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The impact of forensic specialists on the expectation gap

**A multiple case study on the Big 4 forensic service
departments' influence on auditors in Sweden**

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Abstract

It has long been a problem for the audit profession that what the public expects from an audit differs from what the auditors themselves would prefer the audit objectives to be. This dilemma is commonly known as the expectation gap. One area where the gap is highly prevalent is when it comes to the auditors' ability and duty to detect fraud. Failing to meet the public's expectations in terms of fraud detection may put the legitimacy of the auditors at risk. There are two ways to address this gap, informing the public about the auditors' responsibilities or adapting to the expectations. The first alternative has been favoured by the audit profession but has not reached the desired results; the expectation gap is still prevalent. It is now suggested that the auditors need to increase their performance to be in line with the public's expectations instead. One way of increasing the performance would be for the auditors to cooperate with forensic specialists. Since the forensic specialists' impact on the expectation gap has to the best of our knowledge, not been studied previously, this paper aims to examine what role forensic services plays in relation to the expectation gap in Sweden. Institutional theory is used to explain the factors both driving and hindering the auditors from addressing the expectation gap with the help of forensic specialists. A multiple case study of the Big 4 auditing firms is conducted, where nine forensic specialists and eight auditors have been interviewed. The identified three main points of contact between the professions show that to the extent the forensic specialists are used, they have an impact on the auditors. The expected effect is an increased performance of the audit and thereby a narrowing of the expectation gap.

Keywords: Expectation gap, Fraud detection, Forensic services, Institutional theory

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1 Introduction

In 2013, the professional institute for authorized public accountants in Sweden, Förenade Auktoriserade Revisorer (FAR), issues a report stating that recent corporate scandals have affected the public's trust in the audit profession. Members of the public claim that the scandals would never have happened if the auditors had done their jobs properly. The report is an attempt to inform the public about what the obligations of the auditors are, and what they are not. It is clear that the expectations differ between the auditors and the public when it comes to what the auditors' responsibilities are, a dilemma which is commonly referred to as the expectation gap.

The concept of the expectation gap is introduced by Liggio in 1974, referring to the differences between expected performance as recognized by the users of financial reports and assumed by the auditors. Even though the expression is coined in the mid 1970s, the phenomenon has existed long before that. Since then, there have been various definitions of the gap. The expectation gap is argued to appear because of the vagueness of the audit notion as well as a lack of transparency. The audit process is not very transparent and the public does not know what has been examined, what methods have been used or what potential issues the auditor has encountered. The expectation gap can for instance be discussed in relation to the amount of information in the audit opinion, the quality of information, or what the audit should include.

One area where the expectation gap is highly prevalent is when it comes to the auditors' responsibility to detect fraud. The consequences of fraud can be costly both for auditors and the clients. According to the global fraud study "Report to the Nations" conducted by the Association of Certified Fraud Examiners (ACFE) in 2014, it is assumed that companies lose 5% of their revenues to fraud yearly, resulting in an estimated total loss of \$3,7 trillion. Furthermore, a crime survey study by PwC (2016) shows that 27% of the responding Swedish organisations have experienced economic irregularities during the last two years. However, fraud does not only damage the organisations in monetary terms, it damages reputation and negatively affects investors' perception of the organisations as well (Christensen, Byington, & Blalock, 2005). Failing to meet the public's expectations in terms of fraud detection is also problematic for the auditors since it exposes them to litigation risks and may lead to increased regulation of the audit profession if it is not addressed (Zikmund & O'Reilly Allen, 2007). Ultimately, it may put the legitimacy of the profession into question. Legitimacy is a necessity

for all organisations and can only be achieved if the organisations adapt to what the surroundings expect of them (Meyer & Rowan, 1977).

Since the expectation gap is dependent on the beliefs of both the public and the auditors, there are two ways for the auditors to address it. First, the auditors could inform the public about the obligations of the auditors and thereby change their expectations. The other alternative would be for the auditors to adapt to the expectations of the public. This option implies that the auditors would have to improve their performance when it comes to fraud detection. In North America, we see that auditors are using forensic specialists in the audit process to manage fraud risk and the number of these specialists is increasing. Whether this also is the case in Sweden we do not know. What we do know is that all Big 4 auditing firms in Sweden have forensic service departments offering fraud investigations, dispute services and various types of advisory services revolving around fraud issues.

The ever-existing dilemma of the expectation gap has been addressed from different angles over the years, but to the best of our knowledge, no one has studied forensic services in relation to the gap. Subsequently, this study will answer the question of what role forensic services plays in relation to the expectation gap in Sweden. Therefore the purpose of our study is to explore the possible points of contact between the forensic specialists and the auditors and analyse what influence they may have on the expectation gap. By studying the interactions the forensic specialists have with the auditors, we aim to contribute to the research on the expectation gap in relation to fraud detection. Furthermore, we will contribute to the research on forensic services in Sweden.

In total, interviews with eight auditors and nine employees from the forensic service departments are conducted, evenly distributed among all Big 4 auditing firms. Institutional theory is used to analyse the empirical data and we see that the need for legitimacy is a driving force behind the will to close the gap but it could also obstruct the achievement of this goal. To the extent that forensic specialists are used, we find that they have an impact on the auditors and we expect them to increase the performance of the audit. Therefore, the predicted consequence will be a narrowing effect on the expectation gap. We identify three points of contact between the two professions through which the forensic specialists have an impact on the auditors: formal and informal knowledge sharing, involvement of forensic specialists in the audit process and through the investigative services forensic specialists provide outside of

the audit engagement. Among the identified benefits of sharing knowledge are an even more sceptical mindset and an increased awareness of fraud issues. The exchange of knowledge that occurs is seen in a positive light and adds value to the auditors. However, the study shows that contact between the forensic service department and the audit division is limited with the strict confidentiality serving as a barrier to the sharing of knowledge. While some auditors claim their fraud knowledge is sufficient, others admit that there could be room for improvements and would like to see even more knowledge sharing in the future. Involving the forensic specialists in the planning phase of an audit can make the fraud risk assessment less of a mechanical exercise. It is also beneficial to include them in the execution phase since they have additional skills and techniques when it comes to fraud detection including enhanced interview techniques and data analytics. Lastly, the main service that forensic departments provide is fraud investigations which could be provided both to audit clients and non-audit clients. While the services the forensic specialists offer are mainly seen by the auditors as an opportunity to provide additional services to their audit clients, most of them admit that these services often give them increased comfort in the audit engagement as well. This is the case whether the forensic specialists are consulted as part of an audit engagement or if they are hired directly by the clients.

2 Previous research

In this chapter we first review literature on institutional theory that forms the base of our analysis. This leads us into our domain theory which regards the expectation gap. Here we examine the origin and the development of the gap as well as research regarding responses to address it. Lastly, research on forensic services is examined to get an understanding of the profession to be able to analyse what role forensic services plays in relation to the expectation gap.

2.1 Institutional theory

In order to survive, an organisation needs legitimacy in the institutional environment in which it exists. Legitimacy is created by adapting to rationalized myths, such as institutionalized policies and procedures (Meyer & Rowan, 1977). Institutional theory highlights how organisations are affected by other organisations in their environment and how they change in response to them (Eriksson-Zetterquist, 2009). According to Sikka, Puxty, Willmott, and Cooper (1998, p. 303) “...*the social context of auditing is continuously changing...*”. Over the years, the audit profession has been affected by various stakeholders. For instance, regulators and standard setting bodies have pushed for stricter regulations for the auditors, and have in turn been criticised by the auditing industry associations. Often, fraud scandals portrayed in the media have been a catalyst for this development. Additionally, the professional training and socialization of auditors have an effect on the evolution of the audit. Sikka et al. (1998, p. 304) conclude: “*no social group, let alone the auditing profession, enjoys a monopoly of power in defining the meaning of its actions...*”.

Two important articles within the field of institutional theory are written by Meyer and Rowan (1977) and DiMaggio and Powell (1983). It is argued that organisations alter their practices as a response to functional, political and social pressures that put their legitimacy at risk (Oliver, 1992). Often this leads to organisations becoming homogenous, a process which DiMaggio and Powell (1983) refer to as institutional isomorphism. According to the authors there are three mechanisms through which this adaptation can appear: coercive, mimetic and normative isomorphism. Coercive isomorphism stems from political, legal and cultural pressure which can be either explicit or more subtle. Mimetic isomorphism is driven by uncertainty and leads to organisations imitating each other, a response the authors refer to as modelling. This process of modelling can be transferred consciously or unconsciously. Normative isomorphism originates from professionalization which can be divided into two

parts, the first one concerning formal education and the second regarding professional networks. The professionalization gives rise to best practices used by the organisations. Furthermore, the filtering and socialization of professionals are two other driving factors of normative isomorphism. DiMaggio and Powell (1983, p. 150) also point out that the three mechanisms are not distinct and that they “*intermingle in empirical setting*”.

Even though organisations need legitimacy in order to survive, it may give rise to two problems. Organisations may feel forced to follow ceremonial rules, which can conflict with the effectiveness of the business. Even if there are methods that will be more effective or more appropriate for the organisation to use, these are rejected in favour of less effective methods that are legitimized and considered to be norms. Also, the ceremonial rules may be determined by different parts of the environment and thus they can conflict with themselves (Meyer & Rowan, 1977). The authors introduce two interrelated tools that organisations can use as a response to these conflicts: decoupling and the logic of confidence. Decoupling implies that the formal structure is detached from the inner workings of the organisation and is maintained through the logic of confidence and good faith. Due to the confidence and good faith, both internally and externally, the legitimacy of the organisation remains. Thus, it is assumed that the day-to-day work is running smoothly and that employees are performing their roles properly. Since the auditors are affected by various institutions, there is a risk that these institutions have contradicting views of what is the most appropriate or effective procedure or process when it comes to auditing. By decoupling what is presented externally, the audit opinion, from what is conducted internally during the audit process, the auditors are able to protect themselves from scrutiny by the public.

The theory of institutionalism is used to explain various issues within the field of auditing. Cohen, Krishnamoorthy and Wright (2008) examine how three alternative theories, institutional theory being one of them, can explain corporate governance of accounting and auditing issues. For instance they find that in uncertain situations, the board can choose an audit committee in accordance with ceremonial rules instead of choosing the people being the most appropriate for the assignment. Also, they argue that institutional theory can be useful in order to understand the governance of auditing firms. Additionally, Baker, Bédard and Prat di Hauret (2014) aim to explain the similarity of audit regulations in the US, France and Canada. They find that a form of decoupling is used where regulatory structures are only similar on the surface. Carpenter and Dirsmith (1993) show how sampling became a legitimate method

within the auditing, applying institutional theory. When the auditors started to advocate the sampling method, they needed to institutionalise the new purpose of the audit, changed from fraud detection to giving a “fair view” of the financial statements. Applying institutional theory to auditing research is appropriate since legitimacy is a central concept in institutional theory and legitimacy is also necessary for the auditors to remain in business. As all organisations, auditors are affected by the expectations of the public and diverging expectations between the public and the auditors may threaten the legitimacy of the profession.

2.2 The expectation gap

Auditing is built on legitimacy. Without it, there is no purpose of auditing. Auditors give their clients legitimacy through the audit reports. Also, they receive legitimacy by making sure their own procedures and processes are in line with the norms and expectations of the environment. However, when the expectations are drifting apart, the legitimacy of the auditors is threatened. Hence, this threat explains why the expectation gap is a problem for the auditors that needs to be addressed. As Power (2003, p. 392) explains it *“the auditing system exports and imports legitimacy, but in a cycle of constant reform in which change must be made legitimate itself, and in which the legitimacy of audit is constantly threatened by the misalignment of expectations about and within the system...”*. The constantly changing audit concept gives rise to a time lag between the new expectations of the public and adaptation to these expectations by the audit profession. This evolution is considered as one of the reasons why the expectation gap exists (Koh & Woo, 1998). The other reason is that the auditor’s role and responsibilities are difficult for the public to understand (Humphrey, Moizer, & Turley, 1992). There have also been several definitions of the gap discussed throughout the years. According to Guy and Sullivan (1988, p. 36) the expectation gap is defined as *“a difference between what the public and financial statement users believe accountants and auditors are responsible for and what the accountants and auditors themselves believe they’re responsible for”*, and Sikka et al. (1998, p. 299) define it as *“the difference(s) between what the public expects from an audit and what the auditing profession prefers the audit objectives to be”*.

Research around the expectation gap highlights areas where the expectations differ between the auditors and the public. For instance, studies in both the UK (Innes, Brown, & Hatherly, 1997) and the US (Bailey III, Bylinski, & Shields, 1983) link the expectation gap to the

amount of information in the audit opinion. They conclude that providing more information about what has been found in the audit will be valuable to users and thus decreases the expectation gap. A study in the Netherlands (Vanstraelen, Schelleman, Meuwissen, & Hofmann, 2012) shows that the effect on the expectation gap is not only dependent on the amount of information but on the kind of information provided in the audit opinion. In New Zealand, Porter (1993) examines the size of the expectation gap and how it changes over time and in Sweden, Öhman (2007) interviews auditors and stakeholders and verifies the existence of an expectation gap. Öhman points to two problematic areas where expectations differ, one concerning how much the auditor should look for economic irregularities and the other concerning audit of “soft”, forward-looking information and “going concern”. These two areas are the ones the stakeholders consider valuable and important to audit. Power (1997, p. 22) highlights the connection between fraud and the expectation gap when he states that *“the gap is between what the public expects—the detection of fraud—and what auditors claim to be delivering—an opinion on the financial statements which appeals to notions such as ‘fairness’ or ‘true and fair’”*. While the expectation gap can be discussed in relation to various aspects, henceforth, when referring to the expectation gap it is in relation to fraud detection.

2.2.1 The development of the auditors’ fraud detection responsibilities and the origin of the expectation gap

In the early history of auditing, fraud detection is one of the primary responsibilities of the auditor (DiGabriele, 2009; Gray & Moussalli, 2006). In 1900, Lawrence R. Dicksee, one of the fathers of modern accounting, states, *“the detection of fraud is a most important portion of the auditor’s duties, and there will be no disputing the contention that the auditor who is able to detect fraud is – other things being equal – a better man than the auditor who cannot”* (p. 8). Over the years, the task to detect fraud becomes increasingly difficult and costly to perform due to increased complexity. In 1939 the Statement of Auditing Procedures (SAP) No. 1 is introduced, stating: *“To exhaust the possibility of exposure of all cases of dishonesty or fraud, the independent auditor would have to examine in detail all transactions. This would entail a prohibitive cost to the great majority of business enterprises – a cost which would pass all bounds of reasonable expectation of benefit or safeguard there from, and place an undue burden on the industry”* (American Institute of Accountants, 1939, pp. 4-5). As a result, auditors start to reject the responsibility of detecting fraud and instead try to inform the

public that their core task is to give an opinion on whether the financial statements are free from material misstatements or not. *“...American auditors denied primary responsibility for fraud detection. They relegated fraud discovery to the status of incidental by-product of an audit whose purpose was to render an opinion on the fairness of presentation in accordance with generally accepted accounting principles.”* (Gray & Moussalli, 2006, p. 15). Consequently, the expectations of the public and the auditors drift apart and the expectation gap is a fact. A string of corporate scandals follow in the 20th century and new standards are set by the audit profession, introducing concepts such as materiality and professional scepticism (Chui & Pike, 2013), fundamental principles within auditing today.

At the end of the 20th century, criticism is not only raised against the laws but also against the performance of the auditors. Porter (1993) extends the concept of the expectation gap into an audit expectation-performance gap, claiming that the auditors are not fulfilling their obligations according to the standards. She considers the old definition to be too narrow and does not *“allow for sub-standard performance”* (1993, p. 50). The new, widened definition that she introduces is *“the gap between society’s expectations of auditors and auditors’ performance, as perceived by society”* (1993, p. 50). The author divides the gap into two components: ‘the reasonableness gap’ and ‘the performance gap’¹. The first component refers to a difference between what society expects the auditors to accomplish and what are reasonable duties for the auditors to undertake. The performance gap concerns the difference between what is reasonable to expect the auditors to accomplish and what the auditors themselves perceive to be their duties. Furthermore, the performance gap can be divided into two sub terms: deficient standards and deficient performance. The first term, deficient standards, refers to the gap between the duties that are reasonably expected of the auditors and the current duties of the auditors. The other term, deficient performance, instead regards a gap between the existing duties of the auditors determined by law and their current performance.

Another row of corporate scandals at the beginning of the 21st century once again puts the focus both on the auditors’ deficient performance and on deficient standards. In 2002 the Sarbanes-Oxley Act is implemented, and later the same year “Statement on Auditing Standards (SAS) no. 99: Consideration of fraud in a financial statement audit” is implemented. The standard explains in detail what steps auditors have to take when

¹ See picture in Appendix 1

considering fraud in the audit. The international equivalent of SAS no. 99, “The International Standard on Auditing (ISA) 240: The auditor’s responsibilities relating to fraud in an audit of financial statements” is less detailed and leaves more room for the auditor’s judgement. It is issued by the International Accounting Standards Board (IASB) as a response to external pressure and emphasizes that it is management and those charged with governance that has the primary responsibility to prevent and detect fraud and not the auditor (Chong, 2013). The ISA standard further defines fraud as *“an intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage”* (paragraph 11a). According to ISA paragraph 3, fraud is divided into fraudulent financial reporting and misappropriation of assets. In practice it is common to include corruption as a third category (Association of Certified Fraud Examiners (ACFE), 2014). The responsibility of the auditor is limited to *“obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error”* (ISA 240, paragraph 5). However, the term reasonable assurance is not clearly defined in the standard neither is the notion of material misstatement, leaving it up to the judgment of the auditor.

2.2.2 Attempts to address the gap

Using an auditor’s perspective, there are two responses to the expectation gap (Humphrey et al., 1992). The first is a defensive approach which entails educating the public about the auditors’ responsibilities and also to reassure them that the auditors are handling everything in a proper manner. Thereby they hope to affect the expectations of the public. The second alternative is called the constructive approach which implies increasing the scope of the audit, altering the audit activities to meet the expectations of the public.

Regarding the defensive approach to address the expectation gap, De Martinis and Burrowes (1996) find that increasing the amount of information in the audit opinion regarding fraud detection will have a narrowing effect on the expectation gap. However, Hatherly, Innes, & Brown (1991) come to the conclusion that the expectation gap can in fact increase because of additional information in the audit opinion. This is referred to as a “halo effect” implying that there are spill over effects from the information stated in the audit opinion. If the audited items are conducted in accordance with the standards, the reader will perceive everything to be in accordance with the standards. Monroe and Woodliff (1994) arrive at a similar result in

an Australian study when they examine the implementation of a new audit opinion. The authors find that changing the wording and including additional topics in the audit opinion narrowed the expectation gap in relation to those topics whereas new gaps appeared in relation to topics not covered.

Despite efforts from the audit profession, trying to inform the public about managers' and auditors' responsibility of detecting fraud according to the laws and regulations, there is still an expectation gap (Akers & Bellovary, 2006; DiGabriele, 2009). Further, Sikka et al. (1998) argue that the gap will always remain for two reasons. Firstly, the audit concept is too vague for the public to grasp. There are differences between the normative and the operational definitions of an audit, and thus the meaning of an audit can be interpreted differently (Power, 1997; cf. Innes et al., 1997). Also, the fact that the term “reasonable assurance” lacks a clear definition may contribute to the vagueness of the audit concept (Hogan, Rezaee, Riley Jr., & Velury, 2008). Secondly, the concept is always evolving with changing definitions (Sikka et al., 1998). The audit has nowadays been transferred to other fields as well, such as environmental audits, value for money audits and management audits, a phenomenon that Power (1997) refers to as the audit explosion. The adaptability of the audit concept makes it applicable to many fields, but at the same time it makes it more difficult to explain what an audit should include. Although the alternative to close the expectation gap by educating the public has not given rise to the desired results yet, it is still a strategy actively used.

The constructive response to address the expectation gap, on the other hand, is to adapt to the expectations of the public and to take on additional responsibility when it comes to detecting fraud (Humphrey et al., 1992). The idea of a performance gap has gained increased attention during the 21st century with researchers such as Vanstraelen et al. (2012) and Catasús, Hellman, and Humphrey (2013) arguing that the expectation gap is not just a matter of educating the public. Gray and Moussalli (2006, p. 15) agree with the idea: *“Leaders stubbornly refused to acknowledge the problem was not an expectations gap but a performance gap. But the profession was unable to educate the public out of its ignorance.”* Zikmund and O'Reilly-Allen (2007) give further support for the existence of a performance gap claiming that auditors need to be more educated and use appropriate techniques in order to detect fraud to narrow the gap. Despite recognizing the need for improvements, the authors do not further specify how these should be accomplished. Zikmund (2008) claims that auditors need to have the right mindset and involve forensic processes in order to detect fraud.

Asare, Wright, and Zimbelman (2015) agree that knowledge, training and experience are crucial factors in order for auditors to detect fraud. Based on a survey to fraud examiners they are able to identify these factors as the most common reasons why auditors fail at detecting fraud. The authors make a comparison to illustrate the importance of fraud training for the auditors: *“for instance, the training of pilots focuses on the simulation of those rare occasions where disaster might occur. In contrast, the training of auditors appears to seldom focus on auditing in a fraud environment...”* (p.91). The second most common reason why auditors fail to detect fraud regards failures within the audit process. These failures include the inability to assess management’s incentives and opportunities to commit fraud and inability to adapt the standard audit process to fraud cues. This result is in line with the claim made by Gray and Moussalli (2006) that we are now entering a new era where auditors have to become better fraud detectors.

2.3 Forensic services

While the alternative of addressing the gap through information is widely studied, the alternative of improving the performance of the auditors receives limited attention. In accordance with the idea of auditors becoming better fraud detectors, researchers suggest the involvement of forensic specialists as a solution. Forensic services is a rather new phenomenon in the auditing world. We see that in North America, auditors have started to involve specialists² with knowledge within forensic services in order to handle fraud risks in the regular audits. However, the profession of forensic specialists in Sweden is not as developed as in the US, where there for instance are several industry associations for the experts. Also, there are a number of certificates obtainable including Certified in Financial Forensics (CFF) and Certified Fraud Examiner (CFE) (Jenkins, Negangard, & Oler, 2016; Andon, Free, & O'Dwyer, 2015) in the US, none of which are currently available in Sweden.

2.3.1 A possible solution to address the expectation gap?

A forensic specialist’s task is to find information and data answering what, why, when and how a deficiency has arisen and who is responsible for it. Golden, Skalak, and Clayton (2006, p. 115) argue that *“forensic accounting investigators are rarely asked for opinions: they are primarily fact finders”*. As opposed to the audit opinion, the work conducted by the forensic

² The terms “specialist” and “expert” will be used interchangeably throughout the study.

specialists is not a stand-alone document and it is instead often used by other entities to solve a deficiency. Neither is the scope of the forensic experts' procedures set by sampling or materiality. Instead it is determined by the client and can be either broader or deeper. The differences of an audit and a forensic accounting investigation can be illustrated with an analogy of a routine patrolling and a criminal investigation. Considering the forensic specialists' skills and wide scope of services, three possible solutions to address the expectation gap have previously been discussed by researchers and professionals: introduce a forensic audit, include forensic specialists in the regular audit or improve the knowledge of the auditors.

In a November 2006 report, *Global Capital Markets & the Global Economy*, top management of the Big 6 auditing firms³ suggest a forensic audit as an alternative solution to address the gap. They come up with three options: subject all companies to a forensic audit on a regular basis, subject all companies to a forensic audit on a random basis or let shareholders, boards or audit committees of boards decide on the level of oversight. The CEOs do not specifically define what should be included in the forensic audit and neither is there a consistent definition of the concept in research. One definition used by Smith and Crumbley (2009, p. 65) is *"an application of methodologies and technologies by an independent entity used to obtain a detailed understanding of the underlying economic risks facing an organization"*. According to Eilifsen, Messier Jr, Glover, and Prawitt (2014), forensic audits may for example be conducted on business or employee fraud, criminal investigations, shareholder and partnerships disputes and business economic losses. Whether the CEOs' suggestions are meant to be applied to the entire company or only a specific part is unclear. Still, it is clear that the CEOs consider the expectation gap as a problem that needs to be addressed: *"...there is a significant "expectations gap" between what various stakeholders believe auditors do or should do in detecting fraud, and what audit networks are actually capable of doing, at the prices that companies or investors are willing to pay for audits"* (The CEOs of the international audit networks, 2006, p. 12). However, ten years later, we still cannot see the CEOs' advocated solution being implemented. A potential reason is that it is argued to be too costly (Golden et al., 2006).

³ BDO, Deloitte, EY, Grant Thornton, KPMG and PwC

Including a forensic specialist in the audit is a less costly alternative. According to ISA 240 (paragraph A34) it is suggested to involve specialists with forensic skills when fraud risk is high and additional expertise is needed. To be noted is the fact that it is not a requirement by the standard, only a suggestion. Christensen et al. (2005) also argue for the benefits of including forensic specialists in the audit team since they possess targeted skills in order to detect fraud. For instance, they have advanced interview skills and data mining knowledge (Golden et al., 2006). The reason why the experts are involved is normally due to risk management and they are only hired when the auditors have found material fraud issues (Boritz, Robinson, & Wong, 2014). Christensen et al. (2005) claim that both the auditor and the management will have improved assurance that the company is free from fraud if the specialists are involved in the audit. Additionally, if using fraud auditing procedures in the audit, investors will get greater confidence in the financial reporting, auditors will experience decreased liability because of reduced risk of failing to detect fraud, and improved procedures within the companies will be valuable to the clients (Golden et al., 2006). DiGabriele (2009) conducts a US based survey and gets support from forensic accountants, auditors and accounting academics that forensic accounting should be included in the audit process and that auditors need to add forensic accounting skills to their toolbox. The author claims that this alternative will lead to higher probability of detecting fraud.

While many studies agree that forensic specialists can be a positive contribution to the audit process, the conclusions of whether including forensic specialists is efficient diverge. Boritz, Kochetova-Kozloski, and Robinson (2015) find that including forensic specialists in the risk planning process leads to more effective audit processes but reduces cost-efficiency. The authors consider it to be expensive to include the specialists but referring to the bad publicity that can occur if the auditors fail to detect fraud, they consider it to still be worth the cost. According to Jenkins et al. (2016) the audit quality is improved if forensic specialists are included in the brainstorming session regarding fraud risks. Furthermore they find that the involvement of forensic specialists lead to improved audit quality in terms of additional fraud findings such as asset misappropriation, financial statement fraud and internal control deficiencies. Additionally, in their survey they receive indications from both auditors and forensic specialists that the specialists should be included even more in the audit process.

The forensic specialists may also be able to improve the knowledge of the auditors. The specialists possess knowledge and skills in an area that *"integrates accounting, criminology,*

computer forensics (investigations), litigation services, and auditing investigative services” (Smith & Crumbley, 2009, p. 66). Asare et al. (2015) claim that the auditors need further training since they have limited experience of fraud detection. Here forensic experts may have a role to fill. Research shows that forensic specialists have specific fraud detection skills and another type of mindset compared to an auditor. Considering the differences between an auditor and a forensic specialist, Christensen et al. (2005, p.70) explain that *“the forensic accountants take a more active, as well as a more skeptical, approach to examining the financial records of a company”*. According to Jenkins et al. (2016), the scepticism of a forensic expert develops and becomes even stronger as more experience is obtained over the years, whereas the professional scepticism the auditors possess does not evolve. Furthermore, they suggest that for instance the auditors’ skills in identifying concealed information and testing the security of electronic transactions, can be improved by the forensic specialists. In line with this, some are contemplating whether the provision of forensic services by the audit firms represent a step back to the auditor’s original role of fraud detector or not. *“So in the end, the profession has come full circle. Having expelled forensic accounting from its original home in auditing a century ago, auditors are now bringing it back again. We’re all fraud detectors now.”* (Gray & Moussalli, 2006, p. 22).

2.4 Purpose of study and research question

Even though forensic services are offered on the Swedish market as well, we do not know how the Swedish auditors are using these experts. Forensic services have mainly been investigated in North America whereas contributions to the literature about forensic services in Sweden are limited. Not only is information lacking in terms of how forensic specialists are involved in the audit, neither do we know whether it can be an alternative in order to address the expectation gap or not. Since the North American research finds that forensic specialists can increase audit quality, it can be assumed that they could have an influence on the expectation gap by increasing the auditors’ performance when it comes to fraud detection. This line of reasoning leads us to our research question: *“What role does forensic services play in relation to the expectation gap in Sweden?”* In order to answer this question we examine how, when and why the forensic departments cooperate with the audit departments. We also explain the factors both driving and hindering the auditors from addressing the expectation gap assisted by forensic specialists. The question why this cooperation is taking place or not can be answered with the help of institutional theory. Coercive, mimetic and

normative mechanisms are used to analyse the driving factors. Although these mechanisms are normally used to explain why organisations become homogenous, we use them to explain how the auditors adapt to maintain legitimacy. Considering the fact that the auditors rely on legitimacy they might have to adapt to the expectations of the public by improving ability or increasing effort, instead of just trying to educate the public. The public has high expectations on auditors when it comes to detecting fraud, as evidenced by constant criticism against the profession. The auditors have so far rejected the responsibility of fraud detection, but at the same time the audit firms are building up forensic departments specialised in fraud issues, where potential points of contact may arise between the two professions.

The purpose of our study is to explore the possible points of contact between the forensic specialists and the auditors and analyse what influence they may have on the expectation gap. Since our study focuses on the expectation gap in terms of fraud we only consider forensic services that are related to fraud detection and we therefore exclude preventive services the forensic departments may offer. The study takes stance from an auditor perspective and looks at what the auditors can directly affect in relation to the expectation gap. From an auditor's point of view, the standards cannot be directly changed by the profession itself. We do not analyse whether the standards are deficient or not, instead we focus on the alternatives open to the auditors to address the expectation gap.

3 Method

This chapter describes and explains the theoretical approach we use in order to answer our research question. Additionally, we give an overview of how we prepare the interviews, how they are conducted and how the empirical data is analysed. Furthermore, we discuss the complementary data used in the study. Lastly, we elaborate on the trustworthiness and the quality of the paper.

3.1 Theoretical approach

The purpose of the study is to conduct an exploratory study to examine what role forensic services currently plays in relation to the expectation gap. Based on the existing literature in the field and its nascent character it is recommended to use a qualitative data collection method in order to get a proper methodological fit. This way we can get a deeper understanding of the forensic area (Edmondson & Macmanus, 2007).

Yin (2014) claims that a case study is the most suitable research method when the following three circumstances are at hand: the focus of the study is on contemporary events as opposed to historical events, the researchers are trying to answer the questions how and why, and there is no need to control behavioural events. Since all three conditions apply to our circumstances we follow his recommendation and use a case study approach.

Knowing beforehand that the forensic departments in Sweden are quite small, consisting of 12-15 employees on average, conducting a single case study is not possible. Thus we have decided to do a multiple case study and contact all Big 4 auditing firms⁴ to be able to conduct the amount of interviews we need to get the depth necessary for our analysis. Eisenhardt (1989) claims that a multiple case study should consist of four to ten cases to generate theory. This argument is criticized by Dyer Jr. and Wilkins (1991) who instead claim that multiple cases may hinder the researchers from getting an in-depth understanding of the organisational context. We are aware of the limitations a multiple case study might bring, but our viewpoint is that we will not be able to get a deeper understanding by choosing to study only one case because of the small size of the departments. Together, the Big 4 auditing firms cover a large share of the Swedish audit market and thereby we would expect them to cover a large share of the forensic service market as well. This service is also provided by smaller companies, so

⁴ Deloitte, EY, KPMG and PwC

called boutique firms, as well as by lawyers. We choose not to look at these actors since they do not offer audit services which is necessary for our analysis. Even though we have chosen four cases, the aim of the study is not mainly to compare the four firms, but rather to understand the Swedish forensic service market to be able to draw any conclusions of its impact on the expectation gap. Therefore, only differences between the forensic departments having an impact on the expectation gap will be considered.

Often a multiple case method is chosen to be able to replicate the results and to build theory through analytical generalisation (Yin, 2014; Eisenhardt, 1989). However, Dubois and Gadde (2014) argue that multiple case studies which are based on a replication logic assume a linear and positivistic approach. According to Brunsson (1981) a positivistic approach implies that true knowledge can only be achieved through observation and should be based on what one can experience through one's senses. Dubois and Gadde (2014) instead advocate a non-linear and a non-positivistic approach since every case is considered unique and that is also what gives value to a study. A non-linear approach also implies an abductive method meaning that theory and empirical data is developed in parallel. We choose to use a specific form of abductive logic developed by Dubois and Gadde (2002) called 'systematic combining'. This logic allows us to be open to any kind of findings we uncover and to let these findings guide the search for theory and the direction of the study. 'Systematic combining' aims at matching theory with reality and redirecting the case and analysis as the process evolves. For example, our structure is developed and fine-tuned throughout the process and as the scope of the study becomes more defined. Our choice to have a non-positivistic approach enables us to not only take into account the actions of the respondents, but also their thoughts and perceptions (Brunsson, 1981). Since the audit profession builds on professional judgement it is important to be able to incorporate the auditors' thought process in making those judgements. Part of our research question is to find out why and why not auditors engage forensic specialists and a non-positivistic approach helps us capture all aspects of this decision process.

Using interviews gives us the possibility to directly focus on the case study topic. It also gives insights into personal views and perceptions (Yin, 2014) and it is suitable when exploring new areas (Boyce & Neale, 2006). Furthermore it provides us with flexibility, being able to adapt the questions depending on how the theory develops. Using semi-structured interviews allows us to have a structure in order to assure comparability between the cases, but still we

can be flexible to the respondents varying answers and levels of experience as well as ask follow-up questions (Bryman & Bell, 2011).

3.2 Preparation of interviews

We decide to interview at least two employees at each firm's forensic department and two auditors from each firm. In order to prepare for the interviews, the Swedish websites of all Big 4 auditing firms are examined. This search gives us an idea of what type of services the forensic departments may provide and is especially helpful in formulating questions for our initial interview.

Since our knowledge of forensic services is limited we decide to contact the forensic departments before reaching out to the auditors. This approach gives us an understanding of the way they work and their involvement in the audit and it also allows us to ask more focused questions to the auditors. The initial contact with one of the Big 4 is made through one of the researcher's contacts. A contextual interview with an employee at one of the forensic departments is conducted to get a deeper understanding of the forensic departments' work and their role. In the remaining three companies we identify the persons in charge of the forensic departments and contact them through email. In the emails we explain the main focus of our study and already at this stage we stress the fact that the interviews will be anonymous. The respondents have been selected using the so-called snowball sampling method, which implies that the first respondents are referring new respondents to the researchers based on a common criterion chosen to study (Biernacki & Waldorf, 1981). For us, this method means that the persons initially contacted at the Big 4 auditing firms select the interviewees at the forensic departments which in turn select the auditors. This method is commonly used in qualitative social research and is suitable when trying to get access to "hidden populations" (Noy, 2008). Since we do not know beforehand which auditors have experience of forensic specialists, we need to reach this "hidden population" via the specialists. Only the auditors with experience of the forensic specialists are able to describe the collaboration and the reasoning behind involving the specialists. We are aware of the possibility that the selection of auditors may be biased towards those who are more familiar with the forensic departments and with whom the forensic departments have a good rapport. However, we perceive this risk to be justifiable since it is necessary for our study that at least some of the auditors have previous experience of working with forensic services. Although the majority of the auditors

in our sample have experience of these specialists, we choose to interview some auditors with less or no knowledge of the specialists to get an understanding of what may limit the points of contact.

We develop two semi-structured interview guides, one for the forensic specialists and one for the auditors, based on the knowledge we gain from the contextual interview and from the examined literature. These guides are also continually updated as new insights are gained throughout the interviews, in accordance with our decision to use a logic of ‘systematic combining’. Since some of the respondents were time pressured we also adapt the guides to the time they could afford to spare to make sure that the critical questions were covered. All questions are ordered in a systematic way to not influence the interviewees’ answers by leading them into a specific response referred to as response bias (Yin, 2014). That is also the reason why we decide to not distribute the interview guides to the respondents beforehand.

To be able to answer our research question, we need to examine how, when and why the forensic specialists are collaborating with the auditors. In order to structure the interview guides, we divide them into three sections, “background”, “work procedures and methods” and “environment and development”. Regarding the background section, both guides contain questions regarding the interviewee’s background and current role as an introduction. For the forensic specialists, the guide also includes questions about the organisation and its history, their customer base and how they market the department. The auditors are instead asked to describe what forensic is to them. The purpose of the background questions is to get an overview of the types of services the forensic departments offer and to get an understanding of the interviewee’s experience of the forensic services. These experiences determine how we proceed with the interview guide. Those auditors with extensive experience of forensic services are asked to describe these situations and those with less experience are asked to elaborate on the reasons for their limited contact. In the second section, “work procedures and methods”, we ask the forensic specialists to describe general cases they have been involved in to get an understanding of how they work. We then focus on situations when they work together with auditors and factors affecting the cooperation. Similar questions are asked to the auditors to get their view of the collaboration and to see if they have a divergent view compared to the forensic specialists. The final section “environment and development” is aimed to explore the influence external stakeholders may have on the auditors and the forensic service departments. Additionally, we ask about the responsibility of fraud detection

and the development of forensic services. Since both internal and external factors can affect the use of forensic services the question why is covered by both the second and last section of the interview guide. By understanding how, when and why the forensic services are in contact with the auditors we will be able to understand whether the points of contact will have an impact on the expectation gap and if so, in what way.

3.3 Conducting interviews

In total 17 interviews are conducted, out of which nine are forensic specialists and eight are auditors.⁵ All the Big 4 auditing firms are evenly represented with four interviewees from three of the firms and five interviewees from the fourth firm. The majority of the interviewed forensic specialists have previous experience from working within auditing and the average number of years of forensic experience is seven. The auditors have on average worked eleven years within auditing and are all approved public accountants. The auditors mainly work with large cap companies in different industries such as construction, finance, insurance and technology, media and telecom, but we also interview some auditors working with small and medium sized companies.

All of the interviews are separately conducted at the interviewee's place of work and in their native tongue, except one which is a telephone interview. The interviews are between 25 minutes and 1 hour and 26 minutes with an average time of 56 minutes. The interviews take place between February 2016 and May 2016. All of the interviews are recorded in order to be able to cite proper quotations. It also enables us to pay more attention to what the interviewees are saying and to ask follow-up questions instead of focusing on taking notes. We are aware of the fact that recording the interviews may inhibit the respondents regarding their answers, but the fact that everything is anonymous should mitigate this issue. In connection with asking the interviewees for permission to record we also remind them of the fact that all of the information they give us will be anonymous. Both authors of this study are present at all of the interviews. We decide beforehand which one of us is the lead interviewer, and thereby responsible for following the interview guide, and who focuses on asking follow-up questions. It gives us the possibility to make sure no questions are forgotten and that unclear answers are asked to be clarified. Before the interviews start we briefly explain what our study aims to explore. However, we do not mention our research question or any theory

⁵ For complete list of interviewees, see Appendix 2

connected to it since it may give rise to skewed answers. We also make sure that we are able to complement the interviews with additional inquiries via e-mail if questions come up later on or if we need clarification of a particular answer.

3.4 Analysing interviews

Directly after the interviews we compare the notes we take regarding the observations we make. In addition, we reflect on these observations and the answers we receive to see if we interpret the data in a similar way. Since both of the authors are present it is possible to gain two perspectives of the interviewees (Bryman & Bell, 2011). We transcribe all of the interviews as soon as possible after the interviews are conducted, resulting in a total of 215 pages of transcribed material. It gives us the possibility to more thoroughly examine the interviewees' responses and it also makes it possible to adapt the interview guides for emerging topics (Bryman & Bell, 2011). While transcribing we also highlight quotes that are of special interest. These are quotes that either corroborate or contradict things that other interviewees have said or that require further investigation. The quotes we choose to use in the study are sent to the respondents for their acceptance. This procedure reassures us that we do not misinterpret their answers and makes sure that the interviewees do not feel misrepresented.

When analysing the respondents' answers we code the transcripts in accordance with our sub-questions how, when and why. Concepts used in the coding process such as "performance" and "responsibility" are brought from the literature. We also find certain concepts to be recurring throughout the interviews and therefore decide to include them. For instance, concepts such as "independence", "confidentiality" and "materiality" are found to be important to the purpose of the study. The coding does not only consider congruent answers, it also includes deviating answers in order to capture both similarities and dissimilarities. The concepts are adjusted continually in accordance with the logic of systematic combining. Consequently, the coded data is put into tables to structure the findings. The first table includes the responses from the forensic departments. It is organised with the four firms in the columns and in the rows we put the concepts we use for coding. The table illustrates differences and similarities we find among the Big 4. The second table has the same design but contains the auditors' responses instead and is made with the same purpose as the first table. Having these two tables also allows us to make comparisons between the two

professions and to capture any differences or similarities in their perceptions on the same issues.

3.5 Complementary data

Our interviews are complemented with additional sources in order to get a deeper understanding of the respondents' answers and to some extent be able to triangulate them. We attend the seminar "En ISO-standard mot mutor" at the Stockholm Chamber of Commerce discussing the implementation of a new ISO standard regarding anti-bribery management systems. This new standard serves as an example of the development of the auditors' responsibilities and a potential new connection with the forensic specialists. Moreover, the majority of the forensic departments publish fraud reports on a regular basis which we are able to get access to. The reports give the reader an insight to the consequences of fraud and the expenses related to it. Additionally, they describe a typical fraudster and indications of fraudulent activities. Finally, they promote preventative measures the corporations can take to protect themselves from fraud. Thus the reports give us an idea of the range of services the departments provide to their clients. They also show us how the departments market themselves and to whom. A few of the investigations the forensic specialists have conducted are public. In these cases we have looked at reports and communication via websites to get an idea of the type of fraud cases the specialists are involved in, the scope of the assignments and how these investigations are communicated externally. This available information allows us to understand how the forensic investigations can influence the public's expectations. Lastly, the websites of the forensic departments are not only used for preparing for the interviews, but also to understand how the audit firms present the forensic departments to the public.

3.6 Research quality

Some researchers argue that validity and reliability are not applicable in qualitative research whereas others claim that the concepts still can be used in this field of research (Bryman & Bell, 2011). Even though we take stance from a non-positivistic approach and validity and reliability are rooted in a positivistic approach (Golafshani, 2003) we still need to make sure that our study is trustworthy. A qualitative study aims at illustrating different perspectives rather than the truth. It is important to assure that the respondents' views are represented in a fair way, which is achieved by recording the interviews, asking control questions as well as

paraphrasing the replies. We also make sure that the quotes used in the thesis are approved by the respondents.

Moreover, the trustworthiness can be increased by making sure that the study reaches the criteria of dependency (Merriam, 1994). We have assured dependency by clearly describing our theoretical approach and the procedure we use when collecting our data. Triangulation also contributes to reach this criterion of dependency by using different sources of information. Maximising trustworthiness also implies a possibility to generalise the findings obtained in our study.

4 Empirical findings

In this chapter we present the results from the interviews in order to be able to answer our research question of what role forensic services plays in relation to the expectation gap. The chapter starts with a description of the case companies in order to understand the fundamentals of the Swedish forensic service departments. Subsequently, the identified, main points of contact between the forensic specialists and the auditors are portrayed.

4.1 Background information - The case companies

Forensic services have been provided by the Swedish Big 4 auditing firms in one form or another for many years. Earlier, there have been auditors or former auditors belonging to different departments doing investigations related to fraud on an ad hoc basis. The formalisation of the departments is quite recent. The youngest department was established only two years ago whereas the oldest has been around since 1999. The average age for all the forensic service departments is nine years. How the departments are positioned within the audit firms differs among the Big 4. In two cases, the departments are placed under the advisory divisions, whereas in the other cases they belong to the audit divisions. Also, the focus of their services is to some extent varying. Although fraud investigations constitute the most important business segment at all four forensic departments, one of the departments that belongs to the advisory division puts additional emphasis on the importance of preventive services. Even though the departments are all located in Stockholm, they cover the entire Swedish market. However, the majority of their clients are based in the area around Stockholm. Overall, the clients are both from the private and the public sector and mainly consist of big or medium sized firms. For small firms it is usually not cost-efficient to use forensic services.

Besides fraud investigations the forensic departments also provide other types of services such as dispute services, compliance services and advisory services in order to lower the risk of fraud. However, these services only make up a smaller part of their work. Dispute services include providing valuations or functioning as expert witnesses in lawsuits. With regards to advisory services, the forensic experts can advise companies on setting up internal controls and making sure the firms are following internal policies. The compliance services are more prevention focused than the dispute services and include internal audit services to some extent as well. The forensic service departments are constantly developing new services to promote

to their clients, for instance data analytical testing of transactions and different types of assurance services. Often these services are introduced from the bottom up as a response to events on a local level but can also be developed on an international level. Forensic specialists can also assist in the audit process. Either they can serve as specialists in the risk-planning phase of the audit or in the execution phase. Even though this involvement only comprises a small portion of the experts' engagements, it is the case where they have the closest working relationship with the auditors.

The employees at the forensic departments have different focus areas. For instance, there are specialists that mainly work with compliance issues or dispute services whereas others are involved in almost all services the department offers. Additionally, all four forensic departments have IT-specialists that can both assist the forensic specialists in fraud investigations and work directly with clients. They can provide data analytics, such as search for diverging patterns in terms of transactions as part of an investigation. They can also mirror computers, mobile phones and other electronic devices as well as provide analysis of emails. These methods are effective ways of finding evidence in a fraud investigation as the following quote exemplifies:

"It is surprising how much is being written in emails, and what can be found in computers ranging from invoice templates to private budgets where people write:

'I have this salary and then I have this extra income'. We see a lot of that."

(Forensic specialist A)

The employees also come from various backgrounds. Although almost all the specialists at the senior level have an audit history, others have backgrounds within law, consulting or corporate finance. Even though it is always beneficial to have experiences within different fields, the employees also need to acquire specific forensic skill sets. Since there are no forensic specialist educations in Sweden, the Big 4 have developed their own education programmes. At an international level, the firms have a manager responsible for competence development, making sure that all employees are up to date within their field. The specialists are educated in for instance interview technique since they conduct both informative interviews and confrontational interviews. They also receive guidance on how to handle issues concerning money laundering, bribery and corruption as well as new fraud legislation being implemented.

The reason why the departments were initially founded differs somewhat. Forensic specialists from three of the firms state that there was customer demand for these types of services that drove the formalisation. Interviewees from the fourth firm claims that, while they provided similar services before, the idea of a separate department was born after assisting another member firm within their professional services network in a fraud investigation. Other reasons that are mentioned as motive for the formalisation are an increased need for specialist knowledge and to drive the business. One of the forensic specialists also stresses the need for increased awareness, both internally and externally, of the department and the possibility to work globally with other member firms. The benefits of belonging to a global network of member firms are the opportunity to use local teams to bridge language and cultural barriers and to lower costs. To be able to work across borders with international clients it is necessary to develop standardised methodologies that can be used among all member firms. The methodologies used are developed on an international level by the global organisation.

None of the forensic departments indicate any specific marketing strategy, but they all mention the importance of gaining awareness for the services among the auditors within the firm since the auditors can serve as a link to potential clients. This type of internal marketing is done through the firm's newsletters or by participating in workshops or the auditors' ongoing training. One of the forensic specialists claims that the benefit of the increased awareness is a greater acceptance to participate in the regular audit today compared to ten years ago. Once awareness is established with the auditors they can in turn market the forensic services to their clients when they identify a need for such services. Sometimes the specialists are even invited to join the auditors on a client meeting to present their business. However, the extent to which this marketing occurs differs since it is argued that some auditors are more business-oriented than others and better at promoting forensic services to their audit clients. Those auditors in our study who have had the most experience from collaborating with the forensic departments have only had two or three encounters at the most.

Additionally, a number of marketing channels to external clients are identified. All of the forensic departments network with lawyers and business representatives in different settings, for instance at the political forum in Almedalen every summer. The Big 4 forensic departments are also part of a network called "Together against corruption" which is coordinated and organised by the Swedish Anti-corruption Institute, Transparency

International Sweden and the American Chamber of Commerce in Sweden. The network convenes semi annually for seminars regarding current topics within the forensic world. The aim of the initiative is to raise awareness and to facilitate collaboration in the field (Tillsammans mot korruption, 2016). This initiative is also an opportunity for the forensic specialists to network with potential clients. It is furthermore common to refer clients to the other Big 4 when the policy for independence hinders the forensic department to take on an assignment. Other external marketing channels includes the websites of the Big 4 that are used to present the departments and to publish their fraud surveys. The majority of the forensic departments also offer seminars or are invited to speak at seminars. Lastly, word-of-mouth is important among the clients due to the rare use of the services. Therefore it is crucial to create awareness in the companies where the forensic specialists aim to be top-of-mind if something happens. It is not only a rare event, it is also a sensitive topic to introduce, thus challenging to pitch to the clients. One of the respondents frames it as:

“It is very difficult for me to approach the companies and say: ‘I think you have a problem. I want to do an investigation.’ It is more a matter of informing the companies what can happen if they do not handle risk for fraud. ‘Look at these headlines. How are you doing?’ ” (Forensic specialist F)

4.2 The points of contact between forensic specialists and auditors

In order to understand the work of the forensic departments and how they collaborate with the auditors, three main points of contact between the auditors and the forensic specialists are identified: audit involvement, knowledge sharing between the professions and investigative services outside of the audit engagement. These headings, which are used to structure the empirics, do not cover everything the specialists do since they also provide a wide range of other services as previously mentioned. However, these are the three main situations where there are connections to the auditors which is the focus of the study. Once we have clarified the collaboration between the two departments we can see whether forensic services can have any effect on the expectation gap.

4.2.1 Audit involvement

All auditors state that the responsibility of fraud detection lies mainly with management and the board of directors. When asked about their own responsibility, they refer to either the ISA standards or other regulations governing their obligations. Although ISA 240 limits the

auditors' responsibilities through the principle of materiality it still requires the audit team to consider fraud in every engagement and to adapt the audit to the assessed fraud risk. How this fraud risk assessment is done in practice can vary a lot as one of the forensic experts has noted:

"You can see that not everyone is to that point where they really understand what is their professional obligation as an auditor to properly consider fraud risk in the financial statement audit, but I definitely think that it's getting better."

(Forensic specialist E)

Sometimes the forensic experts are called in to assist the audit team in handling the fraud risks. When this happens, there should be an agreement regarding the scope of the involvement and when and how the work should be conducted. Their input in the planning phase is described by one of the auditors:

"What they do is to contribute with their competence and their experience and benchmark against others and feed into our analysis. They participate in the planning too and reflect things from their perspective and then you tie it all together in your risk assessment." (Auditor F)

One of the specialists further describes their involvement in the audit:

"... in some cases we are involved already from the start of the audit engagement looking at what types of risks of irregularities there can be in the company. We can spend a day talking to relevant people in the company to outline the process."

(Forensic specialist C)

The ISA standards do not explicitly require that the auditors involve forensic specialists in the audit, but it suggests that such specialists may be used as a response to fraud risk. The auditors should always make a judgement whether they have enough expertise to handle the engagement within the team or if advice from a specialist is needed. One of the firms takes it a step further and has developed an internal policy which requires auditors to contact the forensic department when they suspect or have detected fraud even though it is below the materiality level. This internal policy is not found in any of the other firms and instead they refer to the auditor's judgement.

One of the main reasons why the forensic experts are involved in the planning process is because the auditor considers the audit engagement to be of high risk. The main factors affecting the risk are complexity of the business, type of industry and geographic location. Industries that can be of high risk are for instance construction, forestry and mining.

Furthermore, many Swedish companies have subsidiaries in regions such as South America and Africa where the fraud risk is considered to be high. A couple of auditors mention the possibility of including forensic services from other member firms in high-risk countries. One auditor gives an example of where forensic services were utilised to “go undercover” into the client’s subsidiary and investigate potential fraud risks. Being part of the audit team allows the forensic experts to make inquiries without raising suspicion among the client’s employees and thereby get more candid answers.

Another reason why the forensic experts are involved is according to one specialist that fraud is a sensitive topic and therefore the fraud inquiry can sometimes become a mechanical exercise. Bringing in a forensic specialist to ask questions regarding fraud enables auditors to get a new perspective and see the situation with a fresh pair of eyes, which can be helpful in situations where the auditor has had a long-standing relationship with the client. One of the forensic specialists explains how they can help the auditors to address this issue:

“When we come in and ask these questions it gets a little more serious. It gets more powerful and it is easier to catch what can be of interest...”

(Forensic specialist F)

Also, some of the auditors bring up the point that the fraud consideration can become a routine task:

“...sometimes it feels like there are some things you only document just because you should rather than actually have a proper brainstorming session.”

(Auditor B)

“...I can ask questions: ‘have you discovered anything?’ to the CEO and so on. It is included in our mandatory questions, we need to ask it. Often, it is only a tick in the box.” (Auditor F)

In accordance with this quote, the forensic specialists also claim that there are improvement possibilities considering how the auditors handle fraud issues in the audit:

“...they might need to have a more thorough and deeper discussion regarding fraud risks with their clients than might be the case today. And I think the level in the discussions differs quite a bit among auditors.” (Forensic specialist D)

Corporate scandals that circulate in the media affect the auditors in various ways. One auditor notices how the entire firm becomes more alert after a corporate scandal has come to the public’s attention. Some auditors handle the increased pressure the scandals bring by

becoming more risk avert and cautious in their fraud consideration. One auditor explains the impact on the audit process:

“What you are supposed to do is to stick with your risk assessment, but of course you have to be able to adjust the risk assessment because conditions in the environment may change...” (Auditor F)

An example of more concrete actions taken due to the influence of media can be seen in the following quote:

“...if we check management expenses and representational expenses and things like that, now we’ve started doing it, these last few years, all Big 4 I think, after the scandal in SCA, but historically it is not something we have put a lot of effort into.” (Auditor B)

One auditor recalls how the auditors themselves conducted a fact-finding investigation concerning a CEO’s travel expenses at the request of the chairman of the board in the firm. Before initiating the investigation, the auditors deliberated with the forensic department regarding their strategy. Even though some auditors manage the fraud risks themselves, other auditors prefer to include forensic experts to mitigate their risk and increase their comfort. Those auditors who have good experience from previously involving the forensic experts are also more prone to use them again in future engagements. One of the forensic specialists further explains how they can help the auditors to handle these issues:

“... I think the level that it’s reported now in the media following Enron and all these huge scandals, the public is so hyper-aware of it now that any small thing they pick up on and they immediately hold auditors to this really, really high standard so auditing has almost become such a risk now due to the expectation gap between the public perception and what an audit is designed for. The public holds auditors to a very, very high standard. So I think it’s very hard to be an auditor and certainly forensics is trying to help audit to properly consider fraud risks. (Forensic specialist E)

The extent to which the auditors are using the forensic services differs and the reasons why the experts are not included can be manifold. Personal preference is mentioned as one of the factors affecting the use of forensic experts, where some of the auditors prefer to keep their audit engagements to themselves. The clients can perceive the involvement of forensic specialists as intrusive and the auditors can therefore be reluctant to conduct the audit with assistance from the specialists. Additionally, some auditors choose not to involve the forensic

specialists since it may be viewed as if the auditors only would like to push sales. Although cost is not a hinder to informally consult the forensic specialists, cost can be one reason why the experts are not formally involved in the audit process. The auditors would like all their engagements to be profitable and when the forensic specialists are involved to a greater extent, the clients need to be convinced of the added value they bring.

Another factor determining whether the experts are involved or not is that the majority of the auditors feel that they have the knowledge necessary to handle fraud risks in the audit engagement and do not need any assistance. Some of the auditors also indicate that the type of fraud that forensic can help them with, for instance embezzlement and bribery, will never reach materiality in their audit engagements. Fraud issues that are more crucial to them include among other things manipulation of earnings, assumptions used in valuations and misapplication of accounting policies. Some of the auditors describe this as a grey zone and to determine whether these activities are fraudulent requires professional judgement by the auditors:

“Is it fraud or is it not fraud? Or is it being aggressive or conservative in your accounting?” (Auditor C)

Other auditors agree with the fact that it is a problematic area where forensic services are perceived to have limited abilities to contribute since the auditors believe themselves to already manage these risks in the course of the audit. Already when asked to define forensic services, one of the auditors comments on how the two professions overlap in some situations:

“... what is forensic and what is regular audit? Well there is no clear dividing line between the two... I think we as auditors are pretty close, it’s pretty close to our range of services, providing forensic parts as well” (Auditor C)

Many of the respondents⁶ notice that the public has limited knowledge of what an auditor does. Some people believe that the auditors go through every verification and others even think that they take care of the bookkeeping. Neither does the public know the obligations of an auditor when it comes to fraud detection and the auditors are often criticized for not having enough knowledge within this area. However, one of the auditors disagrees:

“I think we do. However, I think there is, within that area, an expectation gap between what the public thinks an auditor should do and what actually is included

⁶When using the word “respondents” we refer to both auditors and forensic specialists

in the engagement and also what we are actually signing off on. I think there is an expectation gap there.” (Auditor F)

Some auditors consider the expectation gap to be problematic since it exposes them to criticism and questioning of the profession. One of the auditors makes an analogy to a soccer referee. Just like the referee, the auditor only gets attention when he or she has misjudged a situation.

The opinions among both the auditors and the forensic specialists differ on how this expectation gap should be handled. Some argue that it should be solved by increased information to the public, whereas others claim that the auditors need to adapt to the expectations of the public to some extent. One of the auditors claiming that the auditors should do more than they currently are doing expresses its view in the following quote:

“I think we will...customers will expect, above all to try and close this expectation gap as much as possible, I think we will have to do more. But then again it has to be within reasonable boundaries. It is still not our responsibility. It is still the management’s responsibility to have routines and controls to detect fraud.”
(Auditor C)

Another auditor agrees that auditors need to do more than what they currently are doing and when asked about whether this is already happening, the reply is:

“Yes, to a certain extent we are beginning to raise this issue on the agenda in the teams. So I think you can say that it has already begun. Yes, I think so.”
(Auditor B)

This quote is corroborated by an additional auditor, highlighting how the auditors are influenced by the public’s expectations:

“...of course certain things might be hard for the public to accept and those things we might put some additional focus on to make sure they are 100% correct.”
(Auditor H)

Among those with the view that the expectation gap should be addressed by further information to the public, one forensic specialist gives this remark:

“...I do not think that it is about having a lot more auditing, I think it is more about informing about what the auditor’s role and the auditor’s tasks are, because you can not examine everything, you can not look at everything.”
(Forensic specialist C)

Some would like to see the industry association FAR (Förenade Auktoriserade Revisorer) take a more active role in the public debate about the auditors' obligations. The auditors themselves claim that their possibilities to communicate with the public when a scandal erupts is limited since they are not allowed to discuss client issues:

“ I think we are afraid to do so because of confidentiality, but I think we should talk about it more in general and not only when things erupt, but more regularly come to the point where you look at the role of the auditor, that it is an important role but that it is also limited to a certain extent in our audit engagements.”

(Auditor F)

The first point of contact shows that the forensic specialists can contribute in several ways to help the auditors handle fraud risk in the audit engagements. For instance, the forensic specialists assist in the planning phase as well as in the execution phase by providing a deeper knowledge around fraud issues and by making inquiries at the client firm. Auditors and forensic experts alike claim that these services add value both to the clients and to the auditors by increasing their comfort, which should also imply improved audit performance. However, there are many reasons why the auditors choose not to involve the forensic experts, such as cost considerations, personal preferences and lack of knowledge of the type of services the experts offer. Moreover, the forensic specialists' possibility to assist in issues regarding aggressive accounting is mentioned as a constraint to their involvement. Moreover, many auditors argue that their responsibility when it comes to fraud detection is limited by the principle of materiality. However, we see that some auditors have started to go beyond the legal requirements in their audit engagement and are using the help of forensic specialists to do so.

4.2.2 Knowledge sharing

The forensic service departments share knowledge with the auditors in various ways. Often the contact between the forensic specialists and the auditors that is taking place is on an informal level. The auditors can call, email or drop by the specialists' desks to ask questions without the need for an engagement letter and at no additional cost for the audit engagement. The auditors consult the specialists when they are hesitant about how to handle a specific fraud issue or when they have a suspicion about any fraudulent activities. This type of consultation is more common if the auditor has had previous experience of the specialists'

services. Furthermore, the likelihood that an auditor contacts a forensic specialist increases the closer they are located to each other. One of the forensic specialists expresses the opinion that the auditors should call them for advice more often than they currently do.

Considering the more formal contact, the specialists occasionally assist in the mandatory training of the auditors regarding fraud issues. The training can highlight the most common types of fraud, how to detect them and how to deal with them when they have been discovered. Even though the exchange of knowledge is beneficial for the forensic departments in terms of internal marketing and increased awareness of the departments, there are no obligations from the firms requiring the forensic departments to give lectures or seminars. Neither is it a top priority of the specialists since they are short on time and instead prioritise client engagements. Most commonly, the auditors themselves are responsible for training the junior auditors with regards to fraud. Fraud is only one of many topics included in the training, where the main focus is on understanding internal controls.

The forensic departments also arrange specific seminars and workshops for audit managers and audit partners in their firms. For instance, they can set up a lunch lecture for the auditors when a new type of fraud has been discovered or they can inform the auditors about new international legislation and standards affecting the auditors' work. Normally, the seminars and the other types of knowledge sharing are on an ad hoc basis and occur if something has happened or if there is a need for it. Further, one of the forensic departments is updating the auditors on new insights and discoveries through the company newsletter. However, due to the confidentiality of the forensic assignments, the experts are to some extent limited when it comes to sharing experiences with the auditors.

"...if it's de facto a fraud case that is being investigated, then it's like Chinese walls. Then we are not allowed to talk to each other. They have far-reaching confidentiality. We actually have that on every engagement but it becomes a little bit, even more confidentiality on that side." (Auditor B)

The reason why this exchange of knowledge takes place is not only to inform the auditors of new types of fraud risks or to improve the fraud risk discussions with the clients, it is also due to internal marketing of the forensic departments to make sure the auditors know when to contact them. Still, explaining the scope of their services and what they are capable to contribute with may be difficult due to confidentiality policies. Since the specialists are not

allowed to talk about their engagements it also makes it difficult to raise awareness within the firm of the full range of services they provide. Several auditors are still not fully aware of all these services, making it difficult for the auditors to know when the forensic experts can be involved and how they can contribute. When asking one of the auditors to describe forensic services, the reply is as follows:

“I still think it is a very, I wouldn’t say vague area, but it is a kind of blurry area over there. It is a little, black box. You don’t know what you put in or what comes out.” (Auditor C)

One auditor mentions that auditors also can share knowledge with the forensic experts. When the forensic specialists are involved in an audit there can be requirements saying that the specialists need training by the auditors since some of them have no audit background. The reason for this requirement is for the forensic specialists to understand how their work affects the audit and to learn the audit methodology regarding for instance documentation and independence. One of the auditors stresses how important it is that the experts adapt to the processes of the audit:

“... if I am an auditor and take a specialist in, I have an overall responsibility and then it is important for me, both that it will be correct from a regulation perspective but also that it will be efficient in the audit... it is important that they understand in what context their work is used I would say.” (Auditor E)

The exchange of knowledge does not only take place through verbal communication but could also take place through the transfer of tools and methods developed by the forensic specialists to be used in the audit. One forensic specialist talks about a procedure that was originally developed by the forensic specialists which is now sometimes used in the audit. The forensic department has developed a specific audit plan for fraud risks for the auditors to use, instead of the existing one that is too extensive according to the specialists. The plan is voluntary but is said to facilitate the mapping of fraud risks. The incorporation of tools and methods and ways of thinking developed by the experts is rare but some auditors believe that there are possibilities to incorporate more:

“...they would probably be able to contribute a lot in our regular audits as well, it might be enough with three additional confirmation questions to ask the company. All of a sudden you capture signals.” (Auditor G)

“... it would be good if the auditors had even more access to systems the forensic department uses because that would provide additional value to the client and it could also add value to our audit.” (Auditor D)

Besides practical fraud knowledge, one of the auditors mentions that the forensic specialists have contributed with a deeper understanding of fraud risks and a more sceptical mindset. Another auditor says that the fraud education the forensic specialists contribute with adds a risk perspective to the audit, but points out that awareness of fraud risk issues comes through experience as well. Several auditors agree that they gain most of their understanding of fraud issues through their daily work. However, one auditor comments that although the auditors have great experience, it is not comparable with the forensic experts' experience within the field.

The respondents also point to the fact that the auditors and forensic specialists have different roles to fill. Several respondents talk about how the auditor is bound by the materiality principle and how it would be impossible for the auditors to dissect every transaction in terms of both cost and time considerations. The forensic experts on the other hand, can focus on specific accounts or transactions and analyse them in detail. The assignments of the specialists are more limited in scope and are not restricted by the level of materiality. One of the forensic experts, in response to the idea of a forensic audit, develops the argument further:

“...the word forensic and the word audit implies certain things. We are not auditors and we do not look at everything. We're doing the exact opposite and saying: We're only looking at certain things to prove or disprove an assertion.”
(Forensic specialist E)

When discussing whether the auditors have enough knowledge of fraud in relation to their role as an auditor and their audit engagements, the respondents have varying opinions. Some of them claim that the knowledge is sufficient, some say it can be improved whereas another group of the respondents argue that the level of knowledge differs among the individual auditors. One auditor points to the fact that fraud is becoming more sophisticated and requires more technological skills:

“And here I don't think we have kept up with the technological development as auditors and as an industry as a whole, so I definitely think we have a huge

knowledge gap to fill here, even though we are working a lot with these issues as well.” (Auditor C)

A forensic specialist has noticed how the education they have contributed with has improved the auditors’ knowledge. Furthermore, another specialist argues that knowledge is sufficient in relation to the obligations of the auditor:

“They have enough knowledge to identify the risk, and when it comes to investigation, or fix it, to decrease the risk that it occurs, then one can turn to us.”
(Forensic specialist H)

Several auditors agree that the knowledge they have can be complemented further by the forensic specialists when necessary. Two of the auditors highlight this fact with the following quotes:

“We should know this well enough but they should be specialists.” (Auditor E)

“They bring their specialist knowledge and we bring our generalist knowledge and deep, deep knowledge about the client.” (Auditor C)

These examples of knowledge sharing show that the forensic specialists have an impact on the auditors’ awareness of fraud risks. The forensic specialists participate in the training of the auditors as well as contribute with additional information regarding fraud issues that are relevant in the audit process. Furthermore, a procedure originally developed by the forensic specialists is found to be used by the auditors. These are all examples of how the forensic specialists can influence the auditors. However, the knowledge sharing is limited due to confidentiality issues and some auditors claim they already have the necessary knowledge to detect fraud. This knowledge can further be complemented by the forensic specialists if the auditors identify a need to consult them.

4.2.3 Investigative services outside of the audit engagement

The forensic specialists are to the largest extent hired by clients outside of the audit engagement. Although the communication between the auditors and the forensic specialists is limited during these engagements, there are still connections between the two professions. Thus, this constitutes the third point of contact. One of the forensic specialists exemplifies what they can assist with outside the audit engagement:

“If you’re looking at helping externally, the range of services is much more varied so it’s investigations, advisory, discovery, analytics and dispute. There are more externally-facing services offerings.” (Forensic specialist E)

Even though the forensic specialists provide a wide range of services, the focus is on the cases where the specialists are offering fact-finding investigations since these are directly related to fraud detection.

The experts are contacted directly by the management or through the qualified auditor but the service is always demanded by the client in these cases. There are practical reasons why offering investigative services to an audit client would be a good idea since they know the client and the business. If the client is an audit client a decision has to be made whether the forensic specialists can take on the engagement or not because of the principle of independence. The decision depends on whether it is only a matter of fact-finding or if it is a more complex service that is requested. Normally, the decision is reached through an assessment process restricting what types of services an auditing firm can provide to an audit client. The assessment process varies among the firms. A conclusion can for example be reached after consulting the international member firm, discussing with an independence group in the firm or through guidance by a data program. Although the decision can be clear-cut from a legal perspective, the firm might still choose to not let the forensic experts perform the requested service since the public may perceive it inappropriate:

“We should be independent, not just in practice but also in appearance.”

(Auditor A)

Also, some of the respondents mention that the clients are affected by the principle of independence as well, not only legally but also due to external pressure. They have noticed an increased demand from the clients, asking for forensic specialists that are external to the clients’ audit firms. In these cases, the clients have taken an active decision where they think it is inappropriate to let the auditing firm also conduct fraud investigations. When an investigation is made on an audit client by an external forensic department, the client’s auditor may ask its firm’s forensic department to assure the quality of the investigation. The forensic specialists can then perform a so-called shadow audit where they examine the procedures used and analyse the findings of the other team. The reason why the auditors ask for a shadow audit is to achieve comfort in that the results of the investigations are accurate.

All fact-finding investigations include planning, gathering of information, analysing information and reporting. In the planning phase, the forensic specialists need to understand the critical issues, talk to employees at the client firm, get an overview of the internal control system and make a plan for the assignment. When it comes to gathering the information, it is important to secure and inspect relevant documents, systems and controls. The experts, with the help of IT-specialists, may also need to retrieve and analyse electronic data. Lastly, interviews with relevant employees are conducted. The third step involves analysing the collected data and quantifying the potential damages. The final phase includes compiling a report and communicating the results to the client. This four-step process is common across all the Big 4's forensic departments despite the lack of regulations or industry associations governing the work of the specialists. Compared to the highly regulated audit profession, the specialists are considered to provide consultancy services and are therefore mainly bound by company policies.

The most common type of investigations is fraud investigations where the specialists need to gather facts and search for evidence. All of the forensic departments state that documentation of investigations need to be done promptly and in a certain way to be able to be used as evidence in court. It is important to make sure that the documentation meets the reperformance standard, implying that someone else should be able to replicate one's work and reach the same results. Also, the documentation needs to be able to withstand scrutiny when a counterparty tries to disprove the results. Therefore, the experts need to clearly state how all the evidence has been gathered and how they have come to reach a certain conclusion.

Although the documentation the forensic specialists compile must be able to hold in court, it is not always the case that the client decides to bring it that far. Many clients prefer not to involve the police since they would like to avoid negative publicity. By hiring forensic experts, everything will instead be handled behind closed doors. After the investigation is complete, the findings will be gathered in a report that will be handed to the person initiating the investigation. It is then up to the client to decide whether it is a matter they would like to report to the police or not. Some forensic specialists have noticed an increased willingness among the firms to report fraud cases to the police in order to signal that the companies do not tolerate these activities.

Most commonly, the forensic specialists are hired for fraud investigations of greater dignity since smaller cases are usually not worth the cost of investigating. Sometimes the investigations can be more expensive than the audit engagement fee for an entire year. However, the forensic service departments also conduct other types of fact-finding investigations besides fraud investigations. In these cases, it does not have to be a suspicion of any fraudulent activities, but the client may still want to review their procedures and policies. One of the forensic departments provides an in-depth analysis of suppliers where the experts check whether the client has any scam companies or firms that have gone bankrupt registered as suppliers. This service is provided to help the client avoid paying false invoices. The experts can also conduct a specific form of due diligence, investigating employees and their relatives to make sure there are no conflicts of interests. Another investigative service they offer concerns whether management follow internal policies regarding for instance representational expenses or travel expenses. These investigations deal with issues that can be of illegal character or just considered as inappropriate. If any fraudulent activities are identified in these fact-finding investigations, the clients should inform the auditors.

Both auditors and forensic specialists highlight that the fact-findings also add value to the auditors. Even though these services are outside the scope of the regular audit, they still give the auditors increased comfort in their risk assessments, by indicating for instance weaknesses in the client's internal control system. However, first and foremost the fact-finding investigations are viewed by the respondents as services that add value to the clients. The increased comfort the services bring is highlighted in the following quote:

"I think it adds value to the client. It has to, otherwise no one would want to hire them if it was only us as auditors who get more comfort in our audit opinion. Then it is very hard for the clients to see a value in their services, after all it is a consultancy service. They are not obliged to hire them so it has to add value to the client." (Auditor H)

The clients may also decide to publish investigative reports in some cases to signal to the public that they are taking the matter seriously and are transparent about it. For example Rikshem, a Swedish privately-owned, housing company, decided to publish a summary of the fraud investigation report after a scandal involving representational expenses, travel expenses and conflicts of interest. The report shows the amount and types of transactions that have been investigated, and which rules and regulations have been considered. The experts give their

opinion on whether the transactions are in line with the rules and they also give recommendations regarding measures to address the identified deficiencies (KPMG AB, 2016). Another public investigation, regarding the Swedish pulp and paper manufacturer SCA, indicates a similar approach and the same type of issues being investigated (SCA, 2015). Other organisations have chosen to publish statements via their websites, for instance the Swedish municipality, Härnösands kommun (Härnösands kommun, 2015) and the farmer-owned agricultural company Arla Foods (Arla Foods, 2016). In all of the examples above, forensic specialists have been involved in the investigations, however this is not indicated in the reports or on the websites.

When an investigation is ongoing, it is subject to privilege and is confidential. The forensic specialists are therefore prohibited from communicating directly with the auditors. It is up to the clients how much information they would like to share with the auditors. However, involving the auditors early on in the investigation can be beneficial as the auditors can add knowledge to the experts because of their greater experience of the client. Whether the case will have a material impact on the financial statements or not, the auditors may still take actions based on the findings from the investigation. To be able to act on the information, the auditors need to know whether the fraud is indicative of weaknesses in the internal controls or not. One of the auditors explains that they may adapt the audit the following year and do more extensive substantive testing.

Whether media has an impact on the client's demand for fact-finding investigations is disputed among the forensic specialists. Whereas some say they would have expected a greater demand for these services from the clients when scandals have reached the public's eye, others have noticed a clear increase. The demand is also dependent on what type of scandal that is in the news. For instance, some of the forensic specialists have recently observed a growing demand to scrutinise management expenses:

"After SCA there have been some questions. We do not have any suspicions but could you do an investigation of how they act and what expenses there are in relation to them and are they following our rules and guidelines? Just so we know. Because we do not want to be taken by surprise when Janne Josefsson from Uppdrag Granskning is knocking on the door. We would like to know in advance..." (Forensic specialist F)

Another forensic expert has noticed the influence of the Swedish television program specialised on investigative journalism:

“I usually say that our best salesman is Uppdrag Granskning”

(Forensic specialist B)

The consequences of appearing on the show can be devastating:

“..they are concerned of what the outside world will think, their clients, to a certain extent suppliers, their potential future employees, public opinion. It is no fun to be in the media spotlight. They are good at making headlines that make you look like a shady business.” (Forensic specialist G)

One of the forensic experts has noticed a recent change in the attitude of management where the clients are more alert considering standards and policies that go beyond the law such as the Code of Business Conduct, and thereby they also ask for additional services. A new ISO standard regarding anti-bribery management systems is undergoing public consideration and is planned to be implemented at the end of 2016. It will be the auditors' task to assure that the companies who have chosen to follow the ISO standard are actually complying with it. The new standard is mentioned as an opportunity for the forensic departments to expand their business since the auditors will need assistance in these compliance issues (Swedish Standards Institute, 2016). Although it is the client that asks for the service, it can be seen as a possibility for the auditors to achieve increased comfort in the audit with the help of forensic specialists.

Regarding the third point of contact between the auditors and the specialists, we see that a driving factor behind the demand for the services outside the scope of the audit is a fear of getting bad publicity. Furthermore, there are indications that auditors respond to the investigations and thus adapt the audit, taking on additional measures to ensure the accuracy of the internal controls. In this sense these services also add value to the audit engagement. However, the reason why these services are offered is to increase sales rather than providing comfort to the auditors. The increased comfort is just a by-product but is still helpful to the auditors.

5 Analysis

In this chapter we analyse the results the interviews and the additional data have entailed and discuss any implications these results can have on the expectation gap. The three points of contact identified in the previous chapter will form the structure of the analysis. We look at how the forensic specialists influence the auditors and what the expected effects on the expectation gap will be. Institutional theory is then used to explain what mechanisms are driving the use of these specialists.

5.1 The effects of involving forensic specialists in the audit

Based on our empirical findings, the point of contact where we expect the forensic specialists to have the greatest impact on the expectation gap is when they are involved in the audit engagement. Coercive mechanisms are influencing the auditors to involve forensic specialists in the audit when there is an increased fraud risk. By using their expertise both in the planning and the execution phase, the audit becomes less mechanical and adds comfort to the auditor. Mimetic mechanisms are influencing the auditors to go beyond the legal requirements without showing it to the outside world. By decoupling the external reporting from the everyday operations the auditors can improve their performance without raising the public's expectations further. We find this approach to be an alternative to handle the diverging expectations and thereby we expect a narrowing effect on the expectation gap. However, there are factors restricting the effect such as cost considerations and limited awareness among the auditors about the possible contributions from the forensic specialists. The expected effect also differs between the firms depending on how the forensic departments are placed within the organisations.

An important coercive mechanism that influences the audit is ISA 240 which requires auditors to inquire clients about fraud and to adapt the audit to assessed fraud risks. The procedure of inquiring can be considered as a ceremonial rule since it is the accepted method to handle fraud risk. The observation that the auditors many times find the involvement of specialists to make the inquiry less mechanical indicates that there are more effective methods to handle fraud risk in the audit. However, this method is not yet accepted as a norm among the auditors which can be seen as a reason for the limited use of the specialists. The fact that the standard proposes the assistance of forensic specialists as a solution lends legitimacy to the profession and to their use in the audit. As depicted by our data, the forensic specialists

have additional skills when it comes to interview techniques and a mindset that goes beyond the professional scepticism of the auditor, and involving them mitigates the fact that fraud inquiries sometimes become a “tick in the box”. Making these procedures less mechanical we expect the involvement of forensic specialists to be favourable and increase the performance of the audit. This observation is in accordance with the findings of Jenkins et al. (2016) as well as Christensen et al. (2005). We have seen that in the planning phase, the forensic specialists can contribute with experience in the assessment of fraud risks and can also investigate issues that can be sensitive for the auditor to discuss with the client. In the execution phase of the audit they can support with data analytics, “go undercover” and assist with working programs in high-risk countries. In accordance with the work of Jenkins et al. (2016) we expect that the involvement of forensic specialists should lead to additional fraud findings and thereby have a narrowing effect on the expectation gap.

Media plays a dual role in the dilemma of the expectation gap. It serves as a mimetic mechanism creating uncertainty among the auditors by putting the spotlight on the expectation gap through their reporting on corporate scandals. The scandals make the auditors more vigilant and that is the reason why we see the auditors taking extra measures by consulting forensic experts to make sure they have covered the fraud risks. Still, conducting an audit in accordance with the regulations does not guarantee the auditor to be safe from negative exposure in the media as witnessed by one of the auditors. A respondent noticed how the firms started to check both representational and management expenses after the case of SCA. Similarly, audit firms carry internal audit policies and guidelines that are stricter than the current regulations. Whether these examples indicate that the standards are deficient or that the public’s expectations are unreasonable, we can still see that the auditors are addressing the expectation gap by doing more than what they are legally obliged to do. The effect of this should be an increased performance of the auditors and thus it is expected to have a narrowing effect on the expectation gap. On the other hand, media can potentially affect the expectation gap in the opposite direction by increasing the expectations of the public. Often they report on issues that are not material from an audit point of view, thus giving the appearance that the auditors have more extensive responsibilities than they have according to regulations. As noticed by one of the forensic specialists, the public has become “hyper-aware” of corporate scandals and is holding the auditors to a higher standard than previously. Thus, it is reasonable to believe that media can have both a narrowing and a widening effect on the expectation gap.

Historically, the auditors have argued that the expectation gap should be addressed by educating the public about the auditors' responsibilities. The majority of both the auditors and the experts point in a similar direction, but there are also those who believe that it is not enough. Instead they argue that the auditors need to do more to adapt to the public's expectations. One auditor has noticed that it is already taking place. This is in accordance with our findings which show how forensic specialists can assist the auditors to manage fraud risks in the audit. Even though we see that forensic specialists are sometimes involved in the audit it is not communicated to the public. The audit opinion does not mention what methods have been used to conduct the audit. To the outside world, the auditors only communicate that they are doing what is required by the standards which they consider to be sufficient. Using the logic of confidence and good faith, they are trying to maintain their current role and responsibilities. By doing these things "behind the scenes" the auditors avoid raising the public's expectations about what they should do. The expected consequence of this form of decoupling is that the auditors can raise their performance without changing the expectations of the public and thereby we expect a narrowing effect on the expectation gap. If the auditors would start to inform about the enhanced methods they sometimes use, it could cause what Hatherley et al. (1991) refer to as a "halo effect". Mentioning that forensic specialists are involved in the audit would likely increase the public's expectations of what an auditor can accomplish, and therefore we would expect the expectation gap to expand instead.

The ways the forensic departments are organised within the firms have an impact on the forensic specialists' involvement with the auditors. Considering the two forensic departments that belong to the advisory divisions, we see that the specialists are more focused on preventive services whereas the two departments that belong to the audit divisions appear to have a closer working relationship with the auditors. An example is the internal policy that one of the departments under the audit division have introduced which regulates when the auditors need to contact the forensic specialists in order to further minimize their audit risk. Although the firm has this policy in place it is a prerequisite that the auditors are aware of the policy and comply with it to reach the desired effect. We would expect the departments under the audit divisions to have more influence on the auditors and thereby have a larger impact on the auditors' performance with regards to fraud detection.

Factors that can limit the involvement of forensic specialists include that the auditors sometimes consider the assistance to be too costly or that they perceive the fraud risk to be low. Other factors identified as limiting the involvement of forensic specialists can be derived from normative mechanisms. Even though the auditors consider these factors to be personal preferences we interpret them as being derived from professional norms. One of these professional norms is the principle of independence which is important to maintain the legitimacy of the profession. Being too focused on upselling may be perceived by the client and the public as compromising the independence of the auditors and thereby threaten the legitimacy of the audit profession. Professional norms also guide how auditors should balance client relationships. Involving forensic specialists may damage the relationship since clients may perceive it as intrusive. Furthermore, we have seen that media influences the auditors to investigate items that are below the level of materiality in the audit engagements. However, this approach is in conflict with the professional norms of the auditors which tell them that they should not be responsible for immaterial misstatements. The cases the forensic specialists are involved in are by many auditors considered to mainly concern immaterial issues and thereby the auditors do not see how the specialists can contribute in their audit engagements. Hence, the professional norms restrict the use of forensic specialists in the audit.

5.2 The effects of knowledge sharing

The knowledge about fraud detection that the forensic specialists share with the auditors has the possibility to contribute to an even more sceptical mindset and an increased awareness regarding fraud risks. However, we have identified two major factors limiting the extent to which the formal knowledge sharing occurs; the strict confidentiality policy and the fact that it is not a top priority by the experts. Also, the extent to which the auditors actually capture the knowledge from the experts depends on whether they consider themselves to lack fraud knowledge or not. Based on these findings we argue that the formal knowledge sharing is restricted and thereby the expected effect on the expectation gap is limited. The informal consultation is the part of the knowledge sharing that currently has the greatest impact on the auditors since it is not restricted to the same the degree. By informing the auditors on how to handle specific fraud risks, the forensic specialists may be able to contribute to an increased performance and thereby we expect a narrowing effect on the expectation gap.

Legitimacy can be a hinder to the knowledge sharing. Just like the auditors, the forensic specialists are dependent on legitimacy. In order to maintain legitimacy, the forensic specialists cannot jeopardize the confidentiality of the engagements and instead they put up “Chinese walls” against the rest of the firm. As a consequence of this coercive mechanism, the specialists cannot use these cases as examples in their education of the auditors and thus experiences cannot be fully shared. Another drawback is that they cannot show the full extent of the type of services they provide. Some auditors do not seem to know what the forensic service department offers and refer to the department as a “black box”. This limited awareness is a problem since the most important part of the knowledge sharing is for the auditors to know when to contact the specialists and not for the auditors to become fraud experts. The fraud knowledge that the auditors have can be complemented with the expertise of the forensic department only as long as they actually consider the option. However, limited knowledge about the services the specialists can assist with hinders the auditors from reaping the benefits of these services and constitutes a missed opportunity to improve fraud knowledge among the auditors.

When it comes to the second limiting factor, there could be different reasons why the forensic specialists do not prioritize training the auditors on fraud issues. The reasons can all be derived from professional norms about the auditors’ and forensic specialists’ roles and responsibilities. We interpret these norms as normative mechanisms which limit the knowledge sharing between the two professions. First, the specialists believe their time is better spent on client engagements. Second, according to the respondents, the two professions have different roles to fill where one is a specialist function whereas the other only needs to know enough to cover the material aspects. Accordingly, some auditors believe that they already have enough knowledge of fraud detection in relation to their obligations. Neither do the forensic specialists see the education of the auditors as one of their responsibilities. However, the extent to which the forensic specialists share knowledge with the auditors varies both between the firms and between individuals. Some auditors admit there is room for improvement and would like to see more formal knowledge sharing. Just like the coercive mechanism, the normative mechanisms are limiting the impact the forensic specialists might have on the expectation gap.

The formal knowledge sharing does not only have to take place through education but could also come about through the transfer of tools and methods from the forensic departments.

Even though we have only noticed one method being implemented within the audit, there are auditors requesting methods or tools to use when considering fraud risks. The demand for enhanced fraud detection techniques indicates a willingness from the auditors' side to improve performance in this area. The observation by one of the auditors that there is a "huge knowledge gap" illustrates that there is not only a willingness but also a need for increased knowledge among the auditors. Considering the fact that formal knowledge sharing is infrequent, the current influence on the auditors is assumed to be limited. Its effect on the expectation gap is therefore expected to be minor. However, since there is a will for increased knowledge sharing among many auditors, we expect it to have a greater impact on the gap if this request is fulfilled.

Although confidentiality can be a hinder in the formal knowledge sharing it is less of an obstacle when it comes to informal consultation. When auditors ask a forensic specialist for informal advice they can restrict the inquiry to a particular issue within their audit engagement and the specialist can thereby target their answer to the auditor's inquiry. Considering the time constraint of the forensic specialists, it is easier for the specialist to handle spontaneous inquiries from the auditors than it is to arrange a lecture. Therefore the time constraint is not as much of an issue in the informal knowledge sharing. The fact that the forensic specialists are in-house facilitates knowledge sharing since they can give the auditors additional comfort at no extra cost. The informal knowledge sharing is therefore where we see the biggest potential for impact on the auditors.

5.3 Forensic specialists' impact through investigative services

Fact-finding investigations, the third point of contact, are expected to have a narrowing effect on the expectation gap. Mimetic mechanisms drive companies to demand these investigations to avoid negative publicity. The companies want to be certain they are complying not only with the law but also with what is considered appropriate. As a consequence, the companies voluntarily comply with policies stricter than the law. We find that both the fact-finding investigations and the stricter policies contribute to additional comfort for the auditors. However, coercive mechanisms put pressure on the auditors to restrict the collaboration between the specialists and the auditors. Another factor that may restrict the effect that the investigations can have on the expectation gap is whether they are made public or not. When the investigations are made public they could instead expand the expectation gap since they

may give the public the wrong signals about the auditor's responsibilities. Even though the services of auditors and forensic specialists may overlap to some extent, by separating the units, the general public may perceive it as an area outside of the auditors' obligations.

Not only the audit firms are affected by mimetic mechanisms, also the clients are concerned about being negatively exposed by the media and portrayed as a “shady business”. We see indications of an increased demand for fact-finding investigations as a result of TV-shows such as Uppdrag Granskning. When media discovers a corporate scandal, we see that it has become a legitimate solution to hire forensic specialists to conduct a fact-finding investigation. Some respondents have also noticed a spillover effect where companies are requesting fact-finding investigations to avoid negative publicity. Examples of this effect that we observe are investigations regarding conflicts of interest and representational expenses. Even though these extra services the forensic specialists conduct, requested by the client, are of less significance for the auditors considering the level of materiality, they can still add assurance against bad publicity to both the auditors and the clients. Additionally, the fraud investigations conducted by the forensic specialists can also indicate weaknesses in the clients' internal controls and thereby give auditors an idea of where to focus control efforts in the audit. These examinations can lead to a more efficient audit and an improved performance. The expected effect should be a narrowing of the expectation gap. However, the investigations conducted by the forensic specialists can also have the opposite effect on the gap. When forensic investigations are made public there is a risk that the auditor can be criticized for not detecting the deficiency even though it falls below the materiality level. Additionally, in the examples that we have seen, it is not communicated externally that forensic specialists are conducting the investigations. Thus, the investigations may be perceived by the public as services provided by auditors, lying within the audit profession's responsibilities. Consequently, the public scrutiny can reinforce the expectation gap and threaten the legitimacy of the audit profession.

Following the media scandals, the auditors have noticed that the expectations from the public regarding what is considered to be appropriate behaviour of the companies have shifted. Nowadays, it is not enough to stay within the boundaries of the law, the companies also increasingly have to take public's opinion on what is appropriate into consideration. These new demands put extra pressure on the auditors but could also be seen as business opportunities for additional forensic services. For instance we see the coming implementation

of a new ISO standard to be one example. We expect this new service to become an additional point of contact between the forensic specialists and the auditors. Just like the fact-finding services, we expect it to increase the comfort of the auditors and thereby have a narrowing effect on the expectation gap.

Whether the forensic specialists will be hired for fact-finding investigations or not depends on whether the clients perceive the forensic specialists as legitimate. In order to achieve legitimacy, forensic specialists have to adapt to normative mechanisms. We observe that the professionalization that shapes the auditors also have an impact on the forensic specialists. This influence is a consequence of the fact that many senior forensic specialists are former auditors and their experiences have had an impact on the forensic service departments' working methodology. Furthermore, there are no certifications or higher education for the forensic specialists in Sweden, legitimizing the profession. The norms of the profession are thereby only formed through the audit firms' professional network. Belonging to one of the Big 4 auditing firms can lend the legitimacy usually gained from a certification and thereby encourage the use of the specialists.

Audit independence is of great importance for the auditors to maintain the legitimacy of the profession, but this coercive mechanism can also be a hinder to the cooperation between the auditors and forensic specialists. The forensic departments try to avoid entering into a situation where the forensic team might unveil facts that put the auditor into question when that auditor is a colleague. As a consequence, the largest, most complex fraud investigations are done on non-audit clients. We also see that the companies are increasingly demanding investigations to be performed by forensic specialists that are independent of their audit firm. No matter if the investigation is conducted by the in-house forensic department or by an external department, the specialists are not allowed to communicate with the client's auditor without the client's allowance. However, the fact that auditors are sometimes asking for a shadow audit by its own forensic department indicates that the auditor does not get enough comfort from the externally conducted fraud investigation. The shadow audit thus compensates for the lost comfort the coercive mechanism may cause.

Even though the auditors claim that the responsibility of preventing and detecting fraud mainly lies with the companies, we see that the companies turn to their auditors when they need assistance with fraud matters. As witnessed by the forensic specialists these are services

that the auditors have provided for many years on an ad hoc basis without labelling it forensic services. The forensic specialists explain the formalisation of the forensic departments as a way of driving the business and we see that they have reached the desired result in that these departments have grown. However, we also see that the formalisation has had another unspoken consequence. By separating the duties of the fraud specialists from the auditors, the audit firms signal that these are services that go beyond the regular audit. Even though the auditors only want to take limited responsibility for detecting fraud they do not mind providing the service of fraud detection to the clients at an additional cost. This separation in turn can be seen as a way of trying to narrow the expectation gap by altering the expectations of the clients and the public in terms of what the auditor's obligations are. However, the effect of this segregation of duties depends on the level of knowledge among the public about the profession's existence. Considering the fact that even some auditors perceive the profession to be a "black box", we expect it to be even more of a "black box" to the general public. Therefore the separation of duties is only expected to affect the expectations of the public to a limited extent.

6 Conclusions

6.1 Our contributions

The expectation gap has been examined by researchers all over the world. However, to the best of our knowledge, none of the previous researchers have studied forensic services in relation to the expectation gap. Some researchers have studied the effect of involving forensic specialists in the audit and whether this leads to an improved performance, but the majority of previous research within this field is from North America. Examining the Swedish forensic service market and its impact on the expectation gap, we find that forensic specialists have an impact on the auditors even though this impact is limited because of the market's nascent character. To the extent that the specialists are used, they are expected to increase audit performance and thereby have a narrowing effect on the expectation gap. These findings are thus in accordance with the North American research which shows that forensic specialists can improve audit quality through additional fraud findings (Christensen et al., 2005; Jenkins et al., 2016). By analysing the impact of the specialists, using the points of contact between the two professions, we are able to analyse the impact on a more detailed level. Institutional theory also helps to explain the factors both driving and hindering the auditors from addressing the expectation gap assisted by forensic specialists.

In the situations where the forensic specialists are involved in the audit process, we expect a narrowing effect on the expectation gap as the specialists influence the auditors' fraud risk assessment and help them to control for additional items in the audit. To the extent that the specialists are involved, we see that this is the point of contact in which they have the greatest impact on the expectation gap. The handling of fraud risks becomes less mechanical since the experts can interview the clients in more depth and examine potential risk factors. Their involvement also adds comfort to the auditors. However, including the specialists is perceived to be too costly at times and their possible contributions are not fully known by all auditors. Among the factors driving the use of forensic specialists, we identify media as a mimetic mechanism that makes the auditors adapt to the expectations of the public by checking additional items in the audit. Furthermore, the ISA standard suggests the auditors to hire forensic experts, making the profession legitimate and facilitating the involvement of specialists in the audit. Some auditors are admitting that they are doing more than they are required to do according to regulations and ISA standards due to uncertainty caused by external expectations. The fact that the auditors are doing more can be seen as a sign that the

auditors are adapting to the expectations of the public and thus addressing the expectation gap. Using a decoupling logic enables the auditors to reap the full benefits of the involvement of forensic specialists.

Additionally, we find that knowledge sharing between the auditors and the forensic specialists currently only affects the auditors to a limited extent and we therefore expect the specialists to have a restricted narrowing effect on the expectation gap. The conclusion is based on the observation that educating the auditors is not a high priority of the forensic specialists and the policy of confidentiality restrains the information shared with the auditors. We also find that some of the auditors would like increased education and information from the experts whereas others think the current level is enough. Although the current level of knowledge sharing is limited, we see clear benefits of the exchange of knowledge that takes place. We find indications that the auditors can develop a more sceptical mindset because of the involvement of forensic specialists. Also, increased awareness about fraud risks has been witnessed by auditors due to the connection with the experts. Today, the informal contact contributes the most since it is not hindered by coercive and normative mechanisms to the same extent as the formal knowledge sharing.

Finally, we see that the fact-finding investigations conducted by the forensic specialists affect future audits and contribute to increased comfort of the auditors and hence we expect them to have a narrowing effect on the gap. Media is also found to be an important factor when it comes to the investigations requested by the clients, driving the demand for the services. The auditors have also noticed a shift where the expectations of the public have turned toward what is appropriate instead of what is only legally acceptable. We find that this change has implications for the forensic specialists, resulting in an increased demand for forensic services, which is also expected to provide increased comfort for the auditors. However, the coercive mechanism regarding audit independence sometimes hinders the forensic specialists to take on engagements reducing the auditors' comfort. On the other hand, this problem can be mitigated by auditors requesting shadow audits.

Throughout history, the opinions have differed on how the expectation gap should be addressed. We find that the opinions still differ today. Many auditors think that closing the gap is a matter of informing the public whereas others believe that auditors have to improve their performance when it comes to fraud detection. Regardless of the varying opinions, this

study shows that auditors with the help of forensic specialists are taking initial steps in order to improve the audit performance to address the expectation gap.

6.2 Limitations

There are differences in rules and regulations between Sweden and other countries which may limit the possibility to generalise our findings to other markets. For example, Sweden and the US follow different regulatory frameworks. Swedish auditors apply the International Standards on Auditing (ISA) instead of the Statement on Auditing Standards (SAS) which is applicable on the American market. The regulatory environment also differs when it comes to the possibility for the auditors to get sued and the size of the fines. What previous literature from the US states regarding the involvement of forensic specialists in the audit process might therefore not correspond with the use of these experts in Sweden. Another factor that differs is that the forensic service market is much more developed in the US compared to Sweden where it is still a rather new phenomenon.

The Big 4 auditing firms span all over the world and their methods are being developed internationally and in that sense, our findings can to some extent be generalizable. However, there are national legislations that differ and thus limit the collaboration between the forensic specialists and the auditors. For instance, France does not allow the auditing firms to provide the client with any additional services such as fraud investigations.

Because the topic of this study is currently being discussed in media and may be perceived as sensitive, there is a risk that the interviewees have left out certain answers or opinions in order to not damage the auditors' reputation. Although we have noticed these tendencies with a few respondents, the majority have been transparent and outspoken about shortcomings that they have noticed. We therefore consider this risk to be negligible.

6.3 Suggestions for future research

Our study gives an initial picture of the forensic service departments in Sweden. We conclude that the forensic specialists have an impact on the expectation gap but we do not examine the effectiveness of involving the specialists in the audit or whether the knowledge sharing that does occur leads to the discovery of more fraud cases. Future research is thus suggested to quantify the effects of knowledge sharing and of involving forensic specialists. Furthermore, a

new audit opinion will be implemented starting in the middle of 2016 where the auditors are required to more explicitly state what has been conducted in the audit. Referring back to previous studies claiming that more information in the audit opinions can lead to a narrowing effect on the expectation gap, but also create new gaps, so called “halo effects”, this new standard may have an impact on the expectations around fraud detection and would be of interest to study.

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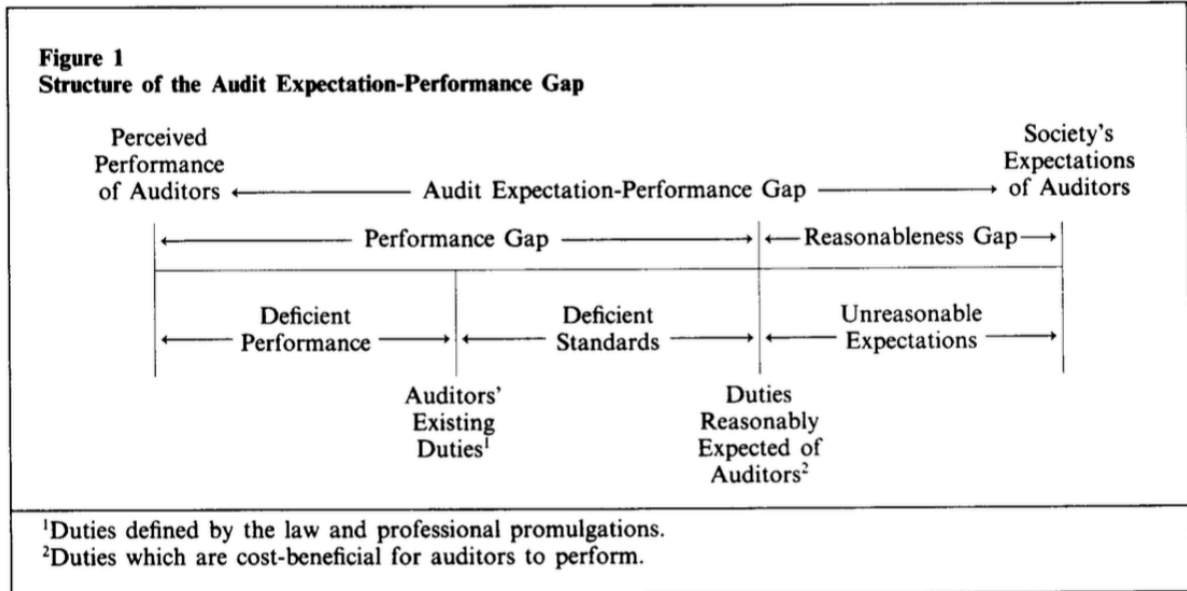
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8 Appendix

Appendix 1 – The Audit Expectation-Performance Gap (Porter, 1993):



Appendix 2 - Interviews:

Forensic specialist:	Date:	Forensic experience (y):	Length (min):
A*	12/02/16	7	86
B*	22/02/16	5	68
C*	24/02/16	1	67
D*	25/02/16	2	43
E*	25/02/16	5	55
F*	26/02/16	12	77
G*	26/02/16	12	66
H	18/03/16	8	39
I*	07/04/16	10	37
<i>Average:</i>		7	60
<i>*Audit background</i>			

Auditor:	Date:	Audit experience (y):	Length (min):
A	07/03/16	13	25
B	08/03/16	10	60
C	10/03/16	8	49
D	15/03/16	9	43
E	17/03/16	11	62
F	23/03/16	16	76
G	26/04/16	6	62
H	02/05/16	12	31
<i>Average:</i>		11	51