

**Governing Regulative Networks beyond the State:
The Case of Government Auditing Standardization**

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1. Introduction

“The analyst of contemporary regulation is confronted with the task of understanding the networks of interdependence in the arenas of negotiation and compromise” (Hancher and Moran, 1989: 297).

According to the much-cited maritime metaphor by Osborne and Gaebler (1992), states in the age of New Public Management are ‘steering’ (regulating) while ‘rowing’ (production and service provision) is delegated to non-state actors (Jordana and Levi-Faur, 2005: 11). Although this imagery may be useful in depicting trajectories of privatization and contracting out in many countries, it is in need of qualification given the increased impetus of transnational regulation (Djelic and Sahlin-Andersson, forthcoming). Since the conduct of states to an increasing extent appears to be influenced by transnational networks of organizations that issue and promote regulation - often in the form of voluntary standards - elements of ‘steering’ can be said to be installed beyond the realm of states *per se*. Accordingly, studies have recognized how transnational regulatory networks govern areas as varied as banking (Marcussen, forthcoming), information technology (Mattli, 2003) and employment policy (Jacobsson, 2004).

How do regulatory networks set sails in the tumultuous sea of transnational governance? At present, we only have rudimentary knowledge of the governing mechanisms behind the emergence and operation of transnational regulatory networks. With the aim of contributing to this research agenda, this paper offers an explorative study of the emergence of a transnational network of organizations that issue professional standards as a mode of regulation in the field of government auditing. The functioning of specific organizations that produce international standards has been explored at some length in a number of studies. However, there is a research gap with regards to how transnational networks foster standardization (Tamm-Hallström, 2004: 190).

The transnational standardization of government auditing is a case particular rich on important insights for at least two reasons. First, government auditing has become an increasingly important regulatory mechanism in many countries over recent decades as waves of public sector reforms such as privatization, contracting out and new management styles have swept across the world (Hood, 1995; Pollitt and Bouckaert, 2004: 72-74; Power, 1999: chapter 3). Second, as this paper argues, the field of government auditing is

undergoing a process of transnationalization in which various actors ranging from national supreme audit institutions (SAIs) to international financial institutions, accountants' associations and firms are getting involved in standard-setting as a transnational way of regulating the field. As such, it is a case of transnational governance that manifest itself through soft regulation in the form of voluntary standards produced by a network that spans across the public and private sectors and beyond national boundaries. In this way, the field of government auditing constitutes a crucial case that can be used to explore theoretical claims about the emergence of transnational regulatory networks (cf. Eckstein, 1975: 118).

Before proceeding, it is worth clarifying what is meant by the concept of a transnational regulatory network. Such entities have also been referred to as 'regulatory fields' (Djelic and Sahlin-Andersson, forthcoming), 'regulatory spaces' (Hancher and Moran, 1989), 'webs of governance' (Cerny, 2000), 'regulatory webs' (Braithwaite and Drahos, 2000: chapter 23), 'public-private networks and partnerships' (Risse, forthcoming) or 'mobile networks for regulation' (Tamm-Hallström, 2004: chapter 10). In this paper, a transnational regulatory network is understood as "a group of self-governing actors that interact within a more or less formalized institutional framework with a view to produce public policy" (Marcussen, 2004: 6). The type of regulatory networks that this paper aims to shed light on is those that produce rules in the form of standards that are more or less voluntary to adopt. Such networks appear to be particularly prevalent on a transnational scale and to gain importance globally (Kerwer, 2005).

Concretely, the paper does the following three things. First, it outlines the antecedents of the current transnational development of the field of government auditing regulation. Second, drawing on theories of institutional change (Campbell, 2004), it explores how public and private standard-setters have initiated a close cooperation organized as a transnational regulatory network with a view to standardize government auditing internationally. Third, it considers some preliminary empirical evidence on the standardizing activities of the transnational regulatory network.

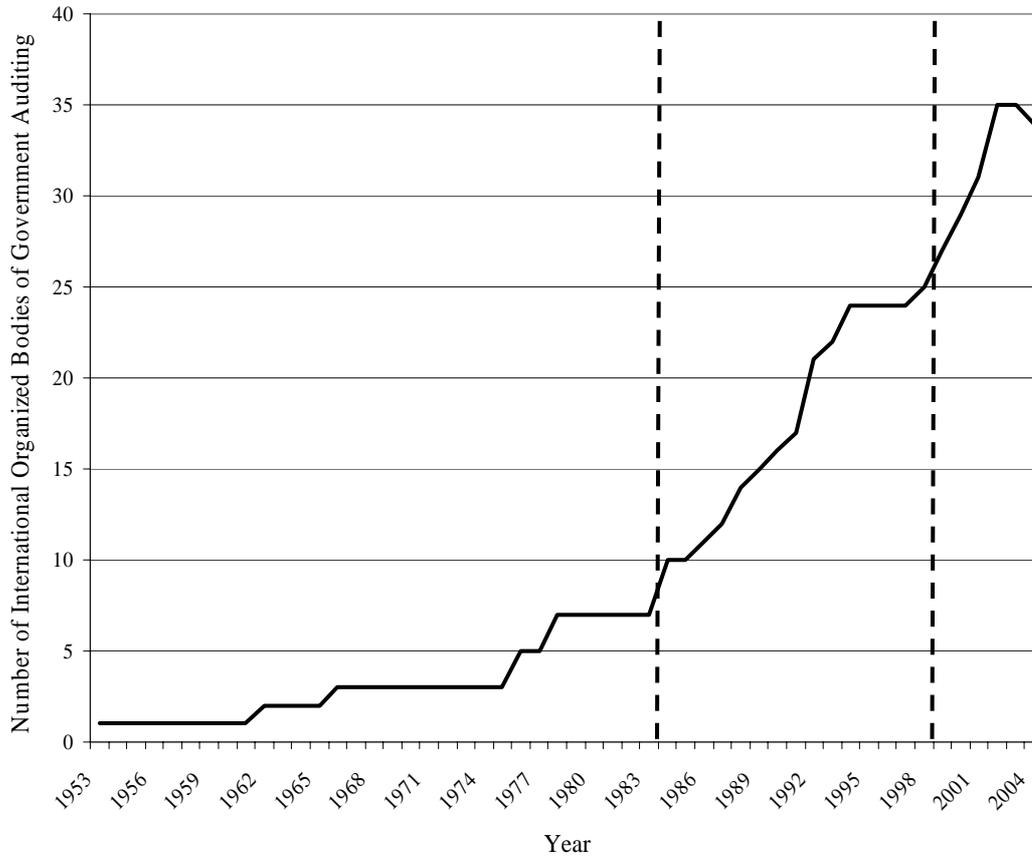
2. Pre-history of the Post-regulatory State: the Transnational Course of Government Auditing

In a critique of state-centric accounts of regulation, Colin Scott (2004) introduces a ‘post-regulatory state’ perspective as a way of thinking about regulation as dispersed among states and non-state actors. This paper argues that rules of government auditing in many places are changing from being exclusively a matter of national public affairs into also being governed from beyond the state. Government auditing is a range of concrete activities conducted by concrete bodies but it also has a mentality or a way of thinking attached to it. The way government auditing is being conceived today is in many ways different compared to how it was thought of fifty years ago. Even though the practice of government auditing over recent decades has grown into becoming an indispensable part of the internal governance of most ‘regulatory states’ (Hood et al., 1999), the conception of government auditing is increasingly being developed outside the realm of individual states. Thus, Scott’s (2004) claim finds empirical support in the transnational course of government auditing regulation.

To situate the further analysis and investigate the assertion of a growing transnationalization of government auditing regulation, this section trace the historical development of government auditing activities occurring between and beyond states. The section outlines how regulation of government auditing has moved from being distinctively state-specific (in independent sovereign states), to being somewhat coordinated through inter-governmental cooperation, and finally into becoming influenced by a transnational standardizing network.

On figure 1, the growth of international organized bodies of government auditing, such as international organizations, committees and boards, from 1953 and onwards is outlined. The data on which figure 1 is based is summarized in the appendix to the paper.

Figure 1: The growth of international organized bodies of government auditing



Sources: see appendix.

Since the founding of the International Organization of Supreme Audit Institutions (INTOSAI) in 1953, there has been a steady growth in the number of international 'clubs' for government auditing bodies.¹ In order to identify distinct phases and possible turning points in the transnationalization of government auditing, cluster analysis is applied to the dataset.² The cluster analysis identifies three distinct phases, namely: 1953-1983, 1984-1998 and 1999-2004. The three phases are marked by the dotted lines on figure 1 and are described below.

¹ The only decline in the number of organized bodies occurred with the termination of INTOSAI's Working Group on the Audit of International Institutions in 2004.

² Cluster analysis has been introduced to studies of time series data by Campbell and Allen (2001) in an analysis of the development of taxation in the United States. The purpose of cluster analysis is to find simple patterns by calculating correlations in a data matrix. There are no given criteria for how many clusters the data should be divided into, but it is often purposeful to apply as few clusters as possible. In this case a k-means cluster analysis has been conducted using the greatest squared Euclidian distance between the clusters. Explorative analysis suggests a reasonable categorization of three clusters.

1953-1983: The Early Internationalization of Government Auditing

The internationalization of SAIs has largely taken place within the auspices of INTOSAI. Following a meeting at the 1949 International Congress of Administrative Sciences in Bern, Switzerland, INTOSAI was founded in 1953 by officials from various SAIs with the mission to facilitate the global spread of ideas and experiences on public finance control (INTOSAI, 2004: 14; Rechnungshof der Republik Österreich, 1962: 238). There has been a steady increase in the number of SAIs that have joined INTOSAI since the 1950s. To begin with, European and South and North American countries were primarily represented among INTOSAI members. Since the 1960s, membership has also spread to nearly all other countries of the world. By 2004 ninety-five percent of all sovereign states had established an SAI. The only states that currently do not have INTOSAI membership are Comoros, East Timor, Macedonia, North Korea, San Marino, The Seychelles, Singapore, Taiwan, Tajikistan, Turkmenistan and Uzbekistan.

As the steady growth of the international SAI community unfolded, common activities among the organizations have taken pace. A cornerstone in the international activities of SAIs is the triennial International Congress of Supreme Audit Institutions (INCOSAI) where senior officials from SAIs meet and exchange ideas. Another basis for SAI internationalization is the Lima Declaration of Guidelines on Auditing Precepts that was adopted at the 9th INCOSAI in 1977. This declaration of general government auditing principles acts as a constitution for the work of INTOSAI. The patterns of interaction between SAIs have been further strengthened with the creation of regional organizations for SAIs since the 1960s. Moreover, initiatives to form committees within the INTOSAI community to deal with specific government auditing issues such as IT audit and environmental auditing have propelled a general identity of SAIs as public agents of financial accountability.

These international government auditing forums (that are listed in the appendix) can be referred to as meta-organizations. That is organizations with other organizations rather than individuals as members. Meta-organizations generally share at least two features (Ahrne and Brunsson, 2004). First, they are fairly easy to establish since they can draw on organizational resources from their members. Second, meta-organizations often

use standards as a way to regulate their members. This has also been the case in the international field of SAIs.

1984-1998: Initiating International Standardization of Government Auditing

To issue standards (i.e. rules that are more or less voluntary to adopt) is a particular attractive soft regulatory mechanism for meta-organizations because they often have a very mixed lot of members, which makes direct binding rules difficult to decide upon and to enforce. This description certainly fits INTOSAI, where deep differences exist between those member SAIs that are organized on an auditor general model as e.g. the British National Audit Office and those SAIs that are court of audits as e.g. the French Cour des comptes. Thus, when INTOSAI produce regulation by issuing standards, it is more a way of keeping order in a world of profound national differences than a truly global process of institutional homogenization.

The expansion of standardization has echoed in the international field of government auditing since 1984 when INTOSAI launched its standard-setting activities by establishing an Auditing Standards Committee, an Accounting Standards Committee and an Internal Control Standards Committee. So far, these committees have been chaired by the SAIs of Australia, Belgium, Canada, Hungary, Saudi Arabia, Sweden, and the United States. Besides being intended to provide guidance on government auditing, international government auditing standards can also be viewed as benchmarks with which the performance of SAIs can be compared and, thus, as soft international rules.

The first provisional international government auditing standards were presented at the 13th INCOSAI in June 1989 in Berlin, Germany. Even though the standards were not eagerly accepted by all members of the SAI community (German Federal Court of Audit, 1990: 48-53), the event marks a qualitative shift in the internationalization of government auditing as INTOSAI moves from being merely a club of SAIs into being an international policy-maker in the field of public financial control. The major standards produced by INTOSAI are its 'Auditing Standards', 'Code of Ethics' and 'Implementation Guidelines for Performance Audit Standards' that were endorsed at the INCOSAI of 1992, 1998 and 2004, respectively.

Besides INTOSAI, another international standard-setter has entered the field of government auditing, namely the International Federation of Accountants (IFAC). IFAC

was formed in 1977 and has professional accountants' associations from numerous countries as its members. The official aim of the organization is to develop and enhance the accountancy profession to enable it to provide quality services in the public interest. Since the late 1990s IFAC's Public Sector Committee (now the International Public Sector Accounting Standards Board) has issued International Public Sector Accounting Standards (IPSASs). Between 1980 and 1991 IFAC's International Audit Practice Committee (IAPC) issued International Auditing Guidelines, and since 1991 International Standards on Auditing (ISAs). Originally, these standards were principally related to private firms, but over the years they have also been used by the Anglo-Saxon SAIs of Australia, Canada, South Africa, and the United Kingdom (INTOSAI Auditing Standards Committee, 1995).

The differences between the standard-setting of INTOSAI and IFAC is evident when looking at the respective standards of the two organizations. INTOSAI's (1998) Code of Ethics and Auditing Standards comes in a booklet of about 75 pages, whereas IAASB's (2005a) ISAs and related standards are published in a volume of about 1000 pages. The difference in quantity reflects that INTOSAI's standards are more general and principal, whereas IFAC's standards offer more specific guidance on auditing.

By the 1990s there was uncertainty in the international field of public sector auditing on whether the two international standard-setters would compete or cooperate. In the SAI-community there was a mixture of attitudes regarding IFAC. Some SAI officials believed that IFAC was disdainful of the sometimes rigid decision-making procedures of INTOSAI, others had great respect for the expertise and professionalism of IFAC and yet others mistrusted IFAC for working mainly in the interests of a few big accountancy firms (Author's interview with SAI senior officials). Correspondingly, divergence developed as regards to what standards SAIs were following: some used INTOSAI's standards, other used IFAC's and yet other used their own national standards or a mixture of the repertoire of standards available to them (United States General Accounting Office, 2003a). An example of the multifarious usage of auditing standards is evident in the European Court of Auditors implementation guidelines for INTOSAI's Auditing Standards (European Court of Auditors, 1998).³ These guidelines based on INTOSAI's standards also made

³ The EU has been a driving force in the international harmonization of auditing standards since large parts of the EU budget is also governed by its member states, which gives the EU an interest in common auditing standards.

references to IFAC's ISAs and thereby signaled that ISAs were also applicable to government auditing.

1999-2004: Transnationalizing Government Auditing

In July 1999, INTOSAI's Committee on Accounting Standards under the leadership of the Comptroller General of the United States, David M. Walker, met with the Public Sector Committee of IFAC (International Journal of Government Auditing, 1999: 17). At the time, IFAC feared that INTOSAI would make their own accounting standards in direct competition with IFAC (Author's interview with SAI senior official). On the meeting, however, IFAC was assured that this was not the case. Subsequently, in January 2000, INTOSAI's Committee on Accounting Standards received observer status at IFAC's Public Sector Committee (Board of Audit and Inspection of Korea, 2002: 39). After this, a shift from separation and/or competition towards cooperation between INTOSAI and IFAC has occurred.

In March 2002 the Auditing Standards Committee of INTOSAI decided to,

“initiate a very substantial cooperation with IFAC to contribute with the public sector perspective in the ongoing revision of old ISAs as well as the development of new ones” (Ahlenius, 2003: 2).

The event marked the formation of a transnational and cross-sectional network of organizations meant to regulate government auditing by issuing and disseminating International Standards on Auditing (ISAs) for both the private and the public sector.

ISAs are now formulated by the International Auditing and Assurance Standards Board (IAASB), which is comprised of members from national accountants' associations and the major international accountancy firms, national regulators and so-called public members from academia and the public sector. Following a task force report issued on November 2nd 2001, the IAPC was restructured and renamed into the IAASB in 2002. The objective of the IAASB is to promote world-wide uniformity of auditing practice and related services (Hayes et al., 2005: 10). In view of that, the chairman of the IAASB has portrayed the formation of the transnational and boundary-spanning collaboration as, “an important step towards the globalization of auditing standards” (IAASB, 2003: 11). The standard-setting is conducted in consultation with international financial and regulatory organizations, such as the International Organization of Securities Commissions (IOSCO),

the European Commission and the World Bank (IAASB, 2005b: 19). Furthermore, SAI officials participate in IAASB's standard-drafting task forces. The rationale behind for the SAI involvement is that the ISAs should be applicable to SAIs throughout the world, with the possible amendment of so-called practice notes on specific public sector issues (Ånerud, 2004).

3. Embarking a Transnational Standardizing Network

Why and how could such a ground-breaking arrangement as the transnational regulatory network formed around the IAASB and INTOSAI come about? If the arrangement is viewed as the creation of new rulemaking given the institutionalization of relations between standard-setting bodies, the growing body of theoretical literature on institutional change can help to explain the issue. A core argument drawn from this literature is that institutional change, in this case the creation of a transnational regulatory network, comes about as result of actors' choice given institutional constraints. More specifically, the following model is proposed:

- (1) A critical juncture in the form of a commonly perceived crisis destabilizes an existing institutional order within one or more fields of governance (cf. Abbott, 1997; Campbell, 2004: 68-69).
- (2) The crisis gives institutional entrepreneurs working at the intersections of the field room for maneuver to purposefully build up and shape a transnational governance network (cf. Christensen et al., 1997; DiMaggio, 1988; Pierson, 2004: 136-137). The interests, resources and propensity to different environments of the entrepreneurs are expected to have an impact on the institutionalization of the regulatory network (cf. Campbell, 2004: 173-183).

In the following, this model is applied to the case of a transnational regulatory network within the field of government auditing.

A Critical Juncture in Global Economic Governance

The Asian financial crises in 1997 came as chock to the international financial institutions (Islam and Chowdhury, 2000). One response to the crisis from the World Bank and the IMF was to strengthen their attention on institutional reform. An area of particular interest was auditing and accounting systems in developing and newly industrialized countries where much of the economy had been functioning out of reach for auditing. Given that SAIs of developing countries audit large parts of the loans and aid received from the World Bank, the motive of the World Bank has been to induce more comprehensive and uniform standards for the auditing of how development aid and loans are spend (Wolfensohn, 2004: 2). In this setting the World Bank regarded INTOSAI's auditing standards as too vague and inadequate as a means to improve the economic governance of developing countries, whereas IFAC's standards where believed to have a greater impact (Author's interview with World Bank senior official).

In a number of ways the World Bank has been a particular influential actor in shaping the transnational regulatory network on government auditing. A first initiative was the joint program of the IMF and the World Bank in creating or sponsoring more comprehensive international standards as part of a so-called new international financial architecture. The standard-setting initiative boosted the status of IFAC as a global regulator in the end of the 1990s when it's auditing standards got official recognition from prominent organizations such as the IMF, the World Bank, the WTO, the Financial Stability Forum, and IOSCO (World Bank / IMF, 2000: 8-9).

In July 2000 a World Bank senior executive send a letter to the top officials from those SAIs that where leading INTOSAI's main committees as well as IFAC, regional development banks, the OECD and the International Forum on Accountancy Development. The letter soon became famous in these circles as it provocatively described INTOSAI as a passive actor with regards to strengthening financial accountability internationally. The letter claimed that INTOSAI was an organization more spoken about, than spoken to and that the SAIs constituted a hole in the 'international financial architecture bucket' by having a 'non-compliance mindset' towards national and international rules on public sector accountability.

The assault on the previously undisputed glory of the international SAI community was, however, tiny in comparison to the shaming of the private sector accounting

profession after the downfall of Enron in 2001. Following the US Sarbanes-Oxley Act of July 2002 and the establishment of the Public Company Accounting Oversight Board (PCAOB) charged to monitor the auditing of public companies in the US, the hitherto self-regulatory prerogative of the accounting profession was challenged (Ånerud, 2004: 21).

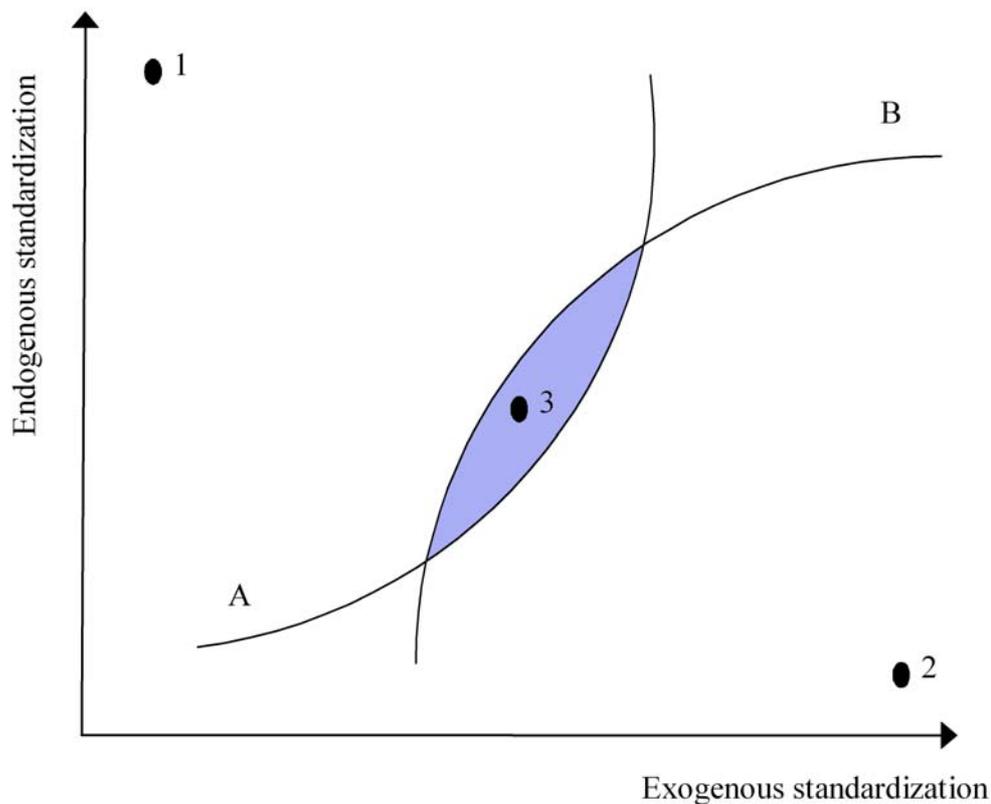
Institutional Entrepreneurship

The climate of external critique in the beginning of the 2000s of both INTOSAI and IFAC resulted in new conditions for how the two international bodies could continue their standards-setting activities and retain their authority. The two international standard-setters had by 2001-2002 reached a disequilibrium or a ‘choice point‘ in their historical development as a result of new conditions in their environment.

“During this key choice point, or “critical juncture,” a particular option [...] is selected from among two or more alternatives. The choice made [...] is consequential because it leads to the creation of institutional patterns that endure over time.” (Mahoney, 2001: 112).

The choice point is illustrated on figure 2. As a general observation, standard-setters can either produce standards all by themselves (endogenous standardization) or depend on and patch up the standards of others (exogenous standardization). The US Government Auditing Standards is an example of the former (United States General Accounting Office, 2003b), and the European Court of Auditors implementation guidelines for INTOSAI’s Auditing Standards is an example of the latter (European Court of Auditors, 1998). These two ideal-type of standard-setting set the two dimensions on figure 2.

Figure 2: The opening of a window of opportunity in the international standardization of government auditing



On a meeting in INTOSAI's Auditing Standards Committee (ASC) in Stockholm on September 26th 2002, the following options were debated. INTOSAI could either continue to produce auditing standards themselves (co-ordinate 1 on figure 2) or use various existing standards as a basis for INTOSAI's standards (co-ordinate 2 on figure 2). A third option, which was put forward by the Swedish chairmanship of ASC, was to initiate cooperation with IFAC and make use of the ISAs of the IAASB. This option (co-ordinate 3 on figure 2) entailed elements of endogenous standardization as INTOSAI would have the opportunity to influence the ISAs as they are made, but also of exogenous standardization as the standards formulated by IAASB could be amended with specific practice notes for public sector auditing.

The options were subject to some debate within INTOSAI but finally in October 2002, it was accepted by INTOSAI's Governing Board to go on with option 3. An explanation of that decision could be that option 1 was viewed as infeasible given the demand for comprehensive standards by some SAIs and the World Bank, the resource intensive nature

of formulating standards of a high quality and the rather inflexible nature of INTOSAI's decision-making procedures at the time. Option 2 on the other hand, could be viewed as undesirable because it would leave the core standard-setting business to other actors than INTOSAI. These considerations are illustrated on figure 2 by sphere A that indicate the frontiers of what was viewed as acceptable and sphere B that indicate the limits of what was viewed as feasible. The choice of option 3 is plausible because it lies within both spheres (the intersection is marked with grey).

IFAC was facing a somewhat similar choice between continuing its hitherto standard-setting activities (co-ordinate 1 on figure 2) but thereby risking to lose authority to other regulators (co-ordinate 2 on figure 2), or stretching its cooperation and consultation with other parties (co-ordinate 3 on figure 2). IFAC chose option 3, presumably to maintain its authority as a global standard-setter and with the declared goals of remedying the legitimacy-crisis of the accounting profession and rebuild public confidence in accounting (IFAC, 2003). A major move in this direction was the creation of the IAASB under the slogan of producing auditing standards "protecting the public interest" (IAASB, 2004). A central feature of the new institutional setup of the IAASB was an increased amount of members compared to the former IAPC (from 14 to 18). Furthermore, the new entity signaled more interaction and consultation with other actors and greater transparency and openness towards the greater public. In this setting, IFAC became interested in linking up with SAIs, which are broadly acknowledged as important elements of modern states; as agents of transparency or 'pillars of integrity' (Dye & Stapenhurst, 1998). An additional motivation for IFAC to engage with INTOSAI was that harmonization of public and private auditing standards could give private accountancy firms better access to the market of public sector auditing.

Essentially, the transnational governance network appears to have been formed in order for the two international standard-setters to exchange different kinds of benefits, such as decision-making capacity (IFAC -> INTOSAI), public legitimacy (INTOSAI -> IFAC) and various kinds of expertise (both ways). Furthermore, the new mode of cooperation could function as a shield against threats to INTOSAI and IFAC or even as a means to acquire resources from their respective environments.

However, the creation of the transnational regulatory network arose from more than a trade off between what INTOSAI and IFAC perceived as preferred and possible at the

time. It is plausible that the external chocks that had shaken both standard-setting communities were a prerequisite for the venture, since such cooperation by most people had been seen as unlikely in the 1990s and 1980s. In this way it is fair to say that a particular “opportunity window” had paved the way for the transnational network (author’s correspondence with former senior SAI official).

However, the new institutional arrangement did not come about automatically or unchallenged as some groups within INTOSAI and IFAC feared that it would jeopardize their authority (cf. Campbell, 2004: 176). Some SAIs – in particular Continental-European - were skeptical about what they feared was a Faustian deal with Big Business. Likewise, there was uneasiness on IFAC’s Board as to whether the new arrangement would slow down IFAC’s standard-setting activities given the increased board size of IAASB (Author’s interview with IFAC official). There was also skepticism as to whether an increase in the amount of non-auditors on the board and increased consultation with the Consultative Advisory Group (CAG) would threaten the interests of the accounting profession.

Why then, was the network formed despite these signs of disagreement within INTOSAI and IFAC? Evidence suggests that a small group of skillful institutional entrepreneurs played a crucial role here. These entrepreneurs worked had central positions within INTOSAI, IFAC and the World Bank and they had working experience from the public and private sector as well as from international cooperation. Given the professional biographies of these actors, it is appropriate to call them entrepreneurs “*located at the interstices of several social network, organizations, and institutions*” (Campbell, 2004: 178, Campbell’s italics).

The entrepreneur’s familiarity with existing arrangements of public-private cooperation made it possible to present operational models of such arrangements to the decision-makers within INTOSAI and IFAC. This made the idea of a transnational regulatory network more appealing (cf. Campbell, 2004: 179). An IFAC official had extensive experience with joint public and private standard-setting on auditing in Canada. Similarly, a member of INTOSAI’s Auditing Standards Committee had experience with the UK system, where the National Audit Office makes use of auditing standards formulated by the non-governmental Auditing Practices Board. The British system of

amending practice notes to the auditing standards issued by a private standard-setter was to become a template for the cooperation between INTOSAI and IFAC.

The combined experiences of the institutional entrepreneurs from the different corners of the world of auditing are likely to have stimulated the new idea of creating a transnational regulatory network. Thus, it was initially an official from the World Bank who had previously worked in the US Government Accountability Office who conceived the idea of cooperation between INTOSAI and IFAC and facilitated the initial contacts between INTOSAI and IFAC (Holmerin, 2002: 8).

In addition to working as an intermediary or a broker in the design of the network, the World Bank also commanded financial resources, which were used to support the formation of the network. In addition, a report made on the World Bank's initiative that compared IFAC and INTOSAI's auditing standards, was issued in September 2002. The report was an updated version of a previous study made by IFAC's Public Sector Committee, and it concluded that IFAC and INTOSAI's auditing standards were generally compatible. Hence, the report suggested that there were no decisive barriers to cooperation on standard-setting between INTOSAI and IFAC.

The role of the different institutional entrepreneurs is considered further in the conclusion. Before doing so, the standards-setting procedure of the transnational regulatory network is briefly reviewed.

3. Maneuvering a Standardizing Network

Formulating International Standards on Auditing (ISAs) that - according to IFAC - are supposed to be sector neutral (i.e. equally applicable to the private, public and voluntary sectors), is a complicated and delicate enterprise. The cycle of developing an ISA from project proposal to finalized standard often takes between eighteen months and two years and involves draft proposals formulated by a working group of experts, debates at IAASB meetings and wider consultation through exposure drafts that are subject to external comments. Since the partnership between INTOSAI and IFAC has only been in full operation since 2004, there is, so far, only preliminary empirical evidence available on how the standard-setting is functioning, which actors gets their ideas into the final standards and how.

The first ISA revision that INTOSAI has taken part in developing all the way from the outset of the standard-setting process is ISA 230 on audit documentation. The comments on the ISA 230 exposure draft received by the IAASB were on the agenda at its meeting in Rome in June 2005. Figure 3 and 4 display the distribution of different actor's change proposals that were received by the ISA 230 Working Group and those proposals that were successful in causing changes to a redrafted version of the standard.

Figure 3: Number of proposed changes to exposure draft on ISA 230 revision

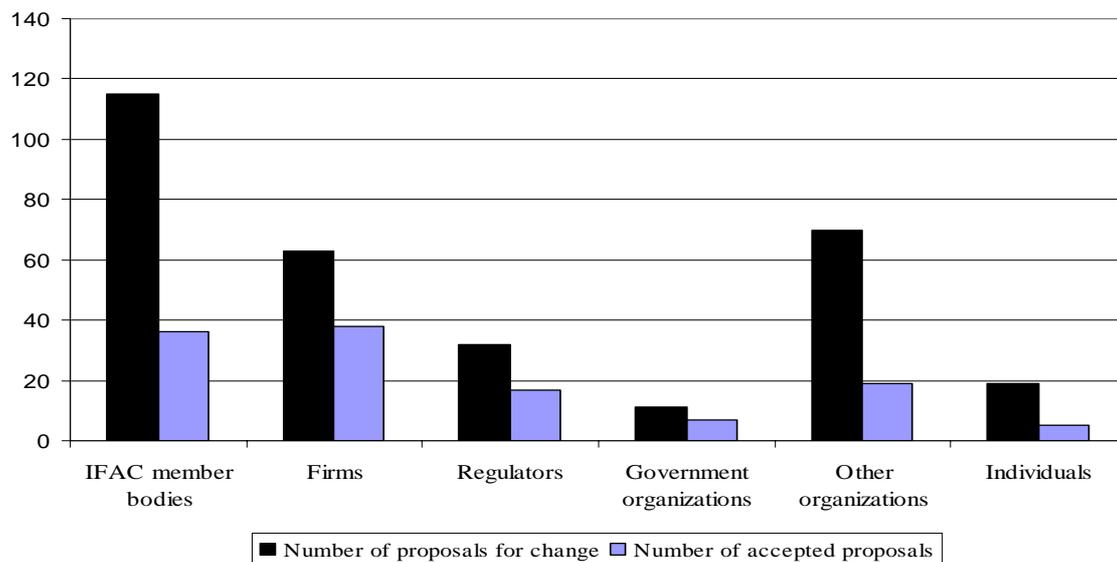


Figure 4: Percentage of accepted change proposals to the exposure draft on ISA 230 revision

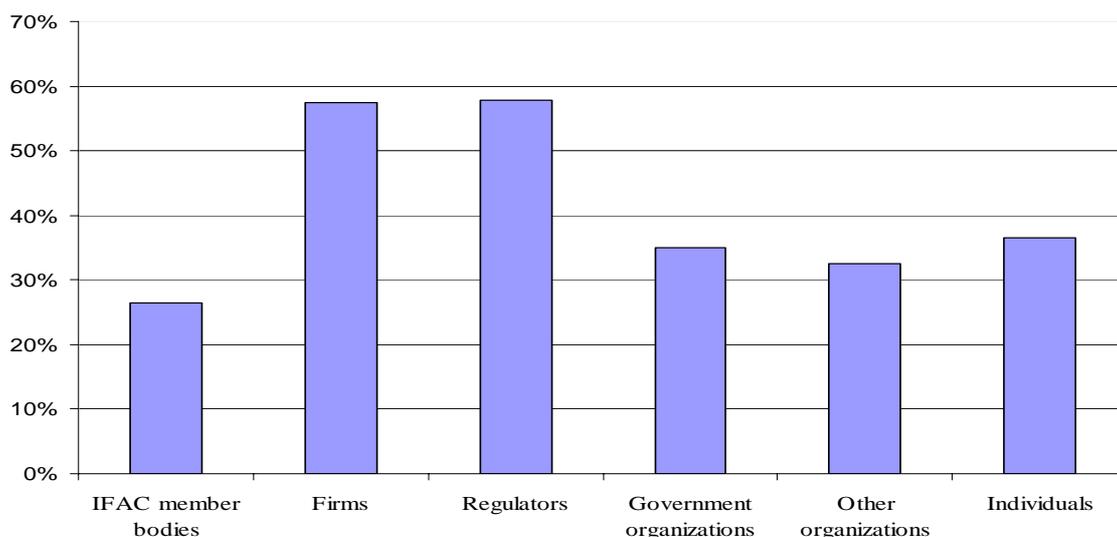


Figure 3 shows that professional associations of accountants, which are grouped as either 'IFAC members bodies' or 'other organizations', stands for the majority of comments filed to the ISA working group. The label 'firms' predominantly stands for the 'Big 4' accountancy firms and 'regulators' represents, among others, the Basel Committee on Banking Supervision, the European Commission and the International Organization of Securities Commissions (IOSCO). It appear also from figure 3 that government organizations, such as SAIs and associations of public sector accountants, have been less keen on commenting on the ISA exposure draft. One reason for this could be that the idea of the new transnational regulatory setup has yet to become salient in the international SAI community, Another reason could be that some SAIs view the ISA as having a distinctively Anglo-Saxon and private sector flavor that makes the standards less appealing. A third reason could be that the formulation of ISAs is a specialized undertaking that only a limited amount of professionals possess the full expertise and organizational resources to engage with (Author's interview with SAI official).

Figure 4 suggests that there are differences in how successful different types of organizations are in getting their ideas into the auditing standards. An interpretation of the figure may even be that some organizations are listened to more than others when the standards are made. Where firms and regulators get there way with almost 60% of their suggestions for changes to the standards, the remaining actors only get around one third of their suggestions through. Comparisons of means tests of the data, however, shows no significant differences between the groups with regards to whether their proposals are accepted or not. Thus, as of yet, there is no conclusive statistical evidence that some organizations are listened to more than others in IAASB's standard-setting procedure.

The group of government organizations stands out in the dataset on which the figure is based because of a high standard deviation implying major differences on how successful different public sector organizations are with their comments. The US Government Accountability Office got approval on 70% of its change proposals making it one of the most successful organizations among all of those that commented on the ISA exposure draft. Accordingly, there are no clear signs that the public sector is kept away from influencing the standards produced.

The formal procedure of commenting on exposure drafts to new standards is, however, likely to only be top of the iceberg with regards to how organizations can influence the

shaping of new standards. Thus, it is possible to distinguish between ‘front-door influence’ meaning commenting on exposure drafts and ‘back-door influence’ in the sense of getting certain issues into new standard proposals through IAASB’s Consultative Advisory Group, seeking to influence who gets on the specific ISA working groups or through informal communication with the working group. Seeking this kind of ‘back door’ influence as early as possible in the standard-setting process may be much more effective than trying to influence the standards ‘through the front door’. This is so because it is difficult to add new ideas to the standards once the general principles have been settled (Author’s interview with SAI official; Author’s interview with IFAC official). Because the standard-setting takes place between numerous actors with various positions on how the standards should be, the timing and utilization of different strategies, both ‘back-door’ and ‘front-door’ may be important for the relative success of the actors working in the transnational regulatory network.

4. Conclusion: Rowing, Steering, Piloting and Mapmaking in the New Age of Regulatory Capitalism

The paper has shown how a transnational network for the governance of government auditing has emerged around the initiated cooperation between the two international standard-setters, INTOSAI and IFAC. The case of this network’s creation fits well with an agency-oriented neo-institutional explanatory model. Thus, empirical evidence suggests that critical junctures in the development of INTOSAI and IFAC’s respective standard-setting activities - spurred by the global financial crisis and major accountancy firm scandals – paved the way for institutional entrepreneurship. A group of skillful entrepreneurs, with experiences from both the public and private sector at both a national and international level, managed to convince the decision-making bodies of INTOSAI and IFAC to set up a transnational regulatory network. The evidence presented also indicates that there may be considerable differences as to who gets their will in the process of formulating standards in a transnational network.

Returning to the seafaring metaphor introduced in the beginning of the paper, the case of transnational regulation of government auditing offers some material for amendment. The transnational regulation of government auditing does indeed takes place in uneasy waters as the relative authority of various organizations is dispersed and in

motion. Government auditing itself can be depicted as ‘steering’ given its role as internal regulation in states. However, some of the more or less mundane tasks of financial auditing in the public sector can also be viewed as ‘rowing’ – a task which some states prefer to do themselves and others have contracted out to private firms.

Going further with the maritime use of metaphors, the standards that guides government auditing can be portrayed as ‘maps’ that are crucial for which course is set (cf. Brunsson and Jacobsson, 2000: 14-15). The partial delegation of ‘map-making’ or standard-setting authority from INTOSAI to the IAASB may imply that states get more comprehensive maps. However, it also means that most maps are produced by private accountancy firms rather than SAIs.

The case described here also tells how the major international financial institutions saw it as their task to ‘pilot’ states through troubled waters in the wake of external shocks such as the Asian Financial crisis by making states follow ISAs, which by the World Bank and the IMF were considered as better and more comprehensive ‘maps’. By shaping the conditions for the governing activities of other actors, in this instance the standard-setting activities of the IAASB, the World Bank could govern at a distance as a powerful actor that was “able to successfully enroll and mobilize persons, procedures and artifacts in the pursuit of its goals” (Rose and Miller, 1992: 183).

The instances of ‘map-making’ and ‘piloting’ can be referred to as meta-governance (Kooiman, 2000: 159-161).

“Metagovernance involves managing the complexity, plurality, and tangled hierarchies found in prevailing modes of co-ordination. It is the organization of the conditions for governance and involves the judicious mixing of market, hierarchy, and networks to achieve the best possible outcomes from the viewpoint of those engaged in metagovernance. In this sense it also means the organization of the conditions of governance in terms of their structurally inscribed strategic selectivity, i.e., in terms of their asymmetrical privileging of some outcomes over others” (Jessop, 2003: 6).

As this paper has shown, metagovernance is on the rise within the field of government auditing. Hence, future research in this area could benefit from analyzing more than just ‘steering’ and ‘rowing’.

Appendix: The Development of International Cooperation on Government Auditing

	General international and regional bodies	Issue-specific bodies	Standard-setting bodies
1950s	1953: International Organization for Supreme Audit Institutions (INTOSAI)		
1960s	1962: INTOSAI Organization of Latin American and Caribbean Supreme Audit Institutions (OLACEFS)	1966: INTOSAI Governing Board	
1970s	1976: African Organization of Supreme Audit Institutions (AFROSAI) 1976: Arabian Organization of Supreme Audit Institutions (ARABOSAI) 1978: Asian Organization of Supreme Audit Institutions (ASOSAI) 1978: International Consortium on Governmental Financial Management (ICGFM)		
1980s	1987: South Pacific Association of Supreme Audit Institutions (SPASAI) 1988: Caribbean Organization of Supreme Audit Institutions (CAROSAI) 1988: Association of Pacific Islands Public Auditors (APIPA) (1988) 1990: European Organization of Supreme Audit Institutions (EUROSAI)	1989: INTOSAI Committee on IT Audit	1984: INTOSAI Auditing Standards Committee 1984: INTOSAI Committee on Accounting Standards 1984: INTOSAI Internal Control Standards Committee 1986-2004: IFAC Public Sector Committee (INTOSAI observer since 2000)

1990s	1992: European Free Trade Area (EFTA) Board of Auditors 1993: Australasian Council of Auditors-General (ACAG)	1991: INTOSAI Public Debt Committee 1992: INTOSAI Working Group on Environmental Auditing 1992: INTOSAI Working Group on Program Evaluation 1993: INTOSAI Working Group on the Audit of Privatization 1994: INTOSAI ARABOSAI Training and Scientific Research Committee 1994: INTOSAI ARABOSAI Guides and Terminology Committee 1998: OLACEFS Environmental Special Technical Committee 1999: EUROSAI Working Group on Environmental Auditing 1999: ARABOSAI Working Group on Environmental Auditing	
2000s		2000: ASOSAI Working Group on Environmental Auditing 2000: AFROSAI Working Group on Environmental Auditing 2001-2004: INTOSAI Working Group on the Audit of International Institutions 2001: INTOSAI Sub-committee on SAI independence 2002: EUROSAI IT Working Group 2002: ACAG/SPASAI Working Group on Environmental Auditing	2002: IFAC International Auditing and Assurance Standards Board (2002) 2002: INTOSAI Auditing Standard Committee Working Group on Financial Audit Guidelines 2004: IFAC International Public Sector Accounting Standards Board (IPSASB)

Sources: International Yearbook of International Organizations (2003-04), INTOSAI (2004), INCOSAI proceedings, INTOSAI committee websites at www.intosai.org, IFAC's website at www.ifac.org.

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