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The impact of audit oversight in Norway: International collaboration and audit quality

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Dedication

I dedicate my dissertation to my beloved parents, Toril and Bjørn – for their belief in me, for their encouragement, for always advising me to keep my head up and reach high, and for instilling in me from a young age the belief that "I can". Their constant love has strengthened and supported me throughout my life, without which this would not be a reality. In memory of my father who passed away as I was working on my PhD degree; who I know is smiling down on me from up above. I hope you know what an inspiration and source of joy you were to me in life and that I will forever carry you in my heart.

"I have not failed 700 times. I have not failed once. I have succeeded in proving that those 700 ways will not work. When I have eliminated the ways that will not work, I will find the way that will work."

Thomas Edison

Abstract

The dissertation consists of three papers that explore among other things, the impact of the international collaboration of audit oversight, different regulatory changes that have had a recent impact on the Norwegian audit oversight system, and how auditors incorporate forensic specialists to detect fraud in the audit process. Over the past two decades, there is increasing international cooperation in the audit area. Changes and reforms of international rules and standards for supervision have strengthened international cooperation globally, and more information on auditing and its oversight is being exchanged among nations and organizations in Europe, within the EU, by the PCAOB in the United States, and regulatory agencies in Norway itself.

The first paper reports findings from interviews with Big Four partners, the Public Company Accounting Oversight Board (PCAOB) inspectors and a Financial Supervisory Authority of Norway (FSA) inspector about the joint inspection process between the PCAOB and the FSA in Norway. We show that the joint inspection process increases the audit quality and raises the auditor's performance in Norway. Moreover, the PCAOB's oversight is a valuable tool for enhancing the quality of regulatory oversight and adds value to the audit process. The joint inspection with Norwegian agencies heightens the audit oversight performance in Norway.

Paper 1 contributes to theory and practice by providing key insights about the joint inspection process, factors that contribute to or impede effective communication between auditors and inspectors, and on the impact of the joint inspection process on audit quality in Norway.

The second paper explores significant influences by directives and regulatory guidelines including the EU directive 2014/56/EU (altering Directive 2006/43/EC) on consolidated accounts and statutory audits of annual accounts, the regulation (EU) No 537/2014 (repealing Commission Decision 2005/909/EC) on specific requirements regarding statutory audit of public-interest entities recommendation, and the PCAOB requirements that have influenced the regulatory oversight system in Norway. The main finding is that oversight bodies have made important contributions to increase audit quality, and these regulatory organizations heighten the professionalism of auditors' performance. In addition, the study shows that increased oversight has shaped the role of auditors as they address or respond to

the needs of investors in monitoring the performance of individual companies. The study also shows that as a reaction to a number of significant problems in the accounting profession, more collaboration between national and international oversight bodies has taken place, expressing a goal to enhance auditor independence and effectiveness.

The third paper synthesizes prior research on auditors' fraud detection and the incorporation of forensic specialists in the audit process. The study examines how specialists can help to reduce financial statement fraud. The paper organizes the literature by reporting common areas of research, comparing and classifying several of the studies, and noting important variations in the findings presented by prior research on three specific topics: (1) incorporation of forensic specialists in the audit process, (2) forensic specialists' skills of classification of risk factors and, (3) the extent of forensic specialists' involvement in the audit process. The main findings in the existing research show that involvement of forensic specialists offers significant benefits: helpful "tools," for the audit. This scholarly work indicates that incorporation of forensic specialists into the audit process can provide valuable input for the auditing profession and can lead to the improvement of audit quality with regards to fraud detection.

This dissertation provides valuable insights and highlights the importance of international collaboration from four perspectives: regulators, supervisory oversight bodies, audit report users, and the audit profession.

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List of papers

Paper 1:

Stenvold, T. D., and Stuart, I. (2017). *The Impact of the Joint Inspection Process between the PCAOB and the FSA on Audit Quality in Norway*.

Paper 2:

Stenvold, T. D. (2017). *Perspective of the national and global impact of the regulatory oversight system in Norway from 2000-2016. Are Norwegian companies receiving high quality audits?*

Paper 3:

Stenvold, T. D., Stuart, I., and Almante, D. (2017). *Modeling fraud detection and the incorporation of forensic specialists in the audit process.*

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Chapter 1

1. Introduction

"Auditing is a profession built on reputation, and one important way investors can assess the quality of an audit is to know who conducted that audit."- James R. Doty, PCAOB Chairman (2016).

Audit oversight is an integral part of audit development. This form of accounting regulation has received much attention in the wake of several high-profile accounting scandals. Significant questions arise with the creation of an audit oversight framework designed with public perception in mind. Seriously manipulated financial statements from WorldCom and Enron in the US to Parmalat in Italy and other major accounting scandals around the globe have had a major negative impact on the public's confidence in financial markets in general and in auditing in particular as these scandals have been investigated and publicized. In these major accounting scandals, the investing public lost tens of billions of dollars, and typically, the blame was apportioned among the two main perpetrators: management, and the external auditors (Bather et al., 2006). These financial scandals and others of almost-equal scope have led to a turning point and a "change in climate" of audit oversight and the auditing profession, as the Sarbanes-Oxley Act (SOX) mandated major adjustments to current practice (Weinstein, 2007). This legislation in the United States was a result of public pressure seeking changes to prevent losses from occurring again. The change in regulatory oversight replaced 30 years of largely self- regulation by the profession with agencies to exercise independent oversight of the audit profession (Abbott et al., 2012).

The purpose of this thesis is to explore the nature of the audit oversight system and examples of national and international collaboration by means of a joint inspection process between the Public Company Accounting Oversight Board (PCAOB) of the United States and the Financial Supervisory Authority of Norway (FSA). In addition, the thesis will analyze literature regarding how auditors detect fraud and when they choose to incorporate forensic specialists to detect fraud.

On the contemporary scene, audit oversight has increasingly turned to global collaborations, to a degree that has perhaps never before been witnessed. These moves toward international collaboration represent a dynamic process of fundamental change in reaction to the accounting scandals in the beginning of this century. This change has prompted acknowledgement within domestic oversight bodies of a far-reaching international trend, that is, the near-demise of professionally conducted audit regulatory oversight. Auditors and regulators have also moved the profession toward a new awareness of the increasing importance of international collaboration. These broad trends in the international setting include the weakening, even death, of most traditional professional oversight bodies, the global diffusion of international standards, and regulatory reforms expressed through sweeping changes in the international regulations (features of oversight laid down by both official and informal establishments in many national settings.)

In brief: the flow in noticeable financial reporting failures changed public and professional concerns about the efficiency of self-regulation. In particular, the scandals prompted the question of whether the monitoring of audits and audit performance separate from the profession is fundamental for confirming high-quality auditing (Lennox et al., 2010). Will public trust and confidence in the auditor sustain themselves if self-regulation of the profession remains the dominant pattern of oversight? The trend is to affirm the need for regulatory independence separate from the profession.

The blame for failure within the audit profession and the flaws of particular audits, associated with the legislative movement toward the Sarbanes- Oxley Act (SOX) have also motivated regulatory changes in European systems of oversight. For example, the Directive 2014/56/EU (amending Directive 2006/43/EC) entitled "on statutory audits of annual accounts and consolidated accounts" is said to be the European equivalent of SOX and regarded as a "groundbreaking enterprise" (Humphrey et al., 2011). EU directives and regulations and the PCAOB requirements have stimulated a paradigm shift in the audit oversight process. The oversight of auditors is shifting from being heavily influenced by the profession's demand for self-regulation (unencumbered by government) toward wide-spread acceptance of professional regulation by government and quasi-governmental agencies.

Paper 1 and paper 2 are both motivated by these recent and widespread changes. As the paper considers the more recent changes in Norwegian audit oversight, it takes into account a brief history of Norwegian audit regulation and oversight since the beginning of the century and demonstrates that EU and PCAOB oversight directives and practices are having a major, even radical, impact on the system of Norwegian audit oversight.

The greatest comprehensive audit reform presented by SOX was the creation of the Public Company Accounting Oversight Board (PCAOB), which was established to supervise audits of public companies and their auditors (Giles et al., 2004). The PCAOB is a unique, quasi- public organization to oversee and regulate auditors of public entities (Giles et al., 2004), and it began inspections of foreign audit firms in 2005 (Bishop et al., 2013; Hermanson et al., 2007; Krishnan et al., 2016). SOX increases oversight of the audit profession and attempts to improve the audit quality and transparency of the financial statements issued by publicly traded corporations.

After the establishment of the PCAOB regulation in 2002, the PCAOB itself has changed the practice of auditing and audit oversight for all audit firms that audit companies listed on the stock exchanges in U.S. markets. Under section 106(a) of the SOX 2002, foreign auditors who audit U.S. issuer clients must register with the PCAOB (Krishnan et al., 2016), and audit firms that audit one or more public companies are required to register with the PCAOB (Carcello et al., 2011). Section 104 of SOX requires the PCAOB to inspect large accounting firms, defined as those that audit more than 100 publicly listed companies per year (inspected annually), and to inspect small accounting firms, defined as those that audit less than 100 publicly listed companies per year, every three years (Calderon et al., 2014). The PCAOB often enters into cooperative agreements with foreign audit supervisory bodies in order to minimize administrative burdens and potential legal or other conflicts (PCAOB, 2005).

Radical changes in the audit oversight system, reforms of the external monitoring of audit firms in the U.S., and significant regulation in the EU motivate our research concerning the impact of the audit oversight process on the shifting regulatory landscape in Norway. Paper 1 and paper 2, in particular, explore the impact of joint inspection by the PCAOB and the FSA and the development of the national audit oversight system in Norway. Within the empirical environment, paper 1 and paper 2 contribute to our understanding of audit oversight—both from a theoretical and an empirical standpoint.

The establishment of independent oversight bodies constitutes an important institutional reform in the audit industry context. Research related to the impact of audit oversight and concerned with audit quality will continue to be of fundamental importance to facilitate the development of auditing practice and the establishment of regulations to protect investors and the public interest (Franzel, 2014).

Since little is understood about the impact of joint inspections involving the PCAOB and regulatory agencies within foreign jurisdictions, a desire to overcome this research deficiency motivates our first study. Paper 1 analyzes partners in Big Four firms in Norway, PCAOB inspectors, and a FSA inspector, examining their perceptions about the joint inspection process of the PCAOB and the FSA. The findings predict that the PCAOB raises the audit quality in Norway and prompts auditors to raise the level of their own performances. In addition, the findings show that the national audit oversight system has also functioned in a more professional manner after its involvements with joint inspections.

Audit oversight systems are not alone in having responsibility to detect and avoid fraudulent activities. Auditors themselves have a role in the process of detecting and avoiding fraud, and this work of the auditor shapes the main motivation of our final study. Paper 3 reviews prior fraud literature to analyze auditors' approaches for detecting fraud and the incentives they might have to incorporate forensic specialists in the audit process. Some prior research indicates that auditors do not have enough experience with fraud to adequately identify fraud risk factors and to detect fraud in the financial statement audit. In the present business environment, there seems to be a wide-spread belief that the detection of fraud is a task that financial statement auditors cannot adequately perform: auditors cannot effectively guard against fraud by means of their periodic audits (Ramaswamy, 2011). In addition, many commentators assert that given the complexity of contemporary business practices, auditors may not even have the essential expertise to audit certain complex areas in the financial statement. Wolosky (2004) found that auditors are not trained nor have they been obligated to develop skills to the level of forensic specialists; therefore, the level of auditors' training limits their capability to detect and prevent fraud. As an alternative to help auditors detect fraud, the involvement of a forensic specialist can be valuable in the consideration of fraud risk areas, to implement procedures to prevent fraud, and to evaluate specific types of complicated audit evidence. Paper 3 contributes to prior research on fraud detection and on the involvement of forensic specialists in fraud detecting.

Unfortunately, oversight of auditors may not be sufficient in itself to prevent large-scale corporate failures because there is no sure-fire system to control individual integrity. No matter how far the pendulum swings in the direction of auditor regulation as a matter of public importance, there will always be a risk of management fraud that harms the private stockholders. It may not be a sufficient guarantee for the integrity and reputation of the markets that the public perceive the government to be responsible for and to control the regulation of auditors. Strong rules and institutionalized regulation will not always prevent fraud or forestall every audit failure. Even though, for example, audit firms in the US can no longer provide certain types of consulting services for their audit clients, there will continue to be audit failures so long as industry bodies retain their lobbying power and powerful stakeholders manipulate financial reports for their own self-interests (Bather et al., 2006).

In the following, I present my contribution to the audit literature within a wider perspective, as I first discuss audit quality, then the role of the audit oversight system and the impact of international collaboration, and finally present a discussion of auditors who include forensic specialists in the audit process in an effort to detect fraud.

Chapter 2

Background

2.1 Audit quality

Audit quality depends on the quality of the auditor's judgment during all stages of the audit process (Knechel et al., 2012). High quality audits by independent and objective auditors are a key to the effective functioning of the capital markets and the protection of investors and the public interest (PCAOB, 2013). There are a number of definitions or ways to characterize audit quality; however, most definitions of audit quality reflect some aspect of DeAngelo's definition (Watkins et al., 2004). DeAngelo (1981, p. 186) describes audit quality as "the market-assessed joint probability that a given auditor will both discover a breach in the client's accounting system, and report the breach."

The research into the effects and the benefits of the PCAOB oversight process has increased since the establishment of the organization in 2002. Many researchers have asked questions about the state of audit quality and have sought to evaluate the impact and effectiveness of the PCAOB's oversight process. One of the most important reasons for the establishment of the PCAOB was to improve audit quality (Church et al., 2011; PCAOB, 2009). A significant question addresses the issue of whether audit oversight, specifically the PCAOB's international inspection program generates a positive externality in the form of higher audit quality after a PCAOB inspection. Bishop et al. (2013) examined first- and second-time PCAOB inspection reports of international audit firms and found audit quality control deficiency levels similar to those found for U.S. firms. Concurrent work by Fung, Raman, and Zhu (2014), Krishnan et al. (2016), and Lamoreaux (2016) investigates the effect of PCAOB international inspections on audit quality. The results of Fung, Raman, and Zhu (2014) suggest that PCAOB international inspections provide spillover audit quality benefits to foreign companies that are not U.S. listed. These studies provide preliminary evidence that PCAOB international inspections are positively associated with audit quality. Krishnan et al. (2016) considers that joint inspections between the PCAOB and a foreign jurisdiction are expected to have a greater positive impact on audit quality than inspections conducted on a stand-alone basis because the PCAOB inspections can benefit from the country-specific knowledge of the local inspectors. Their findings suggest that PCAOB inspections improve the quality of internal control audits through their capacity to remediate deficiencies in auditors' internal control audit procedures. Paper 1 contributes to these findings and provides valuable evidence of increased audit quality, a result that indicates a constructive joint inspection process.

The three papers in this dissertation consider audit quality in one way or another. Paper 1 considers the impact of the joint inspection process by the PCAOB and the FSA on audit quality. Paper 2 explores the national audit oversight system and how historical changes affect the audits in a way that raises the audit quality. Paper 3 analyzes how the auditors involve forensic specialists in the audit process to avoid fraudulent financial statements that result in poor audit quality.

2.2 The politics of auditing and oversight bodies

Financial reporting and auditing are dynamic features of the audit profession and the global capital markets. Financial reporting permits stakeholders, investors and others to make significant decisions on how best to distribute their investment capital and shape other financial choices. Auditing confirms that the information in the financial statements is correct and trustworthy and that it represents the state of the enterprise (Johnstone et al., 2001). The implementation of audit oversight regulation in the local context forms, changes, even disrupts the institutions in which the audit profession had traditionally been embedded. Questions about the auditors' performance and their credibility has raised the quality of oversight, and the role of audit firms has become increasingly important in recent years. Yet the profession faces significant challenges and public criticism.

A noteworthy body of literature has emphasized that auditing has remained a significant issue in public debates in the aftermath of corporate crisis and collapses (Humphrey et al., 2009; Sikka, 2009). Authors including Palmrose (2006), Nelson (2006), and DeFond et al. (2005) call for study on whether the current changes to the institutions responsible for checking audit firms have demonstrated their value by supporting audit quality and the improvement of auditor performance. Paper 1 and 2 respond to this debate. Volcker (2002) placed trust in auditing being able to operate as an external monitoring function, a capability that contributes to the audit profession's being perceived as the "guardian of truth in markets." By contrast, anxieties over the accountability and trustworthiness of these so-called "guardians" are raised on a regular basis—every time a serious accounting scandal comes to light and it appears that the audit profession failed to fulfill public trust or the expectations of the business community. The significance of these scandals, likely out of proportion to their number, damages the reputation of CPA entities, diminishes confidence in the audit profession, and has triggered legislative responses (Carmichael, 2014). These scandals have pushed concerns about audit oversight to new levels of importance, and demonstrate the need for serious reflection on audit regulation (Humphrey et al., 2009).

The establishment of the PCAOB and the introduction of statutory inspections of audit firms mark a significant change in the regulatory framework of the accounting profession in the U.S. A significant feature of the PCAOB international inspections is that they are conducted jointly with local audit oversight bodies in some countries and by the PCAOB alone in others (Krishnan et al., 2016). There is a sizeable literature that examines how auditors perceive the PCAOB inspections and considers whether PCAOB inspections result in improved audit quality (DeFond et al., 2016). Despite this, there is limited research and evidence on the impact of joint inspections by the PCAOB and foreign jurisdictions. Relatively few studies examine how auditors express their opinions over the joint inspections involving the PCAOB and foreign jurisdictions. Few studies have focused on how the joint inspection process affects auditors and audit quality. The research into the impact and possible benefits of a PCAOB joint inspection with a foreign jurisdiction has attracted much less research interest than has been focused on PCAOB inspections undertaken by the agency by itself. Paper 1 contributes with significant information on joint inspections.

2.3 Auditor’s fraud detection and incorporation of forensic specialists

Fraud detection has become the audit profession’s Achilles heel (Jamal, 2008) even as fraud has been recognized as “a global epidemic” (Butler, 1986). Until the 1940s, fraud detection was considered to be the primary role of the auditor in the audit, but after that period, the role of the auditor in fraud detection was deemphasized. This change in professional orientation seems to have contributed to public uncertainty about the precise role of the auditor and to an increase in public dissatisfaction with the audit process. In this context and spurred by financial scandals, financial statement fraud has become a significant topic for regulators, auditors, and public commentators (Kassem et al., 2012). The issue has wide-reaching consequences in business finance, the broader marketplace, and the daily lives of many citizens around the globe (West et al., 2016). The frequency of financial statement fraud over the last two decades calls for the serious attention of the audit profession amid the damage to its reputation among the public and the threats to public confidence in the auditing enterprise (Gray et al., 2006; Koh et al., 2009).

Financial statement fraud has become a global phenomenon that can affect all business organizations regardless of their size (Bhasin, 2015). Fraud is not only costly, but it also harms the reputation and the trustworthiness of the audit profession (Chui et al., 2013; Wells, 2002).

The waves of the 21st century financial scandals have raised the consciousness of fraud and brought to a forefront the responsibilities of auditors in identifying those frauds (Rezaee, 2004). This, in turn, has prompted academics in a number of disciplines, including accounting, to turn their attention to the study of the phenomenon. As we see, for many years, the accounting field has studied fraud and the consequences of fraud (Rezaee, 2005; Zahra et al., 2005) and how to restore trust after fraud (Farber, 2005). Kassem et al. (2012) stated that identifying fraud is not an easy job and requires thorough knowledge about the nature of fraud, how it is concealed, committed, and rationalized (Kassem et al., 2012). Accountants and academics have recently turned to another field to assist them in their tasks of understanding and dealing with fraud at the professional and scholarly levels.

Forensic accounting is a services that includes the use of accounting knowledge, application of specialized knowledge and investigative skills as tools to detect and decode legal issues (Enofe et al., 2013). Forensic accountants devote a significant portion of their effort to dealing with the nature and practical aspects of fraud and its detection. Such skills and experience can support auditors in their own efforts to cope with fraud. The benefits of even long-term audit experience do not always include increased knowledge about fraud or the development of practical skills in fraud detection. Audit experience and training alone cannot make auditors into experts in fraud detection—even though there has been an increasing amount of published literature on how auditors can improve at distinguishing material irregularities, including management and employee fraud (Krambia-Kapardis, 2002).

In this context, auditors can turn to the practitioners and resources of forensic science for help. The effectiveness of consultations with fraud specialists, such as forensic accountants, is based on the presupposition that expertise in fraud investigation is directly applicable and beneficial to the audit process. Given this, many modern audit teams include several specialists, including forensic specialists (Messier Jr, 2010).

In many ways, forensic specialists exist for the same reasons that prosecutors and commercial branch investigators exist (Popoola et al., 2014). Forensic accounting involves a number of segments. In a very general sense this includes fraud investigation, accounting, auditing, criminology, data mining, economics, finance, law, psychology, sociology, economics, finance, and law (Hegazy et al., 2017).

Paper 3 analyzes prior literature about the use of forensic specialists in the audit process. Academics have studied the use of forensic specialists in detecting fraudulent activities (Apostolou et al., 2000; Awolowo, 2016; Bhasin, 2007; Nunn et al., 2011). When fraud risk is high, fraud specialists propose more modifications to the standard audit program than do auditors (Boritz et al., 2014). Boritz et al. (2008) studied forensic accountants and auditors to establish the benefits of involving fraud specialist in the audit process of developing an audit plan that would effectively identify fraud. The authors found that this would lead to better results than simply consulting with the specialists.

Examples of fraud are widespread and very costly, in a variety of ways. According to the Association of Certified Fraud Examinations (ACFE), in 2013, an estimated $3.7 trillion worldwide was lost due to fraudulent financial statements, asset misappropriation and corruption. While anti-fraud controls can successfully decrease the likelihood and the impact of fraud, the truth is that no entity is completely protected from this threat (ACFE, 2014). The audit profession needs to learn from recent history and strive to prevent such scandals from occurring and fraud from being perpetrated. To achieve this end, auditors should keep the matter of independent, high quality auditing at the center of their attention. Particularly, there is need for accounting professional bodies and the agencies of public oversight to emphasize that fraud prevention and fraud detection are key responsibilities of both those involved in business management and the governance of companies and those charged to be independent auditors of the financial statements.

In the next section, I summarize the three studies in this thesis.

Chapter 3

Summary of the papers

Study 1: The Impact of the Joint Inspection Process between the PCAOB and the FSA on Audit Quality in Norway. Stenvold, T.D., and Stuart, I. (2017).

Aim: The aim of this study is to examine the impact of joint inspections by the PCAOB and the FSA on audit quality in Norway by assessing the perceptions of partners in the Big Four, PCAOB inspectors and a FSA inspector of the joint inspection process. By measuring and analyzing the impact of the international oversight system in Norway, it highlights whether the joint inspections involving the PCAOB and the FSA produce a valuable outcome and whether conclusions can be drawn about the impact by this audit oversight technique on audit quality.

Material and methods: We used a semi-structured interview research method to examine the questions of interest in the study. We conducted nine semi-structured interviews in the period, November 2015 to June 2016. The interviewees included the following participants: a technical director in the DnR, seven Big Four audit firm partners, the Deputy Director and a lawyer from the Division of Registration and Inspections in the PCAOB, and two inspectors from the FSA. In addition to the interviews, we reviewed the documents from the joint inspection process. We evaluated nine PCAOB inspection reports of the Big Four in Norway, published between March 31, 2011, and May 26, 2016.

Results: Our results support the objective of public oversight to improve the reliability of financial reporting by allowing outside stakeholders to obtain reliable information for their decision making. Our research contributes to the stream of literature that examines the impact of joint inspections by the PCAOB and foreign jurisdictions. Most prior research on PCAOB inspections in foreign jurisdictions focuses on the remedial effects of the PCAOB inspections for audit firms (Fung, Raman, Zhu, et al., 2014; Krishnan et al., 2016; Lamoreaux, 2013). We find that the joint inspection process between the PCAOB and the FSA has an impact on how auditors gather and document evidence during an audit, as well as an effect on audit quality in Norway according to the perceptions of the participants. We also find that, in general, the quality control procedures used by the audit firm in subsequent audit engagements were linked to the firms' and auditors' experiences with the joint inspection process.

According to the perceptions of the partners and inspectors, they believe that both audit quality and the level of professionalism of the national oversight body have developed through their experiences with joint inspection. The partners note that this improvement is linked to the professionalism demonstrated by the PCAOB inspectors during the joint inspection process and from their detail-oriented manner of performing the oversight. The partners comment that there were differences between the PCAOB and the FSA inspectors' ways of perceiving the process. The PCAOB inspectors were more detail-oriented than the FSA inspectors in the way they assessed whether the partner had gathered sufficient evidence to support their internal control opinion. From our interviews, partners claim that their own audit clients have little interest in the details of inspection reports and that even when audit clients do read the reports, they see little value in the findings. This study indicates that partners place great emphasis on receiving clean inspection reports, therefore partners have incentives to remediate systematic deficiencies in their auditing procedures identified by PCAOB and FSA inspectors.

Conclusions: In revealing the strong relationship between the joint inspection process and how the audit professionals perceive the process, the results challenge the way the Norwegian system has adapted to the PCAOB process, shaping the scope and extent of national responses to exogenous regulatory dynamics. An academic approach to explore the effect of PCAOB inspections of foreign public audit firms is in accordance with highest priorities of the PCAOB (Goelzer, 2010). This study contributes to the still-small body of research literature on joint inspections by the PCAOB and foreign jurisdictions. The study reviews how the process has influenced recent developments in the national oversight of audit firms and their audit performance. This study is among several others that express the perspective that consideration and adoption of international collaboration between audit oversight bodies could well be the right step to strengthen national and international efforts to prevent fraud in financial statements.

Study 2: Perspective of the national and global impact of the regulatory oversight system in Norway from 2000-2016. Are Norwegian companies receiving high quality audits? Stenvold, T. D. (2017).

Aims: The aim of this study is to add knowledge to the understanding of the audit oversight system and explore the national and global impact on improved and better-controlled audits in Norway. The study sheds light on the history of the Norwegian audit oversight system as a foundation for addressing and learning from the current global regulatory structures. The study assesses the shift from various forms of self-regulation to a contemporary regulatory oversight that is independent of the profession, (doing this against the historical background of Norwegian oversight).The study also analyzes the recent development of the Norwegian oversight system from a critical qualitative research perspective. This study aims to contribute a new approach of analysis for audit oversight research. An important timeline on the transformation of a system of self-regulation into a more independent oversight system is provided in the paper.

Material and methods: The official documentary evidence that is analyzed includes the FSA annual reports from 2000 to 2016, the FSA Report by Supervision from 2000 to 2016, the DnR Quality Assurance Review of Auditors – Annual Report from 2002 to 2016, and PCAOB reports from 2008 to 2016. I explore the topics of the research by conducting in-depth interviews with partners in Big Four firms and inspectors from oversight agencies. Nine interviews (with seven partners of Big Four firms in Norway, two inspectors from the FSA, one Director in DnR, and two inspectors of the PCAOB) were conducted from March 2015 to March 2016, in Norway and in Washington, D.C.

Results: The result of the study indicates that there are many aspects of regulation and regulatory oversight that have had a recent impact and are making significant change in the Norwegian audit oversight system. For instance, the oversight system in Norway has been influenced by The European Union's rules and other international regulations, pressure from U.S legislators, and the establishment of the PCAOB. Norway has committed itself to EU rules as an aspect of its membership in The European Economic Area (EEA). By binding itself in this way, Norway finds itself with fewer allowances for flexibility in the process of domestic adjustment to international expectations. In another key feature of the international scene that has impact on Norway, the establishment of independent oversight bodies constitutes an important institutional reform in the European Union context (EU, 2014). External quality control has been a central element in an international (as well as Norwegian) debate on maintaining and enhancing audit quality. During the last two decades, the European Union (EU) has taken specific actions to synchronize national systems of auditing oversight (Blavoukos et al., 2013). The EU directive 2014/56/EU and the regulations 537/2014 have influenced the audit oversight system to move toward more independence from the auditing profession and its societies. The directive and regulations have had the positive impact of strengthening the audit oversight of PIE's[1]. In 2006, the European Union revised the

[1] PIEs are listed companies, credit institutions, insurance undertakings, or other undertakings designated by EU countries to be of public importance. Such as listed companies, banks and insurance undertakings (Auditor Act § 5a-1).

regulatory framework on statutory auditing Directive/ 2006/ EU, thus responding not just to these national incidents of accounting fraud but also to the rapid changes in business activities within a global system of exchange. The EU directive emphasizes that the national audit oversight be strengthened and for auditors to acknowledge that while the focus of the national oversight entities lies on the audit practices at the national level, their practices and quality of performance are key elements related to broader trends in a globalized business and finance environment. The PCAOB has also influenced change in the Norwegian audit oversight system related to those auditors that audit companies listed on the US stock exchanges. Of particular importance are those changes that increase oversight and separate oversight functions from the profession as an essential step for ensuring high-quality auditing. In summary, my finding is that the implementation of more international audit oversight regulation in the local context shapes, changes and destabilizes the institutions in which accounting and the audit profession had traditionally been embedded.

Conclusions: The study shows that impact of EU directives and recommendations and the PCAOB influence that supports a more independent oversight system are most influential on the Norwegian audit oversight system, and they have had a positive impact on the audit quality. The study extends prior assessments of the regulation of public company auditing in Norway. As it is only the direct analytical comparison of self-regulation and regulation carried out independently of the profession, this makes it possible to draw conclusions regarding the legitimacy of the institutional change from self-regulation to public audit oversight. Increased international collaboration of audit oversight, especially the PCAOB joint inspections with foreign jurisdictions demonstrated significant and powerful changes of performing audit oversight worldwide, and this forms the focus of the second paper.

In addition, the reading of trends in Norwegian oversight demonstrates the particular impact exerted by intra-professional dynamics on relations between the professional, national and international oversight boards. These trends indicate how professions can be both the mechanism for, and the primary target of, institutional transformation. As outlined above, international collaboration of public audit oversight established in Norway and the practices set up by the PCAOB to monitor financial auditing and those established by the national oversight system to enhance its own legitimacy have brought Norway to a better controlled audit.

Study 3: Modeling fraud detection and the incorporation of forensic specialists in the audit process: A review of research findings from 2000 to 2017. Stenvold, T. D., Stuart, I., and Almante, D. (2017).

Aims: The overarching aim in this study is to evaluate prior fraud research on auditors' detection of fraud and the incorporation of forensic specialists in detecting fraud in the audit process.

Material and methods: In conducting the literature review analysis, first, we read prior reviews within each of the two main facets in the study. Second, to identify and determine which research to include in the review, we searched Google Scholar using the keywords "auditor fraud detection" and "forensic specialist", and included a wide variety of research methods in the search. Finally, we used the discussion of prior literature and the research included in the reference list of each paper to verify that our sample is complete.[2]

Results: The existing research shows that incorporation of forensic specialists offers additional beneficial tools for the audit; the incorporation of forensic specialists can provide valuable input for the auditing profession and supports the improvement of the audit quality with regard to fraud detection. In our study, we argue that forensic specialists can play a significant role in increasing audit quality; therefore an identification of the reasons for audit failures regarding fraud detection can lead to a better understanding of whether the incorporation of such specialists can improve fraud detection in the audit process. The study responds to prior academic research in relation to fraud detection in auditing and the involvement of forensic specialists in the audit process. The results provide evidence of the value of auditors' incorporating forensic specialists in the audit process, so they can detect fraud. This can been seen in the prior literature. Furthermore, the result suggests that auditors are not always able to identify fraud risk issues, and they may not be able to transform their awareness of deficiencies in this area into an audit plan that successfully takes these issues into account. This limits the probability of their being able to detect fraud (Boritz et al., 2014). Previous fraud researchers have argued that financial statement auditors are not capable of developing operational audit plans to address fraud risk adequately. In such situations, the study indicates that a reasonable response to this problem of a heightened risk of fraud is to involve fraud specialists, including forensic accountants. Asare and Wright (2004) have shown through their research that when there is an apparent heightened risk of fraud, auditors

[2] Some of the studies identified and included in this review are also contained in prior syntheses on related matters (e.g., fraud, tax). However, this synthesis differentiates from those prior syntheses as we only focus on how auditors detect fraud and the incorporation of forensic specialists in the audit.

are likely to seek the support of forensic specialists in developing an audit strategy. Furthermore, auditors search for the support of forensic accountants for the improvement of their audit plan when there is observed risk of heightened management fraud in an engagement (Asare et al., 2004).

As we have stated, prior literature indicates that often auditors are not skilled enough to identify fraud risk and detect fraud, and it may be appropriate and effective to incorporate forensic specialists in the audit process to increase the possibility of fraud detection. Houston (1999) stated that financial statement auditors are able to design effective audit programs, but lack the knowledge and skill to design fraud detection procedures or adjust the existing audit program well enough to address the risk of fraud. Boritz et al. (2014) finds that forensic specialists planned more effective additional procedures than auditors. Some research stated that through the audit experience alone, auditors cannot be fraud detection experts (Krambia-Kapardis, 2002), and fraud is not a problem against which financial auditors can guard by means of their periodic audits (Ramaswamy, 2011). Consultation with forensic specialists tends to increase whenever firm-level direction makes consultations obligatory, particularly under conditions of high fraud risk and tight deadline pressure (Gold et al., 2012).

Research shows that forensic specialists did not differ from auditors in the number of procedures selected from a standard audit program. Nor were these procedures cumulatively more effective than those selected by auditors. However, forensic specialists generated a greater number of non-standard additional audit procedures, and those procedures were marginally more effective, but less efficient, than those of auditors, except for certain groups of procedures (Boritz et al., 2014). The auditors' use of specialists adds cost to the audit, so in some cases auditors may avoid referring issues to them unless they believe that a substantially elevated risk of fraud is present in an engagement (Gold et al., 2012).

Conclusions: By reviewing prior literature, we note that the forensic literature in the audit process shows how a paradigm shift to forensic accounting can help reduce financial statement fraud. Since financial statement auditors are not trained in financial forensics or fraud investigation, they can make ready use of forensic specialists who bring knowledge, skills, and attitudes to the task of audit planning under conditions of elevated fraud risk—employing skills and approaches that are more relevant to the specific task of fraud detection than can be brought to bear by even the most-experienced auditor who has not received specialized training. The above discussion shows that the last two decades with their accounting scandals have played a crucial role on bringing about the inclusion of forensic specialists in the audit process. The accounting scandals demonstrated the need not merely to explain why accounting scandals happen but also develop the means to avoid such scandals in the future. One challenge is to address this multi-faceted challenge posed by fraud in the financial statement, either with auditors or with the cooperative efforts of auditors and forensic specialists. This study contributes to the accounting literature by integrating the extant research on auditors' detection of fraud and auditors' decisions to incorporate forensic specialists in the audit process. By considering factors that have an impact on the way they approach the task of detecting fraud, the auditors can strengthen their own motivations to detect fraud. With the incorporation of forensic specialists, the audit firms can go deeper into the analysis of financial statements and have a better chance to detect fraud and identify those who commit it.

This paper contributes to the audit literature by integrating the extant research on auditors' decisions to incorporate forensic specialists in the audit process. The important role of forensic specialists in the audit process has recently increased. In sum, this paper reviews those who have examined whether and how the use of forensic specialists in audit engagements is associated with improved fraud detection in the audit process. In practice, the biggest difference between audit itself and the distinctive task of fraud detection comes from the different objectives of the professional auditor and the forensic specialist. While the audit is generally conducted for the purpose of expressing an opinion on the financial statements, the forensic specialists' goal is to determine whether fraud has occurred and to determine who is responsible for it (ACFE, 2009). A final comment: there are some down-side features of a decision to incorporate forensic specials in an audit engagement. Auditors and forensic specialists view fraud issues from differing perspectives related to the roles assigned to their profession (Wolosky, 2004). Such differences in the purpose of the analysis may cause differences between the mindsets and the decision-making strategies of the auditors and the forensic specialists. In addition, such incorporation might create some negative implication such as the cost of using forensic specialists in the fraud detecting process. Even though the incorporation of forensic specialists might significantly increase fraud detection quality, but due to the costs of forensic specialists (which would be covered by auditors, coming out of the engagement fees) auditors might be forced to spend less time and capacity on the other procedures.

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Chapter 4: Papers