Table of Contents

Figures

Appendix

1 Introduction

The introduction will start by giving the readers an insight of the background of the problem and the problem discussion. In addition, problem discussion has lead to the research questions and the purpose of the thesis. Furthermore, there will be a disposition of the thesis to provide the reader the easiness to follow and understand the study. The introduction chapter will end with definitions that are vital for the thesis.

1.1 Background

In September 2006, the Swedish government arranged an investigation with the task to review the auditing rules for small companies. Later the same year, in December 2006 the Swedish government decided that the investigator's task is to suggest the changes in the regulation to exempt small companies from the audit duty (SOU 2008:32).

An exemption from the audit duty of small companies is necessary, due to that there will be stricter requirements of accounting and auditing for larger companies in European Union. Only high and sophisticated auditor allows auditing these companies' financial reports (SOU 2008:32).

Small and medium sized companies' costs for auditing and accounting services are very heavy. These companies will benefit from the exemption of audit duty and it will allow them of significant costs savings. Another vital aspect is that these companies are giving the opportunity to become more competitive and in turn stimulate the European economy (SOU 2008:32).

Many of the Member states have implemented the exceptions of European Union rules of auditing. Sweden is one the last Member States that recently has introduced the exemption of audit duty for small companies. The consequences of the unwillingness to introduce the exemption of audit duty will lead to that small companies in Sweden will face the same accounting and auditing rules as the larger companies. Small companies will be less competitive alternatively; they will move their businesses outside Sweden (SOU 2008:32).

The exemption of audit duty for small companies will give them the opportunity to buy the necessary accounting and auditing services they need. Small companies that exempts from audit duty will have the freedom to choose whether they want an audited or non-audited financial report (SOU 2008:32).

1.2 Problem discussion

Now the Swedish government has suggested that the exemption of the obligatory audit that would be in force in July 1, 2010. Small companies will have the freedom to choose the accounting and auditing services they need and will have the opportunity to significant cost savings (SOU 2008:32).

Consequently, the voluntary audit will have an effect on the annual report. The effect is that the financial statements may not be reliable. It is essential that these financial statements are reliable due to that various stakeholders use the annual reports for several reasons, i.e. the bank uses it as a support for the credit decision and as follow-up their client behavior after approving the credits. They trust a clean annual report with an auditor's statements (Johansson, Johansson, Marton, Pautsch, 2004).

According to the researcher Yuji Ijiri (1975), he believed that the auditor is third link to the company and the user such as the bank. Here, the auditor's role is to qualify that the information is reliable and to provide trustworthiness for the annual report. In other words, the auditor's report is to clarify the reliability of the facts (FAR SRS 2006). Hence, as a third party, the auditor contributes to the trust between the company and its user. Without a third party, the annual report may lose its existing function as an indirect dialogue between the company and the bank (Yuji Ijiri, 1975).

The exemption of audit duty for small companies will let them have the freedom to choose if they want the third party, the auditor to review their annual report or not. However, in accordance to Yuji Ijiri (1975) and FAR SRS (2006) theory, the auditor's review is necessary to contribute value and trustworthiness in the annual report. Consequently, to not have the auditor's review how will the exemption of audit duty for small companies affect the trust for the annual report and affect small companies possibility of getting financial credits from banks.

1.3 Research questions

This thesis will be focusing on answering these research questions;

- How will the exemption of the audit duty affect the trust in annual reports
- In which way will the exemption of the auditing affects companies' possibility of financial credit from banks

1.4 Purpose

The purpose of this thesis is to examine from banks' perspective trust for small company in relation to the annual report, and small company's possibilities of financial credit from banks.

1.5 Delimitation

The focus of this research will be on trust from the bank's perspective, in relation to the annual report. The auditor of the research has chosen to focus from the bank's perspective since the financial statements in the annual report is an essential tool for them to make decision about approving credits. When discussing about the exemption of the audit duty, it is the lowest limits of SOU (2008:32) suggestions that are of interest. It only includes small companies such as private joint-stock companies, proprietorships, sole proprietorships. The author will use annual report for both annual financial reports establishes by proprietorships and sole proprietorships and the annual report establishes by joint-stock companies.

1.6 Definitions

Here is a presentation of the definitions that are vital for the thesis. These definitions have the aim to contribute a coherent text.

Annual Financial Report

An Annual Financial report is a simplified version of an annual report. This report are mainly establishes by firms of partnerships and sole proprietorships that have not exceeds the net turnover of 3 million SEK (Bokföringsnämnden, Bokföringslagen (1999:1078) (Svensk Författningssamling - SFS))

Annual report

An Annual report establishes by joint-stock companies. The Annual report has to contain of a balance sheet, an income statements and a management report. The management report is a report given by the Board that describes the happenings during the year and how the company has developed. It may include future forecasts of the company (Bokföringsnämnden, Årsredovisningslagen (1995:1554) (Svensk Författningssamling - SFS))

Big company

Company that attain one of the requirements are a big company

- The last two fiscal years the average number of employees have been more than 50 employees
- The total assets during the last two fiscal year have been more than 40 million SEK
- The net sales have been more than 80 million SEK

(SRF 2010)

Small company

Small company is company that is not a big company (SRF 2010)

Bokföringslagen (BFL, Swedish accounting law)

It is the law that governs how the accounting in the business should carry out (Bokföringsnämnden, Bokföringslagen (1999:1078) (Svensk Författningssamling - SFS) (20100302))

Bokföringnänmden (BFN, Accounting Principles Board)

BFN is operating under the Ministry of Finance and is responsible for promoting the development of general accepted accounting principles in corporate accounting and public accounting (FAR SRS, 2009)

Föreningen Auktorisrerad Revisorer och Svenska Revisionsamfundet (FAR SRS)

This committee sets recommendations about auditing and auditing services. (FAR SRS FÖRLAG, 2009).

Generally Accepted Accounting Principles (GAAP)

General Accepted Accounting Principles is an accepted accounting principle that bases on laws, praxis's and recommendations. It is an obligation to follow the law and the accounting principles in the law (Bokföringsnämnden, (http://www.riksdagen.se/webbnav/index.aspx?nid=3911&dok_id=SFS1999:1078&rm=1999&bet=1999:1078).

General Accepted Auditing Principles

General Accepted Auditing Principles is expressions on how the audit should be carried out that are professional and ethical. It is about the knowledge, the experience, and the professional judgments (FAR FÖRLAG, 2006).

Professional ethics

Professional ethics are rules of ethical behavior for the auditors when performing the audit (FAR FÖRLAG, 2006).

SOU (Statens offentliga utredningar, Public government's report of investigations)

This is the public investigation report of the government on the specific task. In this case, it was about the exemptions of the audit duty for small companies (http://www.sou.gov.se/).

The (independence external) auditor

The external auditor has primary responsibility to perform the auditing on published financial statements (Hayes, Dassen, Schidler & Wallage, 2005)

Trustor

The party that trusts (Driscoll, 1967) (cited in Mayer, Davis, Schoorman, 1995)

Trustee

The party to be trusted (Driscoll, 1967) (cited in Mayer, Davis, Schoorman, 1995)

Årsredovisningslagen (ÅRL, Swedish annual accounts acts)

It is the law for establishing the annual reports (Bokföringsnämnden, Årsredovisningslagen (1995:1554) (Svensk Författningssamling - SFS))

Disposition

Chapter 1: **Introduction**	This chapter will start with an introduction to the background of the thesis, which further leads to the problem discussion. The problem discussions lead the author to the research questions of the thesis. In this chapter there is also a purpose formulation, the delimitation of the thesis and the definitions that are of essential for the thesis. Last, there is a presentation of a disposition that will give the readers an overview of the chapters in the thesis.
Chapter 2: **Theoretical framework**	Chapter 2 will present the theories that are vital for the specific research.
Chapter 3: **Method**	Chapter 3 will present the method carried out the research i.e. the data collecting and analysis of the data.
Chapter 4: **Empirical findings**	Chapter 4 will present the compilation of the three interviews that have carried out to answer the purpose of the thesis.
Chapter 5: **Analysis**	Chapter 5 will present the analysis of the empirical results.
Chapter 6: **Conclusion**	Chapter 6, will answer the research questions and the purpose of the study. It also includes a further discussion of new findings and reflections of the research.

Figure 1.1 Disposition (own design)

2 Theoretical framework

This section will start by giving the limits of the exemption of the audit duty. Later on there will be an overview description of who are required to have bookkeeping and the termination of it. This section also includes theories of auditing. Last, there will be a discussion on trust.

2.1 The voluntary auditing

SOU (2008:32) suggested requirements for the exemptions of the audit duty for small companies and these are

- Three employees
- The reported total assets for one of the two latest fiscal years has been more than 1.5 million SEK
- The reported net sales for one of the two latest fiscal years has been more than 3 million SEK

If small companies meet one of the limits, they are required to have an auditor that audits their annual report. On the other hand, small companies that exempt from the audit duty will be giving the opportunity to buy the necessary accounting and auditing services they need (SOU 2008:32).

2.2 Compulsory bookkeeping

According to BFL, all companies are required to do bookkeeping. This means that they have to keep records of their business transactions occurred from the day the business started. The company have to save all the documentaries that support the business transactions for 10 years. All these records should be kept in a necessary computer system so that these transactions can be presented in the form it is required. This bookkeeping shall be terminated with an annual financial statement or in an annual report. The closing of the bookkeeping depends on the form of the company. A private or public joint-stock company is required to establish an annual report every year. This report must contain a balance sheet, an income statements and a management report. The annual report has to be audited by the auditor. However, partnerships and sole proprietorships are only required to establish annual financial statements, if their net turnover is less than 3 million SEK (Bokföringsnämnden, Bokföringslagen (1999:1078) (Svensk Författningssamling - SFS)).

2.3 Auditing

"Audit means with professional attitude, to plan, to revise, to make judgments and to comment on the financial statements, accounting and the management report " (FAR FÖRLAG, 2006 p. 19)

The function of audit is to see if the company has presented fair view of their current financial statements and in accordance to the årsredovisningslagen (ÅRL). The auditor's review is to provide reliability of the presented information. The aim of audit is to provide trustworthiness for the company's financial statements (FAR SRS, 2006).

2.3.1 The auditor's tasks

According to the Auditing law (1999:1079) the auditor shall review the company's annual report, the bookkeeping and the management report (cited in FAR SRS FÖRLGAG, 2006). However, an auditor can perform various tasks, but the most common task is when the auditor expresses an opinion on financial information. This is an attestation mission, where the auditor makes statement with high but not absolutely security or with limited security about the financial statements. At a statement with limited security, the auditor's review is limited comparing to the mission with a high but not absolutely security. This task results in a written report, which is included in the Annual report. However, there is no framework that describes in detailed how to establish the report, but the review should be thorough and comprehensive, as the Swedish Generally Accepted Auditing Standards (GAAS) requires. These standards are the accepted auditing, that the auditor expects to carry out the task. However, the Swedish GAAS should separate from the Swedish Auditor's Ethical Principles and the Swedish Generally Accepted Accounting Principles (GAAP). The auditor's ethical principles are professional codes for the auditors. These are the guidelines of how the auditor should behave ethical and morally. Last, the Swedish GAAP is principles and accounting practices for bookkeeping and other financial reports (FAR FÖRLAG, 2006)

2.3.2 Auditing of the annual report and the financial statements

The bokföringslagen (BFL) and årsredovisningslgaen (ÅRL) set numerous rules and regulations for bookkeeping and annual reports. The ÅRL sets the rules for how to establish the report and what this report should contain. When the auditor review the report, it is essential that he collect sufficient materials to make statements in the auditor's report. The review aims to make judgment of,

- If the income statements together with the notes reflect reasonable view of the company's results
- If reported assets and liabilities in the balance sheet exist and do these belong to company and are these correctly valuated
- If all assets and liabilities are reported in the balance sheet
- If the economic information in the management report reflect reasonable view of the company's financial position and results together with the income statements and the balance sheet
- If the management report contains what the law and the Swedish GAAP require
- If the management wore guilty of any misconduct that may cause liability to the company
- If other information in the annual report conforms with the income statements and the balance sheet with the company's financial position and what the auditor knows about the company

If the auditor cannot gain sufficient materials to make statements, it is essential that the auditor make a notice in the auditor's report. The auditor only reviews and makes statements; however, the auditor is not the one that establishes the annual report. This is the responsibility of the company's Board and CEO (FAR FÖRLAG, 2006)

2.3.3 The management auditing

According to the joint-stock company law, there are several rules set for the Board and CEO of the company (cited in FAR FÖRLAG, 2006). The aim of the management audit is to see if they met the company's rules. In the management audit, it should obtain evidence to evaluate, if the Board or CEO have act in somehow to become liable towards the company. Furthermore, the auditor has to evaluate the company's obligation of the bookkeeping, and establishment of the annual report according to the ÅRL (FAR FÖRLAG, 2006)

To evaluate these, the auditor has to review i.e. the essential decisions, the actions, and the conditions in the company. Therefore, the auditor has to evaluate the organization and the control of the company. If the auditor discovers that, the directors or the CEO have violated the laws, then the auditor can make notice about this in the audit report (FAR FÖRLAG, 2006)

2.3.4 Auditing for the various stakeholders

Auditing has great importance for owners and various stakeholders, such as creditors, suppliers, customers, employees, and the government. These various stakeholders have more or less benefit of the auditing. If there is no auditing, the stakeholders have to make their own control of the information to state that the received information is reliable. Furthermore, the audit exists to smooth the relationship between these parities (Thomasson, Arvidsson, Lindqvist, Larson, Rohlin, 2004).

Usually in small companies, owners have full overview of the businesses. However, it is not the case in all companies. Their insight of the company is the information they receive from the company's Board and the CEO. Therefore, it is essential that the information is fair and reflects the real picture of the company's financial situation. The reason for this is that, current and future owners may rely on the information and take decisions on their ownership. Therefore, that auditor's matter of judgment can be crucial for the decision of these parties (Thomasson, et. al. 2004).

Banks use annual reports as a base to take decision about credits and as a follow-up tool on their current clients' repayment status. Therefore, it is essential that banks find the information reliable. The information has a greater reliability if an impartial and independent auditor has reviewed the information these parities (Johansson, Johansson, Marton, Pautsch)

Suppliers use the financial information to make judgment if they should continue to deliver the goods on credit, or if they should require cash payment. Furthermore, the customer's need of correct information to know if they can rely on that the company will manage their suppliers. In addition, employees of the company would want to know if they have secured jobs. Further on the Board and the CEO are benefiting from the auditing, due to that the audit can provide them other aspects in the company, such as company risks. Last, the government needs the information to see if the company has fulfilled its duty to pay the correct taxes and fees (Johansson, et. al. 2004).

However, the thesis will be focusing from the banks' perspective on how the exemption of the audit duty for small companies will affect the trust for annual reports and the companies' possibility of financial credit from banks.

2.4 Ethics and ethical codes

Trust for the auditing businesses is highly dependent on the implementation of the good professional ethics by the auditor. The need for trust varies but it is a deceiving factor to receive venture capital and to smooth the business transactions between companies (FAR SRS FÖRLAG, 2008).

Ethics correspond to a set of moral principles, rules of conduct or values. Thus, ethics apply when an individual has to make various decision concerning moral principles. Hence, ethics are a sorts of agreement as to what all individuals and society believe is right and wrong. Therefore, ethics have an impact on the individuals' behavior and the function in the society. The need of ethical behavior is necessary for the society to function in an orderly manner and due to that, the ethical values incorporates into the law. However, such as integrity, loyalty and pursuit of excellent profession cannot incorporate into the law. Therefore, the establishing and the existing of theses codes of ethics will make the profession in all various industries to assume self-discipline beyond the requirements of the law (Hayes et al. 2005).

The professional auditor's attitude and behavior in providing auditing and assurance services have the impact on the well being community and country. Auditors can maintain their advantage by providing these unique services and the confidence in the public. Thus, when an auditor accepts an audit task means that the auditor has a responsibility to the public's interest, which are the users. Therefore, these standards of auditing profession mainly determines by the public's interests (Hayes et al. 2005).

Further, International Federations of Accountants (Code of Ethics) believes that the objectives of the auditing profession are to work with the highest standards of professionalism to attain the highest levels of performance and generally to meet the public interest. However, the main task of auditing and accounting businesses is to provide trust for the annual report (FAR FÖRLAG, 2008).

2.4.1 Good professional practices

Good professional ethics are codes of practice that the audit profession should adopt. It has the aim to regulate the auditing profession. These professional ethics provide a clear explanation of what behaviors that consider ethical, correct, or right in the different circumstances (FAR SRS FÖRLAG, 2009).

The Good professional ethics are guidelines that assist the auditor to work and behave such good professions. These are integrity, and objectivity, impartial and independent, confidentiality and disclosure, professional competence and professional behavior. Therefore, the auditor's ethical values that can maintain the trust for the auditing market (FAR SRS FÖRLAG, 2009).

2.4.2 FAR SRS ethical codes

Rule number 1: "Accepted professional ethics"

This means that the auditor shall keep a high standard of ethical level in the auditing activities and within the auditing business. Since there are interests from the businesses and in the society for impartial and independent auditors, they are required to perform auditing according to various laws. Therefore, FAR SRS is striving for integrity and objectivity in all auditing services. However, according to Hayes, et al. (2005), integrity, and objectivity are when the professional auditor is straightforward and honest in performing professional services. This means that the auditor has to confirm or make notice in the auditor's report if the client has not fulfilled the requirements.

Rule number 2: "Professional behavior"

The auditor has to keep in mind the role and such important keywords of being an auditor, no matter reviewing the accounts or being a counselor. This means that the auditor always has to behave equally towards different clients in different industries. The auditor has to be objective and avoid the own interest that may cause conflicts with the client's interest. Furthermore, the auditor has to be free from such relationship with the client that may affect the stakeholders trust for the auditor's statement (FAR SRS FÖRLAG, 2009).

Rule number 3: Organization of the business.

The auditor shall organize his business so that it fulfills the conditions in rule number two. That is having integrity and objectivity in all tasks and being impartial and independent in the audit mission (FAR SRS FÖRLAG, 2009).

Rule number 4: Fees and commissions

The fee for a task shall be reasonable according to the knowledge and experience of the auditor that he can use in the task with regard to the task and its extent. An auditor cannot agree upon a fee that bases on the clients economic situation or agree upon a commission for the attestation mission (FAR SRS FÖRLAG, 2009).

Rule number 5: Confidentiality

The auditor has to respect the client and not disclose information that can harm the client. Confidentiality is the basic premises for the clients to trust the auditor. Therefore, the auditor has the obligation to respect the confidentiality information about its clients. The confidentiality starts when the auditor accepts to take on the audit mission and ends when the employment term ends. Auditors must ensure themselves that their co-workers and outside advisers under their control understand the principles of confidentiality. The auditor may only disclose confidential information if the client demands it, if the law requires it and if the professional obligation requires it. The auditor shall not use such information for his own or others gaining (FAR SRS FÖRLAG, 2009).

Rule number 6: Professional competences

Trust is vital for auditors and within the auditing business. Thus, honesty is important for the attestation mission. The various stakeholders value that the company receive competent counseling from the well-educated advisory that also has an insight into the company. The attestation mission and the advisory mission can be useful for company, the stockholders, the society, and the various stakeholders under the condition that the auditor is impartial and independent carrying out those tasks. Trust is important in both missions. However, trust creates and maintains by high competence, integrity, and fair judgment, which reflects from the auditor's professional behavior and practices. Thus, the high competence meets by a qualified educated basis with continuing education and working experiences (FAR SRS FÖRLAG, 2009). Therefore, an auditor has to develop and update his knowledge within auditing to ensure that he carries out the task with high professional standards according to the professional ethic principles. As the auditor agrees to take on the audit mission, he agrees in providing professional services implying that he has competence to perform these services (Hayes et al. 2005).

Rule number 7: Professional practices

The auditor shall carry out the attestation mission with care. He shall not take on any audit tasks if he has lack of competences. When carrying out the attestations mission he has to observe FAR SRS recommendations about the GAAP and FAR SRS ethical codes (FAR SRS FÖRLAG, 2009).

Rule number 8 and 9: Relationship with co-workers and publicity and marketing

The auditor shall have a good working relationship with his co-worker. He may make his name and qualification known among the public, however, not miss judging the audit business (FAR SRS FÖRLAG, 2009).

2.5 Trust

Garzia-Marzia (2005) discuss that trust is a vital ingredient in the social interaction. Due to that, trust is a deceiving factor for i.e. product acceptance, a good working atmosphere in the company, good relation to the government and stakeholders and investment criteria. Therefore, there is no doubt that trust is one of the company's most valuable assets.

Many researchers have found the interest in studying on trust. Yet, the great interest in the study of trust, thus far there is no précis definition of trust. However, the Oxford English dictionary defines trust as; confidence in or reliance in the attribution of a person or thing to be truthful, accepting or giving credit without further investigation or proof of evidence, believing or relying on a evidence of a person, confident expectation of an event, and the quality of being trustworthy. The authors, Bhattacharya, Devinney, and Pillutla (1998) combined these definitions and discussed six themes on the view of trust. Firstly, trust cannot exist in an environment of certainty. It only exists in the uncertain and risky environment. Second, trust reflects the predictability, which is an expectation of the predicted person or event. This expectancy is the distribution of actions of others that lead to the outcome of the event. The third and fourth themes are the importance and strength of trust. This reflects the level of trust. The fifth theme of trust is that trusts exist in the situation and the specific person. The sixth and the last theme is that trust is "good" which the likelihood that the outcome is positive.

The focus on trust is between a party that trusts (trustor) and the party to be trusted (trustee) (Dricsoll, 1978) (cited in Mayer, Davis, & Schoorman, 1995). These parties can be individuals or organizations. The need of clarifying of the factors that contribute to trust, the conditioned relationship, the risk, and the expectation or outcome of trust is to understand trust itself (Mayer et al. 1995).

2.5.1 The synonymous of trust

Trust usually relates to several synonymous terms such as cooperation, confidence, and predictability. A need of separation of these terms is necessary in order to recognize the word trust (Mayer et al. 1995).

2.5.1.1 Cooperation

Cooperation has always been related or confused with the word trust. Gambetta (1988) is one of the researcher that describes trusting someone means that the probability that the trustee will perform an action that is at least or beneficial for the trustor to consider engaging in cooperate with the trustee (cited in Mayer et al. 1995). Thus, there is no clear distinction of trust and cooperation. What Gambetta means is that trust can lead to cooperation, but it is not necessary that trust is the condition for the cooperation to occur. Due to that, cooperation does not necessary put the trustor at risk (cited in Mayer et al. 1995). Kee and Knox (1970) concluded that individuals might act in a cooperative way that does not include trust in the relationship. They mean that the individual may be in a dilemma, which make them to appear to be trusting, but the appearance of trust is bases on other motives (cited in Mayer, et al. 1995).

2.5.1.2 Confidence

Confidence is another synonymous of trust. Deutsch (1960) considered that the reason why the trustor chooses to trust the trustee is that the trustee produces some beneficial events. Deutsch (1960) means that the trustor must have some confidence that the trustee has the ability to produce a positive outcome for the trustor .To have confidence in the trustee means to believe in the trustee's good intentions, in his words and actions to approach the trustor's expectations (cited in Mayer et al. 1995). Laumann (1988) argued that confidence and trust differs, since trust requires a previous engagement of the trustee, and that the trustor recognize and accepting that risk exists. Thus, he suggests that trust and confidence may become routine depending on the perception and the attribution. For example if a person do not consider going out on the street without protecting him with a weapon is in a situation with confidence. However, if one chooses to take an action that may lead to disappoint others is a situation of trust. Laumann (1988) concluded that risk must be recognized and assumed in the situation of trust and not in the case of confidence (cited in Mayer et al. 1995).

2.5.1.3 Predictability

Predictability and trust are means of the reduction of the uncertainty. Gabarro (1978) suggested that trust relates to the trustor could predict the trustee expected behavior in acting in good faith. Thus, Deutsch (1958) argues that the trustee that acts self-interested is predicable to be less trusted. A prediction of the trustee's behavior may influence in cooperation with the trustor. Thus, predictability is not enough to lead to trust (cited in Mayer et al. 1995).

2.5.2 Trust as individual expectations

According to Hosmer (1995), trust could be a trustor's optimistic expectation about the outcome of an event. However, Deutsch (1985) believed that trust was a trustor's non-rational choice when he faced with an uncertain event and that the expected outcome of this event has higher expected loss than the expected gain. He further stressed the vulnerability of the concept trust. He argued that the trustor would be worse off if he trusts the trustee. What Deutsch (1985) means is that trust is the non-rational expectation of the outcome of an uncertain event, given the conditions of personal vulnerability (cited in Hosmer 1995). On the other hand, Barber (1983) stressed that trust bases on the rational choices. The reason why the trustor trusts the trustee is on the expectations of the future behavior, which will generate a positive result. This expectations are based on reasons i.e. the experience and knowledge, the competences and skills, and the responsibility towards the interests.

Another author Zand (1972) divided Deutsch's vulnerability of trust into personal behavior and individual expectations. Zand (1972) means that the personal behavior was about giving up the control, and take the decision to trust. However, the decision to trust was lead by the nature of the problem and by the expectations of the outcome. Zand (1972) further concluded that trust is a trustor's decision, that bases on expectations and confidence about the outcome of an uncertain event, given the personal vulnerability and the non-control of the trustee's actions (cited in Hosmer, 1995).

Colembiewski and McConkie (1975:133) expanded the concept of trust and confidence. They stated that trust means the reliance on, have confidence in some event, process or person. These authors suggest that the reliance is subjective, which is based upon the personal perceptions and experiences. The degree of trust is now equal the amount of hope for positive outcome. They concluded that trust strongly linked to have confidence in and being optimistic about the event-taking place (cited in Hosmer 1995).

2.5.3 Characteristics of the trustor and trustee

The author, Driscoll (1978) has designed a model which included the trustor, which the trusting party and the trustee in which the party is to be trusted. This model could relate to the social interaction. They designed the model for the specific intention, which is to find out the essential factors about these parties and the conditioned relationship between them, and the reason why the trustor chooses to trust the trustee (cited in Mayer et al. 1995).

The authors, Butler and Cantrell (1984) discussed the characteristics of both parties. They discussed the first characteristic as the integrity, which is the reputation for honesty and the truthfulness in the trusted party. The second characteristic is the competences, which are the technical knowledge and the interpersonal skills needed to perform the task. The third characteristic is the consistency. This means that the party is to be reliable, predictable, and good judgment in handling different situations. The fourth characteristic is the loyalty, which reflects the benevolence. This is a party's willingness to behave well and do not have the intention to harm the other party. Lastly, they discussed the openness that is the willingness to share the information freely with the second party (cited in Hosmer, 1995).

Mayer et al. (1995) found out that the traits of the trustor are essential factors for him to trust the trustee, due to that some are more likely to trust than others are. Rotter (1976:651) defined the interpersonal trust between the trustor and the trustee as the expectancy held by the trustor. This expectancy relies up on the trustee's word, promise, or written statements to be. However, Gambetta (1988:217) discussed that if the trustor has contact with the trustee, then the probability that the trustee will perform an action that is beneficial or at least high enough for the trustor to consider engaging to cooperate with the trustee (cited in Mayer et al. 1995).

The various authors have discussed trust similar to Rotter (1967). Thus, they treat trust as the generalized expectations of other. For example, that if you is about to drown you expect that someone will come to rescue you (cited in Mayer et al. 1995). Here, the view of trust is of traits that lead to the generalized expectations of others trustworthiness. The traits are the propensity to trust. This is the with-in party factor that affects the trustor to be willing to trust and to recognize level of trust for the trustee. What influences the level of trust is the prior to the available data of the trustee. However, people with different experiences, personalities, and cultural background vary in their willingness to trust. For example, some are willing to trust even in occasions when to not trust and some are not willing to trust even though trust is related the behavior and performance of the trustee that are reliable. When the trustor chooses to trust in occasions when to not trust is according to Sitkin and Pablo (1992) related to the risk behavior. They mean that some have the tendency to take decision to take risk and some decide to avoid risk. They argue that the risk propensity is situational specific that affects by the personality characteristics and the situational factors (cited in Hosmer 1995).

2.5.3.1 Characteristics of the trustee

The level of trust for the trustee depends on the attribution of the trustee. Which Ring and Van de Ven (1953) relate to the risk transaction (cited in Mayer et. al 1995). However, other authors have considered reasons why trustee may be judge to be trustworthy. According to Hovland, Janis, and Kelley (1953) the factors expertise and trustworthiness, is the credibility of the trustee. Which the trustworthiness is related the motivation to lie. If the trustee is motivated to lie for self-gaining then he will be less trustworthy.

In the recent research on trust, Good (1988) suggested that trust is based on expectations of the trustee's behavior that bases on his previously claims (cited in Mayer et al. 1995). Similarly, Lieberman (1981) stated that the relationship between the trustor and the trustee bases on the professional competences and integrity. All of these authors suggested that the trustees characteristic and actions would reflect the trust for the trustee. His characteristics are important to understand why he is more trustworthy then other (cited in Mayer et al. 1995). Mayer et al. (1995) further discussed the three main characteristics of the trustee that will make him trustworthy. These characteristics discussed by them include some of Butler and Cantrell (1984) characteristic of both parties.

2.5.3.2 Ability

The skills, competences, and characteristics are the group of ability that the trustee can influence in some specific domain. His ability, that supported by the competence, which makes him able to take on the tasks in the specific domain. His expertise in the specific domain will make himself trustworthy (Mayer et. al. 1995)

2.5.3.3 Benevolence

The benevolence is the extent to which the trustee would want to do good for the trustor. That benevolence has somehow made the trustee attached to the trustor, so that the trustee would want to behave positive for the trustor. The benevolence is the positive orientation of the trustee orient towards the trustor. The trustee's positive intentions, motives, and loyalty reflect his benevolence towards the trustor (Mayer et. al. 1995)

2.5.3.4 Integrity

The relationship between integrity and trust is that the trustee follows a set of principles that the trustor finds acceptable. Even when there are, no rules or principles, the trustee expects to behave moral or ethical. An example is that the trustee's previous or past behavior, credible communications, the sense of justice, and his promises will affect his degree of integrity. This level of integrity will reflect the level of trustworthiness (Mayer et. al. 1995). A conclusion of this is the Gabarro's (1978) proposition; trust for a trustee will be a function of trustees' perceived ability, benevolence, and integrity, including the trustor's willingness to trust the trustee.

2.5.4 The Risk taking

There is no risk taking if one is willing to trust, and to be vulnerable. Risk connects to the behavioral of the willingness to be vulnerable. One does not need to risk anything in order to trust, on the other hand, one must take a risk to engage in the trusting action. The fundamental differences are that trust is the willingness to assume risk and the trusting behavior is the actual assumed risk (Mayer et al. 1995). Sitkin and Pablo (1992) paralleled the risk taking in to the tendency to take risks and the risk behavior. The separation of risk highlights the differences between trust and its outcomes (cited in Mayer, et al. 1995). Trusting the trustee will lead to risk taking in the relationship and the level risk will depend on the situation. The outcome of trust that discussed by Mayer et al. (1995) is the risk taking in relationship (RTR). RTR make a distinction of the outcome of trust from general risk-taking behavior. Due to that, outcomes can only occur in the context of an identifiable relationship with another party. Further, RTR suggest that the trust is likely to increase the trustor to form a link with the trustee, which will allow the trustor to be vulnerable in the relationship.

Sitkin & Pablo (1992) further discuss that trust is not involved in all the risk-taking behavior. For example, a farmer is taking a risk that the rain will fall down during the critical time of harvest season. Although it involves risk, it does not involve trust. Due to that there is no relationship identified with the rain and the farmer. Even tough, one can argue that there is an example of trust due to that exist a system that produce meteorological forecasts, however, the meteorologists does not control the weather. They only provide data of the weather scenarios. Thus, their accuracy can affect the risk perception. In sum, the farmer does not trust the weather but are taking a risk on the weather (cited in Mayer et al. 1995).

In the previous example, there are both positive and negative outcomes that might occur (Bierman, Bonini, & Hausman 1969) (cited in Mayer et. al. 1995). In a situation, that involves both negative and positive outcome, then the level of risk is different from if only the possibility of the negative outcome exists. The stake in that situation will affect the interpretation of the risk involved. In the integrated risk, Sitkin and Pablo (1992) discussed other factors that influence the perception of risk. These are the familiarity of the domain of the problem, organizational controls systems and social influences (cited in Mayer et. al. 1995). The perception of risk is the trustor's belief about the possible gains and losses outside the consideration that involve the relationship with the trustee. Sitkin and Pablo (1992) defined risk as characteristics of a decision, which the decision is the uncertainty about whether positive or negative outcomes of decision realizes (cited in Mayer et al. 1995).

There are two categories, which influence the likelihood of positive or negative outcome. These are; the relationship with the trustee and the factors outside the relationship that make the decision significant. However, the level of trust compares to the level of risk. If the trust is greater than the risk then the trustor will engage in the RTR. In sum, the RTR is a function of trust and the perceived risk of the trusting behavior. What influences whether the trustor decides take or not take a specific risk is the amount of trust for the trustee and the perception of risk in the behavior (Mayer et. al. 1995).

2.5.5 Trust in relation to social structures

The author Weber (1987) observed the legal system mechanism that designed with a function as guarantee or trustworthy conduct. Weber (1987) believed that trust from a personal relationship was shift to a social mechanism (cited in Hosmer 1995). Coleman (1984:85) followed Weber's observation; however, Coleman did not defined trust as a relationship between only two parts. He discussed that one party's trust in the second party may be conditional upon a third party to enforce the contract or agreement. Moreover, trust in the third party will base upon the fourth party and on. Nevertheless, these relationships could fail if one party is cheating. Granovetter (1985) argues that trust in the past leads to trust in the future. That is if the part had i.e. conducted economic transactions in the past according to the obligations of the society, that part will be more likely to be trusted in the future. Lewis and Weigert (1985:968) reinforced the belief that the trust is based upon the relationships between people that existed in the social system. They argued that the motivation to trust is the positive affect or the good rational reasons to trust (cited in Hosmer 1995).

From those authors' opinions, Zucker (1986) argues that the process based, is the past operations of the trustee that are well known and respected could lead to trust. Second, the person based, is similarities between people, with shared background and expectations. Last, the institutional based, that trust exist due to formal mechanism such as professionalism of the third party insurance (cited in Hosmer, 1995).

On the other hand, Shapiro (1987) rejected the institutional based trust. Regardless of the ethics codes, practice standards and regulator statues who will guard the guardians? Shapiro (1987) argues that there will still be tempted to lie, to steal, and to cheat (cited in Hosmer, 1995).

3 Method

In this section, there will be a thorough description of the methods carried out the study. There are relevant theories provided in order to understand why the certain research methods chosen to carry out the study.

3.1 Research purpose

Saunders, Lewis, and Thornhill (2007) describe three research approaches. These are the exploratory studies, descriptive studies, and explanatory studies. The exploratory is a study to find out what is happening; to seek new insight in the phenomena. It is mainly useful to understand a problem. However, one must be flexible and willing to change the research direction due to some new data occurs. The aim of the exploratory studies is to gather sufficient knowledge and to understand the problem by i.e. reviewing the literature and interviewing experts.

The descriptive studies are the research that portrays i.e. a person, events, or a situation. For example when a tutor trying to describe a problem for the student. On the other hand, the explanatory studies are focusing on the relationship between two variables. This is a data statistical test that explains the correlation of the variables (Saunders, et al. 2007).

However, the thesis is focusing to understanding a specific problem, which is the trust in relation to the annual report. The author wants to find out how the abolishing of the obligatory audit for the small companies will affect the trust for the information and the trust for the small companies. Therefore, an exploratory study is more suitable for this research.

3.2 Research approaches

There are two research approaches to choose between when conducting a research, and these are the deductive approach and inductive approach. The deduction approach refers to the testing theory; and the inductive approach refers to building the theory. The characterized deductive approach is by making a conclusion of the phenomena from generalized principles and on existing theories (Patel & Davidson, 2003). This approach aims to explain the casual relationship between two or more variables and is that quantitatively measured. Deductive approach is of a developed theory through a tested hypothesis. It is empirical observation such as quantitative data collection. However, it does not mean that the deductive approach may not use the qualitative data (Saunders, et al. 2003). According to Patel et al. (2003), deductive research is unique due to that the findings can change the initial theory.

The inductive approach is data collection on the field of the problem. The purpose with inductive approach is to get a feeling of what is going on and to obtain a better understanding of the nature of the problem. The gathered data analyses and be formulating into a theory. The inductive approach is when the theory would follow the data than vice versa as with the deduction approach. Inductive approach is particularly concerned with the small sample of subject, and unlike the deductive approach, a large number will be more appropriate for that research (Saunders et al. 2003).

3.2.1 Quantity oriented research and quality oriented research

There are two types of oriented research, which are the quantitative oriented research and qualitative oriented research. These oriented researches differ in how to generate, to process and to analyzing the gathered data. The quantitative oriented research is the measurements of the gathered data, the process, and analysis of the statistical means. However, the qualitative oriented research is commonly verbal analysis of textual materials (Kvale, 1997).

To decide which of the oriented researches to carry out is depending on the research problems. What do we want to know and what knowledge are we looking for. If we are interested in the question, where and how, then the quantitative oriented research is more appropriate. On the other hand, if we are interested to interpret and understand the phenomena such as what is this and the factors behind the reasons then qualitative oriented research is more suitable (Patel et al. 2003). The techniques for collecting data in the quantity research vary, but a questionnaire is the common one. Alternatively, an in-depth interview is common in the qualitative oriented research (Starrin & Svensson, 1994).

This study is of an inductive research. Due to that the purpose of this thesis is to examine and highlight from the banks' perspective, how the abolishing of the audit duty will affect trust for the information and the trust for the company. The thesis wishes to get a deeper understanding of the problem and therefore it is focusing on the qualitative oriented research. To gain this knowledge, a qualitative method, the in-depth interviews with three different banks had carried out to collect the qualitative data.

3.3 Case study approach

Case study is one of the research strategies. It involves an empirical investigation of the phenomenon in its real life. The reason for this is to gain richer understanding of the context of the research. Case study is worthwhile way of exploring existing theory. It generates answers to the question why as well as what and how (Saunders, et al. 2003).

What distinguish case study from other strategies is that the case study examines a smaller sample of population and i.e. survey strategy needs an amount of the sizeable population. A case can be an individual, a group of individual, an organization, or a situation (Patel et al. 2003).

Yin (2009) argues that there are two discrete dimensions of the case study strategy. These are single case versus multiple cases and holistic case versus embedded case. A single case often uses in critical or unique case. Conversely, the multiple cases are examining more than one case. The reason for this is to generalize the findings. The second dimensions are the holistic and embedded case, which refer to the unit of the analysis. This means that the analysis concerns object as whole, holistic case, or only parts of it, embedded case (Saunders, et al. 2007)

This thesis used the multiple case studies to gain a richer understanding of how trust for the information and trust for the company affects due to the exemption of the obligatory audit focusing on examine smaller sample of the population. In addition, this is the embedded case, due to that the author of the thesis only including the creditors in the banks.

3.4 Data collection

This research is of a qualitative oriented research and therefore qualitative data has gathered in order to analyze in accordance to the purpose. However, the data collection consists of primary data and secondary data. What distinguishes these two types of data is "who" has collected them (Dalen, 2007). The author of this thesis has collected the primary data and other researchers have collected the secondary data.

3.4.1 Primary data collection- interviews

Kvale (1997) describes the word interview as the change of views between two people of a certain theme. The aim of the interview is to gain the descriptive data of how people experience different aspects of their life. The qualitative interview is appropriate to get an insight of the interviewee experiences, feelings, thoughts, and opinion. Furthermore, interviews often uses in case studies (Dalen, 2007).

There are three types of interviews, which are the structured interviews, the semi-structured interviews, and the unstructured interviews. The structured interviews are the standardized interview with questionnaires. The interviewer read the questions and the interviewee answer the questions in a standardize order. However, this type of interview is better suitable for the quantitative research (Saunders, et al. 2007).

Second, the semi-structured interview which is the non-standardized interview. In this type of interview, the interviewer has prepared the questions concerning the theme. However, the order of the question may vary. Some questions maybe not asked, and other questions may add in the particular interview, due to the flow of the interview. The reason for the additional questions is to answer the research questions (Saunders et al. 2007).

Last, the unstructured- interview is also of the non-standardized interview. The use of this type of interview is to explore in depth the area that the researcher is interested. Furthermore, there are no questions prepared and the interviewee is free to talk about the subject. This is the interviewee's perceptions that will guide the interview (Saunders et al. 2007).

The interviews can carry out in face-to-face or through telephone to one-to-one interview or one-to-many interview. The one-to-many focuses on focus groups, and the face-to-face focuses on an in-depth interview (Saunders et al. 2007).

Before the interview, the researcher acquired knowledge on the subject. The author, herself designed the interview questions. The author divided the questions in to three categories. The questions are of open questions, which are to encourage the interviewee to provide extensive and developmental answers. The questions why, what and how, have different role in the research questions and interview questions. Kvale (1997) means is that the questions why and what should be asked before asking the how question. The interview was sound recorded, since it is essential to capture the interviewee own words (Dalen, 2007).

This thesis has carried out the semi-structured interview, face-to-face interview. The reason for choosing this type of interview is that the author of the thesis can prepare the interview questions and may add some additional questions needed to collect sufficient data during the interview. In addition, if the interview looses its track out of the theme, then the questions will help the researcher to control the interview and get back on the theme (Dalen, 2007). When carrying out the semi-structured interview, the author asked all interviewees the same questions. In the face-to-face interview, the interviewer can observe the interviewee during the interview. The interviewee can highlight or use different tones to answer a question (Dalen, 2007). The semi-structure interview will give the interviewee the chance to explain, or build on their responses. Furthermore, it will let the interviewee to "think loud" and may result in a rich and detailed set of data. Essentially, it is to understand the reason for the interviewee experience, attitude, and opinions about the subject (Saunders et al. 2007)

3.4.2 Selection of the respondents

It is sometime difficult to know how many interviews to carry out to collect the sufficient data in order to analyze and draw a conclusion in accordance to the purpose. Kvale (1997) suggest that the researcher should interview, as many as needed in order to find out what the researcher wants to know. However if the amount of interviewee is large perhaps it is difficult to analyze in depth and to interpret the interviews. The focus should be on the qualitative and not on the quantitative data (Kvale, 1997).

The thesis has carried out three interviews with three different banks in Jönköping city. The reason for focusing on the banks perspective is due to that they are the party that uses the annual report as a base for making decision about credits. Furthermore, they have no direct affect on the annual report, they just receive, and use the material at is it. Therefore, the banks' opinion is necessary to understand the effect of the abolishing of the obligatory audit of the small companies.

The interviewees are persons that work as creditors and are mainly working with credits for small companies. The author contacted the interviewees on the phone and asked for the permission to interview them and they agreed to participate in the interview. However, they wanted to be anonymous. The interview was held a week later at their offices.

3.4.3 Data processing and data analysis

The researcher respects the interviewees' decision of being anonymous. Therefore, the in this thesis, interviewees' names is not mentioned. Furthermore, the author of the thesis believes that the anonymity will let the interviewee to talk freely and be more honest during the interview. This will lead to a better response from these interviewees.

The interview was sound-recorded with a film camera. The reason for this is to get a better flow of the interview and to capture the interviewee's own words. It would not be possible to write down by hand the whole interview or even remember exact the words by only taking notes on the interview. In addition, it is time consuming, which can lead to that, the interviewee will not answer properly or give a full answer. Therefore, Kvale (1997) argues that sound recording interviews will give accurate interpretation of the data. Furthermore, Dalen (2007) mentioned that the sound recording interview is a helpful technique for a qualitative method. This will capture the interviewee's own word and different sound tones in answering the questions.

After carrying out the interviews, the researcher listened to the tape and wrote down every word that said on the interview, in the exact same order in Swedish. The interviews carried out in Swedish due to that both parties speak the language fluently. Later on, the author translated all interviews into English. Although, this may cause a loss of the exact expression, nevertheless the author captures the overall picture of the interviews. The author chose to write a fluent text of the three interviews. The reason for this is that the author believes that it is easier to read and to make an analysis of the empirical findings.

There are no standardized approaches when analyzing the qualitative data. However, there are different strategies to deal with the collected data. The author divided the data into different categories to be easier to analyze. Whatever method is used it is vital that it is guided by the purpose and that they are well structured to make further analysis to draw a conclusion (Saunders, et al. 2007).

3.5 Secondary data

Secondary data are data that already been collected by other researches for other purposes. Types of secondary data may be of journals, newspaper, interviews transcript, books, government publications, and academic surveys. The secondary data used in this research are of articles, books and the government publications (Saunders et al. 2007). The books used are in the library campus, but also in other libraries around southern Sweden. Articles used for this thesis are on the internet through the library website

3.6 Trustworthiness

A qualitative research has the ambition to discover the phenomena, to interpret and to understand the situation, to describe perceptions or a culture of a small sample. The thesis has the intention to get a great understanding of the particular case and the studied situations. The concept validity in a qualitative research is vital for the whole research process. The concept validity means that the study is measured what it tends to measure. However, there is an intertwined of the validity and reliability.

Patel et al. (2003) discuss further about the validity, transferability, and triangulating which is the trustworthiness of the data. The triangulation is the need of other instruments such as interviews, and observations to the data collection. The validity focuses on the accuracy of data and analysis is accordance to the purpose. Further, the transferability refers to the extent that the research can transfers to the readers (Patel et al. 2003).

There are diverse techniques used in order to meet the criteria of trustworthiness. The validity of the data collection, and the triangulation, that is using different sources and investigators. In this thesis, it is impossible to study the phenomena for a long time, due to the time consuming. Consequently, the research had to rely on what the interviewee stated in the interview. On the other hand, the thesis consists of only one author who had to do all the interviews and the data analysis by herself. As a result, the subjectivity and biased interpretation may not avoid. However, this does not mean that the researcher misinterprets or somehow manipulates the data. Moreover, the interviews were sound recorded and notes were taking on the interview. It is to provide the researcher the chance to interpret all that said during the interviews and get accurate data from the interview. Due to that, the study relies on the perceived reality of the interviewees, it is necessary to interview more than one bank. Hence, the author only interviewed three banks. Still, the researcher believes that the result will be the same even if carrying of more interviews with other banks. Furthermore, there are not many banks around Jönköping with the focus on credits for small companies. The author asked all banks the same questions. The reason for using the same question is to receive less variation of data and approximately the same amount of data from all interviewees. Thus, a few questions added due to the flow of the interview. The analysis and conclusion are on the data that collected through the three interviews (Patel et al. 2003).

From the conformability point of view, it is needed a competent person to correct and review the thesis (Patel et. al. 2003). However, there a list of references in the thesis to let other trace the data used in the thesis. Furthermore, the interview questions exist in the appendix, to provide the readers with the information how the interview carried out. In addition, a support and guidelines from the supervisor has made the thesis process easier.

4 Empirical findings

The result of the three interviews with Handelsbanken, Nordea and SEB is present in this section. The results present in several sections for the purpose to easier analyze and to draw a conclusion of the thesis.

A summary of the interviews with bank 1, bank 2, and bank 3

4.1 The creditor

A creditor's main task is to provide the customers with investments capital and working capital. However, there are situation dealing with purchase capital and credit for private persons. Their main clients are small and medium-sized companies. All the interviewees have worked in the banks between 5-10 years.

The creditors have the confidence to take decision about credits. Due to that, they get internal training and always updating their knowledge within the domain. In addition, they have support systems to support the decision. Furthermore, they usually work in teams if the amount of credit is large. However, they revealed that they have made both good and less good decisions. Thus far, it is difficult to find out the main reason behind the less good decisions.

4.1.1 The personal traits of the credit taker

The personal traits of the credit taker are vital for the credit decision in all the three occasions. The banks want to know if this person has experience, or any further competences or skills of running a business. Furthermore, they would like to know how this person handle different situation with different problems such as handling "downturns" situations and how the person is of a decision maker. It is easier for the bank to predict these traits on existing customer; however, they are more careful with new customers. Personal traits matters since it can reflect the confidence the banks will have for the person or the company's management. The sex or the cultural background does not have any affects on the judgment on credit.

4.1.2 The information and its processing

The banks agree that the financial statements in the annual reports are essential factor that contribute to the decision about credit. Other information that contributes to the decision is the forecast of the future and the budget of the companies. The financial statements are important when looking at a company's continuously or ongoing business. The budget and the forecast reflect the company's behavior and the possibilities of achieving these goals.

The balance sheets, and income statements, are central for the bank when making decision about the credit. The banks analyze the client's profitability and solidity based on the financial statements. This is to make a prediction if the client will run the business in long-term and the financing of the company. The solidity reflects the company's ability to pay back credit in the end. Further, they are analyzing the cash flow to predict how the company has developed, and predict the future of the company. A stable cash flow usually generates future dividends to the shareholders. Furthermore, the banks analyze the company's liquidity, to predict the company's ability of payment capability.

The usage of the balance sheet is crucial for the reason that clients present tangible and intangible assets there. What is interesting here is if assets are of inventories, a finished product, or raw materials. Moreover, the company's product is essential. If there is unique product, it may be difficult to sell it and in the end, the business may not survive. The chance of surviving is higher if there is a known product.

When looking at the income statements, the profit is vital here. However, the banks do not only focusing on the profit, but also at the restricted equity, and the non-restricted equity. The main differences between restricted versus non-restricted equity are that the non-restricted equity can freely distribute to the shareholders. Meanwhile the restricted equity can only distribute to the shareholders if the company liquidates. The restricted equity acts as a security for the banks if their clients are unable to pay the debts.

They believe that the balance sheet and the income statement have a connection and without any of them as a base, it is difficult to make a decision about approving the credit. They want to know how the client's state is at this moment, to predict the bank's level of risk in the engaging relationship.

When reviewing the financial statements with the customer, the bank would like the auditor to come along. The reason for this is that the company or the management has less knowledge about the details in the financial statements. The banks want the auditor to have a presentation of the items on the balance sheet and give the bank the specific details of the items. In addition, it is more efficient in many ways such as it contributes to reliable information and those other items that should be more considered. At the same time, the bank can ask the questions needed to clarify everything when all the parties are there.

However when it comes to a start-up company, the banks would want to receive a budget of the company to compare with existing companies, i.e. if the budget is realistic or not, a business plan, forecast of the future, information about the product and information of the market of the start-up company is trying to get in to. Furthermore, the banks need to know the person's private economy. Since it is a risk for the banks to give credit and therefore, they want to know this information. In addition, what guarantees do the banks have if the client is unable pay back the credit? These are important factors.

However, if the client wants to buy an existing company then the banks will have to make analyzes on the existing company. The necessary information is old data and the latest annual report. They will make further analysis on the client's cash flow, to see if it is possible for them to pay back the credit. Furthermore, they will also ask them how much the client is willing to finance with their own money. The bank wants the client to have "back-up" money if the company is not running so well.

Since all the banks do not want to take such high risk and to reduce this risk they will be asking for a mortgage as a guarantee or other guarantees in all above mentioned occasions from their clients. The mortgage as guarantee is essential for the credit decision.

The banks have a rating system that rates the risk for the bank if engaging in providing the credit. The rating is from one to six. If the client gets between 3 to 6 then that bank usually approve the credit. The banks collect these points from the processing of the clients annual report, and the client's characteristics. What the banks expect from their clients, is that the clients' behavior will in the end, generate a positive outcome. That is that they will generate profit and will be able to pay the debts to the banks.

4.1.3 The follow-up

When banks grant these credits, they will make a follow- up on the company by looking at their annual report and have personal meetings with their clients. They have meetings with their clients at least twice a year with their clients depending on each client. The reason for the follow-ups and the meetings are to follow up their clients' behavior is to see how this behavior has affected the company. In addition, there are financial pressures that can cause problems for the client to pay back the loan. Therefore, the meetings are important. However, if there are occasions where the financial pressures increase, turnover decrease, and cost increase hence we want to know how the client will deal with this situation. Are the owners willing to cover the loss with their own money or do they want to make another loan from the bank? If the situation is in short-term, then the client may sell the assets to cover the losses. However, if the client has such problem that they are unable to pay the debt servicing, then the banks have to make a prejudgment on the client. Even though the banks have a mortgage from the company as a guarantee, they want to solve the situation as gentle as possible. The option is to see the client's costs and decrease these costs to cover losses and loans. However, if this is a long-term situation, then the client may be in a situation close to a bankruptcy and the banks will require the client on its mortgage.

4.2 The auditing and the auditor's report

Although these banks receive all of this necessary information such as budget, financial statements, and annual report, they want the auditor to audit this information. Due to that, budgets are sometimes not realistic and others are manipulating the financial statements. Therefore, they believe that it is essential to have a third party's opinion and that the auditor's statement is a sort of a guarantee that the information is reliable. It is essential to have a "clean" auditor's report. This means that there are no audit objections and that the management behaves well when running the business.

These banks have trust for the annual report with a clean auditor report. Due to that, they trust the auditor, and the reason for that is that the auditors are expertise on that domain. They believe that the auditors have integrity, are non-partial and ethical in their audit task. An auditor's report is somehow a quality label or proof of the information to be realistic and reliable. Therefore, having a third party, an auditor reviewing these different factors is vital for the credit decision.

Their banks have not informed the employees within all three banks about the exemption of the audit duty for small companies. However, they believe that it is not only them but all other banks will still require the annual Report audited, especially the financial statements. Current clients that are included in the exemption of the audit duty that chose to not have an auditor auditing their accounts will be loose some trustworthiness for themselves. However, if they receive a non-revised annual report in the future, they will require that client to have an auditor to revise the report, especially the financial statements. They believe that this will be ineffective that affects the bank' working routine; however, they believe that they are the party that should be careful when approving credits. Due to the risk they may facing.

From these banks' point of view, they believe that the annual report will lose some values and believe that it is negative of the exemption of the audit duty. This in turn can disturb the relationships with their clients. For this reason, at this moment, they believe that there is no other option for the auditor's report in the annual report.

When approving the credit, it does not mean that the bank trusts their clients, instead; they have confidence in them. This means that they predict good behavior and believe in their clients' ability to produce a positive outcome. In addition, banks' risks minimizes in engaging in the relationship. It is difficult to have trust for the company in the beginning, but their behavior and result will proof how trustworthy they are. The relationship between the banks and its clients will develop with time. The confidence for the client reflects the amount of credits the banks are providing them.

Trust according to Bank 1: "*I know your competences and skills which reflects your ability to handle different situations such as handling the purchasing, marketing, your employees, and the down-wards situation*" (Handelsbanken, February 15)

Trust according to Bank 2; *"we recognize good behavior and consistency in the behavior, which results in a positive outcome*" (Nordea, February 18)

Trust according to Bank 3; "*we trust your ability of how to run a business, your behavior will meet our expectations*" (SEB February 26)

5 Analysis

In this section, there will be a presentation of the analysis of the empirical findings. The analysis has different layout than the empirical findings. The reason for this is to get a clear picture of the results of the study to answer the purpose and to draw a conclusion of the study.

5.1 The factors that contributes to trust

The annual report is mainly a communication tool between banks and its clients. It can be a decisive factor for accepting and build a relationship between the bank and the company. The processing of the annual report brings out the parties characteristics and reflects their behavior. Such as, it reflects banks willingness to trust companies. It can also, contribute to companies' behavior and trustworthiness. In addition, the processing of the annual report can predict the outcome and the risk of the relationship.

The characteristics that the annual brings out of banks are the competences, technical skills, and knowledge to perform the task as a creditor, which is to provide their clients with investment capital or working capital. Due to that, some individuals that do not have much knowledge about annual reports may not know how to read and understand the information in the annual report. They might just look at the numbers and do not understand in-depth the meaning of every accounts in the financial statements. As a creditor, it is vital to understand the annual report. To know how and what is need for the evaluation of the annual report. Therefore, the creditors in these banks need to update themselves within their working area. These characteristics and the processing of the annual report will provide the confidence for clients.

The reason for that these banks use of the annual report as a base to make decision about credits is that the annual reflects clients' behavior in various ways. Their good or acceptable behavior is somehow, reflected by the various key figures, such as clients' profitable, and solidity. Will they survive in the long run, and have the ability to pay back the debts?

If clients predict to produce, a positive outcome that meets banks' expectations will probably lead to cooperation with the bank. On the contrary, the client predicts not producing a positive outcome, which will probably lead to non-cooperation with them. Thus, the decision for approving the credit mainly bases on the processing of the annual report. However, the characteristic of the client is also a matter for the decision. Clients' ability, which supported by the skills, knowledge, and expertise in running a business are vital. These characteristics will make them trustworthy or less trustworthy in running a business.

The annual report also reflects client's benevolence towards the bank i.e. if they have a high solidity and the profitable of the business, then they have benevolence towards the bank. The benevolence means that they are able and willing to pay back the credit just as they promised.

The integrity of the client is a third characteristic that supports them to be trustworthy. This is the sense of justice in their evidence. This could be that they have not manipulated the information in the annual report. Their ability, benevolence, and integrity will provide confidence for them.

Clients will make themselves trustworthy if there is a third party that put a statement that they have not manipulated the information in the annual report. The auditor is the guarantee that proofs clients' trustfulness. Thus the auditor may provide trustfulness in the accounts in the financial statements does not mean that the client is trustworthy to be accepted the credit.

The reason for these banks to trusts the auditor is that they trust the auditor competence, skills, knowledge, and expertise in the auditing area. Due to that, the auditor has rules to obey. The auditors expect to behave moral and ethical and obey the rules such as ethical and professional codes that set for them.

The reason that these banks want audited financial statements is that they would want to reduce the risk in engaging in the cooperation with the client. If the information in the annual report is trustworthy and reliable, then the bank will minimize the risk and is willing to cooperate with the client. The other way to reduce the risk is to recognize and have confidence in the company's product. Due to that, a known product in a known market will lead to a higher rate that the company will survive.

These banks also notice the tangible and intangible assets because they are searching for some guarantees for themselves if they chose to approve the credit. However, they also notice the restricted and non-restricted equity is also a guarantee for the banks. Due to that, the non-restricted can freely distributes to shareholders. Meanwhile the restricted equity is another guarantee for how much the bank will get only if the company is liquidating.

Thus, the risk prediction and the guarantees, the banks will still take a risk if they take an action that involves cooperation. Due to that, the other factors can affect clients' decision. This in turn can affect the action that will affect the outcome, which may change the banks prediction and the expectations they have for the client.

In sum, these banks predict the company's behavior in the past and the behavior in the future by processing the annual report in different times. If they predict a probability of a positive outcome, a low risk prediction, and have confidence in the client's characteristics, then the banks will take the action and taking a risk in relationship with the client. .

5.2 The relationship

If clients predict to be trustful and have good behavior then this will lead to cooperation with the bank. With other words, they build a relationship. However, predictability does not mean that the bank trusts the company. Instead, the bank predicted that the company would perform an action that is at least beneficial for the bank to consider in engaging with them. When the bank is willing to cooperate with their clients, it means that the bank has confidence that the company will produce positive events. This means that the company will run in business and have the ability has to pay loans back to the banks including the interest rate. The confidence in the company means that their promises, good intentions, and positive actions meet the banks expectation of outcome. Therefore, the bank is willing to cooperate with them. Thus once again the bank is willing to cooperate does not mean that the bank has trust for the client. Instead, their relationships including trust will build up with time. This means that the client will have to contribute with new information as proof and evidence to proof them to be trustworthy, until the relationships ends. This means that the client has payed back the entire loan. See figure 2.1 for the demonstration of the relationship towards the trust for the client.

Model of trust- for the client

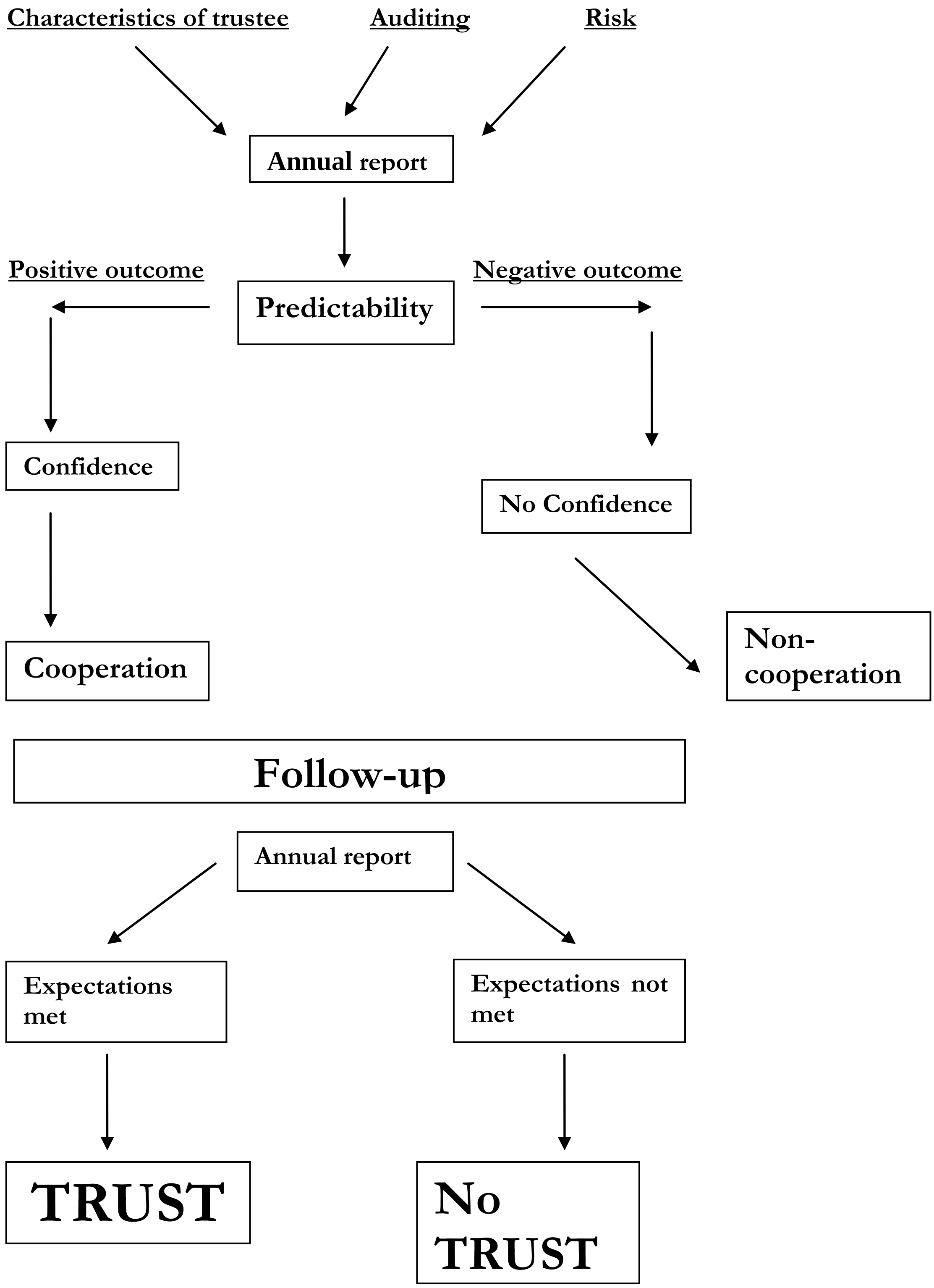

Figure 2.1 Model of trust- for the client (own design)

6 Conclusion

- How will the exemption of the audit duty affect the trust in annual reports

The exemption of the audit duty will somehow affect the trust for the annual report. Due to that, the bank said that they would require the company to have their financial statements audited by the auditor. The trust for the auditing contributes confidence for clients. This confidence is the base for the bank to take the decision about credit. Therefore, taking away the trust in the annual report and the confidence for the client may not lead to cooperation between the bank and the company. On the other hand, current clients that chose to not having an auditor auditing their annual report after approving the credits will affect the bank's trust for the annual report.

When the bank decides to cooperate with the company, it does not mean it have trust for its client at this moment. Instead, the bank has confidence in the company's ability to produce a positive event that is beneficial for the bank to cooperate with them. Therefore, after approving the credit the bank will have to follow-up on the company's behavior, to see if they can keep their promise and pay the debts. If the company does not have an auditor auditing their annual report after the granted credit, will make them less trustful in their behavior. On the hand, if the client meets the banks expectations, the client will gain trust from the bank.

- In which way will the exemption of the auditing affects firms possibility of financial credit from banks

The exemption of the audit duty will have a direct effect on the decision of approving the credit. It means that these banks will require an audited annual report, financial statements, and the budget. At this moment, they cannot see any replacement for the auditor report.

At this moment, the bank trusts the auditor, the auditor's report, and the routine of auditing of the annual report. This is a guarantee for them to minimize their risk taking in the relationship. For this reason, they believe that the annual report will lose value without an auditor's report. Therefore, at this moment it seems like the bank will not approve credits without the auditor's control.

Further reflections

The author found out that even when banks approve credits, they do not have trust for their clients at the beginning. Instead, the trust for the client will develop with time after they have proof themselves to be trustworthy. They will always have to provide the bank with evidence that they are reliable and are keeping their promise, which is able to pay back the debts.

Another vital finding is that banks trust the auditor and its statements in the annual report. They do not make any further investigation or even questioning the auditor. However, an essential aspect is that the auditor maybe biased. It is when he is partial or acts unethical and unmoral. This will make him unreliable towards its interests. Therefore, banks should not put too much belief in the auditor's statements.

It is common that banks have the third party, auditors as support control of the financial statements. They will therefore believe that the information is reliable and that this will minimize their risk in taking an action in the risk taking relationship. Therefore, they may not approve credits without a third party. However, when they get use to and experience the new system they will may change their mind about the auditors' report. The author believes that the auditor's report will in the future replaces with another control mechanism. Thus, it will have the same function as a control of the financial statements.

Therefore, an interesting research in the future will be on how the banks experience the exemption of the annual report and their experience of taking a decision about the credit without an auditor's statement.

The difficulty of the thesis was to collect the empirical data. Due to that, it was difficult to reach the interviewees. However, when they agree to participate in the interview they were much kind and helpful. They were very cooperative, due to that they took their time to answer the questions properly and in very details.

Another difficulty was to establish the interview questions. The reason for that are they well formulated to find the answer for the study. However, the supervisor read the questions and gave suggestion of interview questions. Thus, under the interview, the author added some questions.

Although, there is greatly interest in the study of trust, it was still difficult to find the relevant trust for this purpose of the study. It was time consuming to find the relevant trust. Thus, the author keeps searching and found the various articles that were useful for the thesis.

Once, the theoretical framework and the empirical data were collected it was easy to analyze the empirical data to answer the research questions and further make a conclusion of the analysis.

List of references

Barber Bernard, (1983) *The logic and limits of trust.* New Brunswick, New Jersey: Rutgers U.P Corporation

Bengt Starrin & Per-Gunnar Svensson (1st ed.). (1994). *Kvalitativ metod och vetenskapteori.* Sweden, Lund: Studentliteratur

Bokföringsnämnden, Bokföringslagen (1999:1078) (Svensk Författningssamling - SFS) (20100302)http://www.riksdagen.se/webbnav/index.aspx?nid=3911&dok_id=SFS1999:1078&rm=1999&bet=1999:1078

Bokföringsnämnden, Årsredovisningslagen (1995:1554) (Svensk Författningssamling - SFS)(20100302)http://www.riksdagen.se/webbnav/index.aspx?nid=3911&dok_id=SFS1995:1554&rm=1995&bet=1995:1554

Christer Johansson, Rolf Johansson, John Marton, Gunvor Pautsch (2004) *Externredovisning.* Malmö: Daleke AB

FAR FÖRLAG (2006) *Revision en praktisk beskrivning* (2nd ed) Kristianstad: Kristianstad boktryckeri AB

FAR SRS Förlag (2008). *Samlingsvolymen 2008 redovisning* Stockholm: FAR SRS Förlag AB

FAR SRS Förlag (2009). *Samlingsvolymen 2009 redovisning* Stockholm: FAR SRS Förlag AB

Gabarro, J.J (1978). *The development of trust, influence and expectations. In A,G. Athos & J.J Gabarro. Interpersonal Behaviors: Communications and understanding in relationships.* Englewood Clifs, NJ: Printice Hall

Garcia-Marza, D (2005). Trust and Dialogue: Theorethical Approaches to Ethics Auditing. *Journal of Business Ethics. Vol. 57* pp 209-219

Hosmer, L.T (1995) Trust: the Connecting Link between Organizational Theory and Philosophical Ethics. *The Academy of Management Review, Vol. 20,* pp 379-403

Hovland, C.I, Janis, I.L, & Kelley, H.H (1953). *Communication and persuation*. New Haven: Yale University Press

Jan Thomasson, Per Arvidsson, Hans Lindqvist, Olov Larson, Lennart Rohlin (2004) *Den nya affärsredovisningen*. Malmö: Liber Ekonomi

Mark Saunders, Philip Lewis & Adrian Thornhill (3rd ed.) (2003) *Research methods for business students.* Madrid, Spain: Mateu Cromo Artes Graficas

Mark Saunders, Philip Lewis & Adrian Thornhill (4th ed.). (2007*) Research methods for business students*. Spain,: Mateu Cromo, Artes Graficas.

Mayer. R.C, Davis, J.H & Schoorman F.D (1995). An Integrative Model of Organizational Trust. *The Academy of Management Review, Vol. 20,* pp 707-734

Monica Dalen (1st ed.) (2007) *Intervju som metod.*

Rick Hayes, Roger Dassen, Arnold Schidler, & Phillip Wallage (2nd ed.) (2005) *Principles of auditing. – an introduction to International Standards on Auditing.* Great Brittain: Ashford Coluor Press LTD Gosport.

Rejeev Bhattacharya, Timothy M. Devinney, Madan M. Pillutla (1998) A Formal Model of Trust Based on Outcomes. *The Academy Management Review, Vol. 23, No 3* pp. 459-472

Runa Patel & Bo Davidson (3rd ed.).(2003). *Forskningsmetodikens grunder.* Sweden, Lund: Studentliteratur

Statens offentliga utredningar (SOU 2008:32) *Avskaffande av revisionsplikten för små företag* Stockholm: Edita Sverige AB

Steinar Kvale (1st ed.) (1997) *Den kvalitativa forskningintervju.* Denmark: Narayana Press

Statens Offentliga utredningar**,** (http://www.sou.gov.se/).

Yuji Ijiri (1975) *Studies in Accounting research- Theory of accounting measurement* American Accounting Association

Appendix 1

Interview questions

The bank

- How long have you been working here?
- How do you always to keep fresh knowledge within the working area?
- Can you describe a creditor task?
- Can you describe the process of credit judgment?
- What type of accounting information does the bank use of, at the credit judgment of small companies? (differences between current vs new client)
- Which part of the annual report is used in the credit judgment?
- Why do you use this information?
- How do you use this information?
- Do you use key figures? Which one? What do they tell you? What do they tell you about the client?
- What other information are you interested in a credit judgment?

  (Budget, forward looking information, forecast)
- How does the annual report have the effect on the credit judgment?
- What other factors can affect the credit judgment? Does the business/product matter for the credit judgment? Risk in the relationship.
- What are the minimum criteria? Do you have a support system for the decision of approving credits?
- What do you expect from the companies? What do you expect of the possible relationship?

The company

- Do personal traits of the credit taker affect the credit judgment?
- What personal traits are essential for the credit judgment?

  (The competences, skills, male or female, background)
- Why does these matters for the credit judgment?
- Do you have contact with the client after approving the credit?
- Why do you have contact?
- What type of communication do you use of to have contact with your client?

(Information, responsibility)

- What do you expect from the company?
- What does the annual report tell you?

The auditing

- Can you describe the auditor's main task?
- What is the auditor's role in relation to the annual report?
- How does the auditor opinion matter in the annual report?

  How much belief do you put on the auditor's statements? How much trust do you have for the annual reports?
- Why does the auditor's opinion matter for the credit judgment?
- How do you feel for a revised vs non-revised annual report?
- What are the bank's opinions of the abolishing of the audit duty?
- How will the abolishing of the audit duty affect the credit judgment?
- Will you approve credit for a client without having the auditor's opinion?