

# Master thesis

BI Norwegian Business School

## - Finding fraud: The role of auditing in the detection of white-collar crime -

Hand-in date:

**01.09.2011**

Campus:

**BI Oslo**

Examination code and name:

**GRA 19003 Master thesis**

Program:

**Master of Science in Business and Economics**

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## **Foreword**

This thesis is the product of a desire to explore further a field of interest that was not available through offered Master of Science courses. The fields of white-collar criminal investigation and auditing are newfound loves, while the overall topic of this piece of research came about through a merging of my established interest in criminology and economics. Starting out as an inquiry into the reporting of money laundering, the topic was gradually reshaped to accommodate recent shifts in the field and to ensure as relevant a project as possible.

Special thanks must be given to my supervisor, Petter Gottschalk, with whom a fruitful working relationship was formed in the second month of my master studies, and has continued to this day. He provided the constructive criticism and academic expertise that was so instrumental in shaping and guiding my work.

So many individuals took time out of their busy lives to answer my inquiries about cases and requests for information. All of them have my gratitude. Special mention goes to Siri Gedde-Dahl, Gunnar Kagge and Gunnar Magnus of Aftenposten, Gunnar Holm Ringen of PwC, Tom Myhre of KPMG, Sven Arild Damslora of Økokrim, Kjersti Trøbråten of Wiersholm, Vibeke Holth of Kapital and my three raters, who spent several hours of Norwegian summer indoors for my sake. I must thank my father, Runar Warhuus, for proofreading the final product and for cheering me on all the way. Thank you to my mother, Anne Danielsen, for being such an unrelenting optimist. And my rock and eternal ray of sunshine, my boyfriend Eskil Høksnes Wilhelmsen, for unwavering moral support.

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## Summary

Economic or white-collar crime is on the rise, making the study of possible means of both deterrence and detection of such crime ever more relevant. Accounting fraud is among the fastest growing categories of economic crime, and is also the category of white-collar crime most naturally linked to auditor detection. Part of the rationale for this piece of research is the fact that the number of Norwegian cases of white-collar crime only recently has become large enough to allow this type of multiple case study. Another part of the rationale for this thesis is the heavily conflicting views on auditor ability to detect fraud found during a mapping of existing research on the topic. The role of auditing in the detection of white-collar crime is therefore a topic which, due to rapidly changing circumstances and social relevance, is deemed to be in great need of updated description.

This thesis seeks to improve on one of the areas now made researchable: What is the role of the auditing function in the detection of white-collar crime in Norway today? The concrete research questions thought to answer this query satisfactorily are:

- 1) What are the responsibilities of the auditing function regarding the detection of white-collar crime?
- 2) What are the most common means of white-collar crime detection?
- 3) Are these findings in accordance with the views presented in extant literature and research on the matter?
- 4) If not, what are the implications for the auditing function of these findings?

This thesis will seek to clarify further the role of auditing in detection within the Norwegian context, based on a convenience sample of Norwegian cases to date. By providing indications about this role this research may also provide valuable input for further investigation of the topic. Concrete suggestions for further research are given in the last chapter of the thesis.

Structured as a descriptive multiple case study including 44 instrumental cases, it is hoped that this thesis will allow a better understanding and increased ability to theorize about the broader context of white-collar crime. A multiple or comparative case study is chosen over other alternatives for the range of characteristics inherent in it. It allows the description of a multitude of different Norwegian cases from the recent past, mapping the auditor role in more detail than a strictly quantitative approach would allow. At the same time, the number of cases lets us count and categorize instances in a way that would not be possible if one or two cases received all our attention. Also, such a design implies the added benefit that evidence from multiple cases is considered more compelling.

The first part of the analysis involves a description and subsequent quantification of various means of detection of white-collar crime. The second maps and judges auditor involvement by phase of the detection process by use of three external and independent raters.

Main findings include an interesting connection between various means of detection, illustrating what seems to be a synergy effect between whistle-blowers and the media. Also, the included cases indicate a lower auditor detection rate than what has previously been shown to be the case in other countries, a finding which may warrant further investigation of country specific conditions that may influence auditor willingness or ability to engage in detection.

# 1. Introduction and background

## *1.1. Economic crime in Norway today*

—The interest of scholars and practitioners in transnational crime took off in earnest during the 1990s, amid significant political and economic developments in the international system” (Reichel 2005, 3). The same can be said of Norway. Up until the early 1990s the popular opinion was that organized crime was a non-issue in Norway. The concept was in use, but seldom, and often referring to other phenomena than today. Then emerged the case of Hells Angels in 1992, and the media were ablaze. (Larsson 2008)

Only in the last few years has white-collar crime received the same extensive attention in Norway as it has long received elsewhere. Although the history of white-collar crime in Norway is much older, the extent and severeness of the cases uncovered here have only lately begun to match what is experienced internationally. Perhaps this is partly due to Norway being a newly rich nation (Larsson 2006, xiii). Larsson (2008) mentions other reasons as well, such as increasing pressure from international conventions, demands about harmonizing legislature and increasing political bonds with Europe. All we know is what we observe from the cases unravelled, some of which are the basis for this thesis.

This does not mean, of course, that crime in various organized forms did not exist in Norway prior to the end of the last century. Smuggling, for instance, goes way back in Norwegian tradition (Johansen 2004). However, these groups were not referred to in the same jargon as today, neither were they perceived in the same way as organized crime is now (Larsson 2008).

From being a virtually non-existent issue in the 1970s and 1980s, the 1990s saw the emergence of governmental action plans against economic crime, and a newfound focus on organized crime signalled a —shift in attention in the public and political sphere” from the late 1990s and onwards (Larsson 2006, 69). Since the 1990s the amount of cases uncovered and tried has grown exponentially, particularly in the public sector. According to Statistics Norway white-collar crime constitutes only two percent of total, known crime in the country (Gedde-Dahl, Hafstad and Magnussen 2008, 43). Historically the lack of cases is not thought to be due to the nonexistence of white-collar crime prior to the year 2000, but rather that perpetrations have become more visible. Also, offences that

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previously slipped through the fingers of the law due to insufficient statutes on the subject are now prosecuted with ever more detailed and internationally inspired paragraphs. –The cost of being caught in corrupt practice may have increased as a result of the new international regulations. However, unless the probability of being caught in the crime also increases, the impact of these regulations may not be very significant” (Søreide 2006, 381). On the other hand, former National Authority for Investigation and Prosecution of Economic and Environmental Crime (Økokrim) deputy director Erling Grimstad believes that the publicity surrounding cases of corruption (and white-collar crime in general) in itself will lead to more cases being revealed. People learn what corruption means in a Norwegian context and are able to recognize mechanisms such as overbilling and the use of subcontractors. Still, the cases prosecuted are merely the tip of the iceberg. (Gedde-Dahl, Hafstad and Magnussen 2008, 55)

Økokrim has grown more than fourfold in size (Larsson 2006, 71) to accommodate the rise in cases needing their attention. This increase in cases is thought to be the result of a large number of new laws and regulations in the area of economic and organized crime for the past two decades (Larsson 2006) rather than an actual increase in crimes committed (Haakaas 2008). A stricter penal code and increased resources dedicated to the detection of economic and organized crime, have increased the number of cases detected. Up until 1996 Norwegian businesses were allowed to deduct bribes in foreign countries on their tax returns (Haakaas 2008). Today they are faced with a very different legal reality.

Economic crime such as money laundering, embezzlement, corruption, fraud and forgery combined consisted of only two percent of total charges filed in Norway in 2006. Økokrim maintained in their 2007 status report that this low proportion reflects the propensity to file certain charges while overlooking others, and lacking prioritization by police and authorities rather than the actual scope and degree of severity of this type of crime. The widespread contention that money laundering and other forms of white-collar crime are relatively harmless, may be partly to blame. The truth is more uncomfortable: White-collar crime undermines the most important institutions of modern society and leads to inflation of criminal enterprise. The concept of the black economy encompasses the total value of all tax evasions and illegal dealings. It includes all income not listed on a tax return. In general the black economy is estimated at between 4 and 6 percent of the gross domestic product (GDP) of a nation. No exact estimation

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exists for Norway, but Norwegian tax authorities claimed that an approximation of 10 percent in 1999 was plausible. Half of this percentage is black labor; the other half consists of income from criminal activity. (Kristiansen 2009)

Several of the cases unravelled in the past decade have been uncovered by means of forensic journalism. Several cases are also the product of routine internal controls in the companies themselves, in the government or audits performed by tax authorities. Rarely is the unravelling initiated by the police. (Gedde-Dahl, Hafstad and Magnussen 2008) The Association of Certified Fraud Examiners' (ACFE) Report to the Nation for 2002 shows that the main source of detection in the USA is employee tip-offs. Internal and external auditing clock in at third and fifth place respectively. (Pickett 2005, 167) These results are largely unchanged in the 2004 report. It is, however, worth noting that when it comes to cases of financial statement fraud specifically, external audits led to the detection of almost one-third of the incidents (Wells 2005, 312). To what extent internal or external auditing functions also have a place among these means of detection in Norway, is what this thesis will attempt to map.

Another justification for increasing insight into the topic of white-collar crime is the tremendous costs it inflicts upon society. It is contended that "white collar crime has a universal impact on a broad range of socio-economic groups", and that "beyond the direct economic costs of white collar crime, there are a number of indirect costs. Among these are higher taxes, increased insurance premiums, and increased cost of goods sold" (Ivancevich et al. 2003, 117).

Economic crime trends are analyzed by several institutions in Norway, both private and governmental. Most notably The National Authority for Investigation and Prosecution of Economic and Environmental Crime (Økokrim) publishes a report every other year on national trends in all areas pertaining to economic and environmental crime. Also, The Global Economic Crime Survey conducted by PwC (PricewaterhouseCoopers) is a transnational comparative study mapping trends in economic crime on a global scale. Presented below are some key points from the 2008–2009 Økokrim report on trends in economic crime.

Firstly, the official crime statistics from Statistics Norway (SSB) show a slight but steady rise in reported economic crime during the past few decades. Tax evasions are the most commonly reported economic crime. These cases are primarily detected by the tax authorities.



Accounting violations and offences are the second most commonly reported form of economic crime, and have risen steadily since 2002. As accounting violations are often a part of (or a necessary means of hiding) other forms of economic crime, this is considered one of the single most important categories and one in need of significant attention.

Fraud is another form of economic crime that stands for a large amount of reported incidents. A steady growth in cases from 2000 to 2005 has been followed by a steep decline from 2007 onwards, although the sums involved in each case are rising. Fraud in banking and finance mostly pertains to smaller amounts. However, some exceptions to the rule exist, Finance Credit being among the better known cases. This case was unravelled in 2002 and cost the banks involved in excess of NOK 1.2 billion.

Embezzlement has seen a relatively steady stream of reported incidents in spite of a slight decline from 2003 onwards. This is consistent with the findings of The Global Economic Crime Survey conducted by PwC, where embezzlement as a percentage of reported incidents has dropped from 55 % in 2005 to 25 % in 2007.

Despite the relatively low number of cases on corruption reported, several indicators suggest that continued vigilance on the subject is needed. This view is backed by the findings of the 2007 survey by PwC, where Norwegian corruption levels were found to be close to the world average of 13 %, but higher than the 7 % average of Western Europe. These percentages refer to the number of companies that report having knowledge of, or experiences with, corruption in their dealings. These seemingly heightened levels of corruption may be a true representation, but may also simply be the result of a stricter legal framework and Norwegians' current focus on corruption.

It is worth noting, however, that the numbers reported above do not provide the entire picture. This is because only a small amount (around 20 percent) of detected cases of white-collar crime in the private sector are reported to the authorities. Similarly, not all grounded suspicions of white-collar criminal offences in the public sector are reported. The Personnel Handbook for governmental employees section 10.19 is devoted to guidelines for handling cases of embezzlement, corruption, theft and fraud on duty, and government policy in such matters is not to involve the police unless the incidence is thought to lead to criminal prosecution. (Olsen 2007)

## *1.2. The purpose of this thesis*

As economic criminal activity becomes more obtrusive and severe, so the importance of the institutional arrangements and professions in place to monitor, prevent and detect such activity increases along with it. Among these frameworks and professions we find the auditing community and the laws and guiding principles that underlie their workings. The perceived heightened and still increasing importance of the auditing function by the author is yet another argument for the research question at hand, as is the fact that accounting fraud is among the fastest growing categories of economic crime (PricewaterhouseCoopers 2009). Now more than ever there is a need to map and improve a function that has evolved in part for the purpose of ensuring the legality of businesses', institutions' and persons' economic actions, a function that underlies the sound operations of our society.

Furthermore, during the last decade or so the number of cases and convictions in Norway has reached a number that allows for more extensive and quantitatively angled research than has been possible before. Also, this type of empirical research has some innate characteristics that to some degree hinder prolific projects on the subject. —First, it is very difficult to gather evidence about frauds that have occurred. Litigation surrounding frauds often lasts for years, during which time public evidence is unavailable and private evidence is rarely shared. In addition, companies are reluctant to make their frauds public information. Second, what information is available about actual frauds is not usually uniform or consistent, resulting in an inability to perform empirical studies or draw generalizations about fraud” (Albrecht, Albrecht and Dunn 2001, 8). For these reasons, it is supposed that several of those cases initially incorporated in the sample below will not prove possible to include in the final analysis due to lack of available information.

As there can be no doubt that additional insight into the nature of, types of, and motivations for white-collar crime is needed, this thesis seeks to improve on one of the areas now made researchable:

*What is the role of the auditing function in the detection of white-collar crime in Norway today?*

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A number of research questions have been formulated which collectively will provide answers to the research topic outlined above:

- 1) What are the responsibilities of the auditing function regarding the detection of white-collar crime?
- 2) What are the most common means of white-collar crime detection?
- 3) Are these findings in accordance with the views presented in extant literature and research on the matter?
- 4) If not, what are the implications for the auditing function of these findings?

The first research question is answered in the section on definitions and terminology, where the auditor role in the detection of white-collar crime is explained in some detail. The second is mapped through the descriptions of auditor involvement in each case, a summary of which can be found at the beginning of the fourth chapter, as well as a discussion of whether or not these findings can be said to comply with literature opinions on the subject, answering the third question. Implications of findings can be found in the final discussion chapter.

These research questions will generate a set of hypotheses regarding the auditor role in the detection of white-collar crime. In order to make qualified assumptions these hypotheses will be formulated as the literature review progresses, and will be based on a priori theories on what the literature predicts the findings of this research to be.

### ***1.3. Boundaries and limitations***

Just as important as explaining what this thesis seeks to elucidate, is clearly defining the boundaries of the upcoming research. The chosen methodology of a descriptive multiple case analysis necessitates limiting the research question to encompass only the extent to which the auditing function *detects* white-collar crime already committed; whether or not the auditing function may embody some preventative power lies outside the research at hand, as such a subject would require an altogether different methodology.

Further, the research objective of this thesis will include both internal and external auditing functions, and so for the purpose of this paper auditing is defined in the broadest possible sense. Also, cases are not restricted to organizations that are required by law to make use of an auditor, but rather any case in which the auditing function has been involved in one way or another may qualify. The reason for this is the impression left on the researcher after sorting through published material on the cases to be studied, as described in the section on extant literature and research.

A few remarks on what this thesis does and does not purport to explain regarding the auditing function and their role in the detection of economic crime, are in order. –Auditing is often bound up with preventing fraud and corruption, particularly in the minds of lay people and politicians. In some respects this is unfortunate as most audit work is relatively routine and not particularly concerned with fraud. Yet it is generally true that good audit work, like good management and sound operations in general, will help to deter fraud and make life difficult for fraudsters.” (Jones 2004, 39)

The examinations undertaken should not in any way be interpreted as an insinuation of inadequacy of the auditing function. The a priori opinion of the researcher is not one of substandard work by those who guard the financial numbers of companies. Rather, it is an inquisition into the workings of detection of financial crime in Norway today undertaken for the purpose of uncovering possible areas of improvement when it comes to the laws and standards that provide the framework for how the auditing function undertakes its duties. Perhaps future research may be able to reframe and rewrite how the auditor works, possibly increasing the contribution of the auditing function to the detection of such crime. Further definition of the auditing framework and what can and cannot be expected of the auditing function will follow in the chapter on literature and theory.

At the end of the day the job of an auditor is to ensure that ledgers are correct beyond a reasonable doubt according to law and auditing standards and norms. The typical auditor personality is accurate, principled and proper, and in the process of auditing accounts the auditor is constantly on the look-out for possible errors, irregularities or malpractices. Most will be revealed as mere personal negligence or oversight, but some may turn out to be cases of (attempted or accomplished) white-collar crime.

As can be seen from the following chapter on theory and literature there exists good faith in the extant literature that auditors and the auditing function in general do a great deal in combating attempts at white-collar crime simply through the preventative function they hold (Drage and Olstad 2008) and through the rectification of errors that are in fact visible from the perspective of the auditor. This is a side of auditing rarely given much attention; the cases we remember are the scandals and media storms created around those few who use their position and knowledge to partake in or hide white-collar crime, and who thereby drag the entire auditing community through the mud. The secondary purpose of this thesis is to provide a more nuanced picture of the services to modern communities provided by the auditing function, and to a certain extent to report fit the auditing function in general when it comes to the standard processes and routines they are governed by in their daily bout.

However, this does not imply that a good thing cannot be made better. There may exist potential for the auditing function to do more. It is possible that the findings of the forthcoming analysis may point towards more work being done on the current framework of the auditing function; perhaps new requirements and routines are called for that may enable the auditing community to play a more active role in the detection of white-collar crime. This is a subject somewhat in the periphery of the subsequent research, and one that it will not be possible to answer fully within the constraints of this thesis. It is, however, a subject of sufficient interest to receive some attention in the chapter concerning a discussion of findings and implications for further research.

#### ***1.4. Structure of the thesis***

The thesis is structured in the following way: The theoretical framework and literature review will describe the extant body of research and literature on the topic and illustrate how this thesis will contribute to the field. The definitions of key concepts and terminology that the research will be based on, will also be included in this section.

A chapter on chosen methodology and research design will follow the literature review. A description of the cases selected is kept as a separate chapter. Next is the chapter on the presentation and discussion of findings from the judgment of several raters concerning auditing function involvement in detection,

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along with a discussion of research quality. Lastly, a summary of findings as well as recommendations for further research will be drafted along with concluding remarks. In the appendix can be found a complete list of cases and the page numbers on which these can be found, the rating forms of the three independent raters and the preliminary thesis report.

## 2. Theoretical framework and literature review

### 2.1. *A preliminary opinion of the topic*

An overview of extant literature and research is needed to provide sufficient argumentation for the research at hand and to clarify which hole(s) in the existing body of works this paper will seek to fill. Also, “even when we believe ourselves to be unfettered theoretically, we always begin a research project with an arsenal of preconceived theoretical notions”. As these notions may affect and bias the interpretation of information along the way, it is by some recommended “that, to the best of our ability, we make our theoretical notions explicit from the beginning”, as this “creates the possibility of control. ... By acknowledging our theoretical tools (i.e. our biases) as best we can at the outset, we can better guard against the tendency for our worldview to affect our interpretation of information in unacknowledged ways”. This literature review therefore also serves the purpose of explicitly stating the a priori notions of the researcher in addition to describing the extant body of research on the topic. (Ragin and Becker 1992, 195-196)

A handful of articles published in the Journal of Forensic Accounting seem to describe the closest match the author has found within research similar to that planned for this paper. The articles are White Collar Crime: A Profile of the Perpetrator and an Evaluation of the Responsibilities for its Prevention and Detection (Farrell and Healy 2000), Auditors’ Beliefs about the Fraud Detection Effectiveness of Standard Audit Procedures (Moyes and Baker 2003), Can Auditors Detect Fraud: A Review of the Research Evidence (Albrecht, Albrecht and Dunn 2001), and SAS No. 99: A New Look at Auditor Detection of Fraud (Beasley 2003). These will be briefly reviewed in the following.

Beasley (2003) is concerned with the fact that auditors seem to struggle with reducing occurrences of material misstatements due to fraud, and purports to examine whether the introduction of SAS No. 99 can provide insights to practitioners and standard setters. The focus of this new standard remains on “fraudulent activities that lead to intentional material misstatements due to fraud” as in its predecessor SAS No. 82, but “significantly expands the guidance and procedures to be performed in every audit” (Beasley 2003, 3). He concludes that this expanded guidance will hopefully “lead to substantial improvements of

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auditor detection of material misstatements due to fraud by strengthening the auditor's responses to identified high fraud risks" (Beasley 2003, 20).

Moyes and Baker (2003) asked external, internal and governmental auditors to evaluate the effectiveness of various standard audit procedures in detecting fraud. Although external and internal auditors differed in the types of audit procedures they recommended, the authors conclude that —the audit procedures judged more effective in detecting fraud were those which provided evidence about the existence of internal controls and those which evaluated the strength of internal controls", and that —strategic use of standard audit procedures may help auditors fulfill their responsibilities under SAS No. 99" (Moyes and Baker 2003, 199). Further, —the results of this study indicate that fraud detection might be improved through the strategic use of standard audit procedures earlier in the audit examination. ... If these audit procedures were applied during the preliminary stages of the audit, they would be more likely to indicate the potential existence of fraud, in which case the auditor would have more time to revise the audit plan and conduct other necessary investigations" (Moyes and Baker 2003, 216).

Albrecht, Albrecht and Dunn (2001) —review the fraud detection aspects of current auditing standards and the empirical and other research that has been conducted on fraud detection". They conclude that —even though the red flag approach to detecting fraud has been endorsed by policy makers and written about widely by researchers, there is little empirical evidence that shows the red flag approach is an effective way to detect fraud, especially for fraud that has yet to be discovered". (Albrecht, Albrecht and Dunn 2001, 4) Their research review on the subject reveals that one of the major conclusions drawn from previous studies included the fact that only 18–20 % of frauds seem to be detected by internal and external auditors, and further that only about half of the perpetrators of frauds detected are prosecuted. The article also calls for further fraud detection research, this thesis being a partial answer to that call. These detection rates are loosely corroborated by Silverstone and Sheetz (2003), who estimate that approximately 12 percent of initial fraud detection is through external audit and approximately 19 percent is from internal audit. Both of these estimations apply to the American context. This thesis seeks to provide a loose estimate of whether similar figures for the Norwegian context can be corroborated.



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An article dealing with the responsibilities for prevention and detection of white-collar crime refers to a study undertaken to map how members of the accounting profession viewed the changing role of the external auditor following the introduction of SAS No. 82. –Most of those answering the questionnaire disagreed that they should be responsible for searching for fraud. ... Clearly, this notion concerning the auditor’s responsibility is not widely held by the public at large. ... The general public and Congress certainly sided against the CPAs and was the reason for this legislation.” To the question of whether the certified public accountants (CPAs) should act as police or detectives when performing the audit, the response was a resounding no. –This may also indicate that changes brought about with the implementation of the SAS No. 82 requiring a *policing component* clearly require added responsibility and may necessitate additional training and changes to job description requirements. Again, although the general public may believe policing is within the auditors’ duties, even SAS No. 82 does not require this.” (Farrell and Healy 2000, 25)

Similarly, an investigation into fraud prevention and detection in the United States uncovered that the majority of CPAs that responded to the study –believe the external auditor’s responsibility for fraud detection extends only to assessing the probability of fraud and planning the audit accordingly. They rank internal auditors the group most effective in detecting fraud, followed by fraud examiners and client management” (Johnson and Rudesill 2001, 75).

–A persistent debate has dogged relationships between auditors and managers. This debate revolves around the precise roles and duties of each party in relation to fraud and corruption, and particularly who should take responsibility for investigation. Current legal and professional precedents leave little doubt that management bears the main responsibility for ensuring that reasonable measures are taken to prevent fraud and corruption. In any event it is common practice for managers to request assistance and advice from auditors upon suspicion or discovery of fraud. The final responsibility must lie with managers unless the auditor has given specific assurance regarding particular controls or the absence of error or fraud.” (Jones 2004, 12-13)

Within the extant accounting and auditing research much attention is devoted to how the external auditor is a primary figure in detecting irregularities and corruption, and government and standard setters also stress the importance of the responsibilities of the auditing community in this respect (Olsen 2007)

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(Telberg 2004). Even though a thorough investigation into the means of detection of white-collar crimes in the cases chosen for this thesis has yet to be undertaken, the researcher has uncovered limited faith in the auditing function among some for this specific purpose: Only in very few cases does auditing in some form seem to be responsible for the detection, unravelling and exposure of the offence (Ellingsen and Sky 2005). This opinion is backed by the work of Drage and Olstad (2008), who analyzed the role of the auditing function in relation to both preventing and detecting white-collar crime. Although their study included a look at the perceived preventative power of the auditing function as well as actual detection of criminal offences, their findings were consistent with the abovementioned hypothesis: Many of their interviewees were sceptical as to the auditing function having a central role in the detection of white-collar crime (Drage and Olstad 2008).

Olsen (2007) reminds us that the auditing standards external auditors must act in compliance with, also require them to uncover irregularities should they be present. However, the primary concern of the external auditor is to reduce the auditing risk (i.e. the risk that the financial statements may still contain material misstatements even after the auditor has given a positive auditor report), not the risk of irregularities. In spite of external auditors rarely being credited for the detection of financial crime, Olsen still believes that the auditing function contributes significantly to the prevention of such crime by reducing temptations and opportunities, thus corroborating the findings of Drage and Olstad (2008) on prevention.

Rendal and Westerby (2010) have examined Norwegian auditors' expectations relating to their own abilities in detecting and preventing irregularities and compared these with the expectations other users of financial information have towards this same issue. Their findings indicate certain gaps in how the auditor is expected to perform. Auditors themselves answer that they sometimes do not act in accordance with laws and regulations, and both auditors and users of financial information feel that the auditing function should include more than what is required today through standards and regulations, for example pertaining to companies' internal guidelines. They also uncover unrealistic expectations regarding the extent to which the auditing function is capable of uncovering irregularities. They conclude that auditors to a certain extent are too

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reserved and aloof when it comes to their responsibilities in the prevention and detection of irregularities, and call for improvements.

This contention is generally supported by The Global Economic Crime Survey 2009 conducted by PwC (PricewaterhouseCoopers), where 32 % of incidents were reported to be detected by means of internal and external tips and 11 % through established whistle-blowing channels. The survey also states, however, that 47 % of incidents were detected by means of various internal control measures and initiatives, but whether (and to what extent) this includes the internal auditing function is not specified.

Davia (2000, iii) states: –A maxim of the auditing profession is, –Most frauds are discovered by accident, not by auditing or accounting system design”. This has been repeated so many times by so many accountants and auditors that the general public accepts it as an axiom or self-evident truth.” This axiom is in need of scientific testing, and this is precisely the intent of this paper: To what extent is the auditing function to be credited for the detection of various cases of white-collar crime? A complete answer to this question is next to impossible to give, as it must be assumed that most instances of auditor detected irregularities are resolved with the company in question without the cases escalating to the point where they fulfil the selection criteria of this study. However, to the extent that the issue allows mapping, it is thought highly relevant to do so.

Some quotes from Jayasuriya (2006, 53) show a different opinion than that depicted above: –In a case decided at the end of the nineteenth century, a British Judge (Lopes LJ) remarked that an auditor is –a watch dog but not a bloodhound” and that the auditor does not guarantee the discovery of all fraud.” This statement reflects a view (although perhaps not of the judge) of the auditor as an accomplished detector of fraud, but also a wish to dial down the expectations toward the auditing function. The responsibility for the completeness of the financial statements and the sound functioning of the capital markets is not the auditor’s alone to bear.

Wells (2005, 4) highlights some important differences between auditing and fraud examination which may account for a possible gap between expectations towards auditors’ fraud detection and what the auditing function is actually able to deliver: –Fraud examination and auditing are related, but they are not the same. Because most occupational frauds are financial crimes, there is necessarily a certain degree of auditing involved. But a fraud examination

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encompasses much more than just the review of financial data; it also involves techniques such as interviews, statement analyses, public records searches, and forensic document examination. There are also significant differences between the two disciplines in terms of their scopes, objectives, and underlying presumptions.” This contention is in line with the view of Bernardi (1994), who holds that — the probability of detecting fraud is dependent upon time pressures, holding chargeable costs down, and client and public expectations that the auditor will detect any fraud”, resulting in an expectation gap between auditors’ performance and what an audit implies to users” (Bernardi 1994). Johnson and Rudesill (2001, 61-62) agree, stating that —business owners, managers and auditors share the responsibility to detect fraud, but the belief persists that the primary benefit gained from an external audit is the determination of whether fraud has occurred. The accounting profession’s position, however, is that the auditor’s responsibilities are related only to detection of errors and fraud that have a material effect on the financial statements. ... These differences in perception of responsibility and the public’s disenchantment with audits have been termed the *expectations gap*.”

Some types of white-collar crime are hard, if not impossible, to detect using normal auditing routines. Examples include insider trading and cartel activities (Gottschalk 2010b, 233), —so-called off-book frauds (i.e. bribery and kickbacks), which do not leave an audit trail and are often discovered by tip-offs” (Silverstone and Sheetz 2003, 80), and document forgery (Gedde-Dahl, Hafstad and Magnussen 2008). —The forensic accountant must be prepared to reach far beyond the company’s books to industry and government information, proprietary databases, court records, and any source, for that matter, that might throw light on the case” (Silverstone and Sheetz 2003, 77). Expecting this from a standard audit procedure is not always possible. In addition, unless suspicions or tips indicate otherwise, an auditor will most likely not expect conscious illegalities from the onset and further investigations may require time and resources not included in the contract between auditor and client. There is a strong competition in the auditing market, and a certain amount of efficiency and goal orientation is necessary in order to survive. There is little room for improvisation that is not anchored in the standard auditing procedure. (Olsen 2007)

Davia (2000, 3) contends that auditor detection rates might be higher if auditors were more aware of their power in this respect, blaming two fallacious decisions made by many auditors: 1. *It is not necessary to audit for the purpose of*

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*discovering fraud. 2. Good accounting records and internal control are sufficient to control fraud.* He calls for a more proactive approach to auditing, a concept deemed too peripheral for the purpose of this paper to warrant further introduction. Other authors also make recommendations for changes in current white-collar crime deterrence systems, some pointing to the need for accounting systems reform: “One problem at Enron was that the Arthur Andersen firm served as both independent auditor and outside consultant, a potential conflict of interest” (Ivancevich et al. 2003, 120), stating that this conflict of interest has become an emotionally and politically charged issue in need of attention.

Jayasuriya (2006, 53) goes on to state that in 1996, “the Court of Appeal stated that while the primary responsibility for safeguarding a company’s assets and preventing errors and defalcations rests with the directors, material irregularities and fraud will normally be brought to light by sound auditing procedures”. Clearly, there also exist those that have confidence in the white-collar crime detection abilities of the auditing function, and it has hence been shown that views on the matter are heavily conflicting. This fact is part of the rationale for the thesis at hand, which hopes to shed light on the matter at least partially.

## **2.2. A broader view of the field**

After an extensive search for previous studies similar to the research question of this thesis, it seems safe to conclude that little has been done to map this specific relationship between white-collar crime and auditing in Norway. In addition to a database search using common keywords on the subject, popular authors have been mapped according to their research interests and business schools and universities, also in Europe and the US, have been scanned for published research in the area. A full overview of a field as vast as this is almost impossible to achieve. However, it does seem unlikely that such a mapping of Norwegian cases has been done before, as argued above during the run-through of the thesis rationale. The research objectives presented above will hopefully provide valuable insight into this relatively unexplored area of the relationship between white-collar crime and auditing in Norway.

Although few studies relating to the specific research objective of this thesis have been found, there exists a large body of literature on the slightly

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broader topic of financial or economic crime and accounting. What is thought to be a representative selection of the works deemed most relevant, are included in the following section to provide a somewhat broader perspective.

Nardo (2004) argues that ~~recent~~ economic and geo-political events have alarmingly highlighted the risks to peace and economic prosperity that could occur if phenomena such as terrorism, organized crime and political subversion were to join forces for mutual support. The financial crimes that could result from such collaborations are particularly worrying and include fraud, money laundering and operations of a direct criminal nature” (Nardo 2004, 139). He also includes ~~the~~ damage to the financial system that the use of credit and financial channels for criminal ends can cause” (Nardo 2004, 139) as a very real threat to a well-functioning market economy. He adds that this threat is growing in size and severity parallel to the technological developments our financial systems are experiencing, and therefore may be said to be yet another proponent of the views expressed in the Økokrim and PwC reports discussed earlier.

A substantial body of research exists on the prevention of economic crime and the roles some functions or communities might have in this respect. Although prevention is not a part of the research objective of this thesis, some reflections on the subject might still be valuable to our understanding. Goldschmidt (2004) examines the role of boards in preventing economic crime, and concludes as follows: ~~Economic~~ economic crime as committed by companies and their actors can be reduced – if not completely averted – as principals – especially owners – take charge of monitoring their agents more actively through various corporate governance mechanisms. Among these mechanisms, company boards have an essential role to play” (Goldschmidt 2004, 345-346). Baldwin (2006) looks at how financial institutions, in order to avoid sanctions, including criminal and civil liability, ~~must~~ must be better prepared and willing to assess prototypical money laundering typologies” (Baldwin 2006, 387). A wide range of financial institutions are exposed to this type of risk, meaning that from a governmental and regulatory point of view they are in a position to both prevent and detect economic crime. A further investigation of the types of institutions and professions exposed to such criminal liability is not deemed relevant for the topic at hand.

Jayasuriya (2006, 54) highlights various views of the role of the auditor and auditing function, and argues that ~~there~~ there is a need for greater clarity as to the

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role of auditors and as to the expectations of regulators”. A recommendation that regulators and auditors together must decide on benchmark standards and that these may require altering laws, regulations and codes of practice is set forth.

Kayrak (2008, 60-68) investigates the ever evolving challenges for supreme audit institutions (SAIs) in dealing with corruption, and concludes that “SAIs are able to detect cases of corruption without having power to investigate”, and hence “that SAIs to some extent may take part in the fight with corruption directly by detecting it besides its conventional role of deterring and preventing”.

Gottschalk has published extensively in the field of financial crime, and has looked at the stages of financial crime by business organizations, theories and categories of financial crime and, most recently, a survey on financial crime in business organizations in Norway with Solli-Sæther. These provide a thorough overview of the financial crime field and are very much a part of the theoretical framework of this thesis, but will not be discussed in detail here. (Gottschalk 2010c, 2010a, 2008; Gottschalk and Solli-Sæther 2011)

With all that has been done before, what will this thesis add to the existing body of research? As mentioned earlier the author finds the extant research and literature to be lacking in the area of the role of auditing specifically in the detection of white-collar crime, especially in a strictly Norwegian context, and seeks to remedy this gap. Many views on the role of the auditor have been set forth, and many opinions on the extent to which the auditing function has the ability to detect white-collar crime have been given. Many of them are conflicting. Although it will not allow for definitive conclusions, the following analysis will shed light on the means of detection in a limited number of Norwegian cases to date, and may provide valuable input for further research on the topic.

### **2.3. Hypotheses**

Based on the preceding literature review the following hypotheses regarding the current piece of research are formulated:

Based on the estimations of Albrecht, Albrecht and Dunn (2001) and Silverstone and Sheetz (2003) the following is hypothesized:

**H1: Less than 20 % of white-collar crime is detected by the auditing function.**

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In accordance with Wells (2005) and Johnson and Rudesill (2001) the following hypothesis tests a possible discrepancy between expectations and what the auditing function is able to deliver:

**H2: There exists a gap between expectations towards auditors' fraud detection and what the auditing function is able to deliver.**

According to Gottschalk (2010b) and Silverstone and Sheetz (2003) some types of white-collar crime are difficult, if not impossible, to detect using normal auditing routines, such as so-called off-book frauds:

**H3: Some types of white-collar crime are more often discovered by auditors than others.**

The above hypotheses are based on categories introduced in the following chapter, which refer both to the investigative process (suspicion, investigation and prosecution) and to the means of detection (whether by the auditing function, media, whistle-blowers, authorities or other means). In common for the hypotheses is the contention that the auditing function makes a positive contribution to the detection of white-collar crime. Whether or not this coincides with findings based on contemporary Norwegian cases is what this thesis purports to examine.

#### **2.4. *Definitions and terminology***

In order to operationalize the research objectives, the main concepts they introduce should be clarified: How is the auditing function defined for the purpose of this paper? What is needed for us to be able to conclude that the auditing function is to be credited for the detection of economic crime? Is the reporting to some policing body of an irregularity sufficient, or must the auditing function itself be the one to uncover the offence in its entirety? Can we call the incident a crime only when there has been a court ruling and this has legal efficacy, or can an incidence – for the sake of this paper – be called an incidence of white-collar crime when an offence according to Norwegian law can be said to have been committed? A natural precursor to this latter section is a clear definition of white-collar crime and its characteristics as well as a definition of what is meant by the



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auditing function, as the choice of definitions may influence the choice of cases to be included in the upcoming analysis.

#### 2.4.1. *The auditing function*

Auditing is defined by Wallace (1995, 4) as “a systematic process of (1) objectively obtaining and evaluating evidence regarding assertions about economic actions and events in order to ascertain the degree to which such assertions correspond to established criteria, and (2) communicating the results”. As this thesis will include both external and internal auditing, these more specific definitions follow: —External auditors issue an independent report on the fairness of representations (SAS 1, Section 110). Internal auditors are employees of an entity who audit that entity’s operations and overall control system as a service to its management” (Wallace 1995, 4-5). —The external auditor seeks to test the underlying transactions that form the basis of the financial statements. The internal auditor, on the other hand, seeks to advise management on whether its major operations have sound systems of risk management and internal controls” (Pickett 2005, 30). Often, many of the tasks undertaken by internal and external auditors will overlap, making it hard to draw a definitive distinction between the two.

—The following is essentially an external auditor’s definition. The Auditing Practices Board (APB) states: —Fraud comprises both the use of deception to obtain an unjust or illegal financial advantage and intentional misrepresentations affecting the financial statements...”” The statement is taken from the SAS 110 on Fraud and Error. —The auditor is being asked not merely to consider any illegality but also any injustice, a much wider term, in the above definition. What, after all, is an unjust financial advantage? The APB’s definition seems to imply that *unjust* and *illegal* will coincide.” (Jones 2004, 7)

Statutory audits are to a large extent mandatory in Norway. —The general rule is found in the Auditors Act of 1999 which states that anyone subject to issue financial statements according to the Accounting Act is also subject to statutory audit” (Auestad 2011). All limited and listed companies are required to present audited financial statements. To the extent that a general partnership is required to present audited accounts (only companies with revenue exceeding NOK 5 million are) they too must employ an auditor. (Bråthen 2008)

The external auditor spends very little time in the organization compared to management and employees, and therefore has less insight into the workings of company operations and business culture than internal actors. On the other hand, auditors, through their mandate and through legislature have extensive rights to company records and information, and may demand access to any documentation concerning matters pertaining to the organization being audited. (Olsen 2007)

To be able to answer the question of what the auditing function's responsibilities (also towards the detection of economic crime) consist of in a good way, it is necessary to firstly look to the laws and governing principles that underlie the workings of this profession. When mapping Norwegian cases the author will therefore make use of the Norwegian statute on auditing and auditors as well as the standards set forth by The Norwegian Institute of Public Accountants and The Norwegian Accounting Standards Board, which is responsible for setting accounting standards in Norway. The paragraphs central to understanding the auditing community's responsibility for detecting white-collar crime will be presented briefly in the following. It should be stressed that this will not be an exhaustive run-through, but rather a brief presentation of the aspects most applicable to this particular piece of research.

Auditing of company accounts has been a part of Norwegian law since 1899, but only much later in the nineteenth century was a complete piece of legislature dedicated in its entirety to the auditing community (Act Relating to Auditing and Auditors from 1999). In addition, several other laws include the auditor and auditing function in some way; examples are Act Relating to Limited Liability Companies (Limited Liability Companies Act) and Act Relating to Measures to Counter Money Laundering and the Financing of Terror (§§ 4, 7, 18 and 20 are good examples).

Chapter five of Act Relating to Auditing and Auditors (Auditors Act) contains a run-through of the auditors' duties, and this chapter is therefore closest to providing an understanding of what one may and may not expect an auditor to accomplish as stated by law. According to § 5-2 the auditor is required to assess the risk of misrepresentations in the accounts that stem from irregularities, malpractice or errors and is also expected to conduct his or her activities in accordance with good accounting practice. Good accounting practice is a legal standard, defined by the prevailing auditing standards agreed upon by The Norwegian Institute of Public Accountants. These are based on the International

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Standards on Auditing (ISAs) set forth by the International Federation of Accountants (IFAC). The ISA 200 on *Overall objectives of the independent auditor and the conduct of an audit* –deals with the independent auditor's overall responsibilities when conducting an audit of financial statements” (International Federation of Accountants 2008). From this ISA the following definition of the purpose of auditing is taken:

*“The purpose of an audit is to enhance the degree of confidence of intended users in the financial statements. This is achieved by the expression of an opinion by the auditor on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework.”*

This standard also states the overall objectives of the auditor:

*”In conducting an audit of financial statements, the overall objectives of the auditor are:*

- (a) To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework; and*
- (b) To report on the financial statements, and communicate as required by the ISAs, in accordance with the auditor’s findings.”*

The vehicle of this reporting is the auditor’s report, regulated by § 5-6 of the Auditors Act. Discrepancies or irregularities are to be stated here, regardless of whether they affect the auditor’s conclusions regarding the financial statements or not. Depending on the severity of the uncovered irregularities the auditor may not be able to sign a positive auditor report without reservations, such as if the audit was in some way limited or if there is disagreement between auditor and management concerning choice of accounting principles or their application. Several other examples also exist, and exactly how these are to be reported is regulated in IAS 240 and 700, among other standards. What is important here is that users of financial statements should be able to have confidence in them unless explicit statements in the auditor’s report indicate otherwise.

#### 2.4.2. *The auditor role*

Besides the legal obligations and professional norms the auditing function are required to follow, further definition of what is meant by the *role* of the auditor is needed. Irrespective of whether the focus is on the *actual* role the auditor or auditors held in the specific cases or on what role they *should* have had, a clear understanding of the role concept is important.

–We may define a role as the typical behaviours that characterize a person in a social context. An individual in a group may play one or more specific roles” (Greenberg 2011, 287). In the context of a work environment such as the one an auditor operates within, the role concept may have a different meaning than in other settings. –Organizations ask employees to take on roles with certain behavioural requirements. The roles develop from the organization’s division of labour and its organizational design. Other aspects of roles are defined by the organization’s culture. A role is a set of activities, duties, responsibilities, and required behaviours that the organization wants an individual to acquire” (Champoux 2006, 126). George and Jones (2008, 10) define a role as –a set of behaviours or tasks a person is expected to perform because of the position he or she holds in a group or organization”. Berger and Luckmann (1988) contend that –roles define the values and norms and, thus, the appropriate action for specific social positions” (Misangyi, Weaver and Elms 2008, 754). Henry Mintzberg distinguishes between 10 different roles managers may assume –as they manage the behaviour of people inside and outside the organization”, some of which are figurehead, liaison or spokesperson (George and Jones 2008, 11).

–Management and the internal audit activity have differing roles with respect to fraud detection”, and the organization’s –audit charter should establish the audit role in frauds” (Pickett 2005, 167). The important distinction to note here is that the individual auditor’s role in any given audit or detection process may vary according to his or her role in the organization in general and according to the role he or she has been assigned to in each individual case. This role may vary in how active or passive it is and may require involvement at an earlier or later stage in the auditing or investigative process. In the subsequent introduction of each case included in this piece of research, the role of the auditing function will be defined more precisely as part of the analysis if this information is possible to come by.

Similarly, the role of the auditing function can be viewed as placed somewhere along a continuum, or a discreet scale, where involvement ranges from a negative role where the auditor(s) may be characterized as criminal, through a passive role where no intervention was sought, to a positive role in which the auditing function to some extent can be credited with detection. In the following analysis of cases this continuum will be stripped of normative values, and rather than establish whether the auditor role may have been positive or negative will focus strictly on the extent of involvement.

#### 2.4.3. *White-collar crime*

Historically the term *white-collar* was coined based on the more formal dress code of upper and middle class salaried professional or clerical employees – they wore white collars, as opposed to e.g. the term *blue-collar*, which related to the working class, wage earners performing primarily manual or industrial work dressed in work clothes – they wore “blue” collars. Criminologist Edwin H. Sutherland introduced the term white-collar crime in 1940. He defined it as “crime in the upper or white collar class, composed of respectable or at least respected business and professional men... It consists of violations of delegated or implied trust...” (Ivancevich et al. 2003, 114-115).

The Norwegian Ministry of Justice and the Police define economic or white-collar crime in their most recent Action Plan for Combating Economic Crime (The Ministry of Justice and the Police and The Ministry of Finance 2004, 9) in the following way:

*Economic crime is an umbrella term for a number of crimes associated with industry and commerce and other organized activities in the private or public sector. It consists of profit-motivated, illegal activities conducted within or arising out of an economic activity that is in itself legal or is purported to be so.*

The following is an internationally acknowledged definition, quoted by Gottschalk (2010b, 44):

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*Financial crime is defined as crime against property, involving the unlawful conversion of property belonging to another to one's own personal use and benefit. Financial crime is profit-driven crime to gain access to and control over property that belonged to someone else.*

White-collar crime is most often directed towards substantial financial institutions or companies rather than individuals (although the latter also occurs). Cases are often complicated and lacking in tell-tale signs that violations of the law may be occurring (or have occurred). Knivsfå and Sættem (1994) define the following characteristics of white-collar crime (Gottschalk 2010b):

- The motive is economic gain.
- The act is conducted in conjunction with trade or industry, which makes up the economic basis for the violation.
- The violation touches vast economic assets and may be a threat to significant social interests.

White-collar crime may be defined in terms of the offence, the offender, or both. If we are to include the aspect of the offender in the above definition, we must introduce the following addition (Gottschalk 2011b, 14):

*White-collar criminals are individuals who are wealthy, highly educated, and socially connected, and they are typically employed by and in a legitimate organization. They are persons of respectability and high social status who commit crime in the course of their occupation.*

This addition completes the definition of white-collar crime that is the basis for the paper and research at hand, and cases included in the research are all cases that satisfy the inherent criteria illustrated by it.

In the extant body of research and literature the terms white-collar crime, economic crime, fraud and financial crime are often used interchangeably (Johnson and Fludesill 2001), and will for the sake of this paper be considered synonyms. In instances where the criminal act is perpetrated by someone who is able to do so because of his or her position in a lawful business (official or private) or government, this may be defined specifically as white-collar crime and deemed a sub-category of financial crime in general (Gottschalk 2010b).

However, the cases presented in this piece of research do not require such a division in order to answer the research questions satisfactorily. Our focus will remain on the criminal offences committed and how these came to be detected.

Blackmail and various forms of economic fraud are not necessarily considered organized crime in Norway today. What we have defined above as white-collar crime is not a part of the umbrella term organized crime as it is used by police and other Norwegian governmental agencies, although this is simply a matter of organizational strategy. When referring to organized crime we usually mean criminal offences committed by a group of people, often within an existing network of some kind. The intent is economic gain, and the offence(s) is often characterized as serious. (Larsson 2008) With this definition in mind it becomes clear that several of the cases included in the subsequent research can be said to be cases of organized crime as well, although this distinction is not essential for the understanding of the offences committed. Suffice it to say that the cases included are cases that satisfy the criteria inherent in the definition of white-collar crime.

In depictions of white-collar crime in the media the words fraud or corruption are often used when the meaning is that of economic crime. Terms describing specific sub-categories of white-collar crime (such as embezzlement, corruption or bribery) will be used when more detailed descriptions of incidents are needed, and should here never be understood as synonyms for white-collar crime in general.

Some sub-categories of white-collar crime also warrant an introduction. Fraud may be defined as ~~–~~deliberate (as distinct from innocent error), it involves deception and it leads to loss for the victim. Given the deliberate and damaging nature of fraud and corruption these can, and usually will, occur when two basic conditions exist:

- Intent: There must be intent in the mind of the perpetrator.
- Opportunity: There must be opportunity to perpetrate a corrupt or fraudulent act.” (Jones 2004, 1)

Money laundering and insider trading are both considered sub-categories of the umbrella term manipulation. ~~–~~Money laundering means the securing of the proceeds of a criminal act. The proceeds must be integrated into the legal economy before the perpetrators can use it. The purpose of laundering is to make it appear as if the proceeds were acquired legally, as well as disguising its illegal

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origins.” (Gottschalk 2010a, 455) –Insider trading is defined as trading by managers and board members in the stock of their own firms”. –Illegal insider trading may undermine investor confidence, increase the rate of return demanded by less-informed investors, reduce liquidity in secondary markets, raise the cost of capital for firms, and ultimately hurt public welfare by reducing economic growth.” (King and Padalko 2007)

Bribery and embezzlement may be considered sub-categories of the term corruption in the same category framework as mentioned above. Baughn et al. (2010) and Sun and Peng (2011) corroborate this division. Corruption in general –is defined as the giving, requesting, receiving, or accepting of an improper advantage related to a position, office or assignment” (Gottschalk 2010a, 443). –Bribery is one of the important manifestations of corruption, and its purpose is, through the exchange of money and power, to get reciprocity of benefits” (Sun and Peng 2011, 104). Embezzlement –is the fraudulent appropriation to personal use or benefit of property or money entrusted by another. The actor first comes into possession of the property with the permission of the owner” (Gottschalk 2010a).

#### 2.4.4. *Detection of white-collar crime*

What is meant by detection in this context? What level of certainty is required for us to be able to conclude that white-collar crime has been uncovered? What is needed for us to be able to conclude that the auditing function is to be credited for detection?

O’Gara (2004, 132) draws an interesting distinction that puts the process of detection into a realistic context:

*There is no clear line of demarcation between recognition and detection. A convenient (but oversimplified) way to view the process is as a continuum, with recognition as the first step in the recognition, detection and investigation fraud chain. Recognition is the proverbial light bulb that goes off as the auditor becomes aware of the possibility of fraud and how it may have occurred. Detection is the next step: determining the probability of fraud.*



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Although the direct referral is to fraud specifically, the above definition is thought to be just as applicable to white-collar crime in general, as the two concepts are often viewed as synonyms. He goes on to further elaborate on detection specifically (O'Gara 2004, 169):

*Detection of fraud consists of identifying indicators of fraud sufficient to warrant recommending an investigation. These indicators may arise as a result of controls established by management, tests conducted by auditors, and other sources both within and outside the organization.*

Once irregularities are uncovered, the investigative or forensic phase that follows will normally be undertaken by individuals with a more specialized skill-set (O'Gara 2004, 137). For the purpose of this thesis detection is defined in the broadest possible sense, meaning that any further inquiry above and beyond the standard audit procedure will suffice for us to conclude that the auditing function, at least in part, can be credited with detection.

Because the auditing framework sketched above prescribes that an auditor cannot, or is not required to, make legal determinations of whether fraud (or white-collar crime) has occurred, it is only natural that the role of the auditing function in the phases following initial detection – investigation and prosecution – be a supporting role. Auditors may be involved in these final two phases in a number of ways, among these as forensic accountants or expert witnesses. The role of auditing in the cases included in this thesis specifically will be further discussed in the next two chapters.

#### *2.4.5. The role of auditing in the detection of white-collar crime*

“Up until 1500, auditing was primarily concerned with preventing fraudulent acts.” This view of the auditor was somewhat negated in the 1951 *Codification of Statements on Auditing Procedures* issued by the American Institute of Certified Public Accountants (AICPA), which stated that “the ordinary examination ... is not designed and cannot be relied upon to disclose defalcations and other similar irregularities”. SAS No. 16, which was issued in 1976, acknowledged what was implicit in prior pronouncements – that the auditor has a responsibility to search

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for irregularities (frauds) that may have a material effect on financial statements.” (Albrecht, Albrecht and Dunn 2001, 2)

An extensive framework deals exclusively with the role of the auditing community in relation to prevention and detection of white-collar crime in addition to some more general regulations. Firstly, § 5-1 of the Auditors Act states that the auditor through the auditing process is to contribute to the prevention and detection of irregularities, malpractice and errors. This clause was one that previously referred to prevention exclusively, and the inclusion of detection bears witness to confidence on the part of the regulator in a more active and assertive auditing function. § 5-2 requires the auditor to ensure that there are no substantial or material violations of accounting laws and practices. This materiality requirement is at the heart of the auditing framework that governs Norwegian auditors today. It represents the resource constraints they are subjected to and indicates that there are limits to what scale and type of misrepresentations one can expect the auditing function to detect. Therefore, all errors deemed immaterial in their effect on the company accounts will not be emphasized, regardless of whether they are due to white-collar crime or a software error, but this interpretation does not coincide with the intention of the standard setters (Drage and Olstad 2008, 36).

Central to our research questions is IAS 240 (International Federation of Accountants 2009) on the auditor's responsibilities relating to fraud. This is a standard that can help clarify what is meant by the materiality requirement. On the characteristics of fraud the IAS states the following:

*“Although fraud is a broad legal concept, for the purposes of the ISAs, the auditor is concerned with fraud that causes a material misstatement in the financial statements. Two types of intentional misstatements are relevant to the auditor – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. Although the auditor may suspect or, in rare cases, identify the occurrence of fraud, the auditor does not make legal determinations of whether fraud has actually occurred.”*

It also defines the responsibility for the prevention and detection of fraud:

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*“The primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.”*

On the responsibilities of the auditor we find the following:

*“An auditor conducting an audit in accordance with ISAs is responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs. As described in ISA 200,4 the potential effects of inherent limitations are particularly significant in the case of misstatement resulting from fraud. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error. This is because fraud may involve sophisticated and carefully organized schemes designed to conceal it, such as forgery, deliberate failure to record transactions, or intentional misrepresentations being made to the auditor.”*

The latter statement is further developed by emphasizing the lack of omniscience in the auditing function. Even though it may be possible to identify potential opportunities for fraud, this does not mean that the auditor can determine whether errors on items subjected to personal judgment are caused by fraud or error just as easily. In addition, this standard clearly states that the auditor may accept records and documents as genuine unless he or she has reason to suspect otherwise. ISA 240 goes a long way in explaining what the auditor is up against:

*“The auditor’s ability to detect a fraud depends on factors such as the skillfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved.”*

Finally, the objectives of the auditor are defined as follows:

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*(a) To identify and assess the risks of material misstatement of the financial statements due to fraud;*

*(b) To obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and*

*(c) To respond appropriately to fraud or suspected fraud identified during the audit.*

–Statement No. 3 of the Institute of Internal Auditors states that in conducting audit assignments, the internal auditor’s responsibilities for detecting fraud are to: (1) have sufficient knowledge of fraud to be able to identify indicators (red flags) that fraud might have been committed and (2) be alert to opportunities such as control weaknesses, that could allow fraud ... ; (3) Evaluate the indicators (red flags) that fraud might have been committed and decide whether any further action is necessary, or whether an investigation should be recommended; (4) Notify the appropriate authorities within the organization if a determination is made that there are sufficient indicators (red flags) of the commission of a fraud to recommend an investigation” (Albrecht, Albrecht and Dunn 2001, 3-4).

–Similarly, the Private Securities Litigation Reform Act of 1995 imposed some of the same requirements on public company auditors. The requirements are as follows” (Farrell and Healy 2000, 23):

1. Audits must include procedures designed to provide reasonable assurance of detecting illegal acts that would have a direct and material effect on financial statement amounts.
2. Each audit must include procedures to identify related-party transactions that are material.
3. Each audit must include an evaluation of the ability of the issuer of financial statements to continue as a going concern.

An important part of the framework outlining the auditing function’s responsibilities towards the detection of white-collar crime is the Sarbanes-Oxley Act of 2002. –Named for Senator Paul Sarbanes, a long-serving former Senator, and Representative Michael Oxley, a former Republican from Ohio, the Sarbanes-Oxley Act is designed to combat fraud in public companies” (Brightman 2009, 222). Aimed primarily at –public accounting responsibilities in improving the

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quality, reliability, integrity and transparency of financial reports”, it includes aspects such as standards and procedures related to listed company audit committees, the strengthening of requirements regarding auditor independence, and the retention of records relevant to audits and reviews. One of the main stated goals of the act is improving the probability of detection of corporate misstatements as well as establishing new protections for corporate whistleblowers. (Wells 2005, 296-297)

### 3. Methodology

#### 3.1. *Introduction to the research project*

At the core of this thesis is the task of defining the role of the auditor or auditing function in the detection of white-collar crime. Through the subsequent analysis cases will be sorted on the basis of means of detection; for starters the bivariate answer of whether the auditing function can be credited or not, will be mapped. However, in the interest of a more thorough examination of case material we will proceed to categorize the cases in a manner that provides more nuances: If not auditing, what was the means of detection? The following categories of means of detection (including auditing) will be included:

- Detected by auditing/the auditing function (internal or external)
- Detected by media/journalism
- Detected through whistle-blowing or tip-offs
- Detected by authority routine of some kind
- Detected by other means

The above categories are chosen because they seem to provide a good description of the alternatives available. This a priori opinion is based on the literature review and preliminary knowledge of contemporary Norwegian cases. The first category warrants no introduction; whether or not the auditing function can be credited for detection, and to what extent, is the main research question of this thesis. It also seems to be the case that many instances of white-collar crime are detected by forensic journalism, as will also be shown in the upcoming case analysis. Several central cases included in the sample (the Henriksen case, the Red Cross case and the Ullevål case are some examples) were uncovered through media investigations. The press has great influence in such situations, both through independent uncovering of irregularities and by providing wide publicity to cases that would otherwise not receive sufficient attention for further investigation when raised through other channels. Journalists' threshold for getting involved in cases of irregularities and suspicious instances is lower than that of law enforcement; they have the luxury of not having to focus on a criminal liability perspective. Finding something reprehensible and interesting is usually sufficient to merit further investigation, and cases described may later prove to be of a nature that

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warrants law enforcement involvement. (Gedde-Dahl, Hafstad and Magnussen 2008) Many journalists see it as their social task to undertake such forensic activities, including the detection and unraveling of white-collar crime (Haakaas and Sæter 2010).

As the reports published by PwC indicate, a substantial number of cases are unraveled after tip-offs are received, either informally or through established whistle-blowing channels. Prior knowledge of the case material leads this researcher to also include a category fathoming various authority routines, such as audits by the Office of the Auditor General of Norway and the requirement of a range of financial institutions and actors to alert the authorities when they come across certain transactions. In addition, the alternative of detection through any other means is also included, to account for the inevitable case(s) that does not fit into any of the above categories.

As sketched in the section on extant literature and research, it is thought that the conclusion with an angle of counting incidences in which auditing can be credited with detection, will be ~~unfavorable~~ towards the auditing function. However, this approach does not provide the entire picture. Rather than simply answering ~~yes~~ or ~~no~~ to the question of whether auditing was the primary means of detection, one could instead ask: In what way/phase of the process was auditing involved, and to what extent? The rationale for this approach is given above, where the roles and responsibilities of the auditor are introduced. The unfairness of requiring the auditing function to detect irregularities or malpractice that may not surface through the routines and standard procedures they are required to adhere to, cannot be justified. From this more nuanced point of view, however, the auditing function will probably have been involved in some number of cases. In order to operationalize this approach it becomes necessary to define more clearly the different stages of the detection process, and also to keep in mind the definition of detection given in the preceding section on definitions and terminology.

In order to utilize such an approach one may view the detection process as various separate stages of inquiry depending on the severity of suspicion and/or progression of the case at hand. These phases have here been defined in the following way:

- Suspicion/discovery
- Investigation

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- Prosecution/conviction

These stages of inquiry or phases are inspired by Williams (2006), Kuykendall (1982) and Ashworth and Redmayne (2010). The former divides the investigative process into the phases “discover”, “investigate”, and “prosecute”, while Kuykendall introduces a quest for a conceptual framework for the criminal investigation process which is thought to apply equally well to the investigation of white-collar crime. Investigations are thought to proceed through a three-stage process where the stages are named “suspect identification”, “suspect location”, and “case development”. This means of characterizing the process is essentially quite similar to the one utilized here. Person-oriented investigations (where a pattern of events has led the police to believe that a person is a lifestyle criminal) may consist solely of stages two and three, or even stage three alone. “This latter stage, case development, is an important part of the investigatory process because the information necessary to identify, locate and apprehend is often insufficient to obtain prosecution and conviction; therefore, the investigation must frequently continue” (Kuykendall 1982, 133). This division is roughly corroborated by O’Hara (1956, 12).

Innes (2007, 255) divides the phase of investigation further into three stages, or movements. “The first movement involves *identifying and acquiring* that which forms the basis of an investigation. This process of identifying and acquiring informs the second movement of the act, which is *interpreting and understanding*”, which is where “information is translated into intelligence or knowledge”. The third and last movement constitutes *ordering and representing*. “This is about configuring new knowledge with extant knowledge held by the investigator(s) in a format that enables a solution to the question that is the focus of the investigation”. Although such a distinction between different stages of investigation is not strictly necessary for the study at hand it, does provide insight into what an investigation entails.

In order for these phases to be fully operationalized, definitions should be provided. For our purpose we will not deviate from the basic meaning of the concepts as they can be found in dictionaries of the English language. The Concise Oxford Dictionary (Soanes and Stevenson 2006) provides the following definitions: To suspect something is defined as having an impression of the existence or presence of something, in this case irregularities or violations of



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financial or economic laws and regulations. To detect is equated to revealing the guilt of someone or discovering a crime. To investigate is to inquire into, examine or study carefully. –Essentially, an investigation is an information-gathering and analysis process” (Kuykendall 1982, 133). –The concept of *solving the crime* does not satisfy the requirements of a completed investigation. To the general public, this term describes merely the process of discovering the identity of the suspect and apprehending him. These achievements, however, are but two of the objectives of the investigation and leave the investigator far from his ultimate goal of presenting sufficient in a court of law to warrant a conviction” (O’Hara 1956, 6).

Prosecution is by the abovementioned dictionary defined as the institution and carrying on of a criminal charge in a court of law, or also the carrying on of legal proceedings against a person. Context may also define this term as the prosecuting party in a court case. Lastly, conviction is defined as the act or process of proving or finding guilty. With these definitions in mind the time has come to introduce the final definition of the study, before the methodology is described in more detail.

### 3.2. *What is a case?*

As the subsequent research project is a (multiple) case study, it becomes necessary to define more closely what is meant by a case in this context. —The term *case* and the various terms linked to the idea of case analysis are not well defined in social science”. However, it can be maintained that –implicit in most social scientific notions of case analysis is the idea that the objects of investigation are similar enough and separate enough to permit treating them as comparable instances of the same general phenomenon”. Defining on what level of analysis the distinct lines of each case are drawn, is not always straightforward. In some instances it may be useful to characterize how cases are conceived according to whether they are seen as involving empirical units or theoretical constructs and whether these, in turn, are understood as general or specific. (Ragin and Becker 1992, 1-5) For the current research project an understanding of cases as empirical units is adopted, as each is seen as a separate case of the construct white-collar crime (rather than each case embodying a separate construct) and may be studied by accessing an extant body of information. Also, a case is seen as general rather

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than specific in the sense that cases are viewed ~~as~~ empirically real and bounded”, and not in need of verification of their empirical boundaries, ~~because~~ cases are general and conventionalized”, based on ~~existing~~ definitions present in research literatures” (Ragin and Becker 1992, 10). Here the conventional units referred to are organizations, public or private, or individuals, which in the course of their financial dealings have been subjected to (or committed) white-collar crime.

### 3.3. *Sketch of method chosen*

Because it has been viable to acquire a certain insight into the field being studied through the means of a rather large extant body of research and literature, this piece of research is deemed descriptive in nature (Gripsrud, Olsson and Silkoset 2004). It seeks to describe in more detail than has previously been possible the nature of the auditing function’s role in the detection of white-collar crime in Norway. This is done by means of a (descriptive) case study of several instrumental cases, named so because they ~~provide~~ insights into an issue or refine a theoretical explanation, making it more generalizable. In these situations, the case actually becomes of secondary importance”. Cases are chosen because they are thought to ~~help~~ the researcher better understand some external theoretical question, issue, or problem”. (Berg 2007, 291)

The fact that more than one case is included in the research makes this a collective (Merriam 2009) or comparative case study, which involves ~~extensive~~ study of several instrumental cases, intended to allow better understanding, insight, or perhaps improved ability to theorize about a broader context” (Berg 2007, 292), and where ~~individual~~ cases share a common characteristic or condition” (Merriam 2009, 49). For the purpose of this paper these common characteristics are outlined below, where selection criteria and case definitions are given.

~~Some~~ sources define the case study method as an attempt to systematically investigate an event or a set of related events with the specific aim of describing and explaining this phenomenon” (Berg 2007, 283). Yin (2009, 18) defines case study methodology in terms of the research process: ~~A~~ case study is an empirical inquiry that investigates a contemporary phenomenon within its real-life context.” Regardless of which specific definition of case study research one chooses to adhere to, it should be clear that ~~a~~ case study is an approach capable of

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examining simple or complex phenomenon, with units of analysis varying from single individuals to large corporations and businesses; it entails using a variety of lines of action in its data-gathering segments, and can meaningfully make use of and contribute to the application of theory” (Berg 2007, 283).

A comparative case study design is chosen over other alternatives for the range of characteristics inherent in it. It allows the description of a multitude of different Norwegian cases from the recent past, mapping the auditor role in more detail than a strictly quantitative approach would allow. At the same time, the number of cases lets us count instances and categorize cases in a way that would not be possible if one or two cases received all our attention.

–Unlike experimental, survey, or historical research, case study does not claim any particular methods for data collection or data analysis” (Merriam 2009, 42). Yin (2009) suggests utilizing several sources of evidence in case study research. Among those he recommends are documentation, archival records, interviews, direct observation and physical artefacts. Each has their inherent strengths, and combining several approaches to data collection ensures their complementing effects are harvested for the benefit of the study. The research conducted in this paper involves secondary data collection as well as interviews. The secondary data collection mainly refers to the use of various public records or documents, such as court rulings, mass media and government documents as well as previous studies, in other words both documentation and archival records in the language of Yin. Interviews, either in person or by telephone or e-mail, are used as a supplement. The use of multiple data collection methods also serves as a form of methodological triangulation recommended by several researchers to –counteract the threats to validity” inherent in various methods if used alone (Berg 2007, 7).

–As a means of collecting data, interviews can be an invaluable source of information and opinions that generate valid, representative and reliable data” (Jupp, Davies and Francis 2011, 104). The aim of this thesis is to uncover the means of detection of relevant cases of white-collar crime, i.e. to describe the cases in some detail. However, because cases differ in a variety of ways and because the missing links of information are likely to vary greatly from case to case, a structured or semi-structured approach to interviewing implicated parties is not deemed most suitable. Rather, interviews as a supplement to information gathered in other ways suggests an informal approach where questions vary

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according to the interviewee and the type of information sought. This allows for individualization of the interview depending on the researcher's level of knowledge in each case, and increases the likelihood that only relevant questions are asked. This brand of interviews is commonly known as factual interviews, where "obtaining valid factual information" is the key goal (Kvale and Brinkmann 2009, 150), alternatively investigative interviewing, which is "narrowly focused to learn what happened in a specific instance" (Rubin and Rubin 2005, 6).

It has not been deemed necessary to transcribe the interviews in order to maintain adequate validity and reliability of the research due to the brief and ad hoc nature of the interviews, and so note-taking was resorted to (Jupp, Davies and Francis 2011). In some instances the most appropriate and convenient means of communication with persons inhabiting key information was through e-mail, and consequently this also became an important means of gathering data. Insights gained from interviews via telephone or e-mail are included in the introductions of each case in the same way as information gathered from other sources.

The inquiries consisted of open questions, which did not require the respondent to select a response from a predetermined list (Jupp, Davies and Francis 2011, 65). This choice was made with the intention of allowing respondents' own interpretations of events and actions, and is part of what makes this piece of research descriptive in nature. When the range of possible answers is not predetermined, this allows for "the creation of categories based on recurrent themes". For the purpose of this thesis there will inevitably be a limited number of alternative answers many respondents will resort to, such as when they are asked about the means of detection of the case at hand or their thoughts on the involvement of the auditing function. The analysis of responses may uncover possibilities for categorizing, and the various categories can then be mapped through the calculation of frequencies of responses, providing additional insight into the area. (Jupp, Davies and Francis 2011, 67)

A few points on how interviewees were chosen should also be included. The goal of the researcher has been to provide as nuanced a picture of each case as possible, and so, where possible, several views on facts and circumstances have been sought rather than a simple reliance on just one source. This is an approach also suggested by Rubin and Rubin (2005, 70-72), who argue that "choosing interviews to obtain disparate views and carefully piecing together the separate parts of the puzzle" is an important part of maintaining and ensuring credibility of

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argumentation. They also state that “interviews are more believable when it is clear that the interviewees have had direct access to the information requested”. It has therefore been a goal of the researcher to seek the opinions of those who have had some form of direct relation to the various cases, whether from an auditing standpoint, prosecutors or defence attorneys or the like. When possible, interview findings have been compared to other sources such as newspapers or court documents to check for consistency. As these are cases of legal violations the researcher has also sought to be aware of the incentive of interviewees to somehow distort, exaggerate or evade the issue, and therefore interviewees have been chosen that are thought to be least likely to resort to such biasing of information. (Rubin and Rubin 2005) This form of bias is argued to be reduced by the use of telephone for several of the interviews, making it easier for interviewees to respond to questions of a sensitive nature (Berg 2007, 109-110).

To ensure sound methodological quality, the judgment of auditor performance has not been left to the researcher alone. Three independent raters were given the task of judging auditor performance in each case, rating auditor involvement on a scale from one to five (where one signifies no involvement and five is the highest detection score) in each of the detection stages introduced above (suspicion, investigation and prosecution) based on the case descriptions in the following section. Such an ordinal scale allows judgment about whether one case depicts higher auditor involvement than another, but does not enable us to define in exact terms how much more (Gripsrud, Olsson and Silkoset 2004). This exact definition is not necessary for us to explore the findings that matter to the research questions we seek to answer, namely the detection rate of the auditing function compared to other means of detection, and the establishment of an approximate auditing detection rate for the Norwegian context.

If available information was not considered adequate by raters to judge auditing performance, raters instead marked the case and phase as not available for judgment (NA). Cases judged to contain insufficient information by two raters or more were not included in the subsequent analysis of rater findings. The rating form is included in the appendix, both an original version and the forms filled in by each rater, which include the age, sex and education of raters as well. Based on the scores given the auditing function in each case, the prevalence of various scores will be mapped, providing input for the subsequent interpretation of findings to be found in the discussion chapter.

### 3.4. *About the cases*

The research undertaken here will bear the characteristics of a collective case study, “where a number of cases are studied in order to investigate some general phenomenon” (Silverman 2005, 127). For this reason it becomes necessary to define more closely what is meant by a case in this specific context, and so the reader is referred to the previous chapter on literature and definitions if a recapitulation is needed.

The cases included will be a judgment sample (Pedhazur and Schmelkin 1991, 321) or purposive sample, where “people and events are deliberately selected because they are interesting or suitable, rather than being representative” (Payne and Payne 2004, 210). A judgment sample may also be referred to as a convenience sample, and a “convenience sample is one that is simply available to the researcher by virtue of its accessibility. ... The data will not allow definitive findings to be generated because of the problem of generalization, but it could provide a springboard for further research or allow links to be forged with existing findings in an area. ... Even when a sample has been selected using probability sampling, any findings can be generalized only to the population from which that sample was taken” (Bryman and Bell 2003, 105-109).

As the research will be relying on a non-probability sampling technique it will not be “possible to estimate sampling errors. Therefore, validity of inferences to a population cannot be ascertained” (Pedhazur and Schmelkin 1991, 321). The limited number of instances available for analysis would in any case have limited the statistical generalizability of findings, and it is the hope of the researcher that insights gained will still make a contribution to the field in the ways described above. The fact that evidence from multiple cases is considered more compelling, increasing the robustness of the study, contributes in this effect (Yin 2009). Yin (2009, 53) suggests considering “multiple cases as one would consider multiple experiments”, which is to follow a replication logic rather than a sampling logic. “Any application of this sampling logic to case studies would be misplaced. First, case studies are not the best method for assessing the prevalence of phenomena. Second, a case study would have to cover both the phenomenon of interest and its context, yielding a large number of potentially relevant variables. In turn, this would require an impossibly large number of cases – too large to allow any statistical consideration of the relevant variables.” The replication design is described as follows: “Each individual case study consists of a *whole* study, in

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which convergent evidence is sought regarding the facts and conclusions for the case; each case's conclusions are then considered to be the information needing replication by other individual cases." (Yin 2009, 56) To the extent possible this replication logic has been the guiding principle of this study, informing both the means of data collection and the variety of cases included.

The convenience sample is also based on a few established selection criteria, some of which are inspired by Davia (2000) and Stelfox (2009):

1) They must satisfy the criteria for white-collar crime as illustrated in the definitions in the previous chapter.

2) They must be cases of white-collar crime that has been exposed and made public. A case is defined as being in the public domain if it can be known by anyone who has a serious interest in studying it" (Davia 2000, 2).

3) They must be cases where the perpetrator(s) was prosecuted in some Norwegian criminal court, although not necessarily convicted (Stelfox 2009).

The sample of cases chosen for this piece of research is based on cases selected by Gottschalk (2011b) as the most central cases of white-collar crime in Norway in recent years. The cases below are those first included in this reference, although more were added by Gottschalk before publishing and to later editions. Although the cases to be included in the research were provided for the author, information on the role of the auditing function was not, and a substantial amount of research was needed to map each case in the way that is shown below. Some of these cases are mentioned in other texts (Gedde-Dahl, Hafstad and Magnussen 2008) regarding Norwegian white-collar crime as well, further strengthening their position as relevant for the research question at hand. All of them satisfy the abovementioned selection criteria as well.

## 4. The cases

A brief introduction of each case included follows below. The extent to which each case is described will depend on the amount of information available. Attention will primarily be given to those aspects of the stories necessary to understanding the role of the auditing function in each case, and so facts will be viewed from the auditor's perspective as far as possible. How each case was detected – therein the role of the auditing function in the detection process – and the type of white-collar crime involved will be described. The cases are presented in no specific order. A complete list of cases as well as the page on which each case description can be found, is included in the appendix at the end of the paper. Readers who wish to proceed directly to the discussion of findings, may skip to the next chapter.

### *The Henriksen Case*

*"I don't really belong in a book on corruption."*

- Ivar Thorer Henriksen, several months after conviction (Gedde-Dahl, Hafstad and Magnussen 2008, 33)

The accused were Ivar Thorer Henriksen, his son Pål Henrik Henriksen, and two business associates. Head of the board Petter Elvestad acted as Peab's representative, the engineering company being accused of corruption and financial disloyalty on 60 accounts, resulting in the extraction of NOK 60 million in total from the public companies Nedre Romerike Vannverk AS (NRV AS) and Sentralrenseanlegget RA-2 AS. Økokrim maintained that the following methods had been utilized: Inflated billing as well as fictitious billing of goods and services that were never actually delivered, the companies having been charged with costs completely irrelevant to their business. The companies were relieved of machinery and equipment through irregular transactions.

The case was so extensive that Økokrim made the decision to conclude their investigation without following through on a number of leads. Several indications of the possible violations can be found in the 400 page report issued by Nedre Romerike Distriktsrevisjon in 2007, which was not utilized by Økokrim in the case tried in court. (Gedde-Dahl, Hafstad and Magnussen 2008)



The unravelling of the Henriksen case started when a contractor, Tom Christensen, contacted the newspaper *Aftenposten* with information concerning irregularities in certain governmental organizations. In the fall of 2005 *Aftenposten* published information on financial relationships and transactions that were thought to be connected to illegitimate activities, partly in connection with the municipal organizations Nedre Romerike Vannverk AS (NRV) and Sentralreanlegget RA-2 AS. (Olsen 2007)

The director of these two companies, Ivar Henriksen, had acquired nine farms in Africa with company means. Refusing to share where the assets to make such purchases had come from, he was given a leave of absence. An entrepreneur had been given NOK 100 million worth of contracts without tender, and it was later assumed that the entrepreneur was used to channel money from NRV to Henriksen's firm in South Africa, a German-based company that was also involved. The report from Nedre Romerike Distriktsrevisjon uncovered that draining of assets had been going on since the 1970's. (Økokrim 2011)

Siri Gedde-Dahl of the newspaper *Aftenposten* was part of the team that received the tip and subsequently started investigating the allegations made. The whistle-blower had worked with Henriksen, and the tip arrived in the wake of articles on the prosecution of those involved in the Ullevål case, according to correspondence with Gedde-Dahl. The tip referred to irregular dealings between Henriksen's companies and private suppliers, Peab especially. The companies in question were approached carefully, and only after several weeks of information gathering from sources and from the documents available. The articles published from the case built largely on documents from public sources such as firm registers, ledgers and accounts, tax authorities, local briefings, tender databases and real estate registers. (Gedde-Dahl, Hafstad and Magnussen 2008) Gedde-Dahl describes in an e-mail interview that lessons from the Ullevål case had made them more in tune with warning signals, and their suspicions of corruption were sought enlightened by mapping the companies, their activities and their mutual relation.

The auditor, members of the board and several suppliers evaded prosecution, but were still sued for damages. The auditing firm PwC were fined NOK 15 million. (Gedde-Dahl 2009) (Gedde-Dahl 2011c)

Nedre Romerike Distriktsrevisjon offered a critique of the board of directors of the two companies in the final report issued on their inquiry. Part of their critique was too heavy a reliance on the control functions of the auditors. The

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second status report issued on this inquiry in February 2006 drew attention to insufficient or erroneous accounting pertaining to particular projects (e.g. for the construction of a plant for Coca Cola AS). Neither was an overview of other activities engaged in by the companies available. (Dalseide et al. 2006)

In the two preliminary reports of this inquiry the fact that auditor reports with no remarks were given, is questioned, as significant omissions and errors had been uncovered. Among these were large, unspecified bills from Peab, lacking reports and missing information on ownership of other companies. In addition, the board of directors had not received numbered letters from the auditor. (Nedre Romerike Distriktsrevisjon 2005)

Correspondence with Gedde-Dahl clarifies that at the starting point of their research it had already been decided that an audit of the company was to be undertaken by Nedre Romerike Distriktsrevisjon, in part due to suspicions of breaches of the full cost principle for public fees. This audit had not commenced. Upon the publishing of the article in *Aftenposten* it was decided that this audit was to be converted into a fraud audit, reports from which have been referred to above. When Økokrim entered into formal investigations, Gedde-Dahl recounts that she assumes that auditors in their employment were part of the forensic team assigned to the case.

The Financial Supervisory Authority of Norway concluded that the auditor of the companies in question had committed severe violations of the Auditors Act. Auditor Johnny Skaug of PwC would likely have lost his accounting licence had he not submitted it himself in the fall of 2005 when the case was made public in *Aftenposten* and Skaug was dismissed as auditor of the company. Skaug continued his employment at PwC as partner until his retirement in 2008. PwC was criticized for not identifying a number of risk factors, and also for not intensifying controls where risk factors actually were found. Skaug submitted clean and positive auditing reports in spite of having uncovered serious breaches of laws and regulations. He trusted Henriksen and only sporadically had any direct contact or information exchange with the board of directors. Most of the auditor's letters Skaug delivered to Henriksen, never made it to the board. (Gedde-Dahl, Hafstad and Magnussen 2007)

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*The Finance Credit Case*

This was a case of fraud and accounting malpractice in conjunction with loans from several Norwegian banks and financial institutions amounting to NOK 1.5 billion in total, most of which has been lost. Complex organizational structures both in Norway and abroad were used to hide the offences and several transactions were channelled through tax havens. (Høgetveit 2004) The business plan of the company was to buy receivables and engage in debt collection. Accounts that gave a severely misleading picture of earnings and the state of the balance sheet served as the alibi for loans from banks such as Sparebank 1 Gruppen and Nordlandsbanken. (Økokrim 2005)

A former finance manager was convicted of wrongful reporting of collateral, and a former CFO was convicted of gross tax fraud and substantial violations of accounting laws and regulations. The finance manager was charged with wilfully preparing inaccurate reports on accounts receivable that individual companies in the Finance Credit system owned. These accounts receivable were collateral for loans with an overdraft of NOK 171 million. He was acquitted of two other loans amounting to a total of NOK 75 million. The CFO failed to report NOK 150,000 as taxable income, and also failed to list this as a payment to himself in the accounts. (Økokrim 2005)

Kristoffersen and Stensrud were planning on registering Finance Credit on the Stockholm stock exchange when Bjørn Olav Jahr, a journalist with the Norwegian magazine Kapital, published a story on what he claimed were the real goings on in the company. He had been tipped off by former Finance Credit management. (Økokrim 2005)

Company auditor Per Kristian Ertvaag had previously tried to call attention to aspects of the accounts he found irregular, but had not succeeded in grabbing sufficient attention. Among these irregularities was the fact that of total income of NOK 33 million, 25 million derived from the sale of IT solutions to close affiliates, as well as 5 million in management fees. Finance Credit's collateral lay in receivables the company they were purchased from, Royal Consulting, considered lost, and could therefore not be considered the most reassuring of safety nets. (Jahr 2005)

Complex company structures will have made it difficult for both banks and auditors to monitor and control the accounting figures (Økokrim 2005). However, the fact that Finance Credit collateral was in receivables that the

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previous owner had no hope of collecting, raises the question whether such receivables should have been written off. Finance Credit auditor John Haukland, a partner at KPMG at the time, would not explain why Royal Consulting was listed with several tens of millions of NOK in the balance sheet of Finance Credit in spite of the fact that Royal Consulting was insolvent. Many claimed it seemed drop-handed of the auditing function not to insist upon more loan loss provisions when Finance Credit's fiercest competitor on invoice purchasing, Aktiv Kapital, has a relatively high depreciation rate in this area of their business. (Jahr 2005)

The KPMG auditing team did not consist solely of John Haukland. It also included a senior manager, manager and others. In a telephone interview, Tom Myhre, a KPMG partner with first-hand recollections of the case, states that it later became clear that Haukland's involvement and quality control as partner in the Finance Credit audit was lacking. In addition, Finance Credit was not viewed as a large and complex auditing assignment. It was a company of modest size when KPMG first became involved, and their rapid expansion was perhaps not followed closely enough.

Myhre has several other points to make. Firstly, he wishes to emphasize that much has changed in the way KPMG implement their audits since the time of Finance Credit. Internal functions have been upgraded and the auditing framework requirements are becoming more complex. It is no longer sufficient to base an audit on management confirmations; other forms of evidence must also be presented.

Although it is clear that the auditing function cannot be credited with detection in this case, Myhre questions whether this was a case that auditors, even without negligence, would have been in a position to detect. The fraud was not merely confined to companies that were clients of KPMG, and with fraudsters actively seeking to manipulate and camouflage at the receiving end, this may seem unlikely. Also, a lack of communication between the English and Norwegian KPMG branches seems to have aggravated the problem, and according to the testimony Haukland gave in court, KPMG received no formal warning from Ertvaag about the irregularities he had come across, as is required by regulations in a switch of auditors. KPMG was sentenced to a fine of NOK 5 million for their lacking audit of the company, and auditor John Haukland was also sentenced. In a settlement KPMG agreed to compensate Finance Credit creditors with NOK 347 million. (Gottschalk 2010b)

Due to the complexities and scope of the case, auditors and accounting professionals from Ernst & Young were hired by Økokrim in the preliminary phases of the investigation (Høgetveit 2004). Also, an auditing team from Ernst & Young, headed by Kjetil Kristensen, was hired by Sparebanken Vest to investigate the allegations made in the aforementioned Kapital article. (Jahr 2005)

### *The Murud Case*

Property manager Frank Murud swindled the municipality of Oslo for NOK 90 million over a period of two years utilizing methods such as overbilling and billing for goods and services that were never delivered. Several suppliers contributed to the overbilling in exchange for being granted contracts, and substantial amounts in addition to goods and services were channelled on to Murud himself. Murud was sentenced to seven years imprisonment for corruption and forging of documents. (Gedde-Dahl, Hafstad and Magnussen 2008)

Murud should have been exposed by pure routine. Instead it was a different kind of routine that did the job. In December of 2005 he issued a debt to his wife of nearly NOK 20 million to hide them from the tax authorities over New Year's. The same amount was then transferred back in January. This classic tax evasion transaction requires reporting by banks that come across them. A branch of Økokrim dealing with financial intelligence picked up the report, and subsequently handed it over to the police. (Gedde-Dahl, Hafstad and Magnussen 2008) Frank Murud himself figures his case was unravelled due to the repercussions of another, rather similar case: the Ullevål case (Gottschalk 2010b).

Murud himself was amazed at how long he was able to keep up his fraudulent scheme. He had been granted procuration of NOK 200,000, but regularly submitted one bill after another of several million NOK. No questions were asked. When a project manager in Undervisningsbygg was exposed in Aftenposten in 2006 for a non-related fraud, Murud was sure his time had come. Not so. The municipal auditing office (Kommunerevisjonen) submitted several reports on Undervisningsbygg operations without his name ever being mentioned. Even Rudberg, in charge of the internal auditing function of the municipality of Oslo at the time, stated that it was the failing of the most basic of control functions that were to blame. (Gedde-Dahl, Hafstad and Magnussen 2008)

In the auditor's report from the municipal auditing office on Undervisningsbygg Oslo KF for the fiscal year of 2006, the following comments

are made, loosely translated (although they are not judged severe enough to influence the information given in the financial statements in any material way):  
–Substantial fraud and corruption was unravelled in the organization in 2006. After extensive investigations a systematic failure in internal controls and breaches of purchasing routines were ascertained.”

Despite having been granted procurement for only NOK 200,000, Frank Murud was able to deliver one bill after the other of several million NOK. Red flags abounded in the organization, but were ignored, also by the auditing function. In 2004, the municipal auditing office in Oslo delivered a severely critical report on the purchasing routines of the organization. The board of directors did not take heed. In 2005 and 2006 substantial budget exceedings on the maintenance and running of school buildings were recorded. These exceedings were traced to Murud’s area of responsibility. (Gedde-Dahl, Hafstad and Magnussen 2008) This has led to substantial subsequent changes in purchasing and control routines. (Gedde-Dahl and Kagge 2009)

#### *The Ullevål Case*

Property manager Bjørn Haugseth at Ullevål hospital in Oslo was charged with corruption and breaches of accounting and tax legislature pertaining both to his post at Ullevål and his prior position as manager in Rom Eiendomsutvikling. According to the prosecution Haugseth had taken bribes of more than NOK 1 million in the form of cash, building materials, furniture and travels. Two suppliers, among them Peab, were charged as accomplices. (Gedde-Dahl, Hafstad and Magnussen 2008)

During his time at Ullevål Haugseth is said to have accepted NOK 200,000 in cash and bank deposits from contractor Lars Tomas Karlsson in exchange for commissions. Haugseth also participated in a hunting excursion paid by Peab and went golfing in Malaga as the guest of Nor Engineering. All are instances of corruption according to Økokrim. While employed as a project manager in ROM Eiendomsutvikling Haugseth granted commissions both to firms connected to Karlsson and to acquaintances from Peab and Nor Engineering. From Birkelunden Investeringselskap represented by Helge Torp Såheim, Haugseth received furniture in excess of NOK 125,000. Såheim was charged with hiding this cost in the accounts. Haugseth also arranged two trips to Sweden for the employees of the property division at Ullevål hospital. These were billed to

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Karlsson's BE Entreprenør, who in turn billed Ullevål a total of NOK 183,000.

The amount was disguised as an additional cost pertaining to the attic of the psychiatry building which was under renovation at the time. (Gedde-Dahl, Hafstad and Magnussen 2005)

One of Ullevål's suppliers, Svein Raknerud, was the whistle-blower in the case. When he was not taken seriously by Haugseth's superiors, he chose to go public via the newspaper Aftenposten, whereupon Økokrim initiated an investigation. In August of 2005 charges were filed, and for the first time since their inclusion in the penal code in 2003, the new clauses on corruption were utilized. (Gottschalk 2010b)

According to Siri Gedde-Dahl, one of the journalists instrumental in uncovering the case, the subsequent hunt for information was undertaken through relatively traditional journalistic methods. These included checking all available sources and registers as well as developing a network of oral sources. Confidential conversations with good sources, long days in municipal archives and late nights pouring over accounting information, were all necessary aspects of their work, in this case as well as in the Henriksen case and others that the Aftenposten journalists have been involved in over the past years. (Gedde-Dahl, Hafstad and Magnussen 2008)

Following the articles published by Aftenposten in the fall of 2004, the police entered into investigations, quietly at first. According to Gedde-Dahl, a certain dynamic in which investigative journalism provides the basis for subsequent police involvement, took place, although she clarifies that there is no formal cooperation between Aftenposten journalists and the police. Government agencies conduct their own, separate investigation and evidence collection, subject to a radically different framework from that of the journalist.

When Peab received news that Økokrim had initiated an investigation in which they were included, they hired investigators from the fraud division of PwC. The report generated from this investigation was submitted in its entirety to Økokrim.

Also, a report issued from an internal investigation at Ullevål showed that a number of employees were aware of the relationship between Haugseth and certain suppliers and contractors, but no one dared speak up. (Gedde-Dahl, Hafstad and Magnussen 2005)

*The Red Cross Case*

CFO Odd Gunnar Ramfløy had allotted a rehabilitation commission, without tender, to a company owned by him and two brothers. This company billed the Red Cross NOK 17 million more than was stipulated in the contract, and made sure that invoices of more than NOK 8.8 million in fictitious claims were disbursed. (Gedde-Dahl, Hafstad and Magnussen 2008)

Through the use of shell companies abroad Ramfløy purchased a building site outside Oslo for at least NOK 2.5 million sourced from the Red Cross. The money was channelled from Devise, a company engaged in a rehabilitation assignment for the Norwegian Red Cross via a Scottish business Ramfløy controlled. From there it was transferred to Rowa-Med Consultants, at the time owned and controlled by Ramfløy's wife. His sentence also included violations concerning accounting and taxes relating to his contracting business. (Gottschalk 2010b)

General Secretary Sven Mollekleiv received a phone call from a journalist at the magazine Kapital, Vibeke Holth, alerting him to irregularities in the workings of a prior CFO, Odd Gunnar Ramfløy. An internal investigation revealed issues of a seriousness that prompted handing the case over to Økokrim. (Gedde-Dahl, Hafstad and Magnussen 2008) Although auditing cannot be credited with detection in this case, Holth states in correspondence with the researcher that it is her opinion that the auditing function should have picked it up.

*The Siemens Case*

The Siemens consolidated group has been under investigation for corruption, competitive crime, money laundering and/or tax evasion in closer to 30 countries. They are black listed in Nigeria and were fined billions in Germany in the spring of 2008 for corruption and tax evasion. (Gedde-Dahl, Hafstad and Magnussen 2008)

In June of 2006 the first report from district stipendiary magistrate Nils Dalseide and his committee was published. It documented the excessive billing of the Norwegian Armed Forces, and reprimanded how this practice had continued in spite of warnings from employees. (Monsen 2008) (Gedde-Dahl 2011b) According to this investigative committee Siemens Business Services (SBS) had not fulfilled their obligation to ensure the best interest of the Armed Forces as this duty was stipulated in the FISBasis contract. They further maintain that SBS



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billed prices that were ungrounded in this contract, and that the Armed Forces were lacking in their control functions and in living up to regulations they are subject to as a governmental agency. This overbilling was thought to possibly be in violation of the fraud clauses of the Norwegian penal code. Possible cases of corruption in the form of extensive customer care directed towards Armed Forces staff were also uncovered. (Dalseide et al. 2006)

Siemens AS was fined NOK 2 million and two managing employees received fines of NOK 75,000 each for corruption, accused of sending several senior employees of the Armed Forces to Spain on a golfing trip. Siemens Business Services also refused a fine of NOK 9 million for excessive billing fraud. (Gedde-Dahl, Hafstad and Magnussen 2008) In March of 2011 the verdict concluded that Siemens was in good faith when they billed excessive amounts to the Armed Forces. The accusation of fraud of NOK 60 million and a proposed fine of NOK 9 million was dismissed. Siemens claimed to have misunderstood the contract and that the excessiveness of the billing was less than Økokrim maintained. The court did find singular violations of the penal code, but all in all the company's version of events was deemed believable. (Gedde-Dahl 2011b)

In February of 2005 former Siemens employee Per-Yngve Monsen told his story anonymously in the newspaper VG. That fall Monsen allowed an interview in Aftenposten. (Gedde-Dahl, Hafstad and Magnussen 2008) Monsen had first sought to alert his superiors to the irregularities, but was not heard, and has subsequently become an important voice for the increased legal protection of whistle-blowers.

The case related to the Norwegian Armed Forces concerned on account billing, meaning that the customer was billed in December for goods that were not received until January. This ensured that the Armed Forces could rid themselves of the last of the year's budget, borrowing the terminology of whistle-blower Per-Yngve Monsen. He adds that the Auditor General was most likely aware of this fact. The amounts stemming from these "deliveries" were booked in the accounts as a reserve until the goods were actually delivered. This is a practice not condoned by the Auditor General of Norway, but according to Monsen the "solution" provided by Siemens is not easy to spot unless the Auditor General also has an overview of deliveries. (Monsen 2008)

In the end Siemens agreed to a repayment of NOK 36.8 million. This amount was contested by auditing firm Ernst & Young who maintained that the

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correct sum should be 15.5 million, but the demands of the committee were none the less met. Some believe that the auditing firm was led astray during their investigations. (Gedde-Dahl, Hafstad and Magnussen 2008)

Several of the manoeuvres that according to Monsen (2008) were a part of this systematic excessive billing, were actions that should have been uncovered in the course of a sound auditing process, among them the transfer of means between the company divisions to mask poor performance. He contends that these transfers were not questioned, and further that the Armed Forces were not diligent enough in ensuring the contract was followed. Siemens quite openly recorded profits from sales to the Armed Forces of more than 3.5 percent in excess of that stipulated by the contract. The cost estimate of Siemens' internal auditor is, according to Monsen, based on numbers that cannot be documented.

The Office of the Auditor General of Norway had for several years prior to the unravelling of this case, called attention to a lacking adherence to legislation in a number of areas within the Armed Forces. Among these were breaches in routines pertaining to the use of framework agreements, violations of the competition principle, of ethical guidelines and legal capacity laws as well as violations of the prohibition against entering into contractual arrangements with an agent and the lacking separation of the executive officer function. (Dalseide et al. 2006)

#### *The Sponsor Service Case*

The primary concern Økokrim had about Sponsor Service ledgers pertained to an account labelled "deals in progress". These were sponsoring agreements not yet signed that were registered as income under the condition that the deals would be completed and signed in time for the general assembly in the spring of the following fiscal year. As the company filed for bankruptcy before the general assembly of 2003 was held, the ledgers for 2002 were never corrected in this way. Sponsor Service maintained that they had obtained permission from auditor Ernst & Young for this business practice. Økokrim was of a different opinion, basing much of their prosecution on unsigned deals that inflated earnings. Roughly 30 contracts were included in the accounts as earnings without ever materializing. (Bogen 2008) (Gottschalk 2010b) Contracts that were later finalized were not included in the subsequent prosecution, according to senior public prosecutor at the time, Gunnar Holm Ringen. He explains in a telephone interview that two

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aspects were central to the charges. These were wrongful recording of income/revenue recognition and activating costs that did not belong in the balance sheet.

In addition, Terje Bogen neglected to report roughly NOK 460,000 in payment and benefits to tax authorities. The municipal court of Oslo (Oslo Tingrett) confirmed that a number of trips taken with potential investors and other business contacts were to be characterized as taxable income and benefits. (Elmholdt 2009)

Holm Ringen informs that, following the bankruptcy of Sponsor Service, Selmer was given the task of reviewing the bankruptcy and the assets that might be left in the company. It was during this run-through that irregularities and violations were uncovered. Selmer's findings were subsequently reported to the police. In addition, the media had been sceptic about several matters pertaining to Sponsor Service accounting in the months leading up to the bankruptcy, among these Lars-Erik Nygaard of Dagens Næringsliv.

Jan Olav Korsmo was the company auditor from the start in 1982. Further assistance was hired from Ernst & Young, as well. When Korsmo left in 2001 he was replaced by Ole Geir Hagen, who in the first board meeting he attended sought to draw the attention of the board to a number of possible issues and irregularities in the accounts. Bogen (2008) has later expressed indignation over the fact that these errors had not been detected by Ernst & Young.

The role of auditing is not mentioned much in the sentencing even though this is a case in which the auditor was central. Ernst & Young were hired by Sponsor Service not just for auditing services but also for substantial consulting, and ended up having to pay retribution to the bank Nordea of more than NOK 130 million for having issued clean and positive auditing reports. The prosecution claimed that if it had not been for these shortcomings, the case would never have arisen. This includes the internal Sponsor Service auditing function, which did not escape prosecution. (Bogen 2008) (NTB 2005) According to Gunnar Holm Ringen, former Senior Public Prosecutor and now a partner at PwC, the initial phase of investigation was undertaken by auditors at the law firm Selmer. Having uncovered criminal offences they then filed charges, whereupon Økokrim auditors and detectives took over.

The means used to accomplish the fraud were the accounts and ledgers. According to district attorney Bård Thorsen of Økokrim a sufficiently diligent and

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careful audit should have uncovered the violations and irregularities, and could thereby have prevented substantial losses. Following the bankruptcy the auditing firm Ernst & Young paid damages amounting to NOK 135 million to lender Nordea. Korsmo admits that certain aspects of the audit of Sponsor Service accounts were insufficient. (Gyldenskog 2009)

During the trial the appeal court were critical of the lack of information given in notes in the ledgers. However, as The Financial Supervisory Authority had given Ernst & Young clearance to using the gross principle, it was accepted as part of GAAP that this principle was applied to the accounts of 2000 and 2001. What the court did contest was the fact that the auditor had not insisted on a more detailed information disclosure in the notes, especially pertaining to the effects of using the gross principle. (Lagmannsretten 2011)

#### *The Brynhildsen Woldsdal Case*

PR-consultant Rune Brynhildsen was convicted of insider trading in 2007 and sentenced to 10 months imprisonment, the harshest sentence given so far for this felony. According to the verdict Brynhildsen abused inside information on the registered companies Via Travel, Findexa and Ignis, companies he knew well from his PR capacity in the company Brynhildsen Woldsdal Public Relations. Information was leaked to his friend and fellow investor Dag Eriksen, who in turn passed it on to several other investors. (Skaar 2007) (Bakken 2009)

Brynhildsen came across the information when hired as a consultant to handle information on acquisitions of two of the companies in addition to the publication of a large deal. Such information often leads to rising stock prices when it becomes known, which makes purchasing of the stocks in question prior to such publication particularly profitable. However, making use of such inside information is against the law, and according to the verdict, the information was also passed on to five others. Three were convicted; two were cleared of all charges. (Stoltenberg 2009) (Endresen 2008) Brynhildsen himself did not purchase stocks, but was given the same sentence as Dag Eriksen, who purchased for a total amount of NOK 10.6 million. Brynhildsen was held responsible for the entire amount of purchases and attempted purchases resulting from his information, a total of NOK 19.4 million. (Johannessen 2009)

*The Software Innovation Case*

In 2001 Software Innovation purchased three IT-companies. Wnet Partner, in which Hans Frisvold was one of the owners, was among them. The others were Ementa and Genera. In connection with an audit of Software Innovation in 2005 it was uncovered that of the purchased companies, several were registered in Gibraltar. Suspicions were aroused when a contract with one of them was written in Norwegian. Further inquiry by tax authorities led to the discovery that several Norwegian citizens were behind these purchased companies, and that these had evaded the sales proceeds from the authorities. A total of NOK 120 million in profits from the sales between 1998 and 2001 had remained undeclared on accounts in Luxembourg and Gibraltar, and six people had up until 2010 been given prison sentences. One of them was Hans Frisvold. (Dugstad, 2010a) (Hustadnes and Bergsaker 2008)

The operation had two central aspects. First, the accused sold their stocks in the companies cheaply to companies in tax havens that they themselves were behind. The companies were then sold on to Software Innovation for a substantially higher price. Stocks in Wnet Partner had then reached a value of at least NOK 38 million, and the three companies combined totaled approximately NOK 100 million according to Økokrim. (Hustadnes and Bergsaker 2008)

Norwegian tax authorities were alerted to the case during a general audit of Software Innovation, according to Petter Nordeng at Økokrim. One of the fatal mistakes made by the accused tax evaders, was a contract between Software Innovation and a tax haven company written in Norwegian. This aroused suspicion of Norwegian ownership. In addition, their scheme was lacking in a plan of how to handle the proceeds. One of the owners diligently reported his share of profits on his tax return, establishing that at least one Norwegian citizen was behind it all. (Hustadnes and Bergsaker 2008)

*The Lyon Case*

Bente Lyon was in 2005 sentenced to five years in prison for pimping, threats and for participation in drug smuggling. (Dagbladet 2008) (Hanssen 2004b)

A young woman was apprehended at Newark Airport in the USA with 1.6 kilograms of heroin and 11 100 ecstasy tablets. She claimed to have been acting under orders of Bente Lyon, but thought she was carrying cocaine, not heroin. She was to earn NOK 50,000 for the job. (Hanssen 2004d) Prosecutor Per Egil

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Volledal contended that Lyon was the chief instigator of extensive cocaine smuggling from Amsterdam to New York. Nine other suspects are thought to have been acting as couriers.

The entire case has as its starting point a massage institute/brothel in Oslo, Studio 70. All those charged either worked in the studio as prostitutes or were somehow linked to its milieu. Lyon's was a balancing act between legitimate business activity and violation of the pimping clause in the Norwegian penal code. (Hanssen 2004a) The court did not believe Lyon in that Studio 70 was run in fellowship with the girls that worked there; it was concluded that Lyon ran the place as her own (Hanssen 2008).

The appeal court maintained that the prostitution business at the massage studio was extensive, and that approximately 100 girls sold sexual services during the time it was in operation. The girls paid NOK 300 a day to use the premises, and an additional room fee of NOK 300 per customer served. This was the conclusion from a report given by police auditor Flood based on the confiscated work lists found on the premises. These fees were part of the basis for calculating the gross turnover of the establishment, which again served as a basis for confiscation/replacement. So did the fact that testimonials established that sexual services had a significantly higher cost than the stated massage prices, and the assumption that Lyon kept a substantial portion of this premium. (Lagmannsretten 2006)

The case was detected by way of a different kind of violation involving many of the same people. While smuggling drugs from Amsterdam to New York, a young woman belonging to the massage institute milieu, and her boyfriend, were detained by customs personnel at Gardermoen Airport when they were unable to explain a large amount of American dollars they were carrying with them. The money had been given to them in Detroit because they were short on cash for the plane ticket home, and they subsequently confessed in police interrogations. (Hanssen 2004c)

### *The Karlsen Case*

Karlsen & Nordseth is an entrepreneurial concern/consolidated group owned by the families of brothers Jul Petter Karlsen and Anders Karlsen, as well as their sister Line Christin Karlsen. Jul Petter Karlsen has five previous convictions, among these one concerning charges of billing fraud and tax evasion. In the

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instance of billing fraud the court concluded that his was a case of a planned, systematic and extensive activity in fictitious billing with substantial effects on taxes and duties. (Gedde-Dahl 2010a)

In 2008 the Karlsen & Nordseth concern was shut out of two framework agreements by the municipal organization Undervisningsbygg in Oslo (more specifically Boligbygg KF and Utviklings- og kompetanseetaten i Oslo) due to alleged overbilling, a decision later supported by the court in which the eviction case was tried (Gedde-Dahl 2010b). It was the Karlsen & Nordseth firm Roald Larsen AS that was subject to the eviction, although they contested the attempted bribery of Omsorgsbygg they were charged with. The court emphasized the untruthful explanations given by company representatives to the police in their sentencing, although the actual case of corruption has been dismissed due to lacking evidence. All firms belonging to the Karlsen & Nordseth concern are black listed for the time being according to Steinar Johnsen, who is legally responsible for Boligbygg. (Gedde-Dahl 2011a)

#### *The Stuve Case*

Ragnhild Johanne Stuve was accused and convicted of draining assets from her own medical practice, Klinik Haugesund, by letting the practice pay rent for machinery that had already been paid for in full. The money was channeled to a company in Guernsey, which again sent it on to Moor Shipping, controlled by her brother Tor Johan Stuve. The question was then whether Ragnhild Stuve removed assets from her own firm by means of a deal with her brother, or whether her intentions with the deal were good, but poorly documented and executed.

Although Ragnhild Stuve was the sole owner of her clinic, she was not in a position to make any financial dispositions she chose. This was why prosecutor Anna Haugmoen of Økokrim maintained that Stuve had sought to evade taxation by channeling means out of the country and then having them disappear into her brother's companies. The fact that the new machinery being down paid, never reached the clinic, Ragnhild Stuve sought to explain through the bankruptcy of shipping company Tordenskjold ASA, in which her brother Tor Johan was one of the owners. The financial burden on her brother brought on by this bankruptcy apparently made him unable to fulfill his end of the deal, but she maintained always to have trusted her brother, and never read the documents he would have

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her sign. He was also a trusted adviser in business matters. (Waal 2010) (Vestvik and Nordbakken 2009)

The case was detected by coincidence. Økokrim got wind of the alleged violations during the investigation of Tor Johan Stuve, her brother, following the Tordenskjold bankruptcy. The leasing agreement with Tracktel, to which the down payments were directed, contained more than the mere leasing of the used machinery. Stuve maintained that Tracktel would also be providing new equipment, but that these deliveries had been delayed as a consequence of the Tordenskjold bankruptcy. (Vestvik and Nordbakken 2009)

When questioned about financial matters concerning her clinic, Stuve frequently answered that she did not know the answer, contending that she had left most matters of economy to her accountant and auditor, in which she had complete confidence. She was aware of her responsibilities as general manager and chairman of the board, but admitted not always reading through documents she was made to sign. She did, however, add that all dispositions were cleared by her auditor before implementation. (Vestvik and Nordbakken 2009)

#### *The WorldCom Case*

Trygve Tamburstuen was charged with fraud on the basis of allegations of embezzlement in connection with the sale of stock in a Ghanese cellular communication firm. Økokrim maintained that 49 percent of the stocks belonged to someone else, namely Børge Granli of WorldCom, who was a former business partner of Tamburstuen. Tamburstuen was also charged with providing Norwegian tax authorities with false information regarding the proceeds from said sale. (Gottschalk 2010b)

In the early 1990s Granli purchased half of Tele 2 Nornett, a company owned by Tamburstuen, for NOK 50,000. The deal included half of Tamburstuen's stock in NetCom, and when these were sold a few years later they both received approximately NOK 750,000. Through Tele 2 Nornett Granli and Tamburstuen also shared the stocks of Ghanese cellular communication firm Scancom, which Tamburstuen had built up from scratch. When these were sold in 2003 Granli made NOK 2 million from the sale, but Granli maintains that Tamburstuen also sold part of his stocks in 2001 when Scancom majority owner Investcom took over payment obligations on one of Tamburstuen's loans in addition to providing Tamburstuen with more than NOK 1 million in cash.



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Tamburstuen claims this was an appreciation of his efforts as entrepreneur and chairman of the board in Ghana, that no stocks were sold and that neither Tele 2 Nornett nor Granli had any right to this money. He maintained in court that part of the settlement from Investcom was a loan that would later be remitted.

Tamburstuen was convicted of fraud and disloyalty towards WorldCom.

(Gottschalk 2010b) (NTB 2007)

### *The T5PC Case*

In connection with the collapse of the T5PC pyramid network Økokrim charged three individuals, among them Jørn Tagge. Two issues were emphasized. One concerned the draining of financial assets paid in by members of the community, the other the provision of wrongful information in connection with the sale of stocks in the company. Tagge had previously been charged with other offences in connection with this same company. (NTB 2006)

The first part of the new indictment refers to the purchase of broker firm Exente Securities in the fall of 2003. The company was to be in charge of trade of T5PC stocks. In connection with this purchase three individuals were charged with disloyalty and embezzlement of NOK 15, 13 and 3.2 million respectively. In addition one of the three was charged with manipulating the exchange rate of T5PC stock. (NTB 2006)

One of the T5PC founders, Jim Alexander Wolden, was put under Økokrim investigation for attempted fraud in connection with the pyramid. Following the bankruptcy many believed there had been no actual business activity in T5PC, and that the money invested in good faith by so many had in fact merely been channeled directly into the pockets of a few senior members. (Nadheim 2004)

The bankruptcy also included the other two companies in the T5PC system: The 5 Percent Community Invest and The 5 Percent Community Global. All of the T5PC companies were pyramid companies in essence, but they were organized as limited corporations. This implied that they were also subject to the Corporation Act, a fact that did not serve them well during the court case. In 2003 the T5PC founders sold their T5PC Invest AS stocks to T5PC Global Market AS for a total of approximately NOK 25 million. The stocks were then sold on from T5PC Global Market AS to T5PC members. The sale was, however, not recorded as such in T5PC Global Market AS ledgers, but instead was recorded as

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purchased goodwill. This transaction is a violation of the Corporation Act, and therefore it was concealed in the ledgers by simply being labeled as goodwill. This resulted in the annual report appearing to contain vastly more promising profits than was actually the case. (Økokrim 2007) (Nadheim 2004)

The bankruptcy was a result of their auditor, Systemrevisjon AS, withdrawing from the company. TSPC were unable to find a replacement, and so the company was forcibly dissolved. The annual report for 2003 concludes that internal controls had been severely lacking, and that this had made it impossible to implement those auditing procedures necessary to confirm that the accounts did not contain significant errors. (Nadheim 2004) A former accountant was convicted of participating in accounting manipulation. (Økokrim 2007)

### *The Øye Case*

When the dotcom bubble burst in 2000 most of the substantial fortune of Thomas Øye evaporated. Later that year he had acquired some NOK 72 million in personal debts and had to sell most of his belongings. During this time he became acquainted with several of Oslo's torpedoes, a term coined for Norwegian "muscle" collectors of usury debts, although he had nothing to pay them with. Some have speculated that he was forced into money laundering instead, and that this was why he was presented with a briefcase containing NOK 5 million from David Toska, a known accomplice of the NOKAS robbery, in 2001. The money is thought to have been intended to be sent through Øye's intricate network of nominees (stråselkap) for laundering. For this he was convicted. (Kristiansen 2009)

Companies controlled by investor Thomas Øye were found to be behind a transaction of NOK 20 million hid by law firm Thommessen. Thommessen denied tax authorities access to the transaction, claiming it would be a breach of their confidentiality. Øye filed for personal bankruptcy in 2002 following his conviction for handling stolen goods, and the remnants of his estate were purchased by Svein Jønsson, a furniture dealer, and the two have since then been inseparable in financial matters. According to the newspaper Dagens Næringsliv it was Øye and Jønsson who were behind the transaction of NOK 20 million to Thommessen in 2007. The transaction was detected through a routine search by tax forensics. But the refusal by Thommessen to reveal any details has stopped tax

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authorities from being able to fulfill their investigations based on their suspicions. (Dugstad and Larsen 2011)

In 2004 David Toska gave “torpedo” Imran Saber authority to collect NOK 65 million from Thomas Øye. It was thought that this might be a collection of the NOK 5 million Øye had received from Toska in 2001, inflated by three years’ worth of usury rates. Øye is said to have offered to launder the NOKAS robbery service outcome, and supposedly offered the following laundering scheme: The money would be sent in batches of NOK 5 million into a Spanish bank. From there they would be transferred to Norwegian bank accounts. He suggested a fee for his services of 20 % of the laundered money, which was considered excessive. The laundering project, according to Saber, never happened, and more than NOK 50 million of the NOKAS money still has not been found. (Kristiansen 2009)

#### *The Taxi Case*

Mohammed Aslam was sentenced to two years in prison for undeclared cab driving, social security fraud, money smuggling and illegal possession of weapons. Before he was sentenced Aslam fled to Pakistan and has since never returned. Several more charges have since surfaced. The total sum of black labor he was responsible for, amounts to nearly NOK 100 million, and he is thought to have run a taxi business in several other names besides his own. In January of 2011 Aftenposten disclosed that Aslam now has been granted a Pakistani citizenship and therefore cannot be extradited, as Norway and Pakistan do not have a mutual extradition treaty. (Haakaas 2011)

372 cab owners have been exposed of fraud since 2003. Of these, 341 were clients of accountant Henry Amundsen, which has since been convicted. According to tax authorities he assisted in the evasion of NOK 625 million. The same case has uncovered systematic social security fraud and extensive fraud in connection with VAT, customs fees and insurance. (Haakaas 2010) Between 1998 and 2003 Amundsen contributed to significantly lowering the taxable income of 300 cab owners’ tax returns. (Henriksen 2010)

Confiscated material provides insight into the fraud methods of the case. The accounts were constructed with the intention of concealing income, thereby cutting taxes. The shift slip is the core of a cab owner’s accounts. It documents earned amounts, number of trips and distance travelled, and is printed from the

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meter upon every change of driver. By composing false shift slips earnings could be reduced and undeclared income hidden. (Haakaas and Sæter 2010)

After publishing an article on the recent redemption of the taxi business in Oslo in 1998, two Aftenposten journalists, Einar Haakaas and Kjetil Sæter, received a tip from a driver that they were misguided. The information was so improbable that the whistle-blower was not believed at first, but other indications some time later led them to dig deeper. A cab driver that still wishes to remain anonymous to all others than the governmental bodies he has been in touch with, was one of the original whistle-blowers in the case. He was one of several union activists that decided to uncover the way in which business was conducted in a substantial part of the taxi milieu in order to mitigate the poor working conditions most of them were subjected to. They went to Økokrim, the Labor Inspection and tax authorities with details concerning the fake numbers being reported as a means of tax evasion, and were finally taken seriously when Jan-Egil Kristiansen, head of the tax crime division of the Norwegian Tax Administration, was alerted to the case. Other whistle-blowers, such as Lars Morten Johnsen (deputy chairman of the Norwegian Transport Workers' Union), were also instrumental in alerting the authorities. (Haakaas and Sæter 2010)

### *The Bach Case*

Auditor Terje Strand Eriksen was convicted of participating in a NOK 10 million fraud as well as attempted fraud of NOK 5 million. The conviction included document forgery. In the verdict Strand Eriksen was made responsible for several of the criminal violations committed by Ole Christian Bach, whom he had worked for previously. Millionaire Svein Erik Bakke maintained that Strand Eriksen willingly had transported fake mortgage bonds that Bach used when he misled Bakke into giving him a loan. Strand Eriksen was also indicted for having been an accomplice in the many frauds of Bach, an allegation Strand Eriksen denied, claiming that his signature had been forged. Bach was indicted for frauds worth NOK 65 million, but the case was not pursued after Bach ended his life in Sweden in 2005. Strand Eriksen was sentenced to pay retribution to Bakke of NOK 5 million. (Henriksen 2008) (Sunnanå 2006)

Bach had since the 1980s been in sporadic contact with the police for luring loans out of potential investors, claiming them to be investments with substantial returns. In reality the money received was used to repay Bach's debt

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from earlier, similar ventures, and substantial amounts disappeared due to avid private consumption on Bach's part. As was established during a court hearing in 1988, no accounts were drawn up depicting the various transactions and no receipts or witnesses were involved. Very little evidence existed that these alleged investments had even taken place but for the bank records of them. Allegations of tax evasion and fraud had also been made, but were not part of any indictment due to lacking evidence. (Gangdal 1996)

Strand Eriksen still claims his innocence, and contends that he has been the victim of a focus on singular incidents taken out of their proper context, and that the investigation undertaken by Økokrim was lacking in both objectivity and relevance (Eriksen 2010).

#### *The Furuholmen Case*

Attorney Morten Furuholmen was charged with (and convicted of) receiving stolen property by assisting David Toska, later convicted in the NOKAS case, in retrieving NOK 5 million he had loaned to investor Thomas Øye and Zoran Obuskovic along with attorney Rune Berg. The court maintained that the attorneys knew that the money probably originated from criminal activity, and they were therefore found guilty. (Heyerdahl and Buan 2011)

In 2005 David Toska was convicted of receiving stolen property, a total of NOK 5 million. The money was loaned to Thomas Øye, introduced above, in 2001. The court stipulated that Toska, having no legitimate income and with a criminal record, could not have obtained the sum legally. This same loan, plus interest, is the one Furuholmen was convicted of recovering. The man it was to be collected from was Harald Undrum, who had provided surety for Øye. (Heyerdahl and Buan 2011) Undrum was said to have been present when the money, a suitcase full of cash, was handed over. The money was to be invested in a company, but most of it was instead spent by Thomas Øye and his circle. When Toska contacted Undrum to collect the money, he used his lawyer, Morten Furuholmen, as intermediary. (Molstad and Torgersen 2010)

#### *The Plastic Fantastic Case*

The Oslo police call them the Plastic Fantastic gang. Through the means of fake drivers' licenses, credit cards and the like they extracted in excess of NOK 12.5 million from various private accounts. If attempted frauds are included, the cases

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amass to NOK 21.5 million. 16 indicated members of the gang were indicted, whereof police maintain that seven are core members. Prosecutor Knut Horn wanted them tried as an organized criminal group.

The indictment names 62 fraud victims, many of them wealthy. The scam was supposedly developed while five of the charged individuals did time together at Bastøy, a prison facility outside Horten, and included identity theft. One of them was the alleged ringleader of the gang, Philip Holst-Cappelen (previously Andr Simjak and Philip Sigval Bergesen). With them was a young male who was later employed in the temp agency Adecco, through which he landed a job in the DnB NOR bank subsidiary Postbanken. From there he was instrumental in the scam. In 2002 Holst-Cappelen was sentenced to four and a half years in prison and fined NOK 21 million for a total of 120 criminal acts, among them fraud. (Jonassen, Magnussen and Dragland 2011) (NTB 2011) (Dugstad 2011c)

Holst-Cappelen is also suspected of blackmailing a millionaire in Stockholm and one in Gothenburg for a total of NOK 15.6 million. Swedish police instituted a search for him through Interpol, charging him with extortion. (NTB 2011) Holst-Cappelen was arrested in Spain in February 2011. The offences he has been charged with in Sweden are claimed to have occurred while he was a fugitive. (Dugstad 2011d)

16 people were indicted for extensive fraud against DnB NOR of NOK 12.5 million. The indictment also included attempted fraud of NOK 9 million. The frauds were committed by means of fake drivers licenses, credit cards and passports used to extract the assets of wealthy victims. (Hanssen 2010)

### *The Olympia Case*

The Olympia case consists of complex dealings going back 11 years, of which former chairman of the board Haakon Korsgaard has been convicted. Disloyalty and breaches of the Assessment Act, the Accounting Act and the Companies Act are included. Korsgaard has throughout the process claimed his innocence, and he still does. (Berglihn 2011c) The Olympia group's main business endeavor was the purchasing of defaulted loans and collecting the receivables. (Gimmestad 2003) Korsgaard was charged with disloyalty of NOK 70 million and tax fraud as well as violations of the Accounting Act and the Company Act. (NTB 2010)

The 2009 annual report was delivered eight months late, but the company auditor cannot make assurance that the report is sound. Following the financial

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crisis of 2008, Olympia reached an annual deficit of nearly NOK 1 billion, and 2009 was not all that much better. The company auditor clearly stated that due to the weak routines and internal controls it was not possible to follow through with the auditing procedures needed to provide a positive and clean auditing report and to provide assurance of company assets, debt and income statement items. The board of directors maintained that the accounts were correct and complete. (Berglihn 2011a)

Central to the case against Korsgaard was an unsecured loan of more than NOK 50 million that Olympia Holding provided for a company in Gibraltar by the name of Lloyds. The court concluded that this company was controlled by Korsgaard, and that the money was used to purchase stock in the Swedish company Cognition AB, controlled by financier Christen Ager-Hanssen. In the winter of 2003, following a falling out with Korsgaard, Ager-Hanssen blew the whistle and alerted Økokrim to the case. (Berglihn 2011c)

#### *The Hells Angels Case*

Police had for years sought to indict Leif Ivar Kristiansen, assumed leader of Hells Angels in Norway, according to the mafia paragraphs of the Norwegian penal code. In early 2011 police apprehended Kristiansen and subsequently raided three tattoo parlors in Lillehammer, Tromsø and Trondheim in addition to Hells Angel's premises at Trolla. He was charged with handling stolen goods and breaches of the Assessment Act in connection with the tattoo businesses. The parlors ransacked are part of the Hells Angels system, but Kristiansen is the central figure of the case according to police superintendent Egil Gabrielsen in Sør-Trøndelag police district.

In late 2010 Kristiansen was again indicted according to the mafia paragraphs. The police this time focused on attempting to follow Kristiansen's money trails. The case started out as a drug case in 2009 when Kristiansen allegedly had a 21 year old co-defendant transport 9.9 kg of hashish from Oslo to Trondheim. Kristiansen's indictment also contained charges of robbery of NOK 480,000, money he demanded as a replacement for the confiscated hashish. His defender, attorney Morten Furuholmen, says the case concerns economic issues such as accounts and ledgers and Kristiansen's commercial activities. (Klungtveit and Thømt Ruud 2011) (Kristiansen 2009)

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*The Screen Communication Case*

Entrepreneur Svein Kvarving was accused of systematic corruption and disloyalty towards his own company, Screen Communication AS. Screen Communication sold airport advertising. The company sales director was indicted for similar offences in a case that includes several well-known businesses. The indictment describes a business culture where bribes were common, as was the use of goods and services rather than monetary compensation. Kvarving supposedly accepted engagement rings as payment for airport advertising sold by Screen Communication, and his sales director was accused of accepting laser eye surgery as compensation. The extensive indictment contains two main points. The first is the corruption charges, which include a number of profiled businesses. At least twelve Norwegian business leaders were under investigation for having accepted personal gifts from Kvarving and his sales director when airport advertising deals were made. The investigation unearthed that marketing managers were offered flat screen TVs and other equipment via e-mail in connection with business deals. The second point concerns disloyalty. The subsequent investigation concluded that Kvarving and the sales director had renowned firms pay in valuable goods for big screen commercials. The goods were kept by the two instead of being transferred back to Screen Communication. The accused allegedly secured NOK 3 million in this way.

Kvarving was also accused of violating the Accounting Act, the Assessment Act and for evading VAT. He confessed to some allegations, but firmly denied the charges of corruption. Prosecutor Susie Bergstrand maintains that the clients who accepted flat screen TVs are clearly guilty of corruption, and several court cases would follow in the wake of the Kvarving investigation. According to prosecutor Evy Bidtnes this form of payment is legal in essence, but that this form of settlement may have accounting consequences that warrant further investigation to ensure proper handling. (Kringstad 2007)

The final conviction of Kvarving contained charges of accounting fraud, disloyalty and 21 accounts of corruption as well as violations of VAT legislature and tax regulations. The offences took place between 1999 and 2006, and ten people have been found guilty of accepting bribes. In the district court hearings the judge was accompanied by two fellow judges with auditing expertise. (Laugen 2009)



*The Mjelde Case*

Perpetually bankrupt Per Harald Mjelde was sentenced to prison for embezzlement and disloyalty of approximately NOK 8 million in connection with Næringslivets Innkjøpsorganisasjon, a company that was one of the largest bankruptcies in Norway in 1996, the year it went under. Mjelde is behind more than a dozen bankruptcies and has previously been sentenced to two periods of disqualification. The appeal court concluded that Mjelde, through his dealings was proven unfit to engage in commercial activities. Mjelde was also sentenced to pay retribution to Stavanger Energi AS of NOK 3.5 million. (Farbrot 2002)

*The Jewel Case*

Diamond trader Ezra Murad was convicted of swindling Kreditkassen bank of NOK 21 million. By means of worthless gemstones several members of the Karoli family were able to withdraw more than NOK 20 million from the Norges Bank headquarters in 1989, but their fraud was exposed. Murad was found guilty as an accomplice (Jonassen 2006) for having issued the appraisal letters that enabled the fraudulent scheme (Heltne 1991) by acting as collateral for the withdrawals (NTBtekst 1991b). Murad claims that the stones he appraised to a total worth of NOK 149 million were not identical with those shown in court during the trial. These had been valued at some hundred thousand NOK by an independent appraiser. (Bøhm-Pedersen 1991)

The Karoli brothers Erik Jan –Jannek” Karlsen and Jan Roger –Dolla” Karlsen were designated as the principals behind the fraud. By means of void bank drafts and excessively appraised diamonds NOK 25.1 million was extracted from Kreditkassen and Norges Bank via four separate withdrawals. The mitigating circumstance that the fraud would not have been possible to pull off had the internal controls of Kreditkassen been satisfactory was pointed out in the verdict. (NTBtekst 1991a)

*The Lichtenstein Case*

Former police officer Jan Erik Nilsen was arrested in Switzerland and extradited to Norway for several accounts of fraud, threats and forgery of documents. The most severe of the accusations concerned an alleged fraud of Douglas D. Troxel. Troxel, an American investor, was misled into investing USD 10 million

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(approximately NOK 65 million) in one of Nilsen's companies, Valkyrien. The money was transferred to an account the company held in DnB bank. Nilsen is to have lured Troxel with a promised return of 300 percent. Without revealing that the deal was fictitious, Nilsen spent the invested money. (Veiby 2007) (Hultgren 2005)

Nilsen was also charged with swindling an older couple of NOK 3 million in the 1990s, and in 2003 an amount closer to NOK 14.5 million was transferred from Banco Adamas in Lugano to an account in Nilsen's name. The money was assumed to be proceeds from criminal activity. The indictment was later extended to include a fraud of USD 2 million. From Nilsen's various schemes tens of millions of NOK have disappeared. Of the NOK 67 million Økokrim found, 48 million was confiscated by the Norwegian government. The remaining 19 million had been spent by Nilsen.

Nilsen is to have used fictitious letters from Hypo Investment Bank in Lichtenstein to lure his investors. A fake document confirmed that Nilsen had an account in this bank containing USD 34.4 million. Fake transfers from Hypo Investment Bank to an account in Lichtenstein Global Trust Bank (LGT Bank) acted as part of the documentation. (Hultgren 2005)

### *The Ugland Case*

In 2006 the Ugland group concludes a deal with Olympia Holding, owned by Haakon Korsgaard, concerning the shipping division of the Ugland group, for which Olympia Holding provided Ugland with a loan of USD 3.6 million. In 2007 Korsgaard commences the process of selling off the shipping branch of their enterprise, and in January of 2008 Kjell Rune Staddeland signed on behalf of the Ugland group with Indian Siva Ventures. Ugland received USD 202 million, of which Staddeland was given a bonus of NOK 12.6 million, while partner and co-owner Olympia Holding is to be given USD 39.45 million. This division of proceeds had been agreed upon before the deal was closed. The following month the balances are to be settled between Ugland and Olympia. Ugland pays Olympia NOK 39.45 million in addition to the USD 3.6 million loan, but have also agreed that USD 3.6 million was to be given back to Ugland as a commission. This part of the deal was kept from the board of directors. In March Olympia Holding is told that the commission is to be paid to two companies owned by CEO Kjell Rune Staddeland (USD 2.4 million) and CFO Jan Erik Tønnessen (USD 1.2

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million). Staddeland claims that Johan Benad Ugland has given oral consent to this arrangement, something which Ugland later denied. In November Staddeland is fired, and in December the board of directors is made aware of the commission. Tønnessen pays back his USD 1.2 million to Ugland and board member and lawyer Tom B. Knudsen enters into negotiations with Staddeland, having been asked by the board of directors to investigate.

When Siva bought the shipping division in 2008 they also paid USD 62 million for Olympia's rights to Ugland without Olympia being aware of this. Olympia was given only USD 39.45 million from Ugland, and demand that the difference of USD 22.55 million is paid back in full in addition to the USD 3.6 million commission. In May 2009 Ugland files fraud charges against Staddeland, who in turn demands NOK 5 million as a final settlement and NOK 125 million as payment for stock Staddeland held in Ugland Holding. In July Ugland demand that Staddeland repay his bonus (NOK 12.6 million) and commission (USD 2.4 million) and that his stock in the company is to be transferred to Johan Benad Ugland at cost less received dividends (approximately NOK 16 million). In December Kjell Rune Staddeland is found guilty of fraud and the above demands of Ugland are granted.

Olympia and Ager-Hanssen also sued Ugland CFO Jan Erik Tønnessen for USD 3.6 million, the same money Kjell Rune Staddeland was convicted of stealing from Ugland, because they believed that Tønnessen was the architect behind the alleged swindling of Olympia. The Ugland system countered this move by in turn submitting a claim of USD 40 million against Olympia, claiming that Olympia never should have had a piece of the profits from the Indian sale in the first place. (Berglihn and Madsen 2011) (Berglihn 2011b) (Berglihn 2010)

Witnesses from the board of directors and management at Ugland, and police investigators agree that CFO Jan Erik Tønnessen was the instigator to an investigation. Tønnessen had received USD 1.2 million, but had not been given written consent to this transfer by Johan Benad Ugland. When Staddeland was fired, he went to Ugland's son, Johan Martin Ugland, with this information, upon which Ugland senior was also informed. Tønnessen subsequently authored a notification letter on the matter and Ugland attorney Tom B. Knudsen was asked to initiate an investigation. (Berglihn and Madsen 2011) (Berglihn 2011b)

*The Tjøntveit Case*

Thor Kristen Tjøntveit was suspected of VAT fraud from the sale of machinery between several of his own companies in 2002, but escaped, and then spent several years abroad on the run. In 2005 he turned himself in, and was convicted and given a prison sentence. The verdict is not final even though Tjøntveit has served his sentence. Tjøntveit has since the early 1970s been involved in a number of bankruptcies and lawsuits. (Sunnanå and Bakke Foss 2011)

*The Dønnum Case*

Used car salesman Tord Dønnum was convicted of extensive and cunning tax fraud for evasion of taxes and fees in connection with the sale and purchase of used cars through Bryn Bilforretning. Dønnum admits to leaving much of his business undeclared, utilizing double contracts and misleading accounting. Accounting practices were tailored to hide his offences. In the period covered by the indictment, 1999 to 2003, Dønnum confesses to having sold approximately 590 cars without declaring the sales, amounting to a gross turnover of about NOK 74 million. This means that the undeclared part of turnover in this period was about one third of total turnover, and that Dønnum evaded a total income of little less than NOK 13 million from taxation. Cash settlements and bank drafts were kept off the books, and in the cases where customers paid by bank transaction to the company account, potentially evaded car sales were made legal by recording previous sales at the same time as these. According to Dønnum's statement he has run his business in this way since its start-up in 1986.

The accounts were penned by Dønnum's brother, who was acquitted as an accomplice in the evasion scheme but was convicted for violations of the Accounting Act. When the case emerged in 2007 the treasurer office contended that Dønnum had evaded sales proceeds of close to a quarter of NOK 1 billion, but the verdict states that the tax law and criminal law viewpoints are essentially different. Bryn Bilforretning was declared bankrupt by the treasurer office, and an investigation by The Financial Supervisory Authority of Norway was commenced when it was alleged that auditors indirectly approved of tax evasions. It was claimed that the auditing function had performed below par in not recognizing the evasions. (Sæter 2011)

*The Vest Tank Case*

On 24<sup>th</sup> of May in 2007 one of Vest Tank's tanks exploded in Sløvåg, Norway. No one was harmed in the blast, but neighbors later complained of aftershocks from the emissions. Vest Tank was owned by Trond Emblem's companies Emblem Holding AS and Emblem Eiendom AS, but was sold the day before the explosion to the Alexela group in Estonia, upon which the name of the company was changed to Alexela Sløvåg. Alexela sued Emblem's companies and was granted retribution of more than NOK 100 million, and later also sued Emblem as chairman of the board and Jostein Berland, his general manager. (Solem 2011c)

Berland still maintains that the verdict convicting him is incorrect, and remains incredulous that it has been passed, in spite of the factual evidence and documentation presented during the trial that he feels mitigates his negative role in the case, such as risk analyses and action plans. Most were lost in the explosion, but some remain. He claims it has now been proven that Trafigura misled Vest Tank by delivering large quantities of toxic methanol in their waste liquid, and further that Vest Tank would not have accommodated Trafigura had they had information showing the actual contents they needed cleaned. (Berland 2011)

The appeal court verdict concludes that Vest Tank illegally received dangerous waste in the fall of 2006 and in the spring of 2007, and that the treatment of this waste led to the explosion. (NTBtekst 2011) A third employee was acquitted of his dealings with Vest Tank. He was employed temporarily as a consultant advising on the processes that led to the explosion without the proper qualifications, but was deemed peripheral to the case and subject to the mitigating circumstance of a highly unclear job description. (VestNytt 2011)

*The Restaurant Case*

After just seven months of business the debt collection requirements against Skovveien Restaurantdrift already abounded. According to Dun & Bradstreet at least 25 creditors announced their claims in the company, which in total amounted to about NOK 360,000. Norplan Storkjøkken filed a bankruptcy petition following an unpaid invoice of NOK 51,000, as did Åpent Bakeri following a somewhat smaller claim. General Manager of Skovveien Restaurantdrift, Johan Erkkilä, claimed not to be involved in financial matters, and referred instead to Knut Stundal, who was in charge of the finances of the company. Erkkilä is the listed

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owner of the company along with Peter Olausson. Olausson, however, left the company in 2007. Skovveien Restaurantdrift attorney Harald Ciarlo informed that a deal was struck with Norplan concerning repayment, and that the bankruptcy petition would therefore be withdrawn. Ciarlo did not make additional statements as to the financial situation of his client company. (Stabæk 2007)

The petition, however, was not withdrawn, and the company was declared bankrupt in 2007. Erkkilä and Olausson were given prison sentences for breaches of bookkeeping regulations, for having neglected to petition for the opening of debt negotiations with creditors following the declaration of bankruptcy, and for having given false statements to authorities. The court verdict described how Erkkilä and Olausson had listed themselves as owners of Skovveien Restaurantdrift when applying for their liquor license despite the fact that the company Metro Invest was the actual stock owner. Behind Metro Invest was Ole-Fredrik Jonsbråten, with four bankruptcies and two disqualifications to his name. (Gottschalk 2011a)

### *The Insider Case*

Journalist Thomas Gulbrandsen was indicted by Økokrim for having shared inside information. In January of 2006 he had acquired knowledge that some colleagues were working on a piece on Det Norske Oljeselskap (DNO) and its relation to the government in Iraq. The information in the hands of the editorial staff was allegedly harmful to DNO, so much so that its release would send the stock prices down. Gulbrandsen was accused of sharing this information with his father and a broker at Pareto that the article would be published, and subsequently father and son supposedly sold enough DNO stocks to provide them with a profit of NOK 3.4 million. Gulbrandsen's father, Hallvard Gulbrandsen, supposedly repurchased his share after the price dip.

During the court case Økokrim emphasized that it was not the contents of the article that was defined as inside information, but rather the knowledge that it would be published. This would mean that every member of the editorial staff had access to the inside information. TV 2 Nettavisen, in which Gulbrandsen was duty officer in 2006, did not have regulations forbidding staff from trading in stocks. Gulbrandsen was, however, bound by editorial ethics not to exploit his position to achieve private benefits and to avoid bindings that may lead to conflicts of

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interest. The sale or purchase of stocks in companies the staff are covering, is in violation of these ethics and provisions. (Omdal 2009)

In the wake of the indictment against Gulbrandsen, Økokrim and envoys from The Financial Supervisory Authority of Norway raided Pareto offices following the accusation that Pareto broker Per-Robert Jacobsen was to have shared inside information with Gulbrandsen and clients of Pareto. (Jensen and Vanvik 2007)

### *The Bank Case*

Hjelmeland Sparebank submitted retribution claims of NOK 90.5 million against the former head of the retail division, Ståle Halsne, who was charged with disloyalty against his former employer. He was charged with exceeding his credit facilities and authority, and with transferring NOK 63 million in loans and credits to thirteen companies investing in vacation apartments abroad in 2008. Most of these were bankrupt or under forced liquidation. Halsne did not object to having granted credit in the magnitude illustrated in the indictment, but denied having willingly swindled his employer or having done so with the purpose of profit, as is the condition for conviction of disloyalty. (Næss 2011b)

Geir Underbakke was the chairman of the board and Kurt Svendheim was the general manager of all the companies included in the indictment. (Næss 2011b) During the court case Halsne explained that he had been approached by Underbakke, who wished to set up a company that would invest in condos, sublet them and then sell them with a profit. Halsne was led to believe that they had received loan commitments from other banks but that they wished to keep parts of their business in a bank they had an established personal relationship with. Underbakke had an account in Hjelmeland Sparebank at the time. Halsne was told that they would be interjecting between NOK 2.2 and 2.4 million in share capital and that they would need a loan of an additional NOK 2.5 million. This was judged as a solid equity to debt ratio by Halsne. Soon after their first deal Underbakke wished to create company number two. Halsne was not done with the necessary paperwork for company number one, having made an initial mistake which needed time correcting. As still more companies were established, he had colleagues at the bank set up accounts for the payment of share capital, and in time lost his overview of the deals.

While on vacation Halsne was contacted by Underbakke informing him that they would be late with their down payments. At the same time the contractor warned him that construction work would be aborted unless payment was received. Halsne made sure the payments were made regardless of lacking incoming down payments from Underbakke. In addition, nine months passed from the granting of the loans and till the bail statements were signed, something which Halsne justified with an extraordinary work load. During questioning it became clear that Halsne had not performed credit checks of those providing surety. Underbakke's word on the matter was trusted. (Næss 2011a)

#### *The Joker Case*

Merchant Sajid Hussain was accused of exploiting illegal immigrants, letting them work for pittance while living in a basement and eating the food he was unable to sell.

The case was uncovered when a Nepalese woman reported one of Hussain's Joker stores as her place of employment upon being apprehended in a ticket control post on the metro. Her identification papers were fakes. Police subsequently raided four Spar and Joker convenience stores run by Hussain and found illegally employed immigrants in all of them. Three individuals had submitted false work permits. Hussain admitted to letting a couple work for no pay against free lodgings in the basement, which in his eyes was a favor to the two and something his attorney therefore characterized as unintentional exploitation at worst. The court concluded that Hussain had exploited four immigrants by having them work 13 hour days for below tariff wages. He was sentenced to serve eight months in prison and to confiscation of NOK 700,000, which corresponded to the assumed economic gain of the scheme. (Solem 2011d)

#### *The Apartment Case*

Attorney Kenneth Jøranli was convicted of disloyalty towards a client and making a false statement to a public body. (Solem 2011b) He was acquitted of two other instances of document forgery. Jøranli was a partner in the law firm Advokat Direkte. Jøranli was engaged as attorney for an 83 year old woman in 2009 to assist in the planning of her funeral and inheritance settlement. Two months later the client's apartment in Oslo was transferred to Jøranli for the price of NOK 1. (Solem 2011a)



*The Martinsen Case*

Lars-Erik Martinsen, a bank teller at Nordea, confessed to draining the account of Block Watne widow Randi Nilsen, thereby cheating Nordea of nearly NOK 90 million. Police maintain that Martinsen was merely acting on behalf of others when swindling the bank. The five other individuals indicted for the same offence deny any association with the fraud. Martinsen was already indicted for a different case of fraud, to which he also confessed, when he was apprehended for the Block Watne offence. In 2009 he extracted NOK 4.7 million from the account of investor Eigil Stray Spetalen by use of fake identification papers. A fake letter of authority gave Martinsen the right of disposal of the account of Randi Nilsen. During the two weeks from July 20<sup>th</sup> to August 2<sup>nd</sup> Martinsen registered five transfer orders from Nilsen's account in various Nordea branches. The amounts varied from NOK 12 to 27 million, and yet the scheme was not detected until two weeks later. At the last minute the final transaction of NOK 25.4 million was stopped. A total of NOK 93 million was extracted and sent to accounts in Dubai, some via Martinsen's private account. NOK 60 million is still missing.

Police found Martinsen through the trace he left when logging in to view Nilsen's account details. He was thereafter suspected of being behind the false letter of authority giving him permission to manage the account. Via electronic traces and communication control the network Martinsen was a part of was uncovered, among them the 49 year old woman posing as Nilsen when the letter of authority was signed. All six members of the fraud team were indicted according to the mafia paragraph of the penal code, implying that the scheme was deemed well organized and conducted by a larger criminal group. Martinsen supposedly received NOK 380,000 as payment for participating in the fraud, and this modest amount was considered a mitigating circumstance in his sentencing. Nordea covered the loss following the fraud, making the bank the offended party in the case. (Dugstad 2011b) (Dugstad 2011a)

*The Mohr Case*

August Christian Wilhelm Mohr was sentenced to prison in 2002 for extensive fraud and attempted fraud of foreign investors amounting to several billion NOK. Mohr offered them high-yield securities that were not deemed feasible by the court. (Gedde-Dahl 2006) Mohr was also deprived of his right to run an independent business and to hold positions as general manager or inhabit a seat on

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a board of directors. (Lynum 2005) In addition Mohr must pay retribution of NOK 5.5 million to an American bank. He was acquitted of attempted fraud of DnB bank, a case of attempted fraud in South Africa, and document forgery. (Haugnes 2004)

### *The Nielsen Case*

Jan du Menil Nielsen, former partner in renowned law firm Hodneland, was accused of, through the means of a series of representation statements, helping a client withdraw approximately NOK 50 million from several lenders without the proper collateral. Six times between April of 2001 and early 2003, Nielsen transferred money to the account of the client in question without having fulfilled his duties concerning representation statements. A partner at the firm, Per Hodneland, stated that he believed Nielsen's initial mistake, although probably unintentional and not punishable by law, increased in severity when he was unwilling to admit to it and instead sought to repair the damage through a series of new mistakes which no longer would pass as negligent. All partners of the firm suffered personal losses of more than NOK 1 million because of Nielsen's improper handling of the matter.

Nielsen had been a trusted partner for more than 10 years when a personal letter was sent to the home address of each partner containing disturbing news from a bank. Hodneland was at the time a partnership with limited liability according to the courts of Justice Act. Income was divided according to the income each partner contributed to the firm, and partners had little insight into the clients of other partners and their ongoing management of client bank accounts. This meant that Nielsen had access to manage assets on the client accounts he was in charge of, which is in accordance with lawyer regulations. When the firm was discontinued the trustee appointed by Hodneland and creditors added all Hodneland assets, including all outstanding invoiced fee claims and the hourly fees not yet invoiced. Approximately six months' worth of turnover plus all office inventory and three cars went into the undertow and was paid to Nielsen's creditors. Upon being alerted about the Nielsen case, Hodneland contacted Aftenposten to ensure that the media coverage would include all relevant information. (Johnsen 2006)

The client Nielsen was indicted with was former police officer Sturle Sandnes. Through Nielsen Sandnes was given substantial loans without sufficient

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collateral, and, according to Aftenposten, banks and investors were swindled of a total of at least NOK 104 million. Among the aggrieved lenders were Gjensidige NOR, Nordlandsbanken, Fokus Bank and investors Lars B. Gjerde, Roar Mortensen and Helge Gundersen. Following the indictment both the chairman of the board and the auditor of Sandnes' firm Kapitalfinans AS withdrew from their offices. Sandnes claims he was not involved in those functions of his business that were included in the indictment because he did not feel competent enough to handle them, and so these functions were outsourced to consultants. Lawyers and accountants allegedly controlled most aspects of his firm, and Sandnes expressed surprise upon learning about the irregularities. Sandnes denies having pressured Nielsen into transferring the means for the client account. (Jensen 2003)

Auditors in charge of the forced liquidation of Kapitalfinans AS followed the money trail in the hopes of recovering parts of the assets transferred, and reported that the company in the course of a three year period spent NOK 8.2 million on consultants and advisors. Auditor Svein Korsgården and his company System-Revisjon AS received NOK 4.65 million, but in the annual reports of System-Revisjon their total income amounted to NOK 3.6 million – more than NOK 1 million less than the fees from Kapitalfinans AS alone. Korsgården explained to the newspaper Aftenposten that this was because the NOK 4.65 million included not only consulting fees but also money that would be paid on to creditors. These amounts were therefore not entered into System-Revisjon accounts. Korsgården further claimed that the services they provided Kapitalfinans with were strictly consulting services, and that they in no way had been given auditing tasks.

The auditors handling the Kapitalfinans bankruptcy further claimed that the company had never been fully solvent, but that expenses were covered by the continual uptake of new loans. Of the millions Nielsen helped transfer to Kapitalfinans AS, NOK 11.4 million was paid out to Sturle Sandnes personally by means of checks that fail to stipulate what the payments were for. Nielsen's fees amounted to NOK 910,000. About Nielsen it was remarked that he in practice functioned as the Kapitalfinans finance division. In addition to fraud and embezzlement the auditors also concluded that Nielsen and Sandnes were guilty of Accounting Act and Companies Act violations. (Jensen 2004)

*The Olsvik Case*

Olaf Olsvik had previous run-ins with the law prior to the case that involved Næringslivets Opplysningstjeneste. Examples include the companies Team Trading and Spol, which was forcibly dissolved for lack of assigned auditor. He was recruited to Næringslivets Opplysningstjeneste, a billing operation, by an acquaintance. Their business consisted of mailing invoices to companies, which in exchange would be registered in their company register. An account was created for incoming payments. This account was emptied regularly by Olsvik, who in return kept 10 percent of the money. Everything was based on the premise that companies lacked control over invoice payments, and to avoid being labeled as catalogue fraudsters, they invented a product to sell. This product was a subscription service in which member companies could call if they needed information. The chosen business segment was modestly sized companies across the country, especially those that were thought to have a lenient invoicing policy. Each invoice amount was relatively small.

The verdict passed concludes that Næringslivets Opplysningstjeneste was responsible for gross fraud of more than NOK 28.6 million as well as the handling of stolen goods and grave accounting violations. (Jahr 2005)

*The Document Case*

FrP politician Viggo Amundsen and former policeman Tor Smestad were convicted of staging a cover-up in order to get a real estate purchase approved. Amundsen realized that he would most likely not be granted approval from public authorities, and so, along with the former local chief of police, he went about it with the help of an intermediary, a fictitious deed and purchase contract. The intermediary was also convicted. Two purchase contracts were drawn up. One was signed by Amundsen and the seller and stipulated a sum of NOK 3.3 million as well as confidentiality for all involved parties. The other was written a few days later and contained the names of a young couple with scarce financial means in need of housing and stipulated a purchase sum of NOK 2.9 million. This last contract was to be the official one, and would be submitted to the authorities with the license application. (Nygaard 2011)

The license application was approved, but in the fall of 2008 the relationship between Amundsen and his helpers went sour. The young couple used the purchased farm as collateral for their private debt, and in so doing

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claimed the property as their own. Amundsen was forced to present the real contract and covert deals in order to settle the matter with the courts. Those involved were convicted for false statements or participation in giving such. (Nygaard 2011)

### *The Fortuna Case*

Ole Z. Børresen, Frode Trollebø and Knut Stark-Johansen were indicted for fraud, money laundering and VAT fraud of nearly NOK 100 million. The three have been associated with several companies, Fortuna Management being one of them. They have been involved in more than 30 bankruptcies. Entering into a number of companies by taking on board memberships and management tasks, they gained access to company means, which were then used to cover personal expenses, cash withdrawals and travels as well as using company assets as collateral for personal loans. Among the companies involved are Gyda Shipping, the investment company Alf R. Bjerke & Co., luxury restaurant Acqua, supplement producer Aminotech and cellular operator Fix Telecom.

Among the more severe cases the verdict from the Oslo district court emphasizes the swindling of Einar Nistad (78), a convenience store millionaire. The court base their ruling on the fact that Nistad's impaired lucidity following a stroke made him particularly vulnerable, and that the fraud has had severe economic consequences for Nistad. During the trial it was established that the trio had misled Nistad into transferring NOK 15.6 million to companies controlled by Børresen, Trollebø and Stark-Johansen. Nistad thought he was investing in technology projects, but according to Økokrim the money was spent on private consumption and the settling of debts. (Dugstad and Flæte 2011)

Among the companies subjected to this series of frauds was Aminotech (now Zymtech Productions). In December of 2006, Aminotech's general manager and chairman of the board, William Gram, handed over a number of documents to Oslo police documenting how the trio had made a series of withdrawals from company accounts without having a claim to the money. Gram informs that the company had put substantial effort into preparing the information they handed over to the authorities. Police conducted an immediate raid of the offices of the trio, but nothing more happened. The case was dropped in September of 2007. Gram was disappointed, and thinks the complex case containing a vast amount of companies and transactions kept Oslo police from following through. However,

this was not the first time police had been alerted to the workings of the trio. Companies led by one or several of the indicted, had on numerous occasions reported suspicions of asset draining. All of the incidents were dropped before charges were filed.

In October of 2007 Aminotech management went to Økokrim with their material, this time resulting in a full investigation. Lawyer Berit Reiss-Andersen, who helped Aminotech with their second filing of charges, expressed surprise about the Oslo police not forwarding the case to Økokrim on their own account. The fact that the case in the end led to such a severe conviction makes this rather unsettling. In April of 2008 Økokrim filed charges in the case, leading to sentences of six years' imprisonment. Senior public prosecutor Bård Thorsen stated that the case had been a complex one to investigate, both in terms of time and resources. (Bjørklund and Dugstad 2011)

#### *The Tordenskjold Case*

The municipal court of Oslo contend that ship-owner Tor Johan Stuve, brother of the formerly mentioned Ragnhild Stuve of the Stuve case, tested the loyalty of employees and whether or not they would fit in an environment with a hostile attitude towards tax by paying them off the books (evading tax). Fraud of NOK 150 million connected to sales and purchases of three ships and a pump were the central elements of the extensive criminal trial against Stuve. Among the violations he was convicted of is violation of the Assessment Act by not reporting NOK 600,000 of payments to employees to the tax authorities. His business partner, Petter Hellevik, was sentenced for embezzlement and fraud, and former Tordenskjold director Susann Kolbjørnsen was convicted of several violations of the Assessment Act, the Accounting Act and Norwegian penal code. In addition, former head of Storebrand Bank, Håkon Roska, was convicted for having taken bribes of NOK 150,000 from Stuve or companies controlled by Stuve, and for having transferred NOK 200,000 against the interests of the bank. The violations were uncovered in connection with the bankruptcy of shipping firm Tordenskjold in 2008. (Vanvik 2010)

#### *The BA-HR Case*

Kari Breirem, director of renowned law firm BA-HR, is asked to pay an invoice to Tønne Consult, a consulting firm owned and run by Tore Tønne. She is informed

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that in reality, Aker RGI owes Tønne the money, but that it is to be paid by BA-HR in order to hide disqualification on Tønne's part. This supposed disqualification relates to Tønne's role in the takeover of Kværner, and this solution is the brainchild of Anders Eckhoff of BA-HR. Tønne Consult is due NOK 1.5 million, but the internal invoice basis shows an effort on BA-HR's part of only NOK 540,000. On the timesheet accompanying the invoice that is sent out, the fees per hour of effort are escalated in order for the total to reach NOK 1.5 million. In other words, Tønne Consult has billed BA-HR NOK 1.5 million and BA-HR in turn have sought reimbursement by billing the real receiver of the invoice three times the normal rate for a given amount of effort. It therefore appears as if Tore Tønne was employed by BA-HR rather than Aker RGI. According to Breirem, this borders on money laundering and outright forgery. Tønne was a minister in Jens Stoltenberg's first government. Was this a success fee for lobbying?

A memo clarifying the basis for the invoice from the viewpoint of BA-HR tells the following story: Up until November of 2001 Aker Maritime (AMA) were seeking to become majority owners of Kværner ASA (KVI). Besides acting as legal and strategic counsel for AMA, BA-HR also had a coordinating role in relation to other consultants. Tore Tønne was taken on to advise on the handling of the relationship towards the Norwegian government and to lobby against LO and other interest groups to ensure support for AMA becoming the majority owner of KVI. His fee was to depend on the extensiveness of his work and its outcome. As CEO of Norway Seafood ASA (NWS) Tore Tønne was granted a loan from parent company Aker RGI. When Tønne was selected as a board member of KVI, Kjell Inge Røkke informed BA-HR of the two unsettled balances with Tønne (the loan and the consulting fee). The legal opinion of BA-HR was that the two unsettled balances did not imply disqualification on Tønne's part if he as a board member of KVI was to participate in issues relating to the relationship with Aker RGI. To avoid this even being seen as an issue, BA-HR recommended that the balances were settled, and the proposition was that Tønne would provide a down payment that equaled his consulting fee. Due to the scope of his efforts and the outcome for AMA, Tønne Consult was granted a remuneration of NOK 1.5 million, and this payment was administered by BA-HR, partly due to BA-HR's role as consulting coordinator and partly to ensure that the amount was utilized as a down payment. Aker RGI had in advance paid the NOK 1.5 million to BA-HR.

This would seem to imply that Tønne was indebted to Røkke during his time as a minister. According to Aftenposten, BA-HR later reproached themselves for sending an invoice that was unclear regarding the actual sender and receiver. On December 20<sup>th</sup> 2002 Økokrim informed Tønne's lawyer, Olav Braaten, that Tønne would be indicted for involuntary fraud. The next day Tønne was reported dead, and the charges were subsequently dropped.

A BA-HR employee (now a partner), Øyvind Eriksen, was fined NOK 50,000 for the forged invoice. When this fine is left unpaid Økokrim indicted Eriksen, but in July it was decided that Eriksen would be allowed to pay the fine, and the case was dropped. Breirem learned she was given a leave of absence through a press release, and sued BA-HR for wrongful termination. She was later offered a settlement which she accepted. (Breirem 2008)

Kjell Inge Røkke contests that Tønne had a loan in one of his companies during his period in the government. (Hippe 2003)

The case was uncovered when Breirem refused to attest and pay the abovementioned invoice. She alerted the board of directors that BA-HR was about to commit a criminal offence, but was not met in the way she had expected. Rather than being credited with raising an important matter, she was interpreted as threatening the board of directors, and given a leave of absence. The board of directors expressed that they did not see any irregularity in the way the invoice was to be handled. Breirem also believes that this may have cost Tore Tønne his life. Further, she contends that knowledge of the invoice was limited to the partners Eckhoff, Eriksen and Reed besides the finance manager and herself, which means that BA-HR as such was not necessarily a part of the violation. However, she felt quite sure that an alert auditor would uncover such a forgery. (Breirem 2008)

### *The Pension Case*

The court case against the two former members of parliament Anders Talleraas and Magnus Stangeland, was the first of its kind. The prosecution contended that they had received an excessive amount of pension. Among the called witnesses in the case were four former prime ministers and seven former ministers. The indictment against Talleraas states that he, over a period of seven years, received a total of NOK 2.7 million more in parliamentary pension than he was entitled to. This miscalculation allegedly stemmed from Talleraas not providing the



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parliamentary pension board with correct information concerning his income from various directorships. Stangeland was to have received NOK 536,000 in excess over a three year period because he did not report his salary from Bergen Yards, directors' fees and the free use of a company car. Both were therefore indicted according to the penal code clauses on inadvertent fraud.

The pension plan they both received their payments from, was deemed to be lacking in provisions and implementation, which parliament is now working on correcting. Both Talleraas and Stangeland claimed to follow the guidelines they were provided with by parliament administration, but as former members of parliament with significant experience they would have been expected to take independent responsibility in considering the legitimacy and correctness of the pension payments they were bestowed. (Aftenposten 2010)

The Office of the Auditor General of Norway concluded in 2008 that six former ministers had received pensions in violation of the income limit. The charged were dropped for four of the six accused, among them former Prime Ministers Kjell Magne Bondevik and Gro Harlem Brundtland. Both Talleraas and Stangeland were given prison sentences in the district court. (Grande 2011)

According to Gunnar Magnus at Aftenposten this was the first involvement of the auditing function in this case. When the Auditor General issued a letter to Parliament about the matter, this issue subsequently received extensive media attention and led to Parliament initiating an investigation. This investigation made Økokrim file charges. However, the persons that received the most attention by the internal parliamentary investigation, were not concurrent with those the Auditor General had focused on. The Auditor General was subsequently criticized for their report, but Magnus believes that little doubt can exist regarding the fact that it was this report that instigated the entire investigation and the following indictments and convictions. The Auditor General had accounting and auditing professionals working on the case, and Magnus also finds it highly likely that such expertise was also included in the internal parliamentary investigation as well as in the Økokrim team that was involved at a later stage. However, the case was mostly concerned with legal interpretations of the regulations surrounding the pension in question, and not so much with financial dispositions uncovered by auditors. (Magnus 2011)

Prosecutor Elisabeth Roscher maintained that the often lacking or absent internal controls are what lead to many of the frauds concerning public services,

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claiming that this particular pension scheme was vulnerable because it was based on trust. The defense attorneys of Stangeland and Talleraas, on the other hand, claimed that the defendants merely received what was rightfully theirs. They were aware of the income limits associated with the pension scheme, but claimed not to know that sporadic income also was to be included rather than only fixed income. (Gunnar 2010)

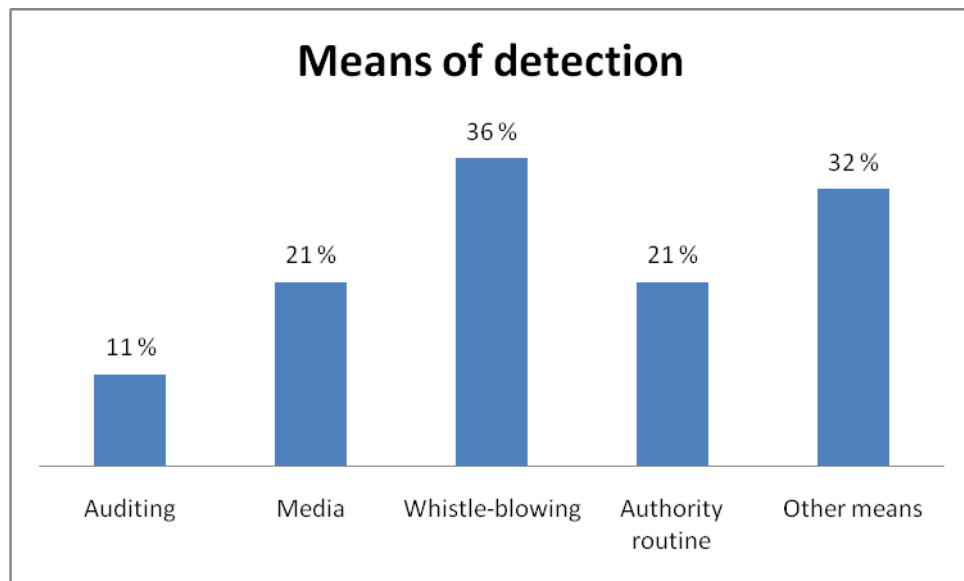
#### *The Tromsdal Case*

Christer Tromsdal was, along with two others, accused of fraud amounting to NOK 34.5 million in connection with the sale of two hotels in Sweden. Økokrim maintained that Tromsdal willingly conned real estate investor Harald Lauritzen and his company Obbhult Invest into overpaying for Hotel Stavsjø and the company Fastningsstaden. Tromsdal supposedly manufactured documentation concerning assets and income to drive up the selling price. In reality the hotels were practically running at a deficit. The selling price of SEK 34.5 million was more than double of what the combined property values and incomes of the hotels amounted to. The performed valuations were false, the accounts inflated and confirmed by a fictitious auditor. In addition the sale was performed through an intermediary, leaving the buyer unaware that Tromsdal and his co-defendants were behind it. It was thought that this information might have substantially affected the purchasing decision. Tromsdal denied the charges. (Adresseavisen 2010) (Agderposten 2010)

## 5. Findings and discussion

### 5.1. Means of detection of white-collar crime

After completion of the information collection on the cases included it became possible to map the various means of detection the cases displayed – for those cases where such information was available – and to count their prevalence. A histogram summarizing the findings this mapping unveiled, is shown below.



In order to illustrate how this mapping was undertaken, some examples can be presented. Firstly, cases where enough information to draw conclusions on the detection mode were insufficient or absent have been left out. Out of an initial case body of 44 cases, 28 were deemed by raters to include sufficient information to draw conclusions regarding auditor involvement, and these provided the basis for the percentages shown above. A complete list of which cases were included and which were eliminated is included in the appendix. Secondly, in cases where several means of detection seemed to have operated in synergy, more than one mode was included in the counting in order to provide as much nuance as possible. For this reason the sum of percentages is not 100, and the calculation of percentages will only give a precise indication where one mode is indicated to have operated alone. However, they do give an accurate description of the prevalence of the respective modes of detection. For the purpose of answering the previously stated research questions our primary concern is with the detection

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percentage of the auditing function category, which may be taken at face value since no other category was deemed to operate alongside it save for in one instance.

The different categories of detection were introduced at an earlier point in the thesis, and will therefore not be repeated here. However, one important clarification should be noted: When an implicated party in the violation(s) is credited with alerting the media or authorities of the offence(s) (the Document case is an example) this is deemed to be an instance of whistle-blowing in the same way as when an outsider or colleague does the same.

Some reflections on the emerging patterns are in order. First of all, a detection percentage of roughly 11 percent for the auditing function category is substantially lower than the estimates given in extant literature and research (Albrecht, Albrecht and Dunn 2001) (Silverstone and Sheetz 2003), indicating that for Norwegian cases, auditing has an even less pronounced role in detection of white-collar crime than the measurements performed in the US, for example. Whether or not the result is significantly lower than hypothesized cannot be commented, as the study sample is neither complete nor random. Hypothesizing about why this may be so is left until an examination of auditor involvement by phase of the investigation process is analyzed.

Second, a pattern of cooperation between the media and whistle-blowers emerged. In a number of cases where whistle-blowers are normally credited with the unravelling of a case, it seems as though these individuals were heard only after contacting the press. The Siemens and BA-HR cases are examples. Whether this is because forensic journalism was needed to further examine the incidents before the authorities had sufficient evidence to warrant investigation, or whether the attention given to a case following media coverage instigated a reaction by the authorities is beyond the scope of this thesis to answer. It does, however, seem as though this is a prevalent course of action, further establishing the important role of the media as societal watchdogs. Whether the media play a more significant detection role in Norway than in other countries is a question that cannot be answered by this study, but is nevertheless an interesting subject for further research.

### **5.2. Auditor involvement by phase of the investigative process**

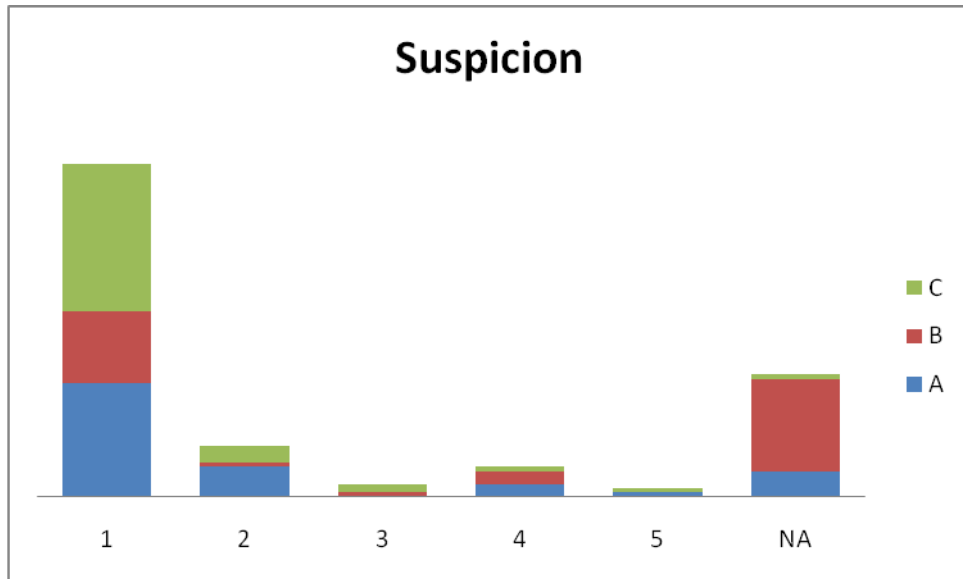
Raters were asked to judge auditor involvement in the cases included on a scale from 1 to 5, where 1 indicates no involvement, neither positively nor negatively. As the purpose of this thesis is a purely descriptive mapping of auditor detection of white-collar crime, the normative approach of whether the auditing function was in some way involved negatively by being a part of, or facilitating, the criminal offence, is left untouched. So is the question of whether the auditing function could or should have done more to uncover the instances, as this also would require a normative approach as well as more detailed information on each case than what this 44 case study can accommodate.

The scale used in this ranking is an ordinal scale, as the rankings of 1 through 5, as well as the indication of NA if information was deemed unavailable, can merely be ranked internally (Gripsrud, Olsson and Silkoset 2004). It is not possible to draw conclusions about the size of the intervals between the various rankings, and so the calculation of averages and mean values will make little sense. What is important is our ability to draw inferences about the prevalence of different rankings in the three phases in order to comment on the indications these rankings give on auditor involvement.

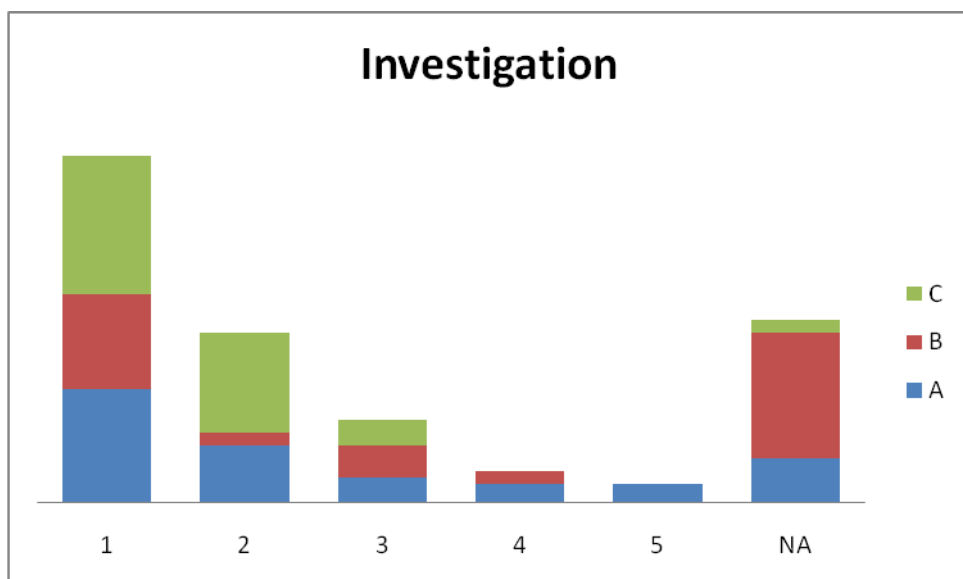
It is important to note that the prevalence of various rankings in any one phase should not be compared to the same prevalence in other phases, as the amount of available information on each case may differ with regards to in which phase(s) auditor involvement in detection could be described. The scarcity of available information in any one phase, for instance, should not necessarily be equated to low auditor involvement. Therefore, what is of real interest is not the number of various rankings within any one phase in isolation, but rather the picture drawn by comparing the prevalence of various ratings within a phase, as shown in the histograms provided. These histograms give important indications about auditor involvement, although firm conclusions are not possible to draw due to the innate characteristics of a case study.

Starting with auditor involvement in the suspicion phase, some indications are made quite clear from the histogram below. Firstly, raters were relatively unanimous in their judgments of auditor involvement in detection. All three judges (A, B and C) gave a majority rating of 1 in this phase, meaning that auditor involvement over all was deemed almost non-existent. Higher ratings were few,

and several cases were marked NA (indicating information not available) due to insufficient or unavailable information.

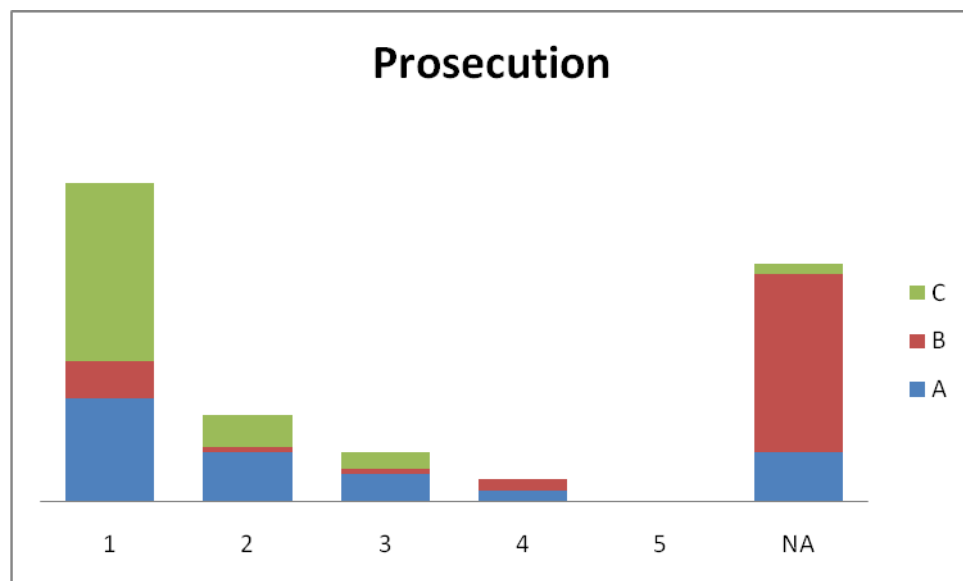


Moving on to the investigation phase, the same overall pattern can be observed, although with some minor differences. Grading in this phase is more evenly distributed, with a gradual decrease from the most prominent grade of 1 all the way down to 5. Raters seem to be in relative agreement on grading, with each rater represented in each grade category save for the highest one.



Finally, the prosecution phase is in need of commenting. Much the same picture is painted here as in the preceding two phases, although no rater gave the highest

grade of 5 in this final phase. Raters differed more in their views of auditor involvement than in the investigation phase, also in terms of their perceived threshold of when information was deemed insufficient and not. However, in all three stages raters' agreement was of an extent that provided some reassurance of the reliability of findings, leading the researcher to conclude about the adequacy of three independent raters. Had ratings been more divergent this might have meant that views of more raters should be sought in order to ensure the relative soundness of findings.



The overall picture these three histograms give us of perceived auditor detection of white-collar crime is not the most favourable. However, the indication that the auditing function is not necessarily central in the detection of a large proportion of cases, should not automatically be construed as a sign of the redundancy of said function in this respect. It seems probable that the preventative role, as described by Drage and Olstad (2008), among others, may be more pronounced than the reactive detection role, although this is an aspect not covered by this study.

To elaborate further on the above point, the term preventative can mean both preventing potential criminals from intending to commit fraud, as well as preventing fraud – intentional and unintentional – by the auditor (having a history of) detecting and instigating corrective measures at the root, i.e. long before a “crisis” has evolved. By achieving the latter, which can be termed root corrections, auditors gain the respect of their clients and potential criminals become less prone to contemplate fraud. Such root corrective measures belong to the essence of good

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auditing, they are an integral part of normal and sound auditor–client cooperation, taking place behind “closed doors”, and thus prevent potential fraud cases from even developing. Such factors have an obvious bearing on the percentage of fraud cases detected by auditors in this study. It is e.g. not possible to conclude that a low percentage of auditor detection is due to poorer auditing competence and practice, in fact, the opposite may be true: A low percentage may well mean better auditing practices preventing potential fraud cases from evolving. Such questions are, however, beyond the scope of this thesis.

Should a more visible detection role be deemed desirable and appropriate, both from the viewpoint of standard setters and others, a review and possible revision of the auditor role may be in order, especially if corroborating findings further establish this pattern.

### **5.3. Hypotheses**

The following hypotheses were listed above regarding the anticipated findings of this study. These hypotheses have in common a presumption that the auditing function makes a positive contribution to the detection of white-collar crime. Whether or not this coincides with findings based on contemporary Norwegian cases is what this thesis purports to examine. What follows is, therefore, a closer look at whether the findings indicate support for the stated hypotheses.

Based on the estimations of Albrecht, Albrecht and Dunn (2001) and Silverstone and Sheetz (2003) the following is hypothesized:

**H1: Less than 20 % of white-collar crime is detected by the auditing function.**

The auditor detection rate indicated by the cases included in this study deviates from the detection rate of 15-20 % stated by much of the extant body of research in the literature review. Based on the table depicting means of detection at the beginning of this chapter, this rate is closer to 10 %, which should substantially lower our expectations of auditor detection of white-collar crime compared to what other studies have indicated. The findings thereby support hypothesis 1 in contending that less than 20 % of white-collar crime is detected by the auditing function. It should be stressed once more that this piece of research does not allow



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definitive conclusions, and so findings should be viewed as possible scenarios warranting further investigation rather than as conclusive truths.

Should it be the case that the auditing function in practice can be credited with a lower percentage of detections of white-collar crime than was expected, some reflections on possible causes are in order. Firstly, a natural assumption would be that the framework governing the auditing function in Norway may lay different conditions for the types of, and extent to which, white-collar crime an auditor is able to detect using standard auditing procedures than what may be the case abroad. Confirming (or rejecting) this assumption requires a detailed, comparative examination of standard auditing procedures in a number of countries, a task too extensive for inclusion here.

As mentioned in the introduction, the fact that white-collar crime is a relatively newly identified phenomenon in Norway may also be partly to blame. Businesses and authorities alike are simply not as experienced in preventing, identifying and investigating financial crime as nations that have longer traditions of such criminality. This point was further emphasized by Siri Gedde-Dahl of *Aftenposten*. Gedde-Dahl noted in correspondence with the researcher that it seemed as though businesses she had been in touch with were not very in tune to warning signals of white-collar crime, and consequently were not adept at detection of such crime either.

It may also be the case that the detection percentage indicated here is inaccurate, and that replication of this study or further examination of results utilizing other research designs results in a somewhat higher detection rate, closer to the 15 % indicated by literature.

In accordance with Wells (2005) and Johnson and Rudesill (2001) the following hypothesis tests a possible discrepancy between expectations and what the auditing function is able to deliver:

**H2: There exists a gap between expectations towards auditors' fraud detection and what the auditing function is able to deliver.**

This hypothesis includes many of the same arguments as hypothesis 1, simply reflecting a different viewpoint of the same question. As hypothesis 1 was deemed accurate for the Norwegian context in that less than 20 % of Norwegian cases of white-collar crime are detected by the auditing function, hypothesis 2, predicting

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an expectation gap, thereby seems to be confirmed. The extant body of literature and research predicts an auditing detection rate of white-collar crime between 5 and 10 percentage points higher than that indicated by this study, thereby suggesting higher expectations for auditor detection than there may be basis for. Bernardi (1994), who holds that — the probability of detecting fraud is dependent upon time pressures, holding chargeable costs down, and client and public expectations that the auditor will detect any fraud”, resulting in an —expectation gap between auditors’ performance and what an audit implies to users”, and Johnson and Rudesill (2001, 61-62), who state that —differences in perception of responsibility and the public’s disenchantment with audits have been termed the *expectations gap*”, are both examples of opinions in support of this. Again, this is a possibility that should be subjected to further examination.

According to Gottschalk (2010b) and Silverstone and Sheetz (2003) some types of white-collar crime are difficult, if not impossible, to detect using normal auditing routines, such as so-called off-book frauds:

**H3: Some types of white-collar crime are more often discovered by auditors than others.**

As was touched upon in the literature review chapter, some types of white-collar crime are hard, if not impossible, to detect using normal auditing routines, and some are relatively in line with such routines. Examples of crime beyond the auditing framework are insider trading and cartel activities (Gottschalk 2010b, 233) and so-called off-book frauds (i.e. bribery and kickbacks), —which do not leave an audit trail and are often discovered by tip-offs” (Silverstone and Sheetz 2003, 80). Were the above results in tune with what types of white-collar crime the literature predicts that auditing should and should not be able to detect?

An example of a case involving bribery is the Ullevål case. This case was detected by whistle-blowing and subsequent media coverage and investigation, which indicates that such white-collar crimes are not within the auditing realm. Cases involving some form of accounting fraud, such as the Sponsor Service and Taxi cases, only partially corroborate this picture. Whereas the Sponsor Service case was detected through auditing and media collaboration, auditing was not involved in the unraveling of the Taxi case. In fact, accountant Henry Amundsen was the prime facilitator of the entire fraud. In this case, conscious efforts at

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misleading probably must take some of the blame for the lack of auditor detection. However, there clearly exist deviations from literature predictions of auditor detection, warranting further and more detailed examination, but the fact that an accounting professional acted as instigator may indicate that the type of white-collar crime this case depicts is, in fact, very much a part of the auditor reign. It will therefore be concluded that type of white-collar crime often does influence the likelihood of auditor detection, confirming the hypothesis that some types of white-collar crime are more often discovered by auditors than others.

#### 5.4. *Methodological quality*

—There are two main questions about credibility of research. The first addresses whether we would get similar results if the study were repeated. The second question is more challenging: even if the same results were obtained, would they be *right*, i.e. have we actually measured what we needed to look at, in a way that accurately captures its characteristics? The first question is about *reliability*, the second about *validity*” (Payne and Payne 2004, 196). A discussion of both in relation to this specific piece of research will follow, making explicit the strengths and weaknesses of the chosen methodology and its implementation.

##### 5.4.1. *Reliability*

Many researchers believe it inappropriate to focus on traditional measures of reliability in more qualitative lines of research, among them Wolcott (2005) and Lincoln and Guba (1985). —The more important question for qualitative research is *whether the results are consistent with the data collected*. Lincoln and Guba (1985) were the first to conceptualize reliability in qualitative research as *dependability* or *consistency*. That is, rather than demanding that outsiders get the same results, a researcher wishes outsiders to concur that, given the data collected, the results make sense – they are consistent and dependable” (Merriam 2009, 221). —Strategies that a qualitative researcher can use to ensure for consistency and dependability or reliability are triangulation, peer examination, investigator’s position, and the audit trail”, where the audit trail is defined in the following way: —Just as an auditor authenticates the accounts of a business, independent readers can authenticate the findings of a study by following the trail of the researcher”,

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explaining how the results were achieved. (Merriam 2009, 222) This requires the study to describe in detail how data were collected, how categories were derived, and how decisions were made throughout the inquiry. To the extent possible these principles have been adhered to in the present research, hoping that a meaningful and sufficient concept of reliability has been applied and its criteria fulfilled.

–Reliability pertains to the consistency and trustworthiness of research findings; it is often treated in relation to the issue of whether a finding is reproducible at other times and by other researchers.” When applied also to the various interviews conducted in the course of this research, –this concerns whether the interview subjects will change their answers during an interview and whether they will give different replies to different interviewers”. (Kvale and Brinkmann 2009, 245) The reliability of the factual interviews undertaken for this research project is for this reason deemed relatively high; factual information is not in need of interpretation and multiple researchers would likely be able to obtain the same information again from the same sources should the study be replicated. This is what is frequently referred to as external reliability, which deals with the likelihood of whether the results of one study will occur again.

Adding to the credibility of findings is the significant expertise and knowledge of the interviewees, both in terms of academic and/or experiential knowledge of white-collar crime in general and case specific knowledge. In order to capture the complex reality of each case, contradictory, or at least varying, perceptions were collected and reported. (Rubin and Rubin 2005, 64-67) Interviewees are chosen on the basis of their –direct access to the information requested” (Rubin and Rubin 2005, 72), adding to believability. To help in recognizing –distortions, fabrications, and omissions”, the same question was asked in different ways as well as to different sources in separate roles to check for consistency (Rubin and Rubin 2005, 73). Findings from interviews were checked for consistency with other sources such as newspapers or court depositions when possible.

The concept of interrater (McNeill and Chapman 2005) or intercoder reliability (Neuman 2011), also called intersubjectivity (Grønmo 2004), is highly relevant for the case study at hand. The fact that three independent raters judged auditor involvement in the cases rather than one, should drastically increase the reliability of the findings. The converging judgments of two raters is considered adequate (McNeill and Chapman 2005); three is even better.

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Intersubjectivity is defined as —a principle for evaluating empirical evidence in positivist social science stating that different people can agree on what is in the empirical world using the senses.” The basis for this contention is that —rational people who independently observe facts will agree on them subjectively”. (Neuman 2011, 99) While intersubjectivity is most often applied in the context of content analysis, it is deemed equally applicable to a multiple case study. In the same way as the body of data to be coded is stable and identical for different coders in a content analysis, the case descriptions that raters based their judgments on were the same for all three individuals, and identical briefings regarding rating were given. This is thought to strengthen the internal reliability of the study, which pertains to whether researchers on the same project agree on interpretations.

#### 5.4.2. *Validity and generalizability*

Even though a measure has high reliability, this does not necessarily mean it is also valid. We may measure something with a high degree of accuracy and precision, but this does not mean we are measuring what we set out to measure. It is also important to point out that what we are deeming valid or not is not a method of measuring or a test, but rather the interpretation of the data that emerge from a certain procedure. This interpretation may be highly valid for one purpose, and less valid or not valid at all for others. (Gripsrud, Olsson and Silkoset 2004) It therefore becomes imperative to discuss validity and generalizability as well.

As this research does not make use of a probability sample, the question of how large a sample would be needed in order to be confident about findings, is not really a relevant one, but it is reassuring to know that for a thought universe of 20 cases of white-collar crime (there are initially 44), a sample of 19 would be sufficient to ensure statistical generalizability (Payne and Payne 2004, 201-203). Although this is an important point, —size is determined less by statistical principle than three other pragmatic considerations. These are: *resources*; planned *analysis* methods; and the *variability* of the universe from which a sample is being drawn” (Payne and Payne 2004, 205). In the case of this specific piece of research, the resources must be said to be limited. The timeframe is restrictive compared to that of many other types of research projects, as are the funds and methodological knowhow. The planned analysis method of a multiple case study sets important

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guidelines on sample size; a relatively in-depth approach implies more time must be spent on each case, naturally limiting the number of cases it is possible to include. These two points advocate a limited number of cases for scrutiny. However, the a priori opinion of the researcher that there will naturally be some amount of variability between cases and their means of detection, and the contention that information on each case may be hard to come by, increases the ideal initial pool of cases to be included. All of these aspects and issues were weighed against each other when sample size was decided on.

To the question of whether findings from such a multiple case study are generalizable – i.e. “whether the results are primarily of local interest, or whether they may be transferable to other subjects and situations” – some distinctions must be made. Firstly, studies from which generalizations can be drawn, are not necessarily always the preferable mode of inquiry. “Consistent demands for the social sciences to produce generalizable knowledge may involve an assumption of scientific knowledge as necessarily universal and valid for all places and times.” (Kvale and Brinkmann 2009, 261)

Findings may also be viewed strictly in their social and historical context, and still provide important insights. To the extent that generalization is desirable, Stake (Denzin and Lincoln 2005) introduces three kinds of case studies: The intrinsic case study, undertaken in order to better understand a particular case, the instrumental case study, where insight into more general issues is sought, and the multiple or collective case study, which is an instrumental case study extended to several cases. This thesis inhabits the characteristics of the latter, where a variety of cases of white-collar crime are studied for the purpose of deriving some general knowledge about the phenomenon. Because the cases included are a purposive or convenience sample, findings cannot be subject to statistical generalization (Kvale and Brinkmann 2009, 262). However, some form of naturalistic generalization (which “derives from tacit knowledge of how things are and leads to expectations rather than formal predictions”) or analytical generalization (“by specifying the supporting evidence and making arguments explicit, the researcher can allow readers to judge the soundness of the generalization claim”) may be possible (Kvale and Brinkmann 2009, 262-263). Yin (2003, 46) indicates that collective case studies are often “considered more compelling, and the overall study is therefore regarded as more robust”. Merriam (2009, 49-50) concurs: “The more cases included in a study, and the greater the variation across the cases, the more

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compelling an interpretation is likely to be. ... The inclusion of multiple cases is, in fact, a common strategy for enhancing the external validity or generalizability of your findings.” This bodes well for the research undertaken here, as an initial case portfolio of 44 may be viewed as substantial.

Validity and generalizability therefore go hand in hand. “External validity is concerned with the extent to which the findings of one study can be applied to other situations. That is, how generalizable are the results of a research study?” But, “even to discuss the issue, the study must be internally valid, for there is no point in asking whether meaningless information has any general applicability.” (Merriam 2009, 223) In discussing generalizability in the case of a multiple case study such as this one, it should be noted that “in qualitative research, a single case or small, non-random, purposeful sample is selected precisely because the researcher wishes to understand the particular in depth, not to find out what is generally true of the many” (Merriam 2009, 224). “Probably the most common understanding of generalizability in qualitative research is to think in terms of the reader or user of the study. Reader or user generalizability involves leaving the extent to which a study’s findings apply to other situations up to the people in those situations. The person who reads the study decides whether the findings can apply to his or her particular situation.” This implies that “the researcher has an obligation to provide enough detailed description of the study’s context to enable readers to compare the *fit* with their situations”. (Merriam 2009, 226) This brings us back to the point made above, stating that ensuring adequate reliability in this case study also depends on the means of data collection, methodology and assumptions made being explicitly listed. The same can be said of validity.

“There is clearly a scientific value to gain from investigating some single category of individual, group, or event simply to gain an understanding of that individual, group, or event. For those with a more positivist orientation who have concern about generalizing to similar types of individuals, groups, or events, case methods are still useful and to some extent generalizable. When case studies are properly undertaken, they should not only fit the specific individual, group, or event studied but also generally provide understanding about similar individuals, groups, and events.” (Berg 2007, 295) Merriam (2009, 51) contends that “case study plays an important role in advancing a field’s knowledge base”.

“Most types of validity questions can be grouped under a measure’s internal or external validity. *Internal validity* deals with a study’s own logic: does

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it achieve what it sets out to do? Its operational definitions must reflect a fully developed conceptual framework, and its conclusions must be plausibly defensible. If associations are claimed between phenomena, it should be clear that no unstudied phenomena intervened. *External validity* refers to the *limits of generalization* that operationalization imposes” (Payne and Payne 2004, 234).

To ensure a nuanced representation of each case, different views have been sought in each instance. Information was collected from such sources as media records, academic literature, court verdicts and individuals involved in the cases in one way or another. However, obtaining more than one or two views on each case was not always possible. Neither was obtaining the information necessary to draw conclusions about auditor involvement, in some instances. Journalists, prosecutors, former colleagues and others were contacted, but were not always available for communication. Those views and opinions that were offered have been sought represented as unbiased as possible in the case presentations, and where interviewees were a part of the information base, these subjects were contacted to ensure their agreement on the final depiction of discussed issues. This brings up the issue of credibility or internal validity, which –deals with the question of how research findings match reality. Do the findings match what is really there? Are investigators observing or measuring what they think they are measuring? Are the findings *credible* given the data presented?” (Merriam 2009, 213)

–Probably the most well known strategy to shore up the internal validity of a study is what is known as *triangulation*” (Merriam 2009, 215). Of the four types of triangulation proposed by Denzin (1978), this paper utilizes two. Firstly, the use of multiple sources of data should be mentioned. –With regard to the use of multiple *methods* of data collection, for example, what someone tells you in an interview can be checked against what you read about in documents relevant to the phenomenon of interest” (Merriam 2009, 216). –A second common strategy for ensuring internal validity or credibility is *member checks*. Also called *respondent validation*, the idea here is that you solicit feedback on your emerging findings from some of the people that you interviewed” (Merriam 2009, 217). This respondent validation is the technical term for the feedback sought from interviewees mentioned above.

Kvale and Brinkmann (2009, 248) advocate –moving the emphasis from a final product validation to a continual process validation”, which implies concerns



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for validity at each stage of the research process, from thematizing and designing right through to the reporting of findings. This approach is specifically angled to dealing with a research design where interviews are a central part of information gathering, and adopting it for the research at hand involves reflections on validity in the following ways:

1. Thematizing: The soundness of the theoretical framework on which the study is based, is judged as satisfactory since a representative collection of views and angles is included. The research question derived from this framework is thought to reflect an area of dispute in the extant literature, and is therefore a logical rationale for further investigation.
2. Designing: The “adequacy of the design and the methods used for the subject matter and purpose of the study” is judged significantly valid. Charting the various cases requires the piecing together of relevant information from the sources available, including interviews where other sources were not sufficient. The condition of beneficence – “producing knowledge beneficial to the human situation while minimizing harmful consequences” – is also thought to be fulfilled, as further insight into a topic such as white-collar crime is deemed both relevant and socially awarding.
3. Interviewing: The trustworthiness of subjects’ reports is judged adequate. In each case where additional facts were needed, these were obtained from sources who had minimal or no interests in biasing information given or withholding important aspects. Sources are included in the presentation of each case.
4. Reporting: The validity of the report given on the findings of this study is judged as sufficient. Findings of prior studies pointed in several directions, and although the picture provided from the findings is clear, the report also includes those cases that deviate from the majority, providing nuance.

It is often argued that it is difficult to maintain objectivity during case study research, and that this should be viewed as a potential threat to knowledge generated in this way. However, one could argue that such objectivity may be equally challenged in any sort of research endeavour, as —some subjective

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decision regarding how the researcher should progress or how the study is designed” is almost always taken, regardless of whether research is quantitatively or qualitatively oriented (Berg 2007, 294). Merriam (2009, 53) maintains that ~~there~~ there is no greater bias in case study toward confirming preconceived notions than in other forms of research”. Berg (Berg 2007, 295) agrees: ~~As~~ As in any scientific research, findings from a single study are seldom accepted immediately without question and additional research investigations. In this light, case methods are as objective as any other data-collection and analysis strategies.”

As regards the number of cases included, the main consideration related to the a priori assumption that in many instances, relevant information regarding the involvement of the auditing function would be difficult or impossible to come by given the resources available. As anticipated, many of the cases were not judged to display adequate information by one or more of the raters, and therefore were unable to contribute to the overall findings. However, because the initial case pool of 44 was as extensive as it was, this is not deemed to have significant implications on study quality.

The strengths and weaknesses of the various sources of evidence utilized should also be discussed. First of all, the complementary nature of many sources suggest that employing more than one or two takes advantage of possible synergy effects and mitigates the possible shortcomings of any one source. The main sources utilized here are documentation, archival records and interviews. The difficulties with retrievability of both documentation and the use of archival records was to some extent mitigated by the focused interviewing of individuals presumed to inhabit the information missing from the available written sources. Similarly, the possibly biased or inaccurate subjective opinions of interviewees were cross-checked whenever possible with collected documents and archival records. The stability of information available through documentation and archival records allow for repetition of the study and its findings, and the broad coverage several years back in time allowed for information collection about cases now several years old. However, the main problem of inaccessibility will most likely qualify as the primary weakness of this study. The fact that much of the case information needed in order to draw conclusions about auditor involvement proved impossible to come by, significantly reduced the number of cases the analysis could draw upon, although not in such a way that findings were in any way compromised. (Yin 2009)

The use of documents for research purposes has some other weaknesses that should be discussed. Because they are not necessarily produced for such use, ~~the~~ information they offer may not be in a form that is useful (or understandable) to the investigator. Furthermore, such data may be incongruent with emerging findings based on observational or interview data.” This may prompt a challenge for the investigator in terms of interpretation and configuring the data into a suitable format. ~~A~~ third major problem with documentary materials is determining their authenticity and accuracy. Even public records that purport to be objective and accurate contain built-in biases that a researcher may not be aware of.” (Merriam 2009, 154) This necessitates applying a certain amount of scepticism to initial findings, always seeking corroboration – or rejection – elsewhere, whenever possible. This was not always feasible in the preceding research project due to limitations in available information, and so several instances exist where only one source was relied upon for facts about cases. However, because judgment in each case was based on an overall impression rather than isolated details, this is not thought to have a detrimental effect on validity.

~~Despite~~ these limitations, documents are a good source of data for numerous reasons. To begin with, they may be the best source of data on a particular subject, better than observations or interviews. Many documents are easily accessible, free, and contain information that would take an investigator enormous time and effort to gather otherwise.” It is added further: ~~One~~ of the greatest advantages of using documentary material is its stability. Unlike interviewing and observation, the presence of the investigator does not alter what is being studied. Documentary data are *objective* sources of data compared to other forms. Such data have also been called *unobtrusive*.” (Merriam 2009, 155)

A natural extension to discuss following the above argumentation relating to documentation and data sources, is that of construct or measurement validity. ~~This~~ criterion applies primarily to quantitative research ... Essentially, it is to do with the question of whether a measure that is devised of a concept really does reflect the concept that it is supposed to be denoting” (Bryman and Bell 2003, 33). In ensuring adequate construct validity and reliability of case study evidence, Yin (2009, 114-118) suggests adhering to three principles of data collection. Firstly, the use of multiple sources of evidence is deemed especially important in case studies, as the nature of this design allows for the use of multiple sources and the

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use of multiple sources –allows an investigator to address a broader range” of issues due to the corroboratory mode of such triangulation.

Patton (2002) distinguishes between several types of triangulation, of which two are particularly relevant to this piece of research. One relates to the triangulation of data sources, called data triangulation, in which –the potential problems of *construct validity* also can be addressed because the multiple sources of evidence essentially provide multiple measures of the same phenomenon” (Yin 2009, 116-117). For this method of triangulation to be employed successfully there necessarily needs to exist several sources containing the same information. As finding relevant information has been a challenge in this study, the researcher has not always been able to meet this criterion, but it has nevertheless been strived for. The other relevant means of triangulation relates to incorporating the perspectives of different evaluators, called investigator triangulation. To strengthen the credibility of findings the task of judging auditor involvement in the various cases was left to three external raters rather than to the researcher alone, and the judgments were then combined to provide a basis for discussion. The rating forms of each rater as well as that with the combined results can be found in the appendix for those who wish to study them further.

The other two principles of data collection relate to creating a case study database and maintaining a chain of evidence. Creating a database refers to a means of –organizing and documenting the data collected for case studies” (Yin 2009, 118). The point is to keep separate the data on which the study is based and the investigator’s research report on the findings in order to ease possible replications or separate, secondary analysis. As a case study database is thought to increase the reliability of the entire case study, the raw data on which the conclusions were based, have been introduced separately from the research report to the extent that such a separation was possible. Relevant collected material on each case is presented in narrative form, and may be reused for replication or other research aims covering the same topic. In addition, the independent rater response sheets are provided to make the basis for conclusions drawn as explicit as possible.

Maintaining a chain of evidence relates to a similar issue, namely –to allow an external observer – in this situation, the reader of the case study – to follow the derivation of any evidence from initial research questions to ultimate case study conclusions” (Yin 2009, 123). Achieving this objective is contended to

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increase the construct validity, and thereby overall quality, of the case study. From the general topic to the research questions, collected literature and case information along with the judgments of the individual raters, such a chain of evidence should be relatively clear. Conclusions are discussed in light of the findings or literature that supports them, illustrating the train of thought. References on which argumentation is built, are consistently stated.

## 6. Conclusion

### 6.1. *Summary of findings*

In order to sum up the presentation of findings and discussion of these from the previous chapter, the main findings and their implications will be repeated summarily below.

Regarding the means of detection, auditing was the means credited with the least amount of detections at 11 %. Then follow media detection and detection by some form of authority routine at 21 %. Whistle-blowing was the concrete category credited with the highest detection percentage at 32 %; a tie with the collection category comprising all other means of detection. Several points are important. First of all, a detection percentage of roughly 11 percent for the auditing function category is substantially lower than the estimates given in extant literature and research (Albrecht, Albrecht and Dunn 2001) (Silverstone and Sheetz 2003), indicating that for Norwegian cases, auditing has an even less pronounced role in detection of white-collar crime than the measurements performed in the US, for example.

Second, a pattern of cooperation between the media and whistle-blowers emerged. In a number of cases where whistle-blowers are normally credited with the unravelling of a case, it seems as though these individuals were heard only after contacting the press. The Siemens and BA-HR cases are examples. Whether this is because forensic journalism was needed to further examine the incidents before the authorities had sufficient evidence to warrant investigation, or whether the attention given to a case following media coverage instigated a reaction by the authorities is beyond the scope of this thesis to answer. It does, however, seem as though this is a prevalent course of action, further establishing the important role of the media as societal watchdogs.

Moving on to the mapping of auditor performance in the various phases of the detection process, raters were in relative agreement. Starting with auditor involvement in the suspicion phase, some indications were made quite clear. Firstly, raters were relatively unanimous in their judgments of auditor involvement in detection. All three judges (A, B and C) gave a majority rating of 1 in this phase, meaning that auditor involvement over all was deemed almost non-existent. Higher ratings were few, and several cases were marked NA

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(indicating information not available) due to insufficient or unavailable information.

Moving on to the investigation phase, the same overall pattern was observed, although with some minor differences. Grading in this phase was more evenly distributed, with a gradual decrease from the most prominent grade of 1 all the way down to 5. Raters seemed to be in relative agreement on grading, with each rater represented in each grade category save for the highest one.

Finally, much the same picture was painted in the prosecution phase as in the preceding two phases, although no rater gave the highest grade of 5 in this final phase. Raters differed more in their views of auditor involvement than in the investigation phase, also in terms of their perceived threshold of when information was deemed insufficient and not. However, in all three stages raters' agreement was of an extent that provided some reassurance of the reliability of findings, leading the researcher to conclude about the adequacy of three independent raters. Had ratings been more divergent this might have meant that views of more raters should be sought in order to ensure the relative soundness of findings.

The overall picture of perceived auditor detection of white-collar crime is not the most favourable. However, the indication that the auditing function is not necessarily central in the detection of a large proportion of cases, should not automatically be construed as a sign of the redundancy of said function in this respect. It seems probable that the preventative role, as described by Drage and Olstad (2008), among others, may be more pronounced than the reactive detection role, although this is an aspect not covered by this study.

Lastly, conclusions about the hypotheses presented in the first chapter will be given:

**H1: Less than 20 % of white-collar crime is detected by the auditing function.**

The auditor detection rate indicated by the cases included in this study deviates from the detection rate of 15-20 % stated by much of the extant body of research in the literature review. Based on the table depicting means of detection at the beginning of this chapter, this rate is closer to 10 %, which should substantially lower our expectations of auditor detection of white-collar crime compared to what other studies have indicated. The findings thereby support hypothesis 1 in

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contending that less than 20 % of white-collar crime is detected by the auditing function.

**H2: There exists a gap between expectations towards auditors' fraud detection and what the auditing function is able to deliver.**

This hypothesis includes many of the same arguments as hypothesis 1, simply reflecting a different viewpoint of the same question. As hypothesis 1 was deemed accurate for the Norwegian context in that less than 20 % of Norwegian cases of white-collar crime are detected by the auditing function, hypothesis 2, predicting an expectation gap, thereby seems to be confirmed. The extant body of literature and research predicts an auditing detection rate of white-collar crime between 5 and 10 percentage points higher than that indicated by this study, thereby suggesting higher expectations for auditor detection than there may be basis for. Bernardi (1994), who holds that — the probability of detecting fraud is dependent upon time pressures, holding chargeable costs down, and client and public expectations that the auditor will detect any fraud”, resulting in an —expectation gap between auditors' performance and what an audit implies to users”, and Johnson and Rudesill (2001, 61-62), who state that —differences in perception of responsibility and the public's disenchantment with audits have been termed the *expectations gap*”, are both examples of opinions in support of this. Again, this is a possibility that should be subjected to further examination.

**H3: Some types of white-collar crime are more often discovered by auditors than others.**

As was touched upon in the literature review chapter, some types of white-collar crime are hard, if not impossible, to detect using normal auditing routines, and some are relatively in line with such routines. Examples of crime beyond the auditing framework are insider trading and cartel activities (Gottschalk 2010b, 233) and so-called off-book frauds (i.e. bribery and kickbacks), —which do not leave an audit trail and are often discovered by tip-offs” (Silverstone and Sheetz 2003, 80). Were the above results in tune with what types of white-collar crime the literature predicts that auditing should and should not be able to detect?



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An example of a case involving bribery is the Ullevål case. This case was detected by whistle-blowing and subsequent media coverage and investigation, which indicates that such white-collar crimes are not within the auditing realm. Cases involving some form of accounting fraud, such as the Sponsor Service and Taxi cases, only partially corroborate this picture. Whereas the Sponsor Service case was detected through auditing and media collaboration, auditing was not involved in the unraveling of the Taxi case. In fact, accountant Henry Amundsen was the prime facilitator of the entire fraud. In this case, conscious efforts at misleading probably must take some of the blame for the lack of auditor detection. However, there clearly exist deviations from literature predictions of auditor detection, warranting further and more detailed examination, but the fact that an accounting professional acted as instigator may indicate that the type of white-collar crime this case depicts is, in fact, very much a part of the auditor reign. It will therefore be concluded that type of white-collar crime often does influence the likelihood of auditor detection, confirming the hypothesis that some types of white-collar crime are more often discovered by auditors than others.

### **6.2. *Suggestions for further research***

In any research project there will inevitably be questions left unanswered. No single research design can fathom all the various inquiries any given subject may elicit, and so clearly limiting the subject matter becomes vital if a certain level of validity and reliability is to be maintained. “The scientific benefit of the case study method lies in its ability to open the way for discoveries. It can easily serve as the breeding ground for insights and even hypotheses that may be pursued in subsequent studies” (Berg 2007, 294). Throughout the paper questions that were impossible (or inadvisable) to incorporate into the study at hand have been pointed out, and as many of them are thought to have a certain scientific and social value, it seems appropriate to sum up by sorting through some of the recommendations for future research they imply.

First of all, it is made clear from the start that this paper will omit any possible normative considerations from the analysis. However, such a normative perspective may be an interesting basis for further scrutiny. Whether or not the auditing function was in some way involved negatively by being a part of, or facilitating, the criminal offence, could also be of considerable value to map. It

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may be relevant to explore in which of the following categories the various cases best fit:

- Cases where the auditing function cannot be blamed
- Cases where the auditing function could have done more
- Cases where the auditing function was an accomplice or implicated party

The cases that are chosen for analysis may then be measured up against this framework in order to assess in which cases the auditor cannot be blamed, in which cases the auditor might have done more and in which cases the auditor was, knowingly or not, an implicated party in the offence. If the auditing function has done everything according to the established auditing procedure and cannot be blamed, but the offences still happen, might this have implications for the future structuring of standard auditing procedures?

Secondly, the emerging pattern of cooperation between the media and whistle-blowers is of interest. Whether forensic journalism was needed to further examine the incidents before the authorities had sufficient evidence to warrant investigation, or whether the attention given to a case following media coverage instigated a reaction by authorities, was beyond the scope of this thesis to answer. It does, however, seem as though this is a prevalent course of action, further establishing the important role of the media as societal watchdogs. This role is in no way fully explored, but should probably be left to someone other than an economist. While on this subject, whether the media play a more significant detection role in Norway than in other countries, is also a question that cannot be answered by this study, but it is still deemed an interesting subject for further research.

It will also be recommended that further investigation is undertaken of whether the type of white-collar crime predicted by the literature that auditing should and should not detect, coincides with the types of cases actually detected by auditing. This requires a larger sample than a case study allows, but could provide valuable input to the existing auditing framework. Investigating the role of the auditing function in those cases where the crime is of such a nature that the auditing function cannot be expected to be involved– in any stage – is not very relevant to the research question at hand. What is of primary interest is forming an idea of whether or not the auditing function has made a considerable contribution

to the detection of the type of white-collar crime in which it is reasonable to expect one, i.e. crime that takes place within the boundaries of the auditing framework. A natural precursor to such a research project would be a more detailed mapping of what types of white-collar crime this framework can be expected to include.

This study indicates a lower detection rate for the auditing function than similar studies have done for other countries. What this may indicate – as well as whether or not this is in fact the case – is an important question to answer, or at least discuss, if the goal is increased auditing insight and an auditing function tailored to the demands of the Norwegian context. Findings indicate that there may exist potential for the auditing function to do more. Perhaps new requirements and routines are called for that may enable the auditing community to play a more active role in the detection of white-collar crime. This is a subject somewhat in the periphery of the subsequent research, and one that is was not possible to answer fully within the constraints of this thesis. It is, however, a subject of sufficient interest to receive attention in future research projects.

### **6.3. *Final remarks***

Within the extant accounting and auditing research much attention is devoted to how the external auditor is a primary figure in detecting irregularities and corruption, and government and standard setters also stress the importance of the responsibilities of the auditing community in this respect (Olsen 2007) (Telberg 2004). In connection with the literature review, the researcher uncovered limited faith in the auditing function among some for this specific purpose: Only in very few cases does auditing in some form seem to be responsible for the detection, unravelling and exposure of the offence (Ellingsen and Sky 2005). This opinion was backed by the work of Drage and Olstad (2008), who analyzed the role of the auditing function in relation to both preventing and detecting white-collar crime. Although their study included a look at the perceived preventative power of the auditing function as well as actual detection of criminal offences, their findings were consistent with the abovementioned hypothesis: Many of their interviewees were sceptical as to the auditing function having a central role in the detection of white-collar crime (Drage and Olstad 2008). It may seem as though the findings of this study provide further support for this contention, as the auditing function

was found to be a part of detection in approximately 10 % of included cases.

Rendal and Westerby (2010) found evidence of unrealistic expectations regarding the extent to which the auditing function is capable of uncovering irregularities, a notion that also seems to be corroborated by these findings.

As was mentioned in the opening chapters, this thesis is an inquisition into the workings of detection of financial crime in Norway today, undertaken for the partial purpose of uncovering possible areas of improvement regarding laws and standards that provide the framework for how the auditing function undertakes its duties. Perhaps future research may be able to reframe and rewrite how the auditor works, possibly increasing the contribution of the auditing function to the detection of white-collar crime. The secondary purpose of this thesis was to provide a more nuanced picture of the services to modern communities provided by the auditing function, in Norway especially, and to a certain extent to report fit the auditing function in general when it comes to the standard processes and routines they are governed by in their daily bout. It is hoped that the findings reported above will serve such a purpose in that it is made clearer the restrictions – not just guidelines – an auditor must submit to. It has been discussed how a standard audit, in most cases, is quite different from a fraud examination, and that the expectation gap arising from this lack of clarity regarding auditor detection seems to be rather widespread. Extant literature was found to be divided in its opinion of auditor ability to detect white-collar crime. This thesis provides indications that this ability, at least in Norway, is limited, perhaps prompting further inquiry or study replication for the sake of ever increasing insight.

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The Mohr Case	76
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***Cases not included in the analysis***

The Brynhildsen Woldsdal Case

The Karlsen Case

The Bach Case

The Furuholmen Case

The Plastic Fantastic Case

The Screen Communication Case

The Mjelde Case

The Jewel Case

The Lichtenstein Case

The Tjøntveit Case

The Insider Case

The Bank Case

The Apartment Case

The Mohr Case

The Olsvik Case

The Tromsdal Case

*Means of detection*

	Auditing	Media	Whistle- blowing	Authority routine	Other means
The Henriksen Case		✓	✓		
The Finance Credit Case		✓	✓		
The Murud Case				✓	
The Ullevål Case		✓	✓		
The Red Cross Case		✓			
The Siemens Case			✓		
The Sponsor Service Case	✓	✓			
The Software Innovation Case				✓	
The Lyon Case					✓
The Stuve Case					✓
The WorldCom Case			✓		
The T5PC Case	✓				✓
The Øye Case				✓	
The Taxi Case		✓	✓		
The Olympia Case	✓		✓		
The Hells Angels Case					✓
The Ugland Case			✓		
The Dønnum Case				✓	
The Vest Tank Case					✓
The Restaurant Case					✓
The Joker Case					✓
The Martinsen Case					✓
The Nielsen Case			✓		
The Document Case					✓
The Fortuna Case			✓		
The Tordenskjold Case				✓	
The BA-HR Case			✓		
The Pension Case				✓	

**Rating sheets**

<b>Rater A</b>				
Age:	28			
Sex:	Female			
Education:	MSc in Strategic Marketing Management			
		<b>Suspicion (1-5)</b>	<b>Investigation (1-5)</b>	<b>Prosecution (1-5)</b>
The Henriksen Case		1	5	NA
The Finance Credit Case		2	5	3
The Murud Case		1	5	1
The Ullevål Case		1	2	2
The Red Cross Case		1	1	NA
The Siemens Case		2	2	2
The Sponsor Service Case		1	4	2
The Brynhildsen Woldsdal Case		NA	NA	NA
The Software Innovation Case		5	4	NA
The Lyon Case		1	1	1
The Karlsen Case		2	NA	3
The Stuve Case		2	2	NA
The WorldCom Case		NA	NA	NA
The T5PC Case		4	1	1
The Øye Case		1	1	1
The Taxi Case		1	1	1
The Bach Case		2	3	3
The Furuholmen Case		1	1	1
The Plastic Fantastic Case		1	1	1
The Olympia Case		2	2	1
The Hells Angels Case		1	1	1
The Screen Communication Case		NA	NA	4
The Mjelde Case		NA	NA	NA
The Jewel Case		4	2	2
The Lichtenstein Case		NA	3	2
The Ugland Case		1	2	2
The Tjøntveit Case		1	1	3
The Dønnum Case		1	3	2
The Vest Tank Case		1	1	1
The Restaurant Case		1	1	1
The Insider Case		1	2	2
The Bank Case		1	NA	NA
The Joker Case		1	1	1
The Apartment Case		1	1	1
The Martinsen Case		1	1	1
The Mohr Case		1	1	1
The Nielsen Case		1	3	3
The Olsvik Case		1	1	1
The Document Case		1	1	1
The Fortuna Case		1	2	2
The Tordenskjold Case		2	2	1
The BA-HR Case		1	1	1
The Pension Case		4	4	4
The Tromsdal Case		NA	NA	NA

<b>Rater B</b>				
Age:	30			
Sex:	Male			
Education:	MSc in Economics and Business Administration			
		<b>Suspicion (1-5)</b>	<b>Investigation (1-5)</b>	<b>Prosecution (1-5)</b>
The Henriksen Case	1	4	2	
The Finance Credit Case	2	4	1	
The Murud Case	1	2	1	
The Ullevål Case	1	2	NA	
The Red Cross Case	1	1	NA	
The Siemens Case	1	3	NA	
The Sponsor Service Case	4	3	1	
The Brynhildsen Woldsdal Case	NA	NA	NA	
The Software Innovation Case	4	3	1	
The Lyon Case	NA	NA	NA	
The Karlsen Case	NA	NA	NA	
The Stuve Case	1	1	NA	
The WorldCom Case	NA	NA	NA	
The T5PC Case	3	1	1	
The Øye Case	NA	NA	NA	
The Taxi Case	1	1	NA	
The Bach Case	1	1	NA	
The Furuholmen Case	1	NA	1	
The Plastic Fantastic Case	NA	NA	NA	
The Olympia Case	4	1	1	
The Hells Angels Case	1	1	NA	
The Screen Communication Case	NA	NA	4	
The Mjelde Case	NA	NA	NA	
The Jewel Case	NA	NA	NA	
The Lichtenstein Case	NA	1	NA	
The Ugland Case	1	1	NA	
The Tjøntveit Case	1	1	NA	
The Dønnum Case	1	1	NA	
The Vest Tank Case	NA	NA	NA	
The Restaurant Case	NA	NA	NA	
The Insider Case	1	1	NA	
The Bank Case	NA	NA	NA	
The Joker Case	NA	NA	NA	
The Apartment Case	NA	NA	NA	
The Martinsen Case	1	1	NA	
The Mohr Case	NA	NA	NA	
The Nielsen Case	NA	3	3	
The Olsvik Case	NA	NA	NA	
The Document Case	NA	NA	NA	
The Fortuna Case	1	1	NA	
The Tordenskjold Case	NA	NA	NA	
The BA-HR Case	1	1	NA	
The Pension Case	NA	3	4	
The Tromsdal Case	NA	NA	NA	



<b>Rater C</b>				
Age:	28			
Sex:	Male			
Education:	Master of Professional Accountancy			
		<b>Suspicion (1-5)</b>	<b>Investigation (1-5)</b>	<b>Prosecution (1-5)</b>
The Henriksen Case	1	2	1	
The Finance Credit Case	2	2	2	
The Murud Case	2	2	2	
The Ullevål Case	1	3	1	
The Red Cross Case	1	NA	NA	
The Siemens Case	1	2	1	
The Sponsor Service Case	1	2	1	
The Brynhildsen Woldsdal Case	NA	NA	NA	
The Software Innovation Case	4	3	3	
The Lyon Case	1	2	1	
The Karlsen Case	2	2	2	
The Stuve Case	1	1	1	
The WorldCom Case	1	1	1	
The T5PC Case	3	2	2	
The Øye Case	1	1	1	
The Taxi Case	1	1	1	
The Bach Case	1	2	1	
The Furuholmen Case	1	1	1	
The Plastic Fantastic Case	1	1	1	
The Olympia Case	3	2	2	
The Hells Angels Case	1	1	1	
The Screen Communication Case	1	2	2	
The Mjelde Case	1	1	1	
The Jewel Case	1	2	1	
The Lichtenstein Case	1	1	1	
The Uglund Case	1	1	1	
The Tjøntveit Case	1	1	1	
The Dønnum Case	1	2	1	
The Vest Tank Case	1	1	1	
The Restaurant Case	1	1	1	
The Insider Case	1	2	1	
The Bank Case	1	1	1	
The Joker Case	1	1	1	
The Apartment Case	1	1	1	
The Martinsen Case	1	1	1	
The Mohr Case	1	1	1	
The Nielsen Case	2	3	3	
The Olsvik Case	1	1	1	
The Document Case	1	1	1	
The Fortuna Case	1	2	1	
The Tordenskjold Case	1	1	1	
The BA-HR Case	1	2	1	
The Pension Case	5	3	3	
The Tromsdal Case	1	1	1	