

# Establishing a Certified Public Sector Auditor Qualification The Danish Case and its Implications

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**Establishing a Certified Public Sector Auditor qualification:  
The Danish case and its implications**

by

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## **Establishing a Certified Public Sector Auditor qualification: The Danish case and its implications \*)**

### **Abstract**

This paper examines recent attempts to professionalize Danish public sector auditing by the establishment of a certification of public sector auditors known in Danish as *Certificeret Offentlig Revisor* (COR). The establishment of the COR-certification has led to a dispute over the public sector auditing jurisdiction between a coalition of public sector auditors and the professional bodies of the private sector auditors. The paper outlines the process that led to the decision to create the COR-certification, analyse the COR coalition's attempt to build a network of support for its jurisdictional claim of expertise, and discusses the general implications of the case for the ongoing attempt to create a European certification of public sector auditors.

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## 1. Introduction

This paper examines recent attempts to professionalize Danish public sector auditing through the establishment of a certification of public sector auditors known as *Certificeret Offentlig Revisor* (COR). The issue of certification of public sector auditors is part of a broader research issue about the perspectives of increased convergence between private and public sector management sometimes referred to as a central trait of New Public Management (Groot & Budding, 2008). Since auditing adapts to management practices (Power, 1997), this development expectedly leads to convergence between auditing practices in the private and public sectors.

There are indications that public sector auditing and private sector auditing is to some degree converging at the moment. First, INTOSAI has decided that public sector financial audits should be based on the International Standards on Auditing (ISA) (Ånerud, 2004; 2007; Olsen, 2006), developed by the International Federation of Accountants (IFAC), a private sector body claiming to be acting in the public interest (Humphrey et al, 2006). Although there are 3 seats reserved for the public sector members out of 15 on the International Auditing and Assurance Standards Board (IAASB), the IFAC-committee developing the ISAs, these are clearly in minority and the standards are primarily developed for use in private sector financial audits. Previously, each ISA contained a paragraph on its applicability in the public sector, but this practice is now discontinued and replaced by the newly developed International Standards of Supreme Audit Institutions<sup>1</sup> (ISSAI). The intention is to make an ISSAI for each ISA consisting of a number of paragraphs discussing the applicability of the ISA in the public sector, providing additional guidance on specific public sector issues, and then including the entire ISA an appendix to the ISSAI. The ISSAI are developed by INTOSAI's Professional Standards Committee (PSC), presently chaired by the Danish National Audit Office *Rigsrevisionen* (Otbo, 2005), making it an important actor in the convergence process and making the Danish case of certification of Public Sector Auditors - in which the Danish National Audit Office also played a key role - all the more interesting. Secondly, with the introduction of NPM changing accountability structures emerged encouraging the adoption of private sector accountability arrangements in the public sector (Power, 1997; Pallot, 2003). In some cases this has lead to an extension of the areas in which normal commercial auditing can be applied to include parts of the public sector (Pollitt & Summa, 1999; English, 2003). Such outsourcing of public sector audits is further facilitated by the convergence of private and public sector auditing standards and other regulation. Public sector auditing is outsourced to save costs by making it

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<sup>1</sup> See <http://www.issai.org/>

subject to competitive public tender (English, 2003), as part of a liberal ideology stressing the creation of market-type mechanisms within the public sector (Pollitt & Summa, 1997), to improve audit quality by securing auditor independence (English, 2003), or to get a type of audit which have less of a tradition for being critical towards management's dispositions (Bowerman et al, 2003).

The consequence of the convergence of standards and the ideology of outsourcing is that private sector auditors are increasingly allowed and encouraged to do public sector auditing work. This disturbs the balance that previously existed between two professions doing different audit work on different clients, and creates a state of competition between public sector auditing and private sector auditing. Since professions according to Abbott (1988) are defined by the work they do, the convergence of audit practices and the intrusion of private auditors in the public sector auditing jurisdiction ultimately threatens the foundation of the public sector auditing profession. Public sector auditors consequently feels compelled to protect their work, and one of the ways to do so is by certifying public sector auditors and subsequently claiming legal recognition and exclusive rights to its work.

The idea of certification of public sector auditors originates in Finland in the late 1980s. In 1989 a working group under the Finish Ministry of Education was set up preparing the decree on the examination of Chartered Public Finance Auditors (CPFA), which took effect on the 1<sup>st</sup> January 1992 and was subsequently followed by legislation on the matter in 1999<sup>2</sup>. The general aim of establishing the CPFA profession was to increase the professional competence of public sector auditors, since the basic premises for public sector auditing was considered "altogether different" from private sector auditing. To become a CPFA the applicant must pass the CPFA exam annually held by the Finnish Ministry of Finance. Applicants must have a M.Sc. in a subject relevant to auditing and have three years of practical experience in an approved CPFA corporation. Finnish CPFAs are entitled to audit the state as well as municipalities, sharing the exclusive rights to audit the latter with the private sector Authorized Public Accountants. In performing their work they are obliged to follow the recommendations on good public finance auditing practice prepared by the CPFA Association. In Sweden, a private sector certification of local government auditors was established in 2000 by the Swedish Association of Professional Local Government Auditors<sup>3</sup> (*Certifierade Kommunala Revisorer*). The association has established an independent certification

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<sup>2</sup> For an overview of the CPFA history, see [http://www.vm.fi/vm/en/04\\_publications\\_and\\_documents/03\\_documents/introduction\\_to\\_the\\_CPFA-system\\_in\\_Finland.pdf](http://www.vm.fi/vm/en/04_publications_and_documents/03_documents/introduction_to_the_CPFA-system_in_Finland.pdf)

<sup>3</sup> See <http://www.skyrev.se/>

board that handles certification applications. The basic requirements are a Master's degree in economics and/or public administration and 5 years' qualified professional auditing experience, at least 2 of which are in local government auditing. The association cooperates with Gothenburg University in offering courses in local government finance and local government administration. The association has also developed a code of ethics for professional local government auditors. There are presently no legal requirements that local government audits are done by Certified Local Government Auditors. On the international level, the Institute of Internal Auditors (IIA) has developed a certification program in public sector auditing called the Certified Government Auditing Professional (CGAP)<sup>4</sup>. IIA considers the CGAP a specialty certification designed for public-sector internal auditing practitioners.

As it appears, there is a great deal of interest in the certification of public sector auditors at the moment, but little is known about the process by which this takes place, the consequences of it, or its potential for success in terms of legal recognition, exclusive rights and self-regulation. The purpose of the paper is therefore to analyse these issues in relation to the attempt to certify public sector auditors in Denmark and to discuss the general implications for the potential professionalization of public sector auditing in general. In order to do so, section two sets out the theoretical framework for the study and refines the research question. Section three discusses the research method. Section four presents the Danish case and the jurisdictional conflict it triggered and section five discusses the implications of the study for the potential establishment of a European certification of public sector auditors. Finally, section six concludes outlining the general contributions from the Danish case.

## **2. Professions and their jurisdictions**

According to Abbott (1988) the link between a profession and its work is termed its "jurisdiction", and professions are perpetually in dispute over the boundaries of their jurisdiction. This is because professions exist in an interdependent system, where their future development is conditioned by the creation of new jurisdictions, by seizing vacant jurisdictions, or by capturing a jurisdiction from another profession which has previously held it. Although the system of professions may be in balance with each profession having their own separate jurisdiction, this balance is easily disturbed. Disturbances may come in the form of external interference in the system of professions, for instance by state regulation of professional education and work favouring one profession before the

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<sup>4</sup>See <http://www.theiia.org/certification/specialty-certifications/cgap/>

other. Disturbances may also come from within the system of professions, for example when one profession transgresses another professions jurisdiction to capture this. Whether the disturbances are externally or internally caused they lead to jurisdictional disputes, where the involved professions will claim to possess the expertise needed for the jurisdiction. These claims of expertise or knowledge are addressed to the public, attempting to align the work of the profession with common values in society and thereby building a public image of a profession serving the public interest. This image in turn is used when making legal claims for monopoly and for conferring the control of work to the profession. Creating a certification of a certain type of work is an example of a public claim of expertise within a certain area. As a professional claim certification rely on the existence of a formal body of abstract, academic knowledge to add legitimacy to the claim.

Professional claims of expertise is aimed at convincing other actors, and Abbott's theory focus on the arenas in which this takes place, but has little to say about the strategies that may be used to convince others of a profession's claim of expertise. Knowledge about general strategies that may be used by one actor to get others to support its preferred solutions can be found in Actor-network theory (Callon, 1986; Latour, 1987; Law, 1992; 1994). When Actor-network theory is applied to analyze the settlement of professional jurisdictional disputes the main focus will be on how one profession translates its jurisdictional claim into a problem, which the other interested groups – in particular the state and the profession's clients – consider in their own interests to get solved. The translation process consists of four steps. First, a “problematization” takes place, in which a profession tries to get other actors to accept its definition of a problem and possibly establish itself as an “obligatory point of passage”, which everyone with an interest in the problem must pass through. This is followed by a phase of “interessement”, in which the profession works to convince the other actors that the roles it has assigned to them should be accepted. In case the other actors do so, they are “enrolled” into the network and thereby accept the assigned role and interests. Finally, a profession may mobilize outside allies and technical resources and get them into the network to support its jurisdictional claim. Jurisdictional disputes are, according to this perspective, settled when a profession gets the adequate support from its clients and the state for the claim of a particular jurisdiction.

While the ultimate aim for a profession is to retain full exclusive jurisdiction by the legal system, other types of temporary settlements are often observed. Challenges to a profession's jurisdiction may come from workplace assimilation of non-professional groups working on the same case. A common response to workplace assimilation by the dominant group is to degrade the assimilated

group to low status work by creating a “subordinate jurisdiction” build on some of the routine work on which the superior profession bases its work<sup>5</sup>. As the subordinate occupation professionalizes and is assimilated it becomes more difficult to sustain its subordinate role. In these cases the superior profession often attempts to move to a position of “intellectual jurisdiction”, where it controls the knowledge base of the subordinate profession while allowing it to practice more or less unrestricted. In time the subordinate profession is however likely to seek to gain control with the institutions that are responsible for the development of its knowledge base. In case they are successful then the last resort for the superior profession in order to avoid dividing the jurisdiction is to gain an “advisory jurisdiction”, where it retains the right to interpret or modify the work of the subordinate profession.

Creating a certification of public sector auditors is thus a professional claim for a specific auditing jurisdiction, which is considered different from the private sector financial audit jurisdiction. Performance auditing is a central part of the work of most Supreme Audit Institutions (Pollitt & Summa, 1999) and is therefore likely to be equally central to any attempt to certify public sector auditors. Because performance auditing is usually done to provide management with recommendations for improving operations, private sector auditors generally consider anything beyond “remedy of deficiencies” as a management consulting activity, which is likely to impair their independence (Flint, 1988: 81). For this reason performance auditing or operational auditing is usually not considered to be an integrated part of private sector financial auditing. Performance auditing thus defines public sector auditing and differentiates it from private sector auditing; a certification of public sector auditors is therefore likely to be a professional claim of expertise in performance auditing. To find resonance for such a jurisdictional claim the profession behind it must “translate” the interests of the state and the profession’s clients in a way that they are persuaded to consider a certification of public sector auditors based on performance auditing as a possible solution to their problems. While the ultimate goal for such a claim is to get state recognition of the certification and exclusive rights to do public sector audits, other temporary types of settlements between competing professions are possible. Of particular interest for this study is the possibility of settling the dispute by a state of intellectual jurisdiction, where one of the professional groups controls the knowledge base of the other.

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<sup>5</sup> For a non-professional group trying to professionalize the subordinate role may on the other hand be seen as part of a long-term strategy; first to get assimilated into an existing profession thereby acquiring professional status, and then to break out and create a new profession with a part of the jurisdiction. For this reason settlement by subordinate jurisdiction is inherently unstable over time.

Based on the theoretical framework outlined above the purpose of this paper is consequently to analyse the dispute over the public sector auditing jurisdiction in Denmark and to discuss the general implications of this for the potential professionalization of public sector auditing in general.

### **3. Research method**

The research is conducted as a longitudinal single case study, where the case unit is the idea of certifying public sector auditors in Denmark. The case accordingly starts in the late 1990s inspired by the Finish and Swedish examples. It became an issue in Denmark in 2001 and is, at the time of writing (July 2008), still not finally settled. There are three rationales for using the single case approach. First, although attempts to professionalise public sector auditors by linking their work to the New Public Management agenda appear to take place in a number of countries (see for instance Power, 1997: 41-68; Gendron et al, 2007), the certification of public sector auditors has not been studied before. The single case approach may consequently be justified as a revelatory case, which may develop our understanding of the role of certification in creating a public sector auditing jurisdiction and the obstacles to its professionalization in general. Secondly, the single case approach is appropriate because literature on Danish public sector auditing is relatively sparse compared to that of the three other Scandinavian countries; Norway, Sweden and Finland who all have been part of comparative studies (Pollitt & Summa, 1997; Pollitt et al, 1999). A single case is consequently needed to supplement knowledge of Scandinavian public sector management. Thirdly, the single case approach allows a test of the adequacy of Abbott's theory on professional jurisdictional disputes outside the Anglo-American world in which it is primarily developed. In continental Europe professionalism differs, in particular because the role of the state in educating and certifying professionals is much more prominent (Jarausch, 1990; Evans & Honold, 2007). The case may thus contribute to developing our understanding of competition between professions in the public sector and private sector, where the former is expectedly in a dominant position because it is a state organization.

The case is primarily based on documentary research including minutes of the meetings of a committee on public sector auditing where the issue was discussed, as well as reports and working papers regarding the certification. The documentary research is supplemented by interviews with representatives from the involved organisations and evidence gathered through my participation in setting up parts of the COR educational programme. The interviews are based on the theoretical

perspective outlined in section 2 and accordingly focus on establishing the actors' perceived interests, their claims of expertise, and their efforts to mobilize public support for their interests.

#### **4. The case of the Certified Public Sector Auditor**

##### **4.1. The initial balance between private sector auditing and public sector auditing**

By the middle of the 1990s when this case takes its beginning, Danish auditing was divided into two separate auditing jurisdictions co-existing in relative balance; auditing of limited companies in the private sector, and auditing in the public sector. Statutory financial auditing in the private sector is carried out by the two groups of public accountants, State Authorized Auditors and Registered Auditors. The two groups divide the statutory auditing jurisdiction by client differentiation; the state authorized auditors serve the bigger clients, the registered auditors the smaller ones, but with some overlap, which has previously caused a good deal of conflict between the two groups (Jeppesen & Loft, 2008). Both groups are organized in public accounting firms with the then Big Six as the dominant group in terms of market size and number of auditors employed. With a few exceptions, the public accounting firms did not consider public sector auditing a potential market, in particular because performance auditing was considered as being outside of their natural jurisdiction (Christensen, 1987), being that of financial auditing.

Auditing in the public sector, on the other hand, is organized differently. The Danish parliament appoints a number of "state auditors" (in Danish: *statsrevisorer*), usually being present or former members of parliament. Reporting to these, *Rigsrevisionen*, the Danish National Audit Office, audits the Danish state and organizations/companies which receives funding from the Danish state or in which the Danish state is a dominant shareholder<sup>6</sup>. These audits are regulated by law and comprise of financial auditing, performance auditing and compliance auditing. The state auditors can furthermore ask *Rigsrevisionen* to do special investigations (usually performance auditing) of particular areas of the public administration, but *Rigsrevisionen* are also free to take up cases on their own accord. *Rigsrevisionen* is headed by the Auditor General of Denmark and had 251 employees as of 2001 (Elm-Larsen, 2001: 125). Earlier *Rigsrevisionen* was organized under the Ministry of Finance, but the system was reorganized in 1991 to strengthen *Rigsrevisionen*'s independence and it now reports directly to the parliament as outlined above. The audit of the state is not subject to public tender and there is no tradition for subcontracting this type of work to the

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<sup>6</sup> For an account (in Danish) of public sector auditing in Denmark, see Elm-Larsen (2006).

public accounting firms, besides from a few occasions where they have been called in to do special investigations. However, the audits of organizations receiving funding from the Danish state such as privately owned schools is commonly done by public accounting firms.

Danish local government exists in the form of municipalities (in Danish: *kommuner*) with a relatively high degree of autonomy. Each municipality publishes annual accounts which are subject to financial auditing as well as performance auditing, the latter becoming compulsory in 1998. These audits are subject to public tender and are done by public accounting firms with Kommunernes Revision (KR) as the dominant player auditing 236 of the 275 municipalities<sup>7</sup> in 2006. Deloitte and Ernst & Young are other important players on the market, auditing a total of 17 municipalities in 2006 including some of the biggest of these. KR was at this time owned by Kommunernes Landsforening (KL), the national association of municipalities, which in the 1990s led to numerous complaints that KR was not independent of its clients. The complaints came from KR's competitors who argued that the normal independence requirements known in the financial auditing jurisdiction should be applied here too (Sørensen, 2003). The argument eventually got political backup when a government committee looking into municipality auditing recommended that this should be conducted according to the law governing financial auditing in the private sector and thereby follow its independence requirements (Indenrigsministeriet, 2006). KR having anticipated this coming had already started a "normalization" process which included application of the International Standards on Auditing (ISA).

#### **4.2. The disturbance: Normalization of the Danish market for municipality audits**

Judging from the number of publications on public sector auditing coming from the public accounting firms and the professional bodies of the two groups of publicly approved auditors *Foreningen af Statsautoriserede Revisorer* (FSR) and *Foreningen af Registrerede Revisorer* (FRR), their interest in public sector auditing was on the rise in the 1990s (FSR, 1992; 1996; 1997). The chairman of FRR clearly proclaimed that it was FRR's strategy to get a bigger market share of public sector audits since these were now increasingly out for tender (Vestergaard, 1998). However, if the public accounting firms wanted a bigger share of the public sector audit market they would have to capture this from those having it, in particular Rigsrevisionen and KR. The interest in getting a bigger market share therefore disturbed the balance between the financial auditing

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<sup>7</sup> The structure of the municipalities was reformed in 2008, reducing the number of municipalities to 98.

jurisdiction and the public sector auditing jurisdiction based on performance auditing as its distinctive feature.

A number of the interviewees mention that it was a performance auditing seminar hosted by Deloitte & Touche in 1996 that decisively triggered the dispute. The reason for holding the seminar was that performance auditing was becoming a compulsory part of municipality audits as from 1998, but the law did not define its content. A number of politicians including state auditors were invited to this seminar to debate performance auditing in the public sector, but the organizers omitted to invite the Auditor General of Denmark (the Head of Rigsrevisionen), who eventually had to participate as an ordinary observer without speaking rights. At the seminar the chairman of the state auditors, a liberal politician, made a statement that the law clearly allowed the state auditors to order performance audits of the state done by public accounting firms (Bøgelund, 1996). Following this episode Rigsrevisionen intensified its work on defining public sector auditing, including the publication of a guideline on “good public sector auditing practice” which came out in November 1998 (Rigsrevisionen, 1998). The guideline defined “good public sector auditing practice” as being different from the “good auditing practice”, which the private sector auditors codified in their auditing standards. The differentiated knowledge base called for different competences, but formal competence requirements for public sector auditors were not laid out at this time because it was considered too controversial (Elm-Larsen, 2006: 65).

#### **4.3. The initial forum: The Contact Committee and the actors in it**

The competence issue was raised by KR and Rigsrevisionen in April 2001 in the Contact Committee regarding public sector auditing, a joint committee between Rigsrevisionen, KR, FSR, and some of the minor players. The purpose of the Contact Committee is to promote co-operation about regulation<sup>8</sup> and practice between the various auditors of public sector institutions, in particular those who audits the municipalities. Rigsrevisionen had asked the national audit offices in Canada, Australia, England, Finland, Sweden and Norway how they organized their educational activities, and on the basis of the resulting report the Contact Committee decided to work on establishing a common educational program for public sector auditors. There was however, no agreement on the scope of this program. From the beginning KR took a great deal of interest in the Swedish certification model, arguing that a similar certification of municipality auditors was needed

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<sup>8</sup> Auditing in Denmark is commonly regulated by joint committees between the state, the auditing profession and/or the universities educating auditors. See Jeppesen & Loft (2008) for an account of this system.

in Denmark. The interest was, according to the KR representative in the committee, motivated by a desire to protect KR's dominant position in the market in case the company would be privatized.

FSR on the other hand, was of the opinion that "there is only one certification, namely that of State Authorized Auditor"<sup>9</sup> and that there was no need for a certification of public sector auditors at all. When interviewed the FSR representative remarks that it was not so much the idea of certification that caused FSR's resistance, but a fear that the certified public sector auditors would be granted exclusive rights to audit the municipalities. FSR also feared that a certification of public sector auditors could encourage other specialist auditors to create their own certification programs, thereby undermining FSR's official strategy that specialization was only to take place after a person had qualified as State Authorized Auditor. FSR did nevertheless recognize the need for a continuous education program in public sector auditing for its members and had prepared a report identifying the educational needs in March 2001, which was distributed to the committee. At this stage the other members appeared to be somewhat reserved about the need for certification of public sector auditors, one of them suggesting that a starting point could be to work towards a common understanding of public sector auditing.

The fundamental disagreement between KR and FSR of the need for a certification of public sector auditors continued as the Contact Committee went on with its work. At a meeting in September 2002 the KR representative suggested that Denmark cooperated with the other Nordic countries on certification of public sector auditors and KR went on to produce a discussion paper on the issue. This paper was discussed at the Contact Committee's meeting in February 2003. It argued for a program consisting of educational requirements, practice requirements and a final exam testing application of knowledge in practice. It also argued that the focus should be changed from certification of municipality auditors to certification of public sector auditors in general. With the latter move KR managed to get Rigsrevisionen more interested in the issue. Although Rigsrevisionen was not subject to privatization to the same degree as KR, a certification scheme would yield Rigsrevisionen some protection too. However, Rigsrevisionen's main interest was that a certification of public sector auditors would make the competence level of Rigsrevisionen's employees visible and comparable to that of its peers in INTOSAI. Rigsrevisionen was peer reviewed in 2006 and employee competence was part of the review (Rigsrevisionen, 2006). Furthermore, the certification scheme would provide Rigsrevisionen with a coherent continuous education program which it did not have. KR reported that the Norwegians and the Swedes showed

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<sup>9</sup> The minutes of the Contact Committee's 49<sup>th</sup> meeting on the 2<sup>nd</sup> April 2001.

a great deal of interest in establishing coordinated certification rules for municipality audits and also in the possible expansion of this idea to the entire public auditing sector. The Auditor General concluded that although state authorized auditors was needed in public sector auditing the need for improved quality in public sector auditing spoke in favor of a certification of public sector auditors. A subcommittee consisting of representatives from Rigsrevisionen, KR and FSR was formed to develop a paper identifying the pros and cons of a certification of public sector auditors for discussion at the May 2003 meeting. However, the fundamental disagreement made it impossible for this subcommittee to report. Rigsrevisionen's representative noted that the two sides "did not speak the same language", they were "far from each other" and "did not even agree whether different competences were required for auditing the public and the private sector"<sup>10</sup>. Following a discussion where Rigsrevisionen and KR stated that they would develop the certification without the participation of FSR if necessary, the Contact Committee nevertheless agreed to postpone the issue to its September 2003 meeting. By then however, the issue had been relocated to another committee set up to look into municipality auditing.

#### **4.4. Expanding the network to mobilize support**

With KR and Rigsrevisionen forming an alliance in favour of a certification-solution, FSR needed to enrol allies into the network in support of its interests. A chance to do so occurred in May 2002, when the Ministry of the Interior established a committee to look into a fraud case involving the mayor of a highly profiled Danish municipality<sup>11</sup>. FSR and KR were both represented on this committee by the same persons as in the Contact Committee and FSR's representative raised the question of auditor independence suggesting that auditing of municipalities was subjected to the same requirements as private limited companies, a suggestion which would ban KR from auditing municipalities due to its ownership by KL, the national association of municipalities. When reporting in December 2002<sup>12</sup>, the committee commented that this issue was not part of its terms of reference but recommended that the matter was looked into at a later stage. Following this recommendation, the Ministry of the Interior in May 2003 established a new committee to look into the required competence and independence of the auditors of municipalities, again including the same representatives from FSR and KR. The issue of certification of public sector auditors was raised in the Municipality Audit Committee, where KR argued that a compulsory certification of municipality auditors should be established as an alternative to the registered and state authorised

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<sup>10</sup> The minutes of the Contact Committee's 56th meeting on the 20th May 2003.

<sup>11</sup> The Farum-scandal, see [http://en.wikipedia.org/wiki/Peter\\_Brixtofte](http://en.wikipedia.org/wiki/Peter_Brixtofte).

<sup>12</sup> Betænkning nr 1425 Indsigt i den kommunale administration.

auditors. FSR and FRR was obviously against this and raised the issue with the Danish Competition Authority (In Danish: *Konkurrencestyrelsen*), which stated that if a compulsory certification excluded others with similar competences from tendering it would be considered an illegal attempt to reduce competition.

The main objective for the Municipality Audit Committee was however not the certification issue but KR's independence problem. FSR and FRR managed to persuade the majority of the committee that having municipal audits done by their members would solve all independence and competence problems in a manner that required little additional legislation. As a consequence it was also decided that there should be no legislation on certification of public sector auditors or recommendations of this. Although the Municipality Audit Committee did not report until December 2006, the decision seems to have been taken some time before: it was discussed at the Contact Committees meeting in June 2004 and the Minister of the Interior states in a letter dated 18<sup>th</sup> August 2006 that he, following the advice of the committee, is prepared to require municipality auditing done by State Authorised or Registered Auditors. The final report of the Municipal Audit Committee accordingly recommends that municipal audits should be conducted by State Authorised or Registered Auditors as from 2011 (Indenrigsministeriet, 2006). As mentioned above KR early realised that this would be the likely outcome and informed its owners KL, the national association of municipalities, that a structural change was needed if KR was to go on auditing the municipalities. In May 2005 the board of KL consequently decided to incorporate KR as a limited company of state authorized auditors (KR A/S) and to sell its shares in it no later than by 2012. In preparation for the coming sale KR declared that it from 2007 would comply with the Danish auditing standards (based on the ISAs), following which it was sold to BDO in January 2008, but continues as a separate division under the name BDO Kommunernes Revision (BDO KR).

#### **4.5. The establishment of the Certified Public Sector Auditor program (COR)**

When KR and Rigsrevisionen failed to get the Municipal Audit Committee to support the certification of public sector auditors they decided to bring up the issue at the Contact Committees meeting in June 2004. Before the meeting, Rigsrevisionen had put forward a formal proposal that the Contact Committee at the meeting decided to establish a voluntary certification of public sector auditors inspired by the Swedish and Finnish models. Rigsrevisionen had also prepared a paper on the strategy for the establishment of an education and certification of public sector auditors dated 28<sup>th</sup> May 2004. In this paper Rigsrevisionen argues that an occupation with a certification gains a

competitive advantage over those who are not certified and thereby not able to demonstrate their professional qualifications. The paper further outlines qualifications required of private sector auditors and the corresponding requirements for public sector auditors that the education leading to a certification must address. At the June meeting the other members of the Contact Committee supported Rigsrevisionen's proposal, but FSR was still against it although prepared to discuss the required competences and possible continuous educational courses. The Auditor General consequently concluded that the other 4 members<sup>13</sup> of the Contact Committee should go on establishing the certification of public sector auditors and that FSR could not participate only with the purpose of having "a foot on the brake"<sup>14</sup>. The decision constituted a fundamental break from the traditional consensus oriented work process of the committee and made FSR's representatives quite upset. They immediately withdraw their support for cooperation on continuous education of public sector auditors and have later established their own courses in this respect. Most of the interviewees remark that cooperation in the committee was never the same again after this episode.

Rigsrevisionen accepted to lead the work on establishing the certification program known as *Certificeret Offentlig Revisor (COR)*. The work was delegated to the office that earlier in the process had prepared a draft for a continuous education program and it came out with a suggestion largely based on this in a paper dated 3<sup>rd</sup> September 2004. Again the COR education is directly compared to the master programme in accounting and auditing which is compulsory to become State Authorised Auditor. The paper concludes that to be comparable, the COR certification must be based on 120 ECTS, half of which could be exempted if the certification candidate already had a Masters-degree in the social sciences. The remaining 60 ECTS needed is divided into the following subjects, which are compared to the Master in Accounting and Auditing:

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<sup>13</sup> The coalition consisted of KR, Rigsrevisionen, The audit department of the city of Copenhagen (Revisionsdirektoratet for Københavns Kommune), and Revisionsaktieselskabet af 1/12 1962 (a small municipality audit firm with no state authorized or registered auditors).

<sup>14</sup> The minutes of the Contact Committees 59th meeting on the 10<sup>th</sup> of June 2004.

<b>Master in Accounting and Auditing</b>	<b>ECTS</b>	<b>COR Educational Program</b>	<b>ECTS</b>
Management Information Systems	7.5	Public Sector Finance	7.5
Business Law	14.0	Public Sector Law (Constitutional law, law on public administration, EU-law )	14.0
Auditing, part I and II	16.5	General Auditing Theory	8.0
		Public Sector Auditing	8.5
Financial Accounting	8.5	Public Sector Accounting	8.5
Tax Law	13.5	Public Administration and Evaluation	13.5
Total	60.0		60.0

Source: Translation of Rigsrevisionen's "Note on the theoretical education related to certification of public sector auditors", dated 3<sup>rd</sup> September 2004.

The COR programmes theoretical module is, as it clearly appears, designed to match the private sector auditors' theoretical background while simultaneously distinguishing itself from it; the only common element being the course in general auditing theory. It is designed to send a signal that the COR Education is at the same relatively high level as that of the private sector auditors, although it is fundamentally different from it.

The educational note was followed by a formal draft of the certification rules dated 13<sup>th</sup> September 2004, setting out the theoretical education as outlined above<sup>15</sup>, as well as setting the practice requirements, and the final exam requirements. Again this is designed to match that of State Authorised Auditors by requiring 3 years of practical experience in public sector auditing (thereby excluding private sector auditors from obtaining the certificate) and a final exam testing the application of theoretical knowledge in practice. The final report on the certification came out in March 2005 (Rigsrevisionen et al, 2005) and on the basis of this the COR Association<sup>16</sup> was founded on the 2<sup>nd</sup> May 2005 by the original COR coalition of four. The present status is thus that COR is a voluntary certification primarily of interest for KR and Rigsrevisionen. As of July 2008 33 persons have qualified for the COR certification, 14 of these being from KR and 11 from Rigsrevisionen. The COR Association encourages other public sector audit authorities to become members, and a number of public sector internal audit departments have now joined COR and are consequently approved of as institutions in which the required practical experience may be earned. No public accounting firms besides from KR have joined the COR Association.

<sup>15</sup> The content of the COR education has changed a bit along the way. As of July 2008 it consists of 7 courses: Public sector finance 7.5 ECTS; Public sector law 10 ECTS; Auditing 7.5 ECTS; Public sector auditing 10 ECTS; Public sector accounting 9.5 ECTS; Public sector organization 7.5 ECTS; and IT-governance and auditing 7.5 ECTS.

<sup>16</sup> <http://www.cor-revisor.dk/>

Although the COR coalition failed to get the Ministry of the Interior to give COR legal protection of the public sector auditing jurisdiction, the COR Association has not given up on this issue. The strategy for obtaining legal protection and exclusive rights to audit the public sector continues along two lines: Lobbying the ministries which finance private sector activities to require COR auditors for the audits and taking the certification issue to the European level.

#### **4.6. Lobbying for exclusive rights to audit the public sector**

The lobby strategy seems to have been focused on convincing the Danish Ministry of Education that the standard of the audits it requires for institutions such as private schools receiving public subsidies could be raised by requiring the audits done by COR certified auditors. In a meeting in January 2008 in the Ministry of Education's Auditor Network – a coordinative committee between the Ministry and FSR – the Ministry suggests that the quality of the audit could be raised if a COR certification was required for auditing its institutions in addition to the requirement that the auditor should be subject to the Law on auditors, i.e. a State Authorized or Registered Auditor. The result of this proposal is that Rigsrevisionen's COR certified auditors are excluded from doing the work because Rigsrevisionen is not subject to the Law on auditors. The Big Four is also excluded because they have no COR certified auditors and are not recognized by the COR Association as institutions in which public sector auditing practice can be earned. The only group who will gain an advantage from the proposal is KR. BDO took over KR in January 2008 and with a number of COR certified auditors employed, BDO KR would initially get exclusive rights to do the work. Obviously the State Authorized Auditors in the network protested, but the Ministry informed them that it would work on a model for requiring COR certification while discussing it with the relevant interest groups. Finally, Rigsrevisionen was invited to join the network. At the time of writing (July 2008) the work is still ongoing.

#### **4.7. Making EUROSAI interested in a European Public Sector Auditing Certification**

In addition to lobbying the Ministry of Education, the COR Association has also actively sought to take the certification issue to the European level. At the meeting of the EUROSAI Training Committee (ETC) in July 2004, Mr. Noel Hepworth of the Chartered Institute of Public Finance and Accountancy (CIPFA) offered EUROSAI to establish a joint working party to investigate the possibility of establishing a Certified European Public Sector Auditor qualification based on the

CIPFA qualification. The issue was discussed again at the November 2004 meeting of the ETC where it became evident that there was no consensus on it. The ETC therefore decided to give mandate to a small working group<sup>17</sup> to further explore the issue and report on it. When the working group representative from the European Court of Auditors, Ms. Elisabeth Türk, participated at the EUROSAI performance audit seminar in Copenhagen in May 2005, Rigsrevisionen seized the opportunity to present the Danish COR certification to her. She took an interest in it and requested the entire COR documentation, following which Rigsrevisionen was invited to present COR to the ETC working group in June 2005. At the meeting an agreement was reached to draft a strategy paper reflecting the conclusions and possible alternatives for the ETC. At the ETC June 2006 meeting, it was further decided to launch a questionnaire on the issue to get an overview of education of public sector auditors in the EUROSAI countries and the interest in participating in a European Public Sector Auditor qualification. The results from the survey were discussed at the ETC meeting in March 2007 and summarized by Ms. Türk of the European Court of Auditors: qualification appears to be a relatively new topic, which is tackled in very different ways by each SAI. Because of the differences it will be difficult to develop a general syllabus that could be applied to each country. Following presentations of the Austrian MBA of Public Auditing<sup>18</sup> launched by the University of Vienna in February 2006 and the Danish COR certification, the ETC decided to establish a working group<sup>19</sup> to draft a syllabus for a European Public Sector Auditing Diploma, to investigate existing relations between SAIs and universities, and the educational requirements of each SAI. At the time of writing (July 2008) the working group has not yet reported. While this may reflect the complexity of the issue it is also worth noticing that the Director of the INTOSAI Development Initiative remarked that the same topics were discussed within the INTOSAI community, meaning that the question of certification of public sector auditors is indeed a global issue. The education of public sector auditors and their jurisdiction is thus becoming an international issue and the next section turns to analyze the implications of the Danish case for an understanding of the potential for a European certification of public sector auditors.

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<sup>17</sup> The SAIs of UK, France, SIGMA and the European Court of Auditors.

<sup>18</sup> See [http://www.executiveacademy.at/pmba\\_pa#1](http://www.executiveacademy.at/pmba_pa#1)

<sup>19</sup> Consisting of the SAIs of Hungary, Poland and the Czech Republic.

## **5. Implications for a European Certification of Public Sector Auditors**

Until the mid 1990s a jurisdictional balance existed between private sector auditing and public sector auditing in Denmark. The balance was based on private sector auditing having its jurisdiction in financial statutory auditing and the public sector auditing having a jurisdiction mainly based on performance auditing. The balance was disturbed as the liberal government pressed for municipality auditing to be “normalized”, i.e. to be done by public accounting firms subject to tender and to a large extent focused on financial auditing. It was also disturbed because the private sector auditing profession began to claim expertise within the field of performance auditing. Rigsrevisionen and KR considered this a threat to their control of the public sector auditing jurisdiction and came up with the COR certification as a counter-measure. Thus the certification of public sector auditors is used as a tool to regain control over the jurisdiction. It works by signalling expertise within the field, by excluding private sector auditors from the certification, and by providing an argument for gaining exclusive rights to audit the public sector. The latter is probably the most important: In the Danish case the private sector auditors involved was of the opinion that if there were no exclusive rights involved with the certification, they would not object to it. From the perspective of the private sector auditors, the certification of public sector auditors is thus in itself a disturbance of the jurisdictional balance between the two groups.

For this reason the attempt to create a European certification of public sector auditors is likely to cause national jurisdictional disputes too, at least to the extent it threatens to exclude the public accounting firms from auditing parts of the public sector. A European certification differs from a local one by being an external disturbance on which the national professions have relatively little influence. Jurisdictional claims in the form of lobbying the European Union is therefore the likely initial reply to this disturbance. In the Danish case FSR managed to translate their interests in exclusive rights to audit the municipalities with the Ministry’s interest in simple and proven regulation: one law for all auditors, which deals with the independence problem according to the EU’s Eighth Directive. On the other side, the COR alliance in Denmark lobbied to get exclusive rights to audit certain public sector areas claiming that exclusive rights should be granted to those who are best qualified for the job; the Certified Public Sector Auditors. So far this has not happened because FSR has mobilized support from the Competition Authority, which apparently interprets the public interest as being one of price competition rather than audit quality. The private sector auditors in other European countries have the same interests in the public sector auditing market as the Danish, and EUROSAI has clearly showed an interest in certification of public sector auditors,

although the reasons for this interest is somewhat unclear. Similar jurisdictional claims can therefore be expected at the European level, with FEE replacing FSR and EUROSAI the COR alliance. As in the Danish case the success of the European certification will rely on the ability to get support from regulators and users of the auditors' work by convincing these groups that certification is a solution to their problems too.

Eventually legal protection of either side may settle the dispute by creating two different professions with each their jurisdiction. The Danish case nevertheless highlights that there are other more likely intermediate settlements. Since KR became a "normal" public accounting firm and since Rigsrevisionen did not audit the municipalities, as solution with divided jurisdictions where public sector auditors got exclusive rights to audit the municipalities was not possible in Denmark. The certification of Danish public sector auditors is therefore an attempt to settle the jurisdictional dispute by making private sector auditing a subordinate profession to public sector auditing, allowing it to do some of the minor routine audits which Rigsrevisionen does not undertake. Or, in the case this strategy fails, at least to regain the intellectual jurisdiction over public sector auditing, which Rigsrevisionen effectively claimed by producing a standard on "good public sector auditing practice" thereby defining it as being different from the private sector auditors' "good auditing practice".

However, the intellectual jurisdiction over public sector auditing has also come under pressure following INTOSAI's decision to base financial auditing in the public sector on the International Standards on Auditing. Although this is allegedly done to exchange legitimacy between IFAC and INTOSAI (Olsen, 2006; 2008) it does have consequences on the practical level. In the Danish case the result has been that public sector auditors are changing their audit approaches to comply with the ISAs. KR had to do so to become a "normal" public accounting firm, while Rigsrevisionen has voluntarily decided to base it's around 700 annual audits (a combination of financial audits and performance audits) on the concept known as "Business Risk Audits"<sup>20</sup> as from 2008 (Rigsrevisionen, 2007), thereby complying with ISA 315 and 330. The Business Risk Audit approach is based on testing strategic and operational risk management controls, and therefore presupposes that risk management takes place in the public sector. Attempts are simultaneously made to advance the idea in the public sector by inviting Peter Young, an expert in the field (Fone & Young, 2005) to speak about it at Rigsrevisionen, and in particular by the establishment of the

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<sup>20</sup> For an overview of the concept see Knechel (2007). The Business Risk Audit approach is codified in ISA 315, 330 and 500.

Public Risk Management Organisation<sup>21</sup>, whose Danish section has recently published guidelines on risk management in the municipalities (PRIMO, 2007; 2008). Judging from the Danish case, the practical audit approaches of private and public sector auditors are therefore becoming increasingly similar as public sector auditors adopt private sector practices. While there may be benefits<sup>22</sup> of this for the public sector auditors, it does have jurisdictional consequences too. By adopting the standards and practices of private sector auditors, public sector auditors jeopardize the intellectual jurisdiction over public sector auditing.

The challenge to the public sector auditing jurisdiction extends to the area of performance auditing, which has previously been a stronghold for public sector auditing. Financial auditing has long been defined as “checking compliance with established criteria” (American Accounting Association, 1973), a definition which is adopted in ISA 200 where the established criteria for auditing financial statements is defined as an “applicable financial reporting framework”. This is an abstraction of knowledge, which is designed to annex new areas by making it easier to claim that they fall within a profession’s jurisdiction (Abbott, 1988: 52-58). With this definition anything can be audited as long as there is “established criteria” to check it against. To the extent performance auditing is transformed from subjective evaluations into checking compliance with objective performance criteria, it would thus be easy for the private sector auditors to claim performance auditing expertise. FSR and the private sector auditors seem to be aware of this and one of the actors involved in the Danish case has repeatedly argued for the development of established criteria for public sector performance (Sørensen, 1998; 2003).

Rigsrevisionen’s reply to the jurisdictional challenge has been to mobilize support for the idea that public sector auditing is a different jurisdiction, where special expertise is needed to interpret how to apply ISAs in the public sector. This is done partly by getting EUROSAI interested in establishing a European Public Sector Auditor certification by which expertise can be claimed, partly by Rigsrevisionen volunteering to chair the INTOSAI Professional Standards Committee (Otbo, 2005) and thereby maintain some sort of control with the application of ISA in the public sector. But first and foremost, it is done by developing a special ISSAI on performance auditing (ISSAI 3000), where it is defined as being fundamentally different from financial auditing:

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<sup>21</sup> See <http://www.primoeurope.org/> and <http://www.primodanmark.dk/>

<sup>22</sup> It is not within the scope of the paper to discuss the appropriateness of applying the Business Risk Audit approach in the public sector.

“Performance auditing is not a regular audit with formalized opinions, and it does not have roots in private auditing. It is an independent examination made on a non-recurring basis. It is by nature wide-ranging and open to judgments and interpretations. It must have at its disposal a wide selection of investigative and evaluative methods and operate from a quite different knowledge base to that of traditional auditing” (ISSAI 3000, 1.2).

The subjective character of performance auditing is the crux of the public sector auditors’ defence of the jurisdiction. Thus the higher the element of subjective performance auditing in public sector audits, the higher the likelihood that the intellectual jurisdiction can be maintained. Eventual changes in the demand for public sector audits shifting the balance in the direction of financial auditing will consequently be a significant disturbance to the system of professions. Bowerman et al (2003) suggest that such a shift is taking place because central government has a general preference for financial audits, which are less critical towards it-self than performance audits. The Danish case certainly can be interpreted as providing some evidence for this hypothesis.

## **6. Conclusion**

The paper has presented the results from a single case study of the establishment of the Certified Public Sector Auditor qualification in Denmark, the work on which began in 2001. Earlier the auditing jurisdiction in Denmark was divided in two separate jurisdictions; the private sector auditing jurisdiction based on financial auditing and the public sector auditing jurisdiction based on performance auditing. In the 1990s this balance was disturbed as the public accounting firms became more interested in gaining a bigger share of the public sector auditing market. This interest led them to claim expertise in performance auditing, a move which the public sector auditors considered a transgression of the traditional jurisdictional borders. Since the compulsory municipality audits consists of a combination of financial auditing and performance auditing, the private sector auditors in particular threatened the municipality audit firm *Kommunernes Revision* (KR). As a claim of jurisdictional expertise KR therefore suggested the establishment of a certification on municipality auditors similar to what had been done in Sweden. The issue was raised in the Contact Committee regarding Public Sector Auditing, where KR by turning it into a general public sector auditing certification managed to get *Rigsrevisionen* (The Danish National Audit Office) and public sector internal auditors interested in the idea. Rigsrevisionen’s main interest was to regain the intellectual power over the public sector auditing jurisdiction, but the certification also served Rigsrevisionen’s interests in establishing a continuous education program, in demonstrating the competences of its employees, and in making these comparable to that of its peers. The professional body of the State Authorized Auditors (FSR) reacted strongly against the

suggested certification, claiming that their authorization by the state was the only certification needed. When the government established a committee to look into municipality auditing, FSR managed to persuade the Ministry of the Interior that municipality auditing should be subjected to the law on auditors, thereby forcing municipality auditors including KR to follow the independence rules for the private sector auditors as well as their auditing standards (the ISAs). This ended KR's ambitions to get exclusive rights on municipality audits for Certified Public Sector Auditors and made the certification a voluntary qualification. Rigsrevisionen and KR nevertheless went on to establish the certification programme known as *Certificeret Offentlig Revisor* (COR). The COR Association is now trying to mobilize support for COR by convincing the Ministry of Education that COR-auditors should have exclusive rights to audit the institutions that receives funding from the Ministry. The COR Association has also managed to get EUROSAI interested in developing a European public sector auditing certification and a working group is established to investigate the educational requirements and draft a syllabus.

Being a geographically limited single case study there is a limitation to the generalizations that can meaningfully be deducted from the case. The Danish context clearly played an important role in the outcome and the general conclusions must reflect this dependency. In particular, the context differs by a strong emphasis on cooperation between the state and the auditing profession(s) in joint consensus oriented committees dealing with regulatory issues and coordination of practice. Another important difference is the way municipality audits are organised, even between the otherwise similarly organised Scandinavian countries. While the context dependency may be theorized using the sociology of professions and Actor-Network Theory, the contextual configuration is specific for the case and can at best serve as an inspiring example. Further research in the countries which have already established certification of public sector auditors is needed to complete the general picture of the potential professionalization of public sector auditing.

Despite the limitations of the study it may contribute with some general conclusions of interest outside the local context. With EUROSAI's interest in creating a European certification of public sector auditors the Danish experiences become particularly interesting to other European countries. The Danish COR certification is a claim of expertise in a jurisdictional dispute that was primarily triggered by a liberal political ideology emphasizing privatization<sup>23</sup> and marketization<sup>24</sup>. Political

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<sup>23</sup> Privatization is defined as the transfer of ownership of state assets to private hands (Pollitt & Summa, 1997).

desire to outsource public sector tasks to the private sector encouraged private sector auditors to claim performance auditing expertise in order to gain a bigger share of the public sector auditing market. Thus the higher the degree of marketization, the higher the likelihood that public sector auditing will be contracted out and thereby create competition between private and public sector auditing. Certification of public sector auditors is a likely general reply to such competition because it may relegate the private sector auditors to a subordinate role in public sector auditing, because establishment of an education/certification program is the cornerstone in obtaining the intellectual power over the jurisdiction, and because certification provides public sector auditors with an argument for getting exclusive rights to the work. For the same reason private sector auditors can generally be expected to counteract the attempts to certify public sector auditors. Both sides in the Danish dispute did their best to mobilize external support for their interests by adapting their suggested solutions in a way that they could be the answer to other actors' problems and interests. A similar translation of interests can be expected at the European level, but the specific configuration of such alliances will depend on the local context.

The jurisdictional dispute in Denmark was settled by the establishment of an intellectual jurisdiction. Public sector auditors define public sector auditing but allow the public accounting firms to practice it without interfering. A similar outcome of professional disputes is possible in other European countries and at the international level, again depending on the particular contexts. This is however a fragile and temporary type of settlement for several reasons. First, because there is nothing to keep the private side from defining and practising public sector auditing too. This is happening in Denmark, where several public accounting firms have produced reports, in which they turn "good public sector auditing practice" into a subcategory of "good auditing practice" (Deloitte, 2005; KPMG, 2006) and where key actors are arguing for the establishment of objective criteria for public management (Sørensen, 1998; 2003). In case such criteria are established public management would be made auditable by financial auditing, which would eventually give the private sector auditors the intellectual power over public sector auditing. Secondly, the increasing convergence of auditing standards and practices between the private and the public sector makes it difficult to sustain the intellectual jurisdiction by claiming a particular expertise in performance auditing. Here it is of less importance whether private sector auditing is adopting performance auditing techniques in the form of extensive application of benchmarking procedures (Bell et al,

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<sup>24</sup> Marketization is defined as the introduction of market-type mechanisms within the public sector (Pollitt & Summa, 1997). Denmark is likely to score somewhat higher than the other Nordic countries (Pollitt & Summa, 1997; Pollitt et al, 1999) on marketization because the government has been liberal/conservative since 2001.

1997), or whether public sector auditing are adopting financial auditing techniques in the form of testing strategic and operational risk management. The result is that public and private sector auditing is becoming increasingly alike and this challenges the intellectual jurisdiction too. Thirdly, a certification of public sector auditors requires the establishment of a common university level educational program like the COR. In practice, this is likely to be one of the main difficulties facing a European certification of public sector auditors. The initial reluctance to EUROSAI's initiative among some of its members has likely to do with substantial differences in the way different SAIs have recruited and educated their employees. In the central European professional system professional knowledge is primarily developed and taught by independent universities, not the professional bodies as in the UK. SAIs therefore need to develop their relations with universities and sponsor research and education in public sector auditing if a European certification is to succeed in maintaining the intellectual jurisdiction.

The public sector audit market, the auditing standard setting bodies, and the universities teaching auditing are thus the arenas in which the jurisdictional dispute over the public sector auditing jurisdiction will take place in the coming years. As the Danish case have suggested, the potential outcome of this dispute depends on the degree to which the public sector auditing profession is able to control all three arenas and the way they interact.

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