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Original Articles

Audit office size, audit quality and audit pricing: evidence from small- and medium-sized enterprises

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association is insignificant for Top 6 audit firms. Audit fees follow a similar pattern and

indicate that larger audit firms and offices put in more effort or have greater expertise. These results suggest that audit quality is differentiated in the private segment market. However, contrary to prior studies, our results suggest that the important dimensions are Top 6 versus non-Top 6 and the office size of non-Top 6 audit firms.

Keywords: audit fees audit offices audit quality private companies disciplinary sanctions Top 6 audit firms

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Notes

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three size criteria are exempted from the audit requirement: a net turnover of 3 million



SEK (1 EUR = 8.81 SEK, 21 February 2012), a balance sheet total of 1.5 million SEK and an average number of full-time employees of three. If auditing is no longer required, the general meeting should actively take a decision not to have an audit.

Auditing is also required in 21,200 trading partnerships, 15,000 foundations, 1530 foreign branches, 270 insurance companies, 75 banks, 70 economic associations, 15 non-profit organisations, 5 sole proprietorships and 4 European companies (SOU [2008:32](#), p. 124).

In 2006, the two institutes for public accountants in Sweden, Föreningen Auktoriserade Revisorer (FAR), and Svenska Revisorsamfundet (SRS), merged. From September 2006 until March 2010, they used the name FARSRS. Since March 2010, this Institute has been called FAR.

In addition to these types of auditor, there are auditors who have gained approval without taking an examination. Such auditors are allowed to audit small firms over a transitional period.

Reported revenues in Sweden for Öhrlings PwC, Ernst & Young, KPMG and Deloitte were 10.383 billion SEK (1 EUR = 8.81 SEK, as of 21 February 2012).

Reported turnover for the largest 10 audit firms in 2009 (in Euros): (1)

PricewaterhouseCoopers 218 million, (7) SET Revisorer 175 million, (10) Rödl & Partner 150 million, (8) Ernst & Young 130 million, (9) Deloitte 120 million, (6) KPMG 110 million, (5) Öhrlings PwC 100 million, (4) Grant Thornton 90 million, (3) BDO 80 million, (2) EY 70 million.

Among the largest 10 audit firms in Sweden, Ernst & Young 6.3 billion SEK, Deloitte 5.8 billion SEK, KPMG 5.5 billion SEK, Öhrlings PwC 5.2 billion SEK, PricewaterhouseCoopers 4.9 billion SEK, Grant Thornton 4.6 billion SEK, BDO 4.3 billion SEK, EY 4.0 billion SEK, Rödl & Partner 3.7 billion SEK, SET Revisorer 3.4 billion SEK.

The SBPA is a public authority established by the EU.

In the period 2007-2009, 7 (26.3%) of the cases were initiated as a result of tips from tax authorities. 6 (21.4%) were initiated as a result of tips from other sources.

The SBPA's annual report for 2009 (SBPA's Annual Report 2009) shows that 10 cases led to the issuing of disciplinary sanctions. Thirteen auditors received multiple sanctions.

From 2005 to 2009, the average number of approved and authorised auditors was 4083.

Note that Palmrose ([1988](#)) investigated litigation cases against auditors, not disciplinary sanctions.

During the 1970s and 1980s, there were eight big audit firm networks ('Big 8'). Two big mergers in 1989 reduced the group to 'Big 6'. This became 'Big 5' when Coopers & Lybrand and Price Waterhouse merged in 1998. Since the disappearance of Andersen in 2002, the current large audit firms have been referred to as 'Big 4'.

The following switches of employees were identified. One auditor who had worked for a Big 4 audit firm had switched to a small firm and one auditor who had worked for a small audit firm had switched to a Big 4 firm. Two auditors who had worked for Grant Thornton or BDO switched to small audit firms. Finally, there were a few switches between small audit firms. The few switches indicate that the data at the end of 2009 were also representative of the situation prior to 2009.

Exchange rate at 21 February 2012.

This is the age of the auditors without a sanction in 2007; the mean and the median year of the sanctions in the sample are 2007.

We also employed these regression models to test whether the age of auditors is significant in all

Indeed, we have more audit assignments. We received 5 auditors in our sample. The age of auditors is more exposed to additional assignments. We are still also had assignments in Table 4

auditors who had lost their certification was not available.

Tables with industry distribution for the audit fee sample, descriptive statistics and a correlation matrix for included variables in the audit fee regression models is available upon request from the authors.

We also calculated the variance inflation factor (VIF) in order to examine whether multicollinearity significantly influenced our empirical results. The highest VIFs in the regressions in [Table 6](#) were 5.28 and 6.69 in [Table 7](#), thus suggesting that multicollinearity is not a problem.

We ran the regressions separately on Big 4 audit firms and Grant Thornton or BDO. LNOFFICESIZE had a positive coefficient significant at the 0.10 level in the regression on the 97 observations audited by Grant Thornton or BDO and a positive but insignificant coefficient in the regression with Big 4 audited companies in the sample.

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