Public sector auditor identities in making efficiency auditable: The National Audit Office of Denmark as independent auditor and modernizer

Peter Skærbæk

Copenhagen Business School, Department of Accounting and Auditing, Solbjerg Plads 3, DK-2000 Frederiksberg, Denmark

ABSTRACT

This paper examines how the National Audit Office of Denmark (NAOD) manoeuvred in making the Danish military receptive to a performance-accountability project in the period 1990–2007. Evidence is provided from a detailed case study, where the actions of the auditors have been followed in their efforts to make the military activities auditable by focusing on the multiple and dynamic interactions between them, the auditee and others. This study contributes to our understanding of how auditors manoeuvre with their performance audit devices in different ways to make efficiency auditable. It appears that as the auditee initiated the implementation of a new accounting system called DeMars a stream of overflows threatened to destabilise it. Groups within the auditee were eager to put heat into the overflowing. This study illuminates how the auditors, equipped with their devices of purification in the later stages of the project, helped at least provisionally to contain the overflows and stabilize the construction. Due to such different manoeuvres by the auditors, this paper demonstrates the problems that emerge when state auditors manoeuvre in performance auditing with identities both as 'modernizers', i.e., participating in providing the reasons for change and defining its designs and as 'independent auditors', i.e., to legitimize the construction in which they participated themselves. Many allies to the auditors worked hard in protecting the NAOD as the two identities conflicted with each other during the execution of the project.

© 2009 Elsevier Ltd. All rights reserved.

Introduction

In consequence of New Public Management (Hood, 1995) and the emergence of performance auditing as an increasingly influential force in the public sector, numerous Auditors'-General Offices have sought to ensure that their activities are consistent with, and supportive of, public sector reforms (Funnell, 2003; Gendron, Cooper, & Townley, 2001, 2007; Guthrie & Parker, 1999; Power, 1997, 2003a). Thus, auditors came to realize that they need to engage more closely with the auditee (Pollitt, 2003; Power, 2003a). Such engagement has contributed to a drift in the activities of public sector auditors increasingly becoming involved with policy making, which is not without its problems (Gendron et al., 2001). Later Gendron et al. (2007) analysed the strategies of auditors to become recognized as possessing expertise aligned to NPM and Funnell (2003) described the conditional influence of audit from a case where the NSW Auditor-General Office was criticised when engaging in performance auditing. Pollitt (2003, p. 159) noted that there are great variations in the degree to which performance auditors consult with auditees and concluded that we need to know more about how Audit Offices develop their roles.

Despite these significant contributions little is still known of accounting processes in action (Burchell, Clubb, Hopwood, & Huges, 1980) and in particular of what kind of manoeuvres auditors become engaged in when being in action (Power, 2003a; Robson, Humphrey, Khalifa, & Jones, 2007).

E-mail address: ps.acc@cbs.dk

This paper seeks to further contribute to our knowledge on how performance auditors manoeuvre when being in action. More specifically, it turns attention to how the National Audit Office of Denmark (NAOD; hereafter, the "Office") became involved in a specific project to make public sector efficiency auditable in the Danish Defence Forces (DDFs). It illuminates the actions and what it means in terms of their identities when seeking to initiate and stabilize, a performance-accountability project called DeMars.

This research is based upon a detailed and processual case study of an implementation that heavily involved the Office for more than 18 years and caused a lot of heated debates also in the press. As such, this case offers excellent opportunities to study how the Office manoeuvres (i.e. acting) with shifting and conflicting identities as 'independent auditor' and 'modernizer'. The 'modernizer' identity characterizes the role of the Office as one of change agents that seeks to gain ground for change and to influence the designs of the consequent accounting system. The 'independent auditor' identity characterizes the role of the Office as one that manoeuvred to purify the system that it has itself participated to develop. This paper is concerned with understanding how the Office manoeuvred with these identities in protracted and heated processes of making the project at all feasible. To anchor performance audit knowledge in the auditee's accounting systems, it involves processes to generate an actor-network of innovation:

> These moments constitute the different phases of a general process called translation, during which the identity of actors, the possibility of interaction and the margins of *manoeuvre* are negotiated and delimited (Callon, 1986, p. 203).

Innovation involves the construction of a network of entities that are enrolled to support the innovation in various ways. During such processes the entities – such as the auditors – and their margins of manoeuvre and identities are also negotiated and delimited. The auditors become a part of translations, where network partners such as the auditee, the parliament and other government units participate in negotiating and delimiting their identity. Thus, it is demonstrated in this case that the collective efforts of making things auditable involves negotiations of the auditors' identities and their manoeuvres as to what they can do, and what they cannot do. This is seen in relation to three themes; 'making new things auditable', 'the identities of auditors' and 'auditor reports as devices of purification'.

The findings of this paper are significant for a number of reasons. Firstly, it contributes to the growing literature on how Audit Offices in various countries engage in performance auditing or other NPM reforms. It does so by providing a detailed and processual case study of how the auditors participated in the production of making a specific accounting innovation at all feasible. Secondly, it provides insights into the manoeuvres of auditors to anchor their knowledge base (i.e. costing principles) in the auditee's accounting systems. Thirdly, it develops knowledge about how the identities of the Office, the auditee and others are interrelated with one another during programme exe-

cution, especially paying attention to the obstacles and overflowing of the execution. Finally, it contributes by providing insights into how performance audit reports are developed to facilitate different purposes during the execution.

This paper is organized as follows. Section two next discusses the literature on performance auditing and making the public sector auditable and presents actor-network theory for the study of auditors' manoeuvrability. Before starting up the analysis, the case based method is outlined. The following section describes the organizational and historical context of the DDF and ends up outlining the major events of the DeMars project. Then, in four subsections, the story of how the DDF's military activities were made auditable is told with a specific emphasis on the auditors' manoeuvring in the network. Finally, the findings of the analysis are summarised and related to extant debates in the literature and implications for future research are discussed.

Accounting innovations, auditor manoeuvrability and identity

In much of the extant literature, auditors have been portrayed to manoeuvre usually in the role as 'independent auditor'. However, as Power (1996) suggests in his seminal article, 'Making Things Auditable', audit is an activity involving two main types of processes: the negotiation of a legitimate and institutionally acceptable knowledge base and the creation of 'environments being *receptive* to this knowledge base' (p. 289). These statements draw attention to the case that auditability is an achievement that presupposes actions. As Power (2003a) later phrases in a generalised sense 'auditability must be constructed as a series of acceptable and legitimate techniques'. However, when characterizing the process of making things auditable as one of 'fact building' he mainly characterizes the auditing process as one where auditors apply various (mainly statistical) methods to verify the data of various disclosures. Similarly, when it comes to the matter of anchoring, the audit knowledge base in a specific performance measurement system and the question of who does the work it has more to do with accountants and consultants, rather than explicitly with auditors. As it appears, auditors are portrayed primarily as going into action when the measurement systems are installed and ready to provide data for the auditing process.

Heated debates about auditor independence have accompanied NPM reforms. Traditionally, state auditors have been known as manoeuvring with the identity as 'independent auditors' but due to NPM in several countries they have developed facilitation of 'economic, efficient and effective' public administration in efforts to increase internal and external accountability. For Audit Offices to conduct performance auditing with the aim of transforming the public sector towards external and internal accountability, it is useful to create a knowledge base in the materialised form of White Papers, reports, memos, etc. that can be circulated to the auditee. Such documents are closely related to policy making, which in the public sector is com-