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Abstract

This paper analyzes the political and professional battle over auditors' crime-controlling responsibilities in Sweden. The focus is on the discursive strategies of major actor-constellations during 1965-1999. The conclusion is that the duty enacted in 1999 to report suspicions of crime, like earlier attempts in this direction, was not a reaction to major frauds or scandals but a part of broader social-democratic policies during the period: to develop industrial democracy, to fight economic crime, and to improve economic markets.

Keywords

auditing, crime control, economic crime, economic policy, fraud, regulations, sociology of professions, steering, white-collar crime

1. Introduction

Major corporate frauds and scandals are regularly followed by debate concerning the aim and scope of auditing. A recurrent effort in such times is to strengthen the company auditors' responsibilities to prevent or detect crime and irregularities and report them to the owners or the authorities. Regulation, self-regulatory measures, and attempts at extending auditors' duty in these areas are therefore often depicted as scandal-driven. In Anglo-American countries, such measures are shown to be largely a direct response to major (mass-mediated) scandals concerning fraud and corporate collapses (Bougen, 2000; Cooper et al., 1996; Halliday & Carruthers, 1996; Humphrey, Turley & Moizer, 1993; Levi, 1986; Mitchell, Sikka & Willmott, 1998; Power, 1993a; Power, 1993b; Radcliffe, Cooper & Robson, 1994; Sikka, Puxty, Willmott & Cooper, 1998; Sikka & Willmott, 1995; Tweedie, 1991; Wells, 1993). Such an explanation has also been given for the making of auditors into "adjuncts of the state" in France (Baker, Mikol & Quick, 2001, pp. 772f.).

Since 1999 Swedish auditors have had a duty to report suspected cases of "economic crime" committed by managers or board directors.[1] This paper will show that the duty was not primarily created as a reaction to economic scandals, but should rather be seen in the light of a long-term political project to increase the state control of the economy, and to fight economic crime. The political conjuncture of the economic crime issue has certainly been influenced by economic scandals, as have some changes in auditor regulation. Still, the extension of auditors' responsibilities concerning fraud and irregularities has been pursued with more

[1] The Swedish concept "*ekonomisk brottslighet*" (economic crime) is the accepted counterpart to such non-legal generic concepts as "white-collar", "corporate" , "business", and "occupational" crime (Larsson, 2001; Lindgren, 2002). The duty for auditors to report concerns fraud, swindling, money laundering, embezzlement, breach of trust, crimes against creditors, bribery/corruption, and tax crimes (FAR, 2000).

continuity in Sweden than seems to be the case in the studies cited above. Nor is Sweden entirely unique in this respect. The duty for auditors to control the auditee's tax obligations in Norway has also been described as a part of a long-term political project (Eilifsen, 1998).

This paper investigates the genesis of the auditor's duty to report on economic crime in Sweden, against the background of the policy projects in relation to which it was articulated. The focus is on parliamentary policy formation and the discursive strategies of different actor-constellations in public debate, particularly on how their claims were framed in order to acquire support and legitimacy. I will also draw attention to some aspects where the Swedish development converges toward or diverges from that in other countries. Since the focus is on the auditor's duty to report on crime, the paper will not treat exclusively the genesis of other regulations or changes in the auditor role, except those anticipating or directly related to the duty to report on crime.

The study is based on qualitative analysis of documents. The political material includes 92 parliamentary documents (bills, pronouncements within the referral system, motions, committee reports, communications, and interpellations) and 29 reports from Government Inquiry commissions and agencies during the period of 1967-2001. The debate material includes several reports from professional and other organizations, and all volumes of the major Swedish accounting/auditing journal *Balans* (1975-2002).

I begin by laying out the theoretical framework of the analysis, which is followed by a short historical background. Thereafter I give an account of the debate and policy formation during 1965-1999. This analysis shows that the conflicts concerning the use of company auditors in the fight against economic crime were articulated in relation to both political and professional

projects, and to broad issues concerning the state-economy relations. The analysis demonstrates the importance for actor-constellations to mobilize not only political majority, but also public legitimacy, in order to push through a regulation of this kind. They succeed in this by framing their claims in resonance with established conceptions of the economy and regulations.

Three themes are discussed in the conclusion. The first is that the duty for auditors to report economic crime has been developed in the framework of broader policy issues concerning the regulation of the economy and the control of economic crime. The second theme is that this regulation of the auditors is articulated with the ongoing replacement of interventionist regulation by steering "at a distance", using professions in order to organize, control and legitimize markets. The final theme of the conclusion concerns what conditions were decisive for the development of this kind of steering.

2. Professional competition and state interest

A strong branch of the sociology of professions – as well as of economic sociology and of the study of social institutions at large – is the approach in which action is analyzed in relation to the *arenas*, *domains*, *fields*, *sectors*, *spaces* or *systems* in which it takes place (Abbott, 1988; Bourdieu, 1987; Dezalay & Sugarman, 1995; Fligstein, 2001b; Hancher & Moran, 1998). In common for these perspectives is that economic regulations and professional jurisdictions are analyzed in terms of competitive battles on fields constituted by existing power relations and cultural conceptions.

The theory of fields assumes that actors try to produce a "local" stable world where the dominant actors produce meanings that allow them to reproduce their advantage. These actors create status hierarchies that define the

positions of incumbents and challengers. Actors face two related problems when constructing these fields: attaining a stable system of power and, once it is in place, maintaining it. (Fligstein, 2001a, p. 29)

This means that the actors' policies and practices should be seen along the lines of sociological (neo)institutionalism. That is, they are not only interest-based strategies of dominance. The actors' identities, interests and strategies, and even the success of different actor-constellations are conditioned by established *institutions*: formal institutions such as existing laws and regulations or formal political power, and informal institutions conditioning the actors' collective identities and cognitive and normative conceptions (Campbell, 1998; Clemens & Cook, 1999; Dobbin, 1994; Fligstein, 2001b). The regulation and self-regulation of economic and professional fields should be understood in relation to both the allocation of power resources and the cultural ideas and practices that make them stable and effective:

The connection between issues, arenas, and the character of economic regulation is shaped by both ideological and structural factors. Regulatory 'issues' are in an important sense ideological constructions: their recognition depends on social actors construing the world in a particular way; their allocation to a particular regulatory arena is likewise the result of a process of ideological construction. But these acts of issue recognition and definition are underpinned by the structural forces at work in the economy. (Hancher & Moran, 1998, p.171)

A central aspect of the competition on a social field concerns the recognized divisions of the world. This battle of "the definition of the legitimate principle of division of the field" deals with how boundaries between groups are drawn, and with who is given the right to act, to speak, and to label (Bourdieu, 1991, p. 242). One of the most illuminating examples is the "jurisdictional" struggle over problem definitions and solutions among the professions. As Abbott (1988) points out, these battles are fought in different arenas: in the division of labor at the workplace; in the production of problems and policies in public; and in the regulation of rights and duties in the legislative/legal arena. One must add here also the significance of third

parties, the media and supranational "pressure" for the outcome of these battles (Sikka & Willmott, 1995).

Hence, the analysis of professional and regulatory struggle should pay attention to the *discursive strategies* with which political and cultural mobilization is created to promote or block institutional change (Fligstein, 2001b). One approach is to analyze the way an issue is framed. The concept of *framing* is regularly used in the analysis of social movements and the media (Benford & Snow, 2000). But it can be used in policy analysis as well. To study the framing of a political issue is to focus on the metaphors, symbols, imagery, catchwords and historical examples through which a position is elaborated to convince the public or interested organizations, to mobilize political action, or to create consensus (Campbell, 1998; Schön & Rein, 1994, pp. 23-36; Triandafyllidou & Fotiou, 1998).

Another central aspect of these battles concerns the *actor-constellations* and their power resources. Theoretically, a certain set of actors are generally involved in the competition over professional regulations (Abbott, 1988; Burrage, Jarausch & Siegriest, 1990; Carruthers & Halliday, 1998; Macdonald, 1995): The most obvious are the profession and its clients, both of which may of course be internally heterogeneous (Sikka & Willmott, 1995). Since this study addresses their capacity as collective actors, though, it is the positions of their organizations that are taken into account. Furthermore, the demarcation of the clients is complicated in regard to auditing since the primary clients (the owners and the corporation) are not exclusive users of the audit report. Investors, suppliers, customers, employers, market actors, and the public at large are interested parties as well. Even though they are not at the front of the battle, they may play a significant role in frames that claim to represent their interests – e.g. by politicians, business community organizations, labor unions or the media.

Other professions are often important as competitors to the jurisdiction. Universities and scholars may play a significant role in producing a theoretical stock of knowledge used for reproducing and legitimating the profession. And finally, the state and its representatives – the government, its commissions and agencies – are in the power game to regulate professional education, jurisdiction, and practice.

The professions' interest in the state guaranteeing their jurisdictional "monopoly" is a well-researched issue. A more neglected aspect of the theory of professions, according to Halliday & Carruthers (1996), concerns the state interest in the professions and the possibility to use them to organize, regulate and legitimate markets. They claim that professionals provide the state with the opportunity to control markets and the economy "at a distance", and to produce and maintain the trust that is needed in a market economy.

The control at a distance that accountants/auditors supply is not only the range of techniques with which economic objects are made measurable and controllable (Miller, 2001). Their "contract" with the state provides them with "monopoly" over a jurisdiction in exchange for the obligation to regulate and supervise both the members of the profession and the activity of their clients. Thereby, the level of direct state regulation, control and intervention can be reduced without decreasing the presence of controlling and steering instances (cf. Bougen, 2000; Johnson, 1993; Miller & Rose, 1993; Power, 1993a; Power, 1997, p. 33f.; Power, 2000).

Halliday & Carruthers (1996, p. 407) claim that six conditions are decisive for the likelihood of professions "to become agents of the state in the construction of a market morality", thereby legitimating markets and policing trust (cf. Shapiro, 1987). The first is that the

government is committed to downsizing of the state. The second is that the government is committed to changing state-integral institutions but is lacking resources. The third is that the state capacity to control an activity is limited, but it is possible for a professional group to organize a general control. The fourth and fifth are that the profession or its clients are weak, and thus cannot refuse to accept extended control. The final condition is that the issue concerns high public stakes.

These conditions will be discussed further in my conclusion, since only one of them was fulfilled in the Swedish case. The point is that such conditions must be interpreted in the light of the difference between the Anglo-American tradition of "free" professions, allegedly formed by professionalization "from below" in relation to the market, and the continental European professions formed "from above" in relation to the state. The latter can be illustrated by the German auditors who have been seen as "agents of the state" because of their political responsibilities (Abbott, 1988, pp. 20ff.; Baker, Mikol & Quick, 2001; Collins, 1990; Puxty et al., 1987). Still, as shown by e.g. Carruthers and Halliday (1998, pp. 515-520) in their study of the jurisdictional battles concerning corporate bankruptcy in Britain and the USA, these are "ideal types" from which the real professionalization may diverge.

In Sweden, as in the other Scandinavian countries, the accountancy profession has been formed in the context of a strong state, initially through legal regulations and subsequently through the establishment of state bodies for authorization, disciplinary control and standard-setting (Eilifsen, 1998; Jönsson, 1991; Jönsson, 1994). The extension of audit control tasks, articulated in relation to (welfare-) state interest and the regulations of markets, is thereby shaped in a different institutional pattern and political rationality, and the conditioning factors are different from those described by Halliday & Carruthers (cf. Cooper et al., 1996).

3. The development of statutory audit and professional authorization

At the end of the 19th century, auditing was something of an honorary post in Sweden. As the growth of stock corporations was accompanied by an increase in fraud and embezzlement, there was a growing demand for professional audit. The first statutory audit for stock companies was enacted through the Companies Act of 1895. The auditor was still primarily a layperson, but the Companies Act of 1910 stated for the first time that company employees and members of the board could not be appointed. Requests to install a body of state-employed public auditors were not met, however, since the government thought this too costly, and since a body of competent auditors was expected to develop anyhow (Sjöström, 1994, pp. 29-47; Wallerstedt, 2002).

In 1899 the first professional body for auditors/accountants was formed – the Swedish Association of Auditors, SRS (*Svenska Revisorssamfundet*) – modeled after the Institute of Chartered Accountants in London.[2] One aim of their "professional project" was to produce a

[2] SRS is an association for auditors, with the majority of its members specialized in small and medium-size enterprises. The Swedish term "*revisor*" can be translated both as "accountant" and as "auditor". In fact, the two major Swedish organizations, FAR and SRS, use different translations of the two authorization levels that exist in Sweden: "*Auktoriserad revisor*" is translated as "Authorized Public Accountant" by FAR, but "Publicly Authorized Auditor" by SRS; "*Godkänd revisor*" is translated as "Approved Public Accountant" by FAR, but "Publicly Approved Auditor" by SRS. I use the term "accounting profession" when referring to the professionals organized in these bodies, but "auditor" when discussing the duty to report on crime and other regulations at issue in this study, since these only concern the function of external auditor. A more detailed description of Swedish accounting, auditing and the profession is given in FAR (1998).

state authorization. Despite their efforts, the first formal authorization was fashioned by the business community through the newly established Chambers of Commerce (*Handelskamrarna*) in 1912. In disagreement, SRS endorsed their call for state authorization, and created their own authorization in 1921. Two years later a number of auditors authorized by the Chambers of Commerce formed what was to become the major professional body – the Swedish Institute of Authorized Public Accountants, FAR (*Föreningen Auktoriserade Revisorer*).[3] By 1930 both organizations recognized the authorization by the Chambers of Commerce, and its two levels of qualification: Authorized Public Accountant (*Auktoriserad revisor*) and Approved Examiner (*Godkänd granskningsman*), the latter being subsequently changed to Approved Public Accountant (*Godkänd revisor*) (Sjöström, 1994, pp. 51-75; Wallerstedt, 2001; Wallerstedt, 2002).

The single most significant event for the regulation of auditing was the Kreuger crash of 1932 (Jönsson, 1991; Jönsson, 1994). The Companies Act of 1944 did not meet the demands for state-employed auditors, state authorization, and stronger requirements on qualifications. But for the first time, statutory audit performed by an authorized or approved public accountant was made compulsory for all companies registered on the stock exchange. The scope of the audit and the contents of the audit report were regulated in detail, and there was a prerequisite to audit the managing directors' administration as well as the financial accounts. Furthermore, the role of the auditor was defined not only in relation to the owners and the corporation. The duty to protect the interests of investors, the public and the state was explicitly articulated as a consequence of the Kreuger crash (Jönsson, 1996; Lidén, 1973, pp. 36-60; Sjöström, 1994, pp. 79-92; Wallerstedt, 2001). This way of protecting the public interests was more in line

[3] Since 2001 FAR uses only the abbreviation as its name, to indicate that it is organizing not only "authorized" and "approved" public accountants, but other professionals in the accountancy sector too.

with the continental and Scandinavian tradition than with the British "free" professions' tradition, and became the basis of all subsequent claims for an extended crime-controlling role (Baker, Mikol & Quick, 2001; Eilifsen, 1998).

There followed a period of stability during the post-war social-democratic governments, before the audit function was problematized anew in the late 1960s and early 1970s. This was a period of tension among the Social Democrats, between radical and liberal economic policies. The radical claims aimed at "democratization" of the economy through increased state intervention and "co-influence" for employees (Lidén, 1973, pp. 17-21; Oudhuis, 1999, pp. 112-124). New arguments for state-appointed auditors performing tax control and for a broadened administration audit – focused on social and socioeconomic aspects – were framed in terms of "industrial democracy". Such an inside control of large corporations was said to be "natural", since they principally were "public institutions". This definition of auditing articulated well with the conception that auditors were to protect the interests of investors, the public and the state, as well as the owners and the corporations. In opposition to such a policy was a different social-democratic ambition: to "rationalize" the economy in order to realize the liberal ideas of a perfectly functioning market with the help of state means (Lewin, 1967, p. 446). This policy was framed in terms of a "modernization" of the Companies Act, to adjust it to international developments (primarily in the Nordic countries) and create an efficient economy. This was a perspective closer to the center-right (non-socialist) opposition, which together with the auditors' professional bodies stressed that independence from the state was even more important than the independence from the corporations. Consequently, they advocated professional self-regulation in combination with an increase in the number of corporations that submitted to statutory audit.

This definitional battle over auditor independence thus concerned the auditor's position between the corporations and the state, in contrast to the internationally prevailing debate primarily concerning aspects of independence from the auditee (Jeppesen, 1998). The result of the internal struggle of the Social Democrats was that the most far-reaching left-wing claims were blocked. One exception was the state authorization and supervision of auditors, formulated in 1973 – a development that was supported both by the accountants organized in SRS and by the advocates of harmonization in the Nordic countries, and which thus could not successfully be framed as threatening the profession's autonomy.

With the Companies Act of 1975 there was an additional increase in the number of corporations submitting to statutory audit. But apart from the disqualification rules, this act effected a deregulation of the audit. The detailed regulations were replaced by a requirement that the audit should be performed according to generally accepted auditing standards in Sweden (*God revisionssed*) (Sjöström, 1994, pp. 130-135). Even though an extension of the auditor role thereby was left out of the "industrial democracy" project, the idea of state-appointed public auditors was not abandoned. The Swedish Minister of Trade, Carl Lidbom, viewed it as a matter of timing:

> The corporations have a broader task and a broader responsibility – a responsibility to the consumers, a responsibility to society, and a responsibility to the employees... I regard the whole debate concerning the question of public auditors as a part of the broader debate over the corporations' new role in society... I do not believe that any wonders will be worked by rushing this particular question of [state-appointed] public auditors. As Mr. Bergqvist heard from the response, my position is not negative, but I want to rest a little, until I have seen the result of the other reforms. (RP 1975/76:76, p. 130)

4. The rise of the "economic crime complex"

There was a deepened antagonism in Swedish politics as a shift to the right in the political spectrum resulted in center-right governments during 1976-1982. In this period "economic crime" was recognized as a significant problem by the media, legal authorities and politicians (Lindgren, 2002). From the left, the supposed escalation of economic crime was viewed as a threat against the welfare state. Thus, the idea of using auditors to control tax evasion by corporations regained actuality in official inquiries into economic crime.

As in the mid-1970s crisis for the U.K. accounting professions, the question of auditor independence was at the center of attention in the reopened Swedish definitional battle (cf. Sikka & Willmott, 1995). A recycled idea from the earlier attempts at strengthened regulation was that auditors be appointed by the state. This would increase their independence from the clients, and prevent the perception of auditors and their consulting as a part of the problem rather than of its solution. That way of framing the issue was in fact used in one of the early reports on economic crime, by the National Police Board (*Rikspolisstyrelsen*):

> Approximately thirty accounting firms (most of them authorized) and a dozen barristers in the whole country are, as it seems, continuously consulting in the area of organized and/or economic crime. (Rikspolisstyrelsen, 1977, p. 21)

The statement was rejected by the professional bodies with the suggestion that auditors instead should be seen as the crime-preventing actors they actually were. This request shaped the perspective of the subsequent inquiry commission concerning economic crime, performed by the National Council for Crime Prevention (*Brottsförebyggande rådet*), since it could find no substance in the statement from the National Police Board (Romander, 2000). The commission recommended that the supervision be more active in terms of control, but it

concentrated on measures to strengthen auditors' independence and crime prevention. Firstly, to increase public insight, it proposed an obligatory registration of the engagement and dismissal of auditors in the public Register of Companies. Secondly, an extension of the statutory audit was suggested in order to cover small stock corporations, which allegedly harbored a large part of economic crimes. Thirdly, it wanted to give auditors a right to inform co-auditors, insolvency practitioners, and legal authorities about irregularities:

> It is unsatisfactory, with the interests that the working group is supposed to address, that an auditor's knowledge of the state of a company cannot be used by legal authorities and in criminal investigation. Thus, the occurrence of auditors feeling obliged to refuse to supply information requested, with regard to the damages prerequisites, is of far too great an extent... The group has experienced the occurrence of cases where even grave misconduct is exposed but not mentioned in the audit report – with reference to client confidentiality. (Brottsförebyggande rådet, 1978, p. 47)

As if influenced by the definition of auditors as part of the problem, in spite of its rejection of this, the commission recommended that the professional bodies make explicit in their ethics that the auditor should encourage the client to follow the law and avoid "taking part in illegalities or actions that circumvented laws in an obvious way" (p. 55). The commission realized that this could be viewed as a concession to the demands that auditors should perform tax control. In an attempt to disarm the expected counter-frame, the commission pointed out: "No claim should be raised that auditors act as the 'prolonged arm' of the tax authorities" (p. 59).

Despite this reservation there were strong protests from the center-right parties, the accountancy profession and business organizations. In opposition to making the auditor into a "tax supervisor" used for "police tasks", they saw traditional auditing as the most efficient

way to reduce economic crime. It was therefore an unpleasant surprise that a survey made by FAR during 1979 showed that a majority of Swedish corporate representatives believed that auditors already had the responsibility to prevent tax crime, currency crimes, fraud and bribery – even though this was not something unique to Sweden (Humphrey, Turley & Moizer, 1993). The response from FAR was to frame the result as a part of the internationally recognized "expectation gap", thereby defining these expectations as misapprehensions that could only be avoided with better information:

> It is surprising that so many want to include these tasks of fiscal and other legal supervisory character in the auditors' ordinary audit assignment. It is hardly realistic to believe that the auditor will be able to master these special branches and have a reasonable chance to discover transgressions, if any. You naturally ask: Do the clients want us to answer for a supervision of this kind? And, if so, are the clients prepared to pay… (Damberg, 1980, p. 11)

The battle thus concerned not only the independence from the auditee, but also *what* the auditors had the capacity to control. For the professional bodies this was not an open question, but an unacceptable redefinition that would bring negative consequences and huge costs to auditing (cf. Humphrey, Turley & Moizer, 1993; Power, 1993b; Radcliffe, Cooper & Robson, 1994; Sikka, Puxty, Willmott & Cooper, 1998). A recurrent frame, used to block any attempts to extend the auditors' crime-controlling responsibilities, was that an extended control function would force the auditors to judge in criminal law matters, for which they did not have the legal expertise required.

An issue on which consensus arose was the extension of the statutory audit. The question was where to draw the line. The legal authorities and the trade unions (LO and TCO) thought that even the smallest corporations should be submitted to audit performed by approved public

auditors. Not surprisingly, this was opposed by small business, but also by the accounting profession, since it would open the jurisdiction to "unqualified" accountants – in fact, there were some attempts at establishing lower levels of authorization. The result was a statutory audit for all new stock corporations from 1983, with a five-year respite for the existing ones. The right for auditors to inform about irregularities was narrowed to co-auditors, subsequent auditors and insolvency practitioners.

Once again, the strongest claims about state-appointed and tax-controlling auditors had been blocked. Still, the professional organization FAR did not signal all clear. Instead it encouraged its members to participate in public debate:

> Are all FAR members aware of the serious, quite substantial, proposals to solve the issue of independence that exists today: state authorities shall appoint auditors with the help of computers? That the economic crime complex, today as during recent years, in reality is the most weighty determining factor for the future of the accounting profession? […] [Or of the] proposals for such changes in the Companies Act as that "the audit report shall include information about the corporation's fulfillment of its obligations in accordance with the tax and levy enactments"? (Gometz, 1982)

Such collective "action frames" became a recurrent feature in the auditor/accounting journal *Balans*. And they were right. The battle was not over. It resumed just after the Social Democrats' return to power in 1982.

5. The auditor's role: "police" or "controlling adviser"?

In the beginning of the 1980s there was a (neo-) liberal turn in Swedish politics. The Social Democrats developed their "Third Way" program, with an outspoken intent to replace state intervention with market mechanisms. Simultaneously they mobilized against economic crime, and assigned a major Government Inquiry commission to develop measures against it. The overall response to this initiative was polarized, as was the whole debate on "economic crime". The political left-wing bloc and the trade union movement sought to establish a wide definition that covered crimes within business as well as individual tax crime. The center-right bloc and the major business community organizations framed this as moving toward an eastern socialist model, and warned about the threat to legal security and commercial freedom (Korsell, 2001; Lindgren, 2002).

The proposals from the Commission concerning auditing were that auditors should control and disclose tax offenses in the audit report, and be obliged to inform the authorities in the event of preliminary investigation or investigation regarding taxes, duty or fees:

> New problems require new measures: tax avoidance, self-dealings, black consumption etc. In the commission's opinion the control of this should not be a task exclusively for the tax and fee authorities, but one should utilize the control function that is built into the corporations, that is, the audit. (Kommissionen mot ekonomisk brottslighet, 1983, p. 40)

The Commission suggested that creditors and other parties needed information about tax irregularities since these often were indicators of insolvency. This was a way of framing the issue so as to make it more acceptable for the business community. Just like the inquiry commission five years before, the Commission against economic crime emphasized that this was not an attempt to transform the auditor into a "state tax auditor". Nevertheless, they suggested that the county administrative board (*Länsstyrelsen*) would have the right to

appoint the auditors of mismanaged companies, and that dismissed auditors be bound to give the county administrative board a preliminary audit memorandum.

As before, there was a strong critique from FAR against any usage of auditors in tax control, not only because this would undermine trust and openness from the clients, and make auditors flee the profession. It would take resources from the basic tasks. FAR maintained that the traditional audit was the auditors' chief contribution in the prevention of economic crime:

> Economic crime can never be controlled away... Whatever new moves you can think of, there is no contribution more important from the company auditors' side against economic crime than the conventional financial and administration audit that is practiced today! […] One who only sees the final, unqualified audit report cannot imagine the amount of accounting errors that are encountered and corrected during the current audit, and what stabilizing effect a qualified auditor/accountant can have on a company manager that is innovative in a negative sense. (Markland, 1983)

The center-right parties and business organizations responded to the proposals as anticipated by the Commission, echoing the debate internationally (cf. Humphrey, Turley & Moizer, 1993; Levi, 1986; Tweedie, 1991): the auditor would obtain a "police role", become an "informer", and be viewed as a "prolonged arm" of the state. Any measures of this kind would seriously damage the clients' trust and legal security. In a traditional conservative rhetorical figure, the proposals were said to be counterproductive, as in the formulations from representatives of the Moderate Party:

> There is every reason to claim that the proposals will have the direct opposite effect. Today, the auditors constitute the most effective control power for the observance of laws and regulations... An entrepreneur or manager who cannot trust that the dialogue with his auditor is carried out under the shelter of client confidentiality might quickly find himself compelled to discuss difficult tax problems with a new kind of

auditor/accountant – a tax consultant. The government proposal is a direct encouragement to do that. (mot. 1984/85:130)

The proposals relating to auditors were the first to be publicized by the commission, and thus of symbolic importance for the Social Democrats. Despite the massive critique, the government carried them through in a softened version during 1985. The tax control was enacted, though limited to a narrow branch of regulations; and auditors would be released from client confidentiality only by supervisors of preliminary investigation, not by the tax authorities. The idea of state-appointed auditors in mismanaged companies was rejected with reference to the existing option to perform a tax audit.

Once again, the most far-reaching measures were blocked. FAR considered that to be something of a victory made possible by auditors' active engagement in public debate. Gradually FAR signaled all clear from any further threats against client confidentiality and professional autonomy. Nonetheless, the economic crime issue ascended the political agenda again by the end of the 1980s. The trigger was a number of major Swedish corporate scandals, in addition to the American debate on giving accountants the duty to detect and report fraud and irregularities (cf. Bougen & Young, 2000; Wells, 1993).

The worst scandals were Bofors' export of war equipment to India in the mid-1980s, and the bankruptcy of the drug company Fermenta in 1988. However, the impact of these scandals on the regulation of auditing was limited. The Bofors scandal resulted in a duty for auditors to inform the government if there was a qualification concerning unlawful exports of war equipment in the audit report of such companies. The Fermenta case led to recommendations by the Stockholm Stock Exchange to strengthen market control. The Exchange wanted to

increase the contact between auditors, management and owners, and to be given the option of appointing auditors in cases where it suspected irregularities (Stockholms Fondbörs, 1988).

This time, the relation between the public debate and the in-depth inquiries was altered, and other actors were at the forefront. As in other countries, there was a problematization of auditor independence in the press as a direct reaction to the scandals (cf. Bougen & Young, 2000; Cooper et al., 1996; Power, 1993a; Radcliffe, Cooper & Robson, 1994; Sikka & Willmott, 1995). But there was no political response to these demands for strengthened auditor responsibilities. There were no new initiatives relating to the overall regulation of auditing from the political left until 1994, when the Social Democrats once again placed economic crime on the political agenda. The elaboration of the role of auditors in the late 1980s was made in research reports and in the report from the Stock Exchange. These experts and academics primarily supported the accountancy profession and the center-right political bloc in defending professional autonomy – as opposed to the British case (Sikka & Willmott 1995, p. 568).

The Stock Exchange discarded the idea of state-appointed auditors as something foreign to a market economy, since "such an arrangement isn't applied in any other Western country" (Stockholms Fondbörs, 1988, p. 198). Two research projects with funding from the political program to fight economic crime both viewed professional ethics as more adequate than external regulation. According to the legal scholar Axberger (1988, p. 69f.), the auditors should be seen as "promoters of legal culture" spreading law into society. This function would be damaged if auditors were transformed into state representatives or informers. The other research report, initiated by the Nordic Council of Ministers, argued that the battle against "cynical managers" consciously misleading their auditors would require an impossible "police

role" for auditors. A better utilization would be to strengthen the auditors' role as "controlling advisors", and their function of protecting "otherwise honest" managers in crisis from temptation (Moberg, 1992). This framing articulated the broader argument already delivered – that auditors' independence of the state was as important as the independence from their clients, in order to maintain their position of trust and power to influence managers.

6. Liberalization or the protection of "lawful competition"

During the center-right government period 1991-1994, economic crime was a low-priority issue, despite the intense debate over the Swedish banking crisis. The auditors' role and responsibility in the crisis were discussed from the angle that many had been too close to the managers. However, the neo-liberally inspired government preferred increased self-regulation and market control. Its strategy was to privatize the authorization and supervision of auditors, so as to create room for a development of moral self-regulation. The government leaned on support by the business community, the Swedish Bar Association, and FAR. Its proposals were strongly influenced by the profession's critique of the National Board of Trade (*Kommerskollegium*) for not having the competence required of a supervisory authority, and for keeping a body that performed similar tasks as a profession's internal disciplinary board.

The two subsequent Government Inquiry commissions did, however, reject the idea of privatization, with support from other state agencies and from the professional organization SRS. An entirely collegial control could be viewed as objectionable and would undermine confidence in auditing, according to the commissions. Even the "semi-private" foundation, an alternative preferred by FAR, was discarded. Instead, a reorganization of the state supervision

was proposed, with a stronger diversification of sanctions and with representatives from business, auditors, and universities. In addition, the commissions proposed a reinforcement of the educational requirements and business/proprietor restrictions for auditors, in order to strengthen their position and autonomy.

With the Social Democrats taking office in 1994 this reorganization of the supervision was realized, and all claims for privatization were discarded. The necessity of state authorization was articulated in relation to the economic crime problem, once again a high-priority issue:

> According to the government position, the advantages with a state agency supervising the auditors are predominant. State and society, and even the business community, have great interest in competent company audits. Their interest has increased during recent years, because of the need to counteract economic crime. The necessity that the state should settle laws and regulations, and influence and supervise the auditing enterprise, is also an argument that the operation should be run by the state. (Prop. 1994/95:152, p. 43f.)

Again, the auditors were at the center of attention in the government policy against economic crime. The plan was to give auditors a duty to report suspected cases of economic crime to the authorities. The Social Democrats were not alone in considering this a possibility. It was discussed in two official reports too. The Parliamentary auditors (*Riksdagens revisorer*) framed the question in a way that resembled the AMOB report two decades before – that some auditors were a part of the problem. Consequently, they requested a limit on the amount of assignments and the length of the terms for auditors:

> In the [Parliamentary] auditors' report it is established that the external company auditors have not been capable of stopping those accounting crimes that are often a part of economic crime. The actual cases analyzed in the examination often give evidence of control deficiencies. It appears that the companies' accounting consultants

and auditors generally have reacted too late and too weakly to general deficiencies in the accounts, levy etc. Such deficiencies have often been a symptom of, or even a part of, crime. (Riksdagens revisorer, 1993/94, p. 9)

A somewhat more appreciative framing was offered in a report from the prosecutor, police, and tax authorities in cooperation with representatives of auditors and insolvency practitioners. The report mentioned two ways in which auditors could assist the combat against crime. They could be employed in criminal investigations, and they could be obliged to report suspected cases of crime to the public prosecutor. The latter proposal was a response to situations where the management had no interest in reporting crime, for instance if it would damage the company's reputation or if the management was involved or believed that no crime was committed (Riksskatteverket & Riksåklagaren, 1994, p. 101f.).

The shape of the duty was considered in an official report by the Company Act Inquiry Commission (Aktiebolagskommittén, 1995), in a memorandum from the Ministry of Justice (Justitiedepartementet, 1995a), and in the subsequent Government bill (Prop. 1997/98:99). The commission did not reach a consensus, and there were amendments from the center-right political representatives and the experts. Still, the first battle was already over, since the choice was said to be between giving the auditors a *duty* or a *right* to report crime – a discussion that echoed the British debate (Humphrey, Turley & Moizer, 1993).

This time, the argument for an extended duty was framed in a way that would make it more acceptable for auditors and the business community. Firstly, a more active role for auditors was said to be under way in Europe, with similar statutes existing in France and the Netherlands, and with the 1995 BCCI directive concerning the financial sector in all of the EU (cf. Power, 1997, pp. 22-36). The Swedish implementation of the BCCI directive, extending auditors' duty to report to the regulators in the financial services sector, was

integrated as a part of the re-regulatory work that followed in the wake of the Swedish banking crisis (Larsson, 2003). As Cooper et al. (1996) point out; international regulations often lead to national negotiations and contests concerning issues of implementation. In the Swedish case, the BCCI directive gave strength to the new demands for a general extension of auditors' crime-reporting responsibilities. Secondly, the existence of a similar rule concerning export of war equipment made the duty "a natural consequence of the current transformation of the auditor's role" (Riksskatteverket & Riksåklagaren, 1994, p. 107). Thirdly, the purpose was now primarily to protect the market and its serious actors from "unlawful competition". Contrary to former analyses, the auditor was perceived as someone who could prevent not only crime committed by "honest" entrepreneurs and managers in times of crisis, but systematic crime committed as a part of the business strategy as well:

> Those who commit economic crime meet lower costs in their business than their respectable competitors, since to a large degree they neglect to pay taxes and fees to the state. The difference in costs is reinforced when the economic criminals ignore laws and statutes protecting investors, creditors, employees, consumers, competitors, the environment, and other interests that law defends. Many serious entrepreneurs and businessmen are wiped out by the disloyal competition that they are exposed to in this way. (Aktiebolagskommittén, 1995, p. 228)

In this framing the duty to report was on behalf of business and the market, and adjusted to the traditional auditor role, which disqualified the argument that the trust in auditors would diminish. As a consequence the state's interests were pushed to the background. To support this construction the duty was shaped through a civil law approach, so that the auditor would only be bound to report crimes that harmed the company or its interested parties:

> To impose on the auditor duties of a criminal law nature towards the company – for instance a more extended obligation to report crime committed inside the company – would, however, go less well with the auditor's role as a company trustee. There is reason to assert that measures to proceed against crime are external to the natural

jurisdiction of the auditor. Regulations concerning the auditors' rights or duties to report to the police or prosecutors should therefore not be shaped so that they become a part of the criminal law sanctioning system. (Prop. 1997/98:99, p. 155)

Therefore, the duty was restricted to situations where the manager or a trustee had committed a grave crime that was harmful for the company (fraud, swindling, embezzlement, breach of trust, crimes against creditors, bribery/corruption, and tax crimes). Crimes committed by employees were not of the same importance to disclose. In addition, the auditor would be released from his duty if the company management took measures within two weeks after the auditor's admonition – which was said to be in line with the French and Dutch regulations.

Despite this framing, there was opposition from the center-right, industry, and the auditors' organizations. As before, they put forward traditional auditing and ethical self-regulation as a better alternative. A duty to report crime would be futile or even counterproductive, since auditors would be viewed as a "prolonged arm of the state". It would harm the clients' trust, as well as the international confidence in Swedish industry, and it would slow down the harmonization process. In a statement of opinion FAR framed the regulation not as part of the harmonization with other countries, but rather as a threat against this:

When the 1975 Companies Act was introduced, the auditor duties were changed from a detailed description into being defined with the help of the concept of generally accepted auditing standards. This has enabled a dynamic development of the profession's methods, particularly in connection with the international level. FAR perceives a great risk that this possibility will be spoiled if the legislation becomes increasingly detailed and thereby rigid. As is known, there is work being done at the European level in the development of the tasks of statutory auditing, and it would be unfortunate if Swedish legislation were now to render it difficult for us to take part in this development. (Justitiedepartementet, 1995b, p. 7)

FAR and SRS questioned that the issue was even inquired into, considering the difficulties for an auditor to discover crimes consciously committed by managers. As a last resort they supported a *right* to report before a *duty,* and the "Dutch model" in which the reports should be filtered by an intermediary organ. The prosecutors were already overburdened with reports, and would not be better off with a large amount of "unsorted" reports from auditors.

Regardless of this critique, the duty came into force in January 1999, with support from a majority of the public authorities consulted; and six months later, money laundering was added to the lists of crimes covered. The objections concerning legal security were rejected, given that a duty to report was legally more effective than a right. As in the case of the extended reporting requirements in the UK financial sector, however, the duty concerns a "passive" obligation to report crime that the auditor becomes aware of during the audit, not an extension of the audit in order to "actively" detect crimes (cf. Power, 1993a).

7. Conclusion

The analysis above shows that the auditor duty to report on crime in Sweden cannot be described as a direct reaction to scandals and crises, in contrast to similar regulative attempts in Anglo-American countries. The Swedish regulation was rather developed as a part of long-term political problematizations and policy programs: to develop industrial democracy, to fight economic crime, and to produce a stable and efficient market economy. This does not mean that auditing developed without any influence by scandals in Sweden. The Kreuger crash in the 1930s had great impact on the development of detailed regulation. The Bofors scandal in the 1980s led to a crime-controlling function delimited to auditors in companies

exporting war equipment. And Sweden incorporated the EU directive concerning a duty to report for auditors in the financial services sector that followed the BCCI scandal. Still, the general duty for auditors to report on crime was developed in articulation with more overarching economic policy projects. This is verified by the stability in the line of conflict and in the actor-constellations that advanced or opposed such an extension of the auditor role. These constellations largely corresponded to traditional political antagonisms. The overall framing of the issue was equivalent to that of economic policy and economic crime in general, with the central conflict between socialist "justice and solidarity" frames and liberal (center-right) "market efficiency" frames (Larsson 2003; Lindgren, 2002).

The proposals for extended auditor control were primarily produced by Social Democrats, in articulation with two different policy programs before and after the late 1970s. Consequently, there was a shift of partners in the actor-constellation that argued for an extended auditor role. In the period from the mid-1960s to the mid-1970s, the idea was that auditors could be used in developing "industrial democracy" and the state control of the economy. This made the labor unions the natural coalition partners. From the late 1970s the central issue in relation to which the auditor role was discussed was the "economic crime complex", and accordingly the legal authorities became the central partner for the Social Democrats during this period.

The shift in the social-democratic framing away from "the interest of the welfare state" to "the functioning of the market" did not, however, parallel the change of policy programs with which it was articulated. The demands in the late 1960s and early 1970s for state-appointed tax-controlling auditors were blocked by another social-democratic frame, according to which the welfare state was dependent on a "modernized" economy. When economic crime subsequently became the central theme for the problematization of auditing, the framing was

still “the development of the welfare state”. The Social Democrats’ *Third Way* program of the early 1980s signaled their turn to a (soft) neo-liberal economic policy, but it was not until the mid-1990s that the regulation of auditors’ control function was re-framed in such terms. Thereby, the state and public interest in a duty to report on crime was de-emphasized on behalf of “the functioning of the market” and the protection of “lawful competition”.

There was an even stronger continuity of frames and actor-constellation that opposed an extended auditor role. This constellation consisted mainly of the professional accountancy bodies, the trade and business organizations, center-right political parties and, at some points, experts and academics. Their framing of the issue resonated with liberal economic ideas and the ideal of a “free” profession (cf. Puxty et al., 1987), emphasizing “economic efficiency” and “trust” between the profession and its clients as well as the international confidence in Swedish corporations. From this perspective, an extension of the auditor control function was counterproductive, since it would undermine trust and ethics. Only if auditors remained at a distance from the state interest and kept to “traditional auditing” would they help to maintain the efficiency of the market and its foundation in trust and morality.

The accountancy profession’s strategy on the issue was quite defensive, principally protecting its position in line with the theoretical assumptions of “the professional project” (Macdonald, 1995). With the exception of the split between SRS and FAR concerning state authorization, the official position of the profession was rather stable and unanimous. The major reform proposal from the profession – besides FAR’s belief that the supervision would be better performed by a semi-private foundation – was that statutory audit should encompass more companies. That is, as long as this extension was made at a pace which did not open up the

professional jurisdiction to "usurpation" by competing professions, or to a further "internal differentiation" with new levels of authorization (cf. Abbott, 1988, p. 117ff.; Murphy, 1983).

Many defensive arguments and frames echoed the debate in other countries: that the auditor cannot detect fraud which is consciously committed by the management, that such scenarios were a part of the "expectation gap", that such duties would create a "police role" which would undermine the client's trust in the auditor, etc. However, in contrast to the British and American professions, the Swedish accountancy bodies did not effectively forestall the regulation by establishing stronger self-regulation with guidelines to uncover fraud and irregularities (Humphrey, Turley & Moizer, 1993; Power, 1993b; Sikka, Puxty, Willmott & Cooper, 1998; Sikka & Willmott, 1995; Tweedie, 1991).

As noted in the theoretical discussion, Halliday & Carruthers (1996) claim that six conditions are crucial for state utilization of a profession. In Sweden, only one of them was fulfilled at the time that the duty for auditors to report on economic crime was established: the state's capacity to control such crime was limited, and the auditors could deliver a universal control of stock corporations. The five other conditions were not fulfilled. The clients and the profession were not particularly weak. The issue was quite technical and did not really concern "high public stakes" – on the contrary, the duty was enacted partly due to the fact that the interests of the state and the public were de-emphasized. And, finally, the government was not compelled to downsize the state, or to transform "state-integral" institutions without having the resources to do so. The two latter conditions existed during the center-right government of 1991-1994, but its attempt to create a "free" profession through privatization and deregulation was unsuccessful.

These theoretical conditions seem to be too general to account for the national differences in actor- and power-constellations, and the relatively stable conceptions that characterize this kind of field. Such factors shape the actor-constellations' identities and strategies, as well as success in framing their "projects" in reasonable and consensual ways. The national differences depend on the shape of the existing economic and professional systems, and on what regulatory and policy tradition is "taken for granted". In the Swedish case, the significant context comprised the continuity of strong social-democratic governments, the tradition of an interventionist state and professionalization "from above", and the tradition of pragmatic consensus-oriented corporatism. It is in relation to such traditions that "policy entrepreneurs" frame their arguments so that they will not be seen as self-interested strategies but acquire broad recognition (Fligstein, 2001b).

What other factors, then, could have promoted the lengthy blockage and subsequent breakthrough in the utilization of auditors as professional "state agents" in Sweden? One reason for the blockage of the attempts at extending the auditor role was that the profession, early on, held a strong position of expertise in Government inquiries, and gained support from the business community (Jönsson, 1991). Still, as the accounting profession grew stronger numerically, the state interest in the profession grew alongside. Paradoxically, the professional growth did produce the only condition of Halliday & Carruthers that was fulfilled: the auditors could deliver a universal control of stock corporations.

Another central factor was the articulation of the extended auditor duty with more general policy programs and legitimate social interests. The "industrial economy" policy of the 1960s and early 1970s yielded such a possibility, but at the heart of the issue was a conflict of interests. This rendered a consensual solution more or less impossible, which was a problem

considering the corporatist and consensus-oriented Swedish policy tradition (cf. Puxty et al., 1987). In addition, there was an internal conflict among the Social Democrats between the economic policies of "democratization" and "modernization". Accordingly, pro-welfare state arguments were used both to advocate and to block the extension of the auditor role.

As long as the extended control duty reasonably could be framed as a state interest, in opposition to corporate interests and markets, the attempts at regulation were largely unsuccessful. The economic crime complex increased the possibility of framing an extended audit control in a less conflict-oriented way for the Social Democrats, and of mobilizing the legal authorities as a coalition partner. In addition, during the 1990s the social-democratic government successfully incorporated some of the main arguments of the opposition in its policy (cf. Lindgren, 2002). This definitional elaboration de-emphasized the conflict between state interest and market principles, and the extended auditor duty was technically and rhetorically re-framed so that it aimed at protecting markets and clients.

This re-framing of an extended auditor duty was conditioned by a transformation of the conceptions of the economic policy alternatives. The period from the late 1960s to the mid-1990s represents a slow change from an interventionist state project to an "advanced liberal" steering with the help of market mechanisms (Miller & Rose, 1993; cf. Power 2000). Even the latter is dependent on a strong state stabilizing the economic system and its functions, but the ideal form of steering is quite dissimilar. The analysis of the auditors' duty to report on economic crime shows that the use of professionals to organize, control and legitimate the market economy can be added to the growth of other forms of "governing at a distance" in Sweden, such as responsive and enforced self-regulation, various forms of governance,

market discipline, evaluative techniques, business ethics, codes of conduct, etc. (cf. Larsson 2003).

The re-definition of professional tasks was not effectively blocked through the counterargument that it would destroy the "traditional" or "natural" auditor role. The social-democratic government and inquiry commissions claimed that the auditors' responsibility towards other interests was long since established, and that it already encompassed control of such kinds without negative consequences for the profession or the industry. Furthermore, this was defined as being in line with international developments. Thereby, the duty to report on crime could be framed as a "natural" and inevitable development of the auditor role, since it was already on the way. This was somewhat ironic, given that the opposing frame signaled the need to maintain the traditional "natural" auditor role.

Such rhetoric, in which legislative change is framed as "modernization" or "adaptation" to international developments, is a way of decoupling the issue from political interests. The issue was thereby transformed into a battle concerning which countries to use as a reference point. As shown, the strategy to fight the regulation by reference to other countries on the grounds that it was a deviation from other Western market economies was neutralized by the fact that both camps could argue for their position as agreeing with the international developments. The argument for state regulations was primarily made with reference to the Scandinavian and continental trend, whereas the argument against regulations of this kind referred chiefly to the Anglo-American debate.

To conclude, the significance of international developments, as well as of system-internal shocks such as scandals and crises, was conditioned by relatively stable conceptions and

institutional constellations specific to this national field. Instrumental for the success of the different claims seems to have been to what extent they could be fitted into the main economic policy issues on the agenda, and elaborated so as to resonate with established notions of what constituted a "natural" and "unproblematic" development of auditing in relation to major social interests.

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