

Harmonising Auditors?

A Case Study of the Implementation of the EU Eighth Directive in Denmark 1984-2003

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ABSTRACT

This paper analyses the complex process through which EU's Eighth Company Law Directive on the qualification of statutory auditors (1984) was implemented in Denmark. The Directive envisaged one group of 'statutory auditors' in each member state. However, in Denmark there were two groups of auditors: the state authorised auditors who had a long education and high status, and the registered auditors who had a shorter education, lower status and whose clients were mainly medium and small sized businesses. An exemption was made in the Directive to allow the registered auditors to continue to audit despite that they did not have the required 'university level' education. This made the issue of education central to the long-term survival of the registered auditors and it consequently became the object of a long conflict between the parties with an interest in auditor education and qualifications: the profession, the state and the educational institutions.

This case illustrates the processes of audit regulation in a small European state with a highly developed economy where auditors are approved and regulated by the state but through processes heavily influenced by the profession. It provides an interesting contrast to other studies carried out on the implementation of this Directive, e.g. in the UK (Cooper *et al*, 1996) and in Greece (Caramanis, 1999), and perhaps some insight into the difficulties which may be encountered in implementing the new Eighth Directive proposed by the Commission in May 2003.

Key Words:

EU; Eighth Directive; accounting profession; Denmark; harmonisation; regulation.

1. Introduction

On 10th April 1984 the European Commission issued the Eighth Council Directive (84/253/EEC) which defined the qualifications of persons responsible for carrying out the statutory audits of the accounting documents required by the Fourth and Seventh Directives; thus completing the series of Directives concerning company accounts. The general aim of the Directive was to harmonise auditor qualifications and education in member states such that there would be **one** clearly defined group of auditors in each state that were authorised to audit the financial reports required by EU legislation. Reliable audited financial information was seen as important to ensuring the efficient flow of capital between member states, and to aid European based transnational corporations to operate successfully in world markets. It became part of a process of ‘Europeanisation’ of national regulation of accounting and auditing.

Member states were required to implement the Directive by 1st January 1990. The Eighth Directive links the professional status, duties and rewards of auditors in the EU with requirements as to education and training. Thus linking education and training with the ‘jurisdiction’ (Abbott, 1988) of statutory auditor. The Directive was somewhat of a problem for Denmark, where there were two groups of auditors with different levels of education, and with different rights to audit. The state authorised auditors, with the higher status, had a longer and more academic education than the registered auditors, who formed a second-tier group that had the right to audit, but one that was limited in its scope. There was thus **not** one group as envisaged in the Directive. In the paper we examine both the background and follow the implementation from its entry into the Danish regulatory arena in 1984 over the ensuing 19 years. The development and implementation of government policy in Denmark often involves the close involvement of interest groups, and the Eighth Directive was no exception. Implementing it involved extensive and long-running interactions between the State and the most important interest groups, the two professional associations representing in turn the state authorised and registered auditors. Rather than being simply a matter of ‘implementing’ from one day to the next through a piece of legislation, it was a longwinded process where the major actors in the ‘regulatory space’ (Hancher & Moran, 1989) actively worked in their own ways in negotiating, regulating, lobbying and so on until the provisions were more or less translated into Danish regulations.

The process of implementing the Directive in Denmark cannot be comprehended outside of the micro-politics of the Danish auditing profession and the specific development and stresses upon the Danish welfare state during this period. The ‘state’ is revealed in this case to be not like a hard black box; rather it is made up of overlapping and to some extent competing entities with ‘fuzzy’ boundaries with the profession. Like in the UK (Cooper *et al*, 1996; Robson *et al*, 1994) the process brings out the interrelations and tensions that operated between the state and the profession, but the discourses which were invoked and the processes involved were quite different. The ‘result’ has been that although both countries have implemented the Directive, the institutional set up is rather different from that in the UK, and this seems to be the case in other countries which have been studied, for example Greece (Caramanis, 1999) and Italy (Zambon, 2002: 151-156).

As Hopwood (1994, 2000) has pointed out, what we need is detailed grounded, empirical and historical enquiries into the development of accounting and auditing to enable us to understand

more adequately the factors implicated in difference, change and consequences. For us this enquiry into the implementation of the Eighth Directive was motivated and inspired by our own direct experiences participating in parts of this process: through our dealings with the students involved, our contacts with both profession associations and including sitting on several of the Committees whose work we describe. The European Commission proposed in a Communication issued in May 2003 that a new, and radically more powerful Eighth Directive be introduced. It is hoped that this paper can contribute to the debate around this new Directive through illuminating some of the complexities of the implementation of the first Eighth Directive issued nearly 20 years ago.

2. Actors in the Danish Regulatory Space

The nature of the legislative process in Denmark

Looking at the extensive work done on the relationship between the state and the profession in accountancy, one of the important things which emerges is that the linkages between the State and the profession are both very complex and they vary considerably from one socio-historical context to another¹. The 'state' is not a monolithic entity, and neither is the profession. In Denmark there are two professional qualifications for auditors and two professional associations. As described earlier they have been long locked in various contests with each other. The state is more complex, in this case the state was (and is) involved in two rather different roles; firstly as a controller of the regulations for entry to the profession, and secondly through its control of the semi-independent educational institutions which supply the education itself. These two roles of the state were reflected through the involvement of two Ministries in this process, that of Industry (which laid out the requirements to be authorised as an auditor) and Education (controlling the educational institutions).

In Denmark there has been a tradition for active social citizenship (*medborgerskab*) that builds on the relationship between social rights - receiving the benefits of the welfare state, and political rights - participating in politics through the democratic system. This is reflected in the Constitution, and leads in some sense to the State as being seen as 'close' to the people rather than in opposition. It can be seen in, for example, that it has been possible to introduce an advanced personal number system, which keeps track of individuals and their activities in a way that would surely never be seen as acceptable in many other countries. A negotiative decision style prevails, where making compromises is important. At national level governments are produced through multi-party coalitions of 3-5 parties. If we look at the last 50 years or so, despite some governments being to the (soft) right and others social democratic in orientation, then there do not tend to be enormous policy changes, each government tends to proceed within the overall idiom set by the previous one. This certainly applies to the recent coalitions. From 1982–1993 conservative dominated coalitions under the leadership of Poul Schlüter held power, this was replaced in 1993 by a social-democratic coalition under the leadership of Poul Nyrup Rasmussen, which in turn was overthrown in 2001 by a liberal/conservative coalition under the leadership of Anders Fogh Rasmussen.

The Parliamentary chain of organisation goes from the Parliament (*Folketinget*) who passes laws whose administration is passed on to a minister who is fully and directly accountable to Parliament. The minister is politically and judicially responsible for running a ministry; this being organised as a Weberian bureaucracy which includes a hierarchically organised department (*departement*) under which there can be a number sub-departments (*styrelser*). The State can be characterised as strong and the system of public administration is comparatively efficient with a very low level of corruption. The ministerial system, which prioritises the accountability 'upwards' of each minister to parliament and the responsibility 'downwards' over the ministry, has helped to make central

government sectoral and rather alien to co-ordination policies and bodies. There is no centralised authority able to organise the government machine and each department is closely connected to it through agencies and externally organised interests (Christensen, *et al*, 1999, Rhodes, 1999). The sectoral nature of ministries is, as we will discuss later, something that plays a role in this case, where two Ministries, the Ministry of Industry (authorises auditors) and the Ministry of Education (responsible for the universities and colleges which educate auditors) both were involved in the implementation of the Eighth Directive.

The integration of interest groups (*interesseorganisationer*) into the political and administrative decision process has been developing since the latter part of the last century, gaining most ground during the First and Second World Wars (Bogason, 1992, p.51; Buksti, 1983). Since the Second World War there seems to have developed a general norm that demands the integration of interest groups in both government decisions and in their implementation, and the system has been consolidated. Interest groups have mainly been involved in the administrative aspects of these processes, contact between politicians and interest groups having been more restricted.

The system is characterized by a large number of committees (*udvalg*), councils (*råd*) and tribunals (*nævn*) where some of the members are nominated by interest groups organisations (Bogason, 1992: p.51). One example (which will be discussed later) is FSR's involvement in The Auditor Commission (*Revisorkommissionen*), where several of the members are state authorized auditors chosen for the post by FSR. These committees have been seen as an important source of 'expertise' in the formulation and implementation of legislation, and a key part of Danish corporatism (Kristensen, 1979; Sidenius, 1999). While these are the most visible aspects of this involvement of interest groups other *ad hoc* committees set up to examine particular issues can be important, as are formal and informal contacts. The different forms of contact between interest groups and the State often supplement each other, for example participation in a committee may be followed up by further informal discussions. Often work in a committee is followed up by hearings involving a larger group of respondents. Ultimately when legislation is drafted then interest groups will often be involved in the 'fine tuning' of the legislation and in the preparation of the associated standing orders, circulars and guidelines (Christensen *et al*, 1999: 108; Christensen & Christiansen, 1992; Christiansen, 1998; Blom-Hansen & Daugbjerg, 1999b)².

While the general principal is that any interest groups with some specific interest in a case are invited to comment then the group involved has to be a recognized organization (for which the criteria are not fixed) and there have to be considerable consequences for its members. These are only general norms, and in each case the administrators involved can make strategic choices concerning the involvement, or not, of powerful interest groups. However, if a particular interest group is excluded then they may well actively court the interest of the press in the case as well as members of parliament, parliamentary committees and ultimately the Minister with overall responsibility (Christensen *et al*, 1999: 106-109). This close involvement of interest groups in the preparation and implementation of legislation is typical for Denmark and it is a system we can describe as 'corporatism'. Corporatism being used here as a descriptive concept referring to the integration of organised interests in the political and administrative decision process (following Christiansen & Sidenius, 1999)³.

Actors in the Danish Regulatory Space

In order to examine the activities of interest groups in the context of this case then we will use the concept of 'regulatory space'. This concept was developed by Hancher & Moran (1989) drawing on

the prior notion of 'policy space' in public policy studies (Minogue, 2002), and has been used in accounting most notably by Young (1994; 1995) and Power (1993). A regulatory space is defined by the regulatory issue subject to public decision, here the implementation of the Eighth Directive; it offers a canvas onto which we can 'paint' a variety of occupants and their relational configuration (Hancher & Moran, 1989; Minogue, 2002). In general the allocation of power within a regulatory space is affected by many different factors including the political and legal setting and the historical development of the organisations in question and the relationship between them. While it is not very theoretically sophisticated, it is a useful tool to use in examining the processes of implementation of the Directive in the context of the relationships in the Danish regulatory space between interest groups and the State. The actors in regulatory space who are concerned with auditing regulation in Denmark are illustrated in Figure 1.

Insert Figure 1 around here

The State

The general legislative system have already been described above. The two ministries involved in the case of implementing the Eighth Directive in Denmark was the Ministry of Industry, which authorises new auditors and lay out the requirements, and the Ministry of Education, responsible for the educational institutions and setting the guidelines for the Master and Bachelor programmes in auditing offered at the universities, as well as for the business college programme in auditing. In case of implementing the Eighth Directive the ministries in question had an interest in getting the interest groups involved and giving them a feeling that their interests were considered in order to maintain a good standing with them. A good standing is essential for the smooth operation of the legislative system mentioned above, as well as for keeping peace in the various committees between the state and the profession (the disciplinary boards and the Auditor Commission (*Revisorkommissionen*), and between the state and the educational institutions (the §17-committee). However, the implementation of the Directive proved to be a border case between the two ministries and as such the subject of a turf battle. It is rumoured that relations between the two ministries were not always cordial: the Ministry of Industry took the position that it was their responsibility to decide on what the education of an auditor should be, and the job of the Ministry of Education to provide it. The Ministry of Education resented this attitude, considering that they should have a say in the matter of deciding what it should be..

The Profession

Denmark had (and still has) a two tier auditing profession⁴, both of which groups were authorised by the State. The upper tier are the state authorised auditors (*statsautoriserede revisorer*), the second tier the registered auditors (*registrerede revisorer*). At the time the Directive was being discussed they had much the same rights to be appointed auditor, but there were some restrictions, for example one of the two auditors of quoted companies had to be a state authorised auditor. In practice, state authorised auditors were generally involved with auditing and consultancy work for the larger companies, registered auditors with accounting, auditing and consultancy work for smaller businesses. The practices of the state authorised auditors were, on average, much larger than those of the registered auditors and it was through firms of state authorised auditors that the Big 8 (as they were then) practised in Denmark. The educational level of the registered auditors was well below that of the state authorised. These two groups were represented by their respective professional associations, *Foreningen af Statsautoriserede Revisorer* (FSR) and *Foreningen af Registrerede Revisorer* (FRR).

The association for state authorised auditors, FSR, has acted as an interest group to further the ambitions of the state authorised auditors. Despite consistent efforts, it was not possible for them to manage to get membership of their association made compulsory for state authorised auditors (it is still not compulsory today, although the vast majority who work in practice are members⁵). Neither is it necessary to be a member of FSR to be the auditor of a company. The legally protected jurisdiction of 'statutory auditor' (to use the EU term) is connected to obtaining the qualification as defined through legislation, and is not connected with FSR. In other words the Association has little formal legal recognition⁶. However, whilst on paper it appears relatively powerless, it has in reality developed considerable power through its presence as an interest organisation. FSR has lobbied and has been involved in the creation and revision of auditing legislation since the 1920s and has eventually come to have the position of 'expert' in respect to audit and accounting law⁷.

By the time the implementation of the Eighth Directive began, state authorised auditors would typically have a university diploma degree as background (sub-bachelor degree), although a few would have a master degree (Jeppesen, 1998: 75-86).

The registered auditors' professional organisation FRR was founded in 1970 following the establishment of the 'registered auditor' qualification. Many of the first members were admitted without examination, absorbing the 'unqualified' auditors (i.e. auditors practicing without an authorisation). By the time the implementation of the Eighth Directive began, registered auditors would typically have a business college degree if they had a degree at all. Gradually, the registered auditors have obtained greater powers to audit, and to a large extent usurped the special legal position of the state authorised auditors, but mostly in theory rather than in practice – they have mainly small companies as clients. Their education was at business colleges, which did not and could not give an academic education. So whilst their jurisdiction in theory has expanded, in practice this has not been so great a change.

At the time of the implementation of the Eighth Directive the two bodies were not on good terms with each other, partly due to their members competition in the lower end of the market, and partly due to the general disrespect which the better educated state authorised auditors had for the registered auditors. Both professional bodies were consequently highly aware of their interests in the educational requirements; FSR to maintain a clear distinction between the two groups and FRR to gain recognition and eventually break down the distinction (Foighel, 1987; Jeppesen, 1998: 227-229).

The Educational Institutions

One of the cornerstones of the Danish welfare state is free education, in the sense of fees not having to be paid to attend schools, colleges or universities. However, some fees normally have been paid for part-time evening courses, both vocational and recreational. The Danish auditor education has been a mixture of these two types of education, full-time and part-time, making the educational institutions somewhat economically dependent on the audit firms, who typically pay the fees for their employees under education. For the full-time students, study at university is funded by the state according to the progression of the students and in particular the number of graduates. The business colleges are funded much the same way, leaving both universities and colleges with a clear interest in getting as many students as possible through the programmes. So the educational institutions were basically all competitors. However, since the Eighth Directive require a university degree of auditors it was clearly in the interest of the universities to get this implemented as quickly

as possible, while on the other hand it would be in the interest of the business colleges to slow it down or to find loopholes.

When the Eighth Directive was passed in 1984 and was about to be implemented in Danish legislation, a number of interests groups, often with contradictory interests consequently entered the regulatory space. The scene was set for a complex process of implementation, which found its final conclusion as late as in 2002, 18 years after the passing of the Eighth Directive. In the next section we will unfold the events that took place and analyse the process.

3. The Story of the Eighth Directive in Denmark

The Origins of the Directive 1972-1984

The EC Fourth Directive (78/660/EEC) on Company Accounts contained the clause that the annual accounts of certain types of company had to be audited by one or more persons given authorisation through national legislation⁸, it also contained the clause that small companies could be exempted from auditing. This Directive was introduced into Danish legislation in 1981, exemption from the auditing requirement not being given to small companies. It was intended that the Fourth Directive be followed up by a Directive laying down basic minimum demands as to the education and experience of auditors; and on auditor's standards of behaviour, independence, and responsibilities. This has proved a difficult and controversial process; the Eighth Directive (which tackles the first part of this, namely the requirements as to the education and experience of auditors) was not finally agreed until 1984, and the other issues are still being discussed today.

Arising from work on the then proposed Fourth Directive, the EU started to work on the issue of auditors. By May 1972, the year Denmark and the UK joined the EU (then EEC), a working party had already prepared an *avant project* of a Directive to deal with the minimum qualifications of auditors (Evans & Nobes, 1998). This included a comprehensive analysis of the different systems for educating auditors in the EU. However, the official Proposal for a Directive was not published until 1978. According to Danish sources, there was at this time much interest in the new structure of the Danish state authorised auditor education. This was (as described earlier) an academic education beginning with a 3-year business economics course, followed by a 2-year specially tailored masters' course (together 'these courses formed the 'theoretical' part of the education). This was followed by 3 years of practical experience and, to finish with, a final examination to test the student's abilities in practice. The first draft of the Directive followed this line, however, it was quickly watered down in the tough negotiations that followed (Olsen, 1989).

Instead of the usual maximum of three readings before a Council of Ministers working party, the Eighth Directive passed through six readings (Evans & Nobes, 1998). This appears to have been caused by compromises occasioned by national interests, especially on the part of the UK (see Evans & Nobes, 1998: 507). One aspect which was retained, however, was the notion of an education at an academic level: that prospective auditors should have attained at least university entrance level qualifications and should pass an examination of professional competence at graduation level organised or recognised by the state. The Directive was firmly in the tradition that there should be a movement towards a union of Europe through gradual harmonisation of important legislation (see Freedman & Power, 1992). Education and jurisdiction were closely linked for statutory auditors; only persons fulfilling the requirements of the Directive would be allowed to sign the accounts of medium and large-sized companies (as defined by the EU). Countries could choose

to keep a requirement for small companies to be audited, or to drop it. It was a process of closure around the title 'statutory auditor', and was particularly directed against unqualified auditors.

The Danish Problem: Education/Jurisdiction of the Registered Auditors

In 1967 a major reform of the Danish auditor education was agreed. The new Standing Order on the examination of state authorised auditors, passed in 1968, changed the education from an *etatsuddannelse* (state-education) to an academic education (Seier-Petersen, 1988). This change put the whole of the educational process in the hands of university institutions (the Business Schools are classed as university institutions). With the passing of this legislation the link with the university strengthened, as it made a masters' degree in economics and business administration (*cand.merc.*) with auditing as a special compulsory subject. This was still followed up by an examination by the Auditor Commission after several years of practical experience. Thus making it probably one of the world's longest educations to become auditor⁹. Despite the introduction of the requirement for a masters' degree, transitory rules lasting almost 20 years still allowed students with part-time diploma degrees to enlist for the final examination.

By the early 1980s the state authorised auditors' education was therefore in accordance with the proposed Eighth Directive, or would at least be with the expiry of the transitory period by the end of 1986. So the Eighth Directive was not considered an educational problem for the state authorised auditors.

This however, was not the case for the registered auditors. When the second-tier of registered auditors was created in 1970, a number of the auditors practising without an authorisation were formally recognised and granted the title. Quite a number of these were people with a HD-diploma (which is equivalent to two years of full-time work, i.e. it is not a bachelor degree), who for some reason had failed to pass the final examination to become a state authorised auditor. Others simply did not have any formal educational background (Jeppesen, 1998: 86-89). The condition for obtaining the registration was that they were practising as sole practitioners on the 1st November 1970 and had been doing so for at least ten years. In 1978 a revised law for the education of registered auditors was approved, now requiring a formal education. Several ways were open to become a registered auditor, including one that took account of the needs of those who dropped out of the courses established for state authorised auditors. However, the normal way to become a registered auditor quickly became to take a four-year part-time education at business college level (*merkonom*), including the subjects mentioned in the legislation as compulsory¹⁰. The registered auditors were not required to pass a final professional examination.

So the educational level of the registered auditors was clearly below the required 'university level' of the Eighth Directive, with the consequence that they would inevitably sooner or later lose the right to do statutory audits. FSR and the state authorised auditors seemed quite content with this. Since many of the registered auditors were people who had not been professionally examined, often without formal qualifications and in some cases even drop-outs from the education to become a state authorised auditor, the state authorised auditors generally had a rather arrogant attitude towards these people. The prospect of the registered auditors losing their rights to do statutory audits therefore appeared to be welcomed by FSR. Besides from being satisfied that a third party 'hit' their opponents, the state authorised auditors also had some obvious interests in seeing this happen. It would first give them a competitive advantage and a monopoly. Second, it would counteract the gradual encroachment of the more numerous registered auditors into their business, and the possible ultimate forced merger of to the two groups.

However, the Commerce and Companies Agency (*Erhvervs- og Selskabsstyrelsen*) was not happy with the idea of the registered auditors not being able to audit, and they began to negotiate for them to retain their existing (limited) rights. The reason for this seems to be that the Ministry of Industry feared that an important part of the business of this group otherwise would disappear¹¹. Possibly also because they considered it logical and efficient to continue to allow the registered auditors, who kept books and prepared accounts and taxation returns for the numerous small companies, to carry out an audit at the same time. This latter point may also reflect the fact that one of the important reasons for creating the registered auditor qualification was to check that the books, and hence the tax returns, of small businesses were adequate, an area where an audit might help (Jeppesen, 1998: 86-89). The jurisdiction of the registered auditors was centred on small businesses, whilst that of state authorised tended to be larger businesses. However, in Denmark even large firms of auditors have provincial departments with small clients. In a report from the Monopoly Commission (Monopoltilsynet, 1985) it was noted that registered auditors charge, on average, less for their services than state authorised auditors do, so it was surely in the interests of small businesses that they could get these services at this lower price.

As the negotiations continued on the drafts of the Eighth Directive, the Danish negotiators were forced to begin to compromise on their demand, that the status quo in Denmark, as regards the right of registered auditors to audit, be upheld. The formulation of the '20-22' rules were discussed by a Ministry of Industry lawyer in these terms:

As there was a demand from the Commission and the other member states that this special arrangement was regulated through transitional regulations, there was, as a compromise, put forward as a suggestion that the regulations should be more permanent, conditional that at an unnamed date in the future their extent and nature would be reconsidered. The cited conditions are so unspecific and weak that it probably can be assumed that a reconsideration of the arrangements will not take place in the near future (Ølgaard, 1984:6).

It is informative to look at how this Danish problem was seen by 'outsiders', here the British accountancy press. At the end of 1983, it was reported that there was only one remaining problem to be solved before the directive was issued, namely should members of second-tier bodies be allowed to continue to audit companies classified by the EC as medium sized? There were fears that the clause "could lead to a dilution of the impact of the directive on an important section of the economy - and that it might jeopardise progress towards liberalisation of practice in Europe" (*Accountancy*, January 1984). The following month it was reported that the last remaining difficulties, which included the accommodating provision for Danish second-tier auditors, had been solved:

“The directive also has built into it an exemption for Danish auditors of small and medium-sized companies, who currently do not need the same qualifications as large company auditors” (*Accountancy*, February 1984).

Other Member States were apparently unhappy about an open-ended exemption. It was generally expected that a Directive concerning freedom of establishment throughout the EU would follow the Eighth Directive. It was feared that the exemption could eventually give Danish second-tier auditors the right to audit throughout the Community. In *Accountancy* it was reported that: “[i]t appears that a compromise has been reached under which the exemption will be for a limited duration (basically

until the rights-of-establishment Directive is implemented). This will give the Danes time in which to effect any necessary changes in the status of their profession" (*Accountancy*, February 1984).

Reflecting back on the Directive in 1989, Karel van Hulle from the European Commission (but writing in a personal capacity) confirmed that it was the case that it was not expected that the *Lex Dania* exemption should continue in the long run, and it should be not used by other Member States. He writes:

“It should be remembered that Denmark has not made use of the Member States’ option in Article 51 (2) of the Fourth Directive to exempt small companies from the audit requirement. From article 20, it follows very clearly that only those Member States which do not make use of the possibility provided for in Article 51 (2) may apply this regime and that this derogatory regime cannot be applied indefinitely” (Van Hulle, 1989).

The EU set the deadline of the 1st January 1990 for the implementation of the Eighth Directive.

All in all a very complicated situation arose in Denmark. For, as discussed earlier, there were already existing rules in Danish law for when and when not a registered auditor could audit, but these were quite different to those which the Eighth Directive allowed for in Article 20-22 (the *Lex Dania*). Additionally, account had naturally to be taken for the rights of auditors of all types who were practising at the time to continue to practice. The consequence of these provisions for the registered auditors would appear to be that if they already had the right to audit before 1. January 1990 they could continue to do so afterwards (Article 12). However, those qualified after this date would have to have both a higher level of education (the only one of the Article 4 provisions to be relaxed was that concerning the level of the final examination) and at the same time be subject to more restrictive limits as to their competence to audit.

Implementing the Directive into Danish law 1984-1988

The discussions of the registered auditors and the Eighth Directive include two areas, firstly the right of the registered auditors to audit, and secondly their education. These issues are crucially linked, for the registered auditors had to have an improved education if the future members were to be able to audit at all.

In a document dated 5th September 1985, the Ministry of Industry noted the demands of the Eighth Directive and remarked that it was necessary to establish a suitable professional examination for registered auditors. For if such an examination was not introduced, then auditors registered after 1990 would be unable to carry out the audits of public and private companies, with which an important part of the basis for the group's existence would disappear. They mentioned that it would be most appropriate if such an examination took place at Business School (university) level¹², in other words above the college level at which it had previously taken place. However, the existing education at Business Colleges could form the first part of the revised scheme, which should be followed by a 1 to 2 year course at a newly created ‘auditor school’, which would hold the final written examination. The education should be arranged such that the demands of the Directive should be exactly met, but that the education should not approach the level of the state authorised auditors, for amongst other things there were not the resources for it.

The same month FRR published their own proposals for the education (which they had sent in the previous month to the Ministry of Industry). These resembled the former proposals except that the

'auditor school' was definitely to be of two years duration, and it should: "finish with an auditor exam which is of such a level that it lives up to the **minimum demands in articles 4, 5 and 6 of the Eighth Directive**" (FRR, 1985). By suggesting a university level exam on top of a non-university course at an 'auditor school' FRR were cleverly exploiting the small difference in the Eighth Directive between the full auditors and the 'Article 20-22' auditors, whose right to audit would eventually be restricted because their final examination did not live up to the demand in article 4, that it should be of final university level.

In 1986, the Ministry of Education, under the instructions of the Ministry of Industry, set up a committee (known as the Provstgaard Committee after the name of its chairman) to look at the role which the Business Schools (university level) could play in the education of registered auditors. It never publicly reported, possibly because its conclusions were not liked by the Ministry of Education.

In late 1986, FSR reacted to the 1985 Ministry of Industry document. They commented that:

“The development that there has been in the last 15 years has been that auditors, both for public and private companies, should be better and better qualified. The natural conclusion of this is that in the future at least one of the auditors of a company, under all circumstances, should be a state authorised auditor. It must be recognised that for some companies, especially private companies, it would be unreasonable if they, as a result of the Eighth Directive, should have to change auditor. Thus FSR can quite understand that the transitional rules in the Directive should be used. This will give Danish business a long change over period, which FSR does not consider a problem, when consideration is given to the ultimate aim, which is that all legally required auditing be carried out by those with the highest auditing education”(FSR, 1986).

They proceeded to criticise the suggestions of the Ministry of Industry (the ones discussed above), claiming that the establishment of the Provstgaard Committee, with representatives from the Business Schools, was an indication of the possibility that the Ministry was considering a permanent solution by educating registered auditors up to the level where they would exactly fulfil the minimum demands of the Eighth Directive¹³. Also the Ministry of Industry's support for the registered auditors is commented on:

"FSR has, with some surprise, noted the reasoning (that if their education was not improved an important part of the basis for the group's existence would disappear) from the Ministry's side, FSR was of the impression that the legal requirement for audit was established out of regard to the needs of society and business, and not out of regard to the special demands of a particular business group (in other words the registered auditors). FSR are, in any case, doubtful that legally required auditing is an important basis for the existence of registered auditors" (ibid.).

Further they remark, that if the Ministry of Industry think that a lower education could fulfil the requirements, then either the education of the state authorised auditors was too demanding, or the legislators did not place enough value on auditing.

Summarising the nature of their disagreement with the Ministry, they suggest that if it really is not acceptable to the Ministry to go in for a transitional arrangement, then a model such as the Dutch

one should be used, where those registered auditors already auditing could, under certain conditions, become state authorised. Thus the right of state authorised auditors to audit could be easily legislated for. These points of view were presented in an article entitled "Danger for the undermining of legally required auditing" in FSR's professional journal *Revision og Regnskabsvæsen*, in February 1987 (Foighel, 1987). It seems strange that FSR came with what appears to be their major public comment on this development so late, 1987, long after the Directive was published. We do not know exactly what happened behind the scenes here, but it is likely that there was more contact. This is suggested by the caption to a picture published in 1987 in the professional journal. The caption to a picture, which showed the chairperson of FSR (Siegfred Foighel) together with the Minister of Industry read:

Siegfred Foighel has seen a good deal of the Minister of Industry, Nils Wilhjelmsen, recently. This is partly to explain FSR's opinions on the consequences of the Eighth Directive, and partly in connection with FSR's 75th birthday (*Revision og Regnskabsvæsen*, February 1987:14).

On 5th October 1988, a draft of a bill was presented which included, amongst other proposals, regulations relating to registered auditors¹⁴. In Danish it was referred to as '*revisorpakken*', literally 'the auditor package'. The proposed legislation did not only contain provisions to introduce the Eighth Directive into Danish law, but also represented a general tightening up¹⁵, modernisation and rationalisation of the law concerning auditing and auditors (see Kirkham & Loft, 1999 for more details of this legislation).

As far as the rights to audit of registered auditors were concerned, the contents of the Eighth Directive were translated into Danish Law. Auditors registered *before* 1st January 1990 could continue to audit under the old rules in other words there were only very few occasions on which they were denied the right to audit. Auditors registered *after* 1st January 1990 could audit the accounts of 'small' companies. They could audit medium sized companies so long as they did so when the company was small. If the company became 'large', then the auditor would lose the right to audit¹⁶. This was an attempt to set the Eighth Directive provisions of article 12 (for auditors registered before 1st January 1990), and articles 20-22 (for auditors registered after 1st January 1990), directly into Danish legislation.

In the notes to the legislation, it was remarked that no change was required for the state authorised auditors. As far as the registered auditors were concerned, Articles 20-22 could be used as Denmark had not used the possibility in art. 51 of the Fourth Directive to exclude small companies from auditing. All available possibilities for upholding the registered auditors rights to audit had been used. On the issue of the education of registered auditors, it was noted that the present arrangements could not continue. In order to live up to the demands of the Eighth Directive to enrol for the courses, an individual would have to have passed an examination, which would give the possibility of entry to a university. This, as with the introduction of a new syllabus, did not require legislation as it was already within the power of the Commerce and Companies Agency. It was the responsibility of the Ministry of Industry to negotiate with the Ministry of Education on these issues. Article 18 of the Eighth Directive would be used for those who were under education at the 1st January 1990, and they would be allowed to be registered, although the restrictions in Articles 20-22 limiting them to auditing small and medium companies would apply.

The legislation proposed under Paragraph 61b (5) was, as the Director of FSR, B. Niemann Olsen reports, scarcely "user friendly". He wonders how it was that it was the most complicated solution, which had been decided upon (Olsen, 1989:14). He wrote that the simplest solution would have been either (1) to keep the registered auditors' existing standard of education and to take away the right of those qualifying in future to audit; or (2) to raise the standard of their education to such a level that it satisfies the minimum demands of the Eighth Directive (and not the lower demands made in Articles 20-22), and to keep their present competence to audit (Olsen, 1989:14).

All this was never to be, when the legislation was passed in the form of law number 815 of 23rd December 1988, Paragraph 61b (5) had shrunk drastically in size! All that was left was that "The Ministry of Industry can set the rules on the ability of registered auditors registered after 1st January 1990 to carry out auditing required by legislation". In other words, this 'hot potato' (as it was called in Danish) – the precise auditing jurisdiction which the registered auditors would have – was simply tossed back to the Ministry of Industry to deal with.

If the right to audit had been taken away from the registered auditors there would be a problem. The Ministry of Industry is, and has been for many years, committed to retaining the registered auditors' right to audit, arguing that it is an important part of their basis as a professional group. FRR are of course in agreement with this latter point. While the Monopolies Commission's study (Monopoltilsynet, 1985) seemed to indicate that auditing was really not so important to registered auditors as bookkeeping and other accounting assistance, the problem for the registered auditors was clearly that these services have been closely associated. If it were that one of the clients of a registered auditor had to employ a state-authorized auditor to do the audit **after** the registered auditor had completed their book-keeping work, then it is surely likely that the client would simply go over to using a state authorized auditor for all the work. Thus FRR's fears that their members would lose many clients seem justifiable. Also it was questionable whether there were enough state authorized auditors to take over this auditing work which the registered auditors were doing¹⁷.

Changing auditor education: the consequences of the Directive 1989-2000

In 1989 FRR came with a new, and more detailed plan for the education of auditors, aimed at bringing them up to Article 4 level. The plan was an attempt to combine FRR's interest in registered auditors being recognised as fully qualified auditors, while simultaneously maintaining the short and very practically oriented education that the majority of FRR members seemed to prefer. According to the FRR plan, raising the content and length of the business college courses to a bachelor level could do this. This would at the same time give FRR a substantial influence on the actual content of the educational programme, since it was to take place on the business colleges, with whom FRR had a long tradition for co-operation. Here it would simply replace the '*merkonom*'-programme that was the foundation for the previous education of registered auditors, the whole change in reality amounting to little more than some additions to the syllabus already being taught at the business colleges. Naturally, FSR and the business schools/universities contested this proposal, claiming that the quality of the universities research-based education was superior to what could be offered at the business colleges, who hired practising auditors on a part-time basis to teach on their programme.

In October 1990, the Commerce and Companies Agency under the Ministry of Industry cut off the debate issuing a standing order on the subject. The standing order was a compromise catering for the interests of both groups of auditors. It was now decided that the educational requirements of the Eighth Directive could be obtained at the business colleges as well as at the universities. However,

no registered auditors who received their registration after 1st November 1990 would be entitled to do statutory audits of companies exceeding two of the three criteria described earlier: total assets of 50 million DKK, turnover of 100 million DKK and number of full-time employees 250. So the newly educated registered auditors, with an education far exceeding that of their older colleagues, would not have the same rights as these to audit large companies. However, this was apparently not considered a problem by FRR, since it did not affect the bulk of their members, and since registered auditors seldom audit companies of this size anyway. The board of FRR consequently recommended their members to have their employees follow the locally based and practically oriented business college education, and not the more theoretical university programme. To ensure the quality of the business college programme, the Ministry of Education in December 1991 issued a standing order on the education of registered auditors, including a very detailed education guideline and syllabus for the 6-year part time programme at business colleges (Undervisningsministeriet, 1991).

The decision to grant the business colleges the right to educate at the "university level" required by the Eighth Directive, was politically sensitive. It had not been done in other areas before, and opened for the possibility that bachelor programmes in general could be offered outside the university world. This was of interest to a number of educational institutions besides the business colleges, for instance the polytechnics and the colleges of education. Since this could remove a substantial amount of the funding for Danish universities, they were not surprisingly against it.

With the business college education formally recognised as being on "university level", FRR in early 1992 suggested that the courses in auditing, accounting and tax law taken at business colleges should lead to credits and exemptions from these courses on the masters' degree in auditing (*cand.merc.aud*) (the official translation is 'master's degree in auditing) which state authorised auditors were obliged to take. If accepted by the Ministry of Education, this would in effect be exempting these candidates from roughly 60% of the courses required for the masters' degree, giving the registered auditors a possibility as well as a shortcut to becoming state authorised auditors. It would also be a political signal that the educational programme on the business colleges was of the same level and quality as the university masters' programme. Being aware of the political implications, the Ministry in turn requested a statement on the subject from the Co-ordination Committee on the Education of State Authorised Auditors¹⁸ (§22 *udvalget*) where the universities were heavily represented. They replied in February 1993, turning the proposal down in no uncertain terms¹⁹. In doing so, the committee relied heavily on the conclusions in a paper²⁰ prepared by representatives from the universities analysing the differences in the various courses of the two programmes. The argument was that the courses at the business colleges were too narrow and that the body of students would become too heterogeneous. Furthermore, it would ease the admission of HD (diploma) graduates to the masters' programme, this being problematic since the diploma degree was not considered equivalent of a bachelor degree.

When the exemption strategy failed in 1993, FRR went on to lobby the Ministry of Education to get it to persuade, or to force the universities to accept the business college education as basis for admission to the masters' programme in auditing. FRR also lobbied the Ministry to allow the business colleges to give their graduates a bachelor degree (Vestergaard, 1997). Although the Minister of Education in an interview with *RevisorBladet*, the registered auditors magazine, stated that he in principle believed that students graduating from the business colleges should be admitted to the masters' programme at the universities, he was not able to force the universities to do so. This was due a recent change of the law on the governance of universities, which explicitly stated that

the universities themselves decide the criteria for admission to the master's programmes. The suggestion that the business colleges should be granted the right to give their graduates a bachelor degree was finally turned down in 1995. At that time the Ministry of Education made a principal decision that only universities (or business schools which are considered universities by law) where the education is based on research, could award the bachelor degree to their graduates.

Adding to these problems for FRR, the business college programme never really became a success in terms of enrolment. There were several causes behind this. The first of these was the general economic recession in Denmark at that time, which led the auditing firms to enrol fewer trainees. Second, by the beginning of the 1990's, it had become common that many of the small business served by the registered auditors had acquired PCs with accounting software and did their own books. This development reduced the need for cheap trainee labour to do the bookkeeping and other routine administrative tasks. Third, transitional provisions existed which allowed students graduating before the end of 1995 from the old '*merkonom*'-programme at the business colleges to become registered auditors. A very large number of students - more than 3.200 - used these transitional arrangements to become registered auditors in the period between 1989 and 1996²¹. In contrast to this only 27 persons have become registered auditors from 1997 to 2001. Fourth, a number of the potential students complained that the business college programme was too inflexible, leaving no possibilities for an intermediate qualification or for shifting to other educational programmes if they decided that auditing was not the right career choice (Møller, 1997). This was possible in the university programme, based on the well-established four-year part-time diploma programme in business administration and accounting (HD), along with the supplementary two-year part-time programme in accounting and auditing (*HD-overbygningssuddannelsen*). Together the HD and the supplementary programme amounted to 3 years of full-time study, which is precisely what is required for a bachelor degree and hence the final university examination level required by §4 of the Directive.

The fact that the Ministry of Education by 1995 had made it clear that the business college education was not at bachelor level raised another problem. In deciding so, the Ministry of Education in effect overruled the standing order of 1990 from the Ministry of Industry, that an education at business college level would be adequate to comply with the Eighth Directive. This in turn forced FRR to reconsider their support to the business college programme. Realising that it would never be possible to get it recognised as a bachelor programme and failing to attract students to the programme, the board of FSR in April 1995 decided to shift horse and recommend their members to follow the university programme. FRR, in agreement with FSR and the universities, consequently suggested to the Ministry of Education that the business college programme was closed down and all students transferred to the university programme, being given recognition of the courses already taken at business college level (Vestergaard, 1995). Following discussions on which courses to give exemption for, there was final agreement with the Ministry in 1997. Meanwhile, in September 1995 the first students started at the supplementary two-year part-time course at the universities, with a few graduating in 1997 and passing the final qualifying exam later that year.

In spite of being more flexible, the university programme also failed to attract enough students. The first four years of this programme leading to the HD diploma degree in accounting was popular with the students. However, the supplementary programme for upgrading the students from diploma to bachelor level had difficulties attracting enough students. The majority of HD graduates either preferred to leave the profession to work in industry, or to study the masters' programme in

auditing, which can be taken part-time over four years. At most universities and business schools they were admitted to the masters' programme provided they passed a couple of extra examinations during the first year. The difficulties attracting students to supplementary programme resulted in a poor economic situation and the Ministry of Education and FRR covered the deficit which the business schools had when they were running it with so few students.

A Bill put forward by the Danish government in the autumn of 2000 looked like further aggravating the grave outlook for the registered auditors. Here it was suggested that Denmark should follow the example of the UK and other European countries in exempting small companies from statutory audits in accordance with the rules of the Fourth Directive. In their consultation response to the bill FRR assesses that this would remove at least 85% of all statutory audits in Denmark, resulting in very few registered auditors doing statutory audits at all. Since the Eighth Directive requires practical training before an authorisation to do statutory audits, this would in turn also have the effect that registered auditors and small state authorised audit firms would lose the ability to train new auditors. However, it seems that the lobbying from FRR and others against the proposal was successful. In the final version of the legislation that was approved on 7th June 2001 then small companies were not exempted from audit. At the same time there was yet another victory for the registered auditors in that the limits on the size of the company they could audit were removed (Lov nr 448 of 07.06.2001, kap. 17). There is only one important limitation on their rights to audit left, and that is that for the quoted companies (Class D) one of the two auditors required should be state authorised (Denmark is one of the few countries still maintaining this requirement).

Adding to this victory the education of the registered auditors found a final settlement in 2002, where the supplementary programme was closed. To become a registered auditor after this date it was now necessary to take the first part (around two years part-time) of the masters' programme in auditing. Both professional associations were apparently happy with this arrangement. FRR were satisfied that they now had a lasting educational programme, and FSR that that the difference in educational level becomes visible to everyone; registered auditors can be clearly identified again as the drop-outs from the education to become state authorised auditor. So what FRR won, the rights to audit and the educational programme may well turn out to be Pyrrhic victories if the majority of students decide to take the last part of the programme as well and go for the state authorised qualification. In that case registered auditors will slowly vanish as large numbers of them approach retirement age in the coming decade.

4. Conclusion

Before the advent of the Eighth Directive, seen even from a Danish point of view, the legislation concerning the rights of the two different groups of auditors to occupy the jurisdiction of statutory audit was in a rather unsatisfactory state. A situation had come into being where registered auditors had nearly the same rights to audit as state authorised auditors, but were educationally at a lower level. Their right to continue auditing which the Danish state insisted on in the process of negotiation was supported by the state from two different perspectives. The first was that in the form of the Ministry of Industry and the Ministry of Education the state has felt an obligation to ensure that the work possibilities of the registered auditors were not prejudiced. This concept, that if you qualify for a job then you should not later be disadvantageously placed by changes in legislation so that you cannot use this ability, is one that was (and still is to a certain extent) part of Danish culture. Earlier in the twentieth century it was reflected in the law known as '*næringsloven*', which directly translated means the 'sustenance law'. This word, which literally means 'sustenance law', is considered old-fashioned now, but the concept lives on²². The second was that the Danish

state is also heavily dependent on tax revenues, and has an interest in smaller companies having reliable books of account, and tax returns. For this reason the state in the form of the Ministry of Tax (now Duties and Tax) has always favoured audit of small companies carried out by qualified auditors – which in particular has meant that they have acted indirectly to widen and protect the jurisdiction of the registered auditors.

The result was that the Danish negotiators came from Brussels having negotiated transitional rules supporting the rights of the registered auditors for the time being, but leaving their long-term future unsure. There were problems, one of which was that the restrictions on ability to audit given in Articles 20-22 bore no relationship to the already existing Danish restrictions. The ensuing attempts at legislation caused endless problems for the actors involved, as are documented here.

The major difficulty with the solution chosen was that in Denmark a group of auditors were created (albeit small) which lived up to Article 4 of the Directive but whose right to audit was restricted. An Alice-in Wonderland situation developed in the 1990s with the registered auditors qualified before the legislation was passed introducing the Directive having more rights to audit than those qualifying under the new rules with a longer education! It was hard to see why the registered auditors could not go back to the European Commission and argue that their newly educated members are just as good as statutory auditors recognised under the normal Eighth Directive rules. This was perhaps part of the reason why the restrictions were almost totally removed in the legislation of 7th June 2001, so now the only restriction remaining is that a quoted company should have a state authorised auditor as one of its two auditors.

Much of the implementation process was closely linked to the micropolitics of the relationship between the two professional bodies. The registered auditors were, through their association FRR, interested in usurping the position of the state authorised auditors in the sphere of auditing. At the same time they were not interested in their education becoming a stopping-off point for those who were failing at the examinations on the way to becoming state authorised auditors. They went in for a ‘pipeline model’ where once you have started there is no leaving the ‘pipeline’ to take another education without going back to the start. It was ultimately to misfire – few have wanted to enter, probably partially because of the fact that it is a pipeline. FSR were also interested in this model applying for the registered auditors, they were not interested in a ‘metro’ model where it would be possible to get off and on at different ‘stations’ along the route of the education – for instance if the first stages of the two auditor qualifications were the same. They were concerned that students would drop out of the masters’ programme in business economics and auditing and take the registered auditor qualification. Although the Ministry of Education on the other hand, did not like the pipeline model for the obvious reason that it is illogical and frustrating in a public educational system that there should be blind tunnels, then this was basically what operated until 2002. It seems that it would surely be more sensible for students to be able to move between the two educations and not have to virtually restart, but perhaps the fact that it was not possible for so long illustrated the strength the lobbying engaged in by the both professional bodies. It clearly demonstrates that when a profession is not in control of its educational programme, as the registered auditors were not, it leaves its privileges and future to be decided by other parties.

The long story of the implementation of the Eighth Directive was played out in a regulatory space where the state and the profession were not simple institutions whose reaction one with the other can ‘explain’ what happened. Rather the profession was made up of two competing professional groups, represented by FSR and FRR, and the state by two Ministries, who if not in direct

competition with each other, were not always in agreement. The educational institutions (business schools, universities and business colleges) under the Ministry of Education formed a third grouping, which were semi-independent of the state. The regulatory space was characterised by corporatism and by 'overlappingness' of institutions and actors. The most important state committee dealing with auditing, the Auditor Commission, was effectively dominated by the state authorised auditors some with direct connections to FSR. Thus they both had a direct influence and a more indirect one through lobbying.

The two professional associations were interested not only in influencing the legislation, but also the courses run by the educational institutions. Through a special committee (up until 1998 this was known as the §22 Committee, now it is known as the §17 Committee) educational institutions are obliged to meet with the representatives of the profession and the Commerce and Companies Agency. We have personal evidence of the active involvement of FSR in this committee. It is clear that they regard the masters' degree in auditing as 'their' education. Thus while the educational sector has not been entirely without influence on events, and the final solution that made it possible for the aspirant registered and state authorised auditors to be educated together was primarily developed at the Copenhagen Business School, it seems unlikely it could have been realised without the support of the professional associations.

This paper has been concerned with the relationship between education and jurisdiction; one of the interesting things to note about it is how little discussion there has actually been of the precise knowledge content of the courses being argued about. What seems to matter is whether or not a course is carried out at a university institution or a non-university institution, the phrase 'university level' in Denmark being strongly argued to mean at a university institution (as the Business Schools are, but not the Colleges). One role which the educational sector has is to realise in practice the regulations issued by the government, and thus to make syllabuses and to decide on the relative weight to be placed on different subjects. This is an area where the educational institutions have some possibilities for acting independently of the profession. However even here there are influences, for members of the profession often teach as external lecturers in accounting and auditing, and others act as external examiners. In addition many students, especially in Copenhagen work in audit firms while they are studying, some such students typically are members of the Board of Studies for the masters' degree. All in all, coupled with the role of §17 Committee, where the profession and the educational institutions meet informally, then there is, here, also evidence of corporatism in the relationship educational institutions and profession in Denmark²³.

To someone coming from the outside it may seem surprising that there has been so little interest in becoming a registered auditor, the difference in the right to audit was not important for auditors working with medium or small companies. There was not only no 'race for the bottom' in Denmark, very few have bothered even to start the new registered auditor education. Besides the confused situation concerning the courses etcetera which could be taken, then this seems to link to the specific link to the status of being an 'academic' (*akademiker*), which in Denmark means having been through a 'proper' 5-year course, which means in this context taking a masters' degree in auditing. The state authorised auditors argue that they have to have this education to meet the level of that of the people with whom they are dealing at their client companies²⁴. It is also a small country, where institutions and degrees are well known, so an auditor may be asked where he did his masters' degree, and the answer would normally be Århus or Copenhagen, the other institutions offering the degree being less well known in this context. It just would not be quite the same to say Ishøj Business College followed by a supplementary at the Copenhagen Business School. In

Denmark doing an 'academic course' makes you an academic, a member of a high status group in society. The concept of 'statutory auditor' at the EU level clearly hides at the local level a variety of rather different roles and meanings, ones which are closely linked to the economic and social context. This clearly has consequences for the current attempts to harmonise the education and qualification of auditors on an international basis (e.g. those being currently being made by the International Federation of Accountants (IFAC)'s Education Committee).

International regulations, such as those coming from the EU, get implemented in very different situations in different countries. In this case the results of the implementation of this Directive in the context of intra-professional competition between two groups of auditors resulted in a consequences, many years after the Directive was approved, which seem fairly illogical and hardly bear out the intentions of the European Commission. There is nothing new in this observation, but it certainly indicates that we should be wary of accepting uncritically the notion that the harmonisation of accounting and auditing is something which can be achieved simply and easily by dictates from 'above'; be it the European Commission or any other organisation. Comparing to the UK (Cooper *et al*, 1996; Robson *et al*, 1994), in Denmark the issues which became the subject of controversy, and all the lobbying which went with this, were quite different to those in the UK where the primary issue concerned with the loss of self-regulation by the professional associations, something which was not of issue in the Danish debate as the Danish professional bodies have never themselves been responsible for authorising auditors, it has always been the state that has done this. Looking at the debate in the British professional press about the Eighth Directive with Danish eyes, it seems hard to see that they were even discussing the implementation of the same Directive. It was different paragraphs that caused different problems for different Member States. In other words, the issues that entered the regulatory space were different, although many of the actors were similar. In all countries the accounting profession and the state were involved, but what is brought out by detailed studies of the implementation is the way in which the various controversial issues arose and were dealt with in different regulatory contexts.

At first glance the harmonisation of the education and qualification of auditors in the European Union does not appear to be a subject which would be very controversial at all, but it has been, and not only in Denmark (see Cooper *et al*, 1996; Caramanis, 1999). One of the reasons for this is clear, harmonising education and qualification is something which has a 'bodily' impact on the aspirant auditor in the Foucauldian sense of acting on their body to 'dressage' it in forms of knowledge and practice (see e.g. Rose, 1999). Linked to professional jurisdiction (can or cannot audit) then it becomes of very crucial interest to individuals and to their professional associations; for individuals it is about their livelihood, for professional associations about their collective social mobility. It is thus not surprising that the form of debate over education and qualification harmonisation ends up being somewhat different, in the sense of mobilising different forms of discourse and interest groups, to that in the area of the harmonisation of technical accounting and auditing standards. The harmonisation of accounting and auditing standards impacts on the professional technologies (in the Foucauldian sense) used in the work of the auditor and accountant, however it does not impact on the 'body' of the auditor in the same way as it does in the case of education and training. Debate about technical standards tends to remain in the private sphere of the technicians of the profession and the civil service; debate about education and qualification has more of a tendency to take place in the political sphere and involve a wider range of actors.

On 21st May 2003 the European Commission issued a Communication entitled "Reinforcing the Statutory audit in the European Union" which contains proposals that would, according to the

Director General of the Internal Market DG, radically overhaul and extend existing EU legislation concerning the statutory audit (Schaub, 2003). This would be achieved primarily through a wide-ranging modernization of the Eighth Company Law Directive to include principles concerning public oversight of auditors, auditor independence and ethics, auditing standards and quality, auditor appointment and dismissal and disciplinary procedures. A Directive of this scope and ambition would clearly spell a new era for the regulation of statutory auditors in the EU. Even a brief consideration of the variety of auditor and audit regulation currently in place in the European Union is enough to reveal that the implementation of such a Directive will not be easy, even if the way in which the European Union regulates has developed since the 1980s, becoming more of a 'regulatory state' (Moran, 2002) that is intended to enable member states to work together more effectively through 'principle based' standards and 'comitology'²⁵. Interesting times are certainly ahead in the field of audit regulation.

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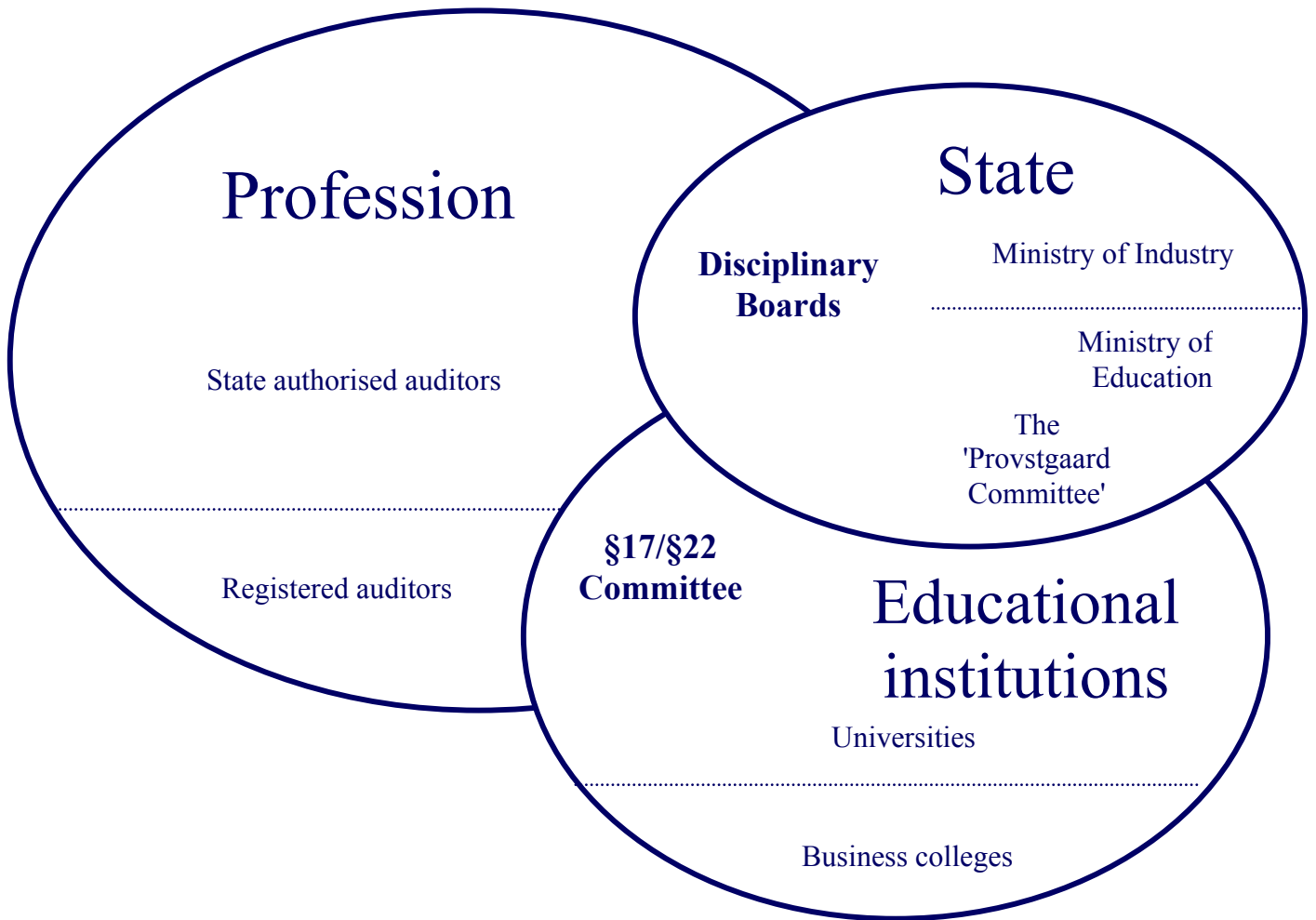
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Figure 1. Actors in the Danish Regulatory Space



Appendix 1. Timetable

- **1972:** Denmark and UK joins EC
- **1978:** Fourth Directive: Auditing do be done by authorised persons
- **1978:** First proposal for Eighth Directive
- **1978-84:** Negotiations and compromises.
- **1984:** Eighth Directive accepted. Calls for education at 'university level'.
- **1985:** Ministry of Industry recognises something has to be done to the education of registered auditors
- **1985:** FRR settles for an article 20-22 authorisation (full rights for old registered auditors, limited rights for new)
- **1986:** Ministry of Education sets up a committee to investigate the possible role of universities in educating registered auditors
- **1987:** FSR enters the debate arguing for the Dutch solution
- **1988:** Eighth Directive implemented into Danish law (the 'Auditor Package' legislation)
- **1989:** FRR plan for an article 4 (university) education at business colleges
- **1990:** Standing order from the Ministry of Industry: Full rights to audit for old registered auditors; Limited rights to audit for new registered auditors; Education at business colleges and universities.
- **1991:** Ministry of Education enters with educational guideline and syllabus for the business colleges
- **1994:** Although in favour the minister cannot force the universities to admit candidates with college degree to master programmes
- **1995:** Principal decision from Ministry of Education: bachelor degrees only from universities (overruling the Ministry of Industry)
- **1995:** FRR recognises college education not in accordance with Eighth Directive and recommends university education.
- **1997:** Ministry of Education close down college education.
- **2000:** University programmes in danger of being closed because of to few students
- **2001:** New bill suggests small companies exempted from statutory audits and full rights of audit for registered auditors.
- **June 2001:** New Law - small companies NOT exempted from statutory audits, full rights of audit for registered auditors.
- **2002:** University bachelor programme in auditing closed. New registered auditors must take the first part of the Master programme in auditing at the universities.
- **2003:** EU announces an update of the Eighth Directive in 2004.

Appendix 2

In the Directive Articles 20-22 put into effect the provisions negotiated by Denmark in respect of the registered auditors: Article 20 states that:

A Member State which does not make use of the possibility provided for in Article 51 (2) of Directive 78/660/EEC and in which, at the time of the adoption of this Directive, several categories of natural persons may, under national legislation, carry out statutory audits of the documents referred to in Article 1 (1) (a), may, until subsequent co-ordination of the statutory auditing of accounting documents, specially approve, for the purpose of carrying out statutory audits of the documents referred to in Article 1 (1) (a) in the case of a company which does not exceed the limits of two of the three criteria established in Article 27 of Directive 78/660/EEC, natural persons acting in their own names who:

- (a) fulfil the conditions imposed in Articles 3 to 19 of this Directive save that the level of the examination of professional competence may be lower than that required in Article 4 of this Directive; and
- (b) have already carried out the statutory audit of the company in question before it exceeds the limits of two of the three criteria established in Article 11 of Directive 78/660/EEC.

Article 20 goes on to prohibit these persons from auditing companies which form part of a group to be consolidated if the group exceeds two of the three Article 27 criteria. Article 21 repeats the provisions of Article 20 but applies to group accounts. Article 22 allows for the practical training of auditors with Article 20 auditors.

Article 4 was important, this lays down the basic educational requirement from which the registered auditors were to be allowed to deviate:

A natural person may be approved to carry out statutory audits of the documents referred to in Article 1 (1) only having attained university entrance level, then completing a course of theoretical instruction, undergone practical training and passed an examination of professional competence of university, final examination level organised or recognised by the State.

¹ See, for example, Burchell *et al* (1985), MacDonald (1985), Loft (1986), Willmott (1986), Puxty *et al* (1987), Cooper *et al* (1988), Richardson (1989), Miller (1990), Sikka & Willmott (1995), Willmott *et al* (1992), Chua & Poullaos (1993, 1998), Young (1994, 1995) Robson (1991, 1993, 1994), Walker (1991) and Walker & Shackleton (1998).

² The involvement of interest group in Danish politics was actively researched during the late 1970s and 1980s, following this there was little activity due to lack of funding for research in the area. In the mid-1990s this changed, hence there have been a spate of publications (most in Danish) on the subject, for instance Blom-Hansen & Daugberg's (1999a) edited book, whose title translates as: "The Organisation of Power: State and Interest Organisations in Denmark".

³ Denmark was classified as a highly corporatist country at the macro-level of economic policy and labour market regulation by the classic authors in this area, Lembruch & Schmitter (1982). In general, studies of corporatism place Denmark either as a highly corporatist or medium corporatist country (see eg. Lehbruch, 1979; Cawson, 1986, Jørgensen, 2001).

⁴ To anyone writing in English about the accounting profession in Scandinavia an immediate problem arises, and that is precisely how to translate that which is known in Denmark (and by similar names in Norway and Sweden) as 'revisor-professionen'. A 'revisor' (an auditor) carries out 'revision' (auditing), literally translated revisor/profession/en' is simply auditor/profession /the. The most prestigious practitioners, the stats/autoriserede revisor/er', state/authorised/auditor/s. In this article what in English is called 'the **accounting** profession' will be referred to as 'the **auditing** profession', as this is the way that Danes conceptualise it.

⁵ Around 90% of all state authorised auditors are members of FSR and 96% of the practising state authorised auditors are members.

⁶ Quite unlike the British system where the professional accounting associations have the right to authorise auditors.

⁷ Danish law allows for something known as the 'retlig' (literally, 'legal') standard; 'retlig' standards being used in areas where professional knowledge and demands are changing fast. Within the auditing and accounting field there are a number of important 'retlig' standards, for example, 'god revisionskik' (good auditing practice).

⁸ The requirements were supplemented by those of the 7th Directive on Consolidated Accounts (83/349/EEC).

⁹ Thus the education was a 'three stage rocket' (Seier-Petersen, 1988:58):

1. The bachelor in business economics (*HA*) which gives access to:
2. The masters' degree in economics and business administration (*cand.merc.*) with auditing as a special subject (stages 1 and 2 fulfil the requirement for the 'theoretical part' of the education and gives access to (after a period of practical experience) to:
3. The final examination set by the Auditor Commission which forms the 'practical part' of the education.

¹⁰ See *Bekendtgørelsen om godkendelse af registrerede revisors uddannelse*, nr. 416 of 24th September 1970, and its replacement, nr. 493 of 21st September 1978, for the precise requirements to be entered on the register.

¹¹ As later described in a 'notat' of 5th September 1985.

¹² What is envisaged here, is courses at the institutions that already taught *cand.merc.aud.* namely Copenhagen Business School, Århus Business School, Ålborg University, Odense University and the Southern Danish Business School (the latter two recently merged).

¹³ In other words that FRR's plans should come to fruition.

¹⁴ *Lovforslag* 26, 5 October 1988.

¹⁵ A tightening up aimed at answering the mounting critique there has been of auditors' behaviour in certain cases of (later discovered) fraud and bankruptcy.

¹⁶ (1) A registered auditor can carry out the legally required audit of a company on the condition that, at the balance sheet date, 2 of the 3 limits given in (3) are not exceeded.

It is a condition that the auditor has carried out the legally required audit for an accounting period where 2 of the 3 limits in (4) were not exceeded. If a company is part of a group, then the group as a whole must not exceed 2 of the limits given in (3).

(2) A registered auditor can carry out the legally required audit of group accounts, so long as the group as a whole does not exceed 2 of the limits given in 3 at the mother companies balance sheet date. It is a condition that the auditor must be qualified to audit all the companies of the group individually.

(3) (a) Total Assets 50 mill. DKK

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- (b) Net Turnover 100 mill. DKK
(c) Average number of employees in accounting year 250.
- (4) (a) Total Assets 12 mill. DKK
(b) Net Turnover 24 mill. DKK
(c) Average number of employees in accounting year 50.
- (5) The rights given in (1) part 1 to audit disappear if the company in question in 2 consecutive accounting years goes over 2 of the limits that are given in (3).

¹⁷ By 1990 there were less than 2.000 state authorised auditors in practice to eventually take over the audit work of around 3.800 practising registered auditors, see Jeppesen (1998; 1999) for further details.

¹⁸ In Danish commonly known as "§22 Udvalget", later renamed "§17 Udvalget"

¹⁹ Svar på høring om merit til revisorkandidatuddannelsen jf. undervisningsministeriets jr. nr. 1993-31-755-1.

²⁰ Redegørelse for universiteternes/handelshøjskolernes teoretiske uddannelse til cand.merc.aud. set i forhold til erhvervsskolernes uddannelsesvej til kvalificeret revisor.

²¹ Details of the structural development of the Danish profession may be found in Jeppesen (1998; 1999).

²² In 1931 the legislation related to the profession of state authorised auditor was actually placed in the '*næringslov*' (sustenance law), but by 1967 auditors had got their own law. Many occupations still come under this, eg. taxi drivers. Laws relating to occupations typically describe qualifications necessary and involve to some extent closure of the occupation. It is seemingly an old concept possibly developing from the guild structure, but has survived in corporatist, social democratic Denmark (in the 1980s even the Conservative coalition bore elements of social democratism).

²³ These paragraphs on education are based on A.Loft's experiences as member of the Board of Studies of the masters' degree in auditing 1990-2003 and Director of Studies 1997-2002.

²⁴ Source of this is interviews with the profession carried out by A.Loft in 2000/1 in connexion with the reform of the masters' degree.

²⁵ The principle of committees of experts, one or more from each member state, working an issue through to an agreement which would be presented 'back home'.