Review of Company's Administration—Auditor as a Monitor of the Legality of Business Judgments

Mr Janne Ruohonen*

Mr Jaakko Rönkkö**

Ms Oona Sarajärvi***

keywords to be inserted by the indexer

Abstract

The audit of administration as part of the statutory audit is not widely known in Europe and is not identified as a separate audit subject in international auditing standards. However, it is an important aspect of the Finnish audit. The audit of administration can be seen as a management tool to gain the trust of shareholders, creditors and other stakeholders. As part of the audit of administration audit, the auditor is required to examine the legality of management's actions and the conditions for the continuity of operations. The purpose of this article is to provide an overview of the current legal environment regarding the auditor's duty to review the compliance of the management of an LLC, drawing on agency theory discussions. It is not realistic to suggest that such a feature should be widely adopted in EU countries or incorporated into international auditing standards, as a new audit subject would impose additional administrative costs on companies. However, the findings of this study may serve as an opening for discussion as to whether an emphasis on the review of compliance could increase shareholder and stakeholder confidence in companies.

Renewed and evolving role of auditors

The auditing industry has undergone significant changes in the 21st century. In the aftermath of the financial crisis (starting in 2008), the European Commission published the Audit Green Paper[1] which acted as a starting point for the European

* PhD, Associate Professor of Business Law (tenure track), Director of Master's Program on Auditing, Tampere University, Finland. Email: janne.ruohonen@tuni.fi.

** PhD, Authorised Public Accountant, University Teacher, Tampere University, Finland. Email: jaakko.ronkko@tuni.fi.

*** M.Sc. (Econ. & Bus. Adm.), Researcher, Tampere University, Finland. Email: oona.sarajarvi@gmail.com.

[1] European Commission, Green Paper—Audit Policy: Lessons from the Crisis COM (2010) 561 final, *https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52010DC0561*.

Union Audit Reform in 2014.[2] The Audit Reform aimed to enhance the market for statutory audits and improve the quality of the audits of Public Interest Entities (PIEs) through the Audit Directive (2006/43)[3] as amended by the Directive (2014/56)[4] and the Audit Regulation (Regulation 537/2014).[5] In Finland, four central changes to the audit profession can be identified over the last 15 years. First, only approved (public authorised accountant[6]) auditors are permitted to act as a statutory auditor. Second, auditing in Finland has become more complex compared to the local good auditing practices due to the introduction of detailed, international standards on auditing (ISA). Third, the smallest corporations are exempt from auditing obligations. Although the smallest companies' auditing obligations have been reduced, the thresholds for mandatory audits are still remarkably low in Finland compared to other European Union (EU) countries.[7] Fourth, the role of the auditor is evolving from that of a financial reporting auditor to that of a sustainability reporting auditor as a consequence of the EU's recent unified sustainability reporting standards.[8] Due to the implementation of the Corporate Sustainability Reporting Directive (2464/2022, CSRD),[9] Finnish companies affected by the CSRD must choose *an authorised sustainability auditor* to audit their sustainability reporting. A certified auditor can act as an authorized sustainability auditor when certain requirements of the Finnish Auditing Act (1141/2015, FAA) are met.[10]

In accordance with the provisions of the FAA 3:1, the scope of a statutory audit is financial statements, accounting, and administration. The audit of administration as part of the statutory audit is not widely known in Europe. However, it constitutes a pivotal aspect of Finnish auditing.[11] There is no standard English term for audit of administration. It could also be called an audit of governance or an audit of management, and it refers to *a review of the legality of a company's management*.

[2] See more detail about the context and objectives of the Audit Reform in European Parliament, Directorate-General for Internal Policies of the Union, Marleen Willekens, Ines Simac and Simon Dekeyser, "EU statutory audit reform—Impact on costs, concentration and competition—In-depth analysis" (11 May 2019), *op.europa.eu*.

[3] Directive 2006/43 on statutory audits of annual accounts and consolidated account, amending Council Directives 78/660 and 83/349 and repealing Council Directive 84/253 [2006] OJ L157/87.

[4] Directive 2014/56 amending Directive 2006/43 on statutory audits of annual accounts and consolidated accounts [2014] OJ L158/198.

[5] Regulation 537/2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909 [2014] OJ L158/77.

[6] See Finnish Association of Authorised Public Accountants, "Tilintarkastajanimikkeiden käännökset" (2024), *tilintarkastajat.fi*.

[7] Accountancy Europe, "Audit Exemption Thresholds in Europe" (9 April 2020), *accountancyeurope.eu*; Elina Haapamäki, "An examination of comment letters concerning an increase in audit exemption thresholds. Evidence from Finland" (2022) 46(4) *Accounting Forum* 394. FAA 2:2.2: Unless otherwise provided in any other act, there *is no obligation to appoint an auditor for a corporation* where no more than one of the following conditions were met in both the last completed financial year and the financial year immediately preceding it: 1) the balance sheet total exceeds €100,000; 2) the net sales or comparable revenue exceeds €200,000; or 3) the average number of employees exceeds three.

[8] For more on the diversification of an auditor's role, see Deniz Appelbaum, Huijue Kelly Duan, Hanxin Hu and Ting (Sophia) Sun, "The Double Materiality Audit: Assurance of ESG Disclosure" (22 February 2023), *https://ssrn.com/abstract=4367032*; Institute of Internal Auditors, "Internal Audit's Role in ESG Reporting—Independent Assurance is Critical to Effective Sustainability Reporting" (May 2021).

[9] Directive 2022/2464 amending Regulation 537/2014, Directive 2004/109, Directive 2006/43 and Directive 2013/34, as regards corporate sustainability reporting [2022] OJ L322/15.

[10] The detailed conditions for the approval of an authorized sustainability auditor are regulated in the FAA 6:3 a (1250/2023). See more on the auditor's role as a sustainability assuror in Finland and the conditions of qualification in Janne Ruohonen and Helmi Kullas, "The Assurance of Corporate Sustainability Reports and the Renewed Role of Certified Auditors" (2024) 3 E.C.F.R. 2024.

[11] Also, in Sweden administration is one of the subjects of statutory audit. See Hallvarsson & Halvarsson, "The Swedish Corporate Governance Code" (2020), *https://bolagsstyrning.se/*.

It is not a question of checking the appropriateness of administrative decisions, but rather the legality of those decisions. Nevertheless, the precise delineation of the content of the audit of administration has proven to be a challenging endeavour. This is particularly related to whether the company's administration has acted in accordance with the law and in accordance with its duty of care and business judgement rule. The scope of the audit of administration is strongly guided by the auditor's professional discretion and the materiality principle. It can be considered a management tool to gain the trust of shareholders, creditors, and other stakeholders. Under the Finnish Companies Act (624/2006, FCA) 6:1.1, a Finnish limited liability company (LLC) shall have a board of directors, but it may also have a managing director and a supervisory board. These entities are referred to as the *management of a company*.[12] The FCA acknowledges the role of the supervisory board and thus the two-tier governance model.[13] Nevertheless, Finnish limited liability companies typically have a one-tier governance model which, in addition to the annual general meeting, contains the board of directors and the managing director.[14] The FCA sets the framework for the duties, obligations, powers and responsibilities of the company's management towards the company and its shareholders.[15] For listed companies, this framework is complemented by the Finnish Corporate Governance Code.[16]

The increasing complexity of the corporate decision-making environment has contributed to the importance of checking the legality of management decisions. Companies and company directors worldwide have faced an unprecedented continuum of external shocks that have posed major challenges for businesses. The financial crisis (2008), the coronavirus pandemic (2020–2023), Russia's illegal attack on Ukraine (2022–) and the energy sector turmoil are examples of recent events that have affected companies worldwide. Globally, the purpose of a company is to make a profit for its shareholders.[17] The board's role is to determine the means that best promote the company's purpose in a variety of decision-making situations. Management often has to make decisions in an uncertain business environment and adhere to a quick timetable.[18] National company law provides a legal framework for management's decision-making and is always intertwined with the legal

[12] A member of management may also be referred to in the article as "director" (a member of the board of directors, a member of the supervisory board and the managing director).

[13] For example, Germany and Austria have a two-tier governance model, where management and supervision are separated, with the supervisory board overseeing the management of the company. Rado Bohinc, "One or Two-Tier Corporate Governance Systems in Some EU and Non EU Countries" (2011) 8(1) *Megatrend Review* 57; Martin Gelter and Mathias Siems, "Letting Companies Choose between Board Models: An Empirical Analysis of Country Variations" (2022) 43(1) *Journal of International Law* 137; Accountancy Europe, "Comparing European Corporate Governance Models" (17 November 2022), *https://accountancyeurope.eu/*.

[14] Jukka Mähönen, "Finland: Corporate Governance: Nordic tradition with American spices" in Andreas M. Fleckner and Klaus J. Hopt (eds), *Comparative Corporate Governance: A Functional and International Analysis* (Cambridge: Cambridge University Press, 2013), pp.393–443; Manne Airaksinen and Tom Berglund, "Corporate Governance in Finland" in Per Lekvall (ed.), *The Nordic Corporate Governance Model* (Stockholm: SNS Förlag, 2014), pp.175–177; Carsten Jungmann, "The Effectiveness of Corporate Governance in One-Tier and Two-Tier Board Systems—Evidence from the UK and Germany" (2006) 3(4) E.C.F.R. 426–474.

[15] This framework can be called the institutional arrangement for a limited liability company. Jukka Mähönen and Seppo Villa, *Osakeyhtiö 1, Yleiset opit*, 3rd edn (Helsinki: Talentum 2015), pp.265–318; Jukka Mähönen and Seppo Villa, *Osakeyhtiö. III, Corporate governance* (Helsinki: Alma Talent Oy, 2019), p.114.

[16] Securities Market Association, "Finnish Corporate Governance Code" (19 September 2020), *https://www.cgfinland.fi/wp-content/uploads/2023/05/corporate-governance-code-2020.pdf*.

[17] European Model Companies Act (EMCA) 2017, *https://www.law.au.dk/en*. The EMCA is a model law drafted by company law experts and is not in force as such in any EU country.

[18] Seppo Villa, *Hallituksen ja toimitusjohtajan oikeudet ja vastuu osakeyhtiössä* (Helsinki: Kauppakamari, 2020), pp.1–5.

responsibilities of management.[19] Thus, as part of the administration audit, the auditor is required to review the legality of management's actions and the conditions for continuity of operations in an increasingly complex decision-making environment.

Research questions, method and limitations

The purpose of this article is to provide an overview of the current legal environment in Finland regarding the auditor's duty to review the compliance of administration of an LLC as part of a statutory audit. The obligations imposed by the national regulation on the audit of administration are also reflected in the requirements of the International Standards on Auditing (ISA). The study examines the differences between the expectations of audit stakeholders and the actual audit of administration performed by auditors. The analysis is limited to the LLC form,[20] the legality of management's actions (board of directors and managing director) and the audit of administration performed as part of the statutory audit. The research method used is legal dogmatics, which systematises and interprets the regulations on the auditor's duty to audit the management. The topic is also examined from the perspective of the principal-agent theory.

Special features and the contents of audit in Finland

In accordance with FAA 3:1, the subjects of the audit in Finland are the accounting records, the financial statements and the administration. In particular, the audit of administration is a unique feature of auditing in Finland. Audit of administration has been part of Finnish auditing since the end of the 19th century and it must be contextualised within its historical roots.[21] The objective of the audit of administration is to assess a company's compliance with the relevant statutory provisions. The focus is on addressing essential issues and planning the implementation of the work. According to FAA 3:5.2, the auditor is obliged to issue a statement in the audit report on the following matters: (1) Whether the financial statements provide an accurate and comprehensive representation of the results of the company's operations and financial position in accordance with the financial reporting regulations that have been followed; (2) Whether the financial statements comply with the statutory requirements; (3) Whether the management report has been prepared in accordance with the regulations applicable to the preparation of the management report; and (4) Whether the information included in the management report for the financial year is consistent with the information included in the financial statements.

The administration of the company is not audited separately from other audit targets—it is a matter of *inspecting the whole*. The accounting and financial statements of an LLC are inextricably linked to the responsibilities of the board. According to FCA 6:2.1, the board of directors oversees the administration of the company and the appropriate organisation of its operations (general competence),

[19] Janne Ruohonen and Matti Turtiainen, "Exceptional Circumstances and Ensuring Solvency in Companies' Profit Distribution" (2023) (44)12 Co. Law. 227.

[20] The word "company" is used in this article to refer to an LLC; the FAA uses the word "corporation" because audit regulation also applies to companies other than LLCs.

[21] The auditing of the administration was first regulated in the Limited Liability Companies Act of 1895 (22/1895).

and the board is responsible for the appropriate arrangement of the control of the company accounts and finances. In accordance with FCA 6:17.1, the managing director is responsible for ensuring that the company accounts are in compliance with the law and that its financial affairs have been arranged in a reliable manner. From the perspective of the audit of administration, the most pivotal—although not the sole—objective is particularly associated with the auditor's obligation to give a statement. The main provision defining the content of the audit of administration is FAA 3:5:5.

> *"FAA 3:5.5.* The auditor shall include a remark in the auditor's report if a partner, a member or the chairperson or the deputy chairperson of the board of directors or of the supervisory board or of an equivalent governing body, or the managing director or any accountable person in the corporation, (1) is guilty of an act or negligence which may result in liability for damages towards the corporation; or (2) has violated an act applicable to the corporation, or the articles of association, deed of partnership, or rules of the corporation."

For instance, the decision to distribute assets is inextricably linked to all three audit targets. In an audit of administration, the auditor must initially evaluate the asset distribution decision from the perspective of the management and shareholders. This first step entails determining whether the management adhered to the stipulations of the FCA in its profit distribution proposal and whether the asset distribution decision of the annual general meeting was made in accordance with the aforementioned Act. Second, with regard to the implementation of the asset allocation decision, the accounting entries are checked. Third, once the decision has been made, the impact on the company's financial statements is evaluated.

Principal-agency theory explaining the need for audit of administration

According to the existing literature, the dominant theoretical framework explaining the existence of external audit has been principal-agency theory.[22] First, external audit is considered a potential solution to information asymmetries between the management as agents and the owners as principals. This belief is due to the assumption that managers as agents tend to have more information on the company's finances and operations than the owners as principals. Second, from an agency theoretical perspective, the major drivers for companies to arrange audit activities relate to conflicts of interest among managers, shareholders, and bondholders.[23] Thus, principals might have an interest in mitigating these conflicts

[22] A. Rashad Abdel-Khalik, "Why do Private Companies Demand Auditing? A Case for Organizational Loss of Control" (1993) 8(1) *Journal of Accounting, Auditing & Finance* 31; Peter Carey, Roger Simnett and George Tanewski, "Voluntary Demand for Internal and External Auditing by Family Businesses" (2000) 19(s-1) *Auditing: A Journal of Practice & Theory* 37; Chee W. Chow, "The Demand for External Auditing: Size, Debt and Ownership Influences" (1982) 57(2) *The Accounting Review* 272.

[23] A. Rashad Abdel-Khalik, "Why do Private Companies Demand Auditing? A Case for Organizational Loss of Control" (1993) 8(1) *Journal of Accounting, Auditing & Finance* 31; Peter Carey, Roger Simnett and George Tanewski, "Voluntary Demand for Internal and External Auditing by Family Businesses" (2000) 19(s-1) *Auditing: A Journal of Practice & Theory* 37; Chee W. Chow, "The Demand for External Auditing: Size, Debt and Ownership Influences" (1982) 57(2) *The Accounting Review* 272.

and information asymmetries. This interest can be executed by appointing an external auditor in the annual general meeting.

According to the FAA 4:3, an auditor shall observe any particular instructions given by the partners or by the shareholders' meeting or an equivalent governing body, insofar as these instructions are not in conflict with the law, the articles of association, the rules, the deed of partnership, international auditing standards, good auditing practice, or the principles of professional ethics. Hence, the auditors are indeed obliged to observe instructions given by the principals who are served with a possibility to mitigate traditional agency conflicts by using independent auditors and their reporting. However, according to the FCA 5:21 and 5:22, the shareholders have limited rights to obtain information on the management's actions or the information behind the board of directors' conclusions. In the annual general meeting, the shareholders have the right to familiarise themselves with the annual report and other material issued by the board, but the amount of information available can be regarded as limited. Therefore, the potential information asymmetry between the board and the shareholders highlights the importance of the audit of administration executed by the independent external auditor in terms of the legality of management's actions.

In addition to the traditional agency conflicts between principals and agents, there can be tensions between different types of owners. Theoretically, the relationships between minority shareholders and majority shareholders in the context of business firms can be defined as principal-principal relationships.[24] Not all shareholders (principals) have the same amount of information about the company's operations and finances. For instance, only the largest shareholders have the power to appoint their own representatives to the board of directors. In addition, in companies with many shareholders, many of the owners can be minority shareholders and poorly informed of their control rights.[25] Therefore, the ownership structure of a company can be seen as a meaningful factor affecting the demand on auditing as the decentralised ownership structure has been linked with more complicated agency conflicts.[26] The audit of administration might be a useful tool to fulfil the needs of principals to mitigate these conflicts as the auditor is obliged to evaluate the legality of the company's management and to report the potential findings in a public auditor's report. On the other hand, the interests of the different types of shareholders can be heterogeneous. Thus, these conflicts between different types of principals might also create a demand for external auditing—and audit of administration, especially as it concentrates in particular on the legality of the company's management and consequently increases accountability. Conclusively, the audit of administration could, at best, increase the trust of different stakeholders regarding management's actions.

[24] Steve Sauerwald and Mike W. Peng, "Corporate Governance and Principal-Principal Conflicts" in Mike Wright, Donald S. Siegel, Kevin Keasy and Igor Filatotchev (eds), *The Oxford Handbook of Corporate Governance* (Oxford: Oxford University Press, 2013), pp.658–672.

[25] Andrei Shleifer and Robert W. Vishny, "A Survey of Corporate Governance" (1997) 52(2) *The Journal of Finance* 737.

[26] Peter Carey, W. Robert Knechel and George Tanewski, "Costs and Benefits of Mandatory Auditing of For-profit Private and Non-for-profit Companies in Australia" (2013) 23(1) *Australian Accounting Review* 43; Paul Collier and Alan Gregory, "Audit committee activity and agency costs" (1999) 18(2) *Journal of Accounting and Public Policy* 311; Jaakko Rönkkö, Mikko Paananen and Jarmo Vakkuri, "Exploring the Determinants of Internal Audit: Evidence from Ownership Structure" (2017) 22(1) *International Journal of Auditing* 25.

As stated above, according to FCA 6:2, the board of directors is responsible for the appropriate arrangement of the control of the company accounts and finances. In terms of agency conflicts and principal-principal conflicts, the role of external auditors as auditors of administration is crucial in mitigating the various types of conflicts related to the differing interests and information asymmetry. The audit of administration and the potential public reporting on the negligence of the board of directors serves the information needs of different stakeholders. The auditor has a duty to report if the director of the company is guilty of an act or negligence that may result in liability for damages towards the corporation (FAA 3:5). Thus, as a result of this crucial component of statutory audit, the audit of administration, the auditor could mitigate the traditional agency conflicts by determining whether or not the directors have acted in accordance with the general duty of care stipulated by FCA 1:8. This component significantly increases the traditional role of the auditor as a sole financial statement auditor and consequently meets the principals' needs regarding the legality of a company's governance.

Key elements of auditing the administration

The audit of administration represents a distinctive feature of national auditing, which precludes its examination solely through the lens of international auditing industry standards. Instead, it *must be contextualised within its historical roots* which are firmly embedded in the field of company law. Indeed, the auditing of the administration was first regulated in the Limited Liability Companies Act of 1895 (22/1895). The first Auditing Act in Finland was established in 1994. The Auditing Act (936/1994) incorporated the auditing directives of the European Union. In 2007, the Auditing Act was reformed and the lay audit institution was abolished.[27] Changes led to the growing significance of auditing the administration.[28] When enacting the current Auditing Act (FAA), no changes were made to the object of the audit or to the auditor's obligation to issue a reprimand to the administrations' wrongdoings.[29] The auditing of the administration has been identified as a crucial aspect in a memorandum from the Ministry of Economic Affairs and Employment's committee, as well as in the Government's proposal in the late 2010s. It is regarded as a fundamental element of auditing and is considered essential in ensuring the principle of equality is upheld.[30] Despite the legislative amendments, the subject of the audit has remained relatively consistent over time, which makes a historical review an invaluable tool for understanding the evolution of the content of the audit of administration. The audit of administration was originally intended to be limited to the most central matters of the administration. It can be stated that an early interpretation of the materiality principle has guided the audit ever since, and it continues to serve as a limiting factor.[31]

[27] Auditing Act (459/2007).

[28] Janne Ruohonen, *Tilintarkastaja osakeyhtiön hallinnon tarkastajana* (Helsinki: Alma Talent Oy, 2020), p.29.

[29] FAA 3:1 and 3:5.5.

[30] Government proposal on amending the Auditing Act and certain related Acts 70/2016; Ministry of Economic Affairs and Employment, "Working group's memorandum on certain legal provisions of the Auditing Act and lightening of the administrative burden" (16 January 2018) Publications of the Ministry of Economic Affairs and Employment 1/2018, *https://julkaisut.valtioneuvosto.fi/handle/10024/160475*.

[31] Government proposal on amending the Auditing Act and certain related Acts 70/2016; Ministry of Economic Affairs and Employment, "Working group's memorandum on certain legal provisions of the Auditing Act and

What does the audit of administration include?

The FAA does not stipulate the specific content of the audit of administration. In terms of content, the audit of administration is to some extent considered a chameleon. This is because the companies audited are diverse. Nevertheless, there has been a shortage of research into the audit of administration in the 21st century. The content of audit of administration can be conceptualised as follows:

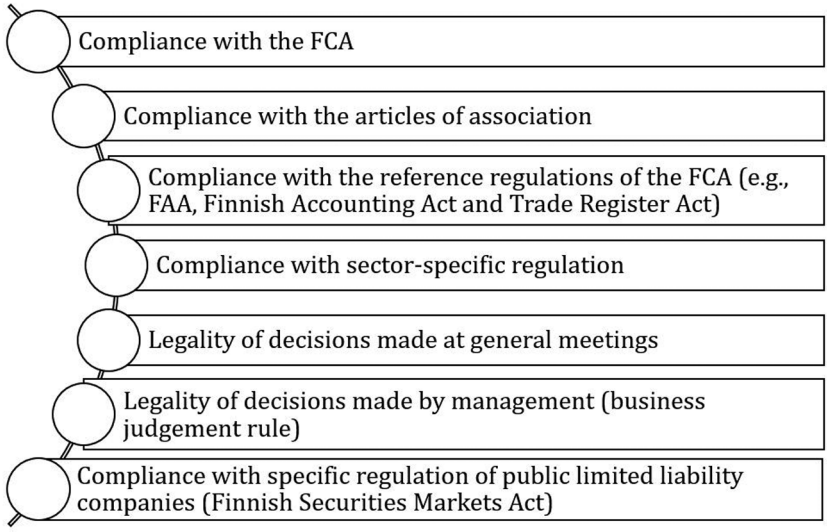

Figure 1: **The key elements of the audit of administration.**[32]

The administration of the company is not audited separately from other audit targets, but it is performed as part of the accounting and financial statement audit. In particular, the general duties of an LLC's board of directors as stipulated in FCA 6:2 can be considered a major subject of the audit of administration. The content of the audit depends on the specific characteristics of the company being audited.

The auditor has a duty to report if the director of the company is guilty of an act or negligence which may result in liability for damages towards the corporation (FAA 3:5). The auditor is obligated to provide a report on any breaches of any of the aforementioned items (figure 1). In terms of compliance with the FCA and the articles of association,[33] for example, issues related to the distribution of the company's assets, the thoroughness of management's decision-making and the organisation of internal risk management will be assessed. From a practical point of view, the audit of the board's minutes, the most significant agreements and trade register notifications are important inspection targets.

lightening of the administrative burden" (16 January 2018) Publications of the Ministry of Economic Affairs and Employment 1/2018, *https://julkaisut.valtioneuvosto.fi/handle/10024/160475*.

[32] Janne Ruohonen, *Tilintarkastaja osakeyhtiön hallinnon tarkastajana* (Helsinki: Alma Talent Oy, 2020). Finnish Accounting Act 1336/1997, Finnish Trade Register Act 564/2023 and Finnish Securities Markets Act 746/2012.

[33] See in more detail about the audit of articles of association, Veikko Vahtera, "Tilintarkastaja osakeyhtiön yhtiöjärjestyksen noudattamisen tarkastajana" in Lili-Anne Kihn, Lasse Oulasvirta, Janne Ruohonen, Jaakko Rönkkö and Jani Wacker (eds), *Talous, sääntely, ohjaus—tarkastuksen ja valvonnan ajankohtaiskysymyksiä* (Tampere: Tampere University Press, 2019), pp.57–76.

The board of directors or a member of the board of directors shall not comply with a decision of the annual general meeting, the supervisory board or the board of directors where it is invalid owing to being contrary to this Act or the articles of association (FCA 6:2.2). In accordance with the administration audit (FAA 3:1.1), the auditor is also required to assess the legality of the decisions made at annual general meetings.[34]

Regulatory compliance

Determining the scope of the regulatory field of audit administration is challenging. Regulation can be categorised in a number of ways. One such categorisation is as follows:[35]

Figure 2. The scope of the regulatory field of administration audit.

1	2	3	4
FCA & regulations referred to in the FCA	business taxation regulation & criminal law regulation on embezzlement regulation of the company's industry (field of business)	regulation of the company's industry (field of business)	other regulation of business activities (labour law, etc.)

The audit of administration encompasses the first group of regulations, namely the FCA and the regulations referred to in the FCA (FAA, Finnish Accounting Act, etc.). The regulations in the second group are of central importance from the perspective of the audit's supervisory function. For instance, the key regulation on the taxation of business activities and the regulation on embezzlement of the criminal law fall within the scope of the auditor's responsibility. The third group encompasses regulations pertaining to a company's industry, including environmental, competition, and state aid. Such regulations may, on a case-by-case basis, fall within the scope of the auditor's responsibility. For example, when the auditor has reason to suspect that a company has violated a key industry regulation. The fourth group encompasses other regulations pertaining to business activities, such as labour and cooperation regulations.

The auditor's role in ensuring compliance with these regulations is limited. Overall, the further one moves away from the regulations at the heart of the auditor's expertise, the less likely the auditor is to intervene in cases of non-compliance. In the event that non-compliance with regulations is not directly related to the transactions and events reflected in the financial statements, the likelihood of the auditor examining such violations is reduced. Nevertheless, the auditor must be mindful of the need for compliance with regulations that are fundamental to the company's operations. In the instance that activities that contravene these regulations may result in damage or substantial harm to the

[34] In the legal literature, it has been established that audits of the decision-making of the general meeting fall within the scope of the audit of administration. See positions presented in legal literature Janne Ruohonen, *Tilintarkastaja osakeyhtiön hallinnon tarkastajana* (Helsinki: Alma Talent Oy, 2020), p.140. On the inspection of general meeting resolutions, see Janne Ruohonen, *Tilintarkastaja osakeyhtiön hallinnon tarkastajana* (Helsinki: Alma Talent Oy, 2020), pp.139–151.

[35] *Figure 2*, see Janne Ruohonen, *Tilintarkastaja osakeyhtiön hallinnon tarkastajana* (Helsinki: Alma Talent Oy, 2020).

company, the auditor is obligated to take action. The auditor is more likely to comment when the information in question is essential for stakeholders, when it concerns a matter of essential importance based on the going concern principle, or when there is another reason to evaluate regulatory compliance.

The auditor is not obligated to point out *minor violations of regulations*. For example, neglecting a register notification that was corrected later. In determining the significance of an infraction, the auditor must consider the interested parties' need for information and the materiality of the matter, which is open to interpretation. Additionally, the auditor must assess the intentionality of the infraction, the amount of damage, and the size of the LLC. The significance of the note is accentuated when it pertains to information that is crucial for interested parties. Conversely, in the case of a matter that is open to interpretation, the auditor is afforded greater discretion in making a remark. Even in the absence of any discernible damage or in the case of minimal damage relative to the size of the company, the threshold for the obligation to notify may be elevated.

Auditor and business judgement rule

The role of the auditor is to assess the *legality* of the company's major business decisions, not the appropriateness of those decisions. The auditor is tasked with determining whether the management has acted in accordance with FCA 1:8's general duty of care. Management's duty of care includes, for example, compliance with regulations governing the operation of the company. This duty encompasses two key elements: first, the duty to act diligently and, second, the duty to act in the best interests of the company.[36] The management owes a duty of loyalty to the company which means they must avoid putting their own interests ahead of the company's best interests.[37] In evaluating the fulfillment of management's general duty of care, the business judgement rule is applied.[38] The business judgement rule is a fundamental principle of US company law[39] and it is also widely recognised in the European legal context.[40] In accordance with the business judgment rule, the company's management is not held accountable for business decisions made after the acquisition of sufficient information, made in good faith (bona fide) and in the best interests of the company, with the avoidance of conflicts of interest.[41] Business decisions must also have a valid business reason to comply with the duty of care.[42] The auditor does not assess the appropriateness of the business decisions.

[36] Government Proposal on Companies Act 109/2005, p.40. The company's best interest is defined by interpreting the duty of loyalty through the purpose of the company's operations FCA 1:5. Mähönen and Villa, *Osakeyhtiö 1, Yleiset opit* (2015), pp.376–377.

[37] Andrew Trask and Andrew DeGuire, *Betting the Company: Complex Negotiation Strategies for Law and Business* (Oxford: Oxford University Press 2013), pp.156–159.

[38] Government Proposal on Companies Act 109/2005, pp.194–195.

[39] Business judgement rule is formulated in the US doctrine in *Aronson v Lewis* 473 A2d 805 (Del. SC 1984); *Cede & Co v Technicolor, Inc.* 634 A2d 345 (Del. SC 1993); American Bar Association's Model Business Corporation Act (MBCA) 2023, *https://www.americanbar.org*.

[40] European Model Company Act (EMCA) 2017 s.10.01. Aarhus BSS, "Directors Liability", *https://www.law.au.dk/en*. See academic context in Europe in Carsten Gerner-Beuerle, Philipp Paech and Edmund Schuster, *Study on Directors' Duties and Liability in Europe* (London: London School of Economics, 2013), pp.108–118; Julia Todd, "Business Judgement Rule: A Generally Applicable Principle?" (2015) 26(5) *European Business Law Review* 713; Andrew Keay and Joan Loughrey, "The Concept of Business Judgement" (2019) 39 *Legal Studies* 36.

[41] The protection provided by the business judgement rule explicitly requires that a business decision on a matter has actually been made. Marika Salo, *Hyvä liiketoimintapäätös ja johdon vastuu* (Helsinki: Talentum, 2015), pp.32–33.

[42] Mähönen and Villa, *Osakeyhtiö 1, Yleiset opit* (2015), p.373.

Decisions must not be entirely unjustified or irrational as they must not be contrary to the purpose of the LLC's purpose (FCA 1:5) or jeopardise the LLC's ability to carry out its business (*going concern*). The business judgement rule does not protect the management if the decision is against the law.[43]

Furthermore, the particular circumstances of the case must be considered when evaluating the extent to which management has fulfilled their general duty of care. The auditor must exercise professional judgement and apply the principle of materiality to each case to assess whether a specific reason has arisen in the audit of administration. For example, a specific reason may arise when the company has entered into a new business sector, or the company has signed agreements that may result in significant damages or penalties. In addition, the auditor must pay attention to significant acquisitions and business transactions when carrying out the audit of administration.[44]

It is not feasible for the auditor to examine every business decision made by the management. Nevertheless, instances of material non-compliance should be identified and brought to the attention of the relevant parties, such as during an inspection of the minutes of the board of directors. For example, the auditor may be required to assess whether the board of directors has provided sufficient explanation and appropriate consideration when making significant investment decisions on behalf of the company. Oversight of these matters by the auditor is important not only for the protection of shareholders but also for the protection of creditors.

Linkage to international standards on auditing (ISA)

In accordance with FAA 3:3, the auditor is obligated to comply with the international auditing standards. However, the legal status of the ISA standards is not straightforward, as no unified international auditing standards have yet been approved at the EU level. In carrying out their duties, auditors shall observe good auditing practice (FAA 4:3), and compliance with ISA standards is considered to be part of good auditing practice.[45] The Supreme Administrative Court of Finland has recently ruled that the ISA standards cannot be given such a position that the imposition of sanctions referred to in the Auditing Act could be based *solely* on the assessment of compliance with the detailed requirements set forth in the ISA standards.[46] Nevertheless, the court decision stipulates that the fundamental tenets of the ISA standards must be adhered to during the audit as part of sound auditing practice. It is therefore incorrect to conclude from the supreme court's decision

[43] See more on the restrictions regarding business judgement rule in Stephen M. Bainbridge, "The Business Judgement Rule as Abstention Doctrine" (2004) 57(1) *Vanderbilt Law Review* 83; Janne Ruohonen, "Company Directors' Key Duties and Business Judgement Rule" in Anni Kangas, Johanna Kujala, Anna Heikkinen, Antti Lönnqvist, Harri Laihonen and Julia Bethwaite (eds), *Leading Change in a Complex World: Transdisciplinary Perspectives* (Tampere: Tampere University Press, 2019), pp.245–258.

[44] Janne Ruohonen, *Tilintarkastaja osakeyhtiön hallinnon tarkastajana* (Helsinki: Alma Talent Oy, 2020), p. 189–190.

[45] See Government Proposal on the Audit Act and related legislation 194/2006, pp.8 and 41. The supervision of auditors is also based on ISA standards. The Auditor Oversight Unit considers compliance with ISA standards to be the basis of good auditing practice. See The Auditor Oversight Unit, "Mitä on hyvä tilintarkastustapa?" (25 June 2019), *https://www.prh.fi*. The Audit Board supervising the auditors has also expressed its view on the compliance with ISA standards as part of good audit practice in its decisions. See for example Auditor Board PRH/1662/10000/2023, Auditor Board PRH 8/2023 and Auditor Board PRH/2620/10000/2016.

[46] KHO 583/2020 (Supreme Administrative Court of Finland).

that the ISA standards should not be followed in the audit. It should also be noted that for small companies, it is permissible to apply ISA standards within an appropriate scope (FAA 3:3.2).

The ISA standards are caught in the crossfire of two different perspectives with regard to the audit of administration. On one hand, the ISA standards are unable to provide an exhaustive model of the content of the audit of administration, given that the ISA standards do not identify the administration as the subject of the audit. Conversely, the ISA standards must be considered in the audit of financial statements. It is not possible to leave out the standards as determinants of the audit of administration, particularly when the audit is closely related to the financial statements or when auditing procedures affect the audit of administration as well. Consequently, there are certain commonalities between the audit of administration and the ISA standards, and the procedures defined in the ISA standards are useful in the *implementation* of the audit. It can be argued that the standards do influence the auditing procedure of the administration. The standards seem to cut through legislation to affect the auditing of the administration in Finland. Although the standards do not explicitly identify the audit of administration, they can be successfully employed as a framework for directing and addressing procedural issues in auditing the administration.[47] In the Finnish government's proposal concerning the FAA, four ISA standards were identified in relation to the audit of administration: ISA 240, ISA 250, ISA 265 and ISA 315.[48] Upon further examination, it becomes evident that the relevant standards also include ISA 200, ISA 260, ISA 550, ISA 570 and ISA 580.[49]

The ISA 240 standard stipulates how the auditor should assess the risk of material misstatement in the financial statements due to misconduct.[50] In accordance with ISA 240.7, it is more probable that the auditor will fail to identify any wrongdoing perpetrated by management personnel than by employees. This is due to the fact that management has the opportunity to manipulate accounting practices and to ignore control measures. In accordance with ISA 240.5, the auditor is obligated to *exercise professional scepticism* (ISA 200) while maintaining reasonable assurance that the financial statements are free from material misstatement. In Finland, the auditor's professional scepticism towards the activities of the company's management is a fundamental principle of auditing and the audit of administration. In accordance with ISA 550(5) on related parties, an understanding of the entity's related party relationships and transactions is pertinent when the auditor assesses the existence of risk factors for fraud. This is because fraud may be more easily perpetrated with the assistance of related parties.[51]

[47] Janne Ruohonen, *Tilintarkastaja osakeyhtiön hallinnon tarkastajana* (Helsinki: Alma Talent Oy, 2020), p.79.
[48] GP 20/2016, p.10.
[49] Relevant International Standards: ISA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing. ISA 240 The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements. ISA 250 Consideration of Laws and Regulations in an Audit of Financial Statements. ISA 260 Communication with those charged with governance. ISA 265 Communicating Deficiencies in Internal Control to Those Charged with Governance and Management. ISA 315 Identifying and Assessing the Risks of Material Misstatement. ISA 320 Audit Materiality. ISA 550 Related parties. ISA 570 Going Concern. ISA 580 Written Representations.
[50] ISA 240: The auditor's responsibilities relating to fraud in an audit of financial statements, *https://www.ifac.org/*.
[51] ISA 550: Related parties, *https://www.ifac.org/*.

The ISA 250 standard concerns the consideration of laws and regulations in the context of the audit. The standard can be employed as a framework for the criteria for auditing the administration, although the administration audit is more expansive and open to interpretation.[52] The ISA standard places greater emphasis than the Auditing Act on the impact of transactions on the company's financial statements. Statutes and regulations that do not directly affect the financial statements are of central importance to the Finnish audit of administration. The audit of administration has *a lower threshold for the auditor's obligation to report wrongdoings than the ISA standard*. A comparable stipulation to the scope of the audit and the materiality principle, which is fundamental to auditing the administration, can be observed in ISA 250.8, and the obligation to provide a statement on a violation of regulations affecting the financial statements, as stipulated in ISA 250.25, can be linked to the Auditing Act's obligation to report wrongdoings.[53] In accordance with ISA 250.14, the auditor is obligated to direct inquiries regarding compliance with statutes and regulations to the company's management, and, in applicable cases, to the governing bodies. ISA 260 regarding communication with those charged with governance provides a more detailed examination of this subject.[54] ISA 260 provides the auditor with a framework for conducting an audit of administration in accordance with the Auditing Act. For example, the ISA standards concerning the management confirmation letter (ISA 580) and the materiality principle (ISA 320) can also be employed in the context of an audit of administration. In essence, the content of the audit is determined by national legislation.[55]

It is not possible to consider the audit of administration as separate from the audit of other audit targets; rather, the audit is performed as a whole. Given that the audit of financial statements is strongly based on the application of ISA standards, it follows that the audit of administration must also be adapted to this framework, where appropriate. Consequently, the audit of administration cannot be approached in isolation from the international auditing industry standards.[56] This applies to the key operating principles of audit execution and the methods established by ISA standards for an audit in accordance with good auditing practice.

The principles determining the audit of administration

The audit of administration can be divided into three phases: planning, implementation, and reporting. It is evident from the materiality principle that the auditor is unable to audit the company's administration in its entirety.

[52] Government proposal on amending the Auditing Act and certain related Acts 70/2016 vp, p.11.

[53] Janne Ruohonen, "Kansainvälisten tilintarkastusalan standardien merkitys osakeyhtiön hallinnon tarkastuksessa" in Veikko Vahtera and Krista Rantasaari (eds), *Yhtiö, velka, velvoite—Juhlajulkaisu Seppo Villa* (Helsinki: Alma Talent, 2021), pp.449–462.

[54] ISA 260: communication with those charged with governance, available at: *https://www.iaasb.org/publications/international-standard-auditing-isa-260-revised-communication-those-charged-governance-0*.

[55] Manne Airaksinen, Pekka Pulkkinen and Vesa Rasinaho, *Osakeyhtiölaki I-II* (Helsinki: Alma Talent Oy 2021), Ch.7 "Tilintarkastus ja erityinen tarkastus".

[56] Janne Ruohonen, *Tilintarkastaja osakeyhtiön hallinnon tarkastajana* (Helsinki: Alma Talent Oy, 2020), p.79.

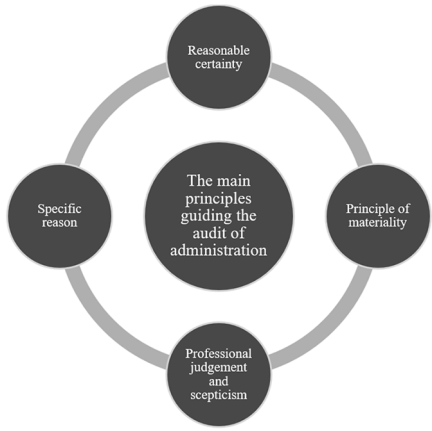

Figure 3: **The main principles guiding the audit of administration.**

Consequently, the auditor must obtain *reasonable certainty* that the administration has not been guilty of violating legislation or the articles of association in decision-making or an act or negligence that may result in liability for damages towards the company. Reasonable certainty is a high level of assurance, but it is not absolute, and that's why the principle of materiality is applied.[57]

The *principle of materiality* is the most significant guiding principle in the audit of administration. It is not within the auditor's scope to audit all business transactions. The materiality assessment must consider, for instance, the size and risk potential of the audit target. In the evaluation of materiality, the impact is of central importance. The materiality assessment is heavily influenced by the auditor's professional judgement.[58] The auditor's judgement about what is material to users of financial statements is based on an understanding of the needs of users of financial statements.[59] Usually, materiality thresholds in audits are expressed in monetary amounts, but in audits of administration, monetary thresholds cannot be used when the information to be assured is of a qualitative nature. Qualitative factors that the auditor may consider relevant to the materiality of misstatements include the potential effect on the company's compliance with regulatory provisions.[60]

Furthermore, the auditor's professional judgement (ISA 200.16) and professional scepticism (ISA 200.15) also inform the implementation of the audit of administration. Professional judgement and scepticism are such fundamental

[57] ISA 200.5; Peter Schelluch and Grant Gay, "Assurance Provided by Auditors' Reports on Prospective Financial Information: Implications for the Expectation Gap" (2006) 46(4) *Accounting and Finance* 653; Klaus Ruhnke and Kay Lubitzsch, "Determinants of the Maximum Level of Assurance for Various Assurance Services" (2010) 14(3) *International Journal of Auditing* 233.

[58] For example see in ISA 320.4; ISA 320.A3; ISA 200.A25; Gary L. Holstrum and William F. Messier, "Review and Integration of Empirical Research on Materiality" (1982) 2 *Auditing: A Journal of Practice and Theory* 45; William F. Messier, Nonna Martinov-Bennie and Aasmund Eilifsen, "A Review and Integration of Empirical Research on Materiality: Two Decades Later" (2005) 24(2) *Auditing: A Journal of Practice and Theory* 153; Kaarina Halonen and Maj-Lis Steiner, *Tilintarkastusprosessi käytännössä* (Helsinki: WSOYpro, 2009), pp.133–134; Brenda Porter, Jon Simon and David Hatherley, *Principles of External Auditing* (Chichester: John Wiley & Sons, 2014), pp.74–75.

[59] There is no need to assess the needs of individual users of financial information. The assessment is done at a general level. ISA 320.2; Halonen and Steiner, *Tilintarkastusprosessi käytännössä* (2009), p.133.

[60] Lynford Graham and William F. Messier, "Audit Risk and Materiality in Conducting an Audit" (2006) 201(5) *Journal of Accountancy* 116.

principles of auditing that they should be applied in every audit and at every stage of the audit.[61] Professional scepticism can affect an auditor's judgement, and therefore these principles are often considered together.[62] The auditor's professional judgement is also linked to the auditor's requirement of objectivity.[63] Poor auditor objectivity can contribute to overlooked issues and narrow materiality determinations.[64]

The auditor's professional scepticism is essential for the critical assessment of audit evidence.[65] For instance, the auditor must not solely rely on the information provided by the management but must also perform independent audit activities. The sceptical auditor is also alert to evidence that contradicts other evidence.[66] For example, the auditor may observe differences between the board meeting minutes reviewed and the content of discussions between auditors and management. Professional scepticism guides the auditor to pay attention to conditions that may indicate possible fraud.[67] The auditor may, for instance, elect to focus the audit on the administration for a *specific reason*. Such a special reason may arise, for example, in connection with the inspection of minutes. An issue that falls below the materiality threshold may also be material because of its special nature or circumstances.[68]

Increasing the expectation gap or preventing financial scandals?

According to the existing audit literature, the expectation gap exists when auditors and the public hold different beliefs about the auditors' duties and responsibilities and the information conveyed by audit reports.[69] The audit of administration constitutes a crucial and unique aspect of Finnish auditing. However, as mentioned above, a precise description of the content of the audit of administration has proven to be challenging. In addition to the imprecise definition of the audit of administration in Finland, the ISA standards do not identify the administration as the subject of the audit. Thus, in terms of closing the expectation gap, the absence of a precise description of the content of the audit of administration can be seen as a complex issue. At worst, the inaccurate definition of the content and scope of

[61] Professional judgement and scepticism are also mentioned as general principles for performing the audit in the new IAASB standard The ISA for LCE: The International Standard in Auditing for Audits of Financial Statements of Less Complex Entities, available at *https://www.iaasb.org/*.

[62] Mark W. Nelson, "A Model and Literature Review of Professional Skepticism in Auditing" (2009) 28(2) *Auditing: A Journal of Practice & Theory* 1; R. Kathy Hurtt, Helen Brown-Liburd, Christine E. Earley and Ganesh Krishnamoorthy, "Research on Auditor Professional Skepticism: Literature Synthesis and Opportunities for Future Research" (2013) 32(1) *Auditing: A Journal of Practice & Theory* 45.

[63] IESBA, "Handbook of the International Code of Ethics for Professional Accountants" (19 September 2023),*https://www.ethicsboard.org/publications/2023-handbook-international-code-ethics-professional-accountants*. Section 110.1 A1.

[64] Brendan O'Dwyer, "The Legitimacy of Accountants Participation in Social and Ethical Accounting, Auditing and Reporting" (2001) 10(1) *Business Ethics* 27.

[65] ISA 200.A22; Nelson, "A Model and Literature Review of Professional Skepticism in Auditing" (2009) 28(2) *Auditing: A Journal of Practice & Theory* 1.

[66] ISA 200.A20.

[67] ISA 200.A20.

[68] Halonen and Steiner, *Tilintarkastusprosessi käytännössä* (2009), p.134.

[69] H. Chye Koh and E. Woo, "The Expectation Gap in Auditing" (1998) 13(3) *Managerial Auditing Journal* 147. C.D. Liggio, "The Expectation Gap: The Accountant's Legal Waterloo?" (1974) 3(3) *Journal of Contemporary Business* 27. G.S. Monroe and D.R. Woodliff, "An Empirical Investigation of the Audit Expectation Gap: Australian Evidence" (1994) 34(1) *Accounting and Finance* 47.

the audit could even widen the expectation gap between audit report users and auditors.

Extending auditors' duties so that they clearly include responsibilities to shareholders, creditors and potential shareholders, and clarifying that auditors have a duty to detect fraud, might be ways to close the expectation gap. Extending auditors' responsibilities to explicitly include duties to shareholders, creditors and potential shareholders, as well as clarifying that auditors are obligated to detect fraud, could help bridge the expectation gap.[70] In the Finnish setting, legislators have approved a requirement for auditors to audit administration. At best, these extended duties might prevent financial scandals and detect corruption. Furthermore, in terms of principal-agent relationships, the audit of administration could strengthen the accountability of the board of directors and senior management as agents of shareholders—the key users of audit reports. Thus, the audit of administration can be seen as a means of demonstrating accountability and transparency. However, it should be noted, that these steps have been done without clearly defining the content of the audit of administration.

Despite the shortcomings of the audit of administration, the importance of audits of administration should be highlighted. In terms of preventing corruption, detecting fraud and mitigating principal-agent conflicts, audits of administration should be regarded as an essential part of statutory audits in all types of organisations. The target and scope of the audit of administration is not related to material errors in financial statements, but rather it is about highlighting the accountability of the key executives in a company. For example, by auditing the most significant agreements and trade register notifications of a company, the auditor has a direct connection with the crucial decisions made by the management. This crucial component of statutory audit could in fact affect the role of auditor in an essential way: the auditor becomes more like a watchdog instead of a steward. From the traditional agency theoretical perspective, this shift could be seen as a beneficial evolution. And in terms of preventing financial scandals and fraud—phenomena directly linked to management actions—the audit of administration could provide significant tools for regulators.

Conclusion

In times of economic challenges, the importance of the audit of administration is emphasised in many companies, where the legality of the company's management operations and the continuity of operations (going concern) are assessed as seen on Figure 1. In Finland, it has been considered important that the administration of an LLC is one of the subjects of statutory audit. It has its own role from the perspective of shareholders, stakeholders and management. An important distinction of the review is that it focuses on the legality of management's actions, not on the appropriateness. It is evident that the auditor is unable to audit the company's administration in its entirety. It is not feasible for the auditor to examine every business decision made by the board of directors. The fundamental principles of auditing guide the audit process, and the nature of the audit target influences the

[70] C.G. Humphrey, P. Moizer and W.S. Turley, "The Audit Expectation Gap in Britain: An Empirical Investigation" (1993) 23(91A) *Accounting and Business Research* 395.

emphasis of the audit. The audit of administration is not identified as a separate audit subject in the international standards on auditing. The Finnish audit of the administration has a lower threshold for the auditor's obligation to report wrongdoing than the ISA standards. Although the ISA standards do not explicitly identify the audit of administration, they can be successfully employed as a framework for directing and addressing especially procedural issues in auditing the administration. In addition, the European Model Companies Act (2017) stipulates that the auditor must ensure that the management of the LLC complies with its obligations.[71]

The auditors are mandated by the annual general meeting and act independently and do not take direction from the management of the LLC. The auditors present their findings in the audit report to the shareholders at the annual general meeting. It is up to the shareholders to decide what action to take in response to any statements in the audit report. From an agency theoretical perspective, an auditor's report on administrative findings can be seen as an effective tool to mitigate the potential agency conflicts between the shareholders and creditors as principals and the management as agents. Furthermore, the audit of administration could be a potential solution to mitigate principal-principal conflicts between different types of shareholders as they do not have representation on the board of directors, and therefore do not have similar information on the company's operations.

It is essential that the law provides adequate protection for stakeholders. However, it should not include restrictions that serve no legitimate purpose or are inefficient in serving those interests.[72] The role and appropriateness of the audit of administration as part of the Finnish audit will probably be reviewed in the future, as it is an additional national regulation which undoubtedly imposes administrative costs on companies. Most recently, in 2018, a working group of the Ministry of Economic Affairs and Employment concluded that the audit of administration should remain a subject of audit.[73] In our view, the primary way to reduce the administrative burden on companies could be reduced by raising the relatively low thresholds for auditing. Another way to reduce the administrative, and financial, burden on companies might be to narrow the scope of audit for smaller entities. This could be solved by replacing full audit with a less complex review engagement.[74] As mentioned earlier, the results of a survey also indicated that the management of Finnish listed companies considered the audit of administration to be an integral component of the audit process. The shareholders of an LLC are typically given limited access to information about the company, whereas the management is granted unlimited access to the company's information. The separation of ownership and management within a company serves to highlight the necessity of auditing the activities of the management.

[71] EMCA incorporates features that are similar to an audit of administration. See EMCA 12.08.

[72] Anssi Kärki, Janne Ruohonen and Veikko Vahtera, "Modernising Creditor Protection in Limited Liabilities Companies—Equity and Finance" (2021) 1 *Nordisk Tidsskrift for Selskabsret* 19.

[73] Ministry of Economic Affairs and Employment, "Working group's memorandum on certain legal provisions of the Auditing Act and lightening of the administrative burden" (Helsinki, 2018), *https://urn.fi/URN:ISBN:978-952-327-291-0*.

[74] The possibility of a lighter review was explored in a ministerial report. No legislative measures were taken on the basis of this report. Ministry of Economic Affairs and Employment, "Report of the Working Group Preparing the Introduction of a Lighter Review" (Helsinki, 2020), *http://urn.fi/URN:ISBN:978-952-327-505-8*.

From the perspective of the company's creditors, however, it is critical that the auditor verifies compliance with the regulations of the LLC, regardless of whether the company's ownership and management have been separated. Thus, the audit of administration is an essential tool in detecting fraud and preventing financial scandals as the auditor transitions from a steward to a watchdog. The audit of administration is also a tool for management to convince shareholders and creditors of the appropriateness of its own operations. The integration of management inspection within the purview of the audit confers a dual benefit upon both the company's management and its stakeholders. From the perspective of the stakeholders of a LLC, it is of paramount importance to obtain information regarding the legality of the company's administration and any potential shortcomings in its operations.

From a national perspective, the audit of administration brings an interesting addition to the traditional statutory audit. Audit of administration has evolved over the decades as part of the audit culture. It is not realistic to suggest that such a feature should be widely adopted in EU countries or incorporated into international auditing standards, as a new audit subject would impose additional administrative costs on companies. However, it could serve as an opening for discussion as to whether an emphasis on the review of compliance would increase shareholder and stakeholder confidence in companies.