up to their expectations. The Broker also didn't like the previous auditor's pricing and thought it was strange that he charged him so much just to check documents when the lawyers who he paid to write the document itself didn't charge that much. He made it clear that he didn't like the costs and how little effort the auditor put in and decided not to stay in contact with the auditor shortly after.

6. Analysis

In the analysis chapter we relate the empirical findings with the theoretical frame of reference to make our own analysis. We will try to categorise all the clients into different relationship phases after our own assessments. For simplicity, they will be grouped after how their relationship fits in with their attributes.

6.1 The relationship and its phase

The relationships between the client and its auditor were sometimes very different, this is also true concerning what the auditor was hired for. Ruyter and Wetzels (1999) had five different phases which had very specific characteristics. All the client's relationships can be put into one of these phases depending on how evolved their relationship is or was. Kleinman and Palmon (2000) believe there are four characteristics which are important for a successful relationship. If any of these four characteristics exists in the relationship, then it would mean that the relationship is successful and on a high level of trust.

6.1.1. The Awareness phase of the relationship

The awareness phase means that you are aware of the possibility to have a relationship with someone and have an understanding of what he or she does but chooses not to have one (Ruyter and Wetzels, 1999). Mister Nurse is the only one who chooses not to have an auditor and is therefore a perfect match for this phase. The Nurse isn't forced to have an auditor because his firm is so small and have so few employees. He knows pretty clearly what an auditor does but doesn't feel that he needs to have a relationship with one.

6.1.2. The Exploration phase of the relationship

The exploration phase is the phase that most clients have in between the awareness and expansion phase. According to Ruyter and Wetzels (1999) this is the phase where the trust to each other isn't completely there yet and they are still getting to know each other. They are still considered to be in the early parts of their relationship and are still exploring what the other party is capable of, in this phase it is common to you do not speak very often. Mister Gas has only had an auditor for 3 years and doesn't speak to him very often because his franchiser deals with the auditor instead. He isn't clear of what the auditor does because of the

fact that they are not in contact with each other very much. Mister Gas can't fully benefit from his auditor due to the lack of communication and trust.

6.1.3. The Expansion phase of the relationship

In the expansion phase you start to trust each other more and can benefit more from each other's assets. The relationship is clearly evolving here and you try to stay in touch with each other to even further improve on the relationship according to Dassen (1995). The Teacher and the Broker are in this phase since they are in close connection with their auditor and their relationships are still not very long in auditing terms. They believe that the relationship they have with their current auditors will be long-term relationships and the possibility of longevity is apparent. Both of them trust their auditor, they listen to their advice and are not afraid to give out more information which can help both parties success.

6.1.4. The Commitment phase of the relationship

When a relationship reaches the commitment phase both parties have been together for a long time and feel secure with the relationship and trust each other to 100%. The commitment phase is the strongest point in a relationship and here they don't even bother looking for another one since they are happy with his one (Ruyter and Wetzels, 1999). The Repair man, Mister Microsoft, the Designer and the Painter are all in this phase in their current relationships. None of them are currently looking for other auditors and they have complete trust in that the auditor's know what they are doing. It's important to note that there might be a better auditor for the client but since they are used to using the same one for so long they don't spend much time thinking about that. They are no longer in very close contact with each other simply because they don't feel like they have to be in contact to know what the other part is doing.

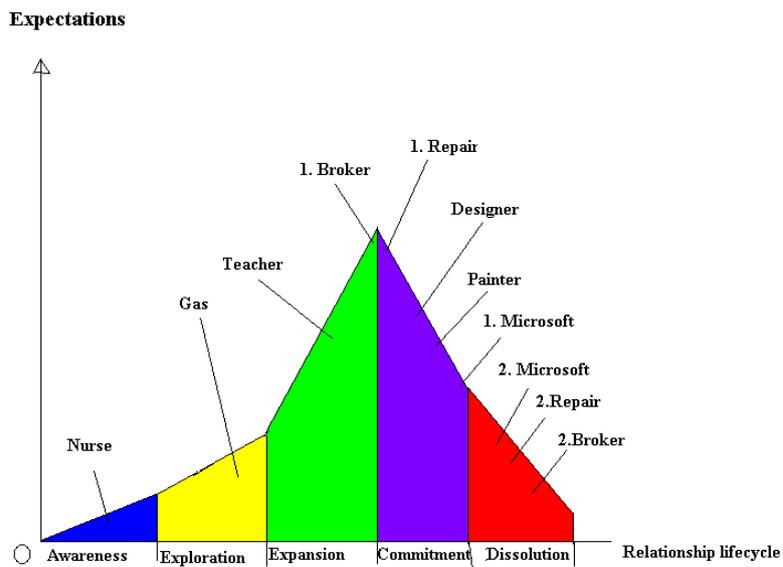
6.1.5. The Dissolution phase of the relationship

The dissolution phase occurs when one or both parties feel like they can't trust each other anymore or it is no longer considered beneficial for one or both parties. Usually this happens when one of the parties states their dissatisfaction with the other (Dwyer, 1987). Mister Microsoft, The Repair man, the Broker and mister Nurse's previous relationship are examples of relationships which didn't work out. They had different explanations to why their

relationships ended. Mister Microsoft claimed that the prices were too high and he didn't need any advice from the previous auditor, it seems that he was only concerned with getting as cheap of an auditor as possible; he didn't feel that what the auditor thinks about his company was something of importance. The Broker and the Repair man both argued that their previous auditor didn't put enough effort into their work as well with being expensive. The relationship couldn't grow because both of them were not satisfied with what the auditor did. The Broker claimed that the previous auditor was an underachiever and you don't want to work together with someone who doesn't take his work seriously. Mister Nurse decided to end his relationship as it was not mandatory for him to have one, the auditor didn't help him with things that his employees couldn't already achieve by themselves and this is the reason to why there was no possibility for longevity. Mister Nurse was however the only client who thought positively about his previous auditor.

6.2 How the phase relates to the expectations

As mentioned in the theoretical frame of reference, Ruyter and Wetzels (1999) believe that there are five different phases a relationship can have. In this part the phases will be measured with the expectations and shown after where they are in their relationship phase. As you can probably notice, the model here doesn't look the same as the previous model used in the theoretical frame of reference. This is due to the fact that expectations actually started to go down in the Commitment phase instead of going up like the theory indicated.



6.2.1 Expectation-Relationship lifecycle model

In this model it is shown how high expectations each client has on their auditor and in which relationship phase they are currently in. The client's which has had more than one relationship have a 2 before their name when it's regarding the previous relationship and a 1 when it's regarding the current relationship. This model is partly based on Ruyter and Wetzels (1999) article *Commitment in auditor-client relationships: antecedents and consequences* and matched together with other sources such as the one from Kleinman and Palmon (2000) explaining characteristics of relationships as well as our own assessments of their expectations.

6.2.2 The expectations in each phase

For every phase you enter, the expectations either increased or decreased on the auditor. In the awareness phase the expectations were considered to be quite low, which is understandable since the people in the awareness phase has an idea of what an auditor does but chooses not to have one. The reason why they don't have one could be because of the now more lenient regulations regarding mandatory auditing. Mister Nurse which you can see in the model has very low expectations on the auditor, mainly because he believes his employees can do the same thing the auditor does. This could have to do with Khong's (2005) theory that the auditor no longer acts like an investigator but as a servant to the client. If the auditor would've made it clearer that he is there to investigate that the financial statements are done correctly maybe mister Nurse would've felt that he was more essential to the company.

After the client comes in contact with an auditor and they get to know each other the expectations slowly start to increase, they are here considered to be in the exploration phase of their relationship. Mister Gas's low expectations on his auditor could be due to the fact that he lets his franchiser contact the auditor instead of himself and he is not clear what an auditor is supposed to do. A relationship needs intensity and be jointed for a relationship to function correctly according Kleinman and Palmon (1997). In this scenario these two attributes are clearly missing in their relationship which both hurts the relationship itself and lowers the expectations.

During the expansion phase the expectations increased rapidly they now wanted advice and consultations as well as help with the audit report and the financial statements. One notable thing is that in this phase the client expected the auditor to always be available. The Teacher and the Broker's expectations will keep growing since they recently entered that phase. According to C. Richard Baker's (2009) article, an auditor should probably get even more tasks to do for a company. These tasks are quite similar to what the Teacher and the Broker expects from their auditors. The Teacher seems to have an effective relationship, where the demands are still not too high. Maybe Richard Baker has a point when he wrote that clients need to be warned before something goes wrong, after all this is exactly what the Teacher and the Broker wants from their auditor. The Broker's expectations are considered higher than the Teacher's since he has more tasks for his auditor and asks for verifications weekly. Neither the Broker nor the Teacher has had enough longevity to be considered as a part of the

commitment phase. The trust level isn't yet at the maximum because the clients still feel that they need to tell the auditor what is expected from him.

When a relationship reaches the commitment phase the expectations are starting to go down. You can only be in this phase if you have had a long relationship with the same auditor and trust him completely. In this phase it was common that the communication started to go down and the two parties knew what to expect regarding the work. This is most beneficial phase according to Dwyer (1987) where the alliance is applied by both parties to be successful. The Repair man and the Designer are the two in the commitment phase which are still considered to have high expectations on their auditors. They still want advice from their auditors and expect them to be available and have quick answers. They have a lot in common with the clients in the expansion phase but they have a much higher longevity in their relationship and that's the main way to enter the commitment phase.

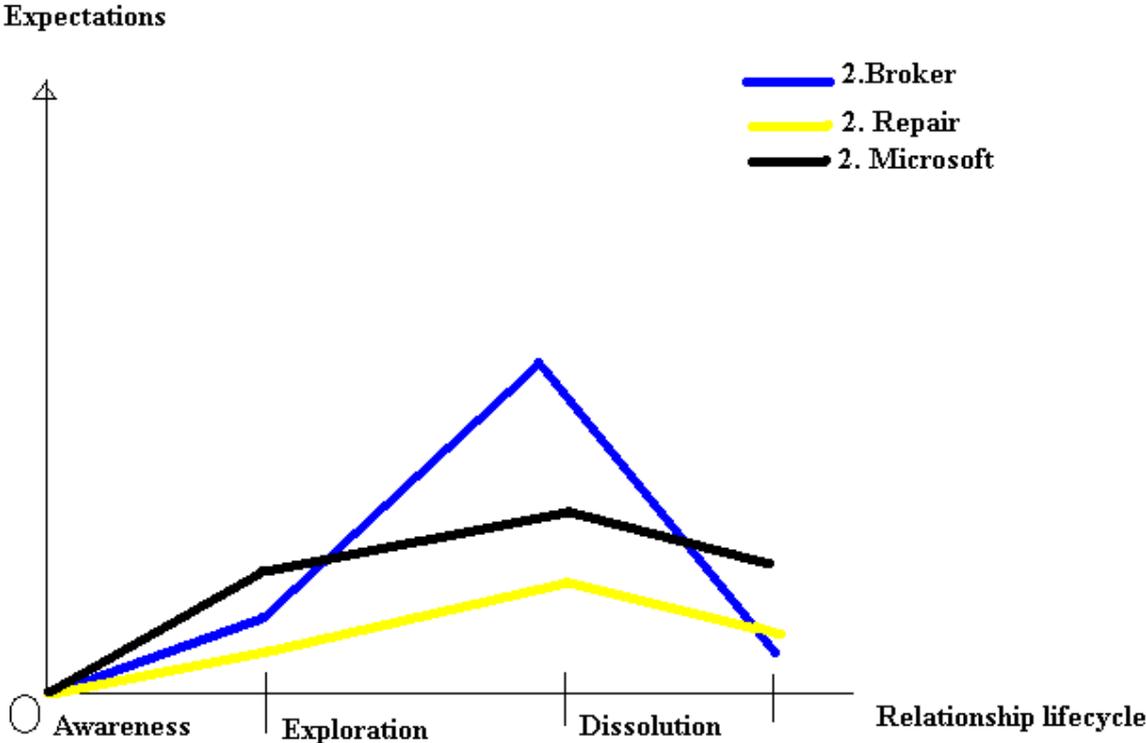
The Painter is pretty far in the commitment area because the relationship has evolved a lot since the beginning. Since the company is so small, they have been able to switch relationship phases quickly and started much earlier to feel comfortable with each other. The Painter basically trusted his auditor since year one. Mister Microsoft is far into the commitment phase since his expectations have gone down a lot and he no longer bothers to read the audit reports or contacted the auditor more than he needed to. It is believed that he could slowly be entering the dissolution phase since he no longer takes contact or even reads audit report. He mentioned that he would rather go to his banker and take his advice than listen to his auditor. This obviously means that he doesn't trust his auditor enough or value him highly anymore. All four clients in this phase believe that they don't need to tell their auditor what is expected from him since they have had such a long relationship and the auditor already knows what he is supposed to do.

6.3 Variation from the sample

In the cases which reached dissolution, there was oddly enough not an expansion or a commitment phase. The relationships were so short that they ended before an expansion could happen. Dwyer (1987) claims that the dissolution phase occurs when one party or both parties declare that they do not appreciate the other one. This is most visible in the Broker's previous relationship where he explained to the auditor that he was an underachiever. In this case it is more believable that it's the Broker's expectations which are too high and not the auditor's

fault completely. This sounds familiar with Porter’s (1993) phrase reasonableness gap, where the client demands more than what is reasonable from the auditor. An auditor to be cost effective, make weekly verifications, constantly be available, make financial statements, help with bookkeeping and give advice regarding investment opportunities is something very rare. The high demands from the Broker could affect their relationship negatively in their commitment phase if the auditor feels like he isn’t getting enough appreciation for his work.

The Repair man and mister Microsoft switched auditor mainly due to the pricing and that didn’t get well informed of what the numbers meant. They never told the auditor what was expected from him and that could be the reason behind the dissolution even if the auditor had been cheaper. According to Kleinman and Palmon (1997) they need to be jointed together for a relationship to work which they clearly were not.



6.4 Relationship issues

When checking for issues the most common one was that the pricing of services were too high. As explained earlier Barkess and Simnett (1994) believed that non-audit services were too high which was also the case regarding Mister Microsoft's, The Broker's and The Repair's previous relationships with their auditors. When it came to cultural differences, this didn't seem to be a problem since the auditor and the client often came from a similar culture, however this wasn't discussed in depth. There was also an issue regarding work ethics where The Broker thought that his previous auditor was an underachiever. The main issue in the relationship was pricing and this is the issue which probably needs the most attention.

7. Conclusions and reflections

In this chapter we provide our conclusions and our reflections regarding the papers purpose. Here we try to explain what the analysis really means and bring our paper to an end. We also provide how you can do further studies on our work.

7.1 Conclusions and reflections

The purpose of this paper was to describe and analyse how small Swedish companies' expectations on their auditor can change over time depending on how the relationship evolves. Our main focus is on the relationship itself and we have tried to understand which factors places a client in a specific phase and which expectations a client has in each respective phase. According to our empirical findings and conducted interviews we can make the conclusion that the expectations are different during the relationships' life cycles.

The background facts have helped us understand what an auditor can do, should do and should not do. Using these facts and the theoretical frame of reference, we have been able to create our own model which shows the different relationship phases and which expectations each respective phase has on its auditor. The result of our research is that the expectations can be different depending on which phase they are associated with. It is easy to interpret that the expectations changes during their relationship with the results we have obtained from the interviews.

A relationship can exist in many different ways and have many different traits. We have studied eleven different relationships where the client has or has had a relationship with an auditor. Every relationship has had their similarities and variations. The relationships have been structured in many different ways where they in most cases have led to a large confidence and trust to the other party. We have also found cases where the relationship ended abruptly after a short period together.

In the relationship itself the communication between the different parties has often been a large factor. Parties which communicated more often had an easier time working together than the parties who didn't communicate as frequently. The communication frequency has also increased the expectations and until you are sure of what you expect of each other the communication frequency will be maintained. When the client is sure that the auditor knows what is expected of him the communication slowly starts to decline. Another aspect in how

often they speak can depend on which services the client wants from his auditor. The clients who only expect the auditor to do the financial statements are only in contact with their auditor once a year. Another conclusion made here is that the client either trusts his auditor so much that he believes that it's enough to meet once a year or that he no longer believes that he needs consultations from the auditor anymore. The communication frequency itself could also be a major factor regarding how high the expectations are.

We didn't put much emphasis on PAT and such things as Compensation agreements, Loan contracts and political impact due to these questions being very personal and we didn't want to make them feel uncomfortable during our interviews. The political impact of a micro company is virtually none since it's too small and not successful enough to gather mass attention from the media anyway. However, it is clear that PAT is used in the selection of auditors and the company is keen to get the best auditor just for them, even if it sometimes means that the auditor may do more work than perhaps the auditor should.

Our interviews indicate that the expectations on the auditor vary a lot between the clients. The people who receive consultation with their auditor however value the advice and the financial statements higher than the audit itself. The auditor is in general expected to give out his knowledge to the client regarding concerns or investment opportunities in the company as well as the audit report, financial statements and bookkeeping. The validity of the numbers the auditor gives is something of importance to the clients not only because they want to know how well they are doing themselves but also to have something to show potential investors and banks. The auditor's independence is very hard to maintain completely if they give advice regarding investment opportunities since the auditor can have subjective opinions since every human being has different personal preferences. The level of independence that may have been lost because of the auditor acting as a consultant is however not of great concern regarding these micro companies since the clients have already chosen a specific branch to work within and can make judgements of their own.

When comparing the relationships with the expectations we discovered that there is a connection between the relationship phase and the expectations on the auditor. The clients in the Commitment and the Expansion stages had normally higher expectations on their auditor than the people who are in the Awareness, Exploration or Dissolution stage of their relationship. Another thing we noticed is that the expectations slowly started to go down over time after reaching the commitment phase and didn't recover from that. When the relationship

reaches the commitment phase, the main focus should be to stay in contact with your auditor and communicate often to prevent the expectations from going down. If the expectations go down to a certain point the relationship could end because the expectations are so low that the auditor is no longer considered to be worth the time and/or money. It is also important that the auditor doesn't charge too much for his services as the pricing issue was the most common one of the ones we mentioned in the theoretical frame of reference.

We also discovered that if you as a client set the bar too high for the auditor, the relationship can end abruptly and the client does not take much consideration of what the auditor is really there for and does. If the auditor knows that the expectations on him are too high then he feels anxious and won't put much effort in the work anymore since he feels that he can't achieve the high demands from the client.

It's possible to discuss what should be demanded from the auditor and what a good relationship is but the opinions of that are quite different depending on personal preferences. The role of auditing is something that has been debated and will be debated for a long time since people cannot agree on where the limits are for an auditor and a good relationship depends on many things such a culture, gender, age and background. We will not go deeper into what a good relationship is since then our paper would be a psychological paper instead of a scientific paper about what micro company managers expect from an auditor.

Previous studies have mentioned a decline in expectations on the auditor, for example Khong mentioned that the expectations have declined because of several audit failures. In our paper however, the expectations are quite high which could mean that client's confidence in auditors has gone up. Since Khong's study was based in another geographic location, the decrease of expectations doesn't have to reach southern Sweden and maybe southern Sweden never had such a steep decline.

Unlike what Ruyter and Wetzel believed we did not get the same kind of increase in the expectation that they described. Ruyter and Wetzel theory supposed that expectations kept increasing, while we got the result that they were going in a different direction. The biggest difference was that the expectations began to decline earlier than when they thought it did. This reinforces Cassel's theory that it is difficult to draw conclusions from relationship to relationship because each is unique and each employer has different expectations because of past relationships or because they have a different idea of what an auditor should do.

We had a few cases where the relationship was not working due to various reasons, when we discussed why it did not go as it should, we saw similarities with Kleinman and Palmon's theories of characteristics. It is quite clear that you do not want a short-term relationship with an auditor and longevity is needed in order to have a sufficiently high expectation of their auditor for it to be worth it to have one. Our study seems to be consistent with most of their study, which you can consider to both verify their theory and ours.

7.1.1. Conclusions regarding our model

In retrospect, the model we made in the theoretical frame of reference does not coincide with the model we received after analysing the empirical findings together with the theoretical frame of reference. This could be due to the fact that we didn't put enough emphasis on communication when we made our first model and it could've changed the results. The results however indicate that when it comes to a relationship with an auditor, the costs of having an auditor is focused on and maybe the client should conduct a larger discussion with the auditor regarding what they expect and what they are willing to pay their auditor before hiring them for services.

7.2 Suggestions for further Studies

A suggestion could be that you do a similar study as ours but you target larger companies, or that you instead do a survey and try to quantify the results even more so you can make more measurements and get a more general view of the client's expectations. Another suggestion would be to see if there are other factors that might influence the relationship and expectations, the communication itself for example. It would also be possible to specialize in clients who are not happy with their relationship and try to find out if there are other reasons to why a relationship doesn't work out or if the answer could be made even more definite.

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9. Appendix

Intervjufrågor till småföretag

1. Berätta om dig själv (namn, yrke, företagets livslängd, kunskapsnivå m.m.)
2. Vad för typ av arbete bedriver företaget? Inom vilken Bransch är företaget beläget?
3. Vilka tjänster anlitar ni från en revisionsbyrå? T.ex. rådgivning, revision och redovisning.
4. Vilka uppgifter anser du att en revisor gör?
5. Varför väljer du att anlita en revisor?
6. Hur länge har du haft en revisor?
 - Hur ser er kommunikation ut med revisorn?
7. Hur ofta har du kontakt med din revisor?
8. Vilka förväntningar har du på din revisor?
 - Uppfyller revisorn dina förväntningar?
9. Är du nöjd med din revisors arbete?
 - Varför, varför inte?
 - Ger ni information till revisorn om vad ni förväntar er av honom?
10. Har ni stött på några svårigheter/problem i tidigare eller nuvarande relationer med revisorer?
11. Känner du att revisorn tar ansvar för sitt arbete?