

## A Conceptual Framework for the Study of SAIs

# A Critical Investigation of SAIs' Organisation and Function

Supreme audit institutions (SAIs) as an object for study have attracted primarily researchers from the areas of accounting and audit as well as academics in the fields such as constitutional law, public administration etc. The results are often published as monographs describing one problem concerning some government audits in a specific country. It is rare for SAIs to be studied in a comparative way. This situation can be attributed to relatively less developed conceptual frameworks, including a missing typology on organisation and function for the study of a SAI. Conceptual frameworks are to determine the cognitive structures and the narrative about SAIs. This means that the framework of conception ought to be updated for obtaining an adequate discussion about how to develop and improve SAIs.

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### Introduction

Comparative studies improve our knowledge and understanding on how SAIs are organised and functioning. Academic studies of SAIs require an adequate conceptual framework for making methodical observations. A framework is an assumption for developing theories that increase our understanding of SAIs' way of organisation and functioning in the political and economic system.

The first aim of this article is to analyse the existing typology of SAIs. It is a precondition for developing and improving

typologies for a SAI to new and different dimensions. A reinvented typology provides better opportunities to explain and understand how SAIs have developed under different political and economic circumstances.

The second objective is to develop a typology which illuminates the function of a supreme audit institutions in the political system. Traditionally, the focus is either on the control function of a SAI to maintain the social order or the legitimising function of the accounting by the executive bodies of government. However, this typology cannot be used as a category to classify SAIs because today a more flexible

approach to auditing is used, consisting of consulting and proposals for improvements in the administrations' activities based on audit findings.

A SAI is recognized as an integral part of the template of being a sovereign state<sup>1</sup>. However, there is no common recognized template for how it should be structured and how the audit should be organised to function optimally. This depends to a large extent on the specific characteristics of each individual state. Scientific studies of SAIs have not developed terminologically and theoretically as fast as the actual development of a SAI in the last decades. In this field there exist a terminological back-log.

An effective SAI is today a prerequisite for a state to join the committing international cooperation. Thus, one of the criteria for obtaining EU membership for an applicant country is having an effective external state audit. Furthermore, the UN General Assembly recognized through a resolution<sup>2</sup> the importance of SAIs for improving responsibility and efficiency in the public administration to obtain the UN Millennium Goals, now called the Global Goals.

What makes a SAI audit unique compared to other forms of auditing is the fact that it is facilitating the accountability in

a system of check and balance between the supreme state bodies<sup>3</sup>. It contributes to the equilibrium of powers: the executive/government and the legislative /parliament. SAIs reporting is an element in the parliament's control function and has a responsive function with the executive power during the audit process. The existence and functioning of SAIs create transparency and accountability supporting the political system as such.

### Literature review

In E. L. Normanton's classic work<sup>4</sup> a SAI is based on the concept of accountability and using a comparative methodology. The context of this study is the consequence of the economic growth of the public sector in the post-war period on the development of government audits. In the light of a description of various western SAIs, Normanton pointed out that common denominator of government audit is basically an investigation of the executive power before the legislative power takes its decision on the state accounts presented by the executive power. Supreme audit institutions perform their state audits in very different ways, however there is one common feature – in almost all countries SAIs make sure that the transactions in the state accounts are legitimate (regularity

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<sup>1</sup> J. Magnet: "Higher audit institutions and legislative authority", *International Review of Administrative Science*, Vol 60/1994, pp. 587-593; H.P. Olsen: *Hybrid Governance of Standardized States, Causes and Contours of the Global Regulation of Government Auditing*. CBS, Frederiksberg 2007.

<sup>2</sup> UN General Assembly Resolution A/66/209 on SAI independence, 22.12.2011.

<sup>3</sup> J. Magnet, op.cit.

<sup>4</sup> E.L. Normanton: *The Accountability & Audit of Government. A comparative Study*, Manchester University Press, 1966, pp. 57-82.

Table 1. Three types of SAIs differentiated by the dimension organisation, function and independence

Type	Organisation	Function	Independent of	Example
Court of auditors (A)	Collegial	Audit and jurisdiction	Government and Parliament	France: <i>Cour des comptes</i>
Court of auditors (B)	Collegial	Audit	Government	German: <i>Bundesrechnungshof</i>
Auditor General	Office	Audit	Government	England: National Audit Office

Source: Based on Jacques Magnet's classification of SAIs, *Higher audit institutions...*, op.cit., see footnote 1.

audit). Normanton's lowest common denominator is the real essence of a SAI or a real definition based on empirical observations<sup>5</sup>.

In 1991 a researcher from the French *Cour des comptes*, Jacques Magnet, proposed a classification of SAIs based on three dimensions: organisation, functions and independence, (see table 1). The starting point for this was the author's own French *Cour des comptes* and how other SAIs differed from that real type, regarded as an ideal type<sup>6</sup>. The value of this classification was that it logically pin-pointed three essential characteristics of a SAI. In that sense it is scientifically superior to the widespread and generally accepted typology of SAIs.

The World Bank<sup>7</sup> highlighted that SAIs – similarly to the media and the control exercised by the parliamentary assemblies – had a key role in the fight against corruption. The researchers from the World Bank have

developed a rough typology of SAIs, which consists of three types of government audits:

- court model (Napoleon),
- office model (Westminster),
- board model (prevalent in Asia).

The most developed countries use one of three audit models often determined by the former colonial power, which controlled the country in the 19th century. However, the World Bank does not point to one of these models as being more effective in the fight against corruption.

Jacek Mazur, a researcher from the Polish Supreme Audit Office, presented in 2009 a typological, three-dimensional SAI model: organisation, relation to parliament and types of audits<sup>8</sup>. Each dimension consists of antagonistic concepts as presented in table 2 (p. 41).

Unfortunately, this model has not been used in empirical analysis or been intellectually challenged and improved

<sup>5</sup> J. Locke: *An Essay concerning Human Understanding*, 1689, III.vi.2.

<sup>6</sup> M. Weber: *Sociologie Universalgeschichtliche Analysen Politik*. Kröner 1973, pp. 235-259)

<sup>7</sup> K.M. Dye, R. Stapenhurst: *Pillars of Integrity: The Importance of Supreme Audit Institutions in Curbing Corruption*, The Economic Development Institute of the World Bank 1998.

<sup>8</sup> J. Mazur: "Główne rodzaje najwyższych organów kontroli" (Main Types of Supreme Audit Institutions), *Kontrola Państwowa* No 6/2009, pp. 28-45.

Table 2. Dimensions in a typology of SAIs

Dimension	Concept	Antagonistic concept
Organisation	Courts of audit	„Audit offices” (in different meaning)
Relation to Parliament	Cooperation and interactions with Parliaments	No cooperation with Parliament
Types of audits	Comprehensive audits	Separate regularity audits from performance audits, or limit their activities to regularity audits

Source: Jacek Mazur, “Main Types of Supreme Audit Institutions”, op.cit., see footnote 8.

by researchers from other institutions, though the nature of the article did invite a scientific dialogue on the conceptual and theoretical level.

The UK National Audit Office in 2005 undertook a mapping and description of state audits in the EU. The conclusion of this study was that the individual Member State’s audit of the government was significantly different, even though they worked for and under some common principles, especially independence.

Collecting facts on individual SAIs is frequently done by international institutions such as the European Court of Auditors (ECA, 2021) and INTOSAI. However, this is only fact-based and facts are only giving sense or wisdom when put into a theoretical context.

Apart from these few overview studies, it is characteristic that broader comparative

studies of government audit are often structured in around case studies of individual SAIs and focusing specific aspects of SAIs activities<sup>9</sup>. A special group of comparative studies have looked at the consequences of voter behaviour in the context of the effectiveness of state audits and at how the replacement in the political elite has effects on independence of a SAI<sup>10</sup>. Other studies have shown that the SAIs have some effectiveness and some even have no effect<sup>11</sup>.

### Typology of SAIs

The traditional typology of government audit institutions is a combination of their governance structure and the manner such SAIs are operating<sup>12</sup>. Firstly, there is the question about the organisation of SAIs. Does the management of the SAI follow the hierarchical

<sup>9</sup> M.G. Crespo: *Public Control: A General View* [in:] *Public Expenditure Control in Europe. Coordinating Audit Functions in the European Union*, Edward Elgar Publishing 2005, pp. 3-29; L. Bringselius: *Den statsliga revisionen i Norden. Forskning og politik*. Samfundslitteratur 2017.

<sup>10</sup> M.A. Melo, C. Pereira and C.M. Figueiredo: “Political and Institutional Checks on Corruption: Explaining the Performance of Brazilian Audit Institutions”, *Comparative Political Studies*, 42/2009 : 1217.

<sup>11</sup> L. Blume, S. Voigt: *Supreme Audit Institutions: Extremely superfluous? A Cross Country Assessment*. Paper presented at the XII Conference of the Society for New Institutional Economics, Reykjavik 2007.

<sup>12</sup> K.M. Dye, R. Stapenhurst: *Pillars of Integrity...*, op.cit.

principal or is the SAI structured in accordance with collegial principles? Secondly, it is a question about the working processes of the SAI. The procedures of government audit can be conceived in two professional subcategories. It can be considered either as a judicial court procedure, which decides whether there is an accountability and liability for the accounting officers, or it can be viewed as an audit process, where the task is to generate an information basis, making it possible to conclude to what extent the accounts comply with the requirement imposed by law and accounting standards.

### The court model

Historically, the sovereigns set up tribunals to control their financial affairs, tax collection among them. It also included legal jurisdiction and control of a monarch's officers to ensure that they were accountable for the tax, revenue collected and the spending. The French revolution and the 1793 Constitution (Article 20) changed this conception of the legal jurisdiction of public economics, giving the citizens the right to watch over the establishment and use of taxes, and have an account given to them.

The French *Cour des comptes* was established during the First Empire, in 1807, by Napoleon Bonaparte's decree. It had both judicial and administrative authority. The jurisdiction of the present day *Cour des comptes* is based on the same core as its predecessor's in 1807. The traditional courts of auditors/accounts are organised as a court of law with judges (*Magistrats*) and a prosecutor (*Procureur General*). *Cour*

*des comptes* follows the general principles of legal procedures and, as a result, in a judgement similar in nature to common judicial courts.

The original jurisdiction of the Court was to check the accounting officers' accounts and their management of the funds. Because of the facts established during the audit, the accounting officers could be prosecuted for their violations of the law on the public finances. However the officials who could order the payment or collection of money were outside The Court's jurisdiction.

Today the French *Cour des comptes* ensures that funds management and the accounting officers comply with laws and regulations and the public funds are used properly. The Court audits all government agencies, ministries, departments, commercial and industrial units belonging to the ministries, public social insurances, but also local units such as municipalities etc.

The *Cour des comptes* consists of three bodies. The first one is a special administrative court, the second – an institution that audits the public sector, both central and local. The third one consists of the specialised institutions attached to the court. Under the jurisdiction of the French Court comes primarily the government accounts produced by the accounting officers.

In the 1958 Constitution of the French Fifth Republic, Article 47-2 stipulates that the *Cour des comptes* assists Parliament to control the government. It also assists, both Parliament and the government, in monitoring and enforcing the financing of and legal use of the social security system in France. Finally, the Court

also assists parliament and government in the evaluation of public policies (performance audit).

The *Cour des comptes* has four linked institutions. The Budgetary and Financial Discipline Court (CDBF) judges cases concerning violations of the rules on budget. The Council of Mandatory Contributions (CPO) assesses the economic development of accounts financed by mandatory social contributions and the High Council of Public Finances (HCFP) delivers opinions on Finance Laws. The fourth linked institution is the commission that audits accounts and management of royalty collecting.

Nowadays, many SAIs organised in accordance with the Court's model integrate elements from the Anglo-Saxon tradition of audit as part of modernization of their governmental audit system. The purpose is to match the changes in the state budgeting and accounting. It's a trend, which in the French *Cour des comptes* involves analysis and investigation into the public sectors economic organisation and performance in both more general and specific terms.

The system of court of auditors/accounts is used primarily in Latin European countries, Turkey, the Central and South Americas and in the French-speaking countries, including the Maghreb states.

### The office model

The office model of government audits is named the "Westminster" after the location of English central administration in the City of Westminster in London. Historically, the English state audit was part of the central government administration. Later, it became a separated and independent entity. The model is formed by the

real type of the structure and function of governmental audit, as previously used in the United Kingdom. However, today the English National Audit Office (NAO) is managed more like a private audit firm.

The Westminster model is used in many Commonwealth countries (Australia, Canada, India, New Zealand) and in the USA. Many island states in the Caribbean and the Pacific as well as English-speaking African countries, e.g. South Africa, also uses the Westminster model.

In general, supreme audit institutions in these countries are independent bodies that report to Parliament or to a special committee working on budgetary control and finance laws. It consists mainly of professional accountants and technical experts. SAIs report regularly on the financial statements and management of the government's units – but with less emphasis on legal compliance with laws and other regulation than SAIs organised in accordance with the principles of the court model. A SAI under the office model has no or very limited judicial functions. As an illustration, The United States Government Accountability Office (GAO) provides a forum for resolution of disputes concerning the awards of federal contracts and issues legal opinions and decisions to the Congress and federal agencies on the use of public funds. GAO is an audit and evaluation agency for the US Congress, helping it to monitor federal programs and operations and ensuring that the administration is accountable to the Congress.

GAO is an independent organisation established in 1921 by the Budget and Accounting Act to improve the federal

financial management after the First World War. In the following decades, the Congress urged GAO, with increasing frequency, to help it to fulfil its regulatory and supervisory responsibilities. At the same time, the Congress was given access to request GAO to conduct investigations.

In the 1950s and 1960s the Congress expanded GAO's legal authority, and GAO shifted its focus toward examining the economics and efficiency of public operations and the federal government's programmes. In the early 1970s GAO recruited experts from various disciplines and in the 1980s they reclassified most of GAO's auditors and management analysts as evaluators of the health sector, information management, public order, etc. Over the next two decades, GAO orientated the audit work towards high-risk areas in the federal government's operations.

GAO has three main types of tasks. Firstly, it must examine all issues related to the receipt, disbursement and use of public funds. Secondly, the Office audits mainly both the Internal Revenue Service (IRS) and the Department of Treasury (Ministry of Finance) et al. Finally, GAO produces evaluations of the programmes and activities of the US federal government and its administration.

The US democracy is based on the checks and balances system. It means that the powers of government are divided and balanced among powers of the highest state bodies without being

restrained by other branches<sup>13</sup>. It creates opportunity for the governmental audit to take greater responsibility for conducting studies and a cultural interpretation as public servants of both the executive and legislative branches. GAO was given its powers and legitimacy through legislation. GAO's functions are from the point of view of a constitutional context, giving the American political system high degree of legitimacy.

GAO perceives its duty and responsibility as being equally distributed between the legislature and the people. That interpretation does not place the same restrictions on the audit assessments. The state US audit also reflects the shift in political ideologies. Because of the expansion of government's budgets by Franklin D. Roosevelt's New Deal and Lyndon B. Johnson's welfare state (The Great Society), a performance audit was introduced. The Ronald Reagan era, with the new administrative doctrine based on a mix of populist rhetoric and market ideology, led to a different view of auditing with emphasis on risk studies of the individual audit areas and private sector audit practice.

Today, GAO stands on two legs in terms of the importance of performance auditing and review of compliance (compliance audits). It is postulated to increase accountability in the administration and provide a better audit under the New Public Management (NPM) than that imparted by the NAO<sup>14</sup>.

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<sup>13</sup> A. Hamilton, J. Madison, J. Jay: *The Federalist Papers* 48 & 51, 1787–1788.

<sup>14</sup> S.D. Norton, L.M. Smith: "Contrast and Foundation of the Public Oversight Roles of the U.S Government Accountability and the U.K National Audit Office", *Public Administrative Review*. September/October, 2008, pp. 921-930.

The Danish National Audit Office (NAO) is organised as an independent Auditor General's office under the Parliament (*Folketinget*). The Auditor General manages the audits carried out by the National Audit Office. The Auditor General indirectly reports to the Parliament via the Commission of six auditors (*Statsrevisorerne*), elected by the Parliament in accordance with the Danish Constitution. In practice, NAO is considered as an ideal type of the office model, despite the fact that the Constitution endowed *Statsrevisorerne* with the competence to audit the state accounts. Today, *Statsrevisorerne* has *de facto* parliamentary supervisory function, checking the compliance of the government's implementation of the budget and an efficient performance of the use of appropriations<sup>15</sup>.

### The board model

The board model is characterised by the fact that the decisions regarding the audit issues are made by a college of independent members of board of auditors. It is differentiated from the office model by the final collective decision-making and from the court model by an audit process, not a judicial procedure as in a court. The chairman of the college often acts as a *de facto* auditor general.

An independent collegial leadership of state audits is particularly prevalent in Asia, e.g. in Indonesia, Japan, and Republic of Korea, but it is also to be found in European countries such as Germany,

the Netherlands and the Czech Republic. The European Union's Court of Auditors is based on this model as well.

The German *Bundesrechnungshof* is structured according to a collegial principle, where the 61 members have the status of judges with accompanying legal protection. The collegial element means that all decisions in audit matters are made by the court's members. The Grand Senate of the German Court of Auditors makes decisions on the strategic issues of the Court of Auditors as well as measures included in the annual audit report on the Federal Government's accounts. The other decisions are made either in the court's senate, in audit groups or in colleges of two or three members. When it comes to performance auditing, the president of the *Bundesrechnungshof* has all the competence, even though the performance audit is carried out within the normal organisational structure. The reason for this exclusive decision-making authority is the fact that the president is appointed by the federal government to accomplish the task of performance audit.

The collegial structure of the German federal state audit reflects both the special party structure in Germany with traditional two large centre-seeking parties, which is the result of an electoral system with a high barrier to get representation in Parliament and the fact that Germany is a federal country consisting of 16 states.

The Swedish *Riksrevisionen* was in the years 2002–2020 a collegiate body,

<sup>15</sup> G. Korff: *Parlamentarisk revision i Norden - en sammenligning med særlig vægt på de danske statsrevisorer* i Elm-Larsen, Rolf & Gitte Korff (ed): *Offentlig revision i det 21. århundrede*. Karnov Group 2015, pp.120 -161.



consisting of three auditor generals (members), each with his/her own audit area where he/she could organise audit and take appropriate decisions. Despite the split its collegiate nature prevailed, so the annual report on the results audit to the *Riksdag* was presented as a uniform collective report. The collegial element was also seen in majority decision-making, and that the debate in the collegium was led by the Auditor General with administrative responsibility for *Riksrevisionen*. Today, after some turbulent years concerning the members of the collegial body, *Riksrevisionen*'s organisation is based on the office model.

The Board of the Netherlands Court of Audit (Rekenkamer) consists of three members including the President, who is appointed for life by the government on the recommendation of parliament. The composition of this body is politically balanced. Traditionally, the external government audit has concentrated on performance auditing, and the financial audit has been placed in internal audits<sup>16</sup>.

Japan has a constitutionally independent college of three people, which leads the audit of the state's accounts, the accounts of the public institutions and independent administrative bodies and the bodies receiving state subsidies. The commissioners are appointed by the government, with the consent of both chambers of Parliament, for seven years. The chairman is elected from among them and appointed by the government.

### The private audit model

Since the World Bank in the middle of 1990s established its typology, some SAI institutions have begun to perceive themselves more as private auditing firms and they have adopted the same "governance" structure as private auditing firms.

Nowadays, the UK National Audit Office has a "corporate" structure similar to private audit firms. NAO's main objective is to produce an annual report on the audit on the financial statement, including an opinion on the fair and truth view of the account of government authorities. NAO was reorganised both structurally and cognitively different because of the changes in the dominant political conception of the public sector with the approach of New Public Management.

The organisational structure of NAO was changed in 2012<sup>17</sup>. Presently, it is constituted partly by the office of Comptroller and Auditor General (CAG) and the National Audit Office Board. CAG is an officer of Parliament, designated for period of ten years by the Queen on the recommendation of the Prime Minister and the agreement of the Public Accounts Committee (PAC). During that period he may not hold office for the government or be a member of the House of Lords. The reform separated NAO from CAG, as its management was handed over to a nine-member-board, five of them being external while the other were the Comptroller and Auditor General and three members appointed from the employees of the NAO.

<sup>16</sup> S.J. Stuiveling, R.W. Turksema: *Public Expenditure control in the Netherlands*. Edward Elgar Publishing 2005, p 70.

<sup>17</sup> J. Mazur: "Investigations of the UK NAO. A New Type of Audit?", *Kontrola Państwowa* No 6, 2020, pp. 30-19.

The Chairman of the Board is external, appointed by the Queen on the recommendation of the Prime Minister and with the consent of the PAC. The four other external members are appointed by the PAC. Both the chairman and the other external members have paid positions in both the private and public sectors.

The Board of Directors and CAG must jointly prepare a strategy for the state audit, which must be approved by PAC. NAO and CAG jointly submit the budget to the PAC for approval by the Parliament. The Board of Directors has access to monitor CAG's implementation of the audit and can advise CAG on the audit. It is an advice which he/she is obligated to take into consideration during his implementation of the duties.

The SAI in New Zealand is principally organised according to the Westminster-model and led by the Comptroller and Auditor General. New Zealand chooses either delegating the financial audit to the particular public business unit "Audit New Zealand" (an auditing company under the state audit) or outsourcing the financial audit to private audit firms. The SAI is now concentrating on reporting to the parliament, performance audit, development tasks and supervision of the quality of the financial audit. The characteristic of this model is that one chooses to organise the financial audit isolated from other forms of public audit using the principles applied in the private auditing industry.

The examples from the UK and New Zealand show that the traditional is partly abandoned. These two SAIs have incorporated several key elements from the private

sector in organisation in the way of governance structure and also cognitive approach to audit. Such changes – with the acceptance of auditing standards in the private sector – generate a new form of identity for the SAIs' management and employees. It has consequences in the function of delivered audit.

### A revised typology

SAI's have traditionally been classified into three main groups (court, office & board) on basis of two dimensions:

- The organisational structure (hierarchically or collegially),
- The working method (judicial procedure, audit process).

Today it is possible to identify a fourth type of SAI, which has many similarities with private auditing firms. Table 3 (p. 48) shows the identified four types and their main characteristics in terms of organisational structure, working method and to whom they report.

It's difficult to conclude which factors determine the structure and the function of a SAI but we can get some indications by studying the historical political and economic development of the country. Different historical ties can be observed in the individual parts of the world: Court of auditors are dominant in countries where the population is speaking a Romance language, while the Westminster model is widespread in Anglo-Saxon countries.

It is possible to formulate some hypothesis:

1. The collegiate models are fit for countries to overcome conflicts between different political groups, as this may relate to the state audit; where reconciliation

Table 3. Overview of typology of government audits

	Court of Auditors	The office model	The collegial model	As a private auditing firm
Structure	Court organisation often with collegial elements	Hierarchical and bureaucratic organisation	Collegially led organisation that is usually structured hierarchically	Board of Directors, of which the Auditor General is an ordinary member
Procedure	Judicial process; Audit reports	Audit and investigation processes	Audit and investigation processes	Audit and investigation processes
Reporting	The President and (Parliament)	Parliament	Parliament	The auditees and Parliament

Source: Based on Elm-Larsen, Rolf & Gitte Korff (ed): *Offentlig revision i det 21. århundrede*. Karnov Group 2015, p. 175.

processes may be needed because internal political and social tensions are high;

2. The office model is more suitable for countries with a relatively homogeneous population and with a low level of political conflict;

3. There is a proliferation of structures and functions for a SAI determined partly by political and administrative fashion trends such as NPM;

4. New structures, functions and audit practices are disseminated between SAIs. They copy the practices which successful SAIs have introduced. These institutional changes can be a result of three different mechanisms (coercive, mimetic or normative) that create isomorphism (similarity) within the community of SAIs.

A developed conceptual framework concerning SAI's opens up for theories that might give new perspectives for future research.

## New typology based on function

### Function of audit

In this chapter a new typology for the classification of SAIs is presented, based on the function of the audit performed or what purpose the audit intends to serve. This function is a precondition for social systems continuing existence<sup>18</sup>. In modern society existing functional systems generate an increased complexity by new differentiated and distinct functions on basis of self-reference for securing its own survival<sup>19</sup>. My theoretical starting point is a conceptual framework set up to classify legal systems and their various functions<sup>20</sup>. These are different audit approaches/forms, each with its own associated function, see table 4 (p. 49).

The interaction with the supreme government bodies depends on which function of the audit prevails in the SAI's audit practice. This has consequences for the reporting

<sup>18</sup> E. Durkheim: *De la division du travail social*. 2edition. Press Universitaire de France 1893, p. 12.

<sup>19</sup> N. Luhmann: *Die Gesellschaft der Gesellschaft*, Suhrkamp 1997, p. 756.

<sup>20</sup> P. Nonet, P. Selznick: *Law and Society in Transition. Toward Responsive Law*. Transaction Publisher 2001.

Table 4. **Audit approach, form, and function**

Approach / Form	Function
Verification	Control / Repressive
Certification	Legitimation / Autonomy
Advice / Recommendation	Responsive / Usefulness

Source: Based on Elm-Larsen, Rolf & Gitte Korff (ed): *Offentlig revision i det 21. århundrede*. Karnov Group 2015, p. 185.

of the audit results and how they are used by the political system. Each of the three identified functions of state audit also has implications for the professional perception and normative framework by which the audit is performed and completed<sup>21</sup>. There has been a discussion about which evaluation criteria a SAI has to be measured against: from the legal world or managerialism. It depends on the approach and the objective of this SAI, whether its main function is promoting democratic accountability or being useful to the audit bodies<sup>22</sup>.

### Two conceptual frameworks of audit

The conceptual framework that exists for auditing provides its own justification for auditing, depending on the economy in which the audit is performed. It also matters what function the audit is attributed to. Private sector auditing has a conceptual framework developed by IFAC with a specific aim for the firms of public interest. The purpose of this audit is to ensure that there is confidence in the financial statements of the investors and the company's creditors. It creates trust in the accounts

as a basis for decision-making for the company's stakeholders.

In the public sector, the SAI operates in line with the International Organisation of Supreme Audit Institutions' (INTOSAI) conceptual framework. SAIs perceive the audit in accordance with the Lima Declaration, aiming to provide insight into public accounts and the public administration and to take the necessary corrective actions in the policies pursued. At the same time, it enables Parliament to hold the executive power accountable for the public financial management.

### Audit as control

The traditional function of a SAI audit is to create insight into or control of how the state financial management complies with the legislation and the provisions which are laid down by the parliament or the granting authorities. The purpose of the audit is to ensure that the social order is respected within the public financial management. The task of a SAI is to promote democratic accountability<sup>23</sup>.

<sup>21</sup> W.W. Powell, P.J. DiMaggio: *The new Institutional...*, op.cit.

<sup>22</sup> Ch. Pollit, H. Summa: "Reflexive Watchdogs? How Supreme Audit Institutions Account for Themselves", *Public Administration* No. 2/1997, pp. 313-36.

<sup>23</sup> *ibid.*

Supreme audit institution's control function ensures the compliance of governments financial management and the obedience of the subordinate administrative bodies concerning implementing the budget<sup>24</sup>.

The control function is to eliminate or reduce the opportunity to pursue their self-interest of persons in charge of public financial management. Audit creates constraints on the government officials to make hidden actions in their interest (moral hazard) and hide information (adverse selection) in a relation to accountability<sup>25</sup>.

The logic of the audit as a control function is that it ensures the defined social order is respected. It verifies the fulfilment of duties by subordinate bodies. Any disobedience or violations of the rules of public financial management have to be discovered and sanctioned politically or legally.

A SAI has its basic justification and function in creating and maintaining social order within the part of the state that concerns public financial management. It identifies deviations from the rules concerning financial management. This means that the negative results of the audit can stigmatise those responsible for central government financial management. Through this form of control, "justice" is established by the political authority in the field of public financial management.

The controlling aspect of audit helps ensure policy priorities are met when they are transposed into law and regulation that will have impact upon the society. But the controlling audit can also be based on a more subtle implementation of existing expectations and values, which are embedded in the existing public financial management practices. It examines and protects the rights, privileges, and powers of the political system.

The controlling audit is characterised by the fact that it is subordinate to the *raison d'état*, and it helps maintain power over the subordinate state authorities. It also ensures that the law is implemented in a way that reflects the dominant social norms and the prevailing set of values in society.

Thus the state audit is part of a system that sets limits to economic power. It works for the maintenance of standards of state financial management as well as other administrative areas, e.g. government personnel or public procurement. The controlling function of a SAI serves the state to sustain the existing social order.

One of the control elements of a SAI is to eliminate corruption in the state administration<sup>26</sup>. The state audit is believed to be able to act as an effective anti-corruption instrument. In such a context, the controlling and repressive function is weighted higher than the legitimizing and responsive forms of revision. However, there is only slight evidence that government audits are

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<sup>24</sup> M. Foucault, Michel: *Surveiller et punir. Naissance de la prison*. Gallimard 2001, p. 217.

<sup>25</sup> K.J.Arrow: *Agency and Market*, Standford 1985.

<sup>26</sup> K.M. Dye, R. Staphenurst: *Pillars of Integrity...*, op.cit.

effective in the fight against corruption<sup>27</sup>. This undermines the discourse of the controlling function of SAIs.

A SAI's control function consolidates, legitimises, and supports the social order by institutionalising the existing social order and by monitoring how the state bodies comply with their obligations.

Characteristic of audits, controlling function is a close integration of law and policy with emphasis on the state allocation rules.

The core of the German *Bundesrechnungshof's* reporting is its "Bemerkungen", presented in the annual report on the federal government's state accounts. These are often of a critical nature, demonstrating failures in the German ministries' management of appropriations, but the report also contains evaluates of a fiscal nature, including analyses of the preconditions for a stable fiscal policy. The comments are structured as a description of the case/facts followed by an assessment and recommendations. It is thus a matter of the *Bundesrechnungshof* to have a traditional state control function within its core area.

The Swedish National Audit Office must submit an annual report to the *Riksdag* on its overall activity in both annual and efficiency audits. It has the character of a summary of all the critical remarks that the Office has made throughout the year. So even though the audit is in many ways organised as an attestation

audit for the annual audit, the overall impression is that the SAI's function is primarily a part of what in the Swedish form of government is called "control power".

The Dutch Court of Auditors considers the parliament (*Staten-Generaal*) to be its "principal customer". Therefore, it strives to meet the needs for audit studies among the members of parliament by designing its audit so that it is relevant to the parliament's assessment of whether the government is on the right track in the implementation of the legislation. Audit reports are often used in parliamentary work to control the government<sup>28</sup>.

The Japanese State Audit Office monitors government accounts on an ongoing basis to ensure the accuracy of the accounts. If there are incorrect or unsound financial transactions, these are pointed out so that conditions can be rectified and improvements can be made by identifying the cause of the irregularities. The College has the power to present its opinions or require the auditee to take corrective action on issues raised which are considered to be in breach of the law. Likewise, the control of the final government accounts of the state's expenditures and revenues is a task in which the State Japanese Audit Commission has declared the completion of the audit after determining the accuracy and adequacy of the state accounts. The Constitution stipulates that the state accounts are submitted by the government (the

<sup>27</sup> K. Reichborn-Kjennerud, B. González-Díaz, E. Bracci, T. Carrington, J. Hathaway, K.K. Jeppesen, I. Steccolini: "SAIs work against corruption in Scandinavian, South-European and African countries: An institutional analysis", *The British Accounting Review*. Vol 51/2019, pp. 1 - 17.

<sup>28</sup> S.J. Stuiveling, R.W. Turksema: *Public Expenditure...*, op.cit., p. 67.

Cabinet) together with the audit opinion from the Board of Auditors.

It is characteristic of the government audit in the United States that the main task is enshrined in the main element of the constitutional system of “checks and balances” between the legislature and the executive. GAO is today primarily an analysis institution that assists the Congress with investigations and evaluations as well as conducts audits for the Congress. It is thus a matter of GAO having a control task that is enshrined in the constitutional system.

The control function is inherent in the audit and its consequences can trigger sanctions against those responsible. It increases the level of accountability in the public financial management. But the control function is associated with pejorative phenomena, such as discipline and hegemony. It does not change the fact that control is also a purification process (*catharsis*), which must be understood both therapeutically and morally. Through the control function, a selection is also made of which types of public units are to survive and which are to disappear or be reorganised. That is a political selection of organisations and policies. The audits control function contributes to the identification of behaviour to be sanctioned through an agenda and a discourse for the assignment of responsibility.

### **Audit as legitimation**

The second main audit function by an independent SAI is to legitimise

the government’s accounts. The form of legitimation is an audit opinion or an (annual) report. By certifying the government’s financial accounts an effective SAI accredits the legitimacy of the existing political system.

The auditees have their own interest in having their accounts verified in order to ensure the legitimacy and thereby justify, consolidate their own position of power or their political offices. It is a function that the state audit performs through its audit opinions on the accounts or its reports to the clients and/or the auditee. SAIs, audit reports and audit opinions give the auditee a legitimacy that may be necessary and a condition for maintaining the institution’s autonomy and legitimation in the political system. The more legitimacy SAI produces, the less the legislature and other regulatory authorities will be inclined to intervene against state institutions or state companies. Government and administrative authorities demand and need an external independent audit that would legitimise the public financial management towards the parliaments control and the public’s critical questions. Through the audit the executive power gets a shield that protects people occupying public offices against a critical opposition.

The production of legitimacy for the audited public institutions is a function that a SAI can only provide on the condition that it itself has a legitimate basis, a recognized audit process and an ability to reproduce and develop its own audit products<sup>29</sup>.

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<sup>29</sup> M. Power: *Audit Society. Rituals of Verification*. Oxford University Press 1997, p. 218.

The basis for legitimacy of SAI's audits is assumed partly in the legislation and most optimally in the constitution, partly in a political ideological rhetoric, where audit practice is invoked in the form of the public interest, the interest of the citizens or, more narrowly, the interest of the taxpayers. Research have revealed the tendency of both the Canadian and Danish SAIs to strategically underline the "public interest" dimension of their performance audits to increase both their legitimacy and political neutrality<sup>30</sup>.

Legitimacy of a SAI audit is also acquired by using the structure and methods of the audit process that are based on the international standard of auditing (ISA) and their global implementation in the state audit (ISSAI). When the audit is to have a legitimising function, it places emphasis on the audit process and thus on the application of accounting and auditing standards in the specific audit situation. The SAIs in Denmark, Norway and Sweden are using ISSAI as a way of creating legitimacy to their audit reporting<sup>31</sup>.

At the ideological level, a SAI establishes a "normalised" audit by delivering statements to the audited state institution or the executive for the use of the parliament or the legislature. An example of this is the Swedish National Audit Office, which provides auditing services in the same way as ordinary private auditing

firms, even if it does not take place on market terms.

The legitimising SAI audit requires an independence of political bodies or downplays the interaction with the supreme state bodies. Similar considerations apply to both the English and New Zealand government audits. Throughout this "framing" or by articulating the state audit as a professional service, a SAI generates its own legitimacy, which is then delivered or passed on to the auditees. This development matches the NPM conceptual framework's emphasis on management in that the audit supports management with the delivery of "clean audit opinions". The legitimate form of audit becomes a resource for the auditee because the audit creates a safeguard against criticism of the administration, including the state financial management. The auditor consolidates and defends himself in making statements, as such positive statements are reflected on the auditor himself.

No audit can exist without some foundation of consent from the auditee. The auditor must limit the cost of gaining the auditee's trust. If he is unable to do so, it will weaken the auditor's own credibility to deliver an audit opinion that creates legitimacy to the auditee's accounts.

A SAI must assert and protect its competence so that institutional autonomy and independence can be maintained. In

<sup>30</sup> M. Hazgui, P. Triantafyllou, S. Christensen: "On the legitimacy and apoliticality of public sector performance audit: exploratory evidence from Canada and Denmark", *Accounting, Auditing and Accountability Journal* 2022.

<sup>31</sup> R. Elm-Larsen: *Nordiske statslige revisioners indførelse og brug af internationale revisionsstandarder*. (Introduction of international auditing standards in Nordic state audits). Presentation at Nordic state audit seminar in Oslo, May 2019.



auditing as both a control and declaration function, there is a separation between law and politics. This separation brings legitimacy to both the auditor and the auditee. The legitimacy of the audit is centred around the auditor and his capacity to uphold the regulation concerning his position and activities.

For SAIs, the rule of law is a potential resource for creating credibility for the financial reporting and conducting an effective audit. The compliance of the audit with legal principles and regulations is a safeguard for a SAI against criticism and projecting the responsibility onto the auditor. The legitimising audit limits or “tames” the control aspect of an audit. It uses other means and remains committed to the idea that auditing is an instrument of social control but now on the terms of the auditee and in his interests.

Proper use of audit procedures is an important source of confidence and credibility for a SAI and for the accounts, which receive a clean audit opinion. The auditor assumes authority to hold those in power against a set of accounting rules. In return for this establishment of responsibility, the auditees in the legitimate audit request the auditor’s advice regarding the application of accounting rules and financial management.

The legitimate audit is characterised by the following:

1. The audit activities are separate and independent of the political sphere.

2. The audit works offered “acceptance” by the auditee to create credibility for him.

3. A focus on accounting rules inspired by the audit of business enterprises.

4. International standards on auditing (ISA) are implemented and complied with.

In Denmark, Rigsrevisionen functioned in the state central administration until 1991, when it was transferred to the Danish Parliament, *Folketing*. The Danish Auditor General began to issue audit opinions for the state accounts for the financial year 1997. Since then, the declaration business has expanded to include the accounts of individual ministries and institutions. Although the statements did not have a formal legal basis, they gave the National Audit Office the same legitimacy as a professional auditing firm has. At the same time, the audited government agency gained legitimacy as a professional and efficient organisation. The state audit thus ensured the social order in what is described as either a market democracy<sup>32</sup> or a competitive state<sup>33</sup>.

The European Court of Auditors (ECA) was established to act as a protector of the European Union’s budget against the dangers and risks regarding defraudation of the European funds. The 1993 Maastricht Treaty required the Court of Auditors to draw up a statement of assurance concerning the accuracy of the accounts and the legality of the underlying transactions. The ECA has never issued a “clean” audit opinion that the accounts in all respects

<sup>32</sup> T. Knudsen, Tim: *Fra folkestyre til markedsdemokrati, Dansk demokratihistorie efter 1973*, Akademisk Forlag, København 2007.

<sup>33</sup> O.K. Pedersen: *Konkurrencestaten*. Hans Reitzels Forlag, København 2011.

are in compliance with the financial regulation. In 2020 the Court concluded that the EU's consolidated accounts were not affected by material misstatements, but some expenditure items were affected by a material level of error. Today the ECA legitimises the EU consolidated accounts despite the lack of technical and detailed presentation of issues not in accordance with the financial regulation, so they avoid delegitimizing the accounts. Transparency of the audit results is expected to create legitimacy.

The US GAO published the "audit opinion", which contained a basis for disclaimers of opinion on the U.S. government's consolidated financial statements 2019/2020. The GAO's opinion contained a detailed description of errors and weaknesses discovered during the audit and pointed out that some problems had existed for years. In his presentation, the US Comptroller General emphasises the audit's usefulness and insight into government operations, the increased federal agency accountability to the Congress, the US citizens, and the greater confidence to stakeholders that federal funds are being properly accounted for and assets are properly safeguarded. Even though the audit discovered serious problems, it self-legitimised the government's accounts. The audit of the US government could be characterised as a process of catharsis.

The legitimising function of the court's of auditors is different from the state audits organised as "office models" or as

collegiate audit institutions. Here, the accounts undergo a judicial review to ensure that the accounting officer does not abuse his position. This judicial test is a form of therapeutic purification process that aims to create legitimacy around public financial management.

In summary, a SAI's audits have a legitimising function. They provide legitimacy to the auditees with respect to the state financial management and, in particular, relating to the financial reporting. This is typically done by delivering a "blank audit opinion". This legitimacy helps to create support for the existing political system through output legitimacy and support for the development of the requirements for the input to the political system. Auditing is seen as a support for political and administrative leadership of the government. They receive legitimacy from the SAI.

However, such a delivery of legitimisation presupposes that the audit itself has a legitimacy, which can be established through its own legal basis and by drawing on professional norm systems, which are established and recognized by other organisations, first and foremost auditors' organisations. The actual performance of auditing in according to the general auditing standards gives the audit a legitimacy, which it transfers to the auditee in the audit opinion<sup>34</sup>.

### Responsive audit

Responsive auditing focuses more on the auditee's need to be heard and improve

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<sup>34</sup> M. Power: *Audit Society...*, op.cit., p. 218.

the state administration than on the principals and stakeholders need to control the auditee. Here the auditor is responsive to the auditee's situation and requirements for assistance. He delivers a solution-oriented audit to the auditee, who does not demand control or legitimacy from the auditor, but rather solutions to the problems he is facing.

The development of this aspect of government audit functions took place in close connection with the introduction of NPM, which has been dominant for the past 20–30 years. The main function is to make a SAI useful for the auditee and that is the criteria which are used for the evaluation of the quality of the audit<sup>35</sup>.

In terms of political science, the primary task of the “responsive” democracy is to serve people to the maximum. In accordance with that conception of government this type of state audit often emphasises the citizens’ point of view. The responsive audit sees it as its task to help streamline the public sector to better serve the citizens. This conception and position of audit is contained in the Johannesburg Accord from the XX INTOSAI.

The responsive audit requires an openness from the auditor to the situation and problems of the auditee. It can create a tension in relation to the auditor’s integrity and independence. The strain arises when the auditor is strongly engaged in a well-defined management task or may be

held responsible for this type of external control. This form of audit has a potential inherent conflict with the principle laid down in the INTOSAI’s Mexico Declaration on SAI independence.

The auditor’s independence and integrity are easiest to maintain when his performance can be measured by well-defined standards. Formal accountability can stifle institutions by paralysing them and thus hindering them in solving the relevant problems of societies. The demand for the auditor’s integrity in the responsive audit promotes the search for sanctuaries where the auditor’s responsibilities are narrowly defined and easier to meet. In other words, downgrading of the traditional controlling functions of the state audit increases the risk of losing independence and integrity of the state audit<sup>36</sup>.

A case study of the Danish SAI illustrates the balance between relevance for the government and the execution of its policies within the area of performance auditing. It shows that the Danish SAI has persistently prioritised independence over relevance, apparently because this strategy maintained its legitimacy in a political system characterised by minority governments<sup>37</sup>.

An essential characteristic of the responsive audit is a moral and strategic trust between the auditor and the auditee. Responsive auditing emphasises that the auditee participates in the audit process, even in

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<sup>35</sup> Ch. Pollit, H. Summa: “Reflexive Watchdogs?..., op.cit.

<sup>36</sup> Y. Gendron, D.J. Cooper, B. Townley: “In the Name of Accountability – State auditing, Independence and New Public Management”, *Accounting, Auditing & Accountability Journal*, 14(3)/2001, 278-310.

<sup>37</sup> P. Triantafyllou: “Playing a zero-sum game? The pursuit of independence and relevance in performance auditing”, *Public Administration*. Vol. 98/20017, pp. 109-123.

the reporting of the results. It implicates a continuous dialogue between the two sides. It is a participatory process, where the auditor opens a window for the auditee.

The “participatory” audit approach consists of two phases: action analysis and selection of possible methods and actions. In the analysis phase, the interests of the main political actors and stakeholders are mapped and evaluated. Interests are affected by the sensitivity of the topic in question, the complexity of the political domain or network, the degree of agreement on problematic definitions, relevant values and norms, and the need for improvement. If there is a relatively high level of trust between auditees and auditors, a more cooperative approach can be fruitful. If, on the other hand, there are different interests and there is no trust between the parties, a more formal approach may be better<sup>38</sup>.

The responsive audit takes on different forms depending on the legal and political context in which it is incorporated. When the European Court of Auditors submits its audit reports, it also contains the Commission’s text in parallel with the Court’s own text. Before submitting, the annual report is also the subject of a discussion between the Commission and the ECA.

Another example of participation in the audit process refers to the English NAO, where the auditee and the auditor must also agree on the audit results.

A dialogue with the auditee is a key strategic element in a responsive type

of audit. The state audit of the Canadian province Alberta in the mid 1990s changed the strategy from a classic traditional revision to that of a dialogue with the provincial government and its administration. The state audit wanted to help its clients – the province’s state administration. At the same time, it changed the professional requirements for the state province’s management and employees<sup>39</sup>.

The impact of the audit’s assessment of the auditee’s management has a completely different purpose under the responsive audit regime. It assumes that the conflicting values of integrity and transparency are mutually sustainable. It is perceived as a social pressure that is a source of knowledge and opportunities for self-correction. The basic contribution of the responsive audit is strengthening of the rationality of the auditor’s argumentation and an attempt by the auditor to strengthen the auditor’s efficiency.

Responsive auditing incorporates implicit values in rules and policies in its assessment. In other words, it looks beyond the traditional “compliance” audit, where the controlling and legitimising function dominates. Free from formalism and rituals, responsive audit studies can be more systematic and more empirical and therefore useful to the auditee. A special feature of the responsive audit is that it is particularly sensitive to the political parameters of the dominant political discourse.

In determining the basis of assessment in the responsive audit, substantive justice is

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<sup>38</sup> P. van der Knaap: “Sense and complexity: Initiatives in responsive performance audits”, *Evaluation* No 17/2011, p. 356.

<sup>39</sup> Y. Gendron, D.J. Cooper, B. Townley: “In the Name of Accountability”..., op.cit.

subordinate to principles and processes built into the policy objective. In countries with many of the characteristics of NPM, it is a requirement that the responsive audit is solution oriented. An element of the responsive audit is an active search for alternatives (e.g. incentives, self-regulatory social systems).

Former British Auditor General Sir John Bourn<sup>40</sup> has described the audit as an analysis that encourages and promotes success for the public administration. Here, the auditor acts as a coach and mentor in a way so that his recommendations help the clients in the administration achieve success in future. This contrasts with an auditor who criticises the mistakes of the past and identifies his client as a nark. According to Bourn, public audit has the potential to support and encourage continuous improvement for the benefit of citizens, both as users of public services and as taxpayers. In this way, he registers the public audit as a responsive instrument in the NPM framework.

In 2013 NAO introduced a fast investigation report to address demands for timely scrutiny of specific issues. It quickly became one of the NAO key activities<sup>41</sup>. The main characteristics of the investigations report are that the topics focus on important issues discussed in the media and of interest to the public. The reports are short, and fact based, without evaluations or recommendations. The problem

with this sort of reports is how they are introduced into the process of parliamentary accountability.

For the state audit to provide solutions, it is necessary to understand the auditees' operating conditions or actual conditions as well as the values embedded in their organisation. Users' preferences are also included as a characteristic of this form of audit.

In Norway, the audit responsive function puts greater emphasis on the public sector's point of view, which is expected by the government and the Storting. This kind of audit can be seen as an institutional response to a general trend in society. User preferences have become an important source of legitimacy in modern democracies. Lack of responsiveness to user's needs is neither acceptable nor compatible with responsible governance. The Office of the Auditor General therefore seeks to present conclusions that can contribute to Parliament's deliberations on change and improvement of public services. The aim is to support the Storting's control and monitoring function as well as provide information to be used for government decision-making and legislative purposes. The user's perspective becomes a means in the management audit to expand the scope of the co-determining democracy<sup>42</sup>.

There are very significant changes in responsive audit in which the audit's basis for assessment is obtained and used.

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<sup>40</sup> J. Bourn: *Public sector auditing, Is it value for money?* John Wiley & Sons Ltd. Chichester 2007.

<sup>41</sup> J. Mazur: "Investigations of the UK NAO...", op.cit.

<sup>42</sup> A. Arthur, L.T. Rydland, K. Amundsen: "The User Perspective in Performance Auditing – A Case Study of Norway", *American Journal of Evaluation* 33/2012 : 44-59.

Responsive auditing includes more holistic and intelligent (smart) considerations in the audit, including the assessment basis. This type of audit presupposes and involves a wide range of discretionary considerations in the audit assessment. Responsive auditing can therefore degenerate into opportunism, unjustified adaptations to events and pressure on the audit conclusions that the auditor must draw.

The very fact that performance auditing involves several different professional disciplines presupposes a high degree of responsiveness to the auditee's professionalism. For this to be successful, it requires a balance with the independence of auditors<sup>43</sup>. It is characteristic of the responsive audit that it prioritises constructive proposals over responsibility to ensure that the auditee lives up to the expectations set by the principal for the auditee. A Norwegian study shows that a majority of audited officials perceive performance auditing as useful if they: agree with the audit criteria and assessments in the audit; are allowed to influence the process; if the audit reports have positive opinions. Likewise, they believed that the Norwegian National Audit Office contributed to both accountability and improvements under these conditions. Reports that were used solely to establish accountability were perceived as less useful. These results show that performance auditing can affect civil servants, but the influence is conditioned by how

the audited official perceives the performance audit<sup>44</sup>.

The responsive audit approach is a means of making the audit relevant to the auditees. Thus, the Dutch General Audit Office has adopted a more responsive audit approach to what needs to be audited based on what other stakeholders have to say about the relevance of the selected audit topics and issues. It is not only the final conclusions that the audit is judged on, but also the significance of the intermediate results and the usefulness of potential recommendations. There are three dimensions to this utility considerations:

1. The selection of audit themes and topics must be socially relevant and involve key risks areas;
2. Audit process and methods shall involve the auditees so that the audit results become relevant to the decision maker;
3. Implementation of "status control", i.e. a review of the relationship between policy programmes and stakeholder needs and preferences.

The Dutch Rekenkamer has actively chosen a more open and responsive approach, including several methods to create participation from the auditees. The different "participatory" audit methods and active involvement of other stakeholders can be used by the audit teams in the different phases of the audit process.

<sup>43</sup> J. Lonsdale: "Balancing Independence and Responsiveness: A Practitioner Perspective on the Relationships Shaping Performance Audit", *Evaluation*, 14/2008, p. 227.

<sup>44</sup> K. Reichborn-Kjennerud, B. González-Díaz, E. Bracci, T. Carrington, J. Hathaway, K.K. Jeppesen, I. Steccolini: "SAls work against corruption...", op.cit.

Table 5. Overview of the functions of SAI

	Control	Legitimation	Responsive
Authority for the function	The politically legitimate power and the law	Private auditing standards	Utility – logic; citizens; taxpayers; the public
Main type of audit	Legal critical audit	Financial audit	Management audit
Reporting	Audit report	Declaration	Consultant reports
Main stakeholder	Parliament or the Head of State	The state administration; the management of the authority	The auditee and the citizens
Ideal	Democratic control	Financial market confidence	Management
Profession perception	Official	“Accountants”	Evaluator and/or consultant

Source: Based on Elm-Larsen, Rolf & Gitte Korff (ed): *Offentlig revision i det 21. århundrede*. Karnov Group 2015, p. 194.

In short, the responsive audit in the public sector not only can redefine the content of the audit itself, but also the basic social context that constitutes the public audit. The responsive audit can be experienced by both the auditee and the auditor as a value-creating function. However, the close interaction between the two parties may act as a network that can ultimately compromise the auditor’s perceived independence and integrity from the auditee and thus weaken the audit as a system to ensure that the person responsible can be held accountable. The choice of a responsive audit strategy means that the audit’s interaction with the executive is prioritised at the expense of the control that is assumed to be performed by the state audit for the legislature.

### A typology of SAIs based on audit functions

The typology of presented SAIs depends on the different functions that the audit

fulfils. It reflects different dimensions in the form of legal basis for the audit, types of audits, forms of reporting shown in table 5 (above).

In the last decades a movement in the function of SAIs can be observed – from the more controlling towards a more legitimising and responsive function. This change has obviously some consequences for understanding and perception of the auditor’s integrity and independence.

At the discourse level, the development is reflected in how the individual SAIs formulate their reference to legitimise their audit. Previously, this legitimacy was enshrined in a general constitutional legal framework and with reference to working for parliamentary institutions. It applies in particular to a SAI, where the controlling and legitimising aspects are predominant.

Today, a SAI often justifies itself with reference to phenomena that are outside

the legal framework of the state audit. It has prioritised a discourse in the form that the audit works for the auditee and for the citizens. The audit is useful in the form of contributions to a more efficient administration, etc. according to audit principles and methods that is market-compliant in the sense that the state audits use the audit methods of international audit firms.

### Concluding remarks

The basic assumption of this article is that supreme audit institutions exist because they are a part of the template of a sovereign, independent state. The distinctive characteristic of SAIs is that they interact with the supreme state bodies (parliament and government) in exercising their audit authority of government finances based on provisions laid down in either the constitution or the legislation. At the same time, it is internationally recognized that a well-organised SAI is a prerequisite for a sovereign state to be part of an effective international cooperation and/or integration.

The traditional classification of SAIs (Court, Office, and Board models) has difficulties in capturing the developments in recent years of the structure and functioning of government audits. The existing classification has its limitations in relation to gaining a deeper understanding on how SAIs operate and function today. The development of the tasks and functions of SAIs makes it difficult, even impossible, to apply the ideal types of classification. Today many SAIs are organised as hybrids that develop different features, depending on the design and elaboration

of the political system. However, in recent years a completely new type has evolved. This is the case in both the UK and New Zealand, where government audits have taken inspiration from the private audit sector. These countries have largely used paradigms of audit from the private sector within the public sector. This new type of a SAI reflects the hegemonic management paradigm NPM has had a pervasive and dominant influence especially in some countries.

In general, there are significant variations between SAIs on how they are organised and how they operate. The article only seems to confirm Normanton's observation from 1966 that the only common feature of SAIs is the task of regularity audit. All other characteristics of the state audits are determined by the historical context and the concrete distribution of power of a given political system. However, the article identifies the following development trends for supreme audit institutions:

- some SAIs try to act as private audit firms by incorporating governance structures and auditing standards known from private audit firms,
- SAIs invent their legitimacy outside the parliamentary system by arguing that they serve the interests of taxpayers, citizens etc.,
- many SAIs are going from a controlling audit on behalf of the parliament to a value-creating audit for and of the executive.

These developments are initiated to a large extent by SAIs themselves, within the institutional framework, which is constituted by the political system and the institutional norms for the implementation



of the audits. It illustrates the theoretical phenomenon known in institutional entrepreneurial theory as “The Paradox of Embedded Agency”<sup>45</sup>.

Analytically, the three types of functions of SAIs can be distinguished. The first and traditional function consists of controlling the government’s financial management. It means a SAI ensures that the discretionary exercise of power in the area of financial management has taken place within the established framework of laws and budgets. It also ensures that the government and its administrative bodies do not exceed legal boundaries. In general, SAI’s audits discipline the government and the public administration in public finances management.

The second main function of a SAI’s audit is to legitimise the auditees’ financial public management through a certification of the government’s accounts. The audit’s task is to create trust in the executive’s presented financial information. On the basis of the audited information in the accounts, the legislature makes decisions on the accountability of government bodies financial management. It is a function that both the legislature and the executive power in many countries expect from SAIs of today.

Finally, a SAI has a responsive function, which means that the audit process is receptive and a SAI participates in solving the auditee’s problems in financial management. This function of audit emphasises understanding and connection for

the auditee’s issues and challenges. The audit process must contribute to improvement of accounting and administrative processes and internal control systems as well as to developing the policy pursued through advice and recommendation. The audit must be value-creating not only for the auditee but also for the citizens.

The introduction of the function of responsiveness by new audit approach is directed more towards the need of the auditees for advice and recommendation on how to improve the public administration than the traditional function of SAIs such as control of transparency and control of the accountability in the public sector.

The article analyses the existing typology of SAIs and creates a new extended conceptual framework for the classification based on the development of the structures of organisation and the function of the audit. The traditional typology of SAIs in a court model, an office model and a board model have to be supplemented by a fourth one, based on the organisation of private audit firms.

The function of the SAIs’ audit has moved from a traditional control function for the legislative body of government towards a legitimation function of the audit, which creates trust to the government’s accounts. Today SAIs make the audit more responsive to the government bodies and to stakeholders such as taxpayers, citizens. The change in two traditional functions of audit – control and legitimation – and

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<sup>45</sup> R. Garud, C. Hardy, S. Maguire: “Institutional Entrepreneurship as Embedded Agency: An Introduction to the Special Issue”, *Organization Studies*, 7/2007, p. 961.

the upcoming of responsive audit raises a series of new questions of how SAIs operate now and what it will look like in the future.

This study shows that a comparative perspective gives a more profound understanding of the development in

the organisations, processes and functions of SAIs.

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**Key words:** SAIs, typology of SAIs, court model, office model, board model, private audit model, function of audit

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