Increased use of marketing in the audit industry

Effect on independence price and quality

Emil Hansson
Fredrik Löfvendahl

Supervisor: Aku Valtakoski
Abstract

Title: Increased use of marketing in the audit industry; effect on independence, quality and price.

Authors: Emil Hansson & Fredrik Löfvendahl

Supervisor: Aku Valtakoski

Key Words: Audit, Marketing activities, Independence, Price, Quality

Background: The concept of marketing is quite new to the audit industry, prior to 1978 all marketing of audit services were strictly forbidden. In 2010, the statutory audit was abolished in Sweden forcing auditors to market their services to convince their clients that they still should hire an auditor. This increased use of marketing adds a new dimension to the profession and might affect the pricing of audit, the quality of audit and might threaten the auditors’ independency.

Purpose: This paper focuses on how the increased use of marketing affects the auditing firms’ services, more specifically how it affects auditor independence, audit quality and audit pricing. It is obvious that it is a fine line between auditors marketing their services and keeping their independence. It is clear that it has had implications on the business and after reading the disciplinary case it is clear that the rules are not defined in a way so that all the players in the industry interpret them in same way. Our purpose is to investigate how auditors in Sweden use marketing and how they make sure that they are still independent. We also want to investigate if the use of marketing has any effect on the quality of the audit and also the price of auditing.

Completion: The study is based on qualitative approach focusing on interviews with auditors active in Sweden. A statistical survey to determine any potential changes in price is also added to add on to the credibility of our study. Conclusions are drawn based on the result of the survey and based on the interviews with our auditors.

Conclusion: The increased use of marketing has changed the audit profession, the auditors need to market their services and cannot only focus on conducting audits. It has had implications on the audit quality and the auditors struggle with the balance between marketing themselves and keeping their independence.
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Emil Hansson

Fredrik Löfvendahl
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1. Introduction

This section presents the background to our study which then culminates into a problematisation. These parts underpin the purpose which we present at the end of the introductory section.

1.1 Background

"Auditors must become better at sales" as Grahn (2011) states it in an article about the abolishment of the statutory audit. As a result of deregulations like this the auditing market has changed drastically over the past few decades. The market has become increasingly competitive and audit firms must rely more on marketing to maintain and strengthen their position (Agnew 2016).

The profession of auditing is experiencing a transition and has been so during the last 35 years, since 1978 and the change in rule 502 in the American Institute of CPA:s code of professional conduct. Rule 502 earlier made clear to auditors that advertising was considered unethical in any form. After the revamping in 1978 rule 502 now states that: “A member in public practice shall not seek to obtain clients by advertising or other forms of solicitation in a manner that is false, misleading, or deceptive. Solicitation by the use of coercion, over-reaching, or harassing conduct is prohibited” (AICPA, 2012). This opened up a new world for the auditors, they could now market themselves using various Medias such as; the yellow-pages, television or the radio. In 1978, the Federal Trade Commission (FTC) investigated the professional auditors and realized that state attorneys tried to pressure state boards of accountancy to stop the enforcement of advertising bans, this according to the study conducted by Heischmidt & Elfrink (1991). As a result of this investigation the AICPA decided to amend their bylaws allowing auditors to advertise their services (Moser, Gordon & Loudman, 2015). They were now allowed to market their services but the AICPA: s rules were still very strict. After a second investigation by the FTC in 1985, AICPA decided to agree to permit Certified public accountants (CPA:s) to advertise their service in whichever way they felt was appropriate as long as the advertising was not deceptive (Allen & Arnold, 1991).
Seen from a Swedish perspective this is a highly interesting question. As of 2009, two countries still imposed on a requirement of a state audit and Sweden was one of those two countries (Broberg et al. 2013). Had we more knowledge and a better understanding of the importance of a state audit for all public companies or were we just a slow-moving organism? It was probably a case of the later since the statutory audit for all public companies was abolished in November 2010, affecting more than 250 000 public companies in Sweden (Broberg et al. 2013). The audit firms, both the large well-known “Big Four” (KPMG, Deloitte, EY & PWC) , but also the smaller firms now need to convince their clients as well as their potential clients why they still need an auditor even after the abolishment. In doing so they will use different marketing activities and they will also be faced with the question of how to use relationship marketing while remaining independent. The term independent means that there cannot be any conflict of interest since the auditor is supposed to have a critical eye when he or she conducts the audit. The auditors are an external actor that makes sure that the records are examined in an honest and forthright manner.

Pressure from the European Union started the abolishment debate in Sweden. The EU wanted to introduce simpler rules to increase the unions’ competitiveness compared to other countries around the world. In 2008 the government of Sweden had this question investigated and the report made clear that the abolishment would save 5,8 billion Swedish crowns for companies in Sweden (SOU, 2008:32). This report also states that companies in a country keeping the statutory audit will struggle to compete on the international market and as a result of that might having to move their business to another country where the rules are simpler. The potential savings and the threat of businesses leaving Sweden made the government decide to abolish the statutory audit in Sweden for companies with total assets of not more than 1 500 000 Swedish crowns a turnover of not more than 3 000 000 Swedish crowns and a maximum of 3 employees (Andersson, 2010).

Historically, customer-oriented marketing concepts have been avoided by professional accounting services (Murdock and McGrail, 1994). A study conducted in 1978 just around the time when marketing as a part of the profession was introduced shows that the attitude towards marketing was negative (Darling & Hackett, 1978). The study was conducted in order to investigate how various professionals felt about advertising, as well as the effects of advertising
It is easy to understand that the auditors’ attitude towards marketing was negative since it was newly approved to be allowed and no one knew what this would mean for the industry who put great pride in their independence and to offer quality services and execute the audit in such a way that the client would recommend their friends and business acquaintances to use the firm’s services. These attitudes were to be evolved and in 1991 a conducted study showed that during the 13 years that had passed since the first study there had been a change in attitudes towards marketing. In 1991, the attitudes were more neutral (Heischmidt & Elfrink, 1991). The attitudes were still not positive but at least the general idea of having to implement marketing in the profession of auditing had been accepted. The auditors were concerned about how marketing activities would affect the quality of the audit, the professionalism and the pricing aspect of advertising. Auditors believed that it is a fine line when using marketing to make sure it is done professionally in order to maintain current clients as well as attract new clients (Scott & Rudderow, 1983).

It would be interesting to see some more recent studies and see how the attitudes have evolved since Heischmidt’s study in 1991. In the article “Accountants’ attitudes toward advertising: a longitudinal study” Clow et al. (2009) studies the attitudes both in 1993 and 2004. Their study focused on topics including practice characteristics, personal characteristics, attitudes toward advertising, and their own use of advertising, advertising agencies, other marketing tactics, and marketing expenditures. In 1993 the smaller unestablished firms feared that marketing would protect larger, established firms and drive down prices. In 2004 that fear was not as evident, thus a shift in attitudes towards marketing. Smaller and unestablished also believed that the prohibition to use marketing prior to 1978 was a way of protecting the larger established firms from encroachment by smaller firms. This belief increased between 1993 and 2004 which would mean they are more suspicious concerning the true reason for enacting the advertising prohibition (Clow et al. 2009). These kinds of suspicions are not good for the industry and might cause problems in the future if younger auditors and smaller firms believe that the established firms are being protected by the FTC, who decides on rules and sets up guidelines. The study brings light to this issue and hopefully a change will occur. It seemed as there were questions regarding the contradiction between auditing responsibilities and the newly imposed marketing activities. Concerns about how the audit quality will be affected by the shifts towards marketing is also one
of the concerns auditors might have become when marketing became a part of the profession of auditing (Broberg et al. 2013). The study shows that auditors think that the introducing of marketing to the profession will lead to negative impacts on the image of the profession, the credibility and their dignity. All in all, this leads to a status reduction in being an auditor.

An example of the implications when it comes to marketing and independency is found in a disciplinary matter discussed in Revisorsnämnden (The Supervisory Board of Public Accountants). In 2009 they received a notification concerning one of their members. The backstory is that the firm, we can call it X, during the spring and early summer of 2009 conducted a marketing campaign in which they used the audit clients of the agency and at those agencies active auditors. Revisorsnämnden noted three different ads that were published in daily press for this marketing activity. Commonly for the ads is that they contain a picture that shows the product sold by the current client company and also the client's logo. At the bottom of the ad is X’s logo and a short section of text with a statement and with a reference to the client enterprise e.g. is said that behind every successful business is someone who gives good advice, review, and creates the right conditions. The ad ends with an invitation to the reader to visit the firm X’s website to more information about the firm X’s services. The question that Revisorsnämnden posed regards the independence of the agency X now when they are using their clients in an ad and a dependence is created. What considerations have been made? The firm X sees the campaign as part of a conventional marketing method that occurs in all industries. In this case, the firm X used customer references, which occur now and then in the auditing profession and regularly in a quote context. Thus a limit on what is, and what is not advertising would be difficult to draw. When clients have not paid anything, but only done it of kindness the agency X had not seen any obstacles to carrying out the activity. The campaign has been conducted in both business and daily press and on the Internet. In addition, it has been shown on screens at various airports in Sweden, excluding Stockholm Arlanda Airport and Bromma Stockholm Airport. The market activity was completed in the early summer of 2009. The firm X has considered the independence aspect and not found that the activity would jeopardize the agency or individual auditors’ impartiality and independence in the current audit assignments. There has not been any joint marketing or any joint projects with audit clients but the campaign has been conducted entirely in the firm X’s interest and the firm X’s initiative. The activity has not given rise to any
other business relationship between X and the client companies than those that already existed through the assignment relationship. Neither the firm X nor the client companies have in any way committed to the cause of the activity to act in a certain way towards each other. Therefore the firm X and the auditors have not gotten into any kind of dependence. (RN 2009, D47/09)

According to Revisorsnämnden, who has given their view on this matter the marketing has entailed a threat to the independence according to § 21 of the Auditors Act followed in Sweden. Of § 21 second paragraph of the Auditors Act it is certainly clear that a threat to the independence to some extent can be balanced through different types of countermeasures. In the present case, it concerns whether the audit company itself has given rise to the threat to the independence. To the extent that independence threats whatsoever can be balanced, it would require far-reaching countermeasures.

The firm X has thus by pursuing the current marketing campaign spawned a threat to the independence for X’s auditors. Because of this - and given the special responsibility of an audit firm to organize activities in such a way that the auditors' impartiality and independence are ensured (cf. § 20 of the Auditors Act) - have, according to Revisornämndens view, the firm X breached its obligations as a registered audit firm. The firm X should therefore be notified of disciplinary action. Despite the committed actions Revisorsnämnden believes that a reminder is enough in this case (RN 2009, D47/09).

It is obvious that there is a fine line between marketing and the independence. The auditors active today need to keep this in mind and it is also obvious that rules are interpreted in different ways. We find this to be the foundation of our study and this is what we will base our research problem on.

1.2 Research problem

As described above marketing is a fairly new dimension in the profession of auditing and it opens new possibilities for companies to market themselves in order to attract more clients. Marketing is becoming increasingly important in the auditing business as the environment is becoming more competitive. This is especially true for auditing firms in Sweden following the abolition of the
The increased use of marketing also affect other aspects of the audit, according to Scott and Rudderow (1983) auditors are concerned about the quality, professionalism and pricing aspects of advertising. Auditors believed that communication must be done professionally in order to maintain current clients as well as to solicit new ones. The word-of-mouth referral auditors earlier used was a sort of informal marketing, meaning that auditors have always marketed themselves by doing a good job to make sure their clients speak well of them. Auditors are also concerned on how the marketing will affect prices. The Big 4 have marketing departments that promotes the agency’s services while at the smaller firms the auditors must promote themselves. Despite how you promote yourself those hours are unbillable. This would mean that the marketing activities will increase the price of the audit or decrease the net profit for the agencies.

The notion of giving up on professionalism in favor of new less typical marketing activities is an interesting one and more research is needed in order to fully understand how marketing affects central aspects like independence, quality and pricing. Most of the research has focused on the attitudes towards marketing and what Medias auditors use, the aim of our study is to investigate how they work with marketing in their profession and how they reason when it comes to marketing.

1.3 Purpose of the study

This paper focuses on how the increased use of marketing affects the auditing firms’ services, more specifically how it affects auditor independence, audit quality and audit pricing. It is obvious that there is a fine line between auditors marketing their services and keeping their independence. It is clear that it has had implications on the business and after reading the disciplinary case it is clear that the rules are not defined in a way so that all the players in the industry interpret them in same way. Our purpose is to investigate how auditors in Sweden use marketing and how they make sure that they are still independent. We also want investigate if the
use of marketing has any effect on the quality of the audit or the price of auditing. Most of the existing research is done in the UK & the US. With this paper our ambition is to provide a new Swedish perspective on the problem. At the end of this paper we will suggest a couple of areas that future research should focus on.

1.4 Research question

Our first introduction to the subject and the problem we found in combination with our purpose all boils down to our research question which is:

*How does an increased use of marketing in audit firms affect auditing?*

*Three aspects: Independence, quality and price.*

1.5 Limitations

In our study we will focus on marketing for professional services, we will mention the basics of marketing in general but the main focus will be on professional services. The focus will be on the relationship marketing because it is the one mostly used by auditors. Our empiric study will concentrate on a qualitative approach with a number of interviews with auditors in Sweden.
2. Theoretical framework

This section presents the theoretical framework which consists of theories about marketing and auditing found applicable for the study.

2.1 Marketing in general

Marketing is defined as: Managing profitable customer relationships (Kotler, 2013). He describes how marketing deals with the creation and the capturing of customer value. The company needs to establish a relationship with the customers. They need to understand their customer in order to be able to satisfy their needs.

We will introduce four marketing concepts that are essential when you work as an auditor and thus for this survey.

2.1.1 CRM

This boils down to the concept called Customer relationship management (CRM). Kotler (2013) describes this as the process of building and maintaining profitable customer relationships by delivering superior customer value. Thus marketing deals with expectations and customer value. The problem for a marketer is setting the expectations of a product. If you set expectations too low the customers will be satisfied but the marketer does not convince enough people to buy the product and thus failing to reach set sales targets. If the marketer set expectations too high they will attract customers but fail to satisfy their customers and thus hurting the brand (Kotler, 2013).

Kotler (2013) describes how it is hard to keep customers loyal in today’s competitive markets which force the companies to use CRM more and use it more efficient. It is not enough to design and build a great product if you cannot get the potential customers to understand how good it is. The customers will base their purchase on what product they believe will provide them with the best value.

2.1.2 Marketing Mix

The company must decide on a marketing strategy. To do so it has to go through a couple of steps and complete that process. Deciding on your marketing strategy means you have to make some decisions on who to serve and how to best serve that group. The company will divide its potential
customers into segments which are groups of buyers with different needs, characteristics or behaviors. These segments can be based on geographic, psychographic and demographic factors (Kotler, 2013). When the market has been divided into segments it is up to the company to decide which segments the company should enter, thus what customers to serve. In our case with the auditing industry potential clients might be divided into segments based on location of the firm, number of employees, turnover or industry for example. An auditor can then decide to focus on local clients and keeping your business small or do like the Big 4 and go international and serve different clients with different size in different countries. An auditor could also decide to specialize in one industry, maybe only take on clients who are active in the automotive industry for example. The auditor will then be able to focus on that industry and stay à jour with the industry, know where the winds are blowing and give the best advice to the clients and thus serving them in the best way possible (Kotler, 2013).

When a company has its segments defined it has to decide on which segments to enter. This process is called *market targeting*. The company must assess each segment’s attractiveness to see what segments it should enter and in what segments it can profitably gain customers and retain them over time (Kotler, 2013). An auditor at a smaller firm with limited resources might decide to serve only a few segments while an auditor at one of the big 4 might be more all-round and take on clients from various segments since that auditor has access to assistant, auditors and tax experts that can participate in the audit. This in-house help facilitates for the auditor to take on clients from different segments. For the auditor at a smaller firm it might be more profitable to focus on smaller clients and have a bigger number of clients than to have a few big ones where the auditor, in its turn, will have bring in resources from other companies and pay for their expertise. The main message that Kotler (2013) describes is that “*companies cannot profitably serve all consumers in a given market- at least not in the same way*”.

When the company has segmented its potential clients and decided on what segments to enter the company knows who they will serve with their product/service. The next step is to find out how to serve these clients, and to do so the company will position and differentiate themselves.
Positioning means that the company occupies a position on the market and in the minds of potential customers. The company must make sure that they stand out from their competitors and deliver something their competitors do not. At least they need to make sure that is how they are perceived by their targeted segments. If the product/service they offer is perceived as identical to ones that are already on the market, the company will have only the price to compete with (Kotler, 2013).

To differentiate the company’s offer means that you in some way create superior customer value compared to your competitors. Something in your offer has to add to the perceived customer value. The company must have this in mind throughout their development of a product/service. It is not something the marketers create when it is time to launch the product/service because then it will fail to satisfy the expectation and thus hurting the brand (Kotler, 2013).
The company now knows who to serve and how to best serve them and can start planning for their Integrated marketing mix or as it is referred to in everyday life: the 4 P:s. This is a set of marketing tools that helps the company to get their message across, brings their proposition value to target customers.

The marketing mix includes: product, price, promotion and place. The product is the actual good or the service the company is selling and promoting on the market. The price is the selling-price, minus potential discounts, that the good or services is sold for on the market. The place includes
the different dealerships, stores or online platforms through which the product is made available to targeted segments. The *promotion* is the company’s way of communicating its value proposition to targeted segments, what makes the product/service stand out and why should the customer go and buy one (Kotler, 2013).

### 2.1.3 Services Marketing Mix

Auditors are selling a service: auditing. It is not a product like a car or a TV the auditors are selling but the service of going through the company’s annual report and detect any potential faults or misleading figures. Therefore, we need to look into the service marketing mix which builds on the already mentioned integrated marketing mix but extends it further. Compared to a product a service has four new characteristics that needs to be understood by the company. Services are: *Intangible, Inseparable, Variable and Perishable*. Kotler (2013), defines these characteristics as:

- **Intangible**: “*They cannot be seen, tasted, felt, heard or smelt before purchase*”.
- **Inseparable**: “*Services cannot be separated from their providers*”.
- **Variable**: “*Quality of services depends on who provides them and when, where and how*”.
- **Perishable**: “*Services cannot be stored for later sale or use*”.

If we compare these characteristics to the audit industry we realize that all of these apply for the audit as a service. An audit is intangible, the client do not know how the audit will be carried out before hiring an auditor. The client will obviously try to find out as much about the audit agency as possible before hiring them but they will have to put their trust in the auditor delivering as promised, being available, deliver on deadlines etc. They will not know result and the outcome of the audit until it is done and the audit report is signed.

The audit is inseparable; the audit cannot stand for itself. The auditor conducts the audit and their knowledge is what you buy. An audit in itself is basically nothing and cannot be bought.

An audit is variable; it very much depends on the person conducting the audit. Most of the Big 4 has their own guidelines etc. on how to conduct an audit but it’s still the actual team involved in the audit who affects the quality of the audit. The quality of the audit will differ from firm to firm.
and maybe also within the firm based on who your auditor is. An audit is perishable; you cannot store it and sell it later. The audit is conducted as soon as the figures from the previous year are done and ready to be looked at by the auditor. Thus, an audit checks all of these characteristics and it is safe to say that audit is indeed a service.

When marketing a service you need to keep track of three sorts of marketing: Internal marketing, External marketing and Interactive marketing (Kotler, 2013). Since an audit is a service and this study deals with the marketing of services these concepts are essential to understand. To explain these concepts we will use the marketing triangle:

![Figure 2: The marketing triangle (Myvirtualmarketingcoaches.com, 2010)](image)

It is our three concepts and three key players that make up the marketing triangle. It describes the key players: “Company”, “Employees”, and “Customers” and how they interact with each other when it comes to marketing. The external marketing is the company promoting its service to the customers. This is what you normally think of when you think of marketing: companies placing ads, constructing offers etc. to gain customers. If you’re promoting a service it will require more from you than just using the external marketing based on the 4P:s discussed earlier. Kotler (2013) describes the Internal marketing to be the company’s activities to promote themselves to their employees.
The company needs to keep their personnel happy and make sure the personnel present themselves and the company they are representing in the best possible light. The company must motivate its customer-contact personnel and get everyone to work as a team to give the customer the best possible experience and live up to the expectations that the marketing team has set. If this fails the company will struggle, therefore it is extremely important for the companies. Kotler (2013) describes the Interactive marketing as the buyer-seller interaction during the service encounter. It is when the service is performed the customers experience and the potential satisfaction or dissatisfaction is at stake. This is a major difference towards marketing a product where the buying of the product has a very small part of the buyers experience regarding the product. For a service on the other hand which depends on both the quality of the service but also on how the service is delivered. A hairdresser for example might do a great job but if he/she is rude or has a negative attitude towards the client, the client is unlikely to return.

This applies to the audit industry, audit firms and the active auditors. The audit firm must make sure that the auditors and its team works as a team and that they are customer-centered and that they live up to the clients’ expectations. The marketer who set the expectations is not going to perform the actual audit and will therefore rely on the audit team. The audit firm needs to engage to internal marketing, stimulate their employees and keep them happy so that they do their best and provide the best audit possible and achieve customer satisfaction.

Interactive marketing is also a key concept for the audit firm since the client will base much of its experience on the encounter with the auditor. How available was the auditor, what knowledge did the auditor have, did everything run smoothly? These are questions that will affect the potential satisfaction of the service and therefore the likeliness of the company hiring the same auditor in the years to come.

2.1.4 Relationship marketing

What marketing activity you choose in order to strengthen your brand and to make sure your firm is top of mind with the clients differs a lot. Larger firms have a larger budget and may therefore be more aggressive in their marketing than smaller firms (Heischmidt et al. 2002). The smaller firms put their faith in the word-of-mouth referrals and the relationship marketing strategy
(Hulbert & Lawson, 1996). It is the relationship marketing strategy that is the strategy which is closest at hand for the auditors. The foundation of relationship marketing is obviously relations, to maintain relationships between the company, its employees and other players at the micro level (Ravald & Grönroos, 1996). In this case the other players at the micro level are potential clients. The purpose of relationship marketing is to create customer loyalty so that a stable mutually profitable and long-term relationship is enhanced (Ravald & Grönroos, 1996). The relationship marketing can lead to a friendship beyond the professional, which might be a threat to the independence and it is therefore essential that the auditor knows where to draw the line between the professional life and the private life. This is one of the biggest concerns when it comes to marketing your services as an auditor and one of the main points in our survey.

2.1.5 Professional services marketing

O’Donohoe et al. (1991) discusses the implications and the problem many auditors have experienced with marketing your auditing services. They support our claim that auditing is a service and they further argue that auditing is a professional service because of advisory nature and the fact that it is operated by skilled professionals which have strict guidelines to follow. They describe how marketing was seen as “foreign and distasteful” by the industry and that auditors struggle to relate to it and use it in their profession. The fact that the auditors have such expertise has lead them to believe that their expertise will be enough to attract clients, thus marketing not being necessary. They believe that the clients should come to them and not vice versa, believing marketing is something ugly and beneath them (Suarez, 1987). O’Donohoe et al. (1991) describes how the professionals find it hard to become accustomed to their personal selling role. It has not been part of the job description and is now being forced upon them. They are not trained to take on this selling role and therefore struggle with it. However, there are challenges to overcome for auditors wanting to promote themselves and their firm. Bloom (1984) singles out 5 challenges for auditors:

1. Partial benefit marketing (PBM): implies that professional are prevented from providing what their clients want by legal, ethical, professional or social restrictions. This is a paradox for the auditor and the audit industry. They want to deliver the best possible service for their clients but unfortunately, in some case, that would be breaking the law.
An auditor that does not let the client pay less tax or report a healthier financial condition that the real one will probably experience a dissatisfied client but allowing it would be a crime and possibly result in the auditor having to spend some time in jail.

2. **Capacity constraints**: the audit industry experiences peak periods, especially during the first quarter of the year. However, since the demand fluctuates they cannot hire more people since keeping them throughout the year would be too expensive and the personnel would not have anything to do. The audit firms also only professionals, people who are not interested in just working a couple of months at a firm and then move on.

3. **Referrals**: referrals are a very important promotional method. Word-of-mouth is something many auditors rely on to bring in new clients. Auditing is a trust-industry, companies rely on their auditor and therefore they want to find someone they can rely on. An ad in a newspaper will not give them that information but instead they will ask their friends, family and other business leaders for suggestion on who to hire. Keeping your clients satisfied is therefore essential for an auditor. As mentioned under point 1 (PBM), this might sometimes be hard and put the auditor in tricky situations.

4. **Internal marketing**: as mentioned earlier this is a really important concept for the auditors or at least for the manager at audit firms. It is important that the auditor and other personnel knows about the firm, its expertise & organization to develop their selling and marketing skills so that they can communicate that message to clients and be perceived in a way that they feel do them justice.

5. **Regulation of auditor’s marketing activities**: Firms in the audit industry has been forbidden to advertise for a very long time and they are still not free to promote themselves however they feel like. Therefore an auditor has to consider several aspects when he/she promotes their service or their firm because failing to comply with the rules will put them in trouble and hurt their own personal brand as well as the firm’s brand.
Grönroos (2007) discusses the importance of being a customer-oriented company that creates value for the customer. The company should not only focus on their activities that generate revenues but focus on activities that adds on to the perceived customer value. He brings up a notion called “hidden services” which he defines as services that are not chargeable. Examples of these “hidden services” are: the celebration of special requests, efficiency and high availability. These things add on to the perceived customer value and will convince the customer to return which is important on a competitive market such as the audit market. Lindberg (2008) argue that the auditor should be available and invite the client to use the auditor and its expertise. Such a relation would increase the understanding of what auditors actually do and how it creates value for the company which also increases the perceived customer value.

2.2 Introduction to auditing

The word "audit" comes from the Latin word audire, meaning "to hear". Auditing refers to an examination of records or financial accounts of an organization to ascertain how far the financial statements present a true and fair view of the company and their transactions.

The early historical development of auditing is not well documented. Auditing in the form of ancient checking activities was found in many ancient civilizations but the ones found in Greece (around 350 B.C) appear to be closest to the present-day auditing (Lee & Azham 2008). The practice of auditing did however not become firmly established until the advent of the industrial revolution. Prior to this auditing had little commercial use because industries were mainly small and individually owned and managed (Porter et al. 2005).

The growth of the American economy in the 1920s and after the 1929 Wall Street Crash caused companies to grow rapidly in size, increasing separation between ownership and management. This lead to a principal-agent problem and a need for someone to convince users of financial statements that these are presented true and fair – the need for the modern day Auditor (Porter et al. 2005).
Today the audit market is an oligopolistic market with the Big 4 (PWC, KPMG, EY, Deloitte) control approximately 90% of the European market (Grönbok, 2010). The implications this has on pricing etc. will be discussed later on in this section under “Audit pricing”. The other 10% is made up of the hundreds and thousands of national smaller firms that fighting over the crumbs that are left. The audit industry is constantly facing new guidelines and is a changing organism. Cassell et al. (2013) discusses the future of the profession and brings up the fact that it is a trust industry, if the trust for the industry fades the industry will face a decrease in demand. If you do not trust your auditor you will not hire an auditor. In the future computers will take over and can examine information and control so the figures in the annual report are correct. The auditor must expand its portfolio to still be relevant as a profession. Cassell et al. (2013) suggest that the auditor can start screen and write CSR-reports, is the company really living up to the promises made in their CSR-report. The auditor might be able to help the company with its internal control system. The profession of auditing will in the future be more of an advisory nature and the actual screening of figures etc. will be taken care of by computers.

2.2.1 Audit practice

Audit practice is the notion that describes what it is an auditor actually does (Carrington, 2010). The goal of the audit is for the auditor to sign an audit report which shows the different
stakeholders that the annual report and the figures in it shows the company’s financial position and are not misleading. Carrington (2010) describes this as a complex process and brings up concepts like *independence, materiality* and *risk*. These concepts will be described in the following section.

### 2.2.2 Independence

The *independence* is probably the most important concept of auditing. The auditor must be completely independent and not be affected by the clients and their potential request to overlook faults etc. This is what the auditors sell and what the stakeholders are interested in knowing (Carrington, 2010). Carrington (2010) describes how the auditor has two tasks. One being checking the figures in the annual report and writing the audit report, the other one being the advisory role that they have when helping companies. An auditor stays in touch with the client throughout the year and can be helpful in question regarding tax etc. These extra services add on to the perceived customer value and are important for the audit industry and are also a big render of incomes. However, the auditor must know where to draw the line and not get too involved and thus threatening the independence. If independence is taken lightly on and the firms would have a *laissez-faire* attitude their product would soon no longer be demanded by their clients.

### 2.2.3 Materiality

ISA 320 defines the concepts *materiality* and *risk* which are related. It would be impossible for the auditor the check every transaction during the year since big companies will do millions of transactions in one year. It would take too much time and that would lead to a higher price for the companies. Therefore the auditor can set the materiality. The materiality is calculated based on the company’s profit in most cases. It can also be calculated based on total assets etc. A materiality is often set somewhere between 3-5% of the company’s net profit. The level of materiality tells us the level of deviations that can be accepted and not affect the audit report (Carrington, 2010). The information that is not screened is called out of scope, but is still being documented.

### 2.2.4 Risk

Closely related to materiality is the concept *risk*. The risk the auditor takes depends on what materiality he/she chose. A higher materiality leads to higher risk. An auditor choosing 5% as
their materiality will take on a bigger risk than an auditor choosing 3\%. An auditor choosing 3\% will review the information in the annual report and the accounts more in-depth than an auditor choosing 5\% as the materiality. Risk is the risk of a fault or misleading information that the auditor should’ve noticed and can lead to the auditor losing its authorization, which would be a travesty for the auditor. The auditor will always have to balance efficiency against risk. Lowering the risk will mean more reviewing and clients considering the auditor to be less effective (Carrington, 2010).

When the auditor begins an audit of a company he/she selects what transactions to review, what accounts to review etc. This selection also implies a risk and when it comes to selecting information to review because based on the selected population the auditor will make a statement. Two faults can occur here. A type I-fault means that a population is estimated not to be okay, when it actually is okay. The second is a type II-fault which means that a population is estimated to be okay, when it actually is not. These two types of faults have implications for auditor. A type I-fault means that the auditor reviews too much information and does not trust the internal control system enough. This will be costly for the customer and might create dissatisfaction. A type II-fault means that the auditor puts him-/herself at risk because the audit report will be incorrect if the discovered fault is bigger than the materiality (Carrington, 2010).

2.2.5 Audit firm marketing activities

In order to understand our problem we must first understand how audit firms market themselves, e.g. what methods are they using and in what channels are they active. Audit firms have traditionally relied on relationship marketing in order to maintain their customer base. The firms have relied on their reputation and referrals to attract new customers, a relationship with one client produced a relationship with another. Referrals are like relationship marketing, in which a company develops a long-term relationship with their clients (Heischmidt et al. 2002). Through recent communication and technology improvements, relationship marketing is much easier to achieve, communicating with and helping customers is much easier and faster than before, this makes maintaining customer-relations less time-consuming (Giladi & Friedman, 2000).
Today's audit market is, with the removal of the audit requirement and very demanding customers, more competitive than ever before. This is making many firms use advertising methods outside traditionally typical method. The types of advertising audit firms use today depend on factors like their customer base, competitive environment and individual economic situation. In general, audit firms favor print advertising and the internet more than different broadcast methods. Print media includes Newspapers, Yellow pages and brochures while broadcast methods involve television, radio and telemarketing. The internet has lately become a primary source of advertising, brought about by technology changes (Heischmidt et al. 2002). Broberg et al. (2013) also found that the internet has become a primary source of advertising lately. About half of the audit firms with a website used internet as a tool for marketing themselves. “Internet will reach only a select target market, which includes younger, better educated, and more affluent users that have greater demand for public accounting services than non-Internet users” (Elfrink & Bachmann, 1997).

Very large firms tend to be more aggressive in their advertising and they use a wide variety of advertising methods such as telemarketing, newspapers or commercials. Smaller firms often lack marketing knowledge and financial resources and put their faith in word of mouth and relationship marketing (Heischmidt et al. 2002). Because of the lack of knowledge and resources, increased competition particularly affects the profitability of small to medium-sized firms, due to advertising being necessary in order to maintain customers and thereby profitability. Another factor that primarily affects smaller firms is the hesitation among some auditors when it comes to marketing. Auditors who are not sure of if the promotional strategies are justified in cost will most likely not use promotion. Auditors who are unsure about their knowledge in the field of marketing or of how their clients will perceive the promotion will most likely not advertise (Heischmidt et al. 2002).

### 2.2.6 Audit Quality

When it comes to audit quality there are a few factors that determine or at least influence the audit quality. Choi et al. (2010) argue that a large firm is associated with a higher level of quality. They single out the Big 4 as the providers that offer a better quality, this due to an international brand name and industry expertise that smaller firms might lack. However, this is based on the
assumption that every the Big 4 offers a homogenous quality at every local office in different city, no matter what size that office is in terms of turnover and number of clients. It might be hard to maintain a homogenous quality at every local office and therefore it is essential that the firm has developed standardized audit procedures & techniques which facilitate knowledge sharing. It is vital to maintain this homogenous quality at every office to maintain the quality associated with the brand and if one office is not living up to the promise then the bad reputation will start to spread affecting the entire brand.

DeAngelo (1981) supports the view of the big firm as the one providing the best audit and suggests that it’s the potential loss of your good reputation in case of an audit failure that puts some extra pressure on the auditors to perform an extraordinary audit and exceed the clients’ expectations. DeAngelo (1981) gives another reason for why the big audit firms are the best and that would be the fact that they are less likely to depend on a particular client. Meaning they are less likely to acquiesce to client pressure for substandard reporting than small firms that might feel the pressure to not report failures in accounting because they’re only client threatens to change audit firm. Choi et al.’s (2010) major findings are the link between a large office and a higher audit quality which supports what they call the “economic dependence perspective” which is the fact that a smaller firm might rely too much on a particular client and might be willing to oversee some faults in the reporting. They also suggest that regulators and audit firms should pay more attention to the behavior of small offices because of this likeliness to compromise audit quality. If the small firms start compromising audit quality then the entire business could see a drop in credibility, which would be very unfortunate.

Ferguson et al. (2003) supports the above-mentioned link between office size and audit quality by arguing that the Big 4 compete on product differentiation, they invest in their brand name and their reputation. They also invest in industry-specific audit methodologies, addition staff training and industry knowledge. Things that a smaller firm might not invest in and thus not reaching the same audit quality. The perceived quality might not be the actual quality which will be discussed in the section concerning the expectation gap. Potential first-time buyers for example will probably have imperfect information and the true value is therefore likely to exceed the perceived value. Lovelock (1984) discusses the face that the audit industry experiences a peak in demand
during the years first months. This is a problem because this forces auditors and their teams to work overtime and in a profession where you’re supposed to detect faults this might lead to a lower quality. The auditors are human as well and might struggle to keep the attention at a high level during these peaks.

2.2.7 Audit quality and marketing

Auditors are clearly concerned about how the use of advertising will affect the audit quality. There are two views of audit quality. One view is the technical view, whether the audit follows the accounting principles and guidelines set up by ISA for example. The other way of see audit quality is based on other factors such as the competence of the auditors, the ability to contribute with constructive feedback concerning routines, their knowledge about the company, level of experience from the business and their communicative ability. To follow and interpret the ISA standards is considered basic knowledge, audit quality is instead decided by how the auditors copes with the more hard to assess factors of the audit, where judgment and earlier experience plays a big role. The profession is competitive, a number of firms are fighting to attract the clients and it is essential that every audit is conducted in the best way possible, otherwise it will be hard to attract clients (FAR, 2016). Grönroos (2007) argues that quality is what the clients experience and it does not matter how good of an audit you perform if your client does not appreciate it. He also pushes on the concept of expectations, if a company set expectations too high the client might not be satisfied and consider the company to keep a low quality. However, this does not imply that the audit was poorly performed, it just didn’t reach the expectations set by the marketers.
2.2.8 The audit expectation gap as a dimension of audit quality

The term audit expectation gap was first introduced to audit literature by Liggio (1974). It was defined as the difference in what the users of financial reports expect the auditor to perform and what the auditor themselves expect to perform. The definition has since then been extended several times. McEnroe and Marteens (2001) defined the audit expectation gap as the difference between what the public and other users of financial statement perceive auditors responsibilities to be and what auditors believe their responsibilities to entail. This means that there might be a difference between what the firms that hire the auditor later expect the auditor to do and what the auditor actually does. This is an important dimension when researching marketing impact on audit quality because with marketing comes a problem of how the customers of a service expect the service to be and how they later perceive it. The consumers’ expectations on a service influence his evaluation of the service quality which he has experienced. Traditional marketing activities such as advertising, pricing and public relations can be and are used in order to give promises to target customers. Such promises influence the expectation of the customers and therefore have an impact on the expected service (Grönroos, 1993).

*Figure 4: Illustration of an expectation gap (Tibârcio, 2012)*
Swan and Comb (1976) suggests there are two different dimensions to the perceived performance of a product, the instrumental and the expressive performance. The instrumental performance is the technical dimension. With auditing this would mean the result of the audit process – what the customer is left with. Expressive performance is related to psychology. With auditing it would be related to the buyer-seller interactions, to the contacts between the customer and the auditor and the audit firm. When identifying customer satisfaction both these elements must be considered. If an audit firm performs a great audit but that is not in line with what the customer expects the customer will most likely be dissatisfied with the service he/she is getting from the audit firm.

Therefore, as Grönroos (1993) states it “The promises about how the service will perform given by traditional marketing activities and communicated by word-of-mouth must not be unrealistic when compared to the service the customers eventually will perceive.” If the service is marketed as something better compared to what it actually is this might increase the expectation gap, lowering the perceived audit quality. Moser et al. (2000) argues that, in order to maintain the professionalism demanded audit firms should advertise with caution. Consumers indicated in their study that the reputation of the firm is far more valuable than the price charged for the auditing services. Thus, advertisements should lend themselves to credible perceptions.

### 2.2.9 Audit pricing

The determination of audit fees is essential for us to study since we want to know if there have been any decreases or increases in the fees before and after 2010 (the year the statutory audit was abolished in Sweden). What factors affect the audit fees and are there any methods used by the auditing firms to determine their fees? It is obvious that the auditing market is a market with oligopolistic power. Oligopolistic power means that there are a few companies dominating the market. This is the case with the audit market where the so called Big 4 dominate the market and hold a 90% market share of the European market (Grönbok, 2010), leaving 10% of the market for the other hundreds and thousands of smaller audit firms.

One key characteristic for companies operating on an oligopolistic market is that they are price setters rather than price takers (Perloff 2008), which means that they are able to set their own prices, at least in theory. Crabtree (1995) argue that the audit firms base their price setting on the
cost of the service, a so called cost-based price setting. A cost-based pricing method uses the production costs as its base for pricing. It is essential for the firm to know the price floor and the price ceiling and to set their price somewhere in between these two (Rawes, 2015). A cost-based pricing generally results in more competitive prices which would go against the assumption that companies operating on an oligopolistic market can set their own prices. One could argue that a value-based pricing is the strategy used by the audit firms. A value-based pricing strategy considers the value of the service. The value for the audit firm, in this case, would be an increased credibility of the company’s annual report, a credibility that might result in more investors or assure potential suppliers of their ability to pay (Rawes, 2015). It is therefore hard to say which method the audit firm’s uses, it seems as though we are being held in the dark.

Monroe (1989) argue that most service organizations (audit firms included) follow an unsophisticated approach to pricing and Murdock and McGrail (1994) go so far as to suggest that audit do not want the market to know how prices are set. This view is supported by Neale (1996) who found that professional audit firms do not reveal their pricing policies to the public. Crittenden et al. (2003) claim that most research conducted so far reports the cost-plus pricing to be the most used pricing strategy in the industry. Crabtree (1995) narrows it down to the keystone pricing method. The keystone pricing method gives the company a gross margin of 100% of the cost price, thus doubling the cost of producing the service to get the selling price. However, there are two types of firms. The type of firm that uses pricing in their promotion and the type of firm that does not. The second type of firm focus on expertise and service quality in their promotion (Filley & Pricer, 1991). Our focus in this paper when it comes to audit pricing is to research whether there have been any decreases or increases in audit fees since the abolishment of the statutory audit. AICPA eased the restriction regarding marketing of auditing services in the US in 1978, and Maher et al. (1992) document a decrease in the audit fees since then. According to his survey auditing has become cheaper since the change in Rule 502.

Furthermore Choi et al. (2010) argue that larger firms have a larger pool of capable audit personnel which means that they can spend audit resources more efficiently. A larger firm will probably also have more clients so that the audit-related overhead costs allocated to individual clients will be lower. There are more clients splitting the cost for the auditor’s office space, staff
education and marketing activities. This should mean a possibility for the big firms to keep their fees lower than the smaller firms. However, there is evidence supporting an opposing perspective, the perspective that bigger firms charge a higher fee. The extant audit pricing model is introduced by Simunic (1980) and then developed by Choi et al. (2010) and predict audit costs as: “equal to audit fees at a competitive equilibrium, are a function of: (1) client characteristics such as client size, client complexity, and client-specific risk; and (2) auditor characteristics such as brand name and industry expertise that influence the quality of audit services.” This model suggests and that the bigger firms can charge higher fees than smaller ones. The fact that bigger firms have a better audit quality should mean that they can charge a higher price and charge a so called “fee premium” (Carcello & Al, 2002).

To attract new clients, the auditors engage to fee cutting for initial engagements. Evidence from the US shows that the bigger firms, the big 4, will use a low introductory price which will then be increased to a higher regular price as a way of first attracting clients and then hopefully convincing them that the service is worth the higher regular price. Interesting is that there will be no fee discount when a company changes from a big 4 auditor to another big 4 auditor (Dutilleux et al. 2013). This is probably an effect of the clients existing knowledge about the pros of having an auditor. To these clients you sell your company and your staffs’ expertise and not the idea of even having an auditor and why that might be a good choice.

Bloom (1984) describes the alternative cost of undertaking marketing activities because these hours could have been used to perform audits and actually getting paid and bring in money to the firm. Obviously it might be an investment to promote yourself and your agency but the benefit of marketing is not as direct as a billable hour is. This might be something impeding the use of marketing since someone has to pay for it. Either it might be the clients paying a higher price for the audits or maybe the audit firm has to cut its net profit due to non-billable hours.
3. Method

The aim of this chapter is to set out the methodological approach undertaken to discover and understand how marketing affects auditing services. The chapter will present the scientific method and the method used for collecting data along with the process of data analysis. Finally, a discussion of ethical issues and limitations associated with this study will be presented.

3.1 Scientific Method

The aim of the research was to take a hermeneutical view of the effects marketing have on auditing services. Hermeneutics can be equated with learning by interpretation and is a scientific approach which emphasizes on studying, interpreting and creating an understanding of something (Bryman & Bell 2012). The idea behind choosing the hermeneutic approach is that the writers in the analysis of empirical evidence and theory should try to understand the interviewees' perspective and experience and then put that information in context. This gives opportunity for interpretation of the interviewees’ experiences which is important since this is going to be the basis of the analysis section. Furthermore, the hermeneutical approach contributes to creating an understanding of a phenomenon rather than the absolute truth, which the authors believe is important in order to be able to draw relevant conclusions in the study (Bryman & Bell 2012).

3.2 Approach

We have chosen to have an inductive approach in our study. This is based on our wish to form new theory based on the observations we make during our interviews. We want to understand how audit services are affected by marketing and we are going to investigate the problem by interviewing auditors. A decent amount of research in the field of auditing and marketing already exists and the purpose of our study is to expand this theory, with this in mind, an inductive approach seems best fitting.

3.3 Research design

According to Bryman and Bell (2011) scientific research is either qualitative or quantitative. Quantitative research is generally about finding statically verifiable relationships in large populations in order to draw general conclusion. Qualitative research on the other hand, allows the researcher to do more in-depth and explanatory research. Denzin and Lincoln (2005) describe
how a qualitative method allows the researcher to interpret or understand a phenomenon from the perspective the studied object gives them.

Since this study focuses upon how the increased use of marketing affects different aspects of the auditing firms’ services, we have decided to use qualitative research methodology. A qualitative approach was considered more relevant to undertake this research as it allows us to gain more in-depth-knowledge and a greater understanding of the subject as opposed to a quantitative approach which is more structured, broader and numerically based. We seek to get a deeper understanding of how the recent changes in the audit market affects auditing rather than making broad generalizations about it, with this in mind the qualitative approach is better suited for the study.

3.4 Sample selection

The discussions of sampling in qualitative research tend to revolve around the notion of purposive sampling. The idea behind this is that the selection of what objects to use in the empirical research should be indicated by the research questions. In our case, our research question is about how usage of marketing affects different aspects of the audit, with this in mind it seems only logical that the interviewees must be working within this sector (Bryman 2012). We therefore decided to use the purposive sampling approach rather than using approaches like probability sampling or convenience sampling. This allowed us to choose what persons to interview which makes the empirical material gathered more likely to be relevant.

Since this study is about an in-depth-understanding rather than making broad generalizations a few different case studies at audit firms is suitable (Bryman & Bell 2011). We decided to interview six different auditors at six different audit firms in order to understand our problem. All of the auditors were approved auditors or authorized auditors approved by FAR, the Swedish professional institute for authorized public auditors. Interviewing auditors at different firms makes it possible to see firm-specific factors and factors that are more common. We tried to get interviews with auditors at firms of different sizes and firms with different characteristics. This is important in order to identify differences between firms, as an example, bigger firms tend to have bigger customers and as we previously stated, might not be affected by the abolishment of the statutory audit as much as smaller firms.
3.5 Data collection

At first we tried to find interviews in the proximity of Linköping in order to conduct the interviews in person. We found it very hard to find auditors willing to set time aside for us as we were attempting to start during their peak season. This made us remove our geographical limitation and we started to look for interviews with firms from anywhere in Sweden.

Our interviews lasted for between 29 and 67 minutes and were conducted at the interviewees' office or by phone. In order to facilitate our analysis, we used a recording device during the interviews. Bryman (2011) says that, in qualitative research, the interview is usually recorded and transcribed. With this comes many advantages, it allows the interviewer to concentrate more on the interview and what is being said rather than concentrating on getting down notes. As with just about everything there is a cost, the use of the recorder may disconcert respondents, who become self-conscious or alarmed that their words are being preserved (Ryen 2004, Bryman 2012). As soon as our interviews were completed, we started transcribing them. Ongoing transcription allows the researcher to be more aware of emerging themes that he or she may want to ask about in a later interview (Bryman 2012).

3.6 Presentation of the chosen interviewees

A brief presentation of the interviewees with information about auditing experience, firm size, firm revenue on a yearly basis, interview format and interview length can be found below.

<table>
<thead>
<tr>
<th>Auditor</th>
<th>Experience (Years)</th>
<th>Firm size (Employees)</th>
<th>Firm revenue (Million SEK)</th>
<th>Interview format</th>
<th>Interview length (Minutes:Seconds)</th>
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</tr>
</tbody>
</table>

*Table 1: Overview of the interviewees*
3.7 Primary data

The study's primary data was obtained through interviews with authorized auditors at audit firms of different sizes. The interview is probably the most widely employed method in qualitative research and the two main types are the unstructured interview and the semi-structured interview (Bryman, 2012). The structure of the interview affects empirical material in a large degree. With a very structured approach, there is an imminent risk that the researcher will become less attentive and misunderstand important phenomenon (Ryen, 2004). The structured approach also limits the depth in the interviewees answers and therefore also the depth in the empirical material (Ryen, 2004; Bryman, 2012). Structured interviews allow the interviewer to steer the conversation into relevant topics and it also limits the risks of biased follow-up questions (Ryen, 2004).

Bryman (2012) says that a semi-structured interview is preferred if the researcher is beginning the investigation with a clear focus of what to do research on. With this in mind, we decided to take a semi-structured approach to our interviews. This allowed us to steer the topic of conversation into relevant subjects while at the same time keeping the questions and thereby answers open. According to Ryen (2004) most scientists agree that, at one stage or another in the meeting with the interviewee, the researched should use an interview guide. An interview guide is also important for cross-case comparability between interviews at different firms (Bryman, 2012). We therefore prepared a guide (see Appendix 1), which we divided into four different sections for structural reasons; an introduction, questions about the interviewee, questions about the firm that the interviewee worked at and at last, general questions about marketing and auditing. We then divided the underlying questions in these sections based on three themes which we found most important based on previous research. The questions in the guide were designed not to lead the interviewee but rather to make the interviewee think about the topic and give us their point of view. As Bryman (2012) recommends we tried our interview guide in a pilot-interview before our first real interview. We found our questions to be working quite well and only some minor changes were needed.

Kvale (1996) suggests that a successful interviewer is a good listener, neutral and non-judgmental. Being active and alert during the interview and asking follow-up questions where
they are in order is important. We tried to keep these criteria in mind during our interviews; we always let the respondent think and take their time answering our questions. If things were unclear, we asked follow-up questions to make sure we could use everything in our analysis.

Due to regional limitations and problems with finding willing respondents, we had to resort to some telephone interviews. One of the issues with this is that it is much easier for the interviewee to terminate a telephone interview than one conducted in person (Bryman, 2012). To limit this issue we gave them a time frame of maximum one hour before starting the interview, this resulted in them being more comfortable and taking their time. The biggest issue however is that it is not possible to observe body language, which can be important to see feelings such as discomfort or confusion (Bryman, 2012). We do not believe that this issue will affect our study in a negative way as we are interviewing members of a professional occupation, they are used to being asked questions like this and would very unlikely react with confusion. We also do not believe their feelings to be very important but rather their knowledge.

Telephone interviewing also has some benefits, it may for example be that asking sensitive questions is more effective, since the interviewees may be less distressed when the interviewer is not physically present (Bryman, 2012).

Since we wanted our respondents to be honest and safe in the interview process we offered them all anonymity, some of them did not care but some took the opportunity.

3.8 Data analysis

As we collected the data, we also analyzed it adhering closely to the guidelines specified for qualitative data analysis (Miles et al. 2014) and cross-case comparison techniques (Eisenhardt, 1989). Overlapping data analysis with data collection not only gave us a head start in analysis but also allowed us to make adjustments during the data collection process. These adjustments can be additions in the interview guide or particular themes to explore more in-depth during future interviews (Eisenhardt, 1989). During our first interview one very interesting question came up and we decided to add it for our future interviews.
We based our interpretation and analysis on Brymans (2011) model about thematic analysis. This means that an index was created from main- and subthemes which were later used as guidelines when we coded. Coding is one of the most central processes qualitative analysis; it entails reviewing transcripts and giving parts that seem to be of potential theoretical significance labels in order to organize the data (Bryman, 2011).

Our interview guide was divided into three broad main themes which were based on our research question. These themes were used as our three basic categories when we started analyzing our empirical data and we sorted information of relevance based on these. In order to further highlight important information we divided our three main themes into several subthemes. This categorization makes getting an overview of the information easier and it also helped us illustrate all our respondent’s answers.

3.9 Secondary data

In order to add credibility to the interviews where auditors might not tell the truth we decided to add a statistical survey on potential changes in audit pricing. This will help us to show potential changes in pricing due to an increase in the use of marketing. To do this we choose 100 of the biggest companies in Sweden and screened their annual reports, both from 2009 and from 2015 to discover any changes in the cost for an audit for these companies. The reason we chose these years is because the statutory audit was abolished in 2010 and marks the date when most auditors had to start promoting their service more intensively.

3.10 Ethical considerations

According to the Swedish Research Council (2002), a study must fulfill four ethical requirements. These are; the confidentiality requirement, the information requirement, the consent requirement and the utilization requirement.

Keeping the respondents’ best interests in mind has been very important to us throughout the study. We have been careful to fulfill all four of the ethical requirements. By excluding the names of the auditors and their firms, we fulfill the confidentiality requirement. The second requirement, the information requirement, is about informing the participating interviewees about the purpose of the study and that their participation is optional. We fulfilled this in our first contact with the
auditors when we asked them to participate in the study. The remaining two requirements, the consent requirement and the utilization requirement, are fulfilled by making sure the auditors know their participation is optional, by allowing them to leave the interview if they need to and by handling the gathered empirical material with care, not using it for anything but research.

3.11 Limitations of the study

Qualitative research is often criticized as being too subjective. It relies much on the researchers’ views on what is significant and important (Bryman, 2011). It is very important, but also hard, for a qualitative researcher to remain neutral while conducting certain research.

Our interviews have been semi-structured; this makes it somewhat hard to replicate the study as the questions asked are not set in stone (Bryman, 2011). Replication in social sciences is by no means a straightforward matter regardless of method but precisely because it is unstructured and reliant upon the researchers views it is almost impossible to conduct a true replication (Bryman, 2011).

Another limitation might be that the auditors interviewed might not want to be honest as there is a chance that certain information might damage the professions reputation. The incentive for, as an example, giving out information about things that might hurt auditor independence is probably very low and as a result the auditors might not be truthful in the interviews.
4. Empirics

*This section starts with a brief overview of the results followed by a presentation of the full results from the interviews and the statistical survey.*

### 4.1 Overview

<table>
<thead>
<tr>
<th></th>
<th>Independence</th>
<th>Pricing</th>
<th>Quality</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>Some kinds of marketing can be a threat to independence, relationship marketing is one of them.</td>
<td>She is not sure if the price of auditing changed. According to auditor 1 there is a chance that increased use of marketing might make auditing more expensive.</td>
<td>Independence and quality are closely related; if the marketing affects independence it might negatively affect audit quality.</td>
</tr>
<tr>
<td>2</td>
<td>Auditor 2 thinks that the extended marketing in the industry might be a threat to the independence.</td>
<td>Auditor 2 does not think the price has been affected cause of marketing. He says pricing is not how they compete with other firms.</td>
<td>He does not feel that advertising and promoting your services has affected the quality of the audit. He thinks that the quality has gotten better since 2010.</td>
</tr>
<tr>
<td>3</td>
<td>Auditor 3 is aware of the risk with marketing your services. Traditional marketing activities are okay but relationship marketing can be a threat.</td>
<td>Auditor 3 believes that increased use of marketing is a cost which will be accounted for when calculating audit price.</td>
<td>Auditor 3 describes some conditions where marketing can cause issues with audit quality.</td>
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<tr>
<td></td>
<td>Independence</td>
<td>Pricing</td>
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<td>4</td>
<td>There might be an independence threat caused by marketing. Relationship marketing can threaten independence.</td>
<td>Auditor 4 thinks that it is the client who ultimately pays for the increased marketing. He has not experienced any increase or decrease in the price of the audit since they started marketing themselves more.</td>
<td>He does not believe the quality has been affected by the increased use of marketing, he believes that a more competitive market could imply a better audit quality.</td>
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<tr>
<td>5</td>
<td>Auditor 5 does not believe that general marketing affects auditor independence. He describes that relationship marketing can be a threat.</td>
<td>He does not believe that the amount of marketing affects the prices. He believes that, logically, the prices of auditing could go up following the abolishment of the statutory audit.</td>
<td>He does not see a connection between actual audit quality and marketing. It might affect the way clients perceive audit quality, but he means this is an entirely different question.</td>
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<tr>
<td>6</td>
<td>Auditor 6 sees how independence can be affected but securing it is very much up to the auditor himself.</td>
<td>Auditor 6 believes that the price can be affected by the increased use of marketing, not only auditing price but also the price on other services.</td>
<td>He believes that marketing might affect audit quality. He also believes that the audit expectation gap can be affected.</td>
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*Table 2: Brief overview of the results*
4.2 Auditor 1

4.2.1 Background

Auditor 1 is an approved auditor and has been working with auditing for 29 years. She is a partner at a firm with 9 employees, around 500 clients and annual revenue of almost 13 million SEK. She is working with companies of all sizes ranging from non-profit organizations to bigger companies listed on Aktietorget.

Her firm is not very active with marketing, but when they are, they are using channels such as Facebook and LinkedIn. She does not believe they have very much to gain by improving their marketing as she believes most customers choose an auditor that has been recommended to them and not one they find in an add or on Facebook. Not very much of her working time is spent on marketing other than the natural marketing you get when you are working and building relationships with customers.

She does not believe the firm has lost clients following the abolishment of the statutory audit requirement and therefore they have not changed their marketing strategy. They have however changed the contents of their services. They do not have as many audit-only assignments but are instead working more as consultants or advisors for their customers.

Auditor 1’s opinion on audit firm marketing is positive, she identifies her firm as an independent actor on a competitive market and therefore believes that they should be allowed to compete on the same conditions as other competitive companies.

“... Our lives are schizophrenic; we are supposed to be an independent business while many people look at us as a kind of state authority”

The point is not for firms to use marketing too much, their business must be built on trust from their clients, but it is a way to get your name out there. At the same time, she believes that if a firm is using too much marketing it might be bad for their reputation, it is not entirely simple. A
firm that is not careful with their marketing can, according to her, be seen as cheap. The best way to be seen in the business is by being professional and good at what you are doing.

"I think you can dig your own grave if you are pushing clients to much. Firms should be careful and move slowly, giving their clients the opportunity to make their own choices."

According to her the most important thing when audit firms are marketing themselves is having a theme and bureau ideals. Good ethics is very important and you should stand for good core values in your marketing as well. The marketing should always be serious but at the same time easy going. The most important persons for their clients are the auditor, the lawyer and the bank director, and they have the greatest confidence in the auditor, that is what research tells us, they always have the greatest confidence in the auditor. This is very important to keep in mind when you are marketing yourself, you do not want to come off as cheap.

“… It might cost you a little but this is what you get – and we are serious until the end. “

4.2.2 Opinions on independence

Auditor 1 believes some kinds of marketing can be a threat to independence. She thinks the relationship marketing that many of the bigger firms are practicing is questionable.

“We should not go to dinner with them; we should not associate with them”

She says smaller firms almost never do this, they are careful to keep some distance between themselves and their clients. She does not know her clients; it is very important in order to remain independent.

“It never really becomes a problem, if you keep your distance it resolves itself. But if you start hanging out, playing golf and going out hunting with them – then of course, being their auditor is hard.”
Associating with your clients is a big problem in smaller cities where many people know each other, keeping your distance is very hard as an auditor. If you feel like your independence is threatened it is important to stop working together, that is what her firm is doing – having a client you are not comfortable with does not work.

Relationship marketing is also one of the reasons for the discussion about auditor rotation. This discussion is not wrong; it is possible to become very close to your clients. She also describes this as one of the reasons as why they have an independence analysis every year. In this analysis they are supposed to decide if previous relations are threatening independence, if they are, the auditor should resign from his duties at the company. Auditors are doing it for their own sake and they should follow these guidelines out of self-respect in her opinion. This is why she gets very upset when she sees how the big audit firms have kept going with all the big corporations. The big audit firms also make her work harder; it is very hard to explain to representatives from companies why they cannot go out for golf with their auditor when they see that the big corporations are doing it.

4.2.3 Opinions on pricing

”… If an audit firm were to have a very large budget for marketing it means that the prices in the company will be higher - hiring an auditor will cost more. Marketing is expensive, everyone knows it is.”

According to auditor 1 there is a chance that increased use of marketing might make auditing more expensive. There is a chance that the firm might have to cut down on something else if they start marketing themselves more, but generally they try to avoid it. At the same time raising prices might be seen as non-serious, and therefore she would rather reduce the firms profit margin or something else in order to make it better for their customers. She also believes the customers appreciates static prices, this makes predicting the audit costs easier for them and thereby they are happier – to her, this is a form of indirect marketing. Customers are usually worried about how much the audit is going to cost, but if the expectation gap is not to big the price estimation is never really a problem, and if something occurs auditors talk to their clients, they tell them that prices are going to increase.
“It would never work, if we made huge marketing efforts we would have to cut back on something else, we cannot raise prices to pay for our marketing, it feels very frivolous”

The choice between increased prices or lower margins is the problem you are facing with increased marketing costs, as they have to be paid somehow.

She also believes that using marketing might be more important now than before. This is especially true for smaller firms and firms active in smaller cities with a limited number of potential clients. Auditors probably have to spend more time on marketing here than they had to before the abolishment of the statutory audit requirement. As a smaller firm you have to put in effort in order to be seen, people already know that the bigger firms exist. This can also be negative since the bigger firms are accused of being expensive, then you end up with this reputation problem. However, if you look at time spent on marketing per customer the smaller firms probably spend more time than the big ones.

She is not sure if the price of auditing actually changed following the abolishment of the statutory audit, since the use of marketing has not changed that much she does not believe it has changed that much. Nobody has mentioned it to her. She says that maybe the big four firms are more active with marketing now, she has no evidence for it, but she feels that they might be. Because of this the price might have gone up a little. This does not affect her company though, since they are not really competing with the big four. According to her, either you go to the big four or a smaller firm, not many customers are choosing between a smaller firm and PwC.

She also says that audit firms are not very sensitive to changes in marketing and pricing since they cannot change the prices of their services very much. The audit business is too qualified, becoming an auditor requires a lot – no one can afford being cheap. The competition between firms is not based on prices but instead on confidence, punctuality, being serious and meeting deadlines – professionalism.
4.2.4 Opinions on quality

Auditor one means that good auditing comes from being careful with your independence. You are pleasant but firm and you make your customers appreciate going to the auditor, it should not be something they are afraid of. A person thinking going to the auditor was nice is the biggest praise she can get.

At the same time, she sees problems related to independence. How are you supposed to be a good auditor in the private sector when you are expected to behave as if you were a government employee? If everyone would have been government employed auditors’ things would be easier. Auditors are put in a strange position when they are supposed to make an independent audit while they, at the same time, are dependent on the revenue from the same client.

She does not believe marketing in itself is related to audit quality. Everyone understands that, in order to get clients, you have to be seen on the market, and she believes the customers understand this as well. She even thinks some customers might feel pride when their auditor can be seen in the newspaper and so on, some customers want an auditor that can be seen.

As long as the marketing is appropriate the marketing is not really directly related to audit quality. However, if the marketing affects things like auditor independence – then yes, it might negatively affect audit quality.

“Independence and audit quality are very closely related”

She does not believe serious marketing affect customer expectations very much. What should be included in an audit is very clear. If you advertise in a frivolous way and say that your quality is better than it is in reality or that you can do things that are outside your expertise, then it might hurt you. If a firm does this, it will obviously damage their reputation.

“This is something you might do at the beginning of your career, when you want to attract clients and promise them things that you later cannot keep”
With experience this problem goes away as you learn what you can and cannot do. She is usually saying that you should do what you are good at and then buy the missing expertise elsewhere.

4.3 Auditor 2

4.3.1 Background

Auditor 2 has a degree in business and administration from Linköping University, Sweden. He is an authorized auditor and has been working as an auditor for 15 years. He started his career at a smaller audit firm that was then bought by Ernst & Young were he continued his career and advanced to Senior Manager. He then started his own audit firm with an authorized auditors consultant who he worked with at Ernst & Young. He has gained experience from different fields, not only auditing but also mergers and transactions. Their firm has been up and running for approximately one year. The firm has three employees and a turnover of roughly 1,5-1,6 million Swedish crowns.

He spends around 90% of his working hours on auditing and the other 10% on marketing activities. When he worked at Ernst & Young the marketing activities were not part of your job description but the auditors had to market themselves after office hours. These hours were not billable and the auditors were not paid for it. He has specialized on clients with a turnover up to 100 million Swedish crowns. He has a few clients with a bigger turnover than that but most of clients are medium-sized firms.

The firm does promote themselves and they are mainly using the internet for their marketing. They have bought a service from Google that puts them on the top-10 search results on Google which have proved to provide good value for the money. They have a Facebook page, they are active on LinkedIn and also twitter to raise the awareness of the firm. The auditor also has a blog where he posts news and other valuable information. The negative side of the internet is the short life span of the ad. They participate at conventions where they socialize with business leaders and hand out business cards. He points out satisfied clients as their most important marketing channel but also other accounting firms that recommend him as an auditor to their clients. He singles out paper ads as a bad marketing channel cause people will not pay that much attention to it and will just turn the page. When he worked at Ernst & Young they had a campaign where they sent a
letter to every start-up in the area saying “Hi, congrats on your new firm, this is us”, then six months to a year later they contacted the start-up and tried to sell their services.

He has considered other activities such as dinners or mingle parties at their office but he struggles to see how that would sell any audit services. He believes that a random phone call or a random visit to check what the everyday activity at the company is like is a better strategy because the potential client will feel that the auditor has an interest in their company. It will take longer but he thinks that the result will be better.

He pushes on the importance of being available and staying in touch with your clients throughout the year to be able to correct as soon as the fault occurs instead of correcting them at the end of the year when it is already too late. He wants monthly reports to detect these potential faults in time and thus getting more satisfied customers who feel that they have someone to ask in tricky situations.

He hasn’t noticed any increase in marketing after the statutory audit was abolished in 2010. He agrees that there was a certain fear that clients would fire their auditor from the industry. He does not think that the audit should be mandatory for any company, he feels that a requested service will always be better than an enforced one. A client who wants an auditor will be a more satisfied client and the good auditors will survive while the auditors who compete on pricing will disappear. Since it is also the smallest companies that do not need an auditor any longer he claims that no one’s crying over the abolishment because these clients were less profitable. However, they still sell accounting services and have a more advisory role in these companies.

Audit firms tend to promote their other services more, services where the marketing is not that restricted. This is a way to attract clients and then introduce them to the firm’s audit service.

4.3.2 Opinions on independence

Auditor 2 thinks that the independence debate is a bit skew since there will be some sort of dependence as soon as you have relation with a client. According to him the most important thing is that the audit stands for itself and is not affected by personal relations in any way. As long as it
does not affect the audit report it is fine but he admits that it is a bit tricky and therefore he’s always careful. The auditors still promises to conduct an audit and leave an audit report that can be read by the company’s stakeholders. He always follows the methodology of the audit and has a clear view of the audit process that is not affected by potential relations with clients. “A fault is fault, and that’s how it is” – as he puts it. He also says that being an auditors requires a lot of integrity, he cannot let his work be affecting by how people look at him.

He does not think that it is harder to be independent and point out faults when he is working at a smaller firm. He actually says that reporting faults is easier now that he has his own firm. When he worked at Ernst & Young the process of reporting faults were so complex, you had to send it to a special department who evaluate it etc. As an auditor you cannot cause the company any harm and these reports will show when the company is trying to get a bank loan etc. He does not feel the pressure from clients to not report faults in the figures that might occur when you are working at a smaller agency. He feels more independent now when he can decide himself what/if he wants to report.

He thinks it depends on the auditor if an independence threat arises or not. How you deal with your customers affects a lot and this is the reason for why he wants monthly reports so that he can spot faults in the figures or internal processes.

He says there is a risk that you get to close to your clients especially the clients that you have had for several years. It is extremely important to stay professional and not forget what it is you’re hired to do. That is an independence threat but you must be able to handle it otherwise you might experience pressure from your client to not report potential faults. One solution might be to bring in another auditor that signs the audit report. He thinks that if you start socializing with one client numerous times the independence might be threatened since you become friends. Socialize once a year in a big group and you will not have that problem since no friendship bonds are created. He gives an example of cleaning company:

“If they give me a free dishcloth there is no independence threat but if they start cleaning my house for free there is one”.

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He also takes a local football club as an example. He is their auditor and goes to every game, but he is paying like everyone else and often says no when he is invited into one of the loges after the game.

4.3.3 Opinions on pricing

Auditor 2 does not think that the price has been affected cause of marketing. The price per hour the client is paying is set and based on a budget and that price includes everything. However, he says that they have other demands at the big 4 where 90% of the worked hours needs to be billable and 10% can be education etc. that is not billable. Once again he says that marketing is not really part of your job description at the big 4 and that you have to do it on your “free-time”. When you work as a manager as he did you need to bring in new clients and if you succeed and the firm is doing good then you might a bonus, but the actual marketing is not something you are getting paid for. If they would clients calling constantly they might increase the price but they are trying to not be greedy and keep the price on the decided level. He says that pricing is not how they try to compete with other firms but of course you have to be aware of your price and your competitor’s price. Pricing suggest something about what segment you want belong to and our auditor set his price below the big 4s price but above the cheapest firms. Your net profit on a client will not be that high the first year because of all the documentation so it’s not until year 2 and onwards you start making money.

4.3.4 Opinions on quality

He actually thinks that the quality has gotten better since 2010, since you customize your service to every client. You do not enforce service on them that they do not really want or need but instead they get a customized help for their money. He does not think that the marketing will change the expectations of what an auditor does and thus not decreasing the perceived customer value and have dissatisfied clients. As an auditor you cannot make a bunch of promises that you can stick up cause then the client will give you one chance and then hire another audit the next time. He defines quality as: “that there are not any faults or misleading figures that can affect a third party or the public”. Poor quality would be not detecting these faults in time. He brings up materiality as a guarantee for a good quality, every auditor at a smaller firm follows the APTA-methodology which is related to ISA. He also says that no annual report is going to be 100% correct. The annual report is just a snapshot of the financial position at the 31st of December.
There is always a judgment to be made since a machine might have broken on 2\textsuperscript{nd} of January and is now worthless, but has a value in the annual report. This is why they have the materiality since one machine breaking down might not affect a company that has hundreds of machines and then it will not affect the auditors’ statement in the audit report.

He does not feel that marketing and promoting your services has affected the quality of the audit. He does feel that the general knowledge about auditing is too low. The clients just expect an audit report at the end of the audit but they do not really know what an audit implies. The clients just want their audit report, have cup of coffee and then pay the bill. He blames the statutory audit for that knowledge gap, there has not been any incentive to inform the clients on what an audit since they have to hire an auditor. He thinks that the entire industry must be more informative and talk more to their clients about what they do. He would like to see a marketing campaign where different audit firms compete on explaining what an audit actually is. He would like the marketing to move in that direction, to focus on increasing the knowledge and overbuild the knowledge gap.

4.4 Auditor 3

4.4.1 Background

Auditor 3 is an authorized auditor and has been working with auditing for 23 years. He is working at a middle sized firm with 9 employees and an annual revenue of 13-14 million SEK. He is working with small to middle sized companies.

The firm he is working at is not very active when it comes to marketing. They are mostly relying on word-of-mouth marketing – being recommended by doing a good job. They do have some collaboration with accounting firms which leads to new customers but he feels like their marketing efforts leaves some to be desired. The most important part of their marketing, the word-of-mouth marketing, comes from them being responsive and dedicated while dealing with clients, he thinks they have a large advantage compared to the bigger firms who cannot spend as much time with their clients.

His general opinion on audit firm marketing is positive; he believes the audit industry association
is too careful which leads to unnecessary restrictions.

“\textit{There should not be any restrictions on marketing, it is just old nonsense}”

Marketing does not have any effect on the audit. When you land your assignments you need to act according to existing regulations, the initial marketing does not have anything to do with the audit assignment.

\textbf{4.4.2 Opinions on independence}

Auditor 3 does not believe that marketing in general is a threat to independence. Some types of marketing, like selling consultation services, can threaten independence, but general marketing should not cause any problems. He says that some audit firms, especially the big ones, are promoting themselves by offering low audit fees combined with high consultation fees. This marketing model is one that might cause problems with independence and the firms that are using it need to be careful.

He also believes that some types of relationship marketing can threaten independence but he mentions that it is very important to have a good relationship with your clients.

“\textit{... If you are acting like a policeman while working with owner-managed businesses, you will never get the correct information. If you instead have a good relationship with your clients they will give you more information which makes finding mistakes and errors at an earlier stage easier, but it is a balancing act.”}"

According to him it is very important to be vigilant when you are working close to your customers and as long as you are following regulations in the business the independence threat is minor. He does not see relationship marketing as a problem but rather as a positive asset, he thinks the bigger firms are using methods like free seminars and breakfast meetings with their clients very well. As long as the firms are very clear with their clients problems rarely occur.

\textbf{4.4.3 Opinions on pricing}

According to auditor 3 an increased use of marketing could lead to higher prices in the business
“.. Of course, audit firms are profit-driven organizations’ and marketing is a cost which needs to be accounted for.”

He believes that increased use of marketing is a cost which will be accounted for when calculating audit price. Finding a company with lower margins now compared to a couple of years ago would be very hard and therefore the prices probably goes up with the increased use of marketing.

Auditor 3 does however see any major changes in price levels following the abolishment of the statutory audit. The prices at his firm have not changed and their volume has not decreased. He does however see that some firms tend to try winning customers over by offering lower prices but those companies always existed.

4.4.4 Opinions on quality

Auditor 3 means that good audit quality comes from following the clear regulations that exist in the business. If the audit firms are following the regulations for auditing, planning, reporting and documentation it will lead to good audit quality.

He does not believe that marketing affects audit quality. Maybe if an audit firm is trying to sell their services by offering a very low audit price, then you need to make sure the quality is not affected, but this is not a problem at his firm because are not competing by offering lower prices in their segment. He does however believe that this is a subject that causes debate at the bigger firms.

Auditor 3 does not believe that good marketing efforts affect the expectation gap. If an auditing firm is advertising and making promises they cannot hold it might affect it, but he does not think those firms exist in the business.

“... As long as audit firms are marketing themselves realistically it should not affect the expectation gap”
4.5 Auditor 4

4.5.1 Background

Auditor 4 has a university degree in business and administration and has been authorized since 1985, meaning 31 years of experience. He has worked on a wide range of different firms, both smaller local firms and at EY. He also ran his own firm with a couple friends for 12 years during the 90’s. Today he has mostly smaller clients, companies with a maximum of 20 employees. He has a few bigger clients but that is more “an exception than a rule”. He is working at one of the seven biggest firms in the industry. The office where he works has 30 employees and a turnover of approximately 35-40 MSEK. He does not spend that much time on marketing his services:

“No, I’m old enough to not having to do that. It’s more the younger auditors that have to chase new clients”.

He has his clients and leaves the chasing of new clients to the firm and the younger auditors. He used to be a partner but stepped down from that position because he felt it was better that the younger auditors did the marketing. When the statutory audit was abolished in 2010 he knew that he would lose clients and he was not prepared to start chasing new ones.

He describes a change in the rules by stating that it was not allowed to market their services by placing an ad in a newspaper for example at the beginning of his career and that he has seen a change over the years. He sees no problem with marketing your auditing services, that is something done in every industry. The auditors should also be allowed to tell their potential clients what it is they do and what they are good at. His marketing consists of being active in different networks meaning he spends his free time and evening for marketing, it is not something he does during office hours. This also means that he does not charge the clients for any marketing activities or any of the hours he spends networking. It is more of an investment to bring in new clients, a day or two of non-billable work that you hope will bring in new clients.

“It is hard to say a number of hours spent on marketing but it is always important, and it does pay of to be active and appear at these events.”
The firm is sponsoring the local handball team both with advisory support and they have some signs with their logo at the arena. He describes how the industry has struggled with marketing. Auditors should not brag about their service but instead work hard in the shadow and always conduct a high-quality audit and attract clients that way by showing their competences during the audit. An auditor should focus on the advisory aspect of the audit profession; anyone can screen and go through the financial data to detect any errors. It is the advice the auditor can give the company regarding their future etc. that separates the skilled auditors from the not-so-skilled ones. This adds on to the perceived customer value. It is the relationship marketing that is the most used one in the industry according to auditor 4.

Auditor 4 works at one of the Big 7 firms and he says that the marketing function is centralized.

“Most of it comes from the central marketing function. They form the ads etc. Locally it is the office manager together with a group of 4 employees that handles the marketing”

They have one person in charge of the marketing but most decisions are made in the earlier-mentioned group that consists of people from different functions of the firm.

He describes how the accounting part of the firm has grown since the abolishment of the statutory audit in 2010 and marketing their accounting services has grown to be a way to attract new auditing clients as well. When asked if the firm has changed their marketing strategy after 2010 he replies:

“Yes, of course! When it comes to these accounting services, I wouldn’t want to say we market them in a tougher way but we emphasize them more in our marketing and that’s the services we try to display to our clients”.

Just promoting the message that they can conduct an audit does not attract as many clients since the clients are more interested in the advisory part of the accounting/auditing profession. This is also one of the reasons that they have not lost that many clients since 2010, the clients still want
the advice from the auditor and rely on the auditors’ expertise. The clients still needs help with their taxes etc. To have had the figures in your annual report screened by an auditor is still a seal of quality appreciated by many clients.

4.5.2 Opinions on independence

He thinks that there might be an independence threat caused by marketing. He describes how Sweden has been stricter on following the rules and realizing potential threats than for example Denmark where they have had a more relaxed view on the independence. He realizes that they might create an independence threat when they sponsor the local handball team. He points out that they never use the handball team in any of their marketing in a way to deal with the potential threat. When his firm arranges seminars etc. the handball team has to pay the fee as everyone who is attending. They get some free marketing in exchange for setting up these seminars and the handball team uses his firm as more of a help and not as an auditor because that would be a threat of the independence.

When asked if he thinks that using one of your clients in your marketing threatens the independence he replies:

“Yes, it might threaten the independence, create and create a dependence between the audit firm and the client.”

He describes the auditor as a cautious race. He has had problems with clients that finds out that he has other clients in the same industry. They are afraid that he will share their confidential information with that other client and that has caused trust issues. This is not a threat to the independence but he uses the experiences from all clients to provide the best service. The lessons learned are then applied on his audits to come. He describes it to be suicide as an auditor to use a client in your marketing to attract new clients. That would make the clients question the auditor.

When asked if the relationship marketing might threaten the independence he replies:
“Yes, it has happened that close friends or acquaintances has come to me and been worried if we can have both a professional and a private relation when they’ve started their own companies and are looking for an auditor.”

He says that you can maintain a friendship as long as both parties are clear that you cannot mix your private relationship with your professional relationship, these two needs to be separated at all times. He says that there is a threat to the independence and it might create a friend-corruption that could lead to the auditor overlooking smaller faults and write the audit report without mentioning them. If you do not overlook them it might risk the friendship so there is a clear independence threat according to auditor 4. He does not hang out with any of his clients due to this.

His younger colleagues play golf on Tuesdays with clients and their clients friends, thus potential clients, as a way of marketing the firm and themselves. Auditor 4 states that this might be a threat to the independence:

“Yes, that is in the danger zone. That you might develop a friendship and overlook faults during the audit. That might be the case. But I think that you need to keep it on that level, always remember that you are an auditor, but that does not mean I cannot have a beer with a potential client. But it is sort of a grey area, what is work and what is leisure?”

Every auditor knows that the reputation of the firm is extremely important and nobody wants to risk their reputation. Rumors spread fast and auditor is aware of that.

**4.5.3 Opinions on pricing**

Auditor 4 says that pricing is not an aspect when they market themselves; they would never market themselves as a cheap alternative, because that would imply a less thorough audit and fewer samples.

His marketing consists of being active in different networks meaning he spends his free time and evening for marketing, it is not something he does during office hours. This also means that he
does not charge the clients for any marketing activities or any of the hours he spends networking.

He has not experienced any increase or decrease in the price of an audit since they started marketing themselves more. However, he thinks that it is the client that pays for the marketing. The audit firm does not specify that cost but it is “hidden” in the price. He describes the pricing strategy in the industry as:

“Especially the big firms, which we are, compete on pricing since the big companies are not only interested in the auditing but the entire advisory package. Normally we only give a price for the audit and not for the hours of advisory so we try to attract clients by offering a low price on the audit.”

Earlier it was mandatory to put your audit fees in the annual report and some companies used this. Basically they read companies annual reports and approached them with a price that they knew was lower than the one they paid their existing auditor.

According to Auditor 4 smaller firms can maintain a lower price:

“The smaller local firms do not have the overhead costs that we do so they can maintain a lower price level. But the risk with these firms is that they might not deliver as good of a service. They might not give any advice because they lack competence. It will not help you to have a cheap audit if you’re then fined because your annual report does not comply with existing rules.

4.5.4 Opinions on quality

He defines a good audit as: “that you’ve followed the guidelines, screen the important parts of the annual report”. He describes how every industry is different, something that is important to screen for one industry might not be important for another industry. For example, if you are conducting an audit for a company with a huge stock it is important to be present for the inventory and the valuation of the goods in stock.
He describes how the increased documentation during the audit has both changed the profession but also led to a higher quality on the service:

“The audit today is more about documentation than it was 20 years ago, today we follow every EU-guideline and all the other guidelines”

Even though he describes the documentation as extremely heavy he admits that it is an extra guarantee for him as auditor to be able to prove that he has done enough during the audit in case he gets sued by one of his clients.

When asked if he thinks the quality has been affected by the increased use of marketing he replies:

“No, we know what we need to do and we do not just market our audit but our entire package, everything that might be useful for the client.”

He describes a more competitive market today than before which could imply a better quality that they always need to be on their toes and develop their service.

He confirms that marketing can affect the expectation gap. The younger auditors might be a weak link, they might to go great length trying to attract new clients and thus promising competence that they do not possess. When the client then asks for this competence the auditor will disappoint the client. He describes that is not a problem for the big firms since they have in-house competence, for a smaller firm that buys the competence from other firms this might be a problem.

4.6 Auditor 5

4.6.1 Background

Auditor 5 has been working as an authorized auditor for almost 23 years. He is working at one of the seven biggest firms in the industry and has been doing so for 15 years. The office which he is working at is large with somewhere around 200 employees. They are working with firms of all
sizes, he does however state that the small- and medium-sized companies are larger in numbers compared to the big sized companies. Before he started working at his current firm he worked at a smaller sized audit firm for almost 10 years.

Auditor 5 is spending some time on marketing but means that measuring how much is very hard. He believes that the importance of marketing has become more apparent lately, especially following the abolishment of the statutory audit.

“… Measuring time spent is very hard, but my opinion is that it has become more evident that marketing is important and shall be given priority, the emphasis on it has increased with time.”

He is mainly working with small to medium sized companies even though he occasionally works with big companies as well. He is also working with other assignments; he has method responsibility within the firm which means he is working much with developing audit methodology.

The firm he is working at has centralized marketing, e.g. a marketing department. They are using marketing methods and mediums such as relationship marketing, website marketing, marketing in social media and last but not least marketing in newspapers and daily press. They also have customer events such as seminars to which they invite potential customers. He believes that marketing in the business has increased. He describes how the business has changed and become more professional when dealing with these types of questions while at the same times auditing firms are growing into larger companies.

“Our business goes through change when society and the view on auditing goes through change.”

When it comes to these types of questions the business is more structured than it was before. The outside world has a different view on marketing today, during the seventies audit firms were not even allowed to advertise.
The firm has not done anything out of the ordinary in order not to lose clients following the abolishment of the statutory audit. He believes that the key to keeping the customers lies in the value that comes with the audit.

“If the customers are happy and they get more out of it than it costs them they will remain clients.”

He also mentions that many of the clients that did not keep the auditor still remained clients for other services such as tax consultancy. The biggest change that he is seen is that the number of new customers is decreasing. This is because startups generally do not need an auditor during the first two years, and many of the companies that did not come in contact with audit firms will not come in contact with them later either.

Auditor 5 believes that audit firms, like any other firm, should be allowed to inform their potential clients about what it is they do and what they are good at. As long as the marketing is fair he does not see any big problems with it. He mentions that some audit firms historically had some missteps when it comes to marketing, but he believes this to be true for companies in other industries as well. The audit industry is heavily regulated when it comes to what you can and cannot do, if you derive from these regulations the Supervisory Board of Public Accountants will step in and stop you.

4.6.2 Opinions on independence

Auditor 5 does not believe that general marketing affects auditor independence. He has a hard time seeing a conflict. He describes that there might be problems if an audit firm is using their clients own mediums for marketing, or if the auditor is close friends with their clients.

“… Normally it should not be a problem, but of course, it is the part that you are doing things with your clients which are beyond what is necessary for the audit.”

He believes the auditor must be allowed to see people and inform them about what he does and what he is good at, even if you are doing it during dinner or at the golf course. The important
thing to keep in mind is that the relationship needs to be professional, the situation is not what’s important, the auditor-client relationship is. As an auditor you need to be restrictive when it comes to dealing with clients, you need to keep them at a professional distance. If you keep your clients at a professional distance and they like the service and therefore recommend you to other clients, there is no real connection between relationship marketing and independence.

Another important part when it comes to independence and marketing is taking the outside perspective. If an audit firm advertises in their client’s local newspaper the readers might wonder if it might affect the auditor’s judgment, would he ignore errors in the financial reports because the newspaper is his client. This type of problem is important, but auditor 5 has a hard time seeing that there is a problem in general, there may be rare occasions where the reader can perceive a problem, but he does not believe there is a general connection.

“… There are certain conditions which you should be very careful with; it should at the very least be transparent to the outside world.”

The way he sees it, there might be some areas of concern, like the relationship marketing which can affect independence in a negative way. But he believes that auditors are equipped to deal with it and that industry regulations and ethical rules are minimizing the risk, and therefore there is never really an actual problem.

4.6.3 Opinions on pricing

Auditor 5 believes it to be very hard to determine whether changes in marketing affect the level of prices in the industry. He mentions that there might be more procurements now than before which might affect the price. At the same time rules and monitoring in the business are changing and auditing is becoming more extensive, while at the same time the tools to do the auditing are improving.

The general cost levels in the country are increasing despite the low levels of inflation. The employees in the company want higher salaries which lead to increased costs for the company. The competition in the business is hard and a firm cannot increase its prices without
consequences. Auditor 5 believes it is very hard to say if the prices in the industry are changing in either direction.

He does not believe that the amount of marketing affects the prices. The marketing might lead to a stronger brand but that does not mean that you can increase your prices. There are many suppliers of auditing in the business and if you increase your prices you might lose customers.

“I have a hard time seeing that the amount of marketing affects if a firm takes higher or lower prices.”

He believes that, logically, the prices of auditing could go up following the abolishment of the statutory audit. Partly because of the increasing national cost levels but also because it is a voluntary service, the market is becoming more demand-driven. The implementation of new regulations like ISA and EU-packages increases the requirement on the audit firm which leads to extra work; this might also lead to increased prices.

“From my perspective, I have not seen any specific event which implies a specific increase in prices.”

Even though prices could logically increase, he has not seen any sign of it so far.

4.6.4 Opinions on quality

Auditor 5 defines audit quality as:” Following the rules of professional ethics for accountants in your auditing. This means you should have a high certainty that the statements you make in the audit report are fair and true based on the circumstances”.

He does not see a connection between actual audit quality and marketing.

“... I have a hard time seeing a connection between marketing and whether the audit report is true or not”
He thinks the ultimate objective of an audit is for the audit report to be true and fair, it can be done in many ways and perceived in many ways, but actual audit quality is not affected by customer perceptions.

“One part of it is customer perceptions, but whether the service is completed in a correct way or not is a different question”

He does however say that customer perceptions might be affected. Audit firms might advertise their skills and promise competence which they later do not possess. This might affect the perceived audit quality, but he means this is an entirely different question. The actual audit quality has nothing to do with whether customer expectations have been met or not. Of course marketing might affect customer expectations; they might perceive the audit firm in a bad way if the firm advertises inappropriately.

4.7 Auditor 6

4.7.1 Background

Auditor 6 is an authorized auditor working at one of the 7 biggest firms in the business. He is working at one of the firms’ smaller offices with only 5 employees but they are expanding a lot. He is working with firms of all sizes ranging from small owner-managed businesses to bigger firms with more than 2 billion in total assets. He has a business degree from the University of Linköping and has been working with auditing for 24 years. Before he started working at his current firm he worked at a smaller family-owned firm.

The firm he is working at is advertising quite much, they run ads in magazines, both in daily press and trade magazines. They also have some collaboration with local associations, they are sponsoring local sports clubs in exchange for advertising space in their stadiums and they are helping other associations with lectures for startups.

When asked if he spends much time on marketing he describes it as;
“It happens all the time when you're a qualified auditor who sees clients and discuss various things with them”

He also mentions that he is not just marketing the audit, he is marketing other services like tax consultancy, pension consultancy and valuation consultancy in order to sell these services to their audit clients.

He believes the use of marketing in the business has increased following the abolishment of the statutory audit. Before the abolishment their clients were forced to have an auditor and the firms did not have to do as much to recruit clients. He does however say that there has always been competition in the business and marketing has been of importance prior to the abolishment as well. His firm has not done anything out of the ordinary in order to keep the companies affected as clients. He describes it as;

“In certain cases I’ve been honest with my clients and told them that they do not need an auditor, but they might need consultation, and they are welcome to hire us as consultants instead.”

Most companies remained as clients at the company, some as audit clients and some as consulting clients. The clients that left were usually small problematic ones and he feels like it was not a big loss for the firm.

Auditor 6 has a positive attitude towards marketing, he believes the changes in the industry to be in spirit with the age and he believes that audit firms need to be allowed to tell customers that they exist; he does not see any major issues with it. He has seen that the service they are offering has changed in order to attract new clients. The audit is quite static and hard to compete with other firms with, instead they try to provide added value by helping clients develop their business. They want the client to feel like he learned something after seeing the auditor.
4.7.2 Opinions on independence

Auditor 6 does not believe marketing affects auditor independence, he does not feel like he has to be loyal to the customers and accept errors in the audit report. He does see some potential issues that could arise if you market yourself in certain ways.

“You cannot trade auditing for free advertising, the associations we are working with needs to be kept at professional distance, if they have a hard time paying us we cannot let them pay us by advertising us instead.”

He does not believe relationship marketing to be an issue. According to him it is a balancing act and the auditor need to be strict about not socializing with clients outside of working time. He has a hard time seeing it as an issue. Maybe at smaller locations where everyone knows each other and people are active in the same associations, at some point you have to draw a line if you are too close to your clients and give the assignment to someone else. He mentions that there is a risk when auditors are having dinner or playing golf with their customers but when asked if it should be avoided he says;

“It is important to know how it can affect you. It is very much up to each and every auditor, every auditor is an individual and they deal with things their own way. It is important to have moral courage.”

4.7.3 Opinions on pricing

Auditor 6 believes that the price can be affected by the increased use of marketing. He believes that even if the audit price is static the price of other services, like consulting, may increase when customers get increased awareness of them.

He believes that the cost of auditing might increase, the marketing has to be paid somehow and ultimately, it is the customer who pays for it.

“It is like when you are buying a Mercedes, you paying to drive the Mercedes, this includes the marketing of the car.”
He believes that the prices may change more when it comes to bigger clients than small clients. The smaller clients are more price-sensitive while the big companies are willing to pay a lot more. When you are working with small clients you need to control the project and not let the hours run away. He has not seen an actual increase in prices following the abolishment.

4.7.4 Opinions on quality

Auditor 6 describes good audit quality as;” Having good internal systems making documentation of the audit-planning, implementation and follow up possible. This is important in order to have the documentation which you are basing your conclusions on ready. Besides this, it is also important for the customers to get something beyond statutory audit from it.”

He believes that marketing might affect audit quality. If an audit firm says they are good at something and that they possess certain competence, they need to actually possess it later. If they do not possess it clients will leave them due to the high expectations they had from the start. He believes that the audit expectation gap can be affected.

He also believes that relationship marketing can affect audit quality, when he is networking he is representing his brand, he wants the customers to feel like what he is telling them about his company is true.

“You want to be well-known, you do not want your clients to go home and say “He is all talk but there is nothing behind it”. You want people to respect what you stand for and how you are working”.

4.8 A statistical survey on potential changes in audit pricing

We are going to present the results of the statistical survey on potential changes in audit pricing below. The aim is to investigate if the prices changed when companies had to convince clients to keep their auditor and thus the auditors engaging to more marketing activities.

After 200 annual reports were screened these figures were calculated and are to be used in our statistical survey.
<table>
<thead>
<tr>
<th>Year</th>
<th>Number of companies</th>
<th>Average cost (MSEK)</th>
<th>Standard deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>100</td>
<td>19</td>
<td>30,0656</td>
</tr>
<tr>
<td>2015</td>
<td>100</td>
<td>19</td>
<td>31,2812</td>
</tr>
</tbody>
</table>

Before conducting the survey we had to make sure that our sample fulfilled two demands:

- Both samples had to be unstructured selected.
- That the sample for the two average costs can be seen as normally distributed.

The calculating starts off by stating the null hypothesis:

\[ H_0: \mu_1 - \mu_2 = d_0 \]

Then the alternative hypothesis are stated as:

\[ H_a: \mu_1 - \mu_2 < 0 \Rightarrow \mu_1 < \mu_2 \]
\[ H_a: \mu_1 - \mu_2 > 0 \Rightarrow \mu_1 > \mu_2 \]
\[ H_a: \mu_1 - \mu_2 \neq 0 \Rightarrow \mu_1 \neq \mu_2 \]

The formula used to calculate if there is an increase or decrease in audit pricing and the one we will use is the following:

\[
(x_1 - x_2) \pm t_{n-1,1-\alpha/2} \sqrt{\frac{s_1^2}{n_1} + \frac{s_2^2}{n_2}}
\]

where:

\[ X_1 = 19 \]
\[ X_2 = 19 \]
\[ n = 100 \]
\[ \alpha = 0.05 \]
\[ S_1 = 30 \]
\[ S_2 = 31 \]
From the normal distribution table we find that:

\[
t_{100 - 1; \frac{0.05}{2}} = 0.975 \quad 1.984
\]

The confidence interval is calculated as follows:

\[
(19 - 19) \pm 1.984 \sqrt{\frac{30^2}{100} + \frac{31^2}{100}}
\]

\[
= \quad (19 - 19) \pm 1.984 \times 4.31
\]

\[
= \quad 0 + 8.55 = 8.55
\]

\[
= \quad 0 - 8.55 = -8.55
\]

Which gives us the confidence interval:

\[-8.55 \leq \mu_1 - \mu_2 \leq 8.55\]

Thereby we can state that with 95 percent security we find the difference in average cost somewhere in between \(\mu_1\) being 8.55 units higher than \(\mu_2\) and \(\mu_2\) being 8.55 units higher than \(\mu_1\). The fact that the interval covers zero shall be interpreted as that on a 95 percent confidence level there are no statistically significant differences in the price the companies in Sweden pay for an audit between the years 2009 and 2015.
5. Analysis

The aim of this section of the paper is to link the theoretical background with our empiric findings based on the interviews and the statistical survey. In this section we will begin to answer the research question and clarify how the audit industry has been affected by the increase in the use of marketing by professional auditors when it comes to their independence, audit quality and audit pricing.

Our interviewees are all authorized or approved auditors working in Sweden. We have auditors working at their own firms, auditors working at smaller firms and auditors working at the Big 7. The auditors are working in different cities in Sweden, some are based in Stockholm and some are based in smaller cities. They have a wide range of clients, ranging from small companies to bigger companies. The fact that we have auditors from both smaller and bigger firms, that the auditors work both in the capital and in smaller cities gives us several perspectives on our research question and a broader understanding of the audit industry.

Our interviewees have noticed the increased use of marketing and all have an opinion on how this has affected the industry. Prior to the abolishment in 2010 the auditors were afraid that they would lose clients. However, they have not experienced any significant drop in clients but the service they sell has changed. Many of the firms that do not longer need an auditor still hires the audit firm and the auditor for advisory help and for help with their taxes etc. Auditor 6 even mentions that he is recommending some of their clients not to keep firm as auditor but rather as consultants. The clients that the firms have lost are often the smallest clients who were not very profitable in the first place, thus the loss of them has not been noticeable. Auditor 6 even sees the loss of some small clients as positive; this gives the firm more time for the big clients who appreciate the service. The new advisory part of the profession puts new demands on the auditors that have to adapt to the new role.

Our interviewees hold a positive attitude towards marketing, the audit market has become increasingly competitive and the auditors want to be allowed to market their firm and themselves on the same conditions as companies on other competitive markets. As auditor 3 describes it: “There should not be any restrictions on marketing, it is just old nonsense”.
The auditors make sure they are perceived as serious and that they follow the guidelines when they market themselves. They do not use pricing as a way of marketing their services but instead the promise of conducting a high quality audit. The core values you live by as an auditor should be reflected in your marketing according to our interviewees.

The auditors spend most of their time actually conducting audits and the remaining time is spent on marketing activities. The have all witnessed marketing being given an increased priority. At the Big 4 your marketing activities are your responsibility to carry out on your free time. The Big 4 also has marketing departments that controls much of the marketing when it comes to marketing the firm. The auditors working at one of the Big 4 must only market themselves. It is not part of your job description but the firms expect you to arrange these activities and to actively work to promote the firm and yourself.

Our interviewees say that the relationship marketing is the mostly used form of marketing. The auditors do sometimes place ads in magazines but the main focus is on maintaining long and profitable relationships with clients. They use internet as a marketing channel, they are active on Facebook and LinkedIn for example but unfortunately marketing on the internet has a very short life span according to our interviewees. The auditors also participate in conventions and are part of different networks where they can promote themselves and attract new clients. A quite common theme among the auditors is sponsoring local associations and helping them with advice in exchange for marketing. They all say that the best way to market yourself is to deliver a high quality audit because that satisfied clients will always hire you again. Punctuality, availability and that you deliver on time are three things they single out to be extremely important in order to get satisfied clients.

5.1 Independence

Independence is perhaps the most important concept of auditing. The auditor is and should always be a third party to increase the credibility of the annual report. This increase in credibility is the product the auditor sells (Carrington, 2014). The fact that the auditor is an independent third party is what makes the auditors statement so reliable. When auditors market themselves this independence might be threatened because he/she might get a private relation to the client.
All of our interviewees are aware of how important their independence and the risk that it might be affected by marketing.

Auditor 1 believes that some types of marketing threaten the independence. Auditors focusing on relationship marketing, where you for example take your clients out to dinner etc. cannot be seen totally independent. For her it is extremely important that she does not know her clients more than on a professional level. She says that keeping your independence is not really hard, you as auditor just need to make sure you do not spend time with your clients, go for dinner or play golf etc. However, it is harder to keep your distance to your clients in a smaller city where people know or know off each other. The relationship marketing is one of the reasons why they do an independency analysis every year to make sure the marketing activities are not affecting their auditors’ independency. If an auditor is too related with one client another auditor at the firm will take over that client.

Auditor 2 agrees that the extended marketing in the industry might be a threat to the independence; he thinks that there will be a sort of dependence as soon as you have a relation with a client. His opinion is that the most important thing is that the auditor is not affected by these relations in any way. The auditor must always, despite what relation he/she has to the client be able to perform an objective audit. When you use relationship marketing, the marketing style mostly used by auditors there will always be a risk that you get too close to your clients, especially the clients that you have had for several years. There is a fine line when you market yourself by relationship marketing and he thinks that if you start socializing with one client numerous times the independence might be threatened. He gives the example of the local football club for which he is the auditor. He goes to every game but he pays for the games like everyone else and has on numerous occasions declined offers of access to the VIP-lounge due to the risk of becoming too close to your clients. He might be perceived as rude when he keeps on declining the offers but he thinks that the risk of losing the independence is too big and it is a risk that he is not willing to take. To market his firm he has thought of activities such as a round of golf or gathering a group of potential clients and go for a run followed by a pick-nick. He would only arrange these activities as a one-time thing as people might start talking if he plays golf with his clients every week.
Auditor 3 is also aware of the risk with marketing your services. He does not see a threat when you market your firm or yourself with ads or other traditional marketing activities. He singles out the relationship marketing to be a potential threat. He describes the fine line between having a good relationship with your clients, in order to keep your clients, and the risk of getting too close. He actually thinks that the relation will help the auditor to get more information from the client if they feel as though he/she is one of them. They will feel more comfortable sharing information. Even though the marketing activities might be a threat to the independence every auditor has the guidelines from the EU and ISA to follow and as long as they do that they can any sort of relationship with their clients.

Auditor 4 realizes that there might be a threat to the independence when they support the local handball team both financially and advisory. He has experienced that friends who start their own business are worried that their private relationship might come in the way for a professionally conducted audit. He says that relationship marketing is not a threat if you clearly define your roles, your private role and your professional role. These two roles need to remain separated at all times. If you cannot clearly define these roles then there will be a threat for a friend-corruption as he describes it. This might imply that the auditor does not report minor faults which would definitely be an issue. Auditor 2 described how he would only arrange activities once in a while to not create dependence and this is interesting because auditor 4 describes how they play golf with their clients every week. This was something that auditor 2 would never to because it would threaten this independence, but auditor 4 does not consider it to threaten the independence. He describes this as a “grey area” between what is work and what is leisure. He is aware that these regular activities with the clients are in the danger zone of threatening the independence but even so they have chosen to carry on with these activities.

Auditor 5 confirms that it is the relationship marketing that is the problem. He does not think that general marketing is a threat to independence, it is the close relationships that are. He believes that every auditor should have the right to inform the public and potential clients about what it is he/she does and what he/she are good at, even if you are doing it during a dinner or during a round of golf. It is the relation that needs to be professional not the situation. It is possible to have a strictly professional relation even though you are playing golf together or if you go out for
dinner together. It is up to the auditor to make sure the relation stays professional and that the clients are held at a professional distance. He says that if you are able to both keep your professional distance to your clients and deliver a service that they like the relationship marketing will not be a threat to the independence.

Auditor 6 sees how independence can be affected but securing the independence is very much up to the auditor himself. Relationship marketing is a balancing act but the auditor needs to make sure his independence is not threatened, if it is he should hand over the assignment to someone else. He does not believe activities like having dinner with clients or playing golf should be avoided, he sees how it can affect independence but the auditor needs to keep it on a professional level. He believes there are certain types of marketing that can cause issues when an audit firm markets itself. If a firm trades auditing for free advertising an independence threat might arise. In the end the responsibility for independence comes down the auditor in question, if you do things the right way there is no threat.

5.2 Pricing
For the pricing aspect we have our interviewees’ responses to rely on but also our secondary data which is a statistical survey conducted to see if there has been any increase or decrease in the price companies in Sweden paid for an audit in 2015 compared to 2009. Our interviewees claim that auditor do not compete on pricing, they compete on competence, punctuality and professionalism. No auditor has ever tried to be cheapest one on the market, that would not be well perceived by potential clients.

Grönbok (2010) describes the audit market as an oligopolistic market where the big 4 holds a 90% market share. Perloff (2008) states that companies operating on an oligopolistic market are price setters rather than price takers, meaning they can set their own prices. The statutory audit is one of the reasons for why the audit firms has become price setters, their clients has to buy their service. This in addition to the very few main players has led to the audit firms being able to determine their own prices. Auditor 2 says that the price says quite a lot about what segment you want to belong to. When he started his own firm he knew from experience what the Big 4 took per hour and then he set his price slightly under that due to a lack of in-house competence etc. Auditor 4 describes how smaller firms can charge a lower price since they do not have the same
overhead costs as the Big 4s do. He would never compete on price but he says that you need to be aware of what your competitors are charging their clients. The other auditors confirm this statement as well, the Big 4 does charge a higher price to signalize quality and because with all their in-house experience they can the client a complete package. It seems to be quite hard to distinguish the pricing strategy used but Crabtree (1995) argues that the audit firms base their price setting on the cost of the service, a so called cost-based price setting. Murdock & McGrail (1994) suggests that accountants do not want the market to know how prices are set.

Our interviewees’ responses support a cost-based pricing strategy which would mean that the marketing, which is a cost for the audit firm, will have to be paid by client. Auditor 1 says that there is a possibility that the price of an audit will increase because of the marketing activities. However, she would rather reduce the net profit on each client than to actually charge them a higher price since she feels that might be considered to not be serious and their clients can easier predict the cost of an audit which reduces the risk of an expectation gap when it comes to pricing. Increasing the prices of an audit would chock the clients and they will probably expect more from the service when the auditor increases the price. This increase in expectation will probably lead to less satisfied clients since the increase in price is only due to the audit firms marketing activities. She says that every audit firm needs to decide on either to reduce their profit or charge the clients a higher price due to increase in marketing costs. She also says that audit firms are not very sensitive to price changes since the auditors are well educated, highly skilled professional – and that is not cheap. Auditor 2 does not believe that the price has changed due to the increased use of marketing. The price is based on a budget and in that price everything is included. He says that since marketing is not really part of your job-description and you have to do on your free-time, these hours are not billable.

Auditor 3 confirms that an increase in marketing activities might lead to a higher price for the clients. Every audit firm is profit-driven and these marketing activities need to be paid for. He says that the profits in the industry has not decreased since they started marketing themselves more extensively meaning they charge their clients a higher price.
Auditor 4 has not experienced any change in price since the increase in the use of marketing. He confirms what the auditors said when he says that they would never compete on price because that would mean a less thorough audit and fewer samples. No auditor wants to be perceived as less thorough because that would ruin his/hers reputation. He describes the cost the audit firm has for marketing activities to be hidden in the price their clients pay. It is not specified what amount goes to marketing but it is one of the overhead costs the clients pays for.

Auditor 5 said that the use of marketing builds stronger brands but he does not think it affects pricing; at least he has not experienced it at his firm. He says that the prices have gone up due to increase in salaries etc. but not because of their marketing activities. Since the industry is so competitive it would not go unnoticed if a firm raised their price and it might lead to a loss of clients. He does say that prices could increase further in the future due to new demands from ISA and the EU regarding documentation for example but the fact that the audit market is now demand driven since the statutory audit was abolished might keep the prices at today’s level. An increase in price would be too risky for the audit firms.

Auditor 6 agrees with the fact that prices can be affected by increased use of marketing. He believes that the marketing has to be paid by someone and ultimately, it is the customer who pays for it. He compares it with other companies like Mercedes, you do not just buy the car, you buy the package – including the way it has been marketed. According to auditor 6 the price change does not have to be limited to just auditing. If the price on auditing is static the prices on other services, like consulting, might increase due to increased awareness on the other services. If this is the case, it might be a different way of fee cutting in order to attract clients with lower auditing prices and higher consulting price than the one Dutillieux et al. (2013) found evidence for. He also mentions that clients in the form of small companies are more price-sensitive than big companies and therefore the process of raising prices might take longer when it comes to firms with smaller clients.

Filley & Pricer (1991) distinguishes two types of firms, one type that does use pricing in their marketing and on type of firm that does not use pricing. All of our interviewees claim to belong to the second category, they do not use pricing in their marketing. As earlier mentioned this
would give them a reputation of being cheap and in the audit industry that is not a good thing because is often means fewer samples and therefore a lower quality on the performed audit. Dutilleux et al. (2013) describes how audit firms will engage to fee cutting for initial engagements to attract new clients. Our interviewees has experienced audit firms using this as a way of marketing and attracting new clients but they say they would never do that themselves because that type of marketing would signalize a lower quality of the audit performed.

Bloom (1984) describes the alternative cost of undertaking marketing activities. Although it does not cost the auditor anything to go out and visit potential new clients the alternative cost is something the auditor needs to be aware of. Instead of being out visiting potential new clients they could have stayed at the office working, billable hours that would bring in money to the firm. Our interviewees agree on this, they have do undertake the marketing activities on their free time, meaning they cannot charge any client for them. They do see it as an investment to bring in more clients and that it will pay off in the long run. They do not charge any client for this so this is not something that would increase the price of an audit.

Our interviewees say that the marketing might affect the pricing but the increased competitiveness on the market, as some companies are no longer required to have an auditor, helps keeping the prices at the same level as before 2010. Some of them say that the marketing activities are something that just has to be done and you cannot charge your clients, it is an investment in the long run. However, some say that it is “hidden” in the price the clients pays. That the client pays for these extra hours the auditor has to spend on attracting new clients without knowing it. It has become an overhead cost that the clients are paying for, like they have always paid for administrative personnel etc. It is the interviewees working at smaller firms that say they see it as an investment and that it is not something that would charge any client for. The interviewees at bigger firms see it is an overhead cost, which is “hidden” in the price and paid for by clients without them knowing it. However, our interviewees say that the price has not been affected by the increase in the use of marketing.

The statistical survey conducted to see how the prices have changed between 2009 and 2015 tells us the same story. We screened 200 annual reports from 100 companies, 100 from 2009 and 100
from 2015, to see how their audit fees have changed. Many companies have experienced changes in their audit fees, both increases and decreases in pricing but on a 95% confidential level we can say that the price that the companies in Sweden pay for an audit in 2015 is not any higher than the price they paid 2009.

5.3 Quality
As stated in the theoretical section there are two views of audit quality. To maintain a high level of quality on the audit the auditor must follow the accounting principles and guidelines set up by ISA. The auditor must also possess a certain level of competence allowing the auditor to give professional advice to the company leaders on how to run their business. The auditor needs to be very communicative and be able to communicate faults in the figures as well as detecting need for new capital etc. Every auditor we have interviewed support this view, they have all defined audit quality as following the accounting principles and the guidelines. A high-level of quality is also dependent on the fact that the auditor can adapt to every company, an audit cannot be conducted in the same way for every company in every industry. Industry-specific knowledge is important to offer a high-quality audit. Auditor 2 states that the quality actually has improved since 2010 and the abolishment of the statutory audit since the auditors customize the service for every client. As Carrington (2010) says the materiality is a guarantee for the auditor that he/she has dug deep enough into the figures and have conducted a proper audit, something our interviewees agree with.

The market is described both as an oligopolistic market but also as a very competitive market. These two concepts do not really comply with each other. An oligopolistic market is characterized by a few main players (for the audit industry the Big 4) that can set their own terms. The audit market is made up by the Big 4 that accounts for 90% of the industry’s turnover while thousands of smaller firms’ accounts for the remaining 10%. Choi et al. (2010) states that a larger firm is often associated with a higher quality due to expertise and international brand recognition. This is also supported by DeAngelo (1981) and gives the reason of a potential loss of your reputation if you do not conduct a high-quality audit. Our interviewees claim that the big firms possess advantages compared to a smaller firm. It is their in-house expertise, the fact that they have access to different experts that make them superior. If there is need for a tax expert, that expert is only one call away. If the auditor is uncertain whether the materiality is set on a correct
level he/she will have colleagues to discuss further with to make sure it is. Auditor 6 is working at a large firm and he believes that relationship marketing can affect the international brand recognition which is associated with higher quality. When he is networking he is representing his brand, he wants the consumers to feel like what he is telling them about his company is true, if he misrepresents his brand it might damage their reputation leading to consumers perceiving audit quality as lower. Moser et al. (2000) found that consumers indicated that the reputation of a firm is far more valuable than the price charged for the auditing services, this makes representing your brand in a good way while networking even more important.

The auditors describe a more competitive market today than before 2010 when the statutory audit was abolished. The need to market themselves and to convince the clients that they still need an auditor has increased the quality of audits according to some of our interviewees. It is mainly the customized service provided today they feel has increased the audit quality as well as the fact that they now always need to be on their toes and develop their audits. They cannot take their clients for granted any longer but instead need to market themselves and show the clients what it is they do and how they will deliver customer value to the client. Auditor 2 said that he would like the marketing to focus on trying to explain what an audit is and what an auditor actually does as he feels the general knowledge about this is too low. He blames the statutory audit for this because there have not been any incentives for the industry to inform the clients what an audit is since the clients were forced to have an auditor. The industry should use their new ability to market themselves to increase the knowledge about the industry and what the clients can expect from the auditor.

Choi et al. (2010) found a link between a larger office and a higher audit quality which they call the “economic dependence perspective”. This perspective describes how a smaller firm might be so economically dependent on one client that they do not report faults in the figures because their afraid of losing that client. Auditor 2 supports this view and says that it possible that smaller firms experience these problems. However, he felt as though it is easier to report faults now when he works at his own firm. When he worked at one of the Big 4 the process of reporting faults were so complicated, he had to report it to a special department within the firm that would then
decide if it was enough to put in the audit report. Now he decides on his own what he feels the need to point out and report.

This leads us to another important concept of audit quality, “The audit expectation gap”. McEnroe and Marteens (2001) has defined the audit expectation gap as the difference between what the public and other users of financial statement perceives auditors responsibilities to be and what auditors believe their responsibilities to entail. This opens up for a difference between the clients’ expectations on the audit and the auditor, and what the audit actually will imply. Grönroos (1993) describes how marketing can affect the public’s perception of auditing and auditors since marketing activities such as advertising for example gives promises to the clients. The will of attracting new clients might turn into raising expectations to a level the auditors cannot reach with their actual performance. This is something that our interviewees are aware of and as earlier mentioned auditor 2 believes it to be problematic as the knowledge about auditing is at such a low level.

Auditor 1 struggles to see the expectation gap; she thinks that it is clear for the client what an auditor does. She claims that the auditor will not promise more than he/she can actually deliver since they know that they will not be able to live up to the expectations and will have dissatisfied clients as a result. However, she believes this to be a matter of age and experience and she says that you learn what you can and cannot promise to the clients as you go.

Auditor 3 is aware of the issue with marketing and the expectation gap but says that “as long as audit firms are marketing themselves realistically it should not affect the expectation gap”. Auditor 4 can confirm the issue with the expectation gap and he says that it will always exist when you market a service. Like auditor 1 he thinks that the younger auditors are the ones that might promise too much. They have not been in the industry for long enough to remember how strict the marketing used to be.

As described by our interviewees the audit market is extremely competitive and a young auditor without an existing network will experience extreme competition when he/she enters the industry. These young auditors will go to great length to attract new clients and have not been raised in the
industry when marketing was not allowed. They might use marketing in order to stand out from the other auditors they might promise too much. This can be a problem for the industry because it will leave many disappointed clients and the industry will lose some of its credibility which would be devastating. Auditor 4 believes that this is a bigger problem for smaller firms, firms that do not have the in-house expertise at hand but instead will have to buy that service. Grönroos (1996) points out that this does not imply that the audit is poorly conducted, it might be of satisfying quality but the expectations were set too high. Auditor 6 believes that marketing affects the expectation gap, if an audit firm says they are good at something and that they possess a certain competence; they need to actually possess it later. If they do not possess said qualities they set expectations on the market to high, and as Grönroos (2008) states it, it does not matter how good a service is if your client does not appreciate it.
6. Conclusion

The aim of this section is to draw conclusions from the analysis and to clearly answer our research and inform the reader about how the increased use of marketing has affected the audit quality, the price of an audit and the auditors’ independence.

It is clear that the auditors market themselves and that it is becoming increasingly important since the abolishment of the statutory audit. The auditors spend, on average, 10% of their working hours on marketing, hours that are not billable and hours they cannot charge their clients for. They have not experienced any drop in clients since 2010, but the service they sell today is a bit different and includes more advisory help than before 2010. All our auditors hold a positive attitude towards marketing and they feel that they should be allowed to market themselves as any other companies on competitive markets are allowed to. They use internet as a main marketing channel and are active on Facebook and LinkedIn etc. to reach out to new clients. They also participate in conventions and business fairs where they meet company leaders in order to reach out to potential clients.

The increased use of marketing does not seem to have had an effect on the pricing of audits. Auditors at the Big 4 has to bring in new clients and market themselves during their free-time, it is part of their job description but is not something they can do during office hours. These extra hours are not billable, they cannot charge their clients for these hours. These hours are an investment in order to bring in new clients. The auditors describe how a sudden price increase would make the clients expect more from the audit. What has been added on to the audit to justify the increase in price? The auditors at smaller firms are allowed to market themselves during office hours, but these hours are the 10% that are not billable. The auditors at bigger firms have to market themselves during their free-time, but they have a marketing department that also markets the firm as a whole. This cost of the marketing department is classified as an overhead cost that is “hidden” in the price to the clients. They do not know that they are paying for the audit firms marketing activities. The auditors says that if clients were lining up outside their doors they could charge a higher price but the increased competition after 2010 has made it unlikely that clients would accept a higher price, they can find a competitor offering a lower
price. The net effect is that the price have not changed, the increased competition has off-set the potential price increase due to the marketing activities.

The use of marketing has had an effect on the audit quality. The need to market themselves and to explain to the public what it an auditor actually is has led to higher quality according to our auditors. If the clients know what it is the auditor does then the clients know what to ask for and can distinguish a good auditor from a bad auditor, forcing the auditors to step up the quality. The new customized services, the fact that the auditors customize the audit for every client based on their individual need will also lead to a higher quality. Every company does not need to have an auditor which means that auditors sell other services and can have a more advisory role for the company, this will add a new dimension to the audit profession. Since smaller companies can chose not to have an auditor the auditors needs to be on their toes and explain how an audit delivers customer value to the company and this is done through marketing activities. The audit firms must make sure that they develop new methods and that they are up-to-date with new demands on the market. Since 2010 the competition on the audit market has increased which puts pressure on the audit firms to offer the best possible service. Being up-to-date, developing and improving their working methods are factors they use in their marketing. What is promised in the marketing must then be delivered when the client has decided on you as an auditor. If it is delivered it leads to a higher quality.

The increased use of marketing might affect the “audit expectation gap”. When marketing their services the auditors might promise too much to stand out from the other auditors. This is mainly a problem for young auditors trying to attract their first clients. When they market themselves they need to stand out from the rest and to do so they promise things that they can then not deliver to the client which will then be dissatisfied with the auditors’ performance. The actual quality might not suffer, but the experienced quality compared to the clients’ expectations will suffer. The auditor will fail to live up to the expectations he/she set during their marketing activities.
The increased use of marketing is a threat to the independence. It is not the marketing through newspapers or Facebook etc. that poses problems for the auditors. It is the relationship marketing that is the threat to the independence, something all our auditors struggle and work with. The independence is the “product” the auditors sell so the fact that their marketing activities threatens this, threatens the entire industry. There is a very fine line between what is considered to be fine and what is considered to cross the line and threaten the independence. It is also clear from our interviews that the auditors do not share the same opinion on what is fine and what is not. For example auditor 2 would never play golf on a weekly basis with his clients, however at auditor 4s firm they play golf with their clients every Tuesday. Since there are no exact rules or guidelines on how to maintain a professional distance to your clients this leaves room for every firm to make their own interpretation of the independence term. This room for interpretation is alarming and our interviews clearly show that different auditors have different reasoning regarding their marketing activities. Our case from 2009 (mentioned in the introduction), plus the fact that PWC has gotten fired by some of their clients during the spring of 2016 because the clients did not feel that PWC was independent enough after going on trips with their clients etc. shows that the industry needs to be more regulated when it comes to the independency and the marketing. As shown by our interviews, auditors in Sweden have different opinions on what marketing activities are threats to their independence. For an industry that is based on trust it is alarming that it is up to every auditor to interpret the terms.

Our study shows that the increased use of marketing poses a threat to the independence since neither ISA, FAR or Revisornsärnnden have defined what marketing activities are fine and how the auditors can keep a professional distance to their clients. If the auditors are let to make their own interpretations more scandals will come to light, decreasing the trust and faith that clients have for the industry and thus on long term result in a lack of confidence for the industry based on this very premise. Guidelines or a general interpretation for auditors in Sweden needs to put in place to avoid this happening.

6.1 Propositions for future research

This study has shown that the increased use of marketing poses a threat to the auditors’ independency and that guidelines needs to put in place to save the industry. Future research
should focus on further developing which marketing activities poses a threat to the independence and how auditors’ should work with marketing without threatening their independence. A clear definition and helpful tools for the auditors needs to be developed.
Sources


Appendix 1

Interview guide

Personal questions
Occupation:
Education:

For how long have you been working as an auditor?

How much time do you spend on marketing versus auditing during a regular working day?
   - Has this changed since the abolishment of the statutory audit in 2010?

Which firms have you worked at before you started working at your current firm?

What size are the companies you are working with?

Questions about the firm

How large is the firm you are working at?

Can you describe the firm’s customer base?

How is the firm using marketing today?

Who is running the firm’s marketing?

Has the marketing changed since 2010?

What have you done to keep the clients who are not required to have an auditor following 2010?

Questions about marketing

What are your general opinions about audit firms’ marketing activities?

Which are the biggest differences in marketing compared to before 2010?

How does marketing affect the audit services?

How does marketing affect independence?

Is there any form of marketing that affect independence?

What does audit quality mean to you?
Can marketing affect audit quality?

Can marketing affect the audit expectation gap?

Can marketing affect audit pricing?

Has the price on auditing changed since 2010?

What do you believe to be the most important thing to keep in mind when audit firms are marketing themselves?

How are auditors competing for clients?

Do you have anything to add?