The relationship between accountants and external auditors

– A case study from client’s perspective on subordinate level

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Abstract

The nature of the auditor-client relationship is a complex aggregate involving a number of groups and individuals between both parties. Although auditor-client relationship is an important subject in the accounting and auditing literature, what has not been extensively studied is the complex relationship between the clients accounting staff and the external audit group at subordinate organization level. Thus, the purpose of this study is to dig deeper into the relationship between clients accounting staff and external audit team consisting of junior and senior auditors and to find out what characterizes this relationship. We also aim to look it from knowledge management and trust perspectives since these are special characteristics of both professions. In order to find empirical results we conducted a qualitative research with a case study by interviewing three accountants and one controller in the same mother company who do financial work for four subsidiaries. They all work together with several auditor groups and therefore could provide us a good comparison to our results. Our study reveals that the relationship is maintained on the subordinate level by the senior auditor who works not only as an auditor but also as a relationship manager. Furthermore, we identify the fact that lower competence of junior auditors creates problems in relationship with client’s accountants. Therefore, our accountant respondents are more likely to allocate low trust to inexperienced junior auditors, specially due to the fact that accountants are the ones teaching the junior auditors in specific accounting issues which is time consuming and often leads to irritation on the accountants side. However, accountants’ trust towards the senior auditors turns out to be high due to recognized expertise knowledge of senior auditors based on our interviews.

**Keywords:** accountant; external auditor; auditor-client relationship; subordinate level; audit performance; knowledge; trust.
1. Introduction

1.1 Background

The auditor-client relationship is a complex seller-buyer relationship where the buyer (client) buys the service of auditing from the seller (auditor). The reason for creating this relationship is not the need of the buyer for products or services, instead this is a mandatory relationship required by the owners of buyer due to the separate ownership from management in modern corporations. The owners of buyer are shareholders, who in a listed company require and audit to be performed. The seller therefore is actually performing the audit for the shareholders and what they are providing in the audit is the confirmation for the shareholders that the company their own is being managed in their interest and the managers are creating truthful financial statements. It is however the audited clients who pay the work of auditors and the accountants and managers of the client are the ones who have continuous interaction with the auditors to provide them the evidence they require from them. Therefore this relationship can be described as a complex relationship between a buyer and a seller involving an aggregate of a series of the two-parties and group relationships, between individuals from both organizations (Beattie, Fearnley and Brandt, 2001).

The auditor-client relationship is often an important element when it comes to the work of auditors and accountants. Historically, the auditor-client relationship has been characterized as inherently conflicting and tense, due to the monitoring function of auditing on audited clients. There has been evidence suggesting that the interference of external auditors during the audit process on the normal works of clients’ accountants and employees may potentially cause some conflicts and tenses in the interrelationship (Matthews and Pirie, 2000). There might be even more contradictions when changing auditors, as new auditors would take time to get knowledge about new clients’ business environment, and the clients would also suffer from indirect costs since their employees (i.e., accountants) will have to spend more time with new auditors in training and transferring companies’ knowledge and information. Whereas, there has been consideration that both client and audit firms generally benefit from a long-term relationship without changing that often. Ellis and Mayer (1994) suggested that trust, respect, and confidence through effective communication are important factors in an auditor-client relationship. Furthermore, Joshi, Ajmi and Bremser (2009) argued that the audit firms face new challenge to understand client’s operational and financial complexities, implying that auditors’ experience with client, industry expertise, and responsiveness to client need are
important in client-auditor relationship. Auditors’ specific knowledge about their clients should be achieved through long-term relationship with clients; meanwhile auditors are however required to remain their independent audit judgments without being influenced in a close client relationship.

Therefore, the contradictory perspectives on auditors’ interaction with client are interesting from a research point of view. In this study we will concentrate particularly on the area of this relationship and view it from the clients side. In order to be able to narrow down the topic we decided to look it from the subordinate company level where there is the most interaction between the client and the seller: the clients accountants (staff) and the auditors (excluding the signing partner). We concentrate on the relationship on the accountant-auditor level and dig deeper into knowledge management and trust since those two concepts are important to the accountants and auditors. Even though audit quality is an important aspect in the sense, it has been widely studied and can only be judged by the decision makers who are ranted higher level of organizations (i.e., signing audit partner, CFO and the shareholders), which is however not the focus in this paper.

We performed an empirical study by interviewing staff level accountants that work closely with auditors and therefore have a close interaction with them. As our results show, the relationship between the client and the seller in the case of auditing can be dependent on interpersonal relationships, trust and knowledge of auditors. Since auditors do not need to prove anything to the staff of the client, the relationship can sometimes be very challenging. However if they want to be efficient and get results from the accountants, a good working relationship with the staff of the client is a requirement. How the relationship between client’s accountant staff and auditors being built might be complicated due to the need of independence in the audit profession, therefore we decided to look deeper into it.

1.2 Research Problem

Prior researches have predominantly examined the auditor-client relationship by focusing on the view of auditors (e.g., Rennie et al., 2010; McKnight and Wright, 2011; Daugherty et al., 2012; etc). But there is little empirical evidence related to the client perspective. Iyer and Rama (2004) viewed audited financial reports as the product of negotiations between a company’s management and its auditors. They argued that audit clients’ perceptions are important because they are likely to affect the result of the negotiation process, which in turn may ultimately influence the auditor-client relationship. Client is one of the involved parties
in this social exchanged relationship, their perspectives therefore cannot be excluded when examining the auditor-client relationship. Since audit clients’ opinions remain unclear, there has been a call for research on auditor-client relationship in the context of audited client’ perceptions.

There are already some researches concerning the nature of the relationship between auditors and clients in the points of view from decision makers who are ranted higher level of organizations (e.g., McCraken et al., 2008; Hellman, 2011; Fontaine & Pilote, 2012), however not that much is written about how this impacts the work of clients in subordinate level. We believe that this is an important aspect to do research in, because auditors are in a regular contact with the client’s accountant staff and continuously need to confirm that the processes are valid but also signal to them about problems in accounting and financial statements.

1.3 Study purpose

Our purpose is to identify the characteristics of the relationship between auditors and client’s accountant staff and attempt to get deep insight into how trust and deep knowledge is being built between auditors and the client’s accounting staff. In order to be able to do this, we will especially concentrate on the difference between junior and senior auditors in the audit groups and on the relationship the accounting staff has between them. Many big audit companies place junior auditors to the audit teams because working and meeting the client are the best way for them to learn. Junior auditors can gain professional knowledge by studying, but most of the skills they need in their work can only be gained by learning from seniors. This interesting relationship between accountants and auditors guided us to do an empirical investigation about the relationship on the staff level.

1.3.1 Research Questions

To be able to fulfill the purpose of this research, and based on the research problem outlined above, following research questions have been developed:

RQ1: *How is the auditor-client relationship characterized when looking from the perspectives of client’s accountant staff? How can trust be built between client’s accountants and external auditors?*
RQ2: *What kinds of differences are there in the performance between junior and senior auditors and how do these differences affect accountants’ work? How does knowledge influence auditor-client accountants’ relationship?*

This study has a few limitations in its scope. We will only use academic articles for our research for what we already know. Also, conducting a case study can provide us with new outcomes that do not necessarily apply to every situation since the case study is only done conducting interviews in a limited group. A third limitation is that we are only interviewing the accountants, not the auditors. However since the purpose of the study is to measure the relationship and its efficiency from the client perspective, that is why we have decided to conduct interviews only with accountants.

**1.4 Outline**

In chapter 2 we will present a literature study about the nature of auditor-client relationship, followed by chapter 3 with a focus on the attributes of auditors expected work performance and the characters on their profession. In chapter 4 our research method will be explained in detail how we conduct the research. Chapter 5 presents the result from our empirical study and then in chapter 6 we will make an analysis based on our results. Finally the last chapters show our conclusions, limitations and recommendations for future research.
2. Auditor-client relationship

2.1 The demand for financial audit

Since the early 20th century, the emergence of capital markets and the development of complex businesses have raised a wide variety of investors and shareholders as owners and led to the separation of ownership from management. In modern corporations, business owners (i.e., shareholders) hire managers as agents to run the business and fulfill a stewardship function on daily basis (Jensen and Meckling, 1976). As the owners are outside the operation of business, it is difficult for the owners to directly observe the stewardship of the managers due to information asymmetry. It has therefore raised a concern about the inherent conflict of interest between the absentee owners and the managers, who can potentially manipulate reports offered to owners. In an attempt to protect money the owners have invested, it is at this point that the demand for auditing arises (Eilifsen et al., 2006).

Wallace (1991) identified three hypotheses to explain the economic demand for auditing, which are: (1) The monitoring function for stewardship of managers (agency relationship between owner-managers); (2) The obtain of useful financial information to determine market values and make rational investment decision (information asymmetries); (3) The need for insurance in accordance with owners’ interests and relevant rules. In this context, the role of auditing exists to serve the need for supervision and accountability due to the divorce of ownership from control in modern corporations (Beattie et al., 2001)

Generally, auditing is defined as “a systematic of process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria and communicating the results to interested users” (cited from Boynton and Johnson, 2006, p.6). This systematic auditing process is illustrated in Figure 1 as below, which gives an overview on the role of auditing in monitoring the contractual relationships between the entity (i.e., managers and employees) and its owners (i.e. the major group of shareholders) and external users interested in the company (i.e., creditors, governmental agents, the general public etc.).
Auditing is mainly a set for the audit of financial statements. This is because the financial reporting of an entity is considered as a mean where the management provides information about the business’s financial position, performance and changes in the financial position that are useful to a wide range of interested parties in making economic decisions (Alexander, Britton and Jorissen, 2011). Given the function that managers are held accountable to interested parties about the accounting information, it is therefore critical that the financial reports made by management need to be relevant and reliable without material misstatements (IASB, 2010). It is required that external auditors (also refers to independent auditors) are involved in attesting whether the financial reports fairly present a true picture of the entity’s financial position and performance. Eilifsen et al. (2006) pointed out that the auditor’s verification of the financial information does add credibility to financial reports and reduces information risks, when at the same time potentially benefiting both the owners and the managers. Carrington (2010) held similar kind of statement that the role of financial audit is central in order for the capital market be able to function and more generally also for the corporate governance.

Entities, especially public listed companies that need to have their financial reports to be audited, act as a gatekeeper to capital markets (Reither and Williams, 2004). An audit being performed increases users’ trust in the financial statements and therefore reduces their investment risks. Therefore, external auditors can serve the shareholders and public only if they safeguard the profession’s reputation for independence, objectivity and skepticism (Rittenberg and Schwieger, 2005). Auditors are supposed to be independent from the audited
entities as well as able to make objective and unbiased audit decisions with necessary professional skepticism.

2.2 The interaction between external auditors and client company

As previously explained, an audit engagement is an assurance engagement, where external auditors are considered to enhance the transparency of corporate governance and financial reporting and provide independent assurance function through their adherence to professional standards, independence from the business they audit, and specific knowledge about the client company, industry and its controls (Stefaniak, Houston and Cornell, 2012). The auditor-client relationship is built up when there is an audit engagement, in which auditors provide an audit service while still need to remain independent from the client entity, in the favor of shareholders rather than the responsible management party. Such unique characteristic of auditing services makes the client-auditors relationship become even more complex than other buyer-seller relationships in the business-to-business world.

Beattie et al. (2001) claimed that the auditor-client relationship is the aggregate of a series of the two-party and group relationships, between individuals from both organizations. In an attempt to collect audit evidence, external auditors must often interact with key management personnel and employees of the client entity. The audit processes normally involve several individual auditors working together as a team and completing a specific audit task within an established time frame (Golen, Catanach and Moeckel, 1997). Thus, the interaction between client representatives and members of the audit team usually takes place at many different levels. As shown in Figure 2, Hellman (2011) presented the corresponding hierarchical structures of the auditors-client relationship in order to capture the role of client’s representatives and audit team from the highest level down to lower level.
The left side in Figure 2 shows the hierarchical structure of a client company consisting of: shareholders who own the corporation but are situated outside the operation of the entity; the board of directors and audit committee; the Chief Financial Officer (CFO); and then the accounting manager and accounting staff in the subordinate company level. While the right side illustrates the normal structure of an audit team, which is roughly following: an audit engagement partner (AEP) who leads the team and signs the audit reports; a manager and a few more experienced auditors that are not yet managers; and also junior member(s) who are less experience in audit team (Liu, 2012). At the highest level, the audit firm is selected by the shareholders at an annual general meeting, which is however not a direct forum for auditor-client interaction (Hellman, 2011). After that, the audit interaction with client representatives mostly takes place at various levels without the presence of the client company’s owners/shareholders.
Generally, an audit process can be separated between the planning and the execution of audit phases. In the planning phase, the audit interaction often involves higher management level of the both parties (i.e. the directors of board/Audit committee, and CFO of the client company and the audit engagement partner EP of the audit firm). This phase is mainly characterized by negotiations, client acceptance and the planning of specific audit strategy that forms the foundation for the subsequent evidence collection and execution during fieldwork (Hellman, 2011). The audit partner is the leader of audit teams and acts mostly like an expert advisor who is responsible for starting and managing the client relationship in a ‘good state’ (Hellman, 2011). Even though audit partner leads the audit teams, she or he is seldom involved in the basic audit interaction during the audit fieldwork. Thus, when the audit process moves to the execution phase, it is the audit manager and other audit staff in the group who have direct contact with the client’s management and employees.

Individually, external auditors of the audit team and client representatives each have a significant role in ensuring the client management’s accountability. They can also be mutually reinforcing, given the right communication links between them (Beattie et al., 2001). During fieldwork, staff-level auditors may have extensive interaction with client management (Bennett and Hatfield, 2013). As stated above, this paper focuses on a particular part of auditor-client relationship in terms of the client perspective, by selecting a particular level of interaction (subordinate company level – members of audit team) and the execution phase of audit.

### 2.3 Dilemma in the auditor-client relationship

The audit report is designed to address to the company’s shareholders who are strictly the owners/investors). External auditors must make independent audit opinion on whether or not the company’s financial statements give a true and fair view of the financial situation of the company and whether the reports have been properly prepared in accordance with relevant regulation and laws. Beattie *et al.*, (2001) argued that a positive opinion leads to a ‘clean audit report’ that is deemed to be critical by company management and capital market participants. In this sense, a company’s financial statements can be viewed as a product of the joint efforts of the two parties (Ramasawmy and Ramen, 2012).

The main role of an external audit team is thus to attest the accuracy of financial information basically for those investors and shareholders rather than in favor of the audited entities’ interests. It however raises a question concerning the issue of auditor independence – it is the
audited clients who hire and pay for the work of auditors, and in the audit process auditors have to frequently interact with the management and employees of the audit clients in order to collect necessary auditing evidence. Since auditors are subject to the appointment and economic interests by the audit entities, an ideally complete independence would not achieved in practice. However, too close interaction with audit client may put auditor independence and their professional skepticism into questions. Sweeney and Pierce (2011) summarized auditors’ lack of skepticism through: over-reliance on clients’ management, failure to test conflicting explanations; failure to obtain appropriate third party confirmations; or seeking to obtain evidence that corroborates, rather than challenges, judgments made by client management.

External auditors are supposed to have ethical obligations in client relationships. They have to maintain secrecy and confidentiality of private information gathered from clients during the course of conducting audit. The auditors must also follow professional standards as a basis for providing an opinion on whether the financial statements are in conformity with generally accepted auditing standards (Joshi et al., 2009). They focus mainly on the financial aspects of the organization and have a duty to express an opinion on the truth and fairness of the financial statements (Ramasawmy and Ramen, 2012). In order to be able to perform this role, auditors often need to resolve issues which clients have clearly preferred positions (Stefaniak et al., 2012). Whereas, tension often results when auditors and their clients encounter situations, where regulatory standards allow for different judgments about the appropriate treatment of accounting transactions (Johnstone and Muzatko, 2002). The desire to maintain client relationships can have an affect on external auditors objectivity (Stefaniak et al., 2012). Therefore, all members of the audit team (i.e., partners, managers, seniors, and junior staff) may alter their behavior throughout the audit process in response to competitive pressures. Hellman (2011) argued that auditors have to make trade-offs between having a close relationship with the client and at the same time maintaining enough distance to the client.

Golen et al. (1997) stated that during the process of delivering independent audit services, auditors handle many sets of interpersonal relationships, and the incentives and organizational differences frequently create tension and conflict between auditors and their client. Real-life accounting and auditing problems are often complex and messy, requiring the synthesis of technical knowledge as well as the application of generic skills. The following section will present the attributes that influence client’s perception on auditor work performance, with a focus on knowledge management in the relationship, which effects can in turn affect the auditor-client relationship.
3. Attributes that influence auditor work performance

Since the audit firms sell services to clients and are subject to making revenue and profits, they must develop and maintain relationship their relationship with the client to ensure that clients do not become dissatisfied and replace them with another audit company (Stefaniak et al., 2012). Some understanding of attributes that influence the nature of the auditor-client relationship has been provided by empirical studies that examined client’s view of audit services and closely related concept of client satisfaction (Beattie et al., 2001). To our knowledge, however, most of those empirical studies mainly focus on examining the perception from the CFO’s and Audit committee’s point of view. As mentioned before, this paper is not going to look through the higher level of interaction between CFO/audit committee and AEP, instead we will only focus on the subordinate company level involving senior managers and staffs who basically participate in the execution stage of an audit. As it is usually the ‘staff auditors’ (i.e., audit team manager, senior auditors and junior staff) who meet with client staff, they might perform differently depending on their experience and knowledge, which can be attributed to client perceptions in such learning audit relationship.

3.1 Different characteristics between senior auditors and junior auditors

Usually the development from a junior accountant to a partner is a predictable development path, however it is the manager phase where it is being revealed whether the person will be willing to take the road to become a partner or not. First a junior accountant goes through approximately three years of training with courses and practical training where they can deepen their knowledge and skills in accounting and auditing (Kornberger et al., 2011). There are different kind of expectations about the behavior and the way the juniors should socialize, these can include the way they dress and behave, also it is expected that the junior members show that they are passionate about their profession and that they are keen to learn more and be very precise (Grey, 1998).

The junior member of the team is often aged between 21 and 24 (Bennet and Hatfield, 2013). Compared to senior ones, they are inexperienced and less knowledge in the audit field works. In their study, Bennet and Hatfield (2013) found that many of the auditors could sense that the client got irritated because of their questions and the fact that they are continuously interrupting their work. Due to the mismatch between the junior auditors and the clients on age and experience, the auditors usually feel uncomfortable with older and more experienced
clients and therefore they tend to ask more information from the client members that are more of a same age and with same experience (Bennet and Hatfield, 2013). The tendency to avoid often meeting clients managers in face-to-face would however can lead to misunderstanding the received information and therefore eventually jeopardize the audit result.

Kornberger et al. (2011) studied the phase of becoming a partner from a junior auditor, and as previously mentioned he found out that the manager phase is the most challenging one in the Big 4 accounting firms. The tasks of a manager can include ”micro-managing a junior staff member, creating a paper trail, building informal networks…” (Kornberger et al. 2011, p. 532). The newly appointed managers need to abandon their identity as a junior member and take the responsibility of being a supervisor but also being a relationship manager since they still have a lot of contact with the clients. Another big issue is that if they wish to progress their career and become a partner one day, they need to be able to handle internal competition but also always top perform in their audit tasks.

The partner has the highest responsibility for the audit work being done since he or she is the one who signs the audit report once the audit is completed. The audit partner is also the formal relationship manager and the “police” especially financial reporting situations. The closest contact person to the signing partner is the client company’s CFO. The possible challenges the partner faces are situations where CFO might try to affect the decisions the partner makes but also making sure that the relationship with the client is good, even though the partner is not visible for the client organization’s other employees (Hellman, 2011).

### 3.2 Communication and trust

In the case of a new client-auditor relationship, the client may be more satisfied if new auditors can convince them about the quality of their services (Reheul et al., 2013). However, when young, inexperienced staff-level auditors interact with more knowledgeable members of client companies, such mismatched situation can have a potential influence to audit quality. Bennett and Hatfield (2013) showed in their study that the mismatch of age, experience and knowledge between staff-level auditors and client management can result not only in less face-to-face interaction with the client but potentially intimidating situation where staff-level auditors may reduce the extent to which they collect evidence to avoid these interactions, and therefore it can impact their decisions made in collecting information and conducting test work. Furthermore, there is evidence indicating that audit clients sometimes believe that the audit fieldwork is too invasive to their daily operations (Bennett and Hatfield, 2013).
Ellis and Mayer (1994) suggested that external auditors must build trust, respect, and confidence through effective communication in attempt to manage independent audit relationships, as effective communication is the key in developing and maintaining functional and positive client relationships. In accordance with this opinion, Golen et al. (1997) evaluated client perceptions of the seriousness and frequency of potential communication barriers in external audits. Their study revealed that both credibility (background) factors and hostility (conflict) factor to be the most serious barriers.

Fontaine, Letaifa and Herda (2013) conducted interviews with 20 CFOs to explore the reasons behind the decision to switch audit firm, and the value the CFOs’ perceive to receive from an audit. Their findings indicated that clients are more likely to switch audit firms when they recognize that the audit firm has mismanaged the audit-client relationship.

3.3 Knowledge and expertise

According to Zerni (2012) there are two major characteristics that affect to expertise in the accounting profession: It is the knowledge gained and also the on-the-field training that lead to practical knowledge. The deeper expertise that is gained by doing audit for similar kind of clients will lead to specialization. However in order to be able to meet the expectations of the clients and gain the industry and market knowledge, the junior auditor needs internal knowledge transfer from auditor managers and other senior auditors who have performed an audit in the past.

Knowledge and information are valuable for all organizations in their business and this also applies to auditing firms. Knowledge management enables organizations to make not only tacit knowledge to explicit knowledge but also to both internalize and externalize knowledge. Tacit knowledge is something that is difficult to explain in words, it is often routines and ways of doing things that people learn over time, often called “know how” (Nonaka and Konno, 1998). Learning tacit knowledge is called the personalization strategy (Hansen et al., 1999). Personalization strategy includes also the values and beliefs of people, and the way of capturing explicit knowledge that can be learned (Nonaka and Konno, 1998; Fahey and Prusak, 1998). As an opposite to tacit knowledge, explicit knowledge is information that can easily be written down to manuals and guide books (Nonaka and Konno, 1998), often referred as codification strategy (Hansen et al., 1999). Fahey and Prusak (1998) criticize the fact that knowledge is often being associated with something that can be written down (codification
strategy) when they believe that knowledge itself is something that stems from individuals and their ability to create, transfer and use knowledge. Especially in accounting profession many practices can be written down and there are “to do lists” and “to check lists”, however it is especially the industry and customer related knowledge that is often impossible to write down; instead it has to be experienced by person or to be communicated from person to person in order to be able to say that the auditor has expertise in the field of interest.

When sharing knowledge there is often a lack of recognition that it is not enough to just share the information, instead the information needs to be internalized and processed in order to facilitate learning (Fahey and Prusak, 1998). According to Hansen et al. (1999), the organization does not need to decide between a personalization and codification strategy, instead they should choose one primary strategy that fits its purpose and then use the other one to support it. For example a lot of information can be written down in to manuals, lists and excel sheets, however how to use that information needs to be shared and it often requires communication, analyzing and creating new models. Accounting firms often give junior members the task to go through ready-made checklists when managers do the analyzing part instead.

Knowledge transfer requires systems and processes from the organization (Fahey and Prusak, 1998). Gardner et al. (2012) recognizes three sets of resources that have a great affect on the knowledge internalization capability of organizations. These resources are relational, experiential, and structural. Relational capability is essential for groups in order to be able to perform in uncertain situations; experimenting is important in finding new information; and structures facilitate the transfer of resources and knowledge. Knowledge integration capabilities and team performance have a strong connection if the team has structures and processes that facilitate knowledge creation and information flow.

An attempt to try to make knowledge creation and transfer an automatic process often fails (Hansen et al., 1999). Since managers need to understand that knowledge creation and transfer requires processes and structures, there needs to be a “place” for knowledge management (Nonaka & Konno, 1998). What seems to be the key according to Hansen et al. (1999) is that the management chooses the right strategy, however academics (e.g., Gardner et al., 2012; Nonaka & Konno, 1998) seem to emphasize also the importance of acknowledging that knowledge creation is a dynamic process that requires attention and flexibility. If providing the right circumstances, organizations will not only exploit and better the existing
knowledge but also be able to explore and achieve better and more efficient ways of
transferring information (Gardner et al., 2012).

The ability to manage knowledge is extremely important in the audit works. Audit teams are
responsible for discovering the true financial state of clients’ business. How to best gain and
preserve the knowledge could be a challenge for auditors and audit firms in the context of
mandatory auditor rotation. Sanders, Steward and Bridges (2009) investigated knowledge
management under the context of mandatory audit partner change. They pointed out that the
audit partners possess an intrinsic specialization, with rich tacit knowledge gained during their
tenure on a financial statement audit engagement. However, such specialized knowledge will
be lost when they are forced to disconnect from a specific engagement. In order to limit the
amount of the lost of specific-client knowledge, Sanders et al. (2009) suggested that four
approaches, including adequate planning, strategic rotation, documentation, and increased
interaction, which can be utilized collectively by accounting firms and their clients will
facilitate the preparation of partner rotation.
4. Method

Since our research purpose is to explore the characteristics of the auditor-client relationship in the perception of accountants as client, we select to do a case study with qualitative approach, where face-to-face interviews will be done to help better capture respondents’ attitudes, perspective and values on the basis of their own words (Saunders, Lewis and Thornhill, 2009).

The empirical data in this study consists of interviews with accountants and controllers of four different companies. The companies are all Nordic subsidiaries to a listed German company and they have local offices in the Nordic countries, however all finance and accounting is being done at the Nordic headquarters where the accountants and controllers work together. The auditors for the four subsidiaries are from the same country as where the subsidiary is registered at, but since the accounting and finance function for all subsidiaries is located in one country, Sweden, the auditors travel to the Nordic headquarter of the client when needed. The audit companies are all local subsidiaries of one of the Big 4.

The reason why we chose to interview these accountants and the controller is because they all work with more than one of the Nordic companies and therefore meet auditors from more than one company. All accountants and controllers have their main responsibility with the companies, for example accountant A is generally responsible for the accounting of company 1, however accountant A has also some responsibilities with company 2 and so on. Therefore they all have more contact with one of the auditing firms; however they are also involved to some extent to all of the auditing companies. Accountant A is the most junior accountant in the firm, working there for one year and dealing with the basic accounting. Accountant B has worked in the company for two years and can be considered as a more senior accountant. Person C has worked in the company for four years and is a senior accountant that deals also with special accounting questions. Person D is a financial controller who has worked in the company only a one-year time but has extensive and long experience as an accountant, CFO and controller from previous work.

This gave us a possibility to find out how they experience the difference between working with same auditors for many years compared to changing auditors since based on the background information they have provided us, one of the companies has had the same auditors now for several years when other companies have had new auditors. It has been
identified that working together with same auditors year to year is different compared to working with new ones.

Since we are aiming to analyze the experiences and opinions of accountants and controllers when it comes to their relationship with different auditors, we did semi-structured interviews and in detail face-to-face interviews to conduct our study. We started from theory and background research to see what we already knew and then collected material to be analyzed by doing interviews. We then interviewed four people and every interview lasted approximately 30 minutes. All the interviews were conducted in English in order to provide high validity since neither of the authors has English as a mother tongue and therefore are not reliable translators. The benefits of qualitative studies is that they especially in the case of interviews give the possibility to analyze feelings and also make open end questions to the ones being interviewed (Saunders et al., 2009). This can give a better understanding about the subject. However it also has it downside when it comes to interpretation since the interviewees own personal opinions can affect to the way the answers are being interpreted. Transcribing interviews and then interpreting the results can also be time consuming in the case of long or many interviews (Bryman and Bell, 2006).

We asked similar kind of questions from the people being interviewed in order to be able to compare their answers but also left space for some open ended questions so that we could get a wider picture and maybe some surprising answers that closed questions would not allow. The questions were asked from accountants and controller belonging to same accounting and finance group, but they work with several different companies that all have different auditors. In order to test the interview questions we asked one of the accountants not being interviewed to read them through and give us feedback whether the questions were easy to be understood. Only one question needed modification to be clearer. Then we sent the interview questions to the ones being interviewed one day in advance in order to give them a possibility to read them through and to make some notes, however we asked them not to discuss with each other about the questions so that others opinions would not influence to the answers we would receive. All interviews were held separately and the interviews were recorded. Once we had all four interviews, we transcribed them and asked the interviewees to check that they agree with the transcription. According to Bryman and Bell (2006), when conducting interviews the reliability of the results is higher if the interviews are being taped and later transcribed. In this way the researches do not have to try to memorize or trust to their own notes and therefore everyone can be sure that the results are reliable.
The interview questions were divided into three parts and covered the following topics:

1. Background information concerning the interviewees and their work.
2. Relationship characteristics and trust, and
3. Audit performance and knowledge.

The results of the interviews were then analyzed in a way that both authors read through the transcriptions and looked for similar kind and different kind of answers from the respondents in order to be able to highlight interesting topics. The results were put into a matrix that was divided into three parts based on the interview topics. The meaning of the matrix in the next section is to provide the reader a picture of the answers but also to organize the results in a clear manner.

5. Results

In the following part we will present the results of the empirical study. The results are divided into three parts: background about the interviewees, relationship between the interviewees and auditor and knowledge and audit performance.

5.1 Background information

<table>
<thead>
<tr>
<th>Question</th>
<th>Accountant A</th>
<th>Accountant B</th>
<th>Accountant C</th>
<th>Controller</th>
</tr>
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<tbody>
<tr>
<td>Q1: Please give us a short introduction about your work and responsibility in the company.</td>
<td>Junior accountant: One year experience of accounting, work with basic accounting and has been working in this company for one year.</td>
<td>Senior accountant: four years of accounting experience and two years of experience in this company.</td>
<td>Senior accountant: 7 years of accounting experience, 5 years in this company. Works as accounting specialist.</td>
<td>Financial controller: previous experience 8 years from accounting and as a CFO, worked for one year in this company.</td>
</tr>
<tr>
<td>Q2: To what extent do you work together with the auditors?</td>
<td>Mostly by e-mail concerning questions that junior auditors ask.</td>
<td>Mostly concerning year-end during the preparation and afterwards.</td>
<td>A lot, especially VAT questions.</td>
<td>Mainly year-end but also the hard-close.</td>
</tr>
<tr>
<td>Q3: Have you ever worked with same auditor(s) or new auditor(s) or both?</td>
<td>The auditors met are the same ones: they haven’t changed during the time of the accountant.</td>
<td>One of the audit groups has always been the same, another group has changed a lot.</td>
<td>The audit group has had the same partner and manager for some time, but juniors change often.</td>
<td>It has been the same auditors now but in previous work the whole audit group has changed.</td>
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</table>
Accountant A has one year of experience from working with auditors, all from the company the accountant works at now, B has four years of experience (two years from current employment and two years from previous job) and C and controller have both 7-8 years of experience. C has worked in this company for 4 years and controller has worked in the current company a bit over a year. Accountant C is the one that has most contact with the auditors, especially with VAT questions. The other interviewees are in contact with auditors mostly concerning the yearend audit. All the interviewees have also worked with both senior and junior auditors, accountant A has only worked one year in the company so A has no experience in auditors changing, B and C work simultaneously with audit groups that have been altered.

5.2 Relationship characteristics and trust

<table>
<thead>
<tr>
<th>Q4: How would you describe your relationship with the auditors you work with? Do you trust some more than others and why if so? How and what have you learned when working with auditors?</th>
<th>Accountant A</th>
<th>Accountant B</th>
<th>Accountant C</th>
<th>Controller</th>
</tr>
</thead>
<tbody>
<tr>
<td>New to work with both audit groups. One of the audit groups has many senior managers and they are easy to work with; while one group consists of many juniors and it is challenging to understand what they want.</td>
<td>Trust the auditor manager the most; stupid questions come sometimes from juniors. Some learning from seniors, while mostly teaching junior auditors about accounting.</td>
<td>Generally good relationship with all auditors, however there is always some member of the audit team who is inexperienced and therefore cannot be trusted.</td>
<td>Very good relationship; a great relationship with one of the auditors from previous work who had a lot of knowledge (between junior and senior). A lot of trust towards auditors, previous auditors have been teaching the controller but with current ones it is only about delivering what they ask for.</td>
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| Q5: Can you see differences in the way junior and senior auditors work? Do they ask for similar kind of information? | Seniors are more relaxed and are clear about what they need from the accountant. Juniors are not as polite and they are very demanding with the delivery time. | Not big difference, however very junior auditors need to be explained many times, it is like teaching them. | Junior auditors ask easiest questions (“checking the box”), seniors concentrate on risk. | Not big difference; however you need to explain a lot to juniors and many times. |
Q6: What kind of difficulties have you had with junior auditors? How have you solved them?

They have been rude and not clear on what they require from the accountant. Also they expected the accountant to know who they are, attitude problems.

The juniors ask the same question without understanding the answers. Solved by explaining until they understand.

Juniors do not understand what they are doing and they don’t want to ask help from their seniors. It is very time consuming.

Not difficulties, but mostly discussions and to juniors you have to explain over and over again.

Q7: Who challenges you more with questions and requirements; junior or senior auditors? Is one or the other more time consuming?

Junior auditors require answers right away when seniors give more time to answer. None challenges more than another.

Seniors concentrate on asking about risks, juniors take the accountants’ time since they don’t understand the answers right away.

Seniors and the accountant have very good discussions with them. It’s about risks and big questions.

Juniors take more time since they do the ground work and do not has as much knowledge as seniors have, therefore more time consuming with juniors.

All of the interviewees have generally good relationship with the auditors, however the controller expressed to have extremely good relationship with previous auditors. All except accountant A told in the interview that the auditor manager and senior auditors are the ones that they trust the most, while junior auditors are of course less experienced and therefore cannot be trusted as much. As accountant C expressed: “We have a really good relationship with all the auditors. There is always one or two that do not really understand what they are doing and don’t understand what we are doing so of course we don’t trust them.” The controller had also very positive experience: “...and they not only checked but also helped to doubt in how we want to see things and how we could do things which helped me a lot so in my point of view so far I’m definitely trusting the auditors”.

When it comes to the differences between how more junior and senior auditors work, the respondents agreed that the juniors ask more basic questions but need time to explain the answers to them more. As accountant B expressed: “But that’s the problem when you have inexperienced people. You actually have to explain everything over and over again, year after year. That’s the way they learn, not actually the way those firms teach out things. They don’t teach themselves, they get it from us”. Accountant C pointed out that seniors concentrate more on the risks.
All except the accountant A said that the junior auditors are difficult in the sense that it takes time for them to understand the client and therefore it is very time consuming for the client to explain the same issue over and over again. “Once I got really annoyed and said that you are not charging us for me teaching you accounting. You can ask your colleagues this instead. Because I don’t think this is fair. And they don’t want to ask their seniors because they get a lower sort of credibility in their company” (Accountant C). Controller did not experience that much of difficulties with new auditors, just that he/she needs to explain them more so that they can understand. All respondents however experienced some rudeness and attitude problems with junior auditors and especially accountants B and C felt that it was very time consuming to explain and teach the juniors since either they did not know what they were asking for or they did not understand the answer. “Of course we try to help them as much as we can because we want that type of relationship with not just with our auditors but with all our suppliers. But I only get annoyed and I say no when they are rude. That is sort of my limit. There was one guy who was a bit full of himself… he didn’t return to us. And he was quite junior”, said Accountant C.

About how challenging questions junior and senior auditors asked, the accountants B and C had very similar kind of answer: juniors concentrate on the basic questions when seniors look at the risks. According to Accountant C, the accountants have had some very good conversations with the seniors since they really understand the challenges. Accountant A did not experience any big difference in the challenging part but that the accountant explained was due to the nature of the accountants work: “I mostly deal only with the junior auditors since my work is basic accounting and they usually want to check reconciliations and parts of our processes. Usually it is enough that I just print out a list. With the auditor group that consists of more experienced auditors I usually just e-mail the documents and when I do meet them and talk to them, it is mostly just small talk. They are not curious about small details.” However A also said that the in the other audit group junior auditors are always in a hurry to get answers when the auditors in the other group give the accountant the time to gather together the information needed.

### 5.3 Audit performance and knowledge

<table>
<thead>
<tr>
<th>Q8: Can you see that new junior auditors in the</th>
<th>Accountant A</th>
<th>Accountant B</th>
<th>Accountant C</th>
<th>Controller</th>
</tr>
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<tbody>
<tr>
<td>Cannot comment that much since haven’t worked</td>
<td>You sense it fast if they do not have enough knowledge.</td>
<td>A little bit of both, depending on the team.</td>
<td>Not really. You need to explain to them many</td>
<td></td>
</tr>
<tr>
<td>Question</td>
<td>Long enough. However it is easier to trust seniors since they are more self-confident.</td>
<td>It is a problem since the client has to teach them.</td>
<td>Juniors need basic understanding; always someone in the team that doesn’t understand. If you make it to senior level, you are a good auditor.</td>
<td>times, they have some knowledge but it hasn’t been passed on that much, Controller almost teaching junior auditors</td>
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<tr>
<td><strong>Q9: Have junior auditors often had industry related questions about the client company?</strong></td>
<td>No, juniors have been strictly asking accounting questions</td>
<td>Not often, these questions can also come from seniors.</td>
<td>Same as before.</td>
<td>No, mostly these discussions were triggered by me.</td>
</tr>
<tr>
<td><strong>Q10: Have you received unrelated questions from junior auditors or/senior ones?</strong></td>
<td>Not from junior auditors but seniors have asked about my background, which was actually nice. You feel like you know them a bit!</td>
<td>Yes and it can came from senior auditors, usually they try to apply knowledge from another client but it doesn’t work the same way at our company</td>
<td>From both junior and senior. It might be because of curiosity or that they didn’t understand what they were asking for.</td>
<td>No, the same answer as before.</td>
</tr>
<tr>
<td><strong>Q11: Can you see a difference between the audit performances of different audit groups?</strong></td>
<td>Juniors are more in a hurry and seem almost less efficient; seniors are more organized and efficient.</td>
<td>The seniors know exactly what to do and it is very efficient. When the other team has more junior, they do not work together and since they are younger, things take more time.</td>
<td>Yes, for sure, but not directly related to quality necessarily.</td>
<td>Absolutely, but I think it depends of the people, not the audit company.</td>
</tr>
<tr>
<td><strong>Q12: Have auditors had “standard processes” – how much have you’ve been able to prepare in advance since you know the auditors well?</strong></td>
<td>Seniors have sent a list of their requirements; juniors ask questions when they visit, so there was not much time for preparation.</td>
<td>Quite standardized, but the senior team can find the information themselves from other reports when one team needs to have everything delivered separately.</td>
<td>“Prepare by client” list, it’s smooth, usually questions are the same.</td>
<td>Cannot see a difference between different audit groups, there is always a preparation list in advance. Very standard procedure.</td>
</tr>
</tbody>
</table>
Q13: If your company is required to change auditors often, how do you think that would affect your work?

Knowing the auditor from before makes things faster and more efficient, if always new auditors, it takes time to get to know them and explain everything to them. Would take time to teach juniors how we work and that would affect our work. Also you need to build a relationship. It feels like new members need to learn themselves and from the clients, the team or their company doesn’t teach them enough. Good and bad, good auditor needs to keep their independence, but also it’s important for the client to have a good relationship with the auditor. Existing auditors have the knowledge and know our risks, retaining knowledge takes time! But, a new team gives a new perspective which leads to better audit. It would take clearly more time however new auditors are good at challenging me. Believe that all auditors are independent.

Knowledge

Based on the interviews, the interviewees are mostly negative about knowledge transfer in the audit groups. Controller said: “...they draft in new people quite often from school and if they have the knowledge... I don’t think so.” Accountant C however was half positive about the knowledge of junior auditors: “It works sometimes and sometimes it doesn’t. They just need the basic understanding on accounting and what kinds of rules are applied for each specific question. And generally speaking they have a good understanding.” Accountant B pointed out that it can be sensed fast if the auditor does not have enough knowledge since then the accountant needs to explain more to the auditor and sometimes it leads to teaching the auditor about accounting. Accountant A has not worked in the company for that long, but could still explained that junior auditors are not as relaxed as the senior ones and therefore it is not that easy to trust juniors.

Industry related questions and unrelated questions

Based on the interviewees all respondents verified that all auditors mostly ask questions that concern the topic and if there are any unrelated questions, then they are mostly about the brand and the business since they are genuinely interested in the client company's products. The controller even said that often if there are discussions that are not about the auditing questions, then it is the controllers fault, that those kind of discussions would be mostly be
triggered by the controller. Therefore the results show a clear direction to auditors being professional in the sense of that they stay in the topic. Controller responded: “The thing is that I have had pretty good relationships with the auditors all the time and that means also that you speak about other things but that is in my interest as well so from a social perspective, clearly yes but no problem with that. It’s probably triggered by me!”

**Difference in performance**

Regarding performance, accountant B stated: “When you’ve been the same group year after year, you do intend to work together more efficiently. That is very easy to see in the group with senior auditors. They know exactly what they need to do, they need one and a half a day and then they were done with the hard close”. When referring to the other group accountant B continued: “They do not work together as a team that much. …I mean they work quite efficient, but since they are younger, it does take a bit longer to get everything done. Sometimes they are late back to the airport or things like that.”

**Standard processes and preparation**

The controller said: “They have a very thorough preparation list in advance, covering almost everything which is really good, because it saves time. And I don’t see a difference, I have experienced three different audit groups from three different companies and they all are from the Big 4.” Answers from all respondents confirm that the audit groups’ processes are almost equal; however processing the information can differ. Therefore the process of what accountants need to prepare is mostly standard and does not differ based on the audit group. Accountant A pointed out that there was a clear difference between two audit groups in how they let the client to prepare. The audit group that mostly consists of seniors usually sends a list to the accountants and the list is clear in the requirements, however the group that has many junior members have when visiting asked for documents and it has been urgent to get them. “It felt as if it was a surprise for them that they needed to ask this information.”

**If change of auditor**

All interviewees answered to the question about auditors changing in the similar way, however the reasoning differed. What was common was that they believe that processes will be a lot more efficient if the auditors are the same from year to year since then you already have an existing relationship with them, they understand the answers and also can retrieve information themselves from other reports. The downside of having same auditors from year to year is that it could be questioned whether the auditors are able to keep their independence,
but for example the Controller believes that independence should not be an issue since all auditors the company uses have a high moral.

The downside of having new auditors often was that it takes more time to work together with them since you need to explain to them more and also teach them. You also need to build a relationship with them first, since an existing auditor has already the knowledge and according the accountant C they also know the risks. But on the other hand new auditors / auditor team can give new perspectives that can lead to a better audit. Accountant B: “…and if they change then you have to get to know everything, you have to know what they require and what type of the answer they are looking for when it comes to specific questions, because you don’t really understand.” As the accountant C expresses: “The good thing is that it would be a better audit, so to speak, in a greater terms, because they do have a fresh perspective, they do have another kind of input, they have a different background. But it would definitely be more time consuming.”
6. Discussion

RQ 1 – Relationship characteristics and trust

Being able to interview accountants and a controller that all have different kind of background and experiences has given us interesting results when studying the relationship they have with auditors. All the members of the accounting and finance group we interviewed work not only together but also with at least two different auditor groups because of the structure of the Nordic company. They all have been in an interaction with both junior and senior auditors and therefore we have gained essential information concerning their involvement in the audit process. When it comes to the audit groups, some of them differ a lot from each other: one audit group has been the same for many years and does not have a junior member while one of the audit groups is characterized by auditor rotation in the group and therefore often has new junior members.

In the company level all of the respondents described the relationship to be generally good with the audit teams. In our respondents’ points of view, they are more likely to see the relationship with audit teams as a so-called ‘relational exchange’ (see e.g., Morgan and Hunt 1994; Fontaine and Pilote, 2012) that reflects an ongoing process on the basis of co-operation, communication and trust. The nature of auditing requires that both parties are in interaction with each other in order to facilitate the necessary audit tasks. Keeping a positive relationship between both parties is important, since it make their intercommunication functional and beneficial to both parties (Golen et al., 1997).

As Beattie et al. (2001) stated, the auditor-client relationship is not only an aggregate of group relationship, but also an interpersonal relationship between individuals from both organizations, which makes the relationship even complex. In the individual level, accountant representatives reported different relationship between experienced auditors (i.e., audit managers and seniors auditors) and inexperienced auditors (i.e., junior auditors). The interviewees communicate to have high trust when it comes to professional experience of the senior auditors, which we identify to be based on the good relationship between the members. Positive statements from our interviewees on experienced auditors are: “(seniors members) are easy to work with”; “trust the manager the most”; and “they not only checked but also helped to doubt in how we want to see things and how we could do things which helped me a lot so in my point of view so far I’m definitely trusting the auditors” etc. However, the
interviewees have considerably low trust when it comes to the junior auditors due to the fact that junior auditors are too inexperienced to provide value-added advice service to the client. Accountants do not therefore ask advice from juniors, even if that information could be important in their work.

The different perceptions of our interviewees imply the level of trust they have on different individual auditors. According to Morgan and Hunt (1994), interpersonal is being accumulated through repeated interaction between individuals over time and has the potential to influence the behavior and judgment of involved parties. The extent to which client representatives trust auditors’ services depends on their past experiences with these individuals. Auditor managers and senior ones have kept in touch with the client company and personnel for a relevant long time and therefore possess better understanding and knowledge about the audited company’s business, product, industry, and accounting and controlling systems. In the long-term interaction, senior ones can convince client’s representatives by providing good quality audit service and sometime together with valuable professional advice. The interviewees have highest trust towards the manager in the audit group. The discussions with the manager are considered as learning experiences from the interviewees’ point of view, but the relationship with junior auditors has not developed into a good level since communication with them is considered to be challenging. Reheul et al. (2013) argued that in the case of a new relationship, the client might be satisfied if new auditors can convince them about the quality of their services. While in our case, junior auditors are relative new and when dealing with client’s members, they are “of course less experienced and therefore cannot be trusted as much”. As accountant C expressed: “We have a really good relationship with all the auditors. But there is always one or two that do not really understand what they are doing and don’t understand what we are doing so of course we don’t trust them.”

Accountant interviewees also noted that junior auditors tend to enquire a lot of basic questions, which is somehow time consuming and they often feel like it disturbs their daily work. As accountant B mentioned: “The juniors (often) asked the similar questions without understanding the answers and we had to explain to them over and over again”. Not surprisingly, it is often junior auditors who carry out much of the basic work in collecting audit evidence in the audit process. Client representatives’ discussions with junior auditors are time consuming because of their not yet developed accounting skills.
Furthermore, the interviewees experienced that there was every now and then a junior auditor who due to attitude problems was able to harm the good relationship between the client and the supplier. However, since the relationship between these two parties is a more complex one than a regular client–supplier relationship, it can be difficult for the client to use their power to affect the service level of the supplier. What we were able to identify in our study was that in the case of junior auditor causing problems to the relationship, the issue was considered to lead to tension and conflict in the relationship. This finding is partly consistent with Mathews and Pirie (2000)’s argument that many client accountants and employees see auditors as nuisances who interfere with the completion of their normal work task and operations.

As suggested in literature, the auditors are responsible to check the financial statements of the client in order to be able to provide information to most importantly to shareholders but also to other stakeholders (creditors, clients, investors etc.) information about the true financial situation of the client. There have been arguments in literature that a too close relationship can potentially affect the auditor independence and the audit quality. However, even though the client staff that is in a continuous interaction with the auditors, based on our interview, they are not worried about the independence of the auditors. While according to our findings, clients’ staffs prefer to have good relationship with auditors in general, which imply trust, efficiency and less conflict that benefit both parties. This is partly because the target group (subordinate group) in our case is not the decision makers or the relationship controller who care about a positive audit opinion and results. This finding suggests that a good relationship does not necessarily affect the auditor independence; instead, it is kind of facilitation for efficiency especially in the audit fieldworks.

**RQ 2 – Performance Differences and knowledge management**

The differences in audit performance between experienced auditors and junior ones can be clearly found in our research. Our interviewees pointed out that senior auditors are most focused on dealing with the big risk parts of the clients business that the interviewees experienced as challenging, while junior auditors look at more of the basic questions.

As junior auditors are in the early stage of their career, they often do not yet have the demanding work tasks, instead they are dealing with basic issues when the managers concentrate on the risk. What is interesting to discover in our study, was that even though junior auditors concentrate on checking the issues that are basic and not as complicated as the
seniors concentrate on, the level of understanding about accounting seems to be limited and therefore the accountants have to spent a considerable amount of time to educate them about accounting practices. This clearly points out to direction of failure in knowledge transferring in the audit company. Knowledge transfer in audit companies includes a great amount of manuals and codified information (Hansen et al., 1999), however since the auditors in question do practice audit with several different companies, they need to internalize information about not only accounting practices but when they are in contact with the client, they need to be able to process different kind of information that is not necessarily written down. This knowledge is mostly embedded in the clients routines and practices from which maybe the senior members of the audit team have more knowledge of, but have not been able to write down to memos or manuals and therefore has to be learned in the interaction with the client. This tacit knowledge (Nonaka and Konno, 1998) cannot therefore always be transferred before meeting the client, instead it requires time from the client to communicate and show it.

As one of the interviewees expressed: “…If you make it to senior level, you are a good auditor”. It describes well the process of learning and being able to gain knowledge in the field of accounting. As junior auditors can have fresh knowledge straight from school, they have not yet had the time to be able to internalize the same amount of professional knowledge as the senior auditors have. Clients do expect all the members of the audit team to be professional and have the needed knowledge, however the interviewees expressed a common feeling about junior auditors not having enough knowledge to do their works. As one of accountants (B) mentioned: “that’s the problem when you have inexperienced people. You actually have to explain everything over and over again, year after year. That’s the way they learn, not actually the way those (audit) firms teach out things. They don’t teach themselves, they get it from us”. The junior auditors are difficult in the sense that it takes time for them to understand the client and therefore it is very time consuming for the client to explain the same issue over and over again. Nonaka and Konno (1998) explained that there needed to be a space on knowledge sharing. As it can be demonstrated based on the study, the knowledge internalization and externalization processes happens on an unlimited space including a number of clients and the audit company itself. The knowledge is being internalized from many sources, such as from the co-workers in team meetings, conversations with the clients’ staff and reports.
Bennet and Hatfield (2013) found that due to a social mismatch, junior auditors can feel uncomfortable with older and more experienced clients and therefore they tend to ask more information from the client members that are more of the same age and with same experience. In our research, junior auditors’ learning is not only get from the same junior client staff but also from those representatives who have a great deal of more specific professional knowledge. Our respondents also identify that knowledge has not been passed on enough within some of the audit groups; however, it is not favorable that the learning is sometimes being done at their expense. Even though client’s members are supposed to provide enough information necessary for the audits (Rennie et al., 2010), it doe not necessarily mean that the client would not get interruption and disorder especially in front of some “stupid questions” over and over again from junior auditors. “Once I got really annoyed and said that you are not charging us for me teaching you accounting. You can ask your colleagues this instead. Because I don’t think this is fair. And they don’t want to ask their seniors because they get a lower sort of credibility in their company” (Accountant C).

Since audit tasks have a deadline and the auditors experience a time pressure according to our results from the interviews the respondents have a feeling that junior auditors are less efficient even though they concentrate on the basic level questions. Golen and White (1983) suggested that auditors should deal with clients more effectively in order to avoid wasted audit hours and client misunderstandings. However as indicated by the interview, junior auditors did not yet had the same kind of routines as the more experienced members of the audit teams had and it could be explained by their less efficiency and frequent interruption that made clients’ staff unsatisfied and lowers the trust.

Interestingly, the differences of work performance do not only exist between senior and junior auditors, but also happen among the audit teams that differ from each other. One team that is formed of more senior auditors and has had a longer relationship with the client company, has turned out to be favorable by the client representatives since they already know each other well and in that way they both work efficiently. Whereas, when there is an audit team making of relative new auditors (including senior and junior ones) who are not so familiar about the client company, it takes more time for the new group to learn and perform, therefore being less efficient. This suggests that a close relationship is important for the audit work to be efficient and it can cause problems in terms of costs when there are always new auditors. Specific knowledge about the audited company is built during a long-term relationship, which is valuable for the audit company since then they know what to do and what are the risky
parts that can potentially lead to misstatements. Our respondents expressed: “When you’ve been the same group year after year, you do intend to work together more efficiently”; and “Existing auditor has the knowledge and knows our risks, retaining knowledge takes time.” On the other hand, our respondents also pointed out that new auditors could sometimes bring ‘fresh eyes’ and innovative insight to their work. As one of the interviewees noted: “…good auditor needs to keep their independence, but also it’s important for the client to have a good relationship with the auditor”.

Our study confirms that even though the auditors come from one of the Big 4 and can therefore be considered to have high professional level, the client accounting staff seems to understand the fact that junior auditors do not yet have a full professional accounting skills and knowledge, which unfortunately can lead to time consuming discussion with basic issues. While senior auditors, indeed, do have full professional skills and knowledge and are experienced to be not only highly trusted by accountants but also providing the accountants with important insight to the risks that they are dealing with in their work. Even though the senior auditors are the ones concentrating on the risks and asking more challenging questions, the client staff does not consider that to be as time consuming as the questions from the junior auditors. What they consider to be the most time consuming part in the audit process is the conversations with the junior auditor when they do not even understand the answers.

We have been able to identify differences between the audit groups even though they all belong to the same mother company. What however is similar, are the standard processes that they go through and the client therefore is able to prepare in advance a great amount of material. This is not dependent on which audit team they work with. However, it is the conversations and going through the answers that are considered to be time consuming and unnecessary from the accountants point of view, since it is often the case about making the junior auditor to understand what they asked for and what the results are about. This raises a question whether it is considered to be acceptable that the client’s staff has to spend such a remarkable part of their time to explain to junior members with results that are supposed to be explained by their own team members. Or, has it become a best practice that the client needs to accept that they need to take the time to educate the junior members? Do they have a possibility to refuse to take this time to teach the suppliers members or would it be too risky in the sense that it would harm the relationship between the both parties?
7. Conclusion

Our research has provided important information concerning the characteristics of the relationship between accountants and auditors on the subordinate level. The junior auditors usually come straight from school and therefore gain knowledge and skills mostly when working in the interaction with the customer. However the learning should not happen in the cost of the client, which our research points out to happen. Our research reveals the fact that lower competence of junior auditors creates problems in relationships with the client’s accountant staff. The results indicate that the accountants have a low trust to the work of the juniors since the junior auditors do not often understand the accountant’s answers and also accountants can be forced into a situation where they have to teach the junior auditors. However, the work of junior auditors and the trust issue do not necessarily have to lead to low quality, since it is still the responsibility of the senior auditors and the signing partner to control the quality of the audit work. The senior auditors often act as informal relationship managers and our research has succeeded to confirm the importance of their part in maintaining a good relationship with the client. Having a good long-term relationship does not necessarily have to weaken auditors’ independence when performing the audit, instead it can lead to a higher efficiency and performance but also to a better understating of the clients practices when recording their financial transactions and therefore strengthen the audit result.

8. Limitation and future research

Whereas this study provides additional insights into the relationship between accountants and auditors working together, the results should be considered in light of its limitations, which provide opportunities for future research. We note following limitations:

Firstly, in this study we have focused to study the accountants and a controller only on one corporation. Studying the accounting teams of more companies would have provided us with even more reliable results and a higher sample size. Secondly, we only focus on the client’s perspective, specially the lower level accountants staff’s opinion. Also interviewing the auditors could have provided a higher validity.

During this research we have found more interesting study areas to do research in, these include the following suggestions. We believe that future researches could include auditors’ interviews and especially narrowing down to the junior manager level. The Audit Partner and
CFO’s level has already been comprehensively studied, however we have recognized the need to look deeper into the audit level that has the closest interaction with the clients accounting staff. Another suggestion for future research would be to make a quantitative study about the efficiency of different kind of audit teams by looking at variables such as time and money. This research could be conducted by studying a client company that has a rotating audit group performing the audit. Our third suggestion for future research is to study the skills and knowledge of junior auditors during their first years of working as auditors. It would be interesting to see what their level of skills and knowledge really are and what kind of factors facilitate best their learning.
References:


Gibbins, M.; McCracken, S. A.; and Salterio, S. E. (2007), “The chief financial officer’s...


Appendix: Interview questions

Part 1: Background information
1. Please give us a short introduction about your work and responsibility in the company.
2. To what extent do you work together with the auditors?
3. Have you ever worked with same auditor(s) or new auditor(s) or both?

Part 2: Relationship characteristics and trust
4. How would you describe your relationship with the auditors you work with? Do you trust some more than others and why if so? How and what have you learned when working with auditors?
5. Can you see differences in the way junior and senior auditors work? Do they ask for similar kind of information?
6. What kind of difficulties have you had with junior auditors? How have you solved them?
7. Who challenges you more with questions and requirements: junior or senior auditors? Is one or the other more time consuming?

Part 3: Audit performance and knowledge
8. Can you see that new junior auditors in the audit teams have enough knowledge? Do you feel like they have been able to transfer client specific knowledge in the company / inside the team?
9. Have junior auditors often had industry related questions / questions about the client company?
10. Have you received unrelated questions from junior auditors? Have you received them from senior auditors?
11. Can you see a difference between the audit performances of different audit groups?
12. Have auditors had “standard processes” – how much have you’ve been able to prepare in advance since you know the auditors well?
13. If your company is required to change auditors often very few years according to regulation, how do you think that will affect your work?
14. Do you have anything to add?