

Regulating statutory auditors' engagements in the public sector: a comparison of legal requirements and audit scope in France, South Africa and Denmark

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Abstract

With the vast acceptance of the International Public Sector Accounting Standards (IPSAS) worldwide, the auditing profession has been making a substantial progress within the public sector. This paper takes a comparative approach through the analysis of documentation from France, South Africa, and Denmark to investigate the regulations of statutory auditors' engagements within the public sphere and the prospects of standardisation. Findings reveal major divergence between studied countries; France depends on the government in managing statutory auditors' engagements, the Supreme Audit Institution has extensive authorities for this task in South Africa, while local authorities have significant independence in managing their relationship with statutory auditors in Denmark.

Key words: Statutory Auditors, Governmental Audit, France, South Africa, Denmark.

Jel Codes Classification : H83, M42.

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تنظيم مهام المدققين القانونيين في القطاع العام: دراسة مقارنة للمتطلبات القانونية ونطاق التدقيق في فرنسا، جنوب إفريقيا والدنمارك

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ملخص

سمح القبول الواسع الذي لاقتته معايير المحاسبة الدولية في القطاع العام (IPSAS) لمهنة التدقيق بتحقيق تقدّم هام في تقديم خدماتها للهيئات العمومية في العديد من الدول. في هذا الإطار، تعتمد هذه الورقة على المقارنة بين تنظيم مهمة المدقق القانوني في القطاع العام في كل من فرنسا، جنوب إفريقيا والدنمارك، من خلال تحليل وثائق رسمية بهدف فحص المقاربات المستخدمة لتنظيم هذه المهام في الدول المختلفة، واستكشاف الآفاق الممكنة للتقارب بينها. تشير النتائج إلى وجود اختلافات هامة بين الدول محل الدراسة، حيث تعتمد فرنسا بشكل كبير على الحكومة في تنظيم مهام المدققين القانونيين في القطاع العام، بينما لدى الجهاز الأعلى للرقابة المالية والمحاسبة صلاحيات واسعة في هذا الخصوص في جنوب إفريقيا، فيما تتمتع الجماعات المحلية باستقلالية كبيرة في تسيير علاقتها بالمدققين الحكوميين في الدنمارك.

الكلمات المفتاحية: المدققون الخارجيون المستقلون، التدقيق الحكومي، فرنسا، جنوب إفريقيا، الدنمارك.

التصنيف JEL: H83، M42.

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Introduction

Statutory auditors are often perceived as public interest guards given that their profession is distinguished from other forms of public accountancy in that they perform the audits mandated by the law and regulated by the state (Baker et al., 2014, p. 372). Simultaneously, protecting public interest is considered the primary purpose for regulating the auditing profession. However, this notion is translated differently from a country to another since regulations reflect the historical, political and economic traditions of every jurisdiction.

Simultaneously, statutory auditors have been expanding their competence field, which has been exclusive to the private sector for a long time, to governmental audits, benefiting from the introduction of the accrual basis of accounting, its main area of knowledge, to the public sector, and the large global acceptance of the International Public Sector Accounting Standards (IPSAS). These reforms have introduced new types of governance to the public sector justified by the pursuit of efficiency, *inert alia*, the promotion of external audit of public entities' financial statements as a fundamental component of governmental audits, to a level that Supreme Audit Institutions (SAIs) can no longer cover relying solely on their resources. For instance, the Algerian National Accounting Board (CNC) has issued in the beginning of 2021 a notice to seek the assistance of the accountancy profession in the forthcoming reforms of public sector accounting anticipated with the application of the Constitutional Bylaw on Budget Acts of 2018 (LOLF), including the certification of public entities' accounts (CNC, 2021).

At the international level, the results of these reforms have led to a considerable diversity in the ways audit engagements are regulated in distinct countries. This situation ranges from the SAIs having a monopoly on public sector audit in some countries, to the full outsourcing of these audits to statutory auditors in others, except for the audit of the central government that is usually not subject to public tenders. Additionally, audit harmonisation efforts have focused on statutory auditors' qualifications and audit standards directed towards the private sector, leaving a room for major regulating differences between countries.

From an academic standpoint, we note a scarcity in the literature about regulating statutory auditors' engagements in the public sector, which covers both the regulation of the auditing profession and the organisation of governmental audits. Moreover, the unique conditions in which auditors perform their missions in the public sector provide an unusual opportunity to investigate the mixture of audit and politics. Thereby, this paper takes a comparative approach in exploring the ways in which statutory auditors' engagements within the public sector are regulated in three countries that belong to different economic and legal traditions: France, South Africa, and Denmark. We aim to provide a thorough understanding, to recognise the trends in the regulations, and to map out and comprehend how the studied countries arrange the relationship between statutory auditors and public sector entities.

France, South Africa, and Denmark are particularly well suited for illuminating the question of the study since they are each at a different stage of public auditing reforms, they operate in different environments of public administration styles, and have distinct regulatory structures for auditing. These conditions can allow a broad view of the way different countries are regulating the interaction between auditors and public entities. The results of this study are of potential interest to the auditing profession that is working consistently to place itself in the public sector audit market in different countries, and to regulators and standard setters who pursue the best practices in implementing audit arrangements.

This research is designed as a comparative study involving data from public documents and site visits, and reviewing a range of primary as well as secondary documentation. The key regulatory functions addressed in this paper are related to audit scope, regulating bodies, auditor's appointment, and audit report. We emphasise as well the interaction between the

government, the SAI, and statutory auditors in each studied country. This analytical focus on the statutory auditor's engagements in the public sector distinguishes our study from others that focus on statutory audit regulations in the prior literature. Thus, the paper may contribute to the general understanding of the cooperation between statutory auditors and SAIs, which could benefit countries that are planning similar reforms like Algeria.

The remainder of this paper is divided into three sections followed by a conclusion. In the next section, a number of prior studies on audit regulations and statutory auditors within the public sector are discussed. The second section is devoted to exploring the regulations related to statutory auditors' engagements in the public sector in France, South Africa, and Denmark. The third section outlines the comparative analysis and discussion, while the conclusion summarises findings and suggests brief recommendations.

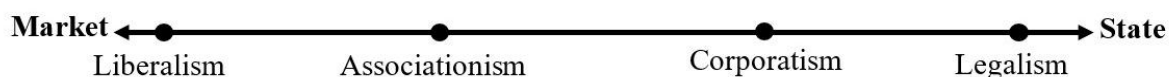
I- Audit regulations and statutory auditors in the public sector in previous literature

A notable body of literature has investigated the subject of statutory auditors performing governmental audits (eg. Bradbury, 2017; Cagle & Pridgen, 2015; Carslaw et al., 2012; Chong et al., 2009; Greenwood, 2017). These studies emphasise mainly audit quality and the competitive environment outsourcing these services has created. It is noticeable that most of this research has been conducted in the USA and other English-speaking countries, like the UK, Australia, and New Zealand, mainly due to the fact that these nations are the early adopters of the New Public Management (NPM) reforms, which increased the employment of competitive structures like outsourcing governmental audits (Chong et al., 2009, p. 676). However, with the expansion of public sector accounting reforms under the umbrella of international standards, more jurisdictions are moving towards a model where it is ordinary for statutory auditors to conduct audits in the public sector.

Outsourcing governmental audits is the result of several reforms in the public sector that took place as a part of a liberal paradigm of privatisation and marketisation aiming to establish market-type mechanisms in the public sector (Pollit & Summa, 1997). According to Sunder (1999), the bankruptcy of New York City in 1975 has triggered a stream of pressures to conform public sector accounting and auditing to the private sector practices. The idea was to enhance audit quality in the public sector through the introduction of competition and benefiting from the auditing profession's expertise.

However, the issue of the quality of audits performed by statutory auditors in the public sector has raised concerns about regulating auditors in this environment. For example, Elder and Kattelus (1997) imply that rigorous audit regulations serve to eliminate substandard suppliers of audit services in the public sector. Similarly, it has been suggested that more strict monitoring and enforcement procedures should be established for statutory auditors who perform public sector audits (Cagle & Pridgen, 2015, p. 80). In contrast, Lowensohn and Collins (2001, p. 33) affirm that the way public sector audits are regulated serves to reduce statutory auditors' motivation to pursue these audits.

From another angle, Puxty et al. (1987) propose an analytical framework of the different modes of regulating the accounting profession based on the models of social orders suggested by Streeck and Schmitter (1985). In this context, regulating the accounting practices reflects a combination of market organisation principles, the state, and society. They identified four modes of regulation that vary according to the relative weight of the market and the state: liberalism, associationism, corporatism, and legalism. This view is illustrated in Figure n° 1.

Figure n°1: Ideal types of regulation

Source: Bédard et al. (2002, p. 141)

In liberalism, market forces are the only control over auditors. Audit is regarded as an exchanged good within the markets. Audit fees reflect the value companies and society obtain from the credibility added to the audited financial statements. Thus, market forces exert pressure on auditors to set high standards, voluntarily comply with them, and assume unlimited liability. Moreover, associationism falls into an intermediate level where control is established through associations that represent and defend the interests of their members. In corporatism, the state does not allow the existence of independent associations; it integrates them into its control system to establish and imply its policy. Finally, for legalism control over the auditing profession is based exclusively on the principles decreed by the state (Bédard et al., 2002, pp. 141-142).

The analysis presented by Puxty et al. (1987) allowed them to compare the modes of accounting regulation in Germany, the UK, Sweden, and the USA. Their results indicate that in Germany, this mode is closer to legalism, in Sweden to corporatism, in the UK to associationism, and in the USA it is a mixture of associationism and legalism. Bédard et al. (2002) build their analysis on the same grid when comparing audit regulations in Canada, the USA, and France. Their results suggest that Canada uses a mixture of corporatism and associationism, the USA a mixture of associationism and legalism, and France a mixture of corporatism and legalism. Similarly, Baker et al. (2001) indicate that the regulation of the statutory auditor in the UK relies significantly on professional bodies (associationism), while quasi-governmental entities carry out the regulatory functions in France and Germany (a mixture of corporatism and legalism). This analysis could be used in studies like ours to categorise and make sense of the observed regulation styles.

Another perspective that could contribute to understanding the regulation modes of the relationship between statutory auditors and public sector auditees is the public administration culture. The three countries discussed in this paper (France, South Africa, and Denmark) belong each to a different style of public management; Southern European, Anglo-American, and Nordic. Anglo-American countries are characterised by a stronger influence of the professional accounting associations when auditing regulation is designed, while in the Nordic and Southern European countries standard-setting bodies usually rely upon a central government department with the collaboration of the accounting profession. In the way these styles are structured, it is expected for the Anglo-American context to be more congenial with statutory auditors conducting audits in the public sector. Conversely, the Southern European countries, where compliance is a crucial subject, are not always compatible with the economic rationality that guides the use of private sector auditors in the public sector.

In this context, our paper seeks to investigate and compare how statutory auditors' engagements are arranged in three countries that belong to different public administration models. Thus, for the purpose of this study, France represents the Southern European style where the government plays a significant role in regulating the auditing professions, while South Africa corresponds to the Anglo-American model since the regulation of the audit profession in South Africa is similar to that in the UK, the USA, and other Anglo-American countries. The use of the South African case is due as well to the fact that little research has been done on the South African public sector audit compared to other countries from the same public administration model. Denmark on the other hand is a constitutional monarchy from the Nordic countries where local government has a significant degree of autonomy.

II- Regulating statutory auditors' engagements in the public sector

In this section, we discuss the different dimensions of the regulations related to statutory auditors' engagements within the public sector in France, South African, and Denmark. We emphasise as well the role SAIs and governments play in the organisation of the relationship between statutory auditors and public entities in each country.

II-1- France

II-1-1- Audit scope

Appointing a statutory auditor in France for the purpose of forming an opinion on annual accounts is not a new practice for public economic entities that are subject to private law. However, various public entities of non-economic nature have been placed under the obligation to have their accounts certified, mainly through the Financial Security Law of 2003 written into the Commercial Code. These entities, whether applying the rules of governmental accounting or not, are required to appoint at least two statutory auditors and two suppliers when they draw up consolidated accounts (Loi n° 2003-706, 2003, section 135). In 2006, the certification of annual accounts was enacted for the General Social Security Regime by the French SAI (Cour Des Comptes) and the other regimes by a statutory auditor (Code de la sécurité sociale, 2006, section L114-8).

In 2007, public universities that choose autonomy were compelled to appoint a statutory auditor for the purpose of the certification of their accounts (Loi n° 2007-1199, 2007), followed in 2009 by public hospitals (Loi n° 2009-879, 2009). Subsequently, consular chambers, museums, and seaports have been introduced to the certification of annual accounts by a statutory auditor since 2014. However, France does not impose the audit of all public entities' accounts by a statutory auditor. Rather, the government adopts an economic logic in this aspect aiming to reduce costs and to focalise efforts and resources on entities that pose the largest financial challenges (Lizot & Lascawiec, 2014, p. 68). Furthermore, France is currently leading an experimental process for the period 2015-2023 on the certification of annual accounts of local authorities in 25 provinces (Loi n° 2015-991, 2015).

The type of audit services statutory auditors deliver is limited to financial auditing. It corresponds to the audit of annual accounts leading to certify, with reasonable assurance, that they are regular, sincere, and offer a faithful representation about the results of the auditee's operations and its financial situation. Accordingly, the statutory auditor's mission does not cover performance and compliance audit services.

II-1-2- Regulating bodies

In France, statutory audit is regulated by the French government with the help of governmental and professional bodies it sets up. We would nevertheless note that, as a member of the European Union, the French auditing status follows the Audit Directive and Regulation (EU) No 537/2014. A statutory auditor is defined as a professional registered in the official list of the Order of Statutory Auditors established by the High Council of Auditors (H3C) that works under the Minister of Justice and is designated as the independent, non-governmental body responsible for overseeing the audit profession (Code de commerce, 2013, section L822-1).

Moreover, the H3C, which regulates the profession of statutory auditing in France, has delegated the National Company of Auditors (CNCC), the representative body of professionals established under the Minister of Justice, the tasks related to monitoring compliance with statutory auditors' continuing training obligations. The CNCC issues as well local audit standards (NEPs) after consulting with the H3C and the approval of the Minister of

Justice (H3C, 2020). Hence, the government contributes considerably to the regulation of the statutory audit profession.

II-1-3- Auditor's appointment

The appointment of a statutory auditor in the French public sector requires passing by the public procurement market in a legally regulated tendering process. Audit services presented by statutory auditors fall into the category of accounting and audit services defined by Section 29 of the Public Market Act. The legal affairs department in the Ministry of Economy specifies the points of the Public Markets Act that are affected by the organisation of the profession and the rules of ethics relevant to statutory auditors. Otherwise, the principles of the public procurement market are applied to the selection procedures. These specifications are related, *inter alia*, to setting statutory auditors' mandate to six periods and specifying the rules related to audit fees (DGCP, 2008, pp. 141-151).

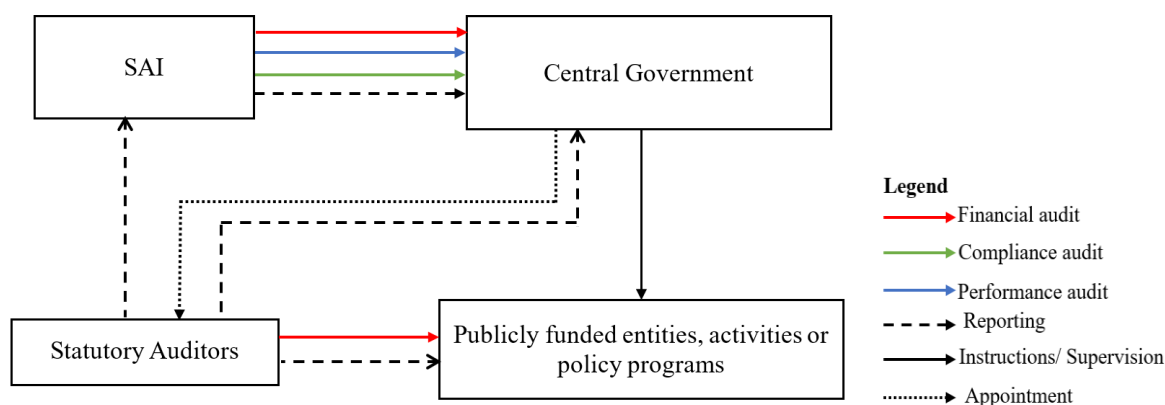
The nomination of the statutory auditor passes subsequently by proposing, to the Minister of Economy, an auditor from the offers received following the tender process. The authority to propose an auditor returns jointly to the administration board and the manager of the public entity. This step is subject to a deliberation of the administration board. The board's choice is presented next to the Minister by the entity's manager (DGCP, 2008, pp. 144-145). The authority to nominate the auditor returns to the Minister of Economy and the selected auditor must be notified only after this nomination (Loi n° 84-148, 1984, section 30). We note that the French SAI does not interfere in the auditor's appointment.

II-1-4- Audit report

In France, the auditor's report related to the certification of a public entities' accounts is not different from that of a private entity; it contains other than the general introduction, a first part consecrated to the auditor's opinion, a second part that specifies the justifications of the auditor's appreciations, and a third part related to special information and verifications (DGCP, 2008, p. 25). Statutory auditors use the local audits standards (NEPs) related to reporting audit findings when conducting their mission in the public sector. These standards are based on the International Standards on Auditing (ISAs). Audit opinion can take three forms; clean certification, certification with reservations, and refusal of certification (DGCP, 2008, p. 26).

Auditors submit their report to the auditee's management at least one month after the accounting documents related to the accounts closed by the administration board are made available to them (DGCP 2008, p. 25). The audit reports of public entities produced by statutory auditors must be sent without delay to the French SAI that draws up a summary and issues, on this basis, an opinion on the quality of the auditees' accounts. This opinion, besides being made available to the public, is sent to the Prime Minister, the Minister responsible for the budget, and the presidents of parliamentary assemblies (Ordonnance n° 2016-1360, 2016, section 8). However, audit reports by statutory auditors are not available to the public.

The review discussed above can be summarised in Figure n° 2.

Figure n°2: Statutory auditors' insertion in the French public sector

Source: authors

II-2- South Africa

II-2-1- Audit scope

Public sector auditing in South Africa is regulated through the Public Audit Act (PAA) of 2004. This legislation defines the public entities that are subject to an audit by the Auditor General South Africa (AGSA), that is the South African SAI, and the cases when they engage in appointing a statutory auditor to perform the audit, either on behalf of the AGSA, or when the latter opts not to audit certain entities. The imposition of public sector auditing in South Africa covers all public entities, which include a large sphere where audits are undertaken in a variety of legislative frameworks. To cover these engagements within the prescribed timeline, the AGSA collaborates with statutory auditors.

Regarding the types of audit services delivered by statutory auditors when auditing on behalf of the AGSA, or when it opts not to audit certain auditees, auditors must perform a financial audit, an audit of compliance with key legislations that aims to deliver assurance about compliance with specific provisions of key legislation that have been designated as the compliance criteria for the engagement, and an audit of reported performance information in which the auditor assesses whether the reported performance information presented in the annual performance report of the auditee is free from material misstatement. Audit of reported performance information is not to be confused with performance audit that aims to verify if the auditee has implemented appropriate and adequate measures to assure that resources are utilised economically, efficiently, and effectively.

II-2-2- Regulating bodies

The Independent Regulatory Board for Auditors (IRBA) is the body responsible for the regulation of the auditing profession in South Africa. The Minister of Finance has the authority to appoint the members of the IRBA and for its supervision (APA, 2005, section 11(2)). The IRBA appoints the members of the Standards Committee for Auditor Ethics (CFAE) and the Standards Committee for Auditing Standards (CFAS), which are responsible for the setting of ethical and auditing standards respectively (APA, 2005, section 20(3)).

Section 12(1) of the PAA (2004) specifies the requirements related to statutory auditors authorised to perform or to assist the AGSA in performing the audits of public entities. The PAA gives the authority to determine the minimum qualifications, experience, and competence of authorised auditors to the AGSA. The latter plays an active role in regulating the relationship between the statutory auditors and public entities through issuing a code of conduct and taking any disciplinary steps when necessary. Thus, even though there is no

specific public sector auditing certification for statutory auditors, the power to decide if a certain auditor is qualified to perform these audits returns to the AGSA.

II-2-3- Auditor's appointment

The process of appointing a statutory auditor to audit a public entity is different in the case when the AGSA opts not to perform an audit from that when the statutory auditor is performing an audit on its behalf. According to Section 25(1) of the PAA, If the AGSA chooses not to perform the audit of a certain public entity, it has to notify the concerned auditee before the start of the financial year for which the appointment is to be made. The public entity has to appoint a statutory auditor through a tender process and to notify the AGSA of the suggested auditor and any other required information. The AGSA can, within fourteen days of receiving the notification, reject the suggested auditor's appointment. In this case, the public entity must recommence the process to appoint another statutory auditor. The duration of the audit contract when the AGSA opts not to audit cannot be for a longer period than one financial year, during which, the auditor acquires the same general auditing authorities as to the AGSA.

The other scenario where public entities appoint a statutory auditor is when the latter performs audits on behalf of the AGSA. In this case, contracted auditors are regarded as a part of the AGSA's team. A rigorous tender process is organised by the AGSA to draw up an approved list of statutory auditors to perform audits on its behalf. Only auditors who are included in the approved list will be allocated audit missions (IRBA & AGSA, 2015a, p. 6).

II-2-4- Audit report

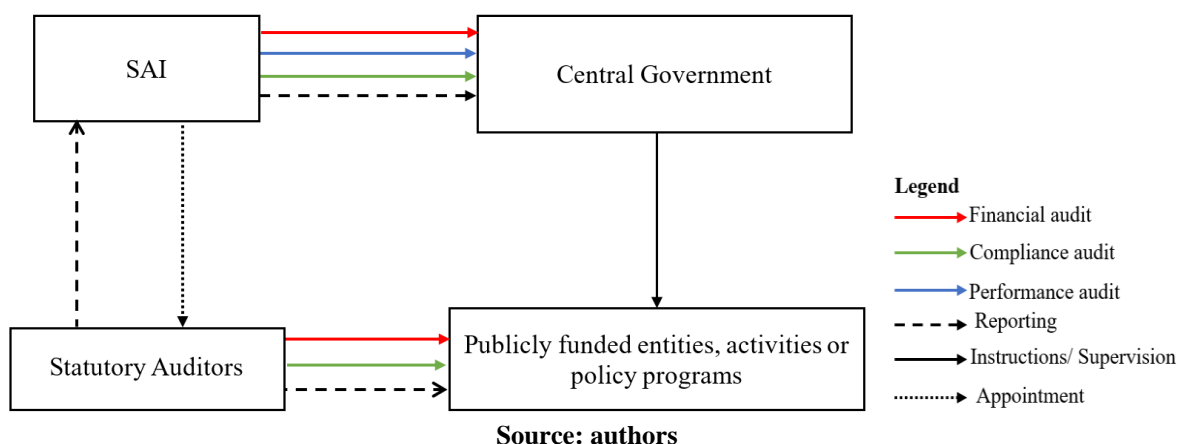
When statutory auditors are performing public sector audits in the cases where the AGSA has opted not to audit, they prepare their reports as portrayed in the South African Auditing Practice Statement (SAAPS) 3: Illustrated Reports. This statement clarifies, inter alia, the illustrative report of the AGSA for the public sector considering the requirements of ISAs (IRBA, 2019, p. 28). The AGSA and the IRBA recommend using the report template delivered by the AGSA in view of facilitating the readability of the portfolio overview by the executive authority, and the reporting and analysis by the AGSA (IRBA & AGSA, 2015b, p. 10). The statutory auditor signs the audit report and delivers a copy, not later than five months after the financial year-end, to the AGSA, to the auditee, and to any executive authority for which the submission is required by legislation (PAA, 2004, section 28(3)c).

Moreover, when statutory auditors are performing audits on behalf of the AGSA, they prepare their reports, by the same token, in the format prescribed in the SAAPS 3. However, The AGSA specifies the timeliness of the audit program (IRBA & AGSA, 2015a, p. 15). Statutory auditors can only discuss drafting their reports with the auditee once the AGSA's delegated signatory has approved it for discussion.

Either way, the auditor's report includes, according to Section 28(1) of the PAA (2004), and besides an opinion on financial statements, an opinion on compliance with key legislation, and an opinion on performance against predetermined objectives. The types of audit opinion the statutory auditor may express consist of: unqualified opinion with no findings, unqualified opinion with findings (financially unqualified audit opinion), qualified audit opinion; adverse audit opinion, and a disclaimer of audit opinion (AGSA, 2019). Audit reports are made available to the public and are assembled and presented in the form of an overview by the AGSA.

Figure n° 3 summarises the case discussed above.

Figure n°3: Statutory auditors' insertion in the South African public sector



II-3- Denmark

II-3-1- Audit scope

In Denmark, the arrangements of public sector auditing differ depending on the level of government. However, all public entities have a mandatory requirement to audit their annual financial statements. We can distinguish three categories of legal requirements for auditing as follows (Ernst & Young, 2012, pp. 108-109):

- The central government is subject to an annual audit by the Danish SAI, the National Audit Office (NAO), that include: financial audit, performance audit, and compliance audit. However, some extrabudgetary units are audited by statutory auditors under the instruction of and review by the NAO.
- For the local government that comprehends local administrations, municipalities, and regions: municipalities are subject to an annual financial, compliance, and performance audit by statutory auditors. Regions are subject to an annual financial and performance audit by statutory auditors and a performance audit by the NAO. We note that municipalities in Denmark have their own enterprises;
- The social funds are subject to an annual financial and compliance audit by statutory auditors and a performance audit by the NAO.

Accordingly, all public entities are subject to financial and compliance auditing, besides performance auditing that has been compulsory since 1998. According to Jeppesen (2012, p. 223), statutory auditors in the 1980s and early 1990s did not consider conducting audits in the public sector since performance auditing was viewed as being outside of their jurisdiction, that is financial auditing. The statutory auditor must carry out each year a “basic audit” that covers the auditing financial statements, a legally critical audit (compliance audit), and an ongoing management audit (performance audit) (Rigsrevisionen, 2018, p. 3). Furthermore, the scope of the audit must be discussed at an overall level with the auditee before the final audit plan is prepared. The individual audit tasks in the public sector may, generally, be determined by statutory provisions on the audit, applicable audit instructions, or the specific audit agreements between the statutory auditor and the auditee (Rigsrevisionen, 2018, p. 9).

II-3-2- Regulating bodies

The Danish audit profession is regulated at the state level, however, as a member of the European Union, Denmark has adopted in its auditing regulations the Audit Directive and Regulation (EU) No 537/2014. Before 2013, two professional accountancy organisations existed simultaneously reflecting the presence of two groups of auditors; state-authorized auditors (SPA), who were designated by the Danish Association of State-authorized Auditors (FSR), and registered auditors, who were designated by the Danish Association of Registered Auditors (FRR). This arrangement has been modified since 2013 when Act No. 617 evoked the former qualification system leaving the SPA as the only auditor designation in Denmark (IFAC, 2018). However, during the transition period, registered auditors can keep their title if they wish to. This transition took place after the merger, in 2011, of the FSR, FRR, and REVIFORA, that is an association for younger accountants or trainees. Currently, the FSR–Danish Auditors (FSR) is Denmark’s main organisation for audit professionals in which the majority of auditors are members although joining the FSR is not mandatory.

Furthermore, the Danish NAO has collaborated with the FSR–Danish Auditors to prepare and publish the Public Auditing Standards (SOR) that include in-depth principles for financial auditing based on, and in accordance with, international standards. The SOR supersede, since January 2017, the previous Good Public Sector Auditing Practice, and include 7 different standards, numbered from SOR 1 to SOR 7. Each standard has a specific scope. These areas of application allow distinguishing the different types of audit tasks in standards that are only relevant to the NAO from those that must also be used by the statutory auditors who perform tasks in the public sector. However, statutory auditors generally perform financial audits based on the ISAs (Rigsrevisionen, 2018, p. 6).

The FSR prescribes several requirements to regulate its members. Nevertheless, the Danish Business Authority (DBA), a part of the Ministry of Business and Growth, supervised by the Parliament, is the body that has the power to approve statutory auditors and audit firms, and practice different oversight activities in compliance with the Act No. 1167 (2018). This regulation grants the DBA the authority to establish initial and continuing professional development and the enactment of standards and regulations.

In 2005, The BDO Kommunernes Revision (BDO KR), that is the private division that has acquired the former Danish public accounting firm specialised in auditing municipalities, in collaboration with the Danish NAO, has established a voluntary examination for getting certified as a “certified public accountant” (COR) (BDO, 2012, p. 27). It has been suggested that the introduction of the COR is the result of a jurisdictional dispute between auditors from different backgrounds in Denmark (Jeppesen, 2012). In 2013, the NAO decided to terminate the certification system as a result of the declining interest in the program from statutory auditors (Jeppesen et al., 2017, p. 165). Currently, no special certification is required for the already approved state-authorized auditors to be able to perform public sector audits.

II-3-3- Auditor’s appointment

Appointing a statutory auditor for public entities in Denmark, like most public procurements in this country, is highly decentralised. Following the notion of subsidiarity: “what can be dealt with on a local basis is dealt with on a local basis” (EUROSAI, 2018, p. 34). This can be attributed, according to Pontoppidan (2015, p. 44), to the fact that all public services for individuals and families are delegated to local authorities. The regions are responsible for health services and facilities, and regional development. The municipalities manage primary schools, childcare, eldercare, social care, integration, employment, and benefits. The municipal or regional council, that is to say, the highest decision-making authority in local affairs, elects the statutory auditor through a tender process, and is

considered the client for the auditor (BDO, 2012, p. 9). The statutory auditor is appointed for a four years mandate through a public competitive tender process. Audit fees are paid from the municipality’s or region’s budget. The audit covers all the entities and operations affiliated with the municipality or region (EUROSAI, 2018, p. 36). Thus, the government and the NAO have no hand in appointing statutory auditors for public entities.

II-3-4- Audit report

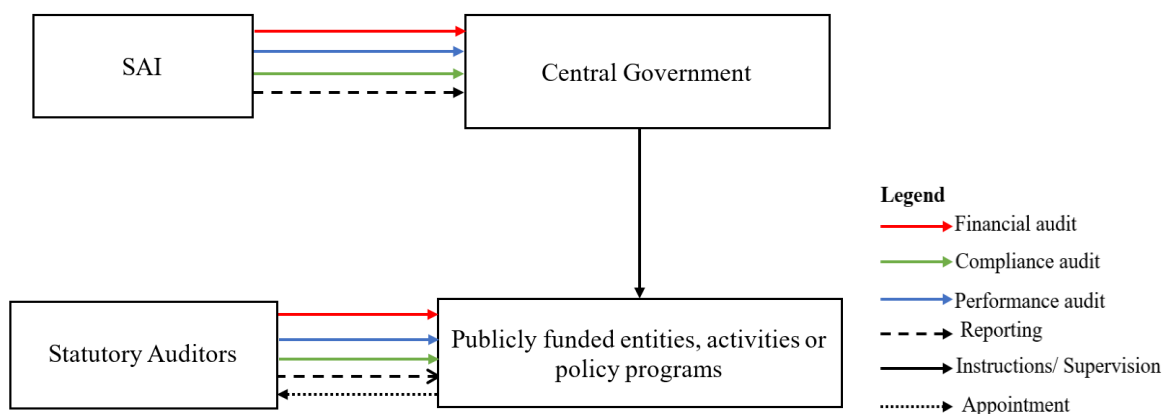
The auditor’s report on public entities’ annual accounts is presented in a standardised format that contains a section with the auditor’s conclusion on the accounts, which is the result of the financial audit. Opinions can be expressed either as an unqualified opinion, a qualified opinion, an adverse opinion, or a statement that the auditor is unable to express an opinion when necessary (Executive Order no. 1024 of 21, 2013, section 2(1)). When the task is multi-year, a report on each year’s accounts is prepared. The report also includes compliance audits and performance audits. The topics the auditor assesses in these audits are often different from year to year, but ensure a basic systematic coverage during the assignment period or a maximum of five years (Rigsrevisionen, 2018, p. 4).

The NAO and the FSR–Danish Auditors have developed templates statutory auditors can use when drafting reports on the performed public sector audits. The templates are based on ISAs and are relevant for audit tasks in the state, regions, municipalities, publicly funded entities, and other tasks with auditing public funds. The FSR–Danish Auditors has prepared as well a number of different versions of the templates specifically targeted at different audit tasks (Folketinget rigsrevisionen, 2020). Additionally, the statutory auditors must state in their report that the audit has been performed in accordance with the standards for public auditing SOR.

Audit reports are submitted to the municipal council or to the regional committees which are responsible for implying the recommendations in the case of a consensus (Ernst & Young, 2012, p. 108). It is essential to highlight that, when statutory auditors audit the financial statements of regions, the NAO may monitor these operations. However, the competences of the NAO and statutory auditors are separated in this regard. The NAO has no access to most of the audit engagements performed by statutory auditors and has no cooperative activities with them (EUROSAI, 2018, p. 36). The audit reports are made available to the public as required by law (Pontoppidan, 2015, p. 52).

Figure n° 4 depicts the Danish case discussed above.

Figure n°4: Statutory auditors’ insertion in the Danish public sector



Source: authors

III- Comparative analysis and discussion

The previous section reveals that the three studied countries have different regulations styles of statutory auditors' engagements in the public sector, although several similarities arise such as the state regulating the statutory audit profession, the existence of professional associations that show a substantial interest in the public sector, and some aspects of the relationship with the SAIs. From a general perspective, we found significant reliance on government in the organisation of statutory auditors' engagement in the French public sector. The south African SAI plays a central role in managing these engagements at different levels, while local authorities in Denmark handle their relationship with statutory auditors independently. Table 1 provides a summary of the comparison between these regulations.

Table n°1: Comparison of regulations related to statutory auditors' engagements in the public sector in the studied countries

| Country | France | South Africa | Denmark |
|--|---|---|--|
| Audit Scope | Entities that pose the largest financial challenges | All public entities | All public entities |
| Audit types | Financial audit | Financial audit, compliance audit, and reported performance information audit | Financial audit, compliance audit, and performance audit |
| Auditor's special requirements | None | Decided by the SAI | Decided by the auditee |
| Auditor's appointment final decision | The government | The SAI | The auditee |
| Submitting the audit report to the SAI | Yes | Yes | No |
| Publishing the audit report | No | Yes | Yes |

Source: Authors

Our results indicate that South Africa and Denmark fall into an organisational model where an annual financial audit is compulsory for all public entities. However, France applies an economic rational in this aspect where only the entities that present substantial challenges are subject to financial audit. This can be attributed to the advanced stage of public sector reforms in South Africa and Denmark compared to France that is witnessing a relatively recent application of the accrual-based public sector accounting standards, allowing the introduction of financial audit to the public sector. Moreover, and while the types of audit performed by statutory auditors in South Africa and Denmark surpass financial audit to introduce other forms of control that include audit of compliance with legislations and performance audit, engagements of statutory auditors in France are limited to financial audit, resulting in substantial similarities in the audit mission between the public end the private sectors in France. This restriction can be explained by the French statutory auditors considering performance and compliance audit to be beyond their jurisdiction.

The relatively limited engagements French statutory auditors have in the public sector compared to their counterparts in South Africa and Denmark may justify the absence of special requirements for statutory auditors to audit public sector entities. However, the French government plays an active role in the auditor's appointment reflecting the substantial level of centralisation in the audit regulation in the country. In South Africa, it is up to the SAI to set an approved list for statutory auditors who can perform audits on its behalf, appoint an auditor

through a tender process, besides possessing the authority to accept or deny the appointment of a statutory auditor by any public entity it opts not to audit. Moreover, the Danish case displays a completely different model in this aspect with the auditee having the independence to set special requirements when appointing statutory auditors and managing the tender process, demonstrating a high level of independence. Though Denmark has witnessed a phase that did not last long when a centrally organised voluntary public sector audit certification scheme has been introduced mimicking what takes place in Sweden and Finland.

Concerning the audit report, we note that France and South Africa have a similar practice that is absent in Denmark, which is forwarding audit reports submitted by statutory auditors to the SAI. The latter oversees statutory auditors' work, prepares a global report, and evaluates the public sector accounts based on that audit work. The Danish SAI has a relatively limited relationship with statutory auditors who perform audits in the public sector, possibly due to the fact that local government in Denmark, the main sphere statutory auditors work in, has a high level of autonomy independently from the central government, that is the main field of activity for the SAI. Furthermore, audit reports produced by statutory auditors are made public in South Africa and Denmark, while the French regulations do not impose this requirement, demonstrating the general culture of disclosing financial and auditing information in France.

Lastly, and from the perspective of the analysis proposed by Puxty et al. (1987), our results indicate that the regulation of the auditing profession in France indicates a mixture of corporatism and legalism, consistently with the findings of Baker et al. (2001) and Bédard et al. (2002). Conversely, in terms of regulating bodies and audit standards, the South African case reflects a mixture of associationism and legalism. Furthermore, Denmark reflects a classic case of the Nordic countries with high levels of independence. However, the government still plays a substantial role in setting the rules for the qualification of statutory auditors through specialised bodies, indicating a mixture of legalism and associationism in Denmark as well.

Conclusion

The aim of this study is to provide a thorough understanding and to recognise the trends in the regulation of statutory auditors' engagements within the public sector in different contexts. Our analysis allows to map out and comprehend how France, Denmark, and South Africa arrange the relationship between statutory auditors and public sector entities, that is, in our opinion, different from its counterpart in the private sector. Findings reveal the absence of a common mode for regulating statutory auditors' engagements within the public sector. Each country bases its regulations on the predominant local culture and public administration style. Except for the aspects of the employed auditing standards, we have not observed any efforts for harmonisation even within the two EU countries, France and Denmark, that show two entirely distinct regulating approaches.

Although the analysis presented in this paper does not allow assessing the best practices among studied countries, we can suggest the following recommendations about foundations for further enhancement of regulating statutory auditors' engagements within the public sector:

- The cooperation between SAIs at the regional and international levels under the umbrella of the INTOSAI can allow the establishment of a common basis to harmonise these practices, and enable countries to learn from each other's experiences;

- Harmonisation perspectives can emphasise in the first step a range of possible options countries may choose from to develop regulations related to statutory auditors' performing audits in the public sector based on the best practices;
- Priorities that need to be addressed in the convergence prospects include promoting the cooperation and coordination between SAIs and statutory auditors, that is substantial for better audit services in the public sector, defining the roles and responsibilities of statutory auditors within different settings and levels of the government, and the accessibility of audit reports;
- Stimulating statutory auditors' interest to provide efficient and effective audit services in the public sector through providing guidance and imposing particular requirements;
- Engaging SAIs to review the work of statutory auditors in the public sector, the way it is implemented in France and South Africa.

The findings of this study provide a starting point for more understanding of statutory auditors' regulations within the public sector in different contexts. Future research can focus on single case studies by local researchers in the pursuit of a profound analysis of the incentives behind the differences discussed in this paper, which could benefit potential initiatives for harmonisation. Another research prospect is comparing statutory auditors' engagements in the public and the private sectors tracking the possible dimensions of the ways politics may affect regulating these engagements.

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