

# **An Analysis of Submissions on Proposed Regulations for Review Assurance in Finland**

## **Abstract**

The purpose of this paper is to analyze comment letters submitted in response to the Finnish Ministry of Economic Affairs and Employment's memorandum that suggested a general review instead of a statutory audit for small companies. In the EU, the trend has been to relax the regulatory burden on small companies, and the statutory requirement for auditing in small firms has been increasingly identified as an administrative burden. A content analysis of submissions is conducted to identify the extent of the support for and the arguments against the proposed lighter review. This study contributes to a debate by providing insights into how a particular country dealt with the pressure to reduce the statutory burdens on small and micro companies. The results reveal that the lobbying arena for a general review is a complex one, involving competing interests, tensions and perspectives. The paper is, to the best of the knowledge, the first to examine the content of comment letters in the context of a lighter review for small companies. The international audience might benefit from the results concerning lobbying in the context of the widely discussed issue of reducing SMEs' accounting and auditing obligations.

Keywords: review assurance; harmonization; regulation

## **1. Introduction**

The prior literature has emphasized that, instead of a statutory audit requirement, a “limited audit,” “lighter review,” “statutory review” or “extended review” could be used to assure the quality of small firms’ financial information. For instance, Vanstraelen and Schelleman (2017) emphasized that, instead of an audit, a review may be a more cost-effective way for some private companies to add credibility to their financial statements. In this regard, the Federation of European Accountants (FEE, 2016) also concluded that the current and future needs of SMEs could be met with a number of alternative service offerings (e.g. a review) besides statutory audits. Review engagement would allow small firms to reduce their administrative costs (European Commission, 2010).

In general, review engagement could mean an audit having a narrower scope than a full audit, usually being confined to certain accounts or operations. For instance, it has been argued that a review by an auditor will not be an audit in the form that we know today, in which the auditor performs, for example, control of the inventory. It will instead be tailored to the requirements of SMEs (FEE, 2016). The auditor will primarily ensure, by means of analyses and inquiries, that the financial statements are free from material misstatement. This review could thus be more beneficial and useful for SMEs than an audit because it has been suggested to decrease the administrative burden on SMEs (e.g. Vanstraelen and Schelleman, 2017).

The aim of this article is to contribute to the understanding of the role of assurance and auditing of small companies in society. To achieve this objective, this study provides a critical analysis of the audit and assurance elements of the reforms proposed by the Finnish Ministry of Economic Affairs and Employment in 2020. Hence, the goal is to examine the submissions made by interested members of the community regarding the reform proposal. Through this analysis, the aim is to provide a better understanding of how a particular country dealt with the international pressure to reduce the statutory burden on small and micro companies. This article seeks to complement the previous studies on comment letters by extending the research to a setting that has not previously been examined. The lobbying for a general review has not been investigated in the accounting literature. This study contributes by providing a critical analysis of the

recently proposed developments affecting auditors, their clients and financial report users in Finland.

## **2. Background and research questions**

The discussion around small firms' administrative burden has been very active in Scandinavian countries and at the EU level during the last decade (e.g., Accountancy Europe, 2019; Ojala *et al.*, 2016; Weik *et al.*, 2018). For instance, policy makers in the EU and Finland have suggested that the requirement for auditing in small firms has increasingly been identified as an administrative burden. Therefore, in April 2016, the Ministry of Economic Affairs and Employment established a working group to examine inter alia the auditing and statutory audit requirements for small firms in Finland. As compared to other European countries, the audit thresholds in Finland are low (balance sheet total 100 000 euros, revenue 200 000 euros, personnel 3). Also entities other than limited liability companies are subject to statutory audit. In January 2018, the Ministry of Economic Affairs and Employment released a memorandum<sup>[1]</sup> suggesting that the audit exemption thresholds should be increased. After the publication of the memorandum, the proposal was sent twice to different official quarters for comment.

Based on the feedback received in the comment letters from the two consultation rounds, the Ministry refrained from submitting the proposal to increase the audit exemption thresholds to the Finnish Parliament. To clarify, the majority of the comment letters were against the proposal to increase the audit exemption thresholds. However, in the comment letters, several interest groups were in favor of investigating whether a lighter form of auditing could be introduced for small companies. In other words, instead of requiring a statutory audit, small firms will need to undergo a general review process.

To investigate the features of the general review, the Finnish Ministry of Economic Affairs and Employment set up a broad-based working group with the mandate mentioned above. The working group's term of office was March 1, 2019–February 29, 2020, and it was extended until May 31, 2020. During this term of office, the working group held 15 meetings. After conducting the examination, it released a new memorandum<sup>[2]</sup> that contained a draft regulation model concerning a lighter form of auditing for small and micro companies. The

memorandum concerning the lighter review was released in June 2020. According to the draft, companies (limited liability companies, limited partnerships and general partnerships) and cooperative associations that meet the criteria of a micro-undertaking laid down in the Accounting Act could, under certain conditions, decide to carry out a general review that is lighter than an audit. The amendment would not affect the obligation to appoint an auditor, but it would create an alternative form of statutory verification alongside the audit. The general review would be based on an international standard on review engagements (ISRE 2400) and would, as an additional national requirement, include the verification of the equivalence of certain tax information. The purpose of the planned reform is to bring clarity to and proportionate the provisions regarding audits and to provide the end-users of audit reports with more information about the method of the verification. Another objective is to ease the statutory obligations of small and micro companies.

After the publication of the memorandum, the proposal was sent to different official quarters for comment. The proposal concerning the general review was open for public commentary from September 9, 2020 to November 9, 2020. The comment letters submitted to the Ministry of Economic Affairs and Employment are publicly available, providing an opportunity to examine, analyze and review their content. Prior studies have emphasized the importance of inspecting the content of comment letters (Bamber and McMeeking, 2016; Reuter and Messner, 2015; Stenka and Taylor, 2010). Comment letters contain a large amount of valuable information that researchers can utilize in their analysis. Therefore, this study aims to conduct qualitative research by examining the following research issues:

- (1) How did the interest groups react to the proposal concerning the lighter form of auditing that could be introduced for small companies?
- (2) What are the views on the advantages of a lighter form of auditing that could be introduced for small companies?
- (3) What are the views on the disadvantages of a lighter form of auditing that could be introduced for small companies?

This paper touches on a timely topic because the consequences of the review engagement reform are likely to have substantial effects for auditors, stakeholders and other users of financial statements in the Finnish context. Therefore, it is important to examine the regulatory process around review engagement in the local context. This study's results might also benefit the international audience, for instance countries that are considering alternatives to statutory auditing for small firms.

### **3. Theoretical context**

#### *3.1 Lobbying*

McLeay et al. (2000) suggested that the choice of appropriate accounting regulation reflects, at least in part, a social decision whereby regulators attempt to manage conflict among competing constituencies by selecting the most socially acceptable solution. McLeay *et al.* (2000, p. 79) also stated that “the political nature of accounting rule development naturally raises questions concerning both the responsiveness of policy makers to constituent pressure and the distribution of power among competing interest groups”. Lobbying can be seen as relevant because participation in the rule-making process is necessary to ensure the “legitimacy” of the rule making. Lobbying also indicates the extent of constituents’ interest in an issue.

Prior research has suggested that the examination of comment letters is useful and informative for national regulators (Gros and Worret, 2016; Hoffmann and Zülch, 2014). Moreover, it has been implied that interest groups and rational individuals are likely to engage in lobbying activities if there are expected benefits (Sutton, 1984). Lobbying in the regulatory process is defined as all the actions that interest groups take to influence the rule-making process and hence the rule-making body (Sutton, 1984).

Furthermore, prior research has highlighted that interest groups’ lobbying activities play a crucial role in the development and implementation of accounting standards in addition to the auditing rules and regulations in general (Gros and Worret, 2016). Therefore, lobbying can be considered as an essential part of the whole rule-setting and policy-making process (Giner and Arce, 2012; Gros and Worret, 2016; Reuter and Messner, 2015). Prior research has identified direct lobbying methods. For instance, Orens *et al.* (2011) clarified that submitting a

comment letter to the standard setter in response to a public request is a formal lobbying method. In other words, direct lobbying means submitting comment letters within a public consultation process, and this is the case investigated in the current study. Public consultation processes are well known in the field of accounting, in which they are part of the due process of standard setters, such as the International Accounting Standards Board (IASB) (Reuter and Messner, 2015). In addition, the submission of comment letters has been suggested to be one of the most accessible methods and the most evident action for participation in the regulatory process (Reuter & Messner, 2015).

Many prior studies have examined lobbying in the case of the adoption of accounting standards (Bamber and McMeeking, 2016; Georgiou, 2010; Larson, 2008; Orens *et al.*, 2011). Further, some studies have explored the impact of lobbying activities on the final regulatory outcome with regard to potential lobbying success (Gros and Worret, 2016; Hansen, 2011; Kwok and Sharp, 2005). For instance, Gros and Worret (2016) examined the lobbying activities in the consultation process of the European Commission Green Paper on audit policy in 2010. They found that lobbying was used strategically to reduce information asymmetry. Their results suggested that auditors and preparers exhibited greater participation in the consultation process of the EC Green Paper on audit policy than other interest groups. Gros and Worret (2016, p. 382) concluded that “interest groups that have informational advantages regarding the relevance and possible effects of the proposed regulations and that are potentially affected the most by regulatory changes have higher incentives to engage in lobbying activities.” Therefore, their study explains the informational role of lobbying. However, prior studies have not analyzed the lobbying argumentation in the context of the regulatory reform of review engagement and the influence of lobbying on the final regulatory outcome. Therefore, this study fills this gap in the accounting and auditing literature.

### *3.2 Demand for assurance*

According to Andersen *et al.* (1993), in line with agency theory (Jensen and Meckling, 1976), information asymmetry and the demand for external monitoring are among the reasons for conducting an audit (Tabone and Baldacchino, 2003). Correspondingly, Minnis and Schroff (2017, p. 479) indicated that economic justifications “are related to the premise that the market solution is unlikely to

result in the socially desirable level of disclosure and transparency.” Thus, they highlighted the costs and benefits of private company reporting regulation; however, they did not clearly indicate which solution would be preferable in terms of maximizing social welfare. This is because the case for mandatory audits in small and private companies is less clear as these companies exist in different environments in which stakeholders tend to be closer to the company and are able to demand extra information at once if needed (Dedman *et al.*, 2014). A socially accepted regulatory solution concerning the accounting and auditing obligations for SMEs needs to be designed to serve the public interest rather than special interests (Minnis and Shroff, 2017). Politicians and regulators need to understand the causes and consequences of private company reporting when trying to gain the most favorable level of regulation (Gipper *et al.*, 2013).

However, those views that promote the reduction of statutory obligations for SMEs emphasize that it is crucial for the accounting systems applied by small enterprises to meet their needs, providing the necessary information while avoiding an unjustified administrative burden (Tabone and Baldaccino, 2003). It has been suggested that a reduction of statutory obligations can be achieved by cutting red tape and unnecessary regulations and, in doing so, giving SMEs time to focus on their core competences (Small and Medium Entrepreneurs of the European People’ Party (SMEs of the EPP), 2019). Therefore, the opposing reasoning emphasizes that mandatory audits for small companies cause extra bureaucracy that should be avoided (Sian and Roberts, 2009; Tabone and Baldacchino, 2003). Hence, reducing the administrative burden is necessary due to the general political agreement that the EU law should be simplified and better enforced to reduce the administrative and financial burdens of SMEs (SMEs of the EPP, 2019). Accordingly, it should be underlined that the users and user needs of SME financial reports are not the same as those for larger entities (Dedman *et al.*, 2014). For instance, it has been suggested that the regulations, rules and procedures designed for large companies impose disproportionate if not unbearable burdens on SMEs, which lack the economies of scale characteristic of larger firms (SMEs of the EPP, 2019; Weik *et al.*, 2018). Currently, in most jurisdictions, SMEs are subject to relaxed regulation, determined at the national level and taking specific economic and local conditions into consideration (Niemi *et al.*, 2012). Vanstraelen and Schelleman (2017) emphasized that, instead of an audit, a review may be a more cost-effective way for some private companies to

add credibility to their financial statements. Relatedly, Clatworthy and Peel (2021) emphasized that audit is not the only option available to small firms. Private small companies may choose to appoint an external accountant to prepare and report on their statutory annual financial statements. This offers a lower level of assurance than a full audit, but comes at a lower cost (Clatworthy & Peel, 2021; Stewart, 2017)

### *3.3 Neo-institutional theory and accounting practices*

In their theory-building study, Durocher et al., (2007) suggested that conceptual models and frameworks from organizational theory and organizational behaviour literature could be used to expand the understanding of interest groups' participation in the standard-setting process. For instance, Carpenter and Feroz (2001) investigated institutional theory and accounting rule choice and they suggested that institutional theory is complementary to economic theory.

In the accounting and auditing literature, neo-institutional organization theory has been used to explain the adoption of accounting and auditing practices in different contexts at the country level (Touron & Daly, 2020). For instance, Baker *et al.* (2014) discussed and analyzed the recent evolution of statutory auditing regulation from a neo-institutional theory perspective. They examined the regulation of statutory auditing in the USA, France and Canada. Baker *et al.* (2014, p. 371) highlighted that “the increasing apparent similarity in the regulatory structures for statutory auditing in these three countries is the result of external pressures from global capital markets for standardized regulatory practices.” Most importantly, they stated that the regulation of statutory auditing is vital to society to provide the general public with accurate and reliable information. Therefore, they underlined the practical implications of their result, which suggested that gaining a better understanding of the regulatory structures of statutory auditing advances the public interest. Hence, Baker *et al.* (2014, p. 372) stated that, “while the avowed purpose of the regulation of statutory auditing is to protect the public interest, the way in which this purpose has been organized and articulated has varied from country to country.” Examining the neo-institutional theory and auditing literature in greater depth, Boolaky and Soobaroyen (2017, p. 62) asserted that “the neo-institutional theory is based on the belief that organizations respond to pressures from their institutional environments and adopt structures and/or procedures that are socially accepted as being the appropriate organizational choice.” Hence, the neo-institutional perspective is based on the premise that

organizations operate by conforming to societal expectations to achieve legitimacy (Meyer and Rowan, 1977).

To summarize, various aspects of neo-institutional theory have provided a theoretical framework for research in auditing, including research focusing on audit practices (Robson *et al.*, 2007), the regulation of statutory auditing (Baker *et al.*, 2014), the adoption of the International Standards on Auditing (Boolaky and Soobaroyen, 2017) and the auditing and reporting quality (Boolaky *et al.*, 2018). Baker *et al.* (2014, p. 373) also emphasized that “one of the basic premises underlying neo-institutional theory is that ‘organizations’ are socially constructed, and that they are subject to pressures which influence the design and operation of their regulatory structures.” Similarly, this study uses the word “organization” to mean the “regulatory structures for auditing and assurance.” It uses the elements of neo-institutional theory, namely coercive, mimetic and normative isomorphism, to understand and evaluate how the regulatory structures for a lighter form of auditing for small companies are directed. Therefore, this study also investigates the review engagement in Finland through neo-institutional lenses.

#### **4. Research design**

The proposal concerning a general review in Finland was open to public commentary from September 9, 2020 to November 9, 2020. In all, 42 comment letters were received. All the comment letters were categorized, reflecting the type of respondent that they represented, and the following categories were used: professional accounting services (Big 4 and mid-tier audit firms), professional bodies, governmental institutions, individuals (academics and auditors) and others (associations, lobbying organizations and supervisory authorities). Table I presents the respondents included in the analysis.

INSERT TABLE I HERE

##### *4.1 Content analysis and general remarks*

Due to the nature of the research questions, a qualitative content analysis was conducted, as suggested by Gioia *et al.* (2013) and Reuter and Messner (2015). Reuter and Messner (2015, p. 377) stated that “content analysis requires capturing the meaning behind the words rather than just counting them.” The qualitative research strategy provides an authentic setting and employs the constructs and

meanings in use by social actors to explain their interactive experience of social reality. Hence, the contents of the comment letters concerning the general review are valuable to know the agreement or disagreement with the proposal and also the precise suggestions and arguments from the interest groups.

#### *4.2 Data for analysis*

The documentary evidence consists of reports published on the websites of the Ministry of Economic Affairs and Employment. Hence, this study analyzed 42 comment letters.<sup>[3]</sup> Through an interpretative lens, the overall purpose was to introduce, summarize and analyze the arguments regarding the advantages and disadvantages of the general review. This study had no predispositions concerning the issues that would be covered. Moreover, the objective was to analyze the findings through neo-institutional theory.

#### *4.3 Inductive analysis*

The inductive analysis suggested by Gioia *et al.* (2013) has recently been utilized in many accounting and auditing studies (see, for instance, Biygautane *et al.*, 2020; Masum and Parker, 2020). The use of the “Gioia method” has become a common way to provide a structured, and thus credible, analysis in qualitative accounting research (Hoque *et al.*, 2017) because Gioia method introduces a highly disciplined coding and analyzing process, presenting output with a three-order hierarchical data structure.

Hence, the qualitative data were analyzed to convey similar meanings with the aim of generating the first-order concepts. The purpose is to start with the data and identify patterns that emerge from it. Having established the first-order categories, the next phase of the qualitative analysis involved identifying links among the first-order concepts to group them into second-order themes. This phase of the analysis was equally iterative, moving back and forth between the first-order descriptive concepts and the evolving patterns in the data until conceptual patterns were developed for the second-order themes (Gioia *et al.*, 2013). Once a set of second-order themes had been uncovered, the final phase was to investigate whether it is still possible to distill the emergent second-order themes even further into second-order “aggregate dimensions” (Gioia *et al.*, 2013). The aggregate dimensions represent the overarching themes obtained from the

data analysis. Gioia (2020) suggested that relevant interpretive study should generate a plausible, defensible explanation of some phenomenon of interest. Therefore, in the current study, the aggregate dimensions explain the wider picture behind the discussion related to the general review in Finland.

To summarize, when the comprehensive set of first-order terms, second-order themes and aggregate dimensions are uncovered, then the basis for putting together a data structure is possible. The data structure provides a way of understanding how all the terms, themes, and dimensions relate to each other. It amounts to a graphic representation of how the analysis progressed from raw data terms to themes and to dimensions when conducting the analyses. It has been argued that the data structure is the most pivotal in the analysis (Gioia, 2020). Data structure portrays a static picture of very dynamic phenomena.

## **5. Findings**

The following section contains the findings. First, an overview of the participants is presented. Second, the results of the qualitative analysis of the submissions are reported. Appropriate representative quotations are provided to exemplify the arguments in opposition to or in favor of the general review. There is general agreement among qualitative scholars that quotes should be presented verbatim as much as possible. However, the quotes have been carefully edited to improve the readability but without changing the meaning. Changing the wording of a quotation always risks violating the authenticity principle; therefore, this process has been conducted thoughtfully. In addition, the quote selection is distributed across participants to represent the data set properly. According to Gioia (2020) the reporting the findings should be a careful and faithful presentation of evidence. That is the reason why the findings section is dominated by quotes from the comment letters.

### *5.1 Overview of support and opposition*

To summarize, the majority of submissions (61.9 percent) were against the planned reform. One-third (31.0 percent) of the submissions saw potential in the reform, and the analysis revealed a few respondents (7.1 percent) who did not

comment on the issue. Table I presents the distribution of the support and opposition.

### *5.2 Overview of the interest groups*

Based on the function and the legal status of the lobbyists, it was possible to segregate the respondents into different groups. The accounting and auditing profession includes, for instance, Big 4 firms, mid-tier audit firms, recognized supervisory bodies and individual auditors. The public authorities include national ministries, governmental institutions and auditor oversight bodies. The interest group of academics comprises researchers and individuals from academia. The interest group “others” contains respondents who could not be attributed to one of the other interest groups. Hence, the political and institutional environment surrounding the current Finnish case is complex because there are formal and informal institutions and entities that are aiming to affect to the regulatory proposal in different levels. The first level is authority level, the second level is organizational level, which includes national accounting advisory bodies and accounting and audit associations. The final and third level is the participation of constituent level (business and investors).

An overview of the participating interest groups (Table I) shows that the most comment letters were submitted by the accounting and auditing profession (15 of 42 lobbying participants in the sample, or 36%). This finding is consistent with the prior literature (i.e. Gros and Worret, 2016). The active involvement of the accounting and auditing profession is reasonable because this group might have an informational advantage and be affected the most by future changes in audit regulation. Furthermore, Clacher et al., (2021) suggested that accounting and audit firms lobby to protect the profession; thus, it could be expected them to engage actively in the current lobbying process.

Public authorities represent the second-highest participation rate. These are mostly national authorities and national auditor oversight bodies (12 of 42 lobbying participants in the sample, or 29%). In the current case, the Ministry of Economic Affairs and Employment sent the memorandum to different public authorities and asked for comments about the reform, and this might explain the participation. In addition, in the current study, public authorities might have extensive knowledge of national peculiarities related to micro companies and their audit services that they would like to highlight and emphasize. For instance, the

tax authorities highlighted the interface between assurance of financial statements and taxation, and police authorities emphasized the association between the auditing of financial statements and financial crime.

A comparatively low level of participation in the current lobbying case was exhibited by the academics (four of 42 lobbying participants, or 10%), and these findings are partly consistent with those of prior studies (i.e. Larson and Herz, 2011). The incentives for academics to share their thoughts and contribute to lobbying seem to be limited, and academics may think that the cost of participation, such as the time and effort involved in preparing a comment letter, is too high (Tandy and Willburn, 1996). However, Larson and Herz (2011) stated that academicians are seen as one group that has the potential to have a strong positive influence in the shaping of accounting regulation. Therefore, it is constructive that at least few academicians have participated to the consultation process in the current case.

To summarize, the accounting and auditing profession was more involved in lobbying activities within the current lobbying case than the other interest groups. Thus suggesting that auditing profession is aiming to lobby to transfer valuable information to regulators. Hansen's study (2011) supports this view. Furthermore, auditing profession might use public interest arguments to have their voices heard. Relatedly, prior literature suggests that auditors are expected to lobby to protect their own interest according to their inclination toward conservatism (Mora et al., 2015). Hence, reasons for accounting and auditing professionals' participation may include, for instance, the feeling of professional involvement. Therefore, the normative pressures exerted by the accounting profession seem to have prevailed in the current regulation process. Therefore, the normative pressure stemming from the norms and values of the accounting profession also influence the degree to which a nation will adopt the international best practice (Hassan *et al.*, 2014). Mir and Rahaman (2005) suggested that professional power and legitimacy are created by the activities of the professions, and this has been identified as normative isomorphism. To clarify, the active involvement of the accounting and auditing profession in the regulatory process of general review emphasizes the role of the normative pressures.

### *5.3 Arguments stated by the supporters of the reform*

A minority of the submissions supported the new form of review; however, their support was mainly conditional. Within the group, the views were polarized, the new form of review being supported if the additional national requirements are not included in the reform. Interestingly, some of the supporters then required even more national characteristics to be included if the general review is adopted. These findings indicate that the submissions had different opinions about how to implement the general review.

The respondents who did not support the additional national requirements highlighted that the objective of the reform was to lighten the regulation and not to tighten it. The submissions highlighted that these national requirements might increase the costs of assurance services for small companies. Moreover, if national characteristics are added, the harmonization of regulation is hindered. It was stated that an internationally recognized way to decrease the administrative burden should be carefully considered in Finland. Hence, the respondents stated that ISRE 2400 should be the basis for the reform and that there is no need to add special national characteristics. This suggestion can be interpreted through neo-institutional theory and more precisely through mimetic isomorphism. Mantzari *et al.* (2017, p.187) defined mimetic pressures as occurring “when an organization attempts to imitate a more successful referent organization,” and Nurunnabi (2015, p.140) clarified that “mimetic isomorphism arises from the tendency of organizations to imitate each other’s best practices.” To reflect this, the submissions suggested that Finland should mimic the international best way to decrease the administrative burden on small companies and adopt the general review using ISRE 2400. The following quotes representing respondents’ arguments in the comment letters elucidate this:

A general review is a functioning and practical assurance service. The International Auditing and Assurance Standards Board (IAASB) has developed International Standard on Review Engagements 2400 (ISRE 2400). ISRE 2400 is used internationally and, therefore, it should work in Finland as well. Due to these arguments, the adoption of the ISRE 2400 standard and the general review is justified in Finland instead of the statutory audit for smaller companies. (Comment Letter (CL) 10)

It is not appropriate for review engagement to be confounded with additional elements (for instance, auditing of tax information). This

additional task is not part of the ISRE 2400 standard, and it confuses the fundamental character of the review engagement, increases the cost of the review, complicates the regulation and increases the expectation gap. (CL10)

The national special characteristics suggested (the verification of the equivalence of certain tax information) are not supported. These are not decreasing the administrative burden; instead, they are causing more work for auditors and more expense for firms. (CL28)

As mentioned, there were also respondents who required even more national characteristics to be included if the general review is adopted. These submissions stated that additional requirements are needed to ensure the accuracy of financial statements. The following quote illustrates this:

The supplementary confirmations are related to the properties and security values, owners' and management's personal liabilities, bank balances and inventory valuations, and the highest receivables should be verified. In addition, the loan arrangements and loan terms between the shareholders should be checked. These are needed to achieve the necessary reliability level. (CL14)

The certified bookkeeper should be required to perform the bookkeeping if the firm is choosing a general review instead of a statutory audit. (CL14)

Due to the concerns related to the expectation gap, the comment letters also emphasized that the meaning of review engagement and the procedures that it contains should be clearly articulated, as the following quotes indicate:

Clients and readers of the general review report have to have a crystal clear picture that review engagement does not correspond to statutory auditing; it is a totally different form of assurance (it focuses only on financial statements). (CL10)

The criteria and the content of the general review should be so clear that there is no discretion left and the outcome is real cost savings and a

decreased administrative burden. Otherwise, it is clear that there is only one form of assurance (traditional audit). (CL17)

Within this group of comment letters that experienced the reform as having potential, it was positively highlighted that organizations would eventually be able to choose the form of assurance that benefits them the most. It was also emphasized that, when ownership, management and working are concentrated in the same person, statutory auditing does not serve the purpose of providing independent third-party verification for the owner. The following quotes represent these points:

The Finnish business structure suggests that Finland is a country of small businesses and, for these small companies, the general review could fit their needs better than an audit. (CL7)

It is warmly welcomed that firms could choose according to their own interest whether they need a general review or a traditional audit; then, the different circumstances of firms could be considered when deciding on the form of assurance. (CL26)

The comment letters stated that, if the general review is adopted, it might mean that the financial reporting quality decreases. However, it was highlighted that the general review would still be a reliable and sufficient form of assurance for the large amount of micro companies that take good care of their duties. (CL26)

To summarize, the submissions that looked on the bright side of the reform were still very skeptical about whether the reform will achieve its objectives. Therefore, they even encouraged the authorities to continue the examination work. Furthermore, it was stated that Finland should follow the International Auditing and Assurance Standards Board's (IAASB) development work concerning the audits of financial statements for a less complex entity (LCE). The following quotes represent these thoughts:

The IAASB plans to create a separate standard<sup>[4]</sup> for audits of financial statements of a less complex entity (LCE). Finland should follow this

development work because it can be expected that these international standards for LCEs could also work in the Finnish context. (CL28)

The draft law should be developed further. It should be much clearer and more practical if the Finnish Ministry of Economic Affairs and Employment carries on with the reform. (CL11)

Finally, the submissions also emphasized that the impact of COVID-19 on the reform should be taken into account. However, the views about how this could be achieved were divergent. Firstly, it was highlighted that, because of the COVID-19 pandemic, the regulation should be lightened to increase economic growth. It was stated that Finland needs significant economic growth to balance the economy due to the increased public expenditure due to COVID-19. On the other hand, it was stated that the reliability of financial statements is now more important than ever and therefore that the additional national characteristics should be included in the reform. Because of the financial crisis caused by COVID-19, it can be difficult to evaluate the viability of a company without an adequate audit of financial information. The auditor's risk assessment, and whether it needs to be revised, should be carefully considered under the current circumstances. Furthermore, the role of audited financial statements is extremely important when a company unexpectedly needs outside financing. The following quotes describe these diverse thoughts:

Finland needs fast measures to boost the economy because of the recession caused by the COVID-19 pandemic. Economic growth should be spurred by regulation solutions that encourage entrepreneurship, innovation and job creation. The requirements of the current regulation should be critically evaluated to lighten especially the statutory burdens for small companies. (CL15)

Banks are the most common source of external finance for Finnish micro firms. Because of the COVID-19 crisis, the authorities decided to lower Finnish credit institutions' macroprudential capital requirements, which supported favorable financing conditions. Under these circumstances, the quality and reliability of financial information should be maintained because it is important that the outcome is not significant loan losses for

banks. Hence, banks need to have reliable information about the current financial situation of companies because there is also encouragement to increase lending to small companies. However, the current suggestion about a general review does not give enough assurance about the reliability of firms' financial information. (CL14)

#### *5.4 The main arguments stated by the interest groups that opposed the adoption of a general review*

The majority of submissions (61.9 percent) did not support the reform of the general review. The general review was seen as inappropriate and problematic for a wide range of reasons. For instance, the submissions argued that the prepared proposal does not decrease the statutory burden and administrative costs for small and micro companies. This was strongly emphasized because the main objective of starting to examine the suitability of the general review was to decrease the costs and red tape for small firms. This objective stems from the EU level, at which the relaxation of the regulatory burden rests on the assumption that the reduction of statutory requirements for small companies will boost the economy of Europe (European Commission, 2010). Moreover, attempts to reduce the administrative requirements should strengthen companies' competitiveness and help more companies to grow and employ more people. However, the submissions highlighted that the current prepared proposal will not achieve this objective.

The pressure to decrease the administrative burden can be interpreted as coercive pressure because the European Commission has suggested that the regulatory burden should be reduced and the Finnish regulators should follow this guidance. Hence, it can be suggested that the main formal coercive pressure is exercised by the European Union. It has often been argued that accounting and auditing practices in EU member states are likely to be influenced by regulations at the EU level (Maijor and Vanstraelen, 2012). Hence, coercive pressures refer to the enforcing regulative activities of international institution, e.g. the European Union (Pirinen, 2005).

Moreover, it was emphasized that the implementation of the general review would decrease the quality of financial information and hence weaken the position of stakeholders and that this is not acceptable. However, the submissions were fragmented regarding the development of the reform. It was stated that the examination of the review has been important but the outcome is not preferable.

Interestingly, after the careful consideration of the reform and its pros and cons, the submission suggested that a moderate increase in audit exemption thresholds would be an even better solution than the adoption of the general review. To exemplify this, the following quotes representing respondents' arguments in the comment letters are collected:

The reform does not decrease the administrative costs and the review engagement provides only a moderate level of assurance. This means that the level of assurance weakens, while the costs remain the same. (CL38)

Credible and audited financial information is very relevant to the decision making of stakeholders. However, the review engagement provides only a moderate level of assurance that the information subject to review is free from material misstatement. This would be a clear weakening of the current situation (to obtain reasonable assurance on the financial statements). (CL18)

The reform could even weaken the current situation. It is useless for stakeholders that "the financial statements give maybe an adequate picture about the company." (CL20)

The reform would remove the requirement to conduct an audit from 40,000 companies. This would decrease the general trust related to financial information's accuracy and operations' conformity to the law. (CL23)

The review would only cause confusion and increase/deepen the expectation gap among stakeholders. This is not optimal for the public interest. (CL33)

If the reform was to come into effect, it would mean that there would be two different levels of assurance services: general review and audit. The submissions highlighted that the two different levels of assurance may cause confusion and uncertainty. It demands special understanding from owners (and stakeholders); for instance, they need to decide which level of assurance is preferred in different situations. It was argued that the users of financial information are insufficiently acknowledged. It should be explained, in a practical way, how these assurance

levels will be implemented and what will be achieved. An expectation gap already exists in the current situation, and there is no need to increase it. Furthermore, the submissions stated that a management audit is essential and that, if it is excluded from the general review, it might signal, for instance, that the minutes of management meetings are not important. The following quotes represent respondents' arguments in the comment letters:

The reform includes only disadvantages for the society. The stakeholders are interested in the accuracy of the financial information of a small company. When the review is conducted, the assurance level is too low. (CL29)

The term "moderate level of assurance" is ambiguous and is easily associated with weak assurance. This leads to a situation in which the review process is meaningless because it does not provide any benefits for decision making. (CL29)

The outcome of review engagement (versus the outcome of audit engagement) should be clarified. Therefore, the differences between the assurance levels should be clearly illustrated because the stakeholders should clearly understand them. (CL28)

The reform does not include the management audit, which leads to a situation in which there is no outside control for management decision making. At least, it should be checked that those meetings that are required by the Limited Liability Companies Act are held. (CL8)

The submissions emphasized that one problem associated with the review engagement is the growing risk of an increase in the gray economy. Review engagement is suggested to lead to a situation in which the general trust related to financial information's accuracy and operations' conformity to the law would decrease. These concerns were raised because the submissions stated that the assurance level associated with the general review is inadequate. Moreover, it was suggested that the reform would jeopardize the tax revenues.

The review would negatively affect auditors' ability to observe the gray economy and financial mismanagement. The review would weaken the

proactive role of auditing in the case of preventing the gray economy, financial crime and money laundering. (CL8)

The risk related to the reform is that the auditor might not be able to take care of the duty to report money laundering to the authorities. (CL12)

Under the review engagement, the assurance of the audit trail is not examined, and the stakeholders and authorities should trust reports that are not based on comprehensive examination of the bookkeeping. This is not acceptable. When investigating financial crime, the observations are usually made when checking the receipts. Without checking the receipts, it is almost impossible to notice mistakes or illegal actions. (CL8)

Without efficient auditing (which includes auditing of bookkeeping and governance), investigations, indictments and court proceedings of financial offenses would be impossible. (CL9)

Tax revenues in the proper amount and time are important for the social balance. The prevention of financial offenses is also important for social balance; therefore, the suggested changes might affect the prevention of financial offences. (CL9)

The submissions that were against the general review also emphasized that the examination of the review engagement should not be continued. The examination has been important because it has evaluated the applicability and the costs of the general review to firms. However, the submissions stated that an efficient and lighter form of assurance that decreases the administrative costs is not possible to achieve as the reform suggests. The disadvantages related to the reform are significant. Nevertheless, to decrease the administrative burden, other possibilities should now be contemplated. For instance, a moderated increase in the audit exemption thresholds should be considered even though it was not previously supported. Similarly, within this group, it was emphasized that Finland should follow the IAASB and its development work concerning the new standard for audits of LCEs. The following quotes present these thoughts:

The investigation of the review engagement should not be continued. (CL38)

The examination of the review has been important, but the outcome is not preferable. (CL13)

Even though we think that the general review is not a functional solution, the memorandum and the opinions in it work as a comprehensive impact assessment, and they give valuable information. In the future, other ways to decrease the administrative burden should be investigated, for instance exempting companies from the statutory audit if there is no need for outside financing or to expand the ownership base in the near future. (CL13)

Other possibilities for future examination could be a less complex entities standard (LCE standard) because it is under international investigation. (CL36)

Finally, one might consider other possible explanations for the lobbyists' behavior in objecting to the proposal to adopt the general review. As the analysis of the key arguments against the proposal indicates, there is considerable uncertainty associated with the potential negative consequences. For instance, Giddens (1984) suggested that avoidance of uncertainty is the most general motivational impulse driving behavior. Therefore, interest groups that operate under conditions of high uncertainty will often focus their energy on fighting the perceived causes of uncertainty rather than considering the long-term opportunities available. Hence, the desire to avoid uncertainty could motivate lobbyists to act against the proposal because the suggestion of adopting the general review is perceived as generating uncertainty.

### *5.5 Results of the inductive analysis*

In the second stage, a more detailed analysis, based on quotations from the submissions, was conducted. The second stage revealed subcategories, which were grouped into sets, searching for the existing relationship between the previously defined categories. Hence, the second-order concepts for opposing/supporting arguments became more abstract (higher level) than the first-order concepts that they represent. In the third stage, the subcategories were grouped into dimensions corresponding to the themes that form the basis of the theoretical framework. Table II summarizes the categories, subcategories and dimensions resulting from

this process. This process has been suggested to formulate the data structure, and it can offer a means of presenting complex results efficiently.

The results of the second-order analysis (Table II) yielded six categories (taxonomies), which indicate different considerations of the discussions related to the general review. The analysis revealed that there are three second-order themes in the opposing arguments: i) it is not possible to achieve an efficient and lighter form of assurance that decreases the administrative costs as the reform suggests; ii) the reform weakens the social balance; and iii) the reform increases the expectation gap even more. Regarding the arguments that conditionally supported the reform, the analysis also identified three second-order concepts: i) practices should be standardized; ii) the existing international service (review engagement) should not be modified; and iii) the importance of financial information reliability should not be underestimated.

After finalizing the second-order themes, this study investigated their underlying dimensions to understand how the various themes interacted with and related to one another within a broader context. In the final stage of the inductive analysis process, the five major second-order themes were finally assembled into aggregate dimensions. The aggregate dimensions establish the umbrella concepts that describe the complex phenomenon. Hence, the analysis revealed three main dimensions that are related to the adoption of the general review. The dimensions for the opposing arguments are i) appreciation of the current audit system and ii) uncertainty avoidance. The third aggregate dimension suggests that cutting red tape is essential for micro companies; however, this should not be achieved at any cost. To conclude, the role of these second-order and aggregate dimensions is significant because they help in providing an understanding of the wider picture behind the discussion related to the adoption of the general review and assurance associated with micro companies' financial statements.

INSERT TABLE II HERE

## 6. Conclusions

This study examined the lobbying for or against the Finnish Ministry of Economic Affairs and Employment's memorandum that suggested a general review instead of a statutory audit for small companies. The "Gioia method" was also applied to analyze and structure the data from the submissions, which implied a clear delimitation of the themes. The analysis focused initially on the first-level field quotations in an iterative manner, scanning the data for recurrent concepts and themes and consolidating these into emergent categories (Gioia *et al.*, 2013).

The results suggested that the lobbying opponents objected to the reform because it will not fulfill the objective, which is to decrease the administrative burden on micro companies. For instance, the main concern was that the reform would not decrease the administrative costs. In addition, the submissions opposing the reform emphasized that the two different levels of assurance (general review and statutory audit) may cause confusion and uncertainty toward assurance services. Hence, the submissions stated that the general review would deepen the expectation gap among stakeholders. The examination of the review engagement should not be continued because the disadvantages related to the reform are so significant. For instance, it was highlighted that the reform would weaken the financial reporting quality. Therefore, it could be suggested that there is an obvious risk that the adoption of the wrong assurance service could jeopardize the social balance. Hence, the opposition of the reform stems from perspective that regulators should make socially efficient decisions and accounting regulators should be genuinely interested in improving financial reporting quality (Sunder, 1988).

In contrast, a minority of the submissions perceived some potential in the reform. However, their support was mainly conditional. Within this group, the views were polarized, and the new form of review was supported if the additional national requirements were not included in the reform. Interestingly, some of the supporters then required even more national characteristics to be included if the general review is adopted. These suggestions indicate there is no clear consensus regarding the direction that the reform should take. However, the aggregate dimension highlights that cutting red tape is essential for micro companies, although it should not be achieved at any cost.

Finally, this study aimed to investigate the review engagement through neo-institutional lenses in Finland. Hence, it utilized the NIT because this helps to provide an understanding of the dynamics of the regulatory structures. It is important to integrate traditional accounting and economic theories with other strands in the social sciences. The combination of different theories contributes to an enhancement of a more extended theoretical framework. According to the institutional perspective, organizations are shaped by the environment in which they are active (DiMaggio and Powell, 1983). Several mechanisms of institutional change that support the review engagement regulatory process and some moderating this change have been identified. The institutional analysis in this article was structured according to the three isomorphic mechanisms outlined by DiMaggio and Powell (1983): normative, coercive and mimetic isomorphism.

The arguments about limitations and practical challenges of general review created opportunities for future research, both quantitative and qualitative in nature. For instance, the International Auditing and Assurance Standards Board (IAASB) has drafted a new, stand-alone standard for audits of financial statements of less complex entities. Future studies could examine how the new standard for audits of financial statements of less complex entities could fit in the Finnish small business environment. Furthermore, it could be investigated how the Finnish interest groups react to the proposal concerning the new standard.

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**Table I.** Comment letters included in the analysis

<b>Comment letters that saw potential in the reform (total 13)</b>	<b>Comment letters that opposed the reform (total 26)</b>	<b>Comment letters that did not take a direct stance on the issue (total 3)</b>
<p><b><i>Additional national requirements should not be included</i></b></p> <p><b>Public authorities</b></p> <ul style="list-style-type: none"> <li>- Financial Supervisory Authority</li> <li>- Finnish Patent and Registration Office, Auditor Oversight</li> <li>- Finnish Patent and Registration Office, Tilintarkastuslautakunta</li> </ul> <p><b>Accounting and auditing profession</b></p> <p><u>Big 4 firms:</u></p> <ul style="list-style-type: none"> <li>- KPMG Oy Ab</li> </ul> <p><u>Mid-tier audit firms:</u></p> <ul style="list-style-type: none"> <li>- Revico Grant Thornton Oy</li> </ul> <p><u>Recognized supervisory bodies:</u></p> <ul style="list-style-type: none"> <li>- Finnish Association of Auditors</li> </ul> <p><b><i>Additional national requirements should be included</i></b></p> <p><b>Public authorities</b></p> <ul style="list-style-type: none"> <li>- Ministry of Finance</li> <li>- Finnish Tax Administration</li> </ul> <p><b>Others</b></p> <ul style="list-style-type: none"> <li>- Finance Finland (FFI)</li> <li>- Finnish Bar Association</li> <li>- Association of Finnish Foundations</li> <li>- Finnvera Oyj</li> </ul> <p><b>Individuals</b></p> <ul style="list-style-type: none"> <li>- Auditor*</li> </ul>	<p><b>Public authorities</b></p> <ul style="list-style-type: none"> <li>- Ministry of the Interior</li> <li>- Ministry of Justice</li> <li>- National Police Board of Finland</li> <li>- National Prosecution Authority</li> </ul> <p><b>Accounting and auditing profession</b></p> <p><u>Big 4 firms:</u></p> <ul style="list-style-type: none"> <li>- PWC oy</li> </ul> <p><u>Mid-tier audit firms:</u></p> <ul style="list-style-type: none"> <li>- Nexia</li> <li>- Oy Tuokko Ltd</li> </ul> <ul style="list-style-type: none"> <li>- Tilintarkastustoimisto Selinheimo Oy</li> <li>- Tilintarkastus T. Virkilä Oy</li> </ul> <p><u>Recognized supervisory bodies:</u></p> <ul style="list-style-type: none"> <li>- Association of Professional Auditors</li> <li>- Association of Local Authority Auditors</li> </ul> <p><b>Others</b></p> <ul style="list-style-type: none"> <li>- Confederation of Finnish Industries (EK)</li> <li>- Chambers of Commerce</li> <li>- Pellervo Coop Center</li> <li>- Finnish Real Estate Federation</li> <li>- Federation of Finnish Financial Administration</li> <li>- Association of Tax Consultants</li> <li>- Federation of Finnish Enterprises</li> </ul> <p><b>Individuals</b></p> <ul style="list-style-type: none"> <li>- Auditor*</li> <li>- Auditor*</li> <li>- Joint submission from two auditors*</li> <li>- Auditor*</li> </ul> <p><b>Academia</b></p> <ul style="list-style-type: none"> <li>- Professor</li> <li>- Professor</li> <li>- Two specialists from academia</li> <li>- One private person</li> </ul>	<p><b>Public authorities</b></p> <ul style="list-style-type: none"> <li>- Ministry of Transport and Communications</li> <li>- Ministry of Education and Culture</li> <li>- Ministry of Environment</li> </ul>

**Table II. Data structure**

First-order concepts

*Arguments from the submissions that were against the reform*

- The prepared proposal does not decrease the statutory burden and administrative costs for micro companies.
- The general review is inappropriate and problematic.
- The two different levels of assurance may cause confusion and uncertainty.
- The general review decreases the quality of financial information and hence weakens the position of the stakeholders.
- The examination of the review has been important but the outcome is not preferable.
- Other possibilities should now be contemplated.
- A moderate increase in audit exemption thresholds would be an even better solution than the adoption of the general review.
- Finland should follow the IAASB and its development work concerning the new standard for audits of LCEs.

- The reform would jeopardize the tax revenues.
- The growing risk of an increase in the gray economy is emphasized.
- Under the review engagement, the assurance of the audit trail is not examined. When investigating financial crime, the observations are usually made when checking the receipts.
- The examination of the review engagement should not be continued because the disadvantages related to the reform are so significant.
- The review would only cause confusion and increase/deepen the expectation gap among stakeholders.
- The expectation gap already exists in the current situation and there is no need to increase it.
- The term “moderate level of assurance” is ambiguous and is easily associated with weak assurance.
- The reform does not include the management audit, which leads to a situation in which there is no outside control for management decision making.

*Arguments from the submissions that saw potential in the reform*

Arguments from the group “no additional national requirements”

- The objective of the reform was to lighten the regulation and not to tighten it.
- Additional national requirements might significantly increase the costs of assurance services for small companies.
- The internationally recognized way to decrease the administrative burden should be carefully considered in Finland; therefore, ISRE 2400 should be the basis for the reform and there is no need to add special national characteristics (auditing of tax information).

Second-order concepts

An efficient and lighter form of assurance that decreases the administrative costs is not possible to achieve as the reform suggests.

The reform weakens the social balance.

The reform increases the expectation gap even more.

Standardization of practices.

The existing international service (review engagement) should not be modified.

Aggregate dimensions

Appreciation of the current audit system.

Uncertainty avoidance.

Cutting red tape is essential for micro companies; however, it should not be achieved at any cost.

- No need to confuse the fundamental character of the review engagement.
- The additional requirements are not decreasing the administrative burden; instead, they are causing more work for auditors and more expense for firms.
- Review engagement does not correspond to statutory auditing; it is a totally different form of assurance.

Arguments from the group “additional national requirements are needed”

- Additional requirements are needed to ensure the accuracy of financial statements.
- The certified bookkeeper should be required to perform the bookkeeping if the firm is choosing a general review instead of a statutory audit.

The importance of financial information reliability should not be underestimated.

## Notes:

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<sup>1</sup> The memorandum in Finnish is available at:

[http://julkaisut.valtioneuvosto.fi/bitstream/handle/10024/160475/TEMjul\\_1\\_2018\\_Tilintarkastus.pdf?sequence=1&isAllowed=y](http://julkaisut.valtioneuvosto.fi/bitstream/handle/10024/160475/TEMjul_1_2018_Tilintarkastus.pdf?sequence=1&isAllowed=y)

<sup>2</sup> The memorandum concerning a lighter form of auditing is available at:

[https://julkaisut.valtioneuvosto.fi/bitstream/handle/10024/162331/TEM\\_2020\\_38\\_J.pdf?sequence=1&isAllowed=y](https://julkaisut.valtioneuvosto.fi/bitstream/handle/10024/162331/TEM_2020_38_J.pdf?sequence=1&isAllowed=y)

<sup>3</sup> The submissions are available at: <https://valtioneuvosto.fi/hanke?tunnus=TEM007:00/2019>

<sup>4</sup> The standard responds to demands for a set of high-quality requirements tailored to the needs of less complex entities (LCEs). The new standard for audits of LCEs' financial statements will provide a globally consistent approach at a time when several jurisdiction-specific LCE standards or related initiatives are arising. The draft of the standard is part of a broader effort to reduce complexity, improve understandability and make the International Standards on Auditing (ISAs) more scalable and proportionate to the circumstances of audited entities.