Do ISAs fulfil their aim in the audit of SMEs?

A study concerning how the implementation of ISAs in Sweden has affected audit quality and efficiency in the audit of small and medium-sized enterprises

Abstract

Previous research noticed a conflict between audit quality and efficiency that has been discussed when applying International Standards on Auditing (ISAs) in the audit of small and medium-sized enterprises (SMEs). However, there is a lack of research that concerns ISAs affect on audit quality and efficiency in the same study. Hence, the following research question was formulated: How has the implementation of International Standards on Auditing in Sweden affected audit quality and efficiency in the audit of small and medium-sized enterprises? Based on the perceptions of the interviewees, the implementation of ISAs has resulted in clearer risk assessment and increased use of analytical procedures, thereby improved audit quality. Further, ISAs have increased the hours spent on internal control, which impair audit efficiency since this activity is not judged as important when gathering audit evidence. This conflict between audit quality and efficiency is mostly explained by the shall requirements of ISAs since many of these are not applicable in the audit of SMEs. Our findings indicate a need to adapt ISAs and to allow deviations from shall requirements. The outcome would be that ISAs are closer to fulfil their aim in the audit of SMEs, which is higher audit quality without the loss of efficiency.

Keywords: RS, ISAs, SME, affect, audit quality, audit efficiency, documentation, requirements
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Madeleine Bokedal

Sofia Fågelsbo
Definition of main concepts

**Audit quality**: High quality means absence of material misstatements in the financial statements and no audit failures while low audit quality is the opposite.

**Audit efficiency**: The timeliness and cost of the audit process, equal to whether the audit can be performed faster and with fewer resources without impairing the detection of material misstatements and audit failures (Knechel & Sharma, 2012).

**Small enterprise**: An enterprise which employs more than 10 but fewer than 50 people and whose annual turnover or annual balance sheet exceeds EUR 2 million per year but not more than EUR 10 million per year (European Commission, 2014b).

**Medium-sized enterprise**: An enterprise which employs fewer than 250 people and whose annual turnover does not exceed EUR 50 million or an annual balance sheet not exceeding EUR 43 million per year (European Commission, 2014b).

List of Abbreviations

**CEO**: Chief Executive Officer

**FAR**: The professional institute for authorized public accountants, approved public accountants and other highly qualified professionals in the accountancy sector in Sweden

**IAASB**: International Auditing and Assurance Standards Board

**IFAC**: International Federation of Accountants

**ISAs**: International Standards on Auditing

**RS**: Revisionsstandard i Sverige (*Auditing Standards in Sweden*)

**SME**: Small and medium-sized enterprise
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1. The need to improve audit quality

This section concerns the history behind the need for more accurate audits and the concern for how to achieve qualitative and efficient audits of small and medium-sized enterprises when applying International Standards on Auditing.

In the beginning of 2000, the International Auditing and Assurance Standards Board (IAASB) faced challenges regarding the International Standards on Auditing (ISAs) since the audit profession and the quality of auditing were questioned due to several financial scandals worldwide (Francis, 2004; Pathak & Wells, 2008; Knechel, Krishnan, Pevzner, Shefchik & Velury, 2013). Some of the most renowned significant examples of fraudulent financial reporting are Enron and Worldcom (Pathak & Wells, 2008). In Sweden, the last decade is known as “10 years of scandals” where Prosolvia, HQ Bank, Panaxia and TeliaSonera are examples of companies that have been under fire (Brännström, 2013; Ekenstam & Brännström, 2013). Media portrayed these companies as corporate scandals where the common link was that the credibility of the audit profession and the quality of the audit of these companies were questioned (Brännström, 2013; Ekenstam & Brännström, 2013). To exemplify, the main issue in the Prosolvia case was the division of responsibilities between the board of management and the auditor (Brännström & Svernlöv, 2013).

In the eyes of the public, the auditors were responsible for these scandals (Francis, 2004; Pathak & Wells, 2008; Knechel et al., 2013), which is not surprising since an auditor shall give credibility to the financial information about a company and confidence in how the board of directors and the CEO fulfil their mission (Wernerman, 2014). Consequently, stakeholders should be able to trust information of companies financial situation (Wernerman, 2014; Willekens & Simunic, 2007) and it is therefore essential that an auditor has high integrity, and that the audit is characterized by high quality (Brännström & Svernlöv 2013, Ekenstam & Brännström, 2013). Moreover, these high profile financial scandals and the lack of confidence
in the audit profession resulted in a need for more accurate audits (Kleinman, Lin & Palmon, 2014) and between 2004 and 2009, IAASB performed the “Clarity Project” to improve the degree of clarity of ISAs (IFAC, 2014a). The project sought to improve the understanding of ISAs and to clarify the degree of obligation imposed on auditors (Herolf & Hjalmarsson, 2009; Köhler, 2009). Further, the need for more accurate audits is manifested in ISAs by the more frequent use of the word *shall* in ISAs, which emphasizes that the requirements are demands and not voluntary in nature (Herolf & Hjalmarsson, 2009). Causholli et al. (2011) highlighted the fact that auditing standards have become more complex, which has resulted in an increased audit effort in terms of more audit hours, partly because of demands on an increased level of documentation. Brännström and Svernlöv (2013) emphasized the need for increased documentation as a consequence of the recent scandals where the auditor needs to use it as a safeguard in order to be able to show how he or she has thought and acted in the audit, while the possible drawback is that documentation is costly. Lastly, the adoption of ISAs is an ongoing process where an increased number of countries around the world implement ISAs as standards to be followed (IFAC, 2014b).

### 1.1. The implementation of ISAs in Sweden

The Swedish auditors are highly affected by global changes in regulatory systems and practices (Wernerman, 2014) and in 2005 the old Revisionsprocess was replaced by Revisionsstandard i Sverige (Auditing in Sweden, RS), which was built upon ISAs (Lennartsson, 2011). In 2011, FAR implemented ISAs as standards to be followed by auditors in Sweden and consequently RS was replaced (Lennartsson, 2011). By introducing ISAs in Sweden, FAR strived to anticipate a better fit to a global legal system, and the development of ISAs should also be seen as a response to the financial crisis in the beginning of the millennium (Lennartsson, 2011). Considering the differences between RS and ISAs, an implementation of ISAs should have caused changes for the audit profession (IFAC, 2014c). When auditors apply new standards, it has been argued that it is essential to allocate time to develop an appropriate methodology, since the methodology is the core of auditors’ operations (Lennartsson, 2011).
One main point that is raised when applying ISAs in the audit of small and medium-sized enterprises is how to achieve both qualitative and efficient audits, considering the additional administrative burden that ISAs bring (Brännström, 2013; Murra, 2012). Murra (2012) claimed that it is essential that auditors use their professional judgment when auditing SMEs and that it is important to have a clear understanding of the application of ISAs. ISAs are supposed to be appropriate in the audit of all enterprises, regardless of their size (IFAC, 2014d). However, enterprises of different size might have various needs, since the audit of larger enterprises often have a greater risk based focus, as it is more common that larger companies operate on an international basis compared to SMEs (Lennartsson, 2011). In addition, SMEs have more narrow margins of liquidity compared to large enterprises (European Commission, 2014a). In Sweden, SMEs represent 32 percent\(^1\) of the total number of enterprises. Additionally, the number of SMEs is growing steadily and becoming increasingly important actors in the Swedish market (European Commission 2013).

### 2. Reasons for conducting this study

This section concerns the definitions of audit quality and efficiency and the potential conflict between these two concepts. Thereafter, follows a presentation of previous research and a Swedish debate of ISAs in the audit of SMEs. Finally the research question and aim of this study are exposed.

Figure 1 illustrates the underlying problem and debate about International Standards on Auditing (ISAs) and small and medium-sized enterprises (SMEs), thereby motivating the reasons for conducting this study.

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\(^1\) The Swedish market consists of 1 127 832 companies. Small enterprises have between 10-49 employees and are in total 35 176. Medium sized enterprises have between 50-199 employees and are in total 5660. It does not exist any statistics for enterprises with 200-250 employees (also considered medium-sized), the only available information is the number of enterprises with 200-499 employees. Therefore, the following calculation has been made: the range of 200-250 employees represents about 1/6 of total enterprises (983) in the interval 200-499. Hence, 1/6 * 983 = 164 of the enterprises belong to medium sized enterprises. The total amount of SMEs in Sweden are 41 000 (35 176+5660+164), (SCB, 2014).
2.1. Definition of audit quality and efficiency

One commonly used definition of audit quality is that high quality means absence of material misstatements in the financial statements and no audit failures, while low audit quality is the opposite (Francis, 2004; Knechel et al., 2013). Francis (2004) stated that audit quality should be seen as a continuum extending from very low quality to very high quality. Further, Francis (2004) claimed that even though low audit quality increases the risk of audit failures it must be kept in mind that the benefits of achieving high quality must be weighed against the costs of high qualitative auditing (Francis, 2004). Thus, with great audit fees there is a risk that too many resources are invested in audit quality in relation to the benefits achieved (Francis, 2004). Further, audit efficiency can be defined as the timeliness and cost of the audit process, which is equal to whether the audit can be performed faster and with fewer resources without impairing the detection of material misstatements and audit failures (Knechel & Sharma, 2012). Audit efficiency is related to the procedures used in an audit and questions whether the audit can be done in a more efficient manner (Sherer & Turley, 1997). Knechel et al. (2009) stated that it is important to investigate audit efficiency since it may be related to various levels of audit quality.
2.2. The conflicting goals of ISAs

Previous research identified a conflict between audit quality and efficiency (Antle and Nalebuff 1991; Krishnamoorthy, 2002; Pierce & Sweeney, 2004; Bowrin & King I, 2010). This quality-cost conflict is caused because an increase of audit quality most likely demands an increase of audit hours invested in the audit and the number of audit hours is a proxy for audit costs (Antle & Nalebuff 1991; Pierce & Sweeney, 2004; Beck, Fuller & Reid 2013). Findings by Alderman and Deitrick (1982) showed that more than half of the respondents stated that time budgets affect the professional judgment of auditors and almost 40 percent asserted that time budgets have a negative impact on the gathering of sufficient audit evidence. In accordance with these findings, Bowrin and King II (2010) reported that time budgets might reduce audit quality and consequently increase the likelihood of audit failures. Since SMEs have more narrow margins of liquidity compared to large enterprises (European Commission, 2014a), the potential conflict between audit quality and efficiency might be even more problematic in the audit of SMEs.

International Federation of Accountants (IFAC) has published a report about the applicability of ISAs in SMEs. In the report it is discussed that the use of ISAs in SMEs might result in higher costs than would be the case with modified ISAs, however despite the high costs ISAs should lead to important benefits such as enhanced credibility of financial reporting and improved risk management (IFAC, 2014d). IFAC has also compiled a guide regarding how to apply ISAs when auditing SMEs with the aim to help auditors perform not only highly qualitative but also efficient audits (FAR, 2014a; IFAC, 2014e). In March 2012, FAR translated the guide into Swedish and the guide thus became available for auditors acting on the Swedish market (FAR, 2014a). The presence of IFAC’s report and guide indicate that the application of ISAs in SMEs might result in a quality–cost conflict.

2.3. Previous research within the field of auditing standards and ISAs

According to Ye and Simunic (2013) auditing standards can either be characterized by toughness or vagueness (Ye & Simunic, 2013). The results showed that auditing standards with
a certain vagueness was preferable since they allow professional judgment to a greater extent (Ye & Simunic, 2013). In addition, too high toughness increases the risk that auditors undertake unnecessary procedures and hence increases the effort required by the auditor. Moreover, empirical evidence regarding ISAs and the relation to how it affects audit quality and efficiency is rather inadequate; and Ojo (2010) addressed the need to conduct research on auditing standards at the European level. Further, Kleinman (2014) highlighted the need to conduct research considering the implementation of new regulatory regimes, his main argument being that the consequences of the implementation of a standard will differ across countries.

Köhler (2009) pointed out that there is lack of research of ISAs in Europe and Duhovnik (2011) requested research concerning how unified audit approach impacts audit quality across Europe. A similar study compared to our study treats the implementation of ISAs impact on audit quality and is conducted by a student at Humbolt University in Berlin in 2011. The aim of the study is to provide further insights for the effect of changes in audit regulation on audit quality (Jianu, 2011). What differs is that this study omits the aspect of efficiency and the contextual focus on SMEs and treats only the relationship between audit quality and the implementation of ISAs (Jianu, 2011). The sample consisted of auditors from United Kingdom, Germany and Austria and the findings showed that audit quality has improved after the implementation of ISAs in United Kingdom and Germany but not in Austria, but the Austrian sample represented only four percent of a total sample of 17 531 companies (Jianu, 2011). Jianu (2011) implied that further research is necessary to consolidate the findings. Further, Duhovnik (2011) conducted a study to demonstrate the advantages of adapting ISAs in both emerging market economies and the European market in its entirety (Duhovnik, 2011). Additional, Köhler (2009) claimed that it is essential that future research address the costs and benefits of the use of ISAs in the audit of SMEs. Consequently, auditing standards are internationally debated and in the next section a debate among Swedish auditors regarding the application of ISAs in SMEs is presented.
2.4. The Swedish debate on ISAs in the audit of SMEs

The implementation of ISAs has resulted in disagreements between the auditors who are the practitioners of the standard. One sign of such disagreement is the debate discussed in FAR’s magazine “Balans”, where the debate concerns the application of ISAs in the audit of SMEs.

Table 1

*The Swedish debate about ISAs*

(Adrian & Olsson, 2012, Ekman, 2012; Emilsson 2013)

<table>
<thead>
<tr>
<th>ISAs are not appropriate in the audit of SMEs</th>
<th>ISAs are appropriate in the audit of SMEs</th>
</tr>
</thead>
<tbody>
<tr>
<td>• ISAs are not what the market wants.</td>
<td>• ISAs are a response to what the market wants.</td>
</tr>
<tr>
<td>• Formal requirements will lead to a neglect of the auditor’s professional judgment.</td>
<td>• ISAs can be used when auditing SMEs, support by IFAC’s statement that ISA can be applied on all enterprises regardless of size.</td>
</tr>
<tr>
<td>• A need for a customized audit for SMEs.</td>
<td>• ISAs should be used as tools to create audit quality.</td>
</tr>
<tr>
<td>• ISAs and the audit report are difficult to understand.</td>
<td>• ISAs can be appropriate in the audit of SMEs.</td>
</tr>
<tr>
<td>• The problem with ISAs and SMEs is that deviations from “shall” are not allowed.</td>
<td></td>
</tr>
<tr>
<td>• Request a general clause to enable exception from “shall”.</td>
<td></td>
</tr>
</tbody>
</table>

As shown in Table 1, there are arguments in favor of using ISAs in the audit of SMEs and there are arguments against it. Ekman (2012) argued that ISAs is not what the market (the clients) demands while Adrian and Olsson (2012) claimed that the fact that ISAs require increased documentation is to be seen as a response to market demands. Furthermore, Ekman (2012) stated that the audit standards have been based on the need for auditing larger enterprises but have later been applied to enterprises of smaller sizes. In contrast to Ekman (2012), Adrian and Olsson (2012) claimed that ISAs are standards that can be applied in the audit of SMEs and as support to their opinion they refer to the International Federation of Accountants, which states that ISAs can be applied to all enterprises, regardless of their size. (IFAC, 2014d). Emilsson
(2013) argued that ISAs can be appropriate when auditing SMEs; however, the problem is that recommendations that indicate a *can*, have been replaced by requirements that indicate a *shall*. Emilsson (2013) claimed that this causes problems when auditing SMEs since some parts of ISAs do not allow deviation from what the auditor shall be responsible for. In the audit of SMEs, Emilsson (2013) suggested an additional general clause where it is allowed to actually deviate from ISAs shall, and instead rely on the voluntary recommendations of RS. Ekman (2012) also discussed the increased number of formal requirements and his concern was that this would lead to a neglect of the professional judgment of auditors.

According to Emilsson (2013), another problem with ISAs is that the audit report is difficult to understand for both clients and other stakeholders; even auditors have problems understanding the audit report. Further, Adrian and Olsson (2012) pointed out that auditors need to understand ISAs and the lack of understanding is the problem, not ISAs itself. Therefore ISAs should be seen as a helping tool, appropriate to use in order to increase the quality of auditing SMEs (Adrian & Olsson, 2012). Ekman (2012) and Emilsson (2013) argued that if audit quality should be improved, there is a need for a customized audit for SMEs. Ekman (2012) stated that auditors need to react, act and create an audit for SMEs since that is what the market wants.

As presented, auditing standards is debated on an international level and in Sweden there are arguments for and against ISAs in the audit of SMEs. However, we have identified a lack of research concerning ISAs and audit efficiency. Further, since the Swedish market to a great extent consist of SMEs and considering the potential conflict between audit quality and efficiency might be even more problematic in the audit of SMEs, we claim that both audit quality and efficiency in combination need to be taken into consideration. Hence, the following question for this study was formulated:

**How has the implementation of International Standards on Auditing in Sweden affected audit quality and efficiency in the audit of Small and medium-sized enterprises?**
2.5. The aim for this study

In this study we aim to contribute with knowledge on how the implementation of ISAs in Sweden has affected audit quality and efficiency in the audit of SMEs. The measurement of audit quality and efficiency is based on the perception of the auditors; however, the measurement of efficiency is complemented by audit hours from real audit engagements. Based on our results we provide information on whether ISAs fulfil their aim in the audit of SMEs, which is improved audit quality and efficient audits. Further, this study is useful for standard setters, considering that it contributes with information regarding if the goal if ISAs has been achieved in SMEs and hence whether ISAs needs to be adapted or not in the audit of SMEs. The results of this study intend to contribute to future research by demonstrating reasons for why audit quality and efficiency have been affected and not only if. Consequently, it is possible for researchers to determine how research about ISAs and SMEs should be taken forward. Consequently, we aim to serve standard setters and researchers with information whether ISAs need to be adapted in the audit of SMEs, and if so in what way.

3. Changes between RS and ISAs, audit quality and audit efficiency

This part includes a description of the changes between Revisionsstandard i Sverige (RS, Auditing Standards in Sweden) and International Standards on Auditing (ISAs) and the factors that affect audit quality and efficiency. Only the ISAs that involve changes compared to RS and changes that can be related to audit quality and efficiency are treated in this study since the remaining information in ISAs or changes that are not connected to either audit quality or efficiency would not provide material information to fulfil the aim of this study. The theory that defines factors that affect audit quality and efficiency has been modified to the extent that the theory can be connected to changes that may have been caused by the implementation of ISAs. We end this section with a description and a figure describing the relation between ISAs and audit quality and efficiency.
3.1. Changes between RS and ISAs

Herolf and Hjalmarsson (2009) have summarized the differences between Revisionsstandard i Sverige (RS, Auditing Standards in Sweden) and International Standards on Auditing (ISAs) and there are six major differences between the two standards that can be expected to have an impact on audit quality and efficiency. The changes concern (1) requirements, (2) risk assessment, (3) communication, (4) audit evidence, (5) audit report and (6) documentation.

3.1.1. Summary of changes between RS and ISAs

Table 2 provides an overview of the changes between RS and ISA.

Table 2

<table>
<thead>
<tr>
<th>Requirements</th>
<th>Clearer requirements regarding the role of the auditor</th>
<th>Mandatory requirements</th>
<th>The auditor shall</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk assessment</td>
<td>Increased risk focus</td>
<td>The auditor should now also understand, not only know</td>
<td>Risk assessment is described in greater detail</td>
</tr>
<tr>
<td>Communication</td>
<td>Increased demand for communication between the auditor and the client</td>
<td>Management must be aware of auditors’ responsibilities</td>
<td>Reach alignment between auditor and the board regarding how a two-way communication will occur</td>
</tr>
<tr>
<td>Audit evidence</td>
<td>Increased focus on the process of the collection of audit evidence</td>
<td>How information given by a third part should be judged</td>
<td>A requirement for how the structure regarding the analytical examination shall be performed</td>
</tr>
<tr>
<td>Audit report</td>
<td>Divided into two sections</td>
<td>Deviations are described under separate headings</td>
<td>Headings for the various reporting responsibilities</td>
</tr>
<tr>
<td>Documentation</td>
<td>Increased requirements for documentation</td>
<td>ISA requires adequate and appropriate documentation</td>
<td>Oral documentation between the auditor and the client should be documented</td>
</tr>
</tbody>
</table>

Table 2 provides an overview of the changes between RS and ISA.
3.1.2. Requirements
One major change in ISAs compared to RS is that ISAs have clearer requirements regarding the role of the auditor. Further, several requirements in ISAs are mandatory which is expressed by the more frequent use of the phrase “the auditor shall” in order to highlight that it is a demand and not anything voluntary (ISA: 200; 260; 265; 315; 520; 540; 550; 700; 800). In addition, the auditor \textit{shall understand} and not only \textit{have knowledge} about specific parts of an audit (ISA 315). Last, ISAs clarifies that the responsible auditor shall take responsibility for the overall quality of the audit engagement (ISA 220).

3.1.3. Risk assessment
One of the major changes between ISAs and RS is that ISAs have a clearer risk assessment (ISA: 200; 240; 315; 330; 540). Even though risk assessment has already been an essential part of auditing, ISAs include requirements that make the risk assessment clearer (ISA 315). In order to be able to perform risk assessment on report and assertion level, the auditor must gain a good understanding of both inherent and control risks; it is not enough to just have knowledge about the concepts (ISA 315). In ISAs, the details for risk assessment are described in greater detail and for instance the risk assessment shall include analytical procedures and observation, requests to management and inspection (ISA 315; 330). Furthermore, in relation to risk and how this is dealt with within the audit team, there is now a higher pressure on risk analysis in the audit team (ISA 240) and to discuss issues related to risk errors within the team (ISA 315). Lastly, during planning and risk assessment there is a new requirement to take necessary estimates into account (ISA 540). The increased focus on risk assessment is reflected in the different ISA’s scope since several standards have been considerably enlarged, such as the auditor's responsibility relating to fraud in an audit of financial statements (ISA 240) and the increased focus on understanding the entity and its environment (ISA 315).

3.1.4. Communication
Compared to RS, ISAs have increased demand for communication between the auditor and the client (ISA: 210; 240; 260; 265; 315; 450; 580). In ISA 210 it is pointed out that management
must be aware of their responsibilities for internal control and thus, the management must give the auditor all necessary information. Likewise, the written statement of management shall contain a clause about the responsibility of management for the financial statements and that the auditor is given unlimited access to everyone in the company that he or she needs (ISA 580). Further, the auditor should obtain written statements concerning material misstatement from management (ISA 240). A new requirement for communication is that the auditor shall agree with the board for how a two-way communication will occur (ISA 260), and this communication must be done without undue delay (ISA 265).

3.1.5. Audit evidence
International Standards on Auditing has an increased focus on the process of the collection of audit evidence (ISA: 320; 450; 500; 501; 505). In the gathering of audit evidence, assessment of materiality is essential and ISA 320 concerns the auditor’s responsibility to apply the concept of materiality when planning and performing an audit engagement. Misstatements are considered to be material if they, individually or in the aggregate, could be expected to influence users’ economic decisions (ISA 320). Further, according to ISA 450, there is a requirement that the auditor should communicate with management regarding, for example, incorrect information identified during the audit. Furthermore, ISA 500 highlights how information given by a third part such as a tax specialist, or information given by management should be judged. Moreover, ISA 501 now includes items that need special consideration; these selected items are litigation and requirements, inventory and segment information (ISA 501). Audit evidence in the form of external confirmations have to go through the auditor for a control, one example is bank confirmations (ISA 505). Hence, ISA 505 is intended to assist the auditor in designing and performing external confirmation procedures to obtain relevant and reliable audit evidence.

3.1.6. Audit report
ISAs require changes of the structure in the audit report (ISA: 700; 705; 706) and the biggest difference is the division into two sections. Hence, with new structure follows that deviations
are described under separate headings, which previously were written with bold or italics. (FAR, 2014b). ISA 700 clarifies what an auditor should focus on when he or she forms an opinion on the financial statements. In addition, it is also stated that the audit report shall include headings for the various reporting responsibilities such as management responsibility for the financial statements and the responsibility of auditors (ISA 700). ISA 706 is intended to help users understand the audit, the responsibilities of auditors and the audit report correctly.

3.1.7. Documentation
A part of the changes in ISAs compared to RS are the increased requirements for documentation (ISA: 210; 230; 240; 260; 300; 315; 320; 402; 450). ISA 230 concerns audit documentation and this standard has changed the goal of documentation. With RS, the documentation should be sufficiently complete and detailed to provide an understanding of what has been done, ISAs require adequate and appropriate documentation of the basis for the audit report and proof that the audit is performed in accordance with ISAs and the law. Moreover, oral documentation between the auditor and the client should be documented by the auditor (ISA 260) and there are also requirements that the auditor should document the risk assessment (ISA 315) and considerations of materiality (ISA 320). Further, the audit strategy and audit plan has to be documented (ISA 300).

3.2. Audit quality
The following definition of audit quality has been applied in this study: *high quality means absence of material misstatements in the financial statements and no audit failures while low audit quality is the opposite* (Francis, 2004; Francis; 2011; Knechel et al., 2013).

3.2.1. Audit quality model
Figure 2 shows our own illustrated model, which is based on a framework by Knechel et al. (2013) regarding how to achieve audit quality. Input, process, output and context are the major quality indicators, which in turn include specific factors that affect audit quality in every audit engagement.
3.2.2. Overview of what affects audit quality?

It has been argued that audit quality is affected by input, process, context and output and that these quality indicators consist of different factors that have an impact on audit quality (Knechel et al., 2013; IFAC, 2014f). When analysing audit quality it is important to remember the attributes of an audit; every audit is *unique* due to differences between clients, an audit is a systematic *process* and an economically motivated response to risk which means that different types of *incentives* need to be taken into account (Knechel et al., 2013). Further, the auditor’s *professional judgment* (knowledge and expertise) is essential through the whole audit and finally the outcome of an audit (achieved assurance level) is *uncertain* (Knechel et al., 2013). The reason for remembering these characteristics of an audit is that these five characteristics pervade the four audit quality indicators.
3.2.3. Input affects audit quality

Input concerns the engagement team and the individual characteristics of the staff such as professional skepticism, client-specific knowledge, incentives and motivation and within firm pressure that in the end will affect the professional judgment of the auditor (Knechel et al., 2013).

Conditional of an auditor’s available information, professional skepticism can be defined as making judgments and decisions that reflect a heightened assessment of the risk that an assertion is incorrect (Nelson, 2009). Hurtt, Brown-Libur, Earley and Krishnamoorthy (2013) stated that professional skepticism is essential if high audit quality is to be achieved, and according to Popova (2013), it was the lack of professional skepticism that caused many of the audit failures in the 2000s. With the uniqueness of each client in mind, Beck and Wu (2006) highlighted that client-specific knowledge affect audit quality in a positive manner. Client-specific knowledge can be obtained when the auditor communicates with the client (Bonner, 1990). Nelson (2009) expressed a concern that regulatory enforcement, potential litigation costs, and potential reputation losses cause countervailing incentives in an audit that might have a negative impact on audit quality. According to Russo, Meloy and Wilks (2009) an auditor might be motivated to achieve desired outcome and that motivation can affect the auditor’s decisions. In other words, if an auditor feels pressured to achieve high audit quality this might impair the auditor’s professional judgment since there is a risk that the auditor sees what he or she wants to see. Further, Svanberg and Öhman (2013) found that auditors often feel pressured due to tight time budgets and Knechel et al. (2013) claim that this type of within-firm pressure might impair audit quality.

3.2.4. Process affects audit quality

Inputs can be linked to the audit process since inputs influence the auditor’s decisions during the process (Knechel et al., 2013). Knechel et al. (2013) define audit process as the implementation of audit inputs, which means the testing procedures that are applied by the engagement team. The foundation of the audit process is auditing standards and the
methodology of the audit firm (IFAC 2014e). In order to meet the broad requirement of audit standards concerning the collection of sufficient evidence in support of the audit report, auditors have to make decisions and judgment when planning, collecting and interpreting the gathered evidence (Knechel et al., 2013). However, individual errors in judgments might harm audit quality since the quality of the audit process depends on the quality of auditor judgments during each stage of the audit process, that is, risk assessment, analytical procedures, obtaining and evaluating audit evidence and auditor-client negotiations (Knechel et al., 2013). Good review and quality control processes can reduce the risk of damaged professional assessment (Knechel et al., 2013).

Audit risk is defined as the risk that an auditor expresses an incorrect opinion when the financial statements consist of a material misstatement (ISA 200). Risk assessment concerns the nature, extent and timing of planned procedures during an audit (Knechel et al., 2013). The risk of material misstatement consists of the two components: inherent and control risks (Allen et al., 2006; ISA 200). Based on previous research, Allen et al. (2006) conclude that inherent risk can be described as the risk for material misstatement in an account before the client’s internal controls have been treated. Control risk is the risk that a misstatement in an assertion, individually or aggregated with other misstatements, could be material but the misstatement is not prevented, detected or corrected by the entity’s internal control (ISA 200). Detection risk is the risk that an auditor fails to detect a material misstatement in the financial statements (ISA 200) and that risk can be reduced if the auditor increases substantive testing (Hogan & Wilkins, 2008).

Analytical procedures can be defined as evaluations of financial information through analysis of plausible relationships among both financial and non-financial data (ISA 500). Hirst and Koonce (1996) claim that the performance of analytical procedures depends on whether they are being performed for planning, substantive testing, or overall review purposes. The findings by Hirst and Koonce (1996) showed that the goal of using analytical procedures at the planning stage is to increase the understanding of the client’s business in order to assess risks and to
develop or update the audit plan. Regarding substantive testing, the auditor aims to determine the validity of the account balance or the set of balances, while the aim at an overall review is to determine if the adjusted financial statements seem sensible in light of the information gathered during the audit (Hirst & Koonce, 1996). Knechel et al. (2013) also emphasized the importance of using analytical procedures when assessing risks. The findings by Hirst and Koonce (1996) showed that the communication between auditor and client is essential during the analytical procedures.

_Audit evidence_ is financial and non-financial information that is gathered through audit procedures and is used by auditors in order to reach conclusions to base their opinion on (ISA 500). In the gathering of audit evidence, auditors might be uncertain regarding what is considered material misstatements (Knechel et al., 2013) and since materiality is a key concept in auditing it is highly relevant to consider (Messier, Martinov-Bennie & Eilifsen, 2005). The concept of materiality is significant in the audit process, especially when the audit is planned and when the results from audit tests should be evaluated (Messier et al., 2005).

Auditors have responsibilities towards both shareholders (provide independent assurance of the financial statements) and clients (retain a friendly relationship) and in order to satisfy both parties, auditors’ negotiation approach might be helpful (Sanchez, Agoglia & Hatfield, 2007). The _auditor-client negotiation_ process is the strategies that are used by the auditor and by the information that is exchanged during this process (Brown & Wright, 2008). Further, when conflicting goals exist between the auditor and the client they have to negotiate in order to reach an agreement that satisfies both parties (Bame-Aldred & Kida, 2007; Brown & Wright, 2008). Auditor-client negotiations are influenced by many features, such as auditing standards (Brown & Wright, 2008) and these negotiations are important to consider since they affect both the quality of the financial statements and of the auditing in its entirety (Brown & Wright, 2008; Fu, Tan & Zhang, 2011). As discussed above, an auditor’s professional judgment might be impaired for several reasons and good _review and quality control_ is a way to reduce the risk of these types of errors and thereby to improve the quality of the audit (Knechel et al., 2013).
3.2.5. Context affects audit quality

The context affects both input and the process (IFAC, 2014f; Knechel et al., 2013) and context indicators are all that may influence the auditor incentives, which for instance include the market’s perception of audit quality (Knechel et al., 2013). Further, investors are interested in the credibility of the financial statements; however, in order to judge the potential quality of an audit, investors have to rely on the auditor’s *market reputation* since they cannot directly observe audit quality (Barton, 2005). Hence, the auditor’s reputation function as a guide for investors in the evaluation of audit quality (Barton, 2005) and since audit quality is valuable for clients and investors, auditors have reputational incentives to achieve audit quality (Skinner and Srinivasan, 2012).

3.2.6. Output affects audit quality

Output results in what the users of the financial statements actually see and read in order to base their opinions and thus their perception and conclusion of the audit quality (Knechel et al., 2013). Furthermore, outputs are indicators that show the perceived value a user acquires from an audit process (IFAC, 2014f). Knechel et al. (2013) report that the accuracy of *audit reports* can be an indicator for audit quality; however, the report has been criticized because it has more of a symbolic value than a communicative value (Church, Davis & McCracken, 2008). Coram, Mock, Turner and Gray (2011) claimed the only information in audit reports that helps the users to judge the audit quality is the name of the audit firm.

3.3. Audit efficiency

In this study audit efficiency is defined as the timeliness and cost of the audit process, equal to whether the audit can be performed faster and with fewer resources without impairing the detection of material misstatements and audit failures (Knechel and Sharma, 2012).
3.3.1. Audit efficiency model

Figure 3 is our own modified model based on research in regards to production of audit efficiency, conducted by O’Keefe, Simunic and Stein (1995), Hackenbrack and Knechel, (1997) and Knechel, Rouse and Schelleman (2009).

**Figure 3**

*Audit efficiency model*

(O’Keefe et al., 1995; Hackenbrack & Knechel, 1997; Knechel et al., 2009- own illustration)

3.3.2. What affects audit efficiency?

O’Keefe et al. (1995) introduced a model of audit production where the total number of audit hours were equated with input and the level of assurance that was obtained was equated with output. However, considering that the level of assurance is not an observable output, it has been hard to actually use this model empirically and therefore Knechel et al. (2009) designed a modified model that includes observable outputs. In this model, input is still defined as the cost of effort but Knechel et al. (2009) claimed that output is evidence-gathering activities while the outcome is the unobservable level of assurance. The observable outputs that are used by Knechel et al. (2009) are eight different activities defined by Hackenbrack and Knechel (1997). These evidence-gathering activities increase the possibility that an auditor makes a correct conclusion regarding the financial reports and consequently increases the likelihood that a high
achieved level of assurance can be obtained which is the final outcome of the audit (Knechel et al., 2009). According to Knechel et al. (2009) more output is commonly viewed as better than less output. However, some of the activities that are performed during an audit process will not contribute with as much valuable information as other activities and therefore it might be desirable to reduce the allocated time on these activities (Knechel et al., 2009).

3.3.3. Input affects audit efficiency
Input describes an auditor’s effort expressed in total audit hours, which are transformed and results in the output of an audit that is the assurance about the financial statements (Knechel et al., 2009; Causholli et al., 2011).

3.3.4. Process affects audit efficiency
Knechel et al. (2009) explained that inputs in terms of labor are used in the process to perform audit activities that lead to gathering of audit evidence. Knechel et al. (2009) report eight observable evidence-gathering activities that will be further described below.

3.3.5. Output affects audit efficiency
Output is defined through the hours spent on the eight observable evidence-gathering activities. These activities defined by Hackenbrack and Knechel (1997) are: (1) audit planning: activities such as to prepare a planning memorandum or to prepare an audit program (2) internal control evaluation: review and test of internal controls (3) substantive testing-critical objectives: to perform critical substantive testing (4) substantive testing-non-critical objectives: to perform non-critical substantive testing (5) review-critical: to review critical substantive testing (6) review-non-critical: to review non-critical substantive testing (7) financial statement preparation: to prepare and finalize the financial statements and provide basic accounting services (8) client interaction: when communication with the client occurs, conducting formal client meetings and engagement administration. For this study, the eight outputs have been limited to six outputs since we argue that substantive testing-critical objectives and substantive
testing-non-critical objectives can merge to substantive testing. In addition, review-critical and review-non-critical merges to be only review.

3.3.6. Exogenous factors affect efficiency
Since no enterprise is the same as another each audit will be unique (Dopuch, Gupta, Simunic & and Stein, 2003; Knechel et al., 2013) and therefore exogenous elements, which is client-specific characteristics such as assets, subsidiaries and risk are important to consider when discussing efficiency (Knechel et al., 2009). According to Knechel et al. (2009), these client-specific characteristics will affect inputs, processes and outputs and they will influence efficiency of the whole audit engagement. Clients with strong growth in their business find it more difficult to establish good internal controls than clients that are more stable, which might complicate the audit (Lys & Watts, 1994). Further, specific risk factors in the audit engagement of a client influence the actual versus target rates per labor hour, which is that the actual billing rate increases as client riskiness increases (Dopuch et al., 2003).

3.4. The linkage between ISAs and audit quality and efficiency
According to Lennartsson (2011) the implementation of a new standard requires consideration of the audit methodology. The changes between RS and ISAs lead to changes in the audit methodology, which affect the indicators of audit quality and efficiency, and consequently the factors that constitute the indicators. Further, since the factors are supposed to influence audit quality or efficiency it is possible to draw conclusions regarding how audit quality and efficiency have been affected by the implementation of ISAs. Figure 4 shows the linkage between ISAs and audit quality and efficiency.
4. The collection and interpretation of gathered information

The method that was used for the collection of data was a questionnaire and interviews. Both the questionnaire and the interviews were conducted in Swedish (Appendix 2; Appendix 4; Appendix 6). In the first section of this chapter, we describe the design, sample, distribution/implementation and processing of information from the questionnaire and the interviews. Thereafter follows a description for how the concepts audit quality and efficiency were measured. Last in this section is a discussion in concern for the strengths and weaknesses for the chosen method.

4.1. The questionnaire

The questionnaire was self-administrated in order to get a wide range of respondents. The questionnaire (Appendix 1) starts with three questions about the auditor’s role as an auditor and thereafter follows a total of 27 statements, one for each factor in the audit quality model (Figure 2), one for each factor in the efficiency model (Figure 3) and one for each identified change between Revisionsstandard i Sverige (RS, Auditing Standards in Sweden) and International Standards on Auditing (ISAs) (Table 2).
4.1.1. Design of the questionnaire

All but one statement are rating questions, which according to Saunders, Lewis and Thornhill (2009, p. 378-379) are a commonly used method to gather data and most often a Likert scale is applied; this scale indicates how strongly a respondent agrees or disagrees with a statement. For this study, we applied a five-stage scale rating from: 1) strongly disagree, 2) disagree, 3) undecided 4) agree to 5) strongly agree. Statement 22 is a ranking question where the respondents were asked to rank the importance of the six evidence-gathering activities. A ranking question is appropriate when it is interesting to find out the relative importance of different things for a respondent (Saunders et al., 2009), which supports our choice to apply a ranking order. The statements for the questionnaire were designed through a three-step process. Firstly, a draft of statements in relation to the theoretical concepts (audit quality, audit efficiency and changes between RS and ISAs) was designed. Secondly, the statements underwent a pilot study in order to increase the chances that the questions were understandable for the respondents. In the pilot study one audit assistant and one finance assistant participated and further a Swedish teacher proofread the questionnaire. Thirdly, we revised the questionnaire after feedback from the pilot study, which led to minor changes in the formulation of some statements.

Since we wanted to avoid that the respondents answered without considering the content of the statement, we decided to design the questionnaire with the possibility to not respond to a statement but still enable submission of the questionnaire. Saunders et al. (2009, p. 363) refer to a respondent’s estimated response as an uninformed response, and by trying to reduce the risk of these kinds of responses we increase the reliability of the answers in the questionnaire.

4.1.2. Sample of the questionnaire

Since we have chosen to measure the impact on audit quality and efficiency based on various factors, it was necessary to include only auditors in the sample because they are the ones who have knowledge of the different factors and thus can express how they perceive that ISAs have affected audit quality and efficiency. Furthermore, the criteria for being a respondent of the
questionnaire were to have experience from auditing SMEs, have knowledge and practical experience of ISAs and of the former audit standard RS.

The total possible sample on the Swedish markets consists of 713 approved auditors and 3095 authorized auditors, exact numbers updated in May 2014 (Revisionsnämnden, 2014). Consequently, our sample consisted of 5.4 percent (204 auditors) of total possible sample in Sweden. A list of all email addresses to the entire sample is not public information and hence not accessible; thus, the sample was selected based on the access to emails in Sweden where the search engine Eniro was used. The audit firms with a website and located in different cities across Sweden were scanned in order to search for available public email addresses to approved or authorized auditors. The obtained email addresses belonged to auditors and was not general for the auditing firms, which increases the likelihood that it was the intended auditor who responded to the questionnaire, something that otherwise might be a problem according to Saunders et al. (2009, p 363). The sample consisted of auditors from the Big Four and from audit firms outside these four firms.

4.1.3. Distribution of the questionnaire

The questionnaire was distributed to 204 approved or authorized auditors with an online service called SurveyMonkey. The first email with the questionnaire was sent on the 27th of March 2014. Each auditor received an email including instructions with useful abbreviations for how to fill out the questionnaire (Appendix 1). In the email, the auditors were told that the questionnaire concerned audit of small and medium-sized enterprises with the application of International Standards on Auditing but in order to limit the risk for biased answers, they were not told the aim of the study. All auditors were also assured anonymity. An email with a reminder about the questionnaire was sent to those who had not yet responded and this was done twice with one week apart. Based on the number of respondents in the days after the questionnaire was distributed, we estimated that the number of the respondents would not

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increase significantly after the two reminders and the opportunity to participate in the questionnaire was closed on 23rd April 2014. The response rate was 15.1 percent (31/204 auditors).

4.1.4. The processing of information from the questionnaire
Saunders et al. (2009, p.365) recommend that questionnaire data that has been collected from 30 or more respondents should be analysed by computer, which we did with assistance from SurveyMonkey. We calculated the number of respondents in percent per response option and further a mean value for each statement was calculated; the highest possible mean value is 5 while the lowest is 1.

4.2. The interviews
The choice to complement the questionnaire with interviews is confirmed by Saunders et al. (2009, p. 362), who pointed out that interviews can increase the understanding of the results from a questionnaire. Our goal with the interviews (Appendix 3) was to receive possible explanations for the results from the questionnaires since the interviews allowed discussions with the respondents.

4.2.1. Design of the interviews
The interview questions were open in order to allow follow up questions, which according to Saunders et al. (2009, p. 320) characterize semi-structured interviews. Saunders et al. (2009, p. 324) stated that the use of semi-structured interviews enables the interviewers to ask the interviewee to develop their answers and ideas. Since semi-structured interviews by nature are flexible we used an interview guide with themes and questions that should be covered during the interviews. The order of the questions varied between the interviews depending on the interviewee responses. The complete interview guide (see Appendix 3) comprises 16 questions that include general questions concerning ISAs and auditing of SMEs, the allocation of time during an audit and questions concerning the identified changes between RS and ISAs.
4.2.2. Sample of the interviews
The sample for the interviews consists of six auditors from the sample for the questionnaire and it was limited time for the auditors that decided the selection of respondents for the interviews. In the interviews we were interested in the allocation of audit hours during an engagement and that is data only auditors have access to, which further motivates the choice to only include auditors in the sample.

Auditor A: Currently employed at an audit firm outside the Big Four audit firms.

Auditor B: Currently employed at one of the Big Four audit firms.

Auditor C: Currently employed at one of the Big Four audit firms.

Auditor D: Currently employed at an audit firm outside the Big Four audit firms.

Auditor E: Currently employed at one of the Big Four audit firms.

Auditor F: Currently employed at one of the Big Four audit firms.

4.2.3. Implementation of the interviews
All respondents were first contacted by phone and informed that the interviews would take approximately 30 minutes and that we were going to discuss the use of ISAs in the audit of SMEs. In order to limit the risk of biased answers, we informed the respondents that we would not disclose the specific aim of the study until after the interview had been conducted. After the phone call, the respondents received interview questions by email so that they would have the opportunity to prepare for the interview. However, only minor selected questions were part of the pre-sent interview guide (Appendix 5). We asked the respondents to answer the questionnaire before the interviews, which was a way for us to introduce and prepare the interviewee before the actual interview date.

The interviews with Auditor A, B, C and D were face-to-face interviews while the interviews with Auditor E and F were conducted by telephone interviews due to accessibility issues.
According to Saunders et al. (2009, p. 324) it is important to establish a personal contact with the respondents, which was possible to a larger extent during the face-to-face interviews compared to the telephone interviews. However, Bryman and Bell (2011, p. 488) state that a telephone interview is useful for hard-to-reach groups, and in this case we faced the problem to find time for a physical meeting. We believe that one possible drawback with the phone interviews was that we lost facial expressions that could not be captured in the same way as during the other interviews. On the other hand and according to Bryman and Bell (2011, p. 489), a phone interview can be more effective since the interviewee may be less stressed and thus feel more relaxed about answering when the interviewer is not physically present. Further, we asked all interviewees if we were allowed to audio-record the interviews and all of them agreed, which according to Saunders et al. (2009, p. 339) increases the reliability of the information.

4.2.4. The processing of information from the interviews
Each interview was transcribed and sent to the specific respondent so they would be able to give comments and clarify anything if necessary. With support from Saunders et al. (2009, p. 492) we categorized our transcribed material based on our theoretical framework, namely the changes between RS and ISA and the factors that affect audit quality and efficiency. Additional, we also included a category that treated the interviewees’ opinion about ISAs in the audit of SMEs. Since both the data from the questionnaire and from the interviews was based on the theoretical framework it was possible to use the interview responses to explain the results of the questionnaire. All interviewees were given the opportunity to read the final paper in case they wanted to clarify or remove anything, which was especially important since we translated all information from Swedish to English.

4.3. Operationalization: audit quality, efficiency, changes from RS to ISAs
In this section follows a description of how the two different data collection methods, questionnaire and interviews, measure how audit quality and efficiency have been affected after the implementation of ISAs and if ISAs have been implemented in auditing (Appendix 7).
Since the Likert scale applied in the questionnaire ranks from 1 to 5 for each statement, we were able to calculate a mean value for each statement by adding all answers of the respondents to a particular statement and then divide the sum of it by the number of respondents. The highest possible mean value is 5 while the lowest is 1. As a complement to the mean value, the responses are divided into three colour fields (red, orange and green), which show the distribution of the answers.

4.3.1. How audit quality is measured
According to Figure 2 there are eleven factors that affect audit quality and since we are interested in how ISAs have affected these factors, we have chosen to not treat any actual comparison of the prevalence of material misstatements in the financial statements before and after the implementation of the ISAs (see definition of audit quality). Each quality factor is measured by one of the statement 10 to 14 in the questionnaire. The statements are formulated partly as a positive statement and partly as a negative statement and the choice of combining positive and negative statements is supported by Saunders et al. (2009:379), who claim that this is a way to make sure that the respondents read each statement properly. The mean value for each statement shows how each factor has affected audit quality. In order to find out to what degree audit quality in its entirety has been affected after the implementation of ISAs, all mean values for the different statements were added and divided by the number of statements. The higher the score, the higher the level of improvement of audit quality.

4.3.2. How audit efficiency is measured
According to Figure 3 there are ten factors that affect audit efficiency and statement number 15 to 24 represents these. The results from statement 15 to 21 show if more audit hours are spent on any of the evidence-gathering activities. The findings from statement 23 and 24 aim to demonstrate if ISAs have complicated the audit for SMEs with certain characteristics. Moreover, statement number 22 is treated differently since the respondents were asked to rank the importance of each gathering of audit evidence activity in order to enable the auditor to write the audit report and express a final audit opinion. There are six identified activities and
thus a score of 1 indicated least important activity, while a score of 6 indicated the most important activity.

A commonly used method when measuring efficiency is the data envelopment analysis (DEA), which is a quantitative data oriented approach to measure and evaluate the performance (Boussofiane, Dyson & Thanassoulis, 1991). However, for this study we applied the simplified model, which according to Boussofiane et al. (1991), is expressed as efficiency equal to output divided by input. Since we had a homogenous set of units, audit hours for both input and output, it was appropriate to use the simplified model. When investigating audit efficiency, proxies for an audit’s inputs and outputs should be compared. The proxy for input are hours spent on the audit in total (O’Keefe, 1995; Knechel et al., 2009; Causholli et al., 2011), while the proxy for output is the hours that are spent on evidence-gathering activities (Causholli et al., 2011). The ratio between output and input show the degree of efficiency and since the ultimate outcome of an audit is the level of assurance, audit activities that lead to gathering of audit evidence are to be viewed as outputs (Knechel et al., 2009). The basis for the output is the previously identified audit activities: (1) audit planning, (2) internal control evaluation, (3) substantive testing (4) review of substantive testing (5) financial statement preparation, and (6) client interaction (Hackenbrack and Knechel, 1997).

Consequently, the ratio between output and input indicate whether it from an efficient perspective is recommended to increase the number of hours spent on high-value evidence-gathering activities or reduce the number of hours spent on low-value evidence-gathering activities. From the interviews we received the allocation of audit hours on the six evidence-gathering activities, which represent output while the input was calculated by adding all audit hours that were spent on the activities. The ratio between output and input was compared with the ranking in order to show if the allocation of audit hours are consistent with the auditors’ view on the importance of the activities, which indicates if the audit was efficient or not.
4.3.3. How the changes between RS and ISAs are investigated

The changes that are treated in this study are definitions and requirements, risk-based approach, client interaction, audit evidence, the audit report and documentation. Statement 25 to 30 in the questionnaire concerns these changes and the answers to these statements indicate if the changes between RS and ISAs are also changes that auditors perceive in the actual performance of an audit. Hence, by investigating if the respondents agree on the statements concerning the changes ISAs should have caused it is possible, with reasonable assurance, for us to claim that changes in audit quality and efficiency are due to the implementation of ISAs. We have calculated a mean value that indicates the overall mean of the results in order to show on a scale from 1 to 5 if the auditors have awareness of the changes.

4.4. Strengths and weaknesses with the chosen method

One of the strengths of this study is the timing of the conduct of the study. When this study was carried out in 2014, three years had passed since the implementation of ISAs and we consider that to be sufficient time for the auditors to form an opinion about the standard. The assumption that the timing was right was also confirmed during the interviews, since the majority of respondents felt that it was first in the second or even third year the auditors fully perceived that they applied International Standards on Auditing in practice. Given that both the questionnaire and the interviews were based on the comparison between RS and ISAs, we wanted the respondents to remember how it was to audit according to RS; hence it was essential that this study was conducted reasonably close to the change in standard. Another strength with this study was the choice of using both questionnaires and interviews to gather data. Before the implementation of the questionnaire we contacted several auditors to discuss our choice of topic for this study. During these conversations it emerged that there are those who prefer to fill out a questionnaire since that does not require as much time as an interview. However, there are also those who want to meet for an interview first to get a contact with us who conduct the study; after an initial contact has been implemented, they were willing to participate in the questionnaire as well. Our assessment is therefore that the number of respondents in the questionnaire increased because we also conducted interviews.
A weakness with this study is the response rate since a higher response rate had given more trustworthy results. The problem of access to audit firms were recognized by Pierce and Sweeney (2004), who noted that the opportunity to get in contact with audit firms is the greatest challenge for those conducting studies concerning auditing and especially when dealing with the conflict between cost and quality. Köhler (2009) confirmed that access to information is the main limitation for the implementation of empirical research in auditing.

5. Awareness of ISAs, audit quality and efficiency

In this section we start with a presentation of the auditors’ awareness of the changes between Revisionsstandard i Sverige (RS, Auditing Standards in Sweden) and International Standards on Auditing (ISAs). Secondly we discuss how audit quality has been affected and thirdly the effect on audit efficiency. The results are presented in Table 3, 4 and 5. The tables are divided into three fields where the red field implies that the respondents strongly disagree or disagree with the statement. The orange field stands for the respondents’ uncertainty; the respondents neither disagree nor agree with the statement given. The green field means that the respondents agree or strongly agree with the statement.

5.1. How well the auditors are aware of the changes between RS and ISAs

In Table 3 we present how aware the auditors are of the changes between Revisionsstandard i Sverige (Standard on Auditing in Sweden, RS) and International Standards on Auditing (ISAs). High mean value implies that the respondents are aware of the changes between RS and ISAs while low mean value implies the opposite.
<table>
<thead>
<tr>
<th>STATEMENT</th>
<th>Strongly disagree</th>
<th>Disagree</th>
<th>Undecided</th>
<th>Agree</th>
<th>Strongly agree</th>
<th>Mean Value</th>
<th>Number of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>25) Increased level of mandatory requirement for auditors</td>
<td>0%</td>
<td>0%</td>
<td>16.13%</td>
<td>58.06%</td>
<td>25.81%</td>
<td>4.10</td>
<td>31</td>
</tr>
<tr>
<td>26) Increased focus on risk assessment</td>
<td>0%</td>
<td>0%</td>
<td>3.23%</td>
<td>70.97%</td>
<td>25.81%</td>
<td>4.23</td>
<td>31</td>
</tr>
<tr>
<td>27) Increased client communication requirements</td>
<td>6.45%</td>
<td>6.45%</td>
<td>19.35%</td>
<td>64.52%</td>
<td>3.23%</td>
<td>3.52</td>
<td>31</td>
</tr>
<tr>
<td>28) Increased clearness for how audit evidence should be collected</td>
<td>6.45%</td>
<td>16.13%</td>
<td>38.71%</td>
<td>38.71%</td>
<td>0%</td>
<td>3.10</td>
<td>31</td>
</tr>
<tr>
<td>29) Increased structured audit report</td>
<td>16.13%</td>
<td>16.13%</td>
<td>51.61%</td>
<td>12.90%</td>
<td>3.23%</td>
<td>2.71</td>
<td>31</td>
</tr>
<tr>
<td>30) More hours allocated for documentation</td>
<td>0%</td>
<td>0%</td>
<td>23.33%</td>
<td>53.33%</td>
<td>23.33%</td>
<td>4.00</td>
<td>30</td>
</tr>
<tr>
<td>The recognition of ISAs – total average</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
5.1.1. The red and orange fields

As shown in Table 3 there is an overall low response rate in the red field but *increased structure of the audit report* received the highest response rate of the six changes in this field. Even if increased structure of the audit report has the highest percentage of respondents in the red field, this change still has the highest response rate (51.61 percent) of all change factors in the orange field. The mean value is 2.71 and therefore *increased structure of the audit report* is seen as an orange response. The majority of the ones we interviewed stated that ISAs resulted in changes of the audit report; such as the division into two sections and that deviations are described under separate headings (FAR 2012a). However, the auditors claimed that their clients still have problems understanding the content of the report and therefore it is difficult to claim that the report is more structured. Hence, the respondents might be aware of the changes but they do not perceive that the changes have resulted in a more structured audit report. Regarding if it is *clearer how audit evidence should be gathered*, the response rate is equal in the orange and the green field and a possible explanation for this result is given in section 5.1.2. The green field.

5.1.2. The green field

As shown by Table 3 five out of six statements have the majority of respondents in the green field with high mean values which shows that the auditors are aware of these changes, which are increased level of *mandatory requirements*, increased focus on *risk assessment*, increased requirements on client communication and increased number of documentation hours. As mentioned previously the response rate regarding if it is *clearer how audit evidence should be gathered*, is equally divided in the orange and the green field.

Starting with increased level of *mandatory requirements*, the interviewees agreed with the results from the questionnaire since all of them said that ISAs have more requirements in comparison with RS and the shall requirements were mentioned several times (consistent with ISA: 200; 260; 265; 315; 540; 550; 700). Regarding *increased risk focus*, Auditor A, B, C, D and F claimed that increased risk focus is the greatest, or one of the greatest, differences
between RS and ISA. Auditor A, B, C, D and F perceived that ISAs are clearer on how to perform the risk assessment and that auditors need to understand the risks and not just have knowledge about them (consistent with ISA: 315; 330). Further, Auditor A and C highlighted the demand that auditors need to understand the enterprise and its environment (consistent with ISA 315). In accordance with ISA 540, Auditor A pointed out that ISA 315 has new requirements in concern for planning and risk assessment, which are requirements that improve risk assessment.

Concerning increased requirements on client communication, Auditor A, B, E and F were aware of the requirements of ISAs (consistent with ISA: 210; 240), while auditor D to some degree could agree that ISAs requires more communication with the client. Auditor C perceived that the communication with the client concerned other issues compared to before ISAs were implemented. In agreement with most respondents in the questionnaire, all auditors but auditor F agreed that documentation requirements have increased after the implementation of ISA (consistent with ISA: 230; 270; 315; 320). Auditor B, C and E explained that the increased documentation requirements make it easier to understand how the auditor has thought and how the assessments were made during an audit engagement. Auditor B pointed out the significance to clarify and document an auditor’s responsibility regarding fraud (consistent with ISA 240). Both Auditor A and D expressed that the increased documentation is a quality assurance for the auditor.

Concerning improved clarity for how audit evidence should be gathered, Auditor A agreed partly that the gathering process has been clearer after the implementation of ISAs and Auditor C, D and F were aware of how to treat audit evidence in the form of external confirmations (consistent with ISA 505). Furthermore, Auditor A, B, C, D and F all pointed out that ISAs include instructions for how to assess information given by management (ISA 500) and how to communicate with management during the audit engagement (consistent with ISA 450). Auditor A, E and F emphasized ISAs requirements regarding inventory (consistent with ISA 501). Apparently the interviewees seem to be aware of the changes of ISAs in the collection of
audit evidence. However, the questionnaire resulted in equal responses in the orange and the green field which indicates an uncertainty that can be explained as the respondents were aware of the changes but they do not perceive that the changes have resulted in clearer collection of audit evidence.

Consequently, based on the results from the questionnaire and the interviews we claim the respondents are aware of the changes between RS and ISAs, which increases the possibility that ISAs have been applied within the audit profession, any impact on audit quality and efficiency is therefore treated as a consequence of the implementation of ISAs. Our judgment is supported on the fact that five out of six statements in the questionnaire have most respondents in the green field, which means the respondents are aware of the changes and that there are few responses in the red field (not aware of the changes).

5.2. Results concerning audit quality
In Table 4 we present whether the factors from Figure 2 have been affected or not by the implementation of ISAs. If answers are given in the red field that implies no improvement on the quality factor while the orange field means that the respondents cannot decide whether the factor that are measured has been affected by the implementation of ISAs or not. The green field implies that there is an improvement on that specific quality factor.
<table>
<thead>
<tr>
<th>STATEMENT</th>
<th>Strongly disagree</th>
<th>Disagree</th>
<th>Undecided</th>
<th>Agree</th>
<th>Strongly agree</th>
<th>Mean Value</th>
<th>Number of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>4) Increased professional skepticism</td>
<td>9.68%</td>
<td>22.58%</td>
<td>45.16%</td>
<td>19.35%</td>
<td>3.23%</td>
<td>2.84</td>
<td>31</td>
</tr>
<tr>
<td>5) Improved exchange of information with the client</td>
<td>12.90%</td>
<td>16.13%</td>
<td>54.84%</td>
<td>16.13%</td>
<td>0%</td>
<td>2.74</td>
<td>31</td>
</tr>
<tr>
<td>6) Not increased pressure to achieve audit quality</td>
<td>6.67%</td>
<td>43.33%</td>
<td>20.00%</td>
<td>26.67%</td>
<td>3.33%</td>
<td>2.77</td>
<td>30</td>
</tr>
<tr>
<td>7) Not tighter time budgets</td>
<td>13.33%</td>
<td>40.00%</td>
<td>20.00%</td>
<td>23.33%</td>
<td>3.33%</td>
<td>2.63</td>
<td>30</td>
</tr>
<tr>
<td>8) Higher focus on risk assessment</td>
<td>3.23%</td>
<td>6.45%</td>
<td>6.45%</td>
<td>67.74%</td>
<td>16.13%</td>
<td>3.87</td>
<td>31</td>
</tr>
<tr>
<td>9) Increased use of analytical procedures</td>
<td>3.23%</td>
<td>12.90%</td>
<td>29.03%</td>
<td>48.39%</td>
<td>6.45%</td>
<td>3.42</td>
<td>31</td>
</tr>
<tr>
<td>10) Easier to assess materiality</td>
<td>6.45%</td>
<td>25.81%</td>
<td>38.71%</td>
<td>29.03%</td>
<td>0%</td>
<td>2.90</td>
<td>31</td>
</tr>
<tr>
<td>11) Use of strategies that facilitate the changing of clients’ financial statements</td>
<td>6.45%</td>
<td>35.48%</td>
<td>54.84%</td>
<td>3.23%</td>
<td>0%</td>
<td>2.55</td>
<td>31</td>
</tr>
<tr>
<td>12) Improved quality control of audit engagement</td>
<td>6.45%</td>
<td>16.13%</td>
<td>41.94%</td>
<td>35.48%</td>
<td>0%</td>
<td>3.06</td>
<td>31</td>
</tr>
<tr>
<td>13) Improved quality reputation for auditors</td>
<td>16.67%</td>
<td>16.67%</td>
<td>56.67%</td>
<td>10.00%</td>
<td>0%</td>
<td>2.60</td>
<td>30</td>
</tr>
<tr>
<td>14) More valuable audit reports</td>
<td>16.13%</td>
<td>32.26%</td>
<td>41.94%</td>
<td>6.45%</td>
<td>3.23%</td>
<td>2.48</td>
<td>31</td>
</tr>
<tr>
<td><strong>Audit quality — total average</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>2.90</strong></td>
<td></td>
</tr>
</tbody>
</table>
5.2.1. The red field

According to Table 4, three factors have not been improved by ISAs and they might even have become impaired, which can harm audit quality. These factors are more valuable audit report, pressure to achieve qualitative audits and time pressure due to tighter time budgets. All these three statements have their highest amount of respondents in the red fields and therefore we assess that their possible negative effect on audit quality is higher than those statements that have lower mean values but the majority of respondents in the orange field.

Starting with the audit report, it has been argued that the report has more of a symbolic value than a communicative value and that the report does not include valuable information for the clients (Church et al., 2008; Coram et al., 2011). Most respondents in the questionnaire (mean value 2.48) also shared this view of the audit report. However, during the interviews it emerged that Auditor A, B, C and D perceive that the audit report contains more valuable information since ISAs became standards. Both Auditor A and Auditor D pointed out that the report is complicated, and that SMEs do not bother to read the report. Auditor C also perceived that clients choose not to read it because they do not understand the content, but this was an issue already before ISAs were implemented. Auditor A argued that the lack of understanding is not because the report is difficult to understand but rather that the clients do not take the time to read it. Auditor E said that it is sometimes difficult to write the audit report and to know where to write what; auditor F also stated that it has been a change regarding where to write what in the audit report. In other words, the majority of the ones being interviewed perceived that ISAs as standards have improved the value of the audit report but since the clients do not read the report, the problem with the report having a symbolic value remains.

Both pressure to achieve qualitative audits and time pressure due to tighter time budgets might impair audit quality (Russo et al., 2009; Knechel et al., 2013). The results concerning these two factors showed that many respondents answered strongly disagree or disagree, which indicates that the implementation of ISAs have not decreased time pressure. The statements concerning these two kinds of pressure do not address whether ISAs have increased the pressure, only if it
would have decreased, which it have not. In order to investigate if ISAs have increased time pressure, information from the interviews need to be taken into consideration. During the interviews, increased time pressure during an audit engagement was mentioned by all auditors, which indicates that time pressure in fact has increased due to ISAs. Auditor A stated that ISAs’ shall requirements have resulted in time pressure and according to auditor C the increased requirements on documentation is the reason for increased time pressure. Auditor E pointed out that it is not efficient to follow ISAs in the audit of SMEs since for instance risk assessment according to ISAs requires too much time. The opinions expressed during the interviews are in agreement with Svanberg and Öhman (2013), who found that auditors in Sweden feel pressured because of time budgets. Hence, results from both the questionnaire and the interviews indicated that ISAs have resulted in an increased time pressure that might impair audit quality. If an auditor applies his/her professional judgment he/she is less likely to be affected by this time pressure and as stated by Murra (2012) auditors who audit SMEs need to use their professional judgment to a large extent. However, Auditor A and F argued that ISAs have limited the ability to apply professional judgment. Russo et al. (2009) expressed a concern that an auditor can feel pressured to achieve high audit quality and that this might impair the auditor’s professional judgment. However, it was only auditor E who mentioned increased pressure to achieve qualitative audits, which indicate that this type of pressure is not a problem caused by ISAs.

5.2.2. The orange field

The factors that are represented by statements that have most of their answers in the orange field are professional skepticism, improved exchange of information with the client, materiality assessment, strategies to change clients’ financial statements, improved quality control of audit engagement and improved quality reputation for auditors. We can argue for different reasons for why these factors not resulted in any clear answers and we can support the results with information from our interviews.
One explanation can be that the respondents did not understand the statement; however, since the respondents could choose not to answer a statement we assess that explanation to be rather unlikely. Nor the timing of the implementation of this study should be an explanation for why the high amount auditors responded “undecided” since the interviews confirmed that they after two to three years were able to form an opinion about ISAs. A reasonable assumption is that the other respondents in the questionnaire also should have had time to form an opinion about ISAs, and the alternative that they did not had enough time to apply ISAs therefore seems unlikely. It is more likely that the respondents did not remember how it was to audit according to RS. Another possible explanation is that the statements with most respondents in the orange field contains minor changes between RS and ISAs and that the respondents have not reflected upon these changes as much as larger changes such as increased risk focus. The alternative that these factors were neglected due to the other factors was partly confirmed during the interviews, since it was only the improved exchange of information with the client and materiality that were discussed. Thus, none of the other quality factors were mentioned which indicates that the interviewees have not paid attention to these. A suitable way to receive specific and valuable knowledge about a client is to communicate with that client (Bonner, 1990), but in our study it was only auditor B who reported a little increase in communication with the client. Further, auditor B perceived that the increased client communication has led to a more proactive use of the auditor, which according to Beck and Wu (2006) can affect audit quality in a positive manner.

According to Knechel et al. (2013) auditors might be uncertain regarding how to assess materiality and a clarification regarding materiality assessment could facilitate the audit process (Messier et al., 2005). Auditor B and E claimed that ISAs made it clear how to think when assessing materiality and Auditor B pointed out that ISAs clarify what criteria to rely on when conducting calculations regarding materiality. Auditor D perceived that the implementation of ISAs have led to better motivation for how materiality numbers have been assessed. However, Auditor A pointed out that even though ISAs include calculation models regarding materiality,
these are not applicable on small and medium-sized enterprises. According to Auditor C and F ISAs have not changed the assessment of materiality.

5.2.3. The green field
As shown by Table 4, the two statements that received the highest mean value are increased risk focus (mean value 3.87) and increased use of analytical procedures (mean value of 3.42). These two factors also have their majority of respondents in the green field, which implies that the respondents agree or strongly agree with the statements. According to Figure 2 these two factors are positively related to audit quality and an improvement of them should improve audit quality.

The increased risk focus and clearer risk assessment were mentioned several times during the interviews and all but one auditor stated that the implementation of ISAs has led to clearer risk assessment. It was only auditor E who was uncertain about ISAs’ impact on risk assessment. Auditor A said that the increased risk focus is the greatest benefit with ISAs and both Auditor A and C implied that the need to reflect more on the business risk results in an increased knowledge and understanding of the client’s business. Contrary, Auditor B, C and D stated that implementation of ISAs in a positive way has led to a changed focus within the risk area where only significant risks are audited. Auditor C mentioned the increased focus on the item revenues. Moreover, Auditor D also mentioned the increased focus on revenues but also added that inherent risk, control risk and detection risk has more space in the audit now, which is in compliance with ISA 315. Auditor B’s explanation on the increased focus is “to scope”, which simplified is the same as that ISAs result in an increased focus on significant risks. Knechel et al. (2013) define risk assessment as the nature, extent and timing of planned procedures during an engagement and according to Auditor D, E and F an appropriate risk planning increases the possibility to focus on significant risks. Additionally, Auditor C said that one possible negative aspect is that clients might have problems understanding that auditors no longer have an eye on all items and instead only focus on some items.
Further, Hogan and Wilkins (2008) claimed that an increased use of substantive testing could reduce the detection risk. According to Knechel et al. (2013), the application of analytical procedures is essential when assessing risks, which can explain why the questionnaire both showed an increased focus on risk assessment and an increased use of *analytical procedures*. However, Hirst and Koonce (1996) found that communication with the client is essential during analytical procedures but according to the findings in the questionnaire most respondents chose to answer with the alternative “undecided” regarding if the client interaction had increased since ISAs were implemented. Further, only Auditor B reported that the communication with clients had increased, the other auditors said that the amount of communication was unchanged. Consequently and also required by ISAs, an improvement in client interaction could improve applied analytical procedures further. Auditor F implied that substantive testing is an essential part in SMEs, especially in small enterprises which most often do not have internal controls put in place and thus substantive testing is taking over the analytical parts of the audit.

Consequently, according to Table 4, no statement that represents the factors that affect audit quality has a mean value above 4.0 (agree) and likewise no statement has a mean value below 2.0 (disagree). Further, the mean value for audit quality in its entirety is 2.88, which indicates that the results from the questionnaire show a rather uncertain effect on audit quality. The results can be explained by the fact that ISAs have resulted in clearer risk assessment and increased use of analytical procedures which according to Knechel et al. (2013) has a positive impact on audit quality, but ISAs have also led to increased time pressure which according to Knechel et al. (2013) impair audit quality. The information from the interviews contributed with a further aspect of audit quality, namely that ISAs have improved the clarity of auditors’ work and responsibilities.

### 5.3. Results concerning audit efficiency

The results for how ISAs have affected audit efficiency are handled in three steps. In step 1, the results from the questionnaire (Table 5) concerning how ISAs have affected time spent on evidence-gathering activities. The information in Table 5 is complemented by results from
Table 6, where the allocation of audit hours from real audit engagements during RS and ISAs is presented. In step 2 the importance of the various activities are presented by a ranking order that is based on the responses from the questionnaire (Table 7), and by explanations from the interviews regarding why or why not an activity is considered important. In Step 3, time allocation for the six activities that was collected by the interviewees (Table 6) is compared with the ranking order of the activities (Table 7). Consequently, Table 6 (information concerning the ratio during ISA) and Table 7 (ranking order of the activities) are combined and they merge into Table 8, which is where audit efficiency during ISA is presented.

5.3.1. The allocation of audit hours for the evidence-gathering activities

The statements representing audit efficiency measure how the respondents perceive that the number of hours has been affected by the implementation of ISAs and the results are presented in Table 5. The red field implies no increase in the number of hours spent for a specific activity. Regarding the orange field, the respondents are not certain if the number of hours on a specific activity has increased or not. The green field means that an activity requires more audit hours than before ISAs were implemented.
Table 5

<table>
<thead>
<tr>
<th>STATEMENT</th>
<th>1 Strongly disagree (Red)</th>
<th>2 Disagree (Red)</th>
<th>3 Undecided (Orange)</th>
<th>4 Agree (Green)</th>
<th>5 Strongly agree (Green)</th>
<th>Mean Value</th>
<th>Number of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>15) Increased numbers of audit hours</td>
<td>0%</td>
<td>6.67%</td>
<td>23.33%</td>
<td>46.67%</td>
<td>23.33%</td>
<td>3.87</td>
<td>30</td>
</tr>
<tr>
<td>16) Increased hours on planning the audit</td>
<td>0%</td>
<td>3.33%</td>
<td>10.00%</td>
<td>70.00%</td>
<td>16.67%</td>
<td>4.00</td>
<td>30</td>
</tr>
<tr>
<td>17) Increased hours on internal control evaluation</td>
<td>0%</td>
<td>3.33%</td>
<td>43.33%</td>
<td>53.33%</td>
<td>0%</td>
<td>3.50</td>
<td>30</td>
</tr>
<tr>
<td>18) Increased hours on substantive testing</td>
<td>6.45%</td>
<td>32.26%</td>
<td>58.06%</td>
<td>3.23%</td>
<td>0%</td>
<td>2.58</td>
<td>31</td>
</tr>
<tr>
<td>19) Increased hours on review of substantive testing</td>
<td>0%</td>
<td>16.67%</td>
<td>66.67%</td>
<td>16.67%</td>
<td>0%</td>
<td>3.0</td>
<td>30</td>
</tr>
<tr>
<td>20) Increased hours on financial statement preparations</td>
<td>13.33%</td>
<td>33.33%</td>
<td>53.33%</td>
<td>0%</td>
<td>0%</td>
<td>2.40</td>
<td>30</td>
</tr>
<tr>
<td>21) Increased hours on interaction with client</td>
<td>12.90%</td>
<td>16.13%</td>
<td>54.84%</td>
<td>16.13%</td>
<td>0%</td>
<td>2.74</td>
<td>31</td>
</tr>
<tr>
<td>23) Increased hours on SMEs with strong growth</td>
<td>3.33%</td>
<td>6.67%</td>
<td>33.33%</td>
<td>50.00%</td>
<td>6.67%</td>
<td>3.50</td>
<td>30</td>
</tr>
<tr>
<td>24) Increased hours on SMEs with high business risk</td>
<td>0%</td>
<td>3.33%</td>
<td>20.00%</td>
<td>56.67%</td>
<td>20.00%</td>
<td>3.93</td>
<td>30</td>
</tr>
</tbody>
</table>
As seen below in Table 6 the observable outputs are the different audit activities defined by Hackenbrack and Knechel (1997). By taking the number of audit hours for a specific activity (output) divided by the total number of audit hours (input) we gain the ratio between output and input which is expressed in percentage. Auditor A, D and E were not able to report their allocation of audit hours during RS and in Table 6 this is presented as not available (n/a).

### Table 6

<table>
<thead>
<tr>
<th>AUDITOR A</th>
<th>AUDITOR B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit Activity</td>
<td>Hours RS</td>
</tr>
<tr>
<td>Audit planning</td>
<td>n/a</td>
</tr>
<tr>
<td>Internal control evaluation</td>
<td>n/a</td>
</tr>
<tr>
<td>Substantive testing</td>
<td>n/a</td>
</tr>
<tr>
<td>Review of substantive testing</td>
<td>n/a</td>
</tr>
<tr>
<td>Financial statement preparation</td>
<td>n/a</td>
</tr>
<tr>
<td>Client interaction</td>
<td>n/a</td>
</tr>
<tr>
<td>Total number of hours</td>
<td>n/a</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>AUDITOR C</th>
<th>AUDITOR D</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit Activity</td>
<td>Hours RS</td>
</tr>
<tr>
<td>Audit planning</td>
<td>12</td>
</tr>
<tr>
<td>Internal control evaluation</td>
<td>20</td>
</tr>
<tr>
<td>Substantive testing</td>
<td>45</td>
</tr>
<tr>
<td>Review of substantive testing</td>
<td>5</td>
</tr>
<tr>
<td>Financial statement preparation</td>
<td>10</td>
</tr>
<tr>
<td>Client interaction</td>
<td>5</td>
</tr>
<tr>
<td>Total number of hours</td>
<td>97</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>AUDITOR E</th>
<th>AUDITOR F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit Activity</td>
<td>Hours RS</td>
</tr>
<tr>
<td>Audit planning</td>
<td>n/a</td>
</tr>
<tr>
<td>Internal control evaluation</td>
<td>n/a</td>
</tr>
<tr>
<td>Substantive testing</td>
<td>n/a</td>
</tr>
<tr>
<td>Review of substantive testing</td>
<td>n/a</td>
</tr>
<tr>
<td>Financial statement preparation</td>
<td>n/a</td>
</tr>
<tr>
<td>Client interaction</td>
<td>n/a</td>
</tr>
<tr>
<td>Total number of hours</td>
<td>n/a</td>
</tr>
</tbody>
</table>

n/a: not available

5.3.2. The red field

Preparation of financial statements received the lowest mean value (2.40) and in addition most respondents were in the red field, which indicates that the respondents in the questionnaire do not perceive that ISAs have increased the number of hours spent on preparation of financial statements. Based on the obtained audit hours given by Auditor B, C and F financial statement
preparation received about the same proportion of hours during ISAs as with RS. Thus, ISAs have not resulted in any change of time spent on preparation of financial statements.

5.3.3. The orange field
The respondents in the questionnaire were uncertain about the change in audit hours spent on client interaction (mean value 2.74). Auditor C and F reported that the time spent on client interaction is unchanged after the implementation of ISAs while Auditor B reported that they have increased the number of audit hours spent on client interaction, but the change is not remarkable. Further, Auditor C emphasized that the increased documentation has taken some time previously laid on the interaction with client. Due to the uncertainty perceived by the respondents in the questionnaire, we choose to rely on the result from Table 6 since that is data from a real audit engagement. Thus, ISAs have not resulted in any change of time spent on client interaction. Substantive testing also received a rather low mean value (2.8) with most respondents being uncertain what to answer. Auditor B and F reported that substantive testing takes less time during ISAs compared to RS while Auditor C reported no change but a redistribution of hours within substantive testing. Thus, ISAs have either decreased or maintained the number of audit hours allocated on substantive testing. Regarding review of substantive testing, the majority of the respondents answered “undecided” on this statement (mean value 3.0) while Auditor B, C and F reported that they allocate the same proportion of audit hours on review of substantive testing as before ISAs were implemented. Thus, ISAs have not resulted in any change of time spent on review of substantive testing.

5.3.4. The green field
As shown by Table 5 the statements that received the highest mean value for increased hours on the activity is audit planning (mean value of 4.0), which was also confirmed by Auditor B. However, Auditor C and F reported no increase in the number of audit hours allocated on audit planning. Thus, ISAs have either maintained or increased the number of audit hours allocated on audit planning. The statement concerning internal control evaluation also had most of their respondents in the green field, which implies that ISAs have resulted in that more time is spent
on the internal control evaluation, a perception confirmed by the audit engagements retrieved from Auditor B and F. Thus, ISAs have either maintained or increased the number of audit hours allocated on internal control evaluation.

Increased hours to perform an audit received a mean value of 3.87 and most respondents were in the green field, which indicates that an audit of an SME takes additional time with ISAs compared with RS. However, the results from Table 6 show that an audit takes equal time to conduct as before ISAs were introduced. Thus, ISAs have either maintained or increased the number of audit hours required to conduct an audit.

Client with high business risk (second highest mean value, 3.93) and clients with a strong growth are not activities but they are examples of client-specific characteristics that have an impact on audit efficiency. Both these characteristics had most of their respondents in the green field and that means that if an SME has a high business risk or strong growth, the audit will take longer timer to conduct. The fact that most respondents said that a client with high business risk takes additional time to audit is consistent with the increased risk focus of ISAs.

5.3.5. The importance of the evidence-gathering activities
In order to investigate the importance of the activities when gathering audit evidence, we calculated a mean value for the importance of each activity. The highest mean value an activity could receive was 6, which indicates highest importance possible; the lowest was 1 and indicates least important activity. As shown by Table 7, audit planning received the highest mean value and the majority of the respondents gave the activity a score of 5 or 6. The second most important activity was client interaction with a mean value of 4.13 and most respondents gave it a score of 4 or 6. Preparation of financial statements was viewed as least important (mean value 2.60) and a large part of the respondents provided the activity with a score of 1, which means least important.
Table 7

<table>
<thead>
<tr>
<th>ACTIVITY</th>
<th>Least Important</th>
<th>Most Important</th>
<th>Mean Value</th>
<th>Number of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1 (Red)</td>
<td>2 (Red)</td>
<td>3 (Orange)</td>
<td>4 (Orange)</td>
</tr>
<tr>
<td>Audit planning</td>
<td>10.00%</td>
<td>10.00%</td>
<td>10.00%</td>
<td>6.67%</td>
</tr>
<tr>
<td>Internal control evaluation</td>
<td>13.33%</td>
<td>13.33%</td>
<td>16.67%</td>
<td>33.33%</td>
</tr>
<tr>
<td>Substantive testing</td>
<td>10.00%</td>
<td>13.33%</td>
<td>33.33%</td>
<td>10.00%</td>
</tr>
<tr>
<td>Review of substantive testing</td>
<td>16.67%</td>
<td>36.67%</td>
<td>16.67%</td>
<td>13.33%</td>
</tr>
<tr>
<td>Financial statement preparation</td>
<td>40.00%</td>
<td>13.33%</td>
<td>16.67%</td>
<td>13.33%</td>
</tr>
<tr>
<td>Client interaction</td>
<td>10.00%</td>
<td>13.33%</td>
<td>6.67%</td>
<td>23.33%</td>
</tr>
</tbody>
</table>

Auditor A, B, D and F stated that *audit planning* is the most important activity, since it is during the planning stage the auditor can identify the significant risks and decide the priorities. Auditor A, B and D explained that with a careful planning there is a greater chance that you do not spend time on something unnecessary. Both Auditor B and F claimed that the planning sets the foundation for all other activities and the profitability and audit efficiency of the engagement. Auditor C and E felt that *interaction with the client* is most important and it would foster the audit efficiency if more time was spent on interaction with small and medium-sized enterprises. However, both Auditor C and E pointed out that audit planning is also essential and that a good planning improves audit efficiency. In the audit of SMEs, all auditors expressed a concern about ISAs requirements on *evaluation of internal control*. Our interviewees explained
that most often in an SME the internal control is lacking since the client does not have the systems that provide internal control.

5.3.6. How audit efficiency has been affected after the implementation of ISAs

By the use of data envelopment analysis we divided the number of audit hours that was allocated for a specific activity and then that number was divided by the total number of audit hours to perform the engagement. The ratio between allocated time on a specified activity and the total time to conduct an audit was then compared with the importance of the activities in order to evaluate how auditors use their time resources, that is how efficient an audit engagement is.

Table 8 presents the ratio calculation (data taken from Table 6) and the importance of the evidence-gathering activities. By using the mean values of the activities from Table 7, we have reached the following ranking order starting with the most important activity: *Audit planning, Client interaction, Substantive testing, Evaluation of internal control, Review of substantive testing and financial statement preparation*. In the right column in Table 8, the importance of the activities is presented, green means most important and red least important.

**Table 8**

<table>
<thead>
<tr>
<th>Ratio calculation versus importance of evidence-gathering activity</th>
<th>Auditor A</th>
<th>Auditor B</th>
<th>Auditor C</th>
<th>Auditor D</th>
<th>Auditor E</th>
<th>Auditor F</th>
<th>Mean value</th>
<th>Average importance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit planning</td>
<td>0.20</td>
<td>0.13</td>
<td>0.12</td>
<td>0.08</td>
<td>0.10</td>
<td>0.12</td>
<td>0.12</td>
<td>6</td>
</tr>
<tr>
<td>Client interaction</td>
<td>0.15</td>
<td>0.06</td>
<td>0.05</td>
<td>0.02</td>
<td>0.10</td>
<td>0.05</td>
<td>0.07</td>
<td>5</td>
</tr>
<tr>
<td>Substantive testing</td>
<td>0.40</td>
<td>0.45</td>
<td>0.46</td>
<td>0.40</td>
<td>0.40</td>
<td>0.42</td>
<td>0.42</td>
<td>4</td>
</tr>
<tr>
<td>Evaluation of internal control</td>
<td>0.10</td>
<td>0.20</td>
<td>0.21</td>
<td>0.42</td>
<td>0.23</td>
<td>0.30</td>
<td>0.24</td>
<td>3</td>
</tr>
<tr>
<td>Review of substantive testing</td>
<td>0.10</td>
<td>0.07</td>
<td>0.05</td>
<td>0.04</td>
<td>0.10</td>
<td>0.05</td>
<td>0.07</td>
<td>2</td>
</tr>
<tr>
<td>Preparation of financial statements</td>
<td>0.05</td>
<td>0.08</td>
<td>0.10</td>
<td>0.04</td>
<td>0.10</td>
<td>0.10</td>
<td>0.08</td>
<td>1</td>
</tr>
</tbody>
</table>

The activity that received the highest ratio between output and input (mean value 0.42) was *substantive testing*. According to Knechel et al. (2009) the activity that receives most hours should also be the most important activity, but that was not the case in this study since
substantive testing was judged as the third most important activity. Auditor E was aware that most audit hours are spent on substantive testing even if the activity is not one of the most important ones. A possible explanation for the fact that the most time was spent on substantive testing may be that the smaller the enterprise is, the less time is spent on the evaluation of the internal control and more on substantive testing (Auditor C and F). In order to improve audit efficiency, the amount of audit hours spent on substantive testing (output) should be reduced, since that would give a lower ratio which is more in line with the importance of substantive testing. Thus, as previously mentioned, the number of audit hours allocated on substantive testing has decreased in some engagements, indicating that continued reduction of time spent on substantive testing might be expected.

*Evaluation of internal control* was the activity after substantive testing which received most audit hours (0.24) but on the ranking list this activity was viewed as the fourth most important activity. According to Knechel et al. (2009) the less important an activity is the less time should be placed on that activity. However, our findings from the questionnaire and from the majority of the interviews show that ISAs have led to an increase in time spent on evaluation of internal control. Hence, a reduction of hours spent on evaluation of internal control would provide more efficient audits of SMEs, especially since our previously presented results showed that ISAs have maintained or increased the number of audit hours allocated on internal control evaluation.

It is remarkable that *client interaction* received the lowest mean value (0.07) but the activity was viewed as the second most important activity. Both Auditor C and D said that an increased level of client interaction would reduce the time it takes to conduct an audit since the auditor would gain valuable information for the planning, which would make the audit process more efficient. Further, Auditor C and D stated that the client interaction level is lower in SMEs compared to larger enterprises, which means that the lack of client interaction especially is a problem in SMEs. Auditor F pointed out that the interaction with the client also is an important part of audit planning. As previously mentioned, ISAs require increased level of client interaction and that is a requirement that the majority of the respondents in our study were
aware of. However, despite the increased requirements no significant improvement in client interaction has occurred; and both Auditor A and C explained that increased documentation requirements due to ISAs reduce the opportunity to improve client interaction. In order for an audit to be efficient, the amount of hours spent on client interaction (output) should increase, since that would give a higher ratio that is more in line with the importance of client interaction. Further, our previously presented results showed that auditors neither perceived nor reported any increase in client interaction.

*Audit planning* received a mean value of 0.12 while our study showed that audit planning is viewed as the most important evidence-gathering activity. Therefore we argue with support from Knechel et al. (2009), that this activity should have the highest number of audit hours. Even though audit planning is not one of the activities that received most audit hours we have found that ISAs have led to auditors spending more time now on audit planning compared to under RS, which indicates that some improvement of audit efficiency has been made in concern for planning. However, Auditor C pointed out that even more time should be spent on audit planning in order to improve the use of the available time resources. All the other auditors also confirmed the positive relationship between audit planning and audit efficiency and a further increase of hours allocated for audit planning would provide efficient audits.

*Preparation of financial statements* (0.08) received the second lowest proportion of audit hours and this activity was judged by the auditors as least important in the gathering of audit evidence. *Review of substantive testing* retrieved the lowest proportion of audit hours (mean value 0.07), and was judged as the second least important activity. The marginal difference concerning the proportion of audit hours for these two activities enable us to claim that the time resources for preparation of financial statements and review of substantive testing are in accordance with the importance of the activities. Both activities obtained the same proportion of audit hours during RS and ISAs and hence, ISAs have not affected the time allocation for these activities.
Consequently, the implementation of ISAs has not affected the time allocation for client interaction, preparation of financial statements and review of substantive testing. In order for an audit to be efficient more time needs to be allocated on client interaction, which is not something that ISAs fulfil. ISAs have resulted in increased time spent on audit planning which is positive seeing from an efficient point of view. However, in order to achieve efficient audits, client interaction and audit planning need to receive a higher proportion of audit hours since these activities are judged as the most important ones. Hence, there is a need to reallocate audit hours across the activities and since SMEs often lack internal control it is necessary to have a rather high allocation of audit hours on substantive testing. Therefore, we suggest that time resources should be reallocated from internal control evaluation to client interaction and audit planning. This argument is supported from all interviews since it emerged that the requirements on internal control evaluation is not always appropriate considering that internal control often is lacking in SMEs. In addition, our results from the questionnaire and from Auditor B and F showed that ISAs in fact have increased time spent on internal control evaluation due to the shall requirement, which might even impair the efficiency of audits. Further, during the interviews it was pointed out that additional time spent on audit planning and client interaction would increase audit efficiency. In addition, increased client interaction would not only improve efficiency but also audit quality.
6. The need for adaption of ISAs in the audit of SMEs

The previously presented international research and Swedish debate about International Standards on Auditing (ISAs) in the audit of small and medium-sized enterprises (SMEs) showed that there are divided opinions about the appropriateness of ISAs. By applying the results from our study, it is possible to discuss ISAs and the audit of SMEs to a greater extent since we contribute with a greater sample of auditors.

6.1. Our findings compared to previous research

During our study it became clear that one of the major changes between Revisionsstandard i Sverige (Standard on Auditing in Sweden, RS) and International Standards on Auditing (ISAs) are the shall requirements of ISAs, which has made auditing stricter concerning what to do when the auditor performs an audit of a small or medium-sized enterprise (SMEs). Ye and Simunic (2013) pointed out that a standard that is characterized by toughness might result in that unnecessary procedures are carried out. Auditor A, B and D emphasized that the shall requirements of ISAs are not applicable in the audit of SMEs and that has resulted in the performance of unnecessary procedures. In contrast to Ye and Simunic (2013), Auditor B, C and E claimed that stricter ISAs promote auditors’ professional judgment since a shall requirement only states what to audit, not exactly how to do it. Hence, the how provides increased room to apply professional judgment even though ISAs include more requirements compared to RS.

Jianu (2011) conducted a study with a similar purpose to ours where the results showed that ISAs had led to an improved audit quality in general, but this study was not limited to investigate SMEs. Our findings also indicated that the implementation of ISAs has led to some improved audit quality, especially due to clearer risk assessment and increased use of analytical procedures. Compared to Jianu (2011) we added an additional aspect when evaluating ISAs, namely audit efficiency. Since previous research has identified a conflict between audit quality and efficiency (Antle & Nalebuff 1991; Bowrin & King I, 2010; Pierce & Sweeney, 2004), it is
not possible to obtain a fair result of how ISAs have affected auditing if only quality is investigated. Therefore we also considered audit efficiency in order to investigate how much audit quality is worth in terms of audit hours; our findings showed that in order for audits to be efficient, more time should be allocated on audit planning and client interaction.

6.2. Our findings compared to the Swedish debate

The need for increased documentation that already is debated by Adrian and Olsson (2012) was also pointed out by Auditor B who had seen a clear need of more documentation before ISAs were introduced. Likewise, Auditor C, D and E could see the positive aspects of increased documentation, such making it easier to understand how auditors think, and to see the links between different assessments during an engagement. Not mentioned by Adrian and Olsson (2012) but commonly pointed out by the respondents in this study was the negative aspect of increased documentation. Auditor C expressed a fear of losing the client due to increased documentation requirements and Auditor A, D and E stated that a negative aspect of documentation is the increased time to conduct an audit.

“There are a lot of advantages; the burden is that it is time consuming and difficult to achieve profitability in audit engagements.”

Auditor E

Auditor A, B and D expressed the same opinion as Ekman (2012), who claimed that ISAs are based on the need of larger enterprises and that might cause problems when auditing SMEs. In accordance with Ekman (2012) and Emilsson (2013) Auditor A, B and D argued that many of the shall requirements of ISAs cause problems in the audit of SMEs. Auditor A and D agreed with Emilsson (2013) that it should be possible to deviate from shall requirements, and instead allow a shall to be optional.
"... many requirements are not SMEs to take advantage and it is not applicable. Somehow, you have to weigh the cost against the benefit...”

Auditor D

Auditor A stated that there is an absolute need to adapt ISAs for SMEs since there is a high level of conditional requirements that are not applicable.

"For smaller companies, I think it has become too much work around the mandatory requirements and I know many who work for smaller firms that feel the same."

Auditor A

Ekman (2012) raised a concern that these shall requirements might impair the space for professional judgment, a problem that was mentioned by Auditor A and F. In contrast to Ekman (2012) Auditor B, C and E experience that ISAs promotes the professional judgment since there is an opportunity to get support in the standard when making assessments.

“ISAs promote professional judgment I would say; there is something very clear for you to lean on”

Auditor C

However, Auditor C emphasized that ISAs do not have a too high level of shall requirements. The challenge is that auditors and their audit firm need to develop appropriate methods to deal with the shall requirements of ISAs. The International Federation of Accountants (IFAC, 2014f) and Lennartsson (2011) confirmed the view that the methodology of an audit firm is essential for the audit process. Further, Auditor C claimed that ISAs do not need to be adapted for SMEs, an opinion shared by Adrian and Olsson (2012). Adrian and Olsson (2012) claimed that the problem with ISAs is that auditors do not understand the standard; but the results from both our questionnaire and interviews showed that most auditors have good knowledge about the changes ISAs have caused. Assuming that being aware of the changes between RS and
ISAs is equal to have an understanding of ISAs, our results indicate that the respondents have a relatively good understanding of ISAs. The only problem related to lack of understanding concerned the audit report, a problem mentioned by Emilsson (2013) and confirmed by Auditor A and D in our study. Auditor C agreed that there is a problem with the audit report and that most clients do not read it; but a simplification is not necessary since the problem is the client’s own effort to understand, not the content of the report.

With the current situation, Auditor E believes that it is impossible to apply the ISAs fully since it takes too much time to audit SMEs and from a cost perspective it is not justifiable. Auditor B and D pointed out that every audit firm can find ways to adapt their methodology when auditing SMEs. An adapted methodology facilitates the auditor’s work to follow ISAs in a more efficient way; but both Auditor B and D pointed out that an adaption puts high demands on the audit firm since there is a risk to not meet the requirements of ISAs. Ekman (2012) claimed that the market demands adapted ISAs and Auditor A highlighted that small companies dominate the Swedish market and thus it is motivated to adapt ISAs.

Consequently, comparing our results to the Swedish debate that treated the appropriateness of ISAs in the audit of SMEs, our major finding is that the shall requirements of ISAs are not always applicable in the audit of SMEs. However, the results from the questionnaire showed that a key player for higher audit quality was the use of analytical procedures. Analytical procedures concern how the auditor works with the choice of method in order to obtain relevant and reliable audit evidence. During our interviews it emerged that the auditors who worked for a Big Four audit firm did not have the same problem with ISAs as the auditors who worked for smaller audit firms. The auditors who worked for any of the Big Four firms explained that they have helping tools that assist them to collect audit evidence in an efficient way and still accomplish the shall requirements of ISAs. In addition, both Auditor B and D who worked for a Big Four firm meant that they would have a greater need for an adaption of ISAs if they worked at a smaller audit firm. The auditors who actually worked at a smaller audit firm (Auditor A and
D) were also the auditors that most clearly pointed out the need to adapt ISAs in the audit of SMEs.

7. Do ISAs fulfil their aim in the audit of SMEs?

The underlying reason to conduct this study was the debate about the application of International Standards on Auditing (ISAs) in the audit of small and medium-sized enterprises (SMEs). Hence, the research question was formulated as follows: how has the implementation of ISAs in Sweden affected audit quality and efficiency in the audit of small and medium-sized enterprises?

Based on the perception of the auditors who participated in this study, we found that the implementation of ISAs have resulted in clearer risk assessment and increased use of analytical procedures which has a positive impact on audit quality. Worth noting is that the results from the questionnaire showed that the majority of the respondents perceived that it takes additional time to complete an audit of an SME when ISAs are applied; but when the actual audit engagements were presented during the interviews, it appeared that the time for the audit engagements was unchanged. Even if auditing does not require additional time, ISAs still have resulted in an increased time pressure and that might have an adverse impact on audit quality. One of the greatest changes with ISAs, are the shall requirements that have clarified the role of the auditor. However, these requirements have also impaired audit efficiency since our results showed that ISAs have resulted in an increased amount of audit hours spent on internal control evaluation. Hence, there is a need to reallocate audit hours across the activities and as a suggestion; time resources can be reallocate from the activity internal control evaluation to the activities client interaction and audit planning. This redistribution of audit hours is supported by the importance of the activities in the gathering of audit evidence. Further, a finding from the questionnaire, which was also expressed several times during the interviews, was the increased amount of hours spent on documentation. Moreover, there is a risk that the increased requirements for documentation result in that evidence-gathering activities actually receive less
time with ISAs since their allocated hours before ISAs are now also used for documentation. Hence, we claim that documentation needs to be treated as an activity and thus be part of the efficiency calculation in order to measure efficiency in a more fair way.

Consequently, our results showed a low increase of audit quality and a decrease of audit efficiency. This conflict between audit quality and efficiency is mostly explained by the shall requirements of ISAs since many of these are not applicable in the audit of SMEs. Therefore, it is motivated to adapt ISAs and to allow deviations from these shall requirements since that would reduce time pressure and hence increase both audit quality and efficiency. The outcome would be that International Standards on Auditing are closer to fulfil their aim in the audit of small and medium-sized enterprises.

7.1. Suggestions for future research in the field of ISAs

During our study we found indications that the problem with ISAs might not be limited to SMEs, the size of the audit firm must also be taken into consideration Hence, a suggestion is to conduct a Likert Scale Regression Analysis in order to explore whether there is any difference in the need to adapt ISAs for Big Four audit firms and smaller audit firms. Further, the findings from our study contribute with an understanding for which factors that have been affected by ISAs and the next step for future research would be, based on the definition of audit quality, to perform an actual comparison of the prevalence of material misstatements in the financial statements before and after the implementation of the ISAs. Moreover, we suggest future research to include documentation as an activity when investigating efficiency since that would provide a more fair presentation for how the available audit hours are used in an audit engagement. Additionally, it would be interesting to compare the discussion about the consequences of increased documentation in the audit profession with other professions, such as teaching or healthcare, in order to collect new insights that could be helpful for how to get the benefits of increased documentation to overcome the costs.
References


Murra, Z. 2012. “Does one size fit all? Clarified ISAs can be used to audit small-to- medium entities in a proportionate way”, *Chartered Accountants Journal*, vol. 91, no. 10, pp. 46-47.


Interviews

Auditor A., Authorized auditor, April 1, 2014. Personal interview.
Auditor B., Authorized auditor, April 2, 2014. Personal interview.
Auditor C., Authorized auditor, April 9, 2014. Personal interview.
Auditor D., Authorized auditor, April 9, 2014. Personal interview.
Auditor E., Authorized auditor, April 25, 2014. Phone interview.
Auditor F., Authorized auditor, April 25, 2014. Phone interview.
Appendix 1: Questionnaire

Audit of small and medium-sized enterprises with application of ISAs

You are totally anonymous in this questionnaire.

Abbreviations
ISAs: International Standards on Auditing
RS: Revisionsstandard i Sverige (Auditing Standards in Sweden)

This part consists of short questions about your role as an auditor.

1) Do you work as an approved or authorized auditor?

2) How long have you worked as an auditor?

3) Do you work at one of the “Big Four” (KPMG, PWC, Ernst&Young, Deloitte) audit firms?

   YES    NO

Description of the statements
In this part you are asked to use a scale from 1 to 5 in order to answer how well you consider the statement is consistent with your own opinion. The statements relate to comparisons between auditing according to Auditing in Sweden (RS) and according to International Standards on Auditing (ISAs) in the audit of small and medium-sized enterprises.

4) After the implementation of ISAs, an auditor uses his professional skepticism to a greater extent when collecting audit material.

5) After the implementation of ISAs, the exchange of information between the auditor and client has improved.

6) The implementation of ISAs has not lead to an increased pressure on achieving qualitative audits.

7) The implementation of ISAs has not lead to tighter time budgets for audit engagements.

8) After the implementation of ISAs, it is a higher focus on risk assessment during the audit process.

9) After the implementation of ISAs, analytical procedures are used to a greater extent in risk assessment.

10) After the implementation of ISAs, it has become easier to judge what is seen as material in the audit.

11) After the implementation of ISAs, strategies are used to make it easier to conduct possible changes in the client’s financial statements.

12) After the implementation of ISAs, the quality control of the audit engagement has improved.

13) After the implementation of ISAs, the qualitative reputation of auditors has improved.

14) After the implementation of ISAs, the information in the audit report has become more valuable to stakeholders.

15) After the implementation of ISAs, an audit requires more audit hours.
16) After the implementation of ISAs, an audit requires more hours for audit planning.

17) After the implementation of ISAs, an audit requires more hours for internal control evaluation.

18) After the implementation of ISAs, an audit requires more hours for substantive testing.

19) After the implementation of ISAs, an audit requires more hours for review of substantive testing.

20) After the implementation of ISAs, an audit requires more hours to prepare and finalizing the financial statements.

21) After the implementation of ISAs, an audit requires more hours to communicate with the client.

22) Rank the following activities from 1 to 6 according to how important you think they are regarding the collection of audit evidence in order for you to write and sign an audit report. 1 implies that the activity is least important, while 6 implies that the activity is most important in the gathering of audit evidence.

Audit planning ___
Internal control evaluation ___
Substantive testing ___
Review of substantive testing ___
Preparation of financial statements ___
Communication with the client ___
Total Hours ___
23) After the implementation of ISAs, an audit requires more audit hours when a company is considered to have strong growth.


24) After the implementation of ISAs, an audit requires more audit hours when a company is considered to have a high risk profile.


25) After the implementation of ISAs, there is more shall requirements concerning the responsibility of the auditor.


26) After the implementation of ISAs, the focus on risk assessment has increased.


27) After the implementation of ISAs, the requirement for client interaction has increased.


28) After the implementation of ISAs, the approach for how to collect audit evidence has become clearer.


29) After the implementation of ISAs, the audit report has become more structured.


30) After the implementation of ISAs, auditing requires more hours on documentation.

Appendix 2: Frågeformulär

Revision av små och medelstora företag med tillämpning av ISA

Du är helt anonym i detta frågeformulär.

Förkortningar
ISA: *International Standards on Auditing*
RS: *Revisionsstandard i Sverige*

Den här delen består av korta frågor om din roll som revisor.

1) Arbetar du som godkänd eller auktoriserad revisor?

2) Hur länge har du arbetat som revisor?

3) Arbetar du på en av de stora fyra revisionsbolagen (*KPMG, PWC, Ernst&Young, Deloitte*)?

   JA  NEJ

Instruktioner gällande följande påståenden
I denna del ombeds du med hjälp av en skala från 1-5 ange hur väl du anser att påståendet överensstämmer med din åsikt. Påståendena avser jämförelser mellan att revidera enligt Revisionsstandard i Sverige (RS) och International Standards on Auditing (ISA) vid revision av små och medelstora företag.

4) Efter att ISA implementerades ges större utrymme för revisorn att tillämpa sin professionella skepticism vid insamlingen av revisionsmaterial.


5) Efter att ISA implementerades har utbytet av information mellan revisor och klient förbättrats.

6) Implementeringen av ISA har inte lett till en ökad press att uppnå kvalitativa revisioner.

7) Implementeringen av ISA har inte lett till mer snäva tidsbudgetar för revisionsuppdrag.

8) Efter att ISA implementerades är det ett ökat fokus på riskbedömningen under revisionsprocessen.

9) Efter att ISA implementerades används analytiska procedurer i större utsträckning vid riskbedömning.

10) Efter att ISA implementerades är det lättare att avgöra vilket revisionsmaterial som är väsentligt för revisionen.

11) Efter att ISA implementerades används strategier som gör det lättare att genomföra de ändringar som eventuellt behöver göras i klienters finansiella rapporter.

12) Efter att ISA implementerades har kvalitetskontrollen av revisionsuppdrag förbättrats.

13) Efter att ISA implementerades har revisorers kvalitetsrykte förbättrats.

14) Efter att ISA implementerades har informationen i revisionsrapporten blivit mer värdefull för intressenter.

15) Efter att ISA implementerades krävs fler revisionstimmar för ett revisionsuppdrag.

16) Efter att ISA implementerades läggs fler timmar på planering av revisionen.

17) Efter att ISA implementerades läggs fler timmar på utvärdering av klientens interna kontroller.
18) Efter att ISA implementerades läggs fler timmar på substansgranskning.

19) Efter att ISA implementerades läggs fler timmar på inspektionen gällande valet av använd substansgranskning.

20) Efter att ISA implementerades läggs fler timmar på att förbereda och färdigställa de finansiella rapporterna samt tillhandahålla enklare redovisningstjänster.

21) Efter att ISA implementerades läggs fler timmar på att kommunicera med klienten.

22) Rangordna följande aktiviteter från 1 till 6 utefter hur viktiga du anser att de är för insamling av revisionsmaterial för att du ska kunna skriva en revisionsberättelse samt underteckna denna. 1 betyder att aktiviteten är minst viktig medan 6 betyder att aktiviteten är den viktigaste för insamlingen av bevismaterial.

   **Revisionsplanering**
   ______

   **Utvärdering av intern kontroll**
   ______

   **Substansgranskning**
   ______

   **Utvärdering av vald substansgranskningsmetod**
   ______

   **Förberedelse av de finansiella rapporterna**
   ______

   **Kommunikation med klienten**
   ______

   **Total antal timmar**
   ______

23) Efter att ISA implementerades krävs fler revisionstimmar när ett företag som har stark tillväxt ska revideras.

24) Efter att ISA implementerades krävs flera revisionstimmar när ett företag som anses ha hög riskfaktor ska revideras.
25) Efter att ISA implementerades har det blivit fler tvingande krav gällande revisorns ansvar under en revision.

26) Efter att ISA implementerades har det blivit ett större fokus på riskbedömning.

27) Efter att ISA implementerades har kravet på kommunikation med klienten ökat.

28) Efter att ISA implementerades har det blivit mer tydligt hur revisionsbevis ska samlas in.

29) Efter att ISA implementerades har revisionsrapporten blivit mer strukturerad.

30) Efter att ISA implementerades avsätts fler revisionstimmar för dokumentation.
Appendix 3: Complete interview guide

1) What was your first reaction when International Standards on Auditing were implemented?

2) Has your attitude towards ISAs changed now after three years of practical use. If yes, in what way?

3) How have you learned about ISAs and learned how these standards intend to be applied?

4) What are the advantages in the audit of small and medium-sized enterprises when applying ISAs?

5) What are the disadvantages in the audit of small and medium-sized enterprises when applying ISAs?

6) Are there any differences in the audit of small and medium-sized enterprises and large enterprises now when ISAs have been implemented? If yes, what are the differences?

7) Do you consider that there is a need to adapt ISAs when small and medium-sized enterprises are audited? If yes, why? If no, why not?

8) How many hours do you spend on an audit engagement for a small and medium-sized enterprise?

9) How many hours spent on the following activities during an audit engagement for small and medium-sized enterprise. Refer to a specific audit engagement (client) for both when RS was applied and when ISAs were applied, enter also the number of employees and turnover of the client.

   *Audit planning* __hours
   *Internal control evaluation* __hours
   *Substantive testing* __hours
   *Review of substantive testing* __hours
   *Preparation of financial statements* __hours
   *Communication with client* __hours

**Total Hours** __hours

Number of employees __
Yearly turnover __
10) Have you noticed that ISAs have imposed new requirements for what to conduct during auditing? If yes, in what way?

11) Have you noticed that ISAs have a higher focus on risk assessment than what Revisionsstandard i Sverige (Auditing Standards in Sweden) had? If yes, in what way?

12) Have your communication and dialogue with the customer changed when you follow ISAs compared to when you followed RS? If yes, in what way?

13) Have you changed your approach to how you perform the audit in regards for how to collect information in order to assess and express yourself in the audit report? If so, in what way?

14) Have you changed your approach for how you prepare and finalize the audit report? If yes, in what way?

15) Have your way to document the audit changed when you follow ISAs compared to when you followed RS? If yes, in what way?

16) Anything that you would like to add?
Appendix 4: Fullständig intervjuguide

1) Vad var din första reaktion när ISA implementerades?

2) Har din inställning till ISA ändrats nu efter tre års tillämpning. Om ja, i så fall hur?

3) Hur har du gått tillväga för att lära dig om hur ISA som standard ska tillämpas?

4) Vilka fördelar finns det med att revidera små och medelstora företag enligt ISA?

5) Vilka nackdelar finns det med att revidera små och medelstora företag enligt ISA?

6) Finns det skillnader med att revidera små- och medelstora företag samt stora företag nu när ISA har implementerats? Om ja, vilka är dessa skillnader?

7) Anser du att det finns ett behov av att anpassa ISA när små- och medelstora företag ska revideras? Om ja, varför? Om nej, varför inte?

8) Hur många timmar lägger du på ett revisionsuppdrag för ett litet eller medelstort företag?

9) Hur många timmar läggs på följande aktiviteter under ett revisionsuppdrag för ett litet eller medelstort företag under? Utgå från ett specifikt uppdrag (klienten) när RS tillämpades och ett när ISA tillämpades, ange antal anställda samt omsättning för klienten.

   Revisionsplanering: ______ timmar
   Utvärdering av intern kontroll: ______ timmar
   Substansgranskning: ______ timmar
   Utvärdering av vald substansgranskningsmetod: ______ timmar
   Förberedelse av de finansiella rapporterna: ______ timmar
   Kommunikation med klienten: ______ timmar

Totalt antal timmar: ______ timmar

Antal anställda: ______

Årlig omsättning: ______

10) Har du märkt av att ISA ställer nya krav på vad som ska genomföras vid revision? Om ja, på vilket sätt?

11) Har du märkt av att ISA har ett större riskfokus än vad RS hade? Om ja, på vilket sätt?
12) Har din kommunikation och dialog med kunden förändrats nu när du följer ISA? Om ja, på vilket sätt?

13) Har du förändrat ditt tillvägagångssätt för hur du genomför revisionen gällande hur du samlar in revisionsbevis för att kunna bedöma och yttra dig i revisionsberättelsen? Om ja, på vilket sätt?

14) Har du förändrat ditt tillvägagångssätt för hur du förbereder och färdigställer revisionsberättelsen förändrats? Om ja, på vilket sätt?

15) Har ditt sätt att sköta dokumentation i revisionen förändrats under tillämpning av ISA jämfört med tiden då RS var den standard som följdes? Om ja, på vilket sätt?

16) Har du någonting du vill tillägga?
Appendix 5: Pre-send Interview guide

Audit of small and medium-sized enterprises with application of ISAs

Below are the questions that will be asked during the interview, these questions are likely to be supplemented by additional questions during the interview.

Awareness of the following abbreviations and definitions is essential:

**ISAs**: International Standards on Auditing (applicable regulatory framework for auditors in Sweden from January 2011).

**RS**: Revisionsstandard i Sverige (Auditing Standards in Sweden)

**Small and medium-sized enterprises**: At least 10 employees but fewer than 250 employees and a turnover of more than € 2 million but equal to or less than 50 million or a balance sheet of more than € 2 million but equal to or less than 43 million.

Questions:

What was your first reaction when ISAs were implemented?

How have you proceeded to learn about how ISAs as standards should be applied?

What advantages and disadvantages are there to audit small and medium-sized enterprises with the application of ISAs?

Are there differences in the audit of small and medium-sized enterprises and large enterprises now when ISAs have been implemented? If yes, what are these differences?
How many hours spent on the following activities during an audit engagement for small and medium-sized enterprise. Refer to a specific audit engagement (client) for both when RS was applied and when ISAs were applied, enter also the number of employees and turnover of the client.

Audit planning ______ hours
Internal control evaluation ______ hours
Substantive testing ______ hours
Review of substantive testing ______ hours
Preparation of financial statements ______ hours
Communication with client ______ hours
Total Hours ______ hour

Number of employees _____
Yearly turnover _____

Have you noticed if ISAs place new demands on what is to be conducted during the audit? If yes, in what way?
Appendix 6: Förhandsskickad intervjuguide

Revision av små och medelstora företag med tillämpning av ISA

Nedan följer de frågor som kommer att ställas vid intervjutillfället, dessa frågor kommer troligtvis att kompletteras med följdfrågor under själva intervjutillfället.

Medvetenhet om följande förkortningar och definitioner är essentiellt:

ISA: International Standards on Auditing (tillämpbart regelverk för revisorer i Sverige från och med januari 2011).

RS: Revisionsstandard i Sverige (de regelverk som tillämpades innan ISA infördes i Sverige).

Små och medelstora företag: Minst 10 anställda men färre än 250 anställda och en omsättning på mer än 2 miljoner euro men lika med eller mindre än 50 miljoner euro eller en balansomslutning på mer än 2 miljoner euro men lika med eller mindre än 43 miljoner euro.

Frågor:

Vad var din första reaktion när ISA implementerades?

Hur har du gått tillväga för att lära dig om hur ISA som standard ska tillämpas?

Vilka för- och nackdelar finns det med att revidera små och medelstora företag enligt ISA?

Finns det skillnader med att revidera små och medelstora företag samt stora företag nu när ISA har implementerats? Om ja, vilka är dessa skillnader?
Hur många timmar läggs på följande aktiviteter under ett revisionsuppdrag för ett litet eller medelstort företag under? Utgå från ett specifikt uppdrag (klienten) när RS tillämpades och ett när ISA tillämpades, ange antal anställda samt omsättning för klienten.

<table>
<thead>
<tr>
<th>Aktivitet</th>
<th>Timmar</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revisionsplanering</td>
<td></td>
</tr>
<tr>
<td>Utvärdering av intern kontroll</td>
<td></td>
</tr>
<tr>
<td>Substansgranskning</td>
<td></td>
</tr>
<tr>
<td>Utvärdering av vald substansgranskningsmetod</td>
<td></td>
</tr>
<tr>
<td>Förberedelse av de finansiella rapporterna</td>
<td></td>
</tr>
<tr>
<td>Kommunikation med klienten</td>
<td></td>
</tr>
<tr>
<td><strong>Totalt antal timmar:</strong></td>
<td></td>
</tr>
</tbody>
</table>

Antal anställda: 

Årlig omsättning:
Appendix 7: Presentation of which factor each statement measures

<table>
<thead>
<tr>
<th>Measure of audit quality</th>
<th>Measure of audit efficiency</th>
<th>Measure of changes between RS and ISA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statement nr in questionnaire</td>
<td>Statement nr in questionnaire</td>
<td>Statement nr in questionnaire</td>
</tr>
<tr>
<td>Input</td>
<td>Input</td>
<td>Changes</td>
</tr>
<tr>
<td>Professional skepticism</td>
<td>Total audit hours</td>
<td>Definitions and requirements</td>
</tr>
<tr>
<td>Client-specific knowledge</td>
<td></td>
<td>Risk-based approach</td>
</tr>
<tr>
<td>Incentives and motivation</td>
<td>Consistent with output: 16 – 22</td>
<td>Client interaction</td>
</tr>
<tr>
<td>Within-firm pressure</td>
<td>Evidence-gathering activities</td>
<td>Audit evidence</td>
</tr>
<tr>
<td>Audit process</td>
<td>Output</td>
<td>Audit report</td>
</tr>
<tr>
<td>Risk assessment</td>
<td>Audit planning</td>
<td>Documentation</td>
</tr>
<tr>
<td>Analytical procedures</td>
<td>Internal control evaluation</td>
<td></td>
</tr>
<tr>
<td>Audit evidence</td>
<td>Substantive testing</td>
<td></td>
</tr>
<tr>
<td>Auditor-client negotiation</td>
<td>Review</td>
<td></td>
</tr>
<tr>
<td>Review and quality control</td>
<td>Financial statement preparation</td>
<td></td>
</tr>
<tr>
<td>Context</td>
<td>Client interaction</td>
<td></td>
</tr>
<tr>
<td>Market reputation</td>
<td>Activities importance</td>
<td></td>
</tr>
<tr>
<td>Output</td>
<td>Exogenous factors</td>
<td></td>
</tr>
<tr>
<td>Audit report</td>
<td>Strong growth</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Client riskiness</td>
<td></td>
</tr>
</tbody>
</table>

- Input: Professional skepticism, Client-specific knowledge, Incentives and motivation, Within-firm pressure
- Audit process: Risk assessment, Analytical procedures, Audit evidence, Auditor-client negotiation, Review and quality control
- Context: Market reputation
- Output: Audit report
- Changes: Definitions and requirements, Risk-based approach, Client interaction, Audit evidence, Audit report, Documentation