



SCHOOL OF ECONOMICS  
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# Interaction and barriers

## –the Big Four audit firms in the Öresund region

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## Summary

<b>Title:</b>	Interaction and barriers – the Big Four audit firms in the Öresund region
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<b>Five key words:</b>	Big Four, Öresund, mobility, cooperation, audit
<b>Purpose:</b>	The purpose of the thesis is to create a greater understanding of the cooperation and the mobility within each of the Big Four audit firms across the Öresund strait, with a primary focus on auditing.
<b>Methodology:</b>	The thesis was conducted with a qualitative methodology, executed with help of interviews in order to answer the research question; How are the Big Four audit firms cooperating across the Öresund strait and do they experience any mobility?
<b>Theoretical perspectives:</b>	The theory of strategic alliances, GATS-mode and institutional context creates the theoretical framework.
<b>Empirical foundation:</b>	A total of eight interviews have been conducted with respondents at each of the Big Four audit firms at both sides of the strait. The empirical results cover the research areas of cooperation and mobility.
<b>Conclusions:</b>	It can be concluded that there is a definite cooperation within each of the Big Four in the Öresund region and that the greatest benefit of the cooperation is knowledge sharing between the offices in each firm. There are differences between Denmark and Sweden, such as language and culture, but neither of them is seen as a significant hindrance for the cooperation. Nevertheless, the differences in legislation are seen as barriers. There is hardly any mobility of auditors, neither permanent nor temporary, between the offices within each firm. The most significant barrier for the mobility is the different tax systems which creates differences in the education and in the requirements for authorization.

## Sammanfattning

<b>Titel:</b>	Interaction and barriers – the Big Four audit firms in the Öresund region
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<b>Författare:</b>	Helena Bramstorp, Hanna Johansson
<b>Handledare:</b>	Anne Loft, Claes Norberg
<b>Nyckelord:</b>	Big Four, Öresund, rörlighet, samarbete, revision
<b>Syfte:</b>	Uppsatsens syfte är att skapa en bättre förståelse kring samarbetet och rörligheten mellan var och en av de fyra stora revisionsfirmorna över sundet. Detta med ett huvudsakligt fokus på revision.
<b>Metod:</b>	Uppsatsens studie är kvalitativ och utförd med hjälp av intervjuer för att svara på forskningsfrågan; Hur samarbetar The Big Four över Öresund och upplever de någon rörlighet?
<b>Teoretiska perspektiv:</b>	Teorin om strategiska allianser, GATS modes och institutionell kontext utgör den teoretiska referensramen.
<b>Empiri:</b>	Sammanlagt har åtta intervjuer utförts med respondenter på var och en av de fyra stora revisionsfirmorna på båda sidorna av sundet.
<b>Slutsatser:</b>	Slutsatsen kan dras att där är ett tydligt samarbete inom var och en av de fyra stora revisionsfirmorna och den största fördelen av samarbetet är kunskapsöverföringen mellan kontoren i var och en av firmorna. Där finns skillnader som språk och kultur mellan Sverige och Danmark, men ingen av dem ses som ett hinder för samarbetet. Dock ses skillnaderna i lagstiftningen som en barriär. Där är nästan ingen rörlighet av revisorer, varken permanent eller tillfällig, mellan kontoren i firmorna. Den mest betydande barriären för rörlighet är de olika skattesystemen som skapar skillnader i kraven på utbildning och auktorisation.

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Lund, May 25, 2007

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## Abbreviations and definitions

DCCA	The Danish Commerce and Companies Agency
EU	European Union
IAASB	International Audit and Assurance Standards Board
IASB	International Accounting Standards Board
IFAC	International Federation of Public Accountants
IFRS	International Financial Reporting Standards
PWC	PricewaterhouseCoopers
SINK	Särskild inkomstskatt för utomlands bosatta
WTO	World Trade Organisation
Aptitude test	Test to become a statutory auditor in the home country
Aptitude test	Test to become a statutory auditor in another EU member state, when already being a statutory auditor in the home country
Statutory Auditor	Refers to an individual authorized for practising statutory audits, except from when the specific Swedish and Danish titles are discussed
The Big Four	The four big audit firms in the world: Deloitte, Ernst& Young, KPMG and PricewaterhouseCoopers <sup>1</sup>
The Danish Commerce and Companies Agency	“Erhvervs og selskabsstyrelsen” <sup>2</sup>
The Supervisory Board of Public Accountants	“Revisorsnämnden” <sup>3</sup>
The Öresund region	The capital-region in Denmark (Copenhagen, Frederiksborg and Roskilde) and Skåne in Sweden <sup>4</sup>

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<sup>1</sup> The Big Four auditors (2007)

<sup>2</sup> The DCCA – English version (2007)

<sup>3</sup> Revisorsnämnden (2007)

<sup>4</sup> EURES in cross border-regions (2007)



## 1 Introduction

*The first chapter is intended to provide the reader with an understanding of the area that is investigated, the problem, the purpose of this thesis and lastly a model overviewing our research process.*

### 1.1 Background

The first section will introduce the reader to the Öresund region, while the second part will give a brief introduction to the harmonization and regulation of the audit profession within Sweden and Denmark. Lastly the Big Four audit firms will be introduced.

#### 1.1.1 The Öresund region

The Öresund region consists of the capital-region in Denmark (Copenhagen, Frederikesborg and Roskilde) and of Skåne in Sweden.<sup>5</sup> With 3,5 million inhabitants, the region is today one of the most populated areas within the Nordic countries. The area markets itself via e.g. the two cities Copenhagen and Malmö and the vicinity to the rest of Europe.<sup>6</sup>

As early as in 1960 there was a discussion about a combined Danish and Swedish city in Öresund, with the name of Örestad. Due to the oil crisis and economic stagnation during the 1970's, the idea never became reality. In the end of the 1980's the idea was up for discussion once again and in March 1991 the two governments signed an agreement about a fixed connection across Öresund.<sup>7</sup> At this time only 2000 people were commuting across the strait.<sup>8</sup>

The bridge was opened the first of July in the year 2000.<sup>9</sup> The usage was sparse in the beginning and less than expected,<sup>10</sup> however the travelling has increased and last year there were 14 000 people commuting across the strait. The figure is expected to rise to 40 000 people in year 2020.<sup>11</sup> Since the opening, a total of 75 million people have

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<sup>5</sup> EURES in cross border-regions (2007)

<sup>6</sup> Bred samling kring utveckling i Öresundsregionen (2007)

<sup>7</sup> Historiska band över Öresund (2007)

<sup>8</sup> Flodgren et al. (1999)

<sup>9</sup> Historiska band över Öresund (2007)

<sup>10</sup> Öresundsbron – Historik (2007)

<sup>11</sup> Halling (2007)

traveled across the bridge and it is said that the inhabitants of the region make up three quarters of the traffic.<sup>12</sup>

### **1.1.2 The harmonization of accounting and auditing in Europe**

During the last decade there has been a discussion, in media as well as in the world of academics, about globalization of the world economy and its consequences; there among the consequences for the auditing-profession. The regional harmonization of accounting and auditing will get new demands for the auditing profession and the education.<sup>13</sup>

The internal market is the essence of the European Union today. Since 1985, EU's institutes and member states have worked hard to establish and approve the hundreds of directives needed to break down all bureaucratic, technical, cultural, regulatory, legal and protective barriers which restrain free trading and free mobility. The Eighth Council Directive 84/253/EEG of 10 April 1984 is on the approval of individuals responsible for carrying out the statutory audits of accounting documents.<sup>14</sup> The Council Directive 89/48/EEC was adopted in order to make it possible for a citizen in one member state to practice a profession in another member state. The purpose of this directive is to eliminate obstacles for free mobility of people and services.<sup>15</sup>

The audit should guarantee the accuracy of the financial information and is therefore important to the industry as well as the public. Auditing is a regulated profession in Sweden and to secure the quality of the audit the legislator has set standards for the auditor's qualifications. In Sweden, the Supervisory Board of Public Accountants covers the international developments within the audit profession. They take part in the work done by the EU's Audit Committee, who has developed mutual rules for the quality control of auditors as well as set up minimum standards for the independence of auditors within EU.<sup>16</sup> In Denmark, the Danish Commerce and Companies Agency together with Revisortilsynet are the ones to assure that the quality of auditors and active registered audit-firms are satisfying.<sup>17</sup>

### **1.1.3 The Big Four accounting firms**

There is a degree of extreme concentration of power and ownership in the accounting profession which has no parallel to any other profession. A large portion of the members of national or regional accounting institutes are employees of a few global accounting

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<sup>12</sup> Historiska band över Öresund (2007)

<sup>13</sup> Aggestam (2005)

<sup>14</sup> Eighth Council Directive 84/253/EEG

<sup>15</sup> Council Directive 89/48/EEC

<sup>16</sup> Information om Revisorsnämnden (RN) och dess verksamhet (2007)

<sup>17</sup> Revisortilsynet – Information (2007)

firms having a significant impact on the profession.<sup>18</sup> The Big Four accounting firms are Deloitte, Ernst & Young, KPMG and PricewaterhouseCoopers. The group was once known as the Big Eight before a series of mergers. The departure of Arthur Andersen following the Enron scandal in 2001, leaves four big accounting firms. Corporations are now required to use separate accounting firms for their audit work and non audit services, therefore the loss of the fifth firm has reduced the competition among the big accounting firms and increased accounting costs for many clients.<sup>19</sup>

## 1.2 Problem discussion

### 1.2.1 Problem summary

Denmark and Sweden are by the rest of the world often seen as quite similar countries. When looking at these two countries solely, differences are discovered in e.g. law, social relations and how business is conducted.<sup>20</sup>

In the Öresund region great efforts are being taken to get the Swedish and the Danish part of the strait to cooperate and to benefit from each other in the best possible way. The integration does not solely come with positive reactions and there are still areas where resistance can be seen. One of the difficulties that restrain the area to function flawlessly is language.<sup>21</sup> Theoretically, labour is supposed to be able to move freely between the countries, but differences in law, primarily tax laws, sometimes make this problematic.<sup>22</sup> Additionally, the differences in regulation and language do not only impact the region in general, but also the profession and auditors' ability to conduct audits across the strait.

The audit profession has met an extremely fast and developing era the last decade. Deloitte, Ernst & Young, KPMG and PricewaterhouseCoopers are global audit firms and well-known worldwide. It is interesting to investigate each of the Big Four in terms of how they interact in a cross-border area like the Öresund region and the general barriers as well as the profession-specific barriers restraining the interaction. The recent year's development both in the region and within the audit profession makes this investigation legitimate. There is no particular research done about the Big Four in the Öresund area, why our investigation contributes to a less researched area.

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<sup>18</sup> Boyd (2004)

<sup>19</sup> The Big Four auditors (2007)

<sup>20</sup> Flodgren et al. (1999)

<sup>21</sup> Ibid

<sup>22</sup> A single market for services (2007)

### 1.2.2 Research question

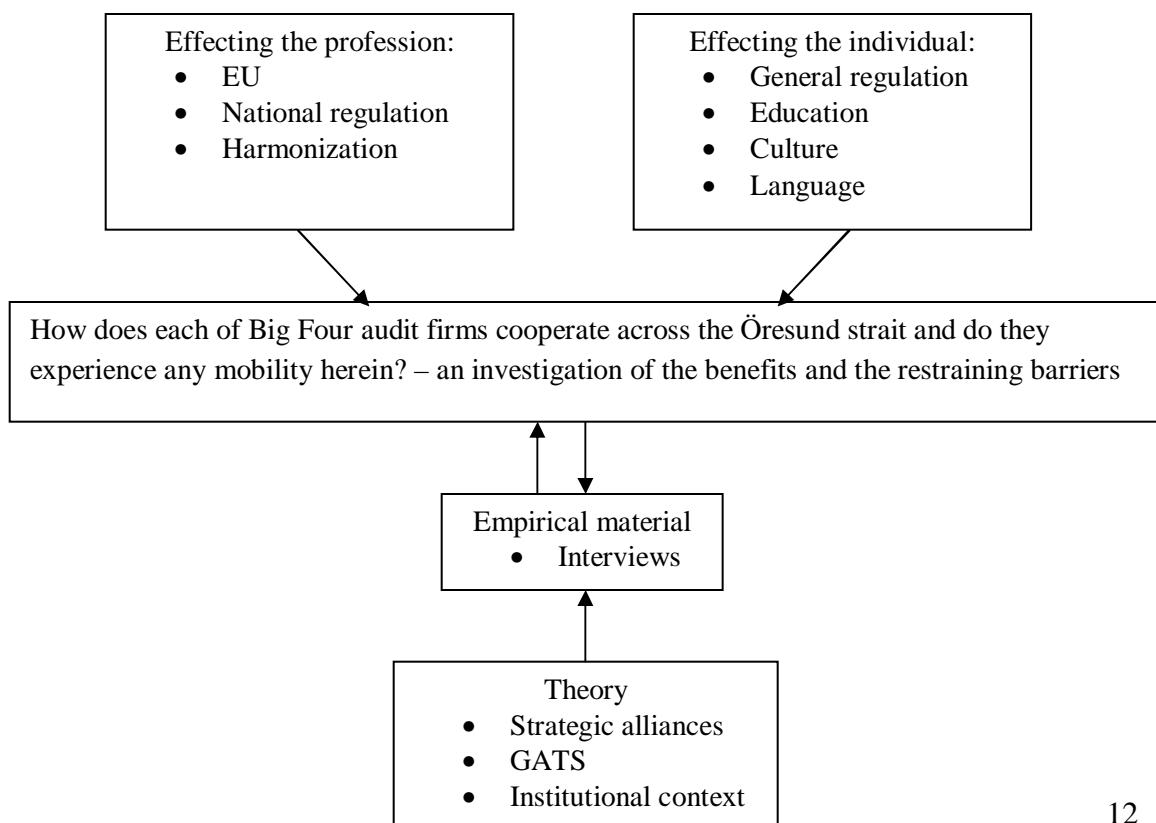
How does each of the Big Four audit firms cooperate across the Öresund strait and do they experience any mobility herein? – an investigation of the benefits and the restraining barriers

### 1.2.3 Purpose

The purpose of our thesis is to create a greater understanding of the cooperation and the mobility within each of the Big Four across the Öresund strait, with a primary focus on auditing. The findings offer a mapping of the specific cooperation across the strait within each of the firms and the benefits it contributes as well as the restraining barriers. Further the findings explain the level of permanent respective temporarily mobility of professionals within each of the Big Four firms and the barriers effecting it. Additionally, our findings portray what is perceived to follow by possible future harmonization, in our areas of research.

## 1.3 Model explaining our research process

Since there is no previous research done regarding the Big Four in the Öresund region, we found it interesting studying the cooperation and mobility within this area. We chose to handle our research question in two aspects. Firstly, we created an understanding of the background, both in the region and within the audit profession. Secondly, we answered our research question by carrying out interviews, which we analyzed using three theories.



## 2 Methodology

*In this chapter we describe the methods we have used and how we have approached our research question. Thereafter the case study and our working procedures are presented. In the last part we explain how we have tried to achieve validity and reliability and what criticism can be held against our references.*

### 2.1 Research method

#### 2.1.1 Approach

The fast development in the audit profession over the last years early woke our interest to study the Big Four and the internationalization. With the bridge between Denmark and Sweden in the year of 2000, the Öresund region has been of current discussion. We therefore decided to limit the scope of the thesis to this area. After studying the Öresund region and the mobility of auditors within Europe, we arrived at the problem and research question you find outlined in chapter one. Our initial perception does not only arrive from the literature study, but is also intertwined with data perceived in 2006 from visiting the Big Four at “student-evenings” during the autumn.

There are two different approaches to describe reality; the deductive and inductive approach. Both have been criticised for its shortcomings and it is said to be difficult to conduct either a “pure” inductive or deductive study. Therefore it is today more common to speak about the degree of openness in the study. Here taken in to account the boundaries a researcher sets before the data is to be gathered and how the researcher is open to new and unexpected information she had not thought about in advance.<sup>23</sup>

We would characterize our approach as partly an inductive approach. When a researcher gathers data using an inductive approach, she does this without any preconceived thoughts in order to use this data to create new theories.<sup>24</sup> No research is done about the Big Four in the Öresund region and we therefore are open to new and unexpected data. However to develop a new theory is not the purpose of our thesis. Instead we want to contribute to an increased knowledge regarding the topic. Nevertheless, we do have some expectations and boundaries. These have been set with the background of the development in the region, the regulation as well as from earlier visits at the firms. When having a deductive approach, the researcher creates a theoretical framework later verified

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<sup>23</sup> Jacobsen (2002)

<sup>24</sup> Wallén (1996)

by using data gathered from field research.<sup>25</sup> Therefore our study also has a deductive approach.

### **2.1.2 A qualitative study**

There are two methods of conducting scientific research; quantitatively and qualitatively. Which method to use is directed by the problem summary and research question. A benefit of the qualitative study is that it is more basic and open, which makes it more flexible.<sup>26</sup>

Since we did have a descriptive nature of our purpose and we needed in-depth empirical data to answer our research question, a qualitative study would be the most appropriate for us. The aim is to investigate the Big Four firms more specifically, rather than the whole market in general. We wanted to find out how these experience the situation they find themselves in. The chosen approach demanded complementing questions and explanations, which motivates the use of a qualitative method. The qualitative study is also suitable since we wanted to be open for unexpected information. If we were to do a quantitative study, there is a risk that there would be issues not cleared out and the understanding of the situation would not be as deep. Some answers that we would have received through a quantitative research method would probably have been reduced in comparison to the ones we receive through the qualitative study.

## **2.2 The working procedure**

### **2.2.1 Gathering of data**

Since our focus is on the Big Four in the Öresund region our units of analysis are these four respective firms and in our study we wanted to get respondents from both sides of the strait. Before doing the interviews we gathered data about theories that can be applied, the integration in the region, today's regulation in the audit-area, both within EU and the national regulation, as well as the harmonizing of the accounting and auditing principles. This data is presented in later chapters. The collected data has been a useful background and framework when conducting the interviews.

### **2.2.2 Interviews**

Our primary data collection source is our respondents. To receive the best possible information it is important that the respondent is active and have experience in the area of

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<sup>25</sup> Wallén (1996)

<sup>26</sup> Jacobsen (2002)

investigation.<sup>27</sup> Each unit of analysis contains many employees and we wanted to access management in the organization to reach someone with oversight as well as in-depth knowledge in our area of research. In order to obtain the best information we contacted the office-manager, if possible, and otherwise the student-adviser to get the name of the most appropriate informed respondent. When contacting them the area of interest was stated. Some requested further information and to them we sent our first draft of the introduction to the thesis, resulting in the individuals most suitable were all partners and statutory auditors who all are active within profession as well as in the area of interest. These attributes makes them appropriate and well informed respondents. In order to prepare if needed, the interview questions was sent to them a week before the interview.

#### *2.2.2.1 Type of interview*

Our judgment is that personal interviews are the best option. By doing that we would see the reaction and behavior of the respondents.<sup>28</sup> Two of the respondents in Denmark preferred to do telephone interviews. In the end we chose to do all Danish interviews per telephone as the other two respondents also found it more convenient due to their business schedule. The Swedish interviews were done at the offices of each firm. We are well aware of that there is a difference between doing personnel and telephone interviews. When meeting the respondent in person we would probably get a closer contact than with the respondents interviewed per telephone.<sup>29</sup>

To receive the most usable information during the interviews we tried to prepare ourselves and the respondents as much as possible; wanting them to know exactly what we were to investigate. In this aspect our understanding is that we received the best possible information from both the respondents met in person and the ones interviewed per telephone.

#### *2.2.2.2 Structure*

The interviews were semi-structured, which means that some fixed questions were asked at each interview.<sup>30</sup> Complementing questions, explanations and discussions differed from interview to interview. We are aware that the respondents have greater knowledge and information regarding the area of research, why we chose the answers to be totally unstructured; the respondents were free to give an answer in his words and no ready made alternatives were given.<sup>31</sup> By doing this we were open to the information they could offer

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<sup>27</sup> Quattrone (2006)

<sup>28</sup> Jacobsen (2002)

<sup>29</sup> Ibid

<sup>30</sup> Lundahl et al (1999)

<sup>31</sup> Ibid

and every respondent could give their point of view on the topic. We assume that we did not restrict them in any way.

#### *2.2.2.3 Performance*

All respondents were asked if it was in order with them to be recorded. One interviewee asked us not to record him, which we of course respected. This interview was carefully written down so that we would not miss any of the information. The other interviews were tape recorded and transcribed afterwards. By doing this we knew exactly what had been said and could use the material through the whole working phase. We are aware of that the recording might have had an impact on the answers from the respondents. Even if they were asked regarding the recording, they might have felt a bit uncomfortable and formed their answers more carefully. However, our respondents have long experience in the profession and are used to perform in front of other people, why we do not think this aspect has lowered the quality of the information received.

The interviews with the respondents from the Swedish firms were held in Swedish. The fact that both we and the respondents could express ourselves in our mother tongue helped us receive the best possible information. The Danish respondents were interviewed in English. Even though Swedish and Danish are very similar languages we did not want to be misunderstood or to misunderstand the respondents. Both we and our respondents speak English fluently, so we do not think that less information was gathered or that the information received was less usable than the information from the interviews done in Swedish. However, if the interviews were conducted in Danish, the respondents might have developed their answers further, but the risk of misunderstandings would have been greater.

#### *2.2.2.4 Complementing information*

In the case of questions arising afterwards or uncertainty and misunderstandings regarding answers from the respondents, we had the possibility to contact them for further information by e-mail or telephone.

### **2.2.3 Data analysis**

When we conducted the analysis, the transcription from the interviews was used as working material and consisted of approximately 40 pages. The data gathered was quite unstructured because of the semi structured methods used during the interviews. However, dividing our interview questions in different headlines made it easier to later structure the data into different categories.



When analyzing the material we tried to find similarities and differences both within each firm and between them. We were very critical and selective in what information that was relevant to our investigation and did only pay attention to the information that had connection to our research question. The theoretical framework served as a reference when analyzing our data, and later structured our discussion.

## **2.3 Validity and reliability**

### **2.3.1 Validity**

Validity is achieved by investigating the right things, i.e. what we want to find out.<sup>32</sup> By having fixed questions we prevented the interview to cover areas that were not important to our investigation and in the analysis we only took into account the information we found relevant. To make our research valid we chose, in our opinion, the most suitable respondents to interview. We have also in order to increase the validity, sent out a draft of the empirical findings to each respondent for them to read through and return comments.

External validity is accomplished if the results can be used in other circumstances apart from the exact area that has been investigated.<sup>33</sup> The investigation specifically concerns the Big Four but the results could also be transferable to other middle sized audit firms that also operate in the region. It might be harder to transfer the results to firms in different sectors because of the specific regulations that apply to the profession, however parts could probably be usable. Since our research regards the Öresund region, the results will not totally be valid for other regions. There could be different cross-border areas in the world that are quite similar to the Öresund region, where our results are at least partly applicable, e.g. The Benelux area. However, the specific circumstances and factors for the area then have to be taken into account.

### **2.3.2 Reliability**

If the results from the investigation can be relied on, reliability has been accomplished. A sign of reliability is when the investigation can be performed ones again with the same results.<sup>34</sup> To accomplish reliability everything has been strictly documented during the process, we have clearly described our research methods and procedures and our respondents are highly reliable in order for the study to be able to be redone with almost the same result. However, important to mention is that the information gathered during

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<sup>32</sup> Jacobsen (2002)

<sup>33</sup> Ibid

<sup>34</sup> Ibid

the interviews could partly be the personal opinions of the respondents. Different respondents could have resulted in slightly different answers and results.

By using these procedures, approaches and analyze methods we hope that the survey is found reliable and valid. Finally it is up the reader to judge whether she thinks this has been accomplished or not.

## **2.4 Criticism of the references**

Most of the information used in our thesis has been published recently but some references are a quite old. In each case we considered if they were still valid.

Internet contains an enormous amount of information. Anyone can create a website and it has to be carefully considered whether the information is reliable. Some references used is taken from the internet and we have been very careful about validating them and selective about which websites not to use. Still we have found, that even highly reliable references like the website of EU, contains incorrect information. While we are aware of this, we have tried to gather information from mostly primary references and to investigate more than one reference to confirm the information used.

## 3 Theory

*This chapter presents the framework used to analyze the gathered information. The first part discusses cooperation as a strategic alliance within a network, the second will present GATS and the four modes in order to define mobility. The last part presents the institutional context effecting the mobility.*

### 3.1 Cooperation as Strategic Alliance within a Network

#### 3.1.1 Strategic Alliance

A strategic alliance is a formal relationship between two or more parties. While remaining independent, organizations try to pursue a set of agreed upon goals or to meet a critical business need. The alliance is a cooperation or collaboration aiming to create synergy effects. Here, each partner hopes that the benefits from the alliance will be greater than those from their individual efforts.<sup>35</sup>

The business world today is becoming more and more complex. Technology, regulation, the area where a company is acting, mergers etc. is increasing all the time. For a single company it is hard to meet the competition by itself. To be able to perform better than on its own, many choose to cooperate. The success of a company often depends on strategic alliances and cooperation with others. The recent year's extreme development towards globalization increases the need of international cooperation. The form of cooperation has shifted from traditional joint ventures, where global firms seek local partners, to strategic alliances between global rivals.<sup>36</sup>

The reasons for a company to enter a strategic alliance may be as many as there are alliances, but some crucial causes are risk reduction, ability to enter new markets, cost reduction and increased service to the customers. Not all alliances are successful; conflicts of interest, culture, language, lack of responsibility and poor planning are aspects that can cause failure.<sup>37</sup>

There are different ways alliances can be created. Some are vertical, e.g. between suppliers and buyers, while others are horizontal where the same kind of companies are cooperating. Essential is that the members in the alliance are still separated companies

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<sup>35</sup> Strategic alliance (2007)

<sup>36</sup> Dadfar (2006)

<sup>37</sup> Ibid

that do not merge and who are driven by their own interest. The members expose themselves to some risk, but they think it is worthwhile because of the long-term benefits they are expecting to reap. The trust between the members must be stronger than the risk. There is often a reason why the members do not enter a complete partnership through a merge. It might be too costly or the differences too great, but the companies still think they can benefit from cooperating.<sup>38</sup> It is important that there are some differences between the allied; otherwise they do not have anything to offer each other.<sup>39</sup>

A fundamental part for a company that wants to succeed globally is knowledge. Competitive advantages are depending on the company's ability to create, transfer, utilize and protect knowledge, which strategic alliances facilitate. There is often a limit of how much knowledge a company can create. When this limit is reached one of the most efficient ways of breaking the barrier is to enter a strategic alliance.<sup>40</sup>

### **3.1.2 Network firm**

Firms frequently form associations together with other firms. There are firm associations ranging from ones created to facilitate referral work, where the firms commonly be referred to as correspondent firms, to firms who operate under a common brand name and have common audit methodology and system of quality control. When a firm practices under the same firm name as other firms in a larger structure, it could be considered to be a network firm.<sup>41</sup>

### **3.1.3 Strategic Alliance within a Network**

Strategic alliances are often seen as a cooperation or collaboration between two companies, remaining independent.<sup>42</sup> Firms practicing under the same firm name as other firms in a larger structure could still be seen as independent firms. Within a network, these independent firms can later choose to create a strategic alliance. Being in a network of firms does not indicate that there is a relation between these firms with such a strong connection as within a strategic alliance. The two firms within the network already experience synergy effects and later creating a strategic alliance will strengthen or increase these synergy effects. However creating a strategic alliance is voluntary.

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<sup>38</sup> Gomes-Casseres (1999)

<sup>39</sup> Canestrino (2004)

<sup>40</sup> Ibid

<sup>41</sup> Definition of Network firm (2007)

<sup>42</sup> Strategic Alliance (2007)

### **3.2 Defining Mobility through GATS and the four modes**

GATS (General Agreement on Trade in Services) entered into force in January 1995. It was inspired by creating a credible and reliable system of international trade rules to ensure fair and equitable treatment of all participants (principle of non-discrimination), stimulate economic activity through guaranteed policy bindings and promote trade and development through progressive liberalization. GATS include all services with two exceptions; services supplied in the exercise of governmental authority and services effecting air traffic rights or services related to the exercise of such rights.<sup>43</sup>

To define mobility and the trade within the auditing market we have chosen to look at the four modes of supplying services distinguished by the GATS:

- 1) Cross-border supply. This covers services flows from the territory of one member into the territory of another member (e.g. banking services transmitted via telecommunications or mail).
- 2) Consumption abroad. Here referring to situation where a service consumer moves into another Member's territory to obtain a service (e.g. a tourist).
- 3) Commercial presence. Here it is implied that a service supplier of one member establishes territorial presence through ownership or lease of premises, in another Member territory to provide a service (e.g. a domestic subsidiaries of a foreign company)
- 4) Presence of natural persons. Here referring to when an individual of one member state enters the territory of another member to supply a service (e.g. auditors).<sup>44</sup>

It is the fourth mode that is applicable to the audit profession, why this is the mode that is interesting to our study.

### **3.3 The Institutional context effecting the mobility**

The institutional theory is used to explain the demands set on the corporation. To survive the corporation can not just be efficient it must also be legitimate. The corporation is a part of a social context where its behavior is judged by others. Legitimate demands are often so stable and a part of society that they becomes institutions. There are three different ways to percept institutional structures.

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<sup>43</sup> The General Agreement on Trade in Services (GATS) (2007)

<sup>44</sup> Ibid

- 1) *Regulatory structures*. This perspective explains institutions as an external framework usually constituted by laws, agreements and regulation.
- 2) *Normative structures*. Here institutions shape the behavior through a kind of mutual ethics. A profession is an example of an institution working this way.
- 3) *Cognitive structures*. Cognitive has to do with knowledge and recognition. Individuals are given a conception of the world which is used to understand the world around one.

As a conclusion the regulatory perspective helps us look at the role formal rules and laws plays for a corporation, the normative focus on the mutual norms and values while the cognitive focus on mutual conceptions.<sup>45</sup>

We have chosen to use the institutional context to describe the different forms of institutions effecting the mobility.

### **3.3.1 The institutional context**

The institutional theory can be used to describe a company's context, an institutional context which effects the possibility to take action. It is possible to effect the institutional surroundings by creating an institutional environment that fits the company better; e.g. some industry companies have created their own control institutions or education institutions. Another strategy would then be to create a more direct influence on e.g. the legislation process. Four types of institutions in the surroundings of the corporation are presented below.<sup>46</sup>

#### *1) The government and other political institutions*

The government's influence is normally understood through the regulatory perspective, but can also have a more normative or cognitive role. A strong government is a condition for a well functioning economy. The government can through the legislating, the executive and the judging power guarantee that there is e.g. national and international regulation for the economic participants in the market.<sup>47</sup>

The country-specific auditing institutions is said to make up the largest mobility barrier between national audit research markets. Country-specific auditing institutions refer to the different regulation, laws and standards for auditors and audits in the European countries. There are significant differences still existing despite the harmonization efforts made within the EU; differences regarding the education of auditors, the responsibility of

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<sup>45</sup> Nygaard (2002)

<sup>46</sup> Ibid

<sup>47</sup> Ibid

the auditor, auditor liability, additional services that is allowed to be provided by an auditor and the rules of independence.<sup>48</sup>

### *2) Professions and trades*

The professions influence is mostly normative, but can also be more regulatory as for example when designing mutual binding rules. The profession has a great influence on the individuals and organizations through the certification and standardization processes used.<sup>49</sup>

The most dominant characteristic for the auditing profession is the common knowledge base, which later is formally tested. The knowledge base and above all the formalized education process are important to the profession.<sup>50</sup>

### *3) Other organizations*

These can work as institutions as well when they have gained a special status in relation to the company.<sup>51</sup>

### *4) The culture*

Companies should consider the deep conceptions and assumptions within the society where the corporation is.<sup>52</sup>

Language barriers between the European countries are not seen as trivial. There is no common language within Europe for teaching and most teaching in auditing in the European countries is done on their native language. However, it could be seen as a possibility to introduce teaching auditing in English within the Nordic countries.<sup>53</sup>

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<sup>48</sup> Maijor et al, (2000)

<sup>49</sup> Nygaard (2002)

<sup>50</sup> Artsberg (2005)

<sup>51</sup> Nygaard (2002)

<sup>52</sup> Ibid

<sup>53</sup> Maijor et al. (2000)

## 4 Integration and barriers

*In this chapter we present the data collected about the integration, in order for the reader to get an understanding regarding the Öresund region and the general barriers effecting the mobility of individuals.*

### 4.1 An Introduction

The bridge is obviously of decisive meaning when it comes to in what extent the labour, living and business world in the Öresund region can integrate to a coherent area. It is not solely material resources and an integrated politic that are needed if the inhabitants and the trade and industry are to accept the Öresund region as a commercial integrated area.<sup>54</sup> The inhabitants have to find it attractive to move across the strait and the trade and industry has to find it both attractive and practical possible to do business in the region.<sup>55</sup> However, the most difficult aspect to achieve is the crucial need of a feeling of belonging together between the two nationalities in the region. If the gap between Denmark and Sweden is too large and the willing to decrease it too low, the integration will be hard to accomplish.<sup>56</sup>

The fact that Skåne has had a strong connection to Denmark in the past might contribute to the feeling of similarity between the two nations in the region.<sup>57</sup> Also in an international point of view, Sweden and Denmark seems to be rather similar. However, there are quite a few differences that matters when a comparison is done between just the two of them. The differences that have been presented in the references used, appear to mostly be regarding culture, language, regulation and education, why these are discussed below.<sup>58</sup> It is very important to consider whether these differences are real or if they are just prejudices. It is up to every individual to create her own understanding regarding the following statements.

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<sup>54</sup> Lindahl (1996)

<sup>55</sup> Flodgren et al. (1999)

<sup>56</sup> Lindahl (1996)

<sup>57</sup> Region Skåne – Från dansk till svensk (2007)

<sup>58</sup> Flodgren et al. (1999)



## 4.2 Culture

Fundamental, regarding the culture, is that Sweden and Denmark are more similar to each other than to e.g. an Asian country. Many people believe there are no or few differences between the Swedish and Danish people, which results in that when differences are discovered they feel much larger than they in fact are. According to the references used, Swedes tend to have larger problems with the integration and experience more differences than the Danish people. However, the Swedes seem more positive to Denmark than the Danish do to Sweden and there are more Swedish people commuting to Denmark. One reason for this could be the fact that the capital can be found in the Danish part of the region, while Malmö is the third largest city in Sweden and therefore does not have as many governmental authorities as Denmark in the area.<sup>59</sup>

### 4.2.1 General differences in the business climate

The references used also states some general differences in business climate between Denmark and Sweden. The Swedish people tend to be more structured and careful in their business doing than the Danish. In Sweden the planning phase of a deal is very important, while Danish people tend to solve problems when they occur in a form of learning by doing. A consequence of this is that Swedish people find the Danish to be unpredictable, while the Swedes appear more slow and inflexible.<sup>60</sup>

Swedish people seem to be more bound to their company; an employment is seen as a security. In Denmark it is more the profession that creates a security and colleagues tend to be more competitive and to care for their own position more in Denmark. In Sweden the organization often are highlighted instead of the individual and the employer takes a larger responsibility regarding the development and education of the employees. While in Denmark it is a sign of weakness if the employer has to care for the development of the employees.<sup>61</sup>

The Swedish business climate is sometimes seen as female with a high grade of democracy and decentralised organizations. Meetings are held where the whole department participates and everybody is allowed to express their opinion. The Danish climate is, on the other hand, seen as more male inspired with hierarchy and more clear communication, where the management takes the decisions that have to be followed. Titles are also more common used in Danish companies.<sup>62</sup>

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<sup>59</sup> Flodgren et al. (1999)

<sup>60</sup> Ibid

<sup>61</sup> Ibid

<sup>62</sup> Hofstede (1980)

### 4.3 Language

Overall Swedish and Danish people understand each other better than other more unlike and foreign countries. One of the largest problems regarding language that occur is that the two nationalities think they understand each other better than they in fact do. Swedes seem to have greater problems understanding Danish than the other way around. The language is a crucial part of the integration. Many words that are similar in the two languages mean different things, why misunderstandings often occur.<sup>63</sup>

### 4.4 General Regulation

Also in the regulation area Sweden and Denmark are quite similar in many aspects; however, there are some important differences that can cause problems. Here presenting the most significant differences, effecting individuals that work across the strait.

#### 4.4.1 Tax

An outstanding difference when it comes to tax is that Sweden has higher social fees, but lower income tax than Denmark.<sup>64</sup> A Swedish employer needs to pay approximately 33 % in employment tax,<sup>65</sup> while in Denmark the employees instead have to pay “arbejdsmarkedsbidrag” of 8 % and pension of 1 % of the salary.<sup>66</sup> This result in the Danish employer being able to pay a higher salary and a consequence of that is that there are more people commuting to Denmark than to Sweden working, since this often makes it more economic favourable to work in Denmark.<sup>67</sup>

In the year 2003 Denmark and Sweden signed a tax agreement that is supposed to increase the integration of the labour market in the region and to make things easier for the inhabitants that are commuting across the strait. The agreement is a complementing appendix to the tax agreement between the Nordic countries and is regulating the special circumstances that occur when people commute across the strait. It is supposed to erase double taxation of income and capital and all commuters should be treated the same way. A significant part in the agreement states that an individual only have to pay income tax in the country where the employer are located, even if she is working at home a part of the week. All pension payments are to be made in the country where the employee lives,

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<sup>63</sup> Flodgren et al. (1999)

<sup>64</sup> Socialavgiftslagen §26 (2007), Jobb i Danmark – Stora skillnader i principer i löneavtal (2007)

<sup>65</sup> Socialavgiftslagen §26 (2007)

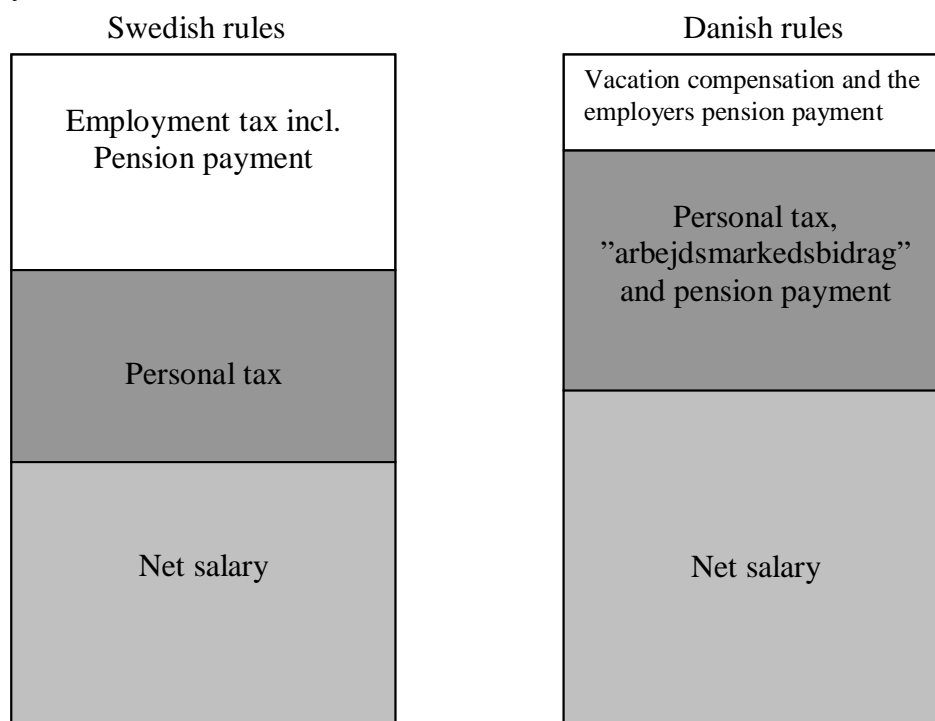
<sup>66</sup> Att starta företag i Danmark (2007)

<sup>67</sup> Pendling i Öresund (2007)

which applies both for commuters and for people who have moved across the border, and deduction of the bridge fees are also allowed. Before this Danish people who worked in Sweden paid 25 % SINK<sup>68</sup> tax, but since the new agreement is in force, these people are subject for the normal taxation in Sweden.<sup>69</sup>

During the spring 2007 the four year old tax agreement is to be revised. Denmark seems to have benefited more from the agreement than Sweden has. The tax authorities in Sweden will in June this year present their new version of the agreement and the government will consider the changes to be made.<sup>70</sup>

The relatively costs for an employer in Copenhagen respective Malmö (in the same currency):<sup>71</sup>



The squares at the bottom shows that the salary the employee has left, when tax and fees are paid, are a bit higher in Copenhagen. The two grey squares together are the gross salary, which are approximately 1/3 higher in Copenhagen. The white squares shows the payments the employers have to make, which are significantly higher in Malmö.<sup>72</sup>

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<sup>68</sup> Skatteverket – Anställningsinkomst (2007)

<sup>69</sup> Lag (1996:1512) om dubbelbeskattningsavtal mellan de nordiska länderna, bilaga 4 artikel 5

<sup>70</sup> TV 4, Nyhetsmorgon, Halland Öresund, (2007-05-07)

<sup>71</sup> Jobb i Danmark – Stora skillnader i principer i löneavtal (2007)

<sup>72</sup> Ibid

#### **4.4.2 Employment law**

A difference regarding employment agreement is that in Sweden most of this area is regulated in law, while in Denmark they still regulate many of these questions through collective agreements. Other differences that can be noted are that Sweden have higher grade of employment security and the possibility of taking time off from work e.g. because of sick children. The number of working hours per week is lower in Denmark.<sup>73</sup>

### **4.5 Education**

#### **4.5.1 The Bologna process**

In 1999, 29 European countries, today increased to 45, signed the Bologna declaration. The declaration is a cooperation between the countries, which is supposed to strengthen the European mobility, the employment and the competitiveness and attractiveness as an education-continent. Through this process, educations at university level in Europe, are becoming more similar; e.g. European standards are being implemented for credits and joint-degrees.<sup>74</sup>

#### **4.5.2 The University of Öresund**

The University of Öresund, which is the name of 12 universities (4 in Sweden, 8 in Denmark) in the Öresund region and the cooperation between them, was founded in 1997. 150 000 students and 11 000 researchers as well as business representatives, authorities and other organizations are tied to the university. The purpose is to increase the cooperation between the member-universities and to create a homogenous transnational picture against the rest of Europe. It is supposed to facilitate for students and researchers within the region to be able to study or work at any of the member-universities. The aim of the cooperation is to make the member-universities stronger and more attractive together than they are on their own. The quality and effectiveness of the education and research are believed to increase because of the synergy-effects that are achieved.<sup>75</sup> The university becomes a learning organization which contributes to make the area a learning area.<sup>76</sup>

Despite this cooperation, the Swedish and Danish universities still differ in some aspects, e.g. the credits and the grades. However, the Bologna process contributes in this

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<sup>73</sup> Öresund direkt – Anställningsvillkor (2007)

<sup>74</sup> Bolognaprocessen (2007)

<sup>75</sup> Öresundsuniversitetet (2007)

<sup>76</sup> Flodgren (1999)

development and the two countries will probably become more similar in the future.<sup>77</sup> The University of Öresund is said to have a great influence over the fact that the integration of the trade and industry in the area has improved and are expected to continue to do so.<sup>78</sup>

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<sup>77</sup> Öresundsuniversitetet (2007)

<sup>78</sup> Lindahl (1996)

## 5 The regulation of the audit profession

*In this chapter we want to present a background of today's international and national regulation within the audit profession, to create an understanding for the influence it has on the research question. The first section discusses the regulation within the European Union and in the second part the national regulation within both Sweden and Denmark is described. In the later section we present the harmonization of the accounting and auditing principles.*

### 5.1 The European Union

#### 5.1.1 Free movement of services

As early as 1946 Denmark and Sweden agreed to have a joint labour-market. The other Nordic countries joined a few years later and today the agreement is replaced with the EG-regulation about free mobility.<sup>79</sup>

To facilitate the free mobility of people the EU has accepted rules about mutual acknowledgement of examination and professional qualifications. These rules are set up to facilitate for individuals who would like to practice their profession in another EU-country, even though the profession is regulated in the host-country. The basic principle is that when being authorized to practice the profession in the home-country it should also be possible to practice it in the other member states. The member states are only allowed to reserve those professions that concern some kind of exercise of authority.<sup>80</sup>

EURES was founded in 1993 to facilitate the mobility for people within Europe. EURES is a cooperation of the European Commission and the public employment services of the EEA-member states and other partner organizations. In cross-border regions EURES plays an important role in providing information as well as solving problems relating to cross-border commuting which employees and employers can experience.<sup>81</sup> Today there are a total of 20 EURES cross-border partnerships within Europe.<sup>82</sup> The cross-border partnership in Öresund was set up in 1997 and includes activities to help employees and students as well as employers who wish to recruit from the other side of the strait.<sup>83</sup>

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<sup>79</sup> Ståhl (1992)

<sup>80</sup> EU-upplysningen – Erkännande av examina och yrkeskompetens (2007)

<sup>81</sup> EURES – What can EURES do for you? (2007)

<sup>82</sup> EURES in cross-border regions (2007)

<sup>83</sup> Ibid

### 5.1.2 The single market for services

The EC Treaty, which regulates the freedom to establish and provide services on a cross-border basis and mutual demands for qualification in the accounting profession in Europe, has existed since 1957. However, there are still barriers that prevent auditors from providing their services anywhere in Europe. A harmonization of the profession is impossible today and at the moment, the differences in regulation, education, ethical values etc. have to be accepted. A single European market will not exist until legislation favours free movement of auditors and their services without losing the accounting and auditing standards that protect the public interest. Problem is that the world sees Europe as one market, but in fact the countries within Europe are often not similar at all and many different sets of standards are used within the region.<sup>84</sup>

The internal market is the essence of the European Union today.<sup>85</sup> Services are crucial to the European internal market and the two principles central are the principles of freedom of establishment and free movement of services.<sup>86</sup> Since 1985 EU's bodies and member states have worked hard to establish and approve the hundreds of directives needed to break down all bureaucratic, technical, cultural, regulatory, legal and protective hindrance and barriers which restrained the free trading and free mobility. According to the European Commission the internal market has since 1993 created 2.5 million new jobs and led to 800 million in increased prosperity.<sup>87</sup>

By bringing down barriers and simplifying existing rules the single market is all about making it possible for everyone in EU, individuals, consumers and businesses, to make the best out of the opportunity to get direct access to 27 countries and 480 million people. The cornerstones is said to be the free movement of people, goods, services and capital.<sup>88</sup> Services are critical to the European Internal Market. European companies have freedom to establish themselves in other member state and freedom to provide services on the territory of another EU member state; these two central principles governing the internal market of services. The principles are set out in the EC Treaty.<sup>89</sup>

The overall internal market for services is not yet working as well as it should. Despite progress in some specific service sectors, most of the progress in the internal market has occurred in the goods markets. It has been clear for some time that there is a need to

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<sup>84</sup> Hegarty (1993)

<sup>85</sup> Översikt av EU:s verksamhetsområden – Inre marknaden (2007)

<sup>86</sup> A single market for services (2007)

<sup>87</sup> Översikt av EU:s verksamhetsområden - Inre marknaden (2007)

<sup>88</sup> General policy framework (2007)

<sup>89</sup> A single market for services (2007)

improve the functioning of the internal market in services.<sup>90</sup> There are some non-economic obstacles that need to be removed. One of these is the member states unwillingness to accept each others standards and norms and to admit their professional qualifications. National tax systems are also a hindrance in the effectiveness of the service markets. The member states as well as the European Commission are aware of the dangers and there are corrective actions being taken, not yet in an even pace and not for all sectors.<sup>91</sup>

### **5.1.3 Recognition of higher education diplomas and professional qualifications**

The council directive 89/48/EEC was adopted in order to make it possible for a citizen in one member state to practice a profession in another member state. The purpose of this directive is to get rid of the obstacles for free mobility of people and services.<sup>92</sup>

The professional qualifications consist of the general system and the specific sectors, where the regulated professions are among the general system. We can find that statutory auditor are among the regulated professions in Sweden and are covered in the directive diploma 89/48.<sup>93</sup> This directive is “on a general system for the recognition of higher-education diplomas awarded on completion of professional education and training of at least three years' duration” (council directive 89/48/EEC).<sup>94</sup>

For those professions for the pursuit of which the community has not laid down the necessary minimum level of qualification, the member states themselves reserve the option of fixing this level. This with a view to guarantee the quality of the services provided in their member state. It is required for all member states to take into account the qualifications needed in another member state and thereafter determine if these qualifications correspond to the qualifications required by the member state concerned.<sup>95</sup>

When the individual's qualifications do not correspond to the qualifications required by the member state it is necessary to set limits to what the member state can require from the individual concerned in addition to the higher-education diploma. An aptitude test may also be introduced in place of the adaptation period. This is a choice that in principle should be made by the individual concerned. Because of the nature of certain professions

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<sup>90</sup> A single market for services (2007)

<sup>91</sup> Översikt av EUs verksamhetsområden – Inre marknaden (2007)

<sup>92</sup> Council Directive 89/48/EEC

<sup>93</sup> Regulated professions (2007)

<sup>94</sup> Council Directive 89/48/EEC

<sup>95</sup> Ibid



the member state must be allowed to prescribe either the aptitude test or the adaptation period under certain conditions.<sup>96</sup>

#### **5.1.4 The Eighth Directive**

The Eighth Council Directive 84/253/EEG of 10 April 1984 is on the approval of individuals responsible for carrying out the statutory audits of accounting documents.<sup>97</sup> The directive is often called the “auditor directive” and is one of the harmonization’s directives in the area of company law.<sup>98</sup> The Eighth Directive harmonizes the minimum standards set on the auditor. The directive expressly says that it “does not cover either the right of establishment or the freedom to provide services with regard to persons responsible for carrying out the statutory audits of accounting documents”. The purpose of the directive is to protect the shareholders, the employees, the third parties as well as the public in the member states.<sup>99</sup>

The directive sets minimum standards for the statutory auditor when it comes to both the independence and the professional qualifications. The introduction of the directive should not imply reduction of the national rules and regulation in the member states according to the committee. The directive involved a lot of change for the member states and therefore it contains regulation that makes it possible for the member states to in certain cases approve an individual who does not fulfill the requirements set by this directive.<sup>100</sup>

Article four of the directive contains the minimum qualifications of education. The first term is that the individual in concern has qualified for university studies and the second has passed the theoretical education at a university level. This education should cover all the different subjects in article six. As a third term a practical education should be passed, this education should last three years according to article eight. The fourth and last term is that an examination should be made by the authorities.<sup>101</sup> The examination will test the becoming auditor’s professional competence as well as theoretical and practical knowledge. The practical and theoretical parts are considered equally important.<sup>102</sup>

By article eleven it is said that the authority in one member state can approve an auditor who has acquired her qualifications in another member state as long as they can confirm their qualifications and a qualified authority can confirm that their qualifications are

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<sup>96</sup> Council Directive 89/48/EEC

<sup>97</sup> Eighth Council Directive 84/253/EEG

<sup>98</sup> Slutbetänkade av Revisorsutredningen (1993)

<sup>99</sup> Eighth Council Directive 84/253/EEG

<sup>100</sup> Ibid

<sup>101</sup> Ibid

<sup>102</sup> Ibid

equivalent with the ones needed in the member state. This article makes it easier for an auditor to practice auditing in another country.<sup>103</sup>

It is said that the Eighth Directive has led to a certain amount of harmonization, but there are still important differences. It has been apparent that there is no common understanding within EU of the content of the different courses presented in article six, which is a part of the theoretical examination. The European Commission has in 1996, made studies which show that there is no European market for audit services and the national audit markets function mostly as separate markets.<sup>104</sup>

#### *5.1.4.1 The modernization of the Eighth Directive*

In 2004 a draft of the modified Eighth Directive was presented by the EU commission. The purpose of the modernization was to achieve uniform rules and standards for auditing as well as quality control and supervision of auditors on the mutual capital market. There is influence of the American legislation in the new directive and it is effected by the debate of trust followed by the international scandals in the audit profession. This has caused the directive to deeper handle areas as internal control and interim financial statements.<sup>105</sup>

In 29 June 2006 this directive takes effect and before the 29 June member states shall adopt and publish the provisions necessary to comply with this directive.<sup>106</sup>

## **5.2 National regulation**

An audit is supposed to add accountability to the financial statements of a company. To be able to do this, an auditor has to have proper education, training and experience. In most countries the authorities take responsibility to assure that people who call themselves statutory auditor has fulfilled certain demands, which make it possible for the public to rely on the work they are performing. First, the education has to have a special content. Second, the training an auditor needs before she can perform as a statutory auditor needs to reach a certain extent and third, a special test has to be passed.<sup>107</sup>

Regarding these demands, Denmark and Sweden differ in some ways, which can be seen below.

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<sup>103</sup> Eighth Council Directive 84/253/EEG

<sup>104</sup> Green Paper (1996)

<sup>105</sup> Brännström (2004)

<sup>106</sup> Directive 2006/43/EC

<sup>107</sup> Eighth Council Directive 84/253/EEG

Even if these demands are met, can the public be sure that the competence is enough until someone is failing or is there a need of ongoing monitoring?<sup>108</sup> Here the Supervisory Board of Public Accountants in Sweden and Revisortilsynet and The Danish Commerce and Companies Agency in Denmark play an important role as supervisors.

### 5.2.1 Sweden

#### 5.2.1.1 *The Supervisory Board of Public Accountants*

Supervisory Board of Public Accountants is the governmental authority responsible for the examination of the applicants to the profession and for the supervision of auditors and registered audit-firms in Sweden. Swedish law demands an ongoing quality control of the profession. The Board therefore has to make sure all auditors meet the demands of quality and ethical behaviour. One part of this quality assurance is that an approval or authorization only is valid for five years. If the auditor wants to be reauthorized, she has to be active within the profession.<sup>109</sup>

The Board investigates auditors that have received complaints from clients, the general public or authorities. It also initiates its own investigations when concerns regarding an auditor appear in e.g. media. There are three different disciplinary sanctions that can be accomplished: reminder, warning or withdrawal of the qualification. A warning can be combined with a penalty fee.<sup>110</sup>

The Supervisory Board of Public Accountants is also responsible for that the ethical guidelines and the audit standards are satisfactory and adequate.<sup>111</sup> However, this does not mean that the Board are developing and producing standards. It relies on the recommendations that FARSRS are issuing. In the case the Board disagrees with these recommendations it makes its own interpretations. It is furthermore in charge for the supervision of the international development within the profession. It participates in the work done by the audit committee in EU. The Board cooperates with different supervisory authorities in Scandinavia, Europe and the rest of the world.<sup>112</sup>

#### 5.2.1.2 *Demands to become a statutory auditor*

In Sweden there are two different levels of auditors, approved and authorized. There are specific demands for what the education has to contain if you want to achieve one of these

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<sup>108</sup> Flint (1988)

<sup>109</sup> Revisorslag; (2001:883), §§3-4, §18

<sup>110</sup> Revisorslag; (2001:883), §32

<sup>111</sup> Revisorslag; (2001:883), §3

<sup>112</sup> The Supervisory Board of Public Accountants – Public quality control in Sweden (2007)

titles. To become an authorized auditor, the examination to become an approved has to be passed.<sup>113</sup> These examinations take place twice a year and the examinee has to achieve 75 % correct answers to pass.<sup>114</sup>

The education that is required to become an approved auditor in Sweden is the following:

- Bachelor degree containing 120 credits, three years of full time studying, concentrating on business economics
- Three years of practical experience, supervised by an approved auditor
- Passing of the test to become approved<sup>115</sup>

Requirements to become an authorized auditor:

- Bachelor degree containing 160 credits, four years of full time studying, concentrating on business economics
- Five years of practical experience, supervised by an authorized auditor (the first three years the supervisor is allowed to be an approved auditor)
- Passing of the test to become authorized<sup>116</sup>

#### *5.2.1.3 Aptitude-test*

The Supervisory Board of Public Accountants arranges a test each year for auditors who have the qualifications to practice auditing in another EES-country and would like to obtain an authorization or approval in Sweden. The necessary qualifications to take this test are to have a foreign certificate to carry out the statutory audits.<sup>117</sup> The test is composed by the examination board of the Supervisory Board of Public Accountants and the examiner is Claes Norberg, professor in business law at Lund University. The test is taken orally and lasts for six hours during one day.<sup>118</sup>

The purpose of the test is to guarantee that the foreign auditor has the necessary knowledge in Swedish law needed to carry out statutory audits in Sweden.<sup>119</sup> The four subjects covered in the test are business law, law of taxation, association law and accounting.<sup>120</sup>

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<sup>113</sup> Revisorslag; (2001:883), §§4-5

<sup>114</sup> The Supervisory Board of Public Accountants – Public quality control in Sweden (2007)

<sup>115</sup> Förordning (1995:665) om revisorer, §5, Förordning (2001:958) om revisorer, §5

<sup>116</sup> Förordning (1995:665) om revisorer, §6, Förordning (2001:958) om revisorer, §6

<sup>117</sup> Revisorslag; (2001:883), §§6-7

<sup>118</sup> Revisorsnämnden

<sup>119</sup> Förordning (1995:665) om revisorer, §3

<sup>120</sup> Revisorsnämnden

In Sweden a total of five auditors have taken this test and four out of five has a positive result. The four come from Finland, Norway, Great Britain and the Netherlands, while the individual with a negative result comes from Finland.<sup>121</sup>

## 5.2.2 Denmark

### 5.2.2.1 *The Danish Commerce and Companies Agency*

The Danish counterpart to the Supervisory Board of Public Accountants is the Danish Commerce and Companies Agency, DCCA (Erhvers og selskabsstyrelsen in Danish) and Revisortilsynet. The DCCA is the authority for registration of Danish businesses and it is responsible for the legislation that regulates businesses, like The Companies Act and the Company Accounts Act.<sup>122</sup>

The DCCA handles the administration and examination of registered and state authorized auditors in Denmark. It is also the DCCA that appoint the members of Revisortilsynet.<sup>123</sup>

### 5.2.2.2 *Revisortilsynet*

Revisortilsynet are the ones responsible for the supervision of the registered and state authorized Public Accountants and registered audit firms in the country. The association consists of one chairman and eight other members which are being appointed for four years. Two of the members have to be state authorized auditors, two needs to be registered auditors and four should be representing the users of financial reports. In turn these members appoint the ones who will perform the supervision and these are appointed for five years.<sup>124</sup> Their task is to assure that the quality of auditors and active registered audit-firms is satisfying.<sup>125</sup> The quality controls of the registered firms are to take place every fourth year, and in special cases every sixth year.<sup>126</sup> Rules for how the controls are to be performed are prepared by Revisortilsynet together with the Danish Commerce and Companies Agency.<sup>127</sup>

### 5.2.2.3 *Demands to become a statutory auditor*

Just as in Sweden there are two levels of auditors in Denmark, registered and state authorized. A registered auditor is allowed to work with small and medium sized

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<sup>121</sup> Norberg, respondent (2007)

<sup>122</sup> Lov om statsautoriserede og registrerede revisorer (2004), chapter 9 §§14-15

<sup>123</sup> Lov om statsautoriserede og registrerede revisorer (2004), chapter 9 §3, §15

<sup>124</sup> Lov om statsautoriserede og registrerede revisorer (2004), chapter 9 §15

<sup>125</sup> Revisortilsynet – Information (2007)

<sup>126</sup> Lov om statsautoriserede og registrerede revisorer (2004), chapter 9 §14

<sup>127</sup> Lov om statsautoriserede og registrerede revisorer (2004), chapter 9 §15

companies, while a state authorized is allowed to work with companies of all sizes including international companies and companies quoted on the stock exchange.<sup>128</sup>

Another difference, in comparison to Sweden, is that becoming a registered auditor is not a step on the way to become a state authorized. Instead this has to be decided in advance. The tests that have to be passed take place once a year and consist of one oral and one written exam.<sup>129</sup>

The education that is required to become a registered public accountant in Denmark is the following:

- HD-uddannelsen (Ehrvervs og ledelse økonomi<sup>130</sup>) four years of part time-studying *or* HA-uddannelsen (Almen Erhvervsøkonomi<sup>131</sup>) Three years of full time studying<sup>132</sup>
- 60-75 ECTS credits of Cand.Merc.Aud-uddannelse (CMA)<sup>133</sup>
- Three years of practical experience at an office of a state authorized or registered public accountant<sup>134</sup>
- Passing of the qualification-exam to become registered<sup>135</sup>

Requirements to become a state authorized public accountant:

- HD-uddannelsen (Ehrvervs og ledelse økonomi<sup>136</sup>) four years of part time-studying *or* HA-uddannelsen (Almen Erhvervsøkonomi<sup>137</sup>) three years of full time studying
- Cand.Merc.Aud-uddannelse (CMA) two years of full time studying or 3-4 years of part time studying<sup>138</sup>
- Three years of practical experience at the office of a state authorized public accountant<sup>139</sup>
- Passing of the auditor-exam to become state authorized<sup>140</sup>

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<sup>128</sup> The DCCA – Bliv statsautoriseret eller registreret revisor (2007)

<sup>129</sup> Ibid

<sup>130</sup> Copenhagen Business School – Ehrvervsøkonomisk efteruddannelse på CBS (2007)

<sup>131</sup> Copenhagen Business School – Alle Bacheloruddannelse (2007)

<sup>132</sup> Bekendtgørelse om kvalifikationseksamen for registrerede revisorer (2003), chapter 1 §2

<sup>133</sup> Ibid, Spoerg din revisor (2007)

<sup>134</sup> The DCCA – Bliv statsautoriseret eller registreret revisor (2007)

<sup>135</sup> Spoerg din revisor (2007)

<sup>136</sup> Copenhagen Business School – Ehrvervsøkonomisk efteruddannelse på CBS (2007)

<sup>137</sup> Copenhagen Business School – Alle Bacheloruddannelse (2007)

<sup>138</sup> Bekendtgørelse om eksamen for statsautoriserede revisorer (2003), chapter 1 §2, Spoerg din revisor (2007)

<sup>139</sup> The DCCA – Bliv statsautoriseret eller registreret revisor (2007)

<sup>140</sup> Spoerg din revisor (2007)

#### 5.2.2.4 Aptitude test

The DCCA has a commitment to offer an aptitude-test. This test is held in June and December.<sup>141</sup> The purpose of the test is to assure that an individual, who is a statutory auditor in another EU member state, has sustained sufficient knowledge about Danish law, administrative customs and decisive of the court of law, to practice auditing in Denmark on the same conditions as Danish people with Danish qualifications.<sup>142</sup> It is an oral test lasting for about 30-45 minutes with about the same time for preparation. The test contains of four parts; regulation of businesses, tax, financial reporting and practicing of the audit profession in Denmark.<sup>143</sup>

The DCCA do not have very much experience in this area. They have very few applicants for aptitude tests and as far as they know no one from Sweden. There are no statistics publicly available.<sup>144</sup>

### 5.3 Harmonization of accounting and auditing standards

#### 5.3.1 IASB

The International Accounting Standards Board is an independent, privately-funded accounting standard-setter. It has its base in London, UK, but the board members come from nine different countries. They cooperate with the national standard-setters to achieve convergence in accounting standards around the world. The IASB is in the public interest committed to develop a single set of high quality accounting standards which are understandable, enforceable global and require transparent and comparable information in general purpose financial statements. So far this work has resulted in the International Financial Reporting Standards, IFRS.<sup>145</sup>

Today nearly one hundred countries permit or require the use of IFRS, or have a policy of convergence with it. In the picture below the current level of IFRS adoption is shown and evidently both Sweden and Denmark has approved the IFRS.<sup>146</sup>

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<sup>141</sup> Jensen-Krogslund, respondent (2007)

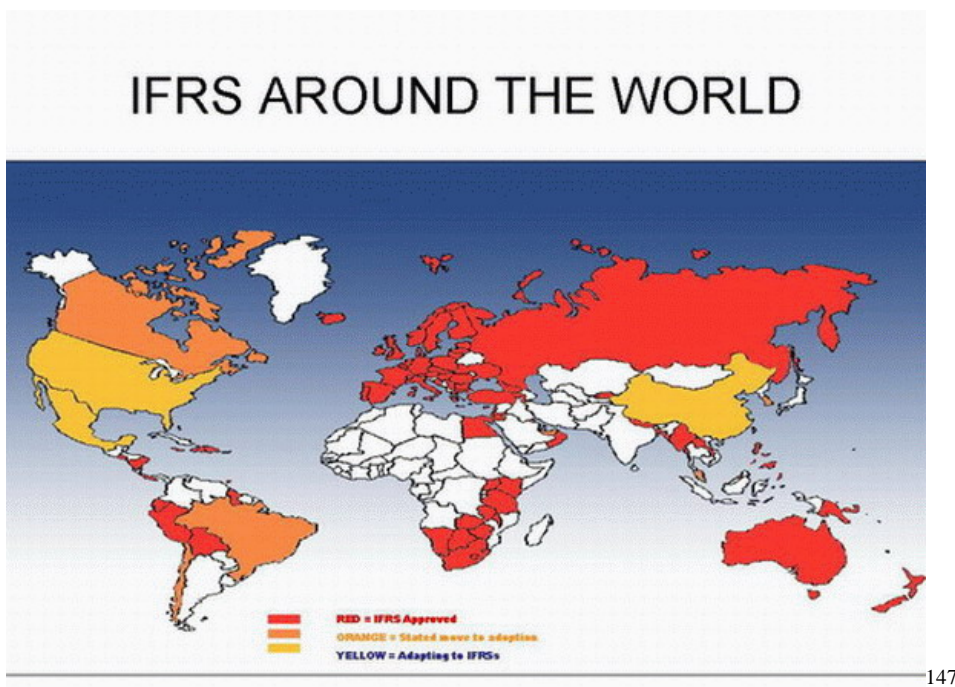
<sup>142</sup> Lov om statsautoriserede og registrerede revisorer (2004), chapter 3 §4

<sup>143</sup> The DCCA – Vejledning om egnethedsproever (2007)

<sup>144</sup> Jensen-Krogslund, respondent (2007)

<sup>145</sup> IASB – About IASB (2007)

<sup>146</sup> IFRS around the world (2007)



### 5.3.2 IFAC and IAASB

IFAC has 155 members and associates in 118 countries and is the global organization for the accountancy profession. They work to protect the public interest by encouraging high quality practices by the world's accountants.<sup>148</sup>

International Auditing and Assurance Standards Board (IAASB) is one of IFAC's independent standards setting boards and issues the International Standards on Auditing (ISAs). By setting high quality auditing assurance, quality control and related services standards and by facilitating the convergence of international and national standards, their goal is to serve the public interest. Today over 100 countries are using or are in the process of adopting ISAs into their national auditing standards and the European Commission is considering a timetable and process for the approval of ISAs.<sup>149</sup>

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<sup>147</sup> IFRS around the world (2007)

<sup>148</sup> IFAC – About IFAC (2007)

<sup>149</sup> IFAC – IAASB (2007)



## 6 Empirical results

*Presented in this chapter are the introduction of our units of analysis and the empirical findings of the study. The Big Four are each presented firstly with a general introduction and then with the areas studied introduced in different sections.*

### 6.1 Deloitte

#### 6.1.1 Introduction and history

Deloitte offers services within the areas of audit, consulting, enterprise risk services, financial advisory services, merger and acquisition services and tax. Their aggregated revenues from 2006 exceeded \$US 20 billion and today Deloitte has about 140 000 people working for them in 70 member firms worldwide in almost 140 countries.<sup>150</sup>

In 1984 four Swedish audit firms merge under the name Touche Ross Group, which ten years later changed to Deloitte & Touche. In 2002 Andersen merge with the Swedish Deloitte & Touche and one year later the three firms, Deloitte & Touche, Deloitte Touche Tohmatsu and Deloitte Consulting decides to all market themselves under the name Deloitte.<sup>151</sup> Deloitte in Sweden has about 30 offices across the country and 1000 employees.<sup>152</sup> About 100 of these employees work at the Malmö office.<sup>153</sup> The aggregated revenues exceed SEK 1 billion for the year 2005/2006.<sup>154</sup>

The Danish history of Deloitte starts in 1901, when Revisionskontoret was established in Copenhagen. In 1912 they became a joint-stock company and are today the largest and oldest audit and advisory firm in Denmark and a part of the global Deloitte.<sup>155</sup> The firm has 2000 employees and 22 offices in Denmark<sup>156</sup> and the aggregated revenues for year 2006 are DKK 1,850 billion.<sup>157</sup> The Copenhagen office has currently about 1200 employees.<sup>158</sup>

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<sup>150</sup> Deloitte – About Deloitte (2007)

<sup>151</sup> Deloitte – Viktiga årtal i Sverige (2007)

<sup>152</sup> Deloitte – Statistik om Deloitte i Sverige (2007)

<sup>153</sup> Pettersson, respondent (2007)

<sup>154</sup> Deloitte – Årsredovisning (2005/2006)

<sup>155</sup> Deloitte – Vores historie (2007)

<sup>156</sup> Deloitte – I Danmark (2007)

<sup>157</sup> Deloitte – Deloitte i tal (2007)

<sup>158</sup> Hansen, respondent (2007)

### **6.1.2 Cooperation**

Regarding international cooperation, our Swedish respondent's view is that they have a stronger cooperation with the Copenhagen office compared to the cooperation with affiliates in other countries. He also refers to the cooperation with the Danish firm on two areas, their audit functions and the Business Process Outsourcing (BPO) function.

From the audit perspective, there are several audit agreements with customers who conduct business on both the Danish and the Swedish side. Herein, they unfortunately experience that quite a few Swedish companies move their accounting function to the Danish side. This means that Swedish Deloitte employees have to cross the border when there is an audit, which also results in some cooperation with the Danish firm. The Swedish respondent also explains that a typical situation when the two affiliates can benefit substantially from each other is when a Swedish company, and a customer of Deloitte in Sweden, owns a subsidiary in Denmark. This has resulted in collaborative efforts and today they have established numerous contacts on the Danish side, i.e. they can pick and choose who to call depending on the topic of discussion.

While the audit function evidently has resulted in some cooperation, the majority of the cooperation between the two firms is carried out within the BPO function. BPO has existed in Denmark for quite some time and today employs about 70-80 people at the Copenhagen office and some in Århus. In 2006 this function was the basis for the start-up of a more official cooperation between the firms in Sweden and Denmark. This has resulted in a group of eight employees in Sweden with a Danish manager, who also is located in Sweden. There is a shared responsibility between Denmark and Sweden.

The aim for the BPO function is to provide outsourcing services for customers that want to fill capacity needs in their finance departments, mostly for more advanced roles such as controllers and upwards. However, the fundamental and strategic objective with this project is to create long term relationships with customers who supposedly then will turn to Deloitte with other projects or when in need of more capacity. Overall, the supply of qualified accounting personnel is better in Sweden than in Denmark, why this is also one of the reasons behind the joint BPO project. Herein, the Danish office sees a possibility to have a resource-bank in Malmö with eight to ten employees. Whilst the BPO function in Sweden can be seen as a business expansion, they are primarily aiming to support the Danish firm and resolve the shortage of qualified personnel in Denmark. Up until now the function has not been able to focus on the Swedish market due to a high demand of their services in Denmark.

This set up is confirmed by our Danish respondent when he explains that the benefits gained from the cooperation are mostly knowledge sharing and resource sharing. They suffer from a shortage of qualified employees in Denmark. Thus, he sees this as another way of recruiting people; the two cities become one region where "... a larger crew of people that can be moved around". He also finds that the cooperation is mostly based on the nature of the clients, them being active in both countries or not.

Our Swedish respondent finds that the cooperation has increased the past four to five years, yet primarily during the last two years. He finds three reasons for this. In 2001, Deloitte was very small in Malmö with about 25 employees, compared to around one hundred employees today. Therefore, it may not have been so interesting for the Copenhagen office, having about a thousand employees, to cooperate with an office of that size. Today they have significantly more resources in Malmö. The second reason would be the bridge, as it has brought the two countries closer to one another. It took a while before seeing an effect, while in the end the cooperation has increased. The last reason is the high pressure in Denmark's labour market and they have for that reason been forced to see the possibilities in Sweden. Still, he emphasise that while the Danish office do utilise resources in Sweden, the cooperation is not based on lending Swedish employees to the Danish office. Our Danish respondent feels that the bridge has brought attention to the Öresund region and "... it is more accepted with Swedish people in the Danish teams now than it was earlier". Whilst the expectations on the effects of the bridge were high at first, practical things, such as different educational systems, has had an impact on the expected success.

The different educational systems are referred to as the primary obstacle for a successful cooperation by our Danish respondent. To become a statutory auditor in Denmark, the Swedish education can not be used. He does not find language or culture set any barriers within the firm. Our Swedish respondent mentions the language as being a small barrier; however this hindrance is more and more erased. It is not common to use English when speaking to each other, as everyone finds it being more comfortable using Danish and Swedish nowadays.

Our Swedish respondent also thinks that the cooperation will continue. For Skåne as a county, he sees that it is a good balance that it has come closer to Denmark, which will generate more interest from Danish investors and open for Danish companies willing to expand their activities in Sweden. But he also underlines that the Swedish financial sector lays in Stockholm and it has been as a power factor when most of the head offices are located there. Our Danish respondent finds that the expansion of the region will effect the

cooperation in the future; more common clients will create more close and increased cooperation.

### **6.1.3 Mobility**

Quite naturally, both of our respondents agree that the bridge is crucial for the mobility. Yet, both mean that it is rare that Swedish people are working with audit in Copenhagen. However, it is more common with Swedish people working in the BPO function, where there are currently five Swedes working in Denmark. We were also told by the Swedish respondent that at the moment three Swedish audit assistants support Deloitte Copenhagen for a period of two months, again not within audit but in outsourcing.

The Swedish respondent also comments on the fact that Deloitte Copenhagen has been visiting Lund University to recruit Swedish students, mostly to the BPO function, and that there have been trips arranged for Swedish student to visit the Copenhagen office. We are also told that Deloitte in Malmö once tried to employ a Dane that held a specific competence. The job role was planned to be located in Malmö, while having extended cooperation with colleagues in Copenhagen. There was however little interest. Overall the Swedish firm is not aiming to employ Danes and have not been trying to recruit from the Danish universities. This is mainly due to the fact that up until now they have always found qualified personnel among the applicants in Sweden. Still, if there would come a day when there will be a lack of applicants from Sweden, they will not hesitate to recruit from Denmark. Our Danish respondent states that they receive applications from Swedish students and that they are interesting in employing, which is primarily a result of the shortage of Danish applicants.

According to our Danish respondent one barrier for increased mobility is the difference in the educational systems, i.e. the education you have received as a Swedish student does not cover all requirements in Denmark in terms of becoming a statutory auditor. Similarly there is a barrier for increased mobility in the opposite direction, having Danes working in Sweden. This barrier is however not experienced by Danish students as they do not need to look beyond Copenhagen in their search for jobs.

According to our Danish respondent it is their wish when employing Swedes that they will continue their career in Denmark and become statutory auditors. The differences in education, law etc. however are making this difficult for them; Swedes tend to feel that they have to redo so much of their education to become statutory auditors in Denmark. That might be one of the reasons why so few are working within audit. Our Swedish respondent points out that auditing is performed in almost the same way in the two countries, but they differ in association and tax regulation. He also claims that when their

employees work as an expatriate in USA or Australia, there is normally no problem for them to claim years abroad in their practice period for the aptitude test. Similarly, this should not differ if you choose to do parts of your practice in Denmark.

Our Swedish respondent also finds that the differences between Swedish and Danish employment legislation constitutes a barrier. As an example he mentions how they have tried to accomplish an employment agreement with a Danish employee that would correspond to a Danish one. However, the tax systems, pension setups and social fees are so different and complex that it was very difficult to accomplish, such an agreement.

Both respondents agree that language does not have an impact on the mobility. The language does not constitute a problem for people living in the Öresund region, but might be a bit difficult for people from other parts of the countries. When it comes to culture our Swedish respondent means that the business climate is more hierarchical in Denmark.

Neither of our respondents find that Danes tend to feel that they belong more to the profession than to the employer when compared to Swedes. Our respondent in Sweden also speculates that the labour market in Denmark is extremely overheated at the moment, with hardly any unemployment, why the mobility between companies increases as offers for switching employer are boosted. However, our Danish respondent claims that there is a very low mobility between the audit firms. Auditors are in general very loyal people. If someone leaves Deloitte, he or she almost always leaves the profession.

Our Swedish respondent means that when comparing the compensation schemes in the two countries, the amount that is left after having taken pension and social fees into account often is the same. He is also aware of the fact that it may attract younger people to receive a higher salary now and that they may easily forget about lower pension payouts in the future. Another attraction with working in Copenhagen could be the fact that it is a capital and for some may be perceived to be more exciting.

#### **6.1.4 Harmonization**

Neither our Swedish or Danish respondent perceive that there is a practical need for auditors being authorized both in Denmark and in Sweden. Our Swedish respondent means that there is such an extended cooperation which ultimately provides no need. However, our Danish respondent finds that it would be a great way to increase cross-border services. This does not imply that there should be any problems with having Swedish and Danish auditors working together, which is basically how it works today. He finds that it would be nice with someone with double authorization, but there is no specific need for it.

It is pointed out by our Swedish respondent that the most important thing for Deloitte is the Deloitte-methodology, which is applied globally. The fact that they work by the same methodology is more controlling than the harmonization of rules; there will always be someone who can sign the report. More importantly is that they understand each other and the way they work on the other side. Of course there are e.g. different legislations in different countries, having implications on the methodology, e.g. management and administration audits in Sweden. Today, it is moving towards a harmonization within the EU, which he finds positive. Our Danish respondent sees that a harmonization will be made on EU level, but does not expect it to be happening anytime soon. He does not believe that there will be a global authorization, simply because the education then has to be divided into at least two parts – tax and accounting. Tax is not a global language; therefore it is much easier to harmonize within accounting and audit.

The differences in tax law are also pointed out by the Swedish respondent who can see that the harmonization would partly facilitate the cooperation and the mobility when a statutory auditor in Denmark could work in Sweden as well. Again, the differences in tax law are noted as very hard to harmonize. He thinks it would not create a very big difference, but finds that everything that internationalise is good and gives possibilities for others to work in Sweden and for Swedes to work elsewhere. Our Danish respondent believes that the cooperation as well as the mobility would increase.

As a global firm Deloitte are involved in developing the standards. Every large audit company is interested in having influence on the development and being a part of the global development. Members of Deloitte Sweden sit on the committees within FAR, who works towards a globalization. Within Deloitte they are also working to develop contacts between countries and to coordinate their auditing product.

## **6.2 Ernst & Young**

### **6.2.1 Introduction and history**

Ernst and Young provide services in the areas of assurance & advisory, strategic growth markets, tax, transaction and online services.<sup>159</sup> Today Ernst & Young has 114 000 employees in 140 countries and their revenues for 2006 was \$US 18,4 billion.<sup>160</sup>

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<sup>159</sup> Ernst & Young – Services Overview (2007)

<sup>160</sup> Ernst & Young – About Ernst & Young (2007)

The history of Ernst & Young in Sweden began when Arthur Young and John Wendlers Revisionsbyrå, which later became Hagstöm, Bredberg & Wendler, started to cooperate in the beginning of 1960 and the former Ernst & Whinney became the international partner of Bertil Olssons Revisionsbyrå in the 1980's. Some Swedish members of these firms say that the Swedish merge between Olsson & Hagström was one of the reasons why the global Ernst & Young was created in 1989.<sup>161</sup> The revenues for Ernst & Young in Sweden are SEK 2,3 billion and they have 1750 people employed in 72 offices.<sup>162</sup> The Malmö office has approximately 150 employees.<sup>163</sup>

In 1990 the firm was established in Denmark through the merge with Revisorcentret and Revisorgruppen.<sup>164</sup> The firm has 850 employees within 8 offices in Denmark<sup>165</sup> and the aggregates revenues for year 2006 are DKK 661 million.<sup>166</sup> The Copenhagen office has currently around 550 employees.<sup>167</sup>

### **6.2.2 Cooperation**

Ernst & Young founded their cooperation, the Öresund group, when the bridge was built in the year 2000. This cooperation involves the offices in Skåne and Sjælland, with primarily focus on Copenhagen and Malmö. Earlier there was no major cooperation between Ernst & Young in Sweden and Denmark, but at the time for the opening of the bridge they received questions regarding companies wanting to establish themselves across the strait and the firm recognized the potential of a new combined market. Our respondent in Malmö saw the need for well established contacts in Denmark, essential in the work trying to attract new clients and satisfy existing ones.

In the Öresund group the management consist of three members from the Malmö office and three from the Copenhagen office, where both our respondents participates. They have meetings on a regular basis where strategies and legislation are discussed and lectures are held. A book, consisting of two parts, has been published by Ernst & Young; *Establishing a Business in Sweden and Establishing a Business in Denmark*. The book is supposed to be a support for companies wanting to establish across the strait. It is currently on its fifth edition and the sixth is coming this summer.

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<sup>161</sup> Sjögren (2000)

<sup>162</sup> Ernst & Young – Fakta och historik (2007)

<sup>163</sup> Larsson, respondent (2007)

<sup>164</sup> Ernst & Young – Ernst & Young's historie (2007)

<sup>165</sup> Ernst & Young – Om Ernst & Young (2007)

<sup>166</sup> Deloitte – Deloitte i tal (2007)

<sup>167</sup> Tellefsen, respondent (2007)

Both respondents confirm that the cooperation more or less involves the whole organization. Our respondent in Malmö states that questions regarding Danish rules often end up on the table of the Swedish part of the Öresund group, who then contact their Danish partners. Our respondent in Copenhagen explains the importance of the Swedish contacts, which contributes to an improved service to the clients. He also states that Ernst & Young is involved in a separate group called “Opstart Sverige”, which consists of twelve members and are serving Danish companies who want to establish a business in Sweden.

Our Swedish respondent cannot see any significant barriers for the cooperation. The support from their management has been great and they have received the resources needed. He does not find the language difference being a barrier for people that have grown up in Skåne. There are cultural differences in the way business are being done. However, not between an auditor or a tax consultant in Sweden and Denmark, who perform their work in the same way. Our Danish respondent finds that the differences in personal tax rules are the most significant barrier. Even though the Danish and Swedish government have tried to make a mutual tax regulation “...it is still not ok”.

Discussions have taken place regarding ways to deepen the cooperation and our Swedish respondent believes that it will increase in the future. He states that because of the boom in the last years, projects within the Öresund group have not been prioritized in the same extent. One issue of current interest is that the audit duty for small companies in Sweden will be abolished. Since this has already been done in Denmark our Swedish respondent finds that the Swedish part of the firm can benefit from the Danish experience in the subject. Our Danish respondent believes that the cooperation will stay on the same level.

### **6.2.3 Mobility**

The Swedish respondent tells us that when the bridge was opened, the firms chose to bring an individual from across the strait working in the office one day a week both in Malmö and in Copenhagen; this in order to get the cooperation going. The benefits from this initiative have been great and there was an obvious demand shown by clients. However, in the boom the firm finds itself in today, there are not enough resources. Hence, the initiative had to be cancelled. If the market will slow down, they will probably reinstall this service.

Both respondents can see an increased mobility of auditors since the bridge was opened; mostly because of the clients that are establishing themselves across the strait. When a client establishes a subsidiary on the other side it often keeps the financial department in the parent company and e.g. the Swedish auditor has to go to Denmark to audit the



financial department of the subsidiary. However, the mobility between the two offices has not increased that much. Both respondents state that they are interested in employing individuals from across the strait, even though our Swedish respondent doubts that there are any Danes who want to work in Malmö. He also says that the firm has given opportunities for the employees to work in Copenhagen for a period of time, but the interest has been low. According to our Danish respondent the same thing applies for Copenhagen; there is no interest among the employees to temporarily go to Sweden. He also points out the problem with the low unemployment rate in Denmark and the fact that they are now trying to hire Swedish students, but he emphasize that this has nothing to do with the Öresund group. The students that are hired are not expected to become statutory auditors in Denmark; they can perform the same type of work except for signing the reports.

Our Swedish respondent tells us that the Swedes employed in Copenhagen are all working with consultancy services. A reason for this might be that the specific services do not exist in the Malmö office. The Danish respondent tells us that the majority of Danes employed in Malmö are working within corporate finance, where the regulation between the countries are the same or similar, however there are also a few working within the audit department. Due to the different tax regulation the mobility within the tax department is low. The Swedish respondent believes that if you begin to work across the strait, it is mostly permanently and often involves personal reasons. Nevertheless, he states that individuals returning after a period abroad are seen as a great resource for the office. On the other hand the Danish respondent means that it is more common that Swedes work for a period of two to four years in Copenhagen and later return to Sweden.

Both emphasized that language and culture are no significant barriers effecting the mobility across the strait. Our Danish respondent means that people that are originally from south Sweden or Sjælland have had a lot of common TV channels, why they rarely have problems understanding each other. At times there are problems for people who come from other parts of Sweden and Denmark, but nothing significantly. Our Danish respondent tells us about business specific cultural differences. In Denmark ” ...we have one meeting we say ok lets do this and then we do it, in Sweden you have to have two or three or four meetings and everybody has to be heard and everything has to be in order and then it takes place”. Normally both end up at the same place at the same time; it is just different ways of getting there. He also finds Swedish people to be more formal, in comparison to the Danish who are more direct. None of the respondents have ever experienced that people in Denmark tend to feel that they belong more to the profession than to the employer when compared to Swedish people

Our Danish respondent finds that the difference in tax systems is the major barrier for working within audit across the strait. He believes that they are so complex that it is hard to understand just one of them. The respondent in Malmö believes that, when going abroad for working, the interest for traveling further away is a barrier for the mobility between the countries; individuals find it more interesting to go to Asia or Australia. He does point out that the international regulation and methodology used within the firm is the same on both sides, which would facilitate the mobility. Both respondents find the salary to be the same in both countries, when taking the social fees into account.

#### **6.2.4 Harmonization**

Regarding the need for auditors who are authorized both in Denmark and in Sweden the two respondents differ in their opinion. The Swedish respondent believes it to be a great marketing move to have people who are authorized in both countries. This would show that the company has the knowledge needed for companies established in both countries and it would be favourable for the clients to only have one contact person who can handle everything for them. However, our Danish respondent can not see a practical need for auditors authorized in both countries; he believes that the cooperation that exists today is sufficient. None of the respondents find that it is in any auditors' interest to become a statutory auditor in both countries, since it is believed to be hard enough to manage the education and test in one country. However our Swedish respondent confirms that the firm is prepared to support interested employees. Our Danish respondent point out that the demands to become a statutory auditor in Denmark are among the hardest in the world and he believes it to be almost impossible for someone from another country to pass the Danish tests.

The Danish respondent states that a harmonization is fundamental if the EU is to function well and the countries within the union are to compete freely. The barriers that exist today because of differences in education are not what EU is looking for. He also believes that if the rules and markets are harmonized the price gap between audits in different countries will eventually be eliminated. As of today, Sweden is a low cost country in comparison to Denmark and Norway and if the market for auditors was more opened the Swedish auditor would have a great advantage due to of the lower price they can charge for an audit.

Both our respondent believe that the audit market will get more and more internationalized and harmonized over time due to the EU. Since the education within the audit profession is not possible to transfer between countries today, the education is a crucial part to harmonize. According to the respondent in Sweden one scenario would be

that an auditor, through one exam, could sign the reports in different countries. However, a condition for this is that the tax rules are being harmonized as well.

Both respondents think that the mobility and cooperation will increase if educations within the EU are harmonized. Our Swedish respondent point out that Ernst & Young has representatives in FAR to be able to influence the harmonization.

## 6.3 KPMG

### 6.3.1 Introduction and history

KPMG provides services in the areas of audit, tax and advisory services. The global firm has 113 000 employees in 148 countries<sup>168</sup> and the revenues from all member firms amount to US \$ 16,9 billion.<sup>169</sup>

In the year 1923 Bohlins Revisionsbyrå was founded by Lars Ture Bohlin. In 1989 this firm, which had grown on its own without mergers or by buying other firms, chose KPMG as its international partner. Four years later the name was changed to KPMG Bohlins AB, but is today spoken of solely as KPMG.<sup>170</sup> The firm has 1500 employees within 60 offices in Sweden<sup>171</sup> and the aggregated revenues exceed SEK 1,7 billion for 2005/2006.<sup>172</sup> The office in Malmö currently has 100 employees.<sup>173</sup>

The audit-firm C. Jespersen was founded 1919 in Copenhagen by Christian Jespersen. In 1979 this firm was involved in the establishment of KMG, which later became KPMG. C. Jespersen. This is the legal name today, but as in Sweden it is solely called KPMG. The firm has 18 offices with 1300 employees in Denmark<sup>174</sup> and the aggregated revenues exceed DKK 1,25 billion for 2005/2006.<sup>175</sup> The Copenhagen office has approximately 750 employees.<sup>176</sup>

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<sup>168</sup> KPMG – About KPMG (2007)

<sup>169</sup> KPMG International Annual Review (2006)

<sup>170</sup> KPMG – Vår historia (2007)

<sup>171</sup> KPMG – KPMG på två minuter (2007)

<sup>172</sup> KPMG Årsredovisning (2005-2006)

<sup>173</sup> Lindén, respondent (2007)

<sup>174</sup> KPMG – KPMGs historie (2007)

<sup>175</sup> KPMG – KPMG i tal (2007)

<sup>176</sup> Witt, respondent (2007)

### 6.3.2 Cooperation

The Öresund group, which is a specific cooperation between the Malmö and the Copenhagen offices within KPMG, began when the bridge was built. The group consists of employees from the two offices and specialise on companies establishing themselves on the other side of the strait. When this occurs the financial part of the subsidiary often is kept where the parent company is situated; e.g. KPMG Sweden then has to go to Denmark to audit the financial part of the Swedish subsidiary and report to KPMG Denmark, who handle the audit of the parent company. The trust between the firms facilitates the cooperation. The Öresund group was founded in order to cope with the invasion of companies that were thought to establish businesses across the strait, however it was very quiet the first years and did not increase until later. Our respondents confirm that the Öresund bridge has increased the cooperation considerably. Companies had subsidiaries across the border prior to the bridge as well, but since the bridge these establishments have increased, which creates more opportunities for the firms to cooperate.

In order to cover for the services KPMG was not able to offer clients; an informal Öresund group was founded together with Danske Bank, Advokatgruppen Maqs, Skandia and a marketing company. The group of eight people has existed since the bridge was built and is meeting up at a regular basis; above all they help each other obtain clients. Since the group receives more input from the market and has more contact with clients who want to establish themselves across the strait, the informal group is more active than the group within KPMG. Our Swedish respondent tells us that the group within KPMG has a more work-related benefit compared to the informal group, which has more of a marketing-related approach by obtaining clients. The hardest part of the establishment is the numerous tax issues regarding both individuals and companies. Our Danish respondent finds that they benefit from KPMG Sweden when a specific question regarding Swedish law occurs. Both respondents point out that it is needed to know both tax systems in order to give advices, but it is an advantage to be able to confirm with the office across the border. The respondent in the Malmö office tells us that within KPMG, Danish and Swedish tax experts have written papers regarding tax together with the Danish embassy.

Culture is mentioned from both respondents as a barrier for the cooperation. The Swedish respondent exemplifies how Danes are more impulsive and fast when working, while Swedes spend more time during the planning phase to investigate all alternatives and structure the work according to a plan. He states that this is a rough generalization, but tendencies can absolutely be seen. He also finds language as a small barrier in the daily

work. Since English is not used, the differences between Swedish and Danish can cause less fluent conversations.

Both respondents believe that the cooperation will increase in the future. Our Swedish respondent believes the work to become more integrated and therefore finds it possible that they will see the two offices more as one firm.

### **6.3.3 Mobility**

According to the respondents it is rare to employ individuals from across the border, but there are about ten Swedish people working at the Copenhagen office, mostly within the tax department, but also within audit. There are not as many Danes in Sweden, but in proportion to the size of the cities and offices, it is about equal. Our Swedish respondent states that there are cross-border projects as well. Within these, employees stay in their country and occasionally visit the firm across the strait; otherwise the temporarily mobility is low. Both firms mean that the cooperation is all about solving the current issues that occur; if that requires an employee from the other side they do not hesitate to contact or employ the individual.

Both respondents mean that it is rare that they employ students from across the strait. The Danish respondent points out that there is a need for resources in the audit department and they would appreciate hiring Swedish students. If they would, they do not find it necessary for them to become statutory auditors, due to the complicated procedures that would result in. Instead they are expected to perform the work of an auditor but not to sign the reports. Nevertheless, if someone wants to become a statutory auditor, they are very welcome to take the courses they lack.

The Swedish respondent sees the different tax systems being the most significant barrier for the mobility of individuals across the strait. If an individual already works in Sweden, he believes the benefits from working in Denmark have to be greater if the person is to move across the strait. However, the willingness to work in Denmark increases if the individual is not already employed. In general many people hesitate to work across the strait due to the complicated tax rules and the different employment laws. Our Danish respondent do not find the distance to be a barrier, since it often takes less time to commute from Malmö than from the outer areas of Copenhagen. Both respondents agree that the bridge is crucial for the mobility of auditors. Our Swedish respondent means that the mobility increases due to the fact that more companies establish business across the border and the auditors are following their clients. The auditors are often an important part of the network a company needs when it wants to establish in a new country.

However, the Danish respondent believes that the increased mobility depends on the fact that auditors often live and work in different countries.

None of the respondents have experienced any problems regarding the languages, but it often takes a little bit longer time because of the extra effort made for everyone to understand. Both respondents point out that there are cultural differences. The same cultural differences mentioned as barriers for the cooperation, also apply for the mobility. These could be seen as a reason why cooperation between Swedes and Danes do not always work out. However, this is not always the fact when two from the same nationality are cooperating either. It has not occurred to the two respondents that Danes would feel that they belong more to the profession than to the employer in comparison to Swedes.

Both respondents assume that the firm follows the general salary levels with a bit higher salaries in Copenhagen.

#### **6.3.4 Harmonization**

Neither of the firms find that there is a practical need for auditors that are authorized both in Denmark and in Sweden. Our respondent from the Malmö office finds that it would facilitate for clients to have one contact person in the audit firm for both countries. However, this is often the fact today as well when the questions are solved internally within the audit firm. The Danish respondent points out that there is an extreme need for statutory auditors in Denmark, since many of the active today are close to retirement.

Our Danish respondent finds great value in harmonizing the education of auditors between Denmark and Sweden, but finds that this will be done on EU level. A harmonization would give KPMG Denmark greater possibility to grow and develop, since the greatest barriers for growth are currently the lack of qualified personnel. Today the accounting and auditing principles are the same and the only difference is the legislation, which is pointed out by our Swedish respondent as well. He believes that since the local laws and legislations have to be considered, a harmonization will be difficult. The tax-agreement between Denmark and Sweden are currently being revised and the Swedish respondent hopes for a change.

Our Swedish respondent is unsure regarding how a harmonization of the education will effect the cooperation and mobility. When employees within Sweden and Denmark have the same competence, the cooperation might not have to increase. However, our Danish respondent finds it more possible that both the cooperation and mobility will increase due to a harmonization.

Both respondents find that they effect the harmonization partly through the Öresund group. Our Swedish respondent finds that it might not lead to something concrete, but contributes to a positive development and to keep the debate alive. He also states that KPMG works to harmonize KPMG globally, not directly towards harmonizing the legislation in a societal perspective, but through their methodology and guidelines.

## 6.4 PricewaterhouseCoopers

### 6.4.1 Introduction and history

PricewaterhouseCoopers has 140 000 employees in 149 countries worldwide.<sup>177</sup> The services the firm offers are audit assurance, crisis management, human resources, performance improvement, tax and transaction.<sup>178</sup> The aggregated revenues from last year almost reach \$US 22 billion.<sup>179</sup>

Pricewaterhouse established itself in Sweden in 1933 as the first international audit firm in the country. The same year Öhrlings Revisionsbyrå was founded by P O Öhrling, which merged with Reveko in 1989 under the name Öhrlings Reveko. 1995 the name was changed to Öhrlings Coopers & Lybrand. Four years later the firm merged with Price Waterhouse and immediately became the largest audit- and consultingfirm in the country. In Sweden Öhrlings PricewaterhouseCoopers has 3000 employees in 125 offices, which makes them the largest of the Big Four in Sweden today.<sup>180</sup> Their aggregated revenues from 2005/2006 exceed SEK 3,3 billion.<sup>181</sup> PricewaterhouseCoopers currently has about 170 employees at their office in Malmö.<sup>182</sup>

In 1948 Pricewaterhouse established their first office in Denmark. Coopers & Lybrand Denmark in 1962 became member of Coopers & Lybrand International where Revisam also joined in 1985 and Revision Danmark 1989. The Danish name KG Jensen/Coopers & Lybrand was kept until 1993. In 1990 Price Waterhouse and the Danish audit firm Seier-Petersen merged under the name Price Waterhouse/Seier-Petersen while Coopers & Lybrand merged with Askgaard Olesen in 1997. The global merge between Pricewaterhouse and Lybrand & Cooper in 1998 also included Denmark.<sup>183</sup>

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<sup>177</sup> PWC – About PricewaterhouseCoopers (2007)

<sup>178</sup> PWC – Services (2007)

<sup>179</sup> PWC – Facts and figures (2007)

<sup>180</sup> PWC – Om oss – Företagsfakta (2007)

<sup>181</sup> PWC – Årsredovisning 05/06 (Sverige)

<sup>182</sup> Nilsson, respondent (2007)

<sup>183</sup> PWC – Vores historie (2007)

PricewaterhouseCoopers has 1250 employees<sup>184</sup> within 16 offices in Denmark<sup>185</sup> and the aggregated revenues for year 2005/2006 almost reach DKK 1 billion.<sup>186</sup> The Copenhagen office has about 800 employees.<sup>187</sup>

#### **6.4.2 Cooperation**

Fifty years ago Öhrlings started a branch in Copenhagen. Since then many relations have been established between the firms, this in one way depending on the geographical closeness. New possibilities to work together and benefit from each other are sought all the time. In 1999 the Öresund-desk was created as a response to the building of the bridge. It became much easier to travel across the border, the opportunities to cooperate and the demand for services in the region increased. Our Swedish respondent explains that PricewaterhouseCoopers has a number of different desks, e.g. German-desk and US-desk; this to establish contacts and to ensure that someone in Malmö has knowledge about the regulation in respective country. The desks primarily function as a support for companies who want to start a business in respective country. However within the Öresund-desk the Malmö office works more operational with Copenhagen; auditors work together with auditors and tax consultants with tax consultants. Problems that can be interesting for companies who operate on both sides of the strait are being identified and solved. The idea is that the cooperation will involve the whole organization, but it is a lot about auditing, accounting and tax, since tax is a big problem for the ones commuting across the strait. Tax is an unsure factor when starting a business on the other side. When it comes to risk, management and advisory problems they tend to be similar in all countries and not as country specific as tax and accounting. Today the Öresund-desk also publishes a magazine.

The benefit from the cooperation is, according to our Danish respondent, the increasing knowledge mass that comes from the offices sharing it. The business environment is improved, better advices can be given when clients want to establish themselves in the other country and it is easier to serve clients in the region. The respondent in the Malmö office explains that when someone wants to start a business on the other side of the strait, there is a natural connection between the offices, which helps solving problems that occur regarding the establishment. Further he finds that the cooperation can also be used in marketing efforts to point out that the firm exists on both sides.

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<sup>184</sup> PWC – Vores organisation (2007)

<sup>185</sup> PWC – Kort over vores kontor i Danmark (2007)

<sup>186</sup> PWC – Årsrapport 05/06 (Danmark)

<sup>187</sup> Nilsson, respondent (2007)



Our Danish respondent states that “...the bridge is the key point of the two cities which makes them come closer, more or less merging together”. Today he believes it is easier to live and work in different countries. Our Swedish respondent finds that the cooperation has become more concrete since the bridge opened. Earlier there were discussions regarding cooperation, due to increased integration it is natural that the firm follows the change in society. Today Scandinavian headquarters are situated in the area to a greater extent and the Swedish-Danish questions become more natural. When the integration increases, the firms need to be present and handle these types of questions.

Our Swedish respondents do not see any real barriers for the cooperation. However, the fact that their daily work keeps them busy, often results in the Danish-Swedish parts becoming less prioritized. PricewaterhouseCoopers in Sweden and Denmark are still two separate firms with separate aims, which have to match if it is to become a win-win situation for both offices. Our Danish respondent can not see any barriers on the business side. In general he points out the differences in tax legislation, but also adds that they benefit from the differences; when there are still differences there is still work for the firms.

Our respondent from the Malmö office believes that the continuing cooperation will follow the increased integration in general, resulting in increased integration between the firms. The region is becoming a business centre and it is more natural that clients situate their Scandinavian office in the area. Since their clients want to solve their Danish-Swedish question at the same time, the firm possesses an advantage when this can be delivered. The Danish respondent agrees and further he sees an increased market in advices. People tend to work and live in different countries to a greater extent than before and therefore the need for e.g. tax advices has increased.

### **6.4.3 Mobility**

Both respondents state that it is rare to employ individuals from across the border within PricewaterhouseCoopers. At the moment there are no Danes employed in the Malmö office, but a few years ago there were a few working in the audit and tax departments. In the Copenhagen office there are Swedes employed who are active in insurance, tax and audit. Our Danish respondent states that the Copenhagen office tries to attract Swedish people due to the lack of applicants in Denmark and they have experienced Swedes as very competent. It is rare that Swedish employees continue their whole carrier in Denmark. It is common that they stay for a couple of years and later return to Sweden.

Our Swedish respondent believes that the mobility of auditors across the bridge primarily consists of people working in Denmark but living in Sweden. Due to the bridge it is

possible for Danish people to live cheaper in Sweden and time can be saved commuting from Malmö instead of the outskirts of Copenhagen. The competence the offices share through the cooperation result in that the Swedish office does not see a demand for Danish employees. Our Danish respondent tells us that PricewaterhouseCoopers were the first firm to start cooperating across the strait. He means that the firm is following the clients, which are establishing themselves across the border to a greater extent. Mixed teams of members from both offices work together when it comes to clients who e.g. are buying a company or are establishing a subsidiary on the other side. The mobility that exists is totally client based.

According to our Swedish respondent the different tax systems are in general a big hindrance for individuals working across the border. Another reason is the different educations which make it difficult to become a statutory auditor in the other country. Our Danish respondent states that when hiring Swedish students they might need to take some extra courses because of these differences. It is said to be no pressure regarding taking the Danish aptitude test, instead it is up to the Swedish students what she wants to accomplish. He also states that Denmark is one of the toughest countries in the world when it comes to authorization of auditors. Our Danish respondent finds that the significant factors preventing the mobility across the border are soft ones, like family, children etc. Further he means that there are no specific barriers within the company, however it is mostly young people who move while they are more flexible. Due to the fact that Copenhagen is a capital it might be understood more attractive than Malmö. Neither of the respondents sees the language being a barrier; the employees within the firm are very good at adjusting themselves depending on who they are talking to.

Neither of the respondents believes that people in Denmark tend to feel that they belong more to the profession than to the employer when compared to Swedish people. They both tell us that if an auditor leaves the firm she often also leaves the profession.

Both respondents agree that salaries are higher in Copenhagen than in Malmö. However, our Danish respondent states that what is left when everything is paid is what matters. He continues to say that it is more expensive to live in Copenhagen and it is cheaper to buy a house in Sweden. Further the tax is higher in Denmark and the social fees are handled by the employee herself. Sometimes tax has to be paid in both countries and pension differs as well. It is very complex and difficult to know what the most favourable option is.

#### **6.4.4 Harmonization**

According to our Swedish respondent there is no particular need for auditors that are authorized both in Denmark and in Sweden, though the competence is found within the

cooperation. He sees a risk regarding auditors possessing a wide instead of a deep competence, meaning it is better to have specialists in every topic. The Danish respondent on the other hand believes that there is a need for auditors who are authorized in both countries. He finds it would be practical with common rules to automatically make an auditor authorized in both countries. Due to IFRS, it would be easier to accomplish this today than earlier. However, there would still be differences in the national audit standards and tax legislation. He sees a possibility for the basic education to be harmonized, while having a test for the parts that differs. The Swedish respondent agrees and they both point out that it is a question for EU, though the countries are connected to the directives EU is issuing. Our Swedish respondent finds that harmonization is a tendency in Europe and does not see any reasons why the audit profession would not follow. If the harmonization is developing far enough there could in fact be one firm on two locations in the region. While PricewaterhouseCoopers is a global firm, there are no restriction for increased cooperation and integration if two internal firms find it favourable. Both respondents find that a harmonization of the education would increase the mobility, since it would be easier to carry out an audit in another country.

The respondent at the Malmö office means that the firm constantly is impacting the harmonization through their global guidelines. The methodology, the technical means and frameworks used, the quality goals and risk management are the same worldwide. The global guidelines constitute a security for the clients to recognise PricewaterhouseCoopers worldwide, which is the big finesse of having a global network. Our Danish respondent tells us that the firm has an association for auditors working towards harmonization. One aspect that has been discussed is the different demands set around the world to become a statutory auditor. The demands in Denmark are considered to be among the worlds hardest, why it has been considered to lower them. He points out that this is a risk based question since the quality of the audit should not be effected.

## **7 Discussion**

*In this chapter we present a discussion of the empirical results with the chosen theories as a framework. At the end our research question is viewed in a harmonization perspective.*

### **7.1 Cooperation as Strategic Alliances within a Network**

#### **7.1.1 Structure of the cooperation**

When the bridge was built there were an increased number of companies establishing themselves across the strait. The audit firms realized they had to respond when the demands from clients changed and questions regarding the conditions in respective country arose. To be able to meet these demands the audit firms had to develop their cooperation and become more integrated. The cooperation within each of the firms can be seen as strategic alliances within a network of firms. Each of the Big Four creates a global network of firms, operating under a common brand name and having common audit methodology and system of quality control. The strategic alliances are between the same kinds of firms, both belonging to the global network, but they are still separate driven by their own interest. Because of the country-specific differences it is difficult for them to merge; instead it is seen as favorable to cooperate.

All four firms have a specific cooperation between the Malmö and Copenhagen offices; however the structure of the cooperation differs in some aspects. The fact that three of the firms have chosen to organize their cooperation in similar structures, might indicate that this structure is well functioning. We ask ourselves if they were inspired by each other or if each firm individually discovered the success of the chosen structure. The fourth firm, Deloitte, does not have a formal group responsible for the Öresund region; still the cooperation appears to be similar to the other firms. The reason they have not organized their cooperation in the same way could depend on their relatively late expansion in Sweden, it might also indicate that they find a formal structure superfluous and their cooperation function well as it is. The firm also has a separate Business Process Outsourcing cooperation between the Malmö and Copenhagen office. A counterpart, to this cross-border function cannot be found within the other three firms.

Ernst & Young and KPMG have also joined a different type of strategic alliance that includes external companies; this to be able to meet the demands from the market. The fact that strategic alliances exist both internal and external when it comes to the Big Four shows that alliances are of great importance when competing for clients.

All the firms see the bridge as a crucial reason for the increased cooperation.

### **7.1.2 Benefits from the cooperation**

The most significant benefit seems to be the experienced knowledge sharing. The service level the firms can provide their clients increases and improves, when they are able to use the knowledge from their allied. In our opinion this is an important reason for the Big Four to enter strategic alliances. When contacts and relations to the other member firm are established, answers can be delivered rapidly to the clients. This can be seen as synergy effects. According to the theory of strategic alliances, knowledge is often one of the most crucial resources to a company, and specifically for service organizations like the Big Four. There is often a limit of how much knowledge a firm can handle. One way to increase the knowledge mass is to enter a strategic alliance. The benefits from the strategic alliances could also be used in marketing purposes, by emphasizing the increased service level to existing clients and to attract new ones.

Since it is hard to find enough qualified personnel in Denmark, the Danish firms often seem to see the resource sharing within the alliances as an additional benefit.

Our perception is that there is an increased trust between the firms, which has come from the cooperation. Trust is also a condition for a strategic alliance to function.

### **7.1.3 Barriers to the cooperation**

According to the theory all strategic alliances are not successful, partly because of the differences that exist between the members. The initial perception is that the respondents do not see any great barriers for the cooperation, which could be a reason why these alliances are well functioning.

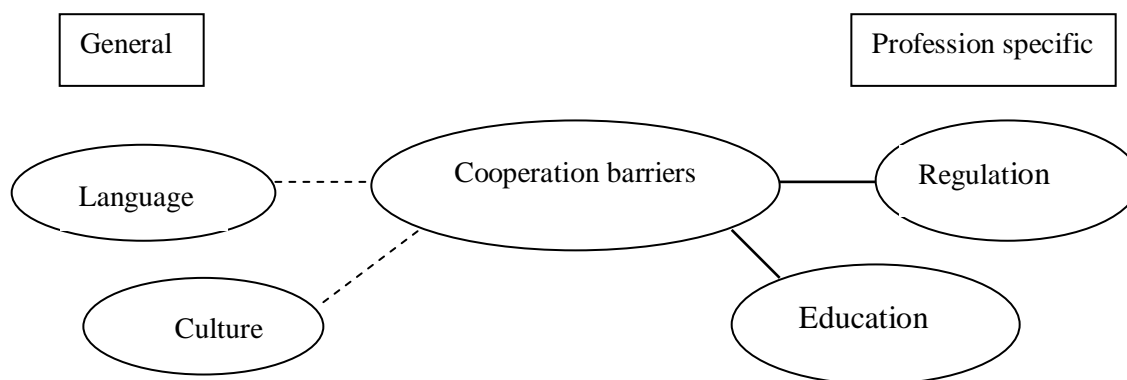
#### *7.1.3.1 General barriers*

The language difference do not seem to create any significant hindrance, still it sometimes reminds of the differences that have to be handled. Culture is often stated as a small barrier, but the fact that they within the firms work by the same global methodology appears to close the gap set by cultural differences.

#### *7.1.3.2 Profession specific barriers*

The majority of our respondents do mention the differences in legislation herein the different tax regimes, as one barrier and the difference in education is pointed out by some respondents. However, the differences in legislation which could be seen as a barrier, are also fundamental reasons for the alliance to develop in the first place. In fact, if there were no differences, there would be no point in cooperating. On the other hand,

without the barriers set by different legislations, it would be possible to merge and act as one firm in the region.



The model gives an overview of the barriers. The thickness of the lines shows in what extent the different barriers impact the cooperation.

#### **7.1.4 The future of the cooperation**

Overall, the respondents seem to believe that their cooperation will continue to grow along with the integration. Possible reasons for this is said to be the expansion of the Öresund region, resulting in more companies placing their Scandinavian head offices in the area.

The business climate in the world, as well as in the Öresund region, becomes more and more international. To run a business in this environment you have to adapt and be able to serve the increased demands from clients. International cooperation, like strategic alliances, is often needed, especially in a cross-border area.

## **7.2 Defining mobility**

According to GATS we define the type of mobility that our investigation concerns as presence of natural persons, i.e. people active within the audit profession, who enter a foreign territory to supply services. We have investigated two types of mobility within this mode. First, the extent of Swedish auditors permanently working in the Big Four in Denmark and the other way around. Secondly, the mobility of the employees within each of the Big Four for a period of time, temporarily.

*Permanent:* All four firms state that the mobility of auditors who permanently work on the other side is very rare and the few that are working across the strait are employed directly by the office in respective country. According to the firms the most common reasons to this type of mobility seems to be personal and more general; family and children have a high impact on the choice to move or not. A reason for people wanting to work in Copenhagen could be the fact that it is a larger city and a capital. Salaries do not differ that much after taxes and pension and therefore do not seem to have that much of an impact on the choice. However, the majority of the respondents mean that there is no need to hire people from the other country to be able to provide the services clients demand; instead they can use the knowledge within the alliance. The Danish demand for Swedish employees depends on the low unemployment in Denmark.

*Temporary:* The temporary mobility appears to be very low, however the one existing, exists because of current issues arising at the offices. The interest to temporarily work across the strait seems to be low. The employees rather go further away if they are to move within the firm as this is believed to be more exciting as well as seen as a possibility to improve eventual language skills.

The majority of our respondents confirm that the bridge is the key point which has increased the general mobility between the countries. However the mobility of auditors is not seen to have been effected and it can be concluded that both types of the mobility are very low. The impression is that there is no resistance from hiring people from across the border in neither of the firms. Instead they seem very positive to such initiatives and give their employees possibilities to move permanently or temporarily.

## **7.3 The Institutional context effecting the mobility**

### **7.3.1 The government and other political institutions**

Country specific institutions such as regulation are seen as the greatest barrier to mobility; primarily the different tax systems and employment laws. The different tax systems can be seen both as a general barrier to the mobility as well as a profession-specific barrier. As a general barrier, it effects individuals working across the strait when it comes to personal tax. While it, as a profession-specific barrier, effects the knowledge needed to practice the profession.

### **7.3.2 Professions and trade**

Through the authorization process the audit profession affects the mobility as well. The differences in education, training and the fact that the education can not be used in another country impact the mobility. When hiring an individual from Sweden in Denmark, our respondents state that it is hard for the individual to later become a statutory auditor in Denmark. Some respondents also state that the Swedish students employed in Denmark are often not expected to later take the aptitude test, which is said to be very difficult to pass.

Important to mention when discussing the profession and education of auditors are the aptitude tests that are possible for a statutory auditor to do when they want to be authorized in more than one country. A lot of respondents seemed very unfamiliar with these and there did not seem to be any interest for it either. They often feel that it is enough to manage the education and test in one country. The majority find that there is no need for auditors who are authorized in both Denmark and Sweden; the alliances secure that the competence and knowledge is there anyway.

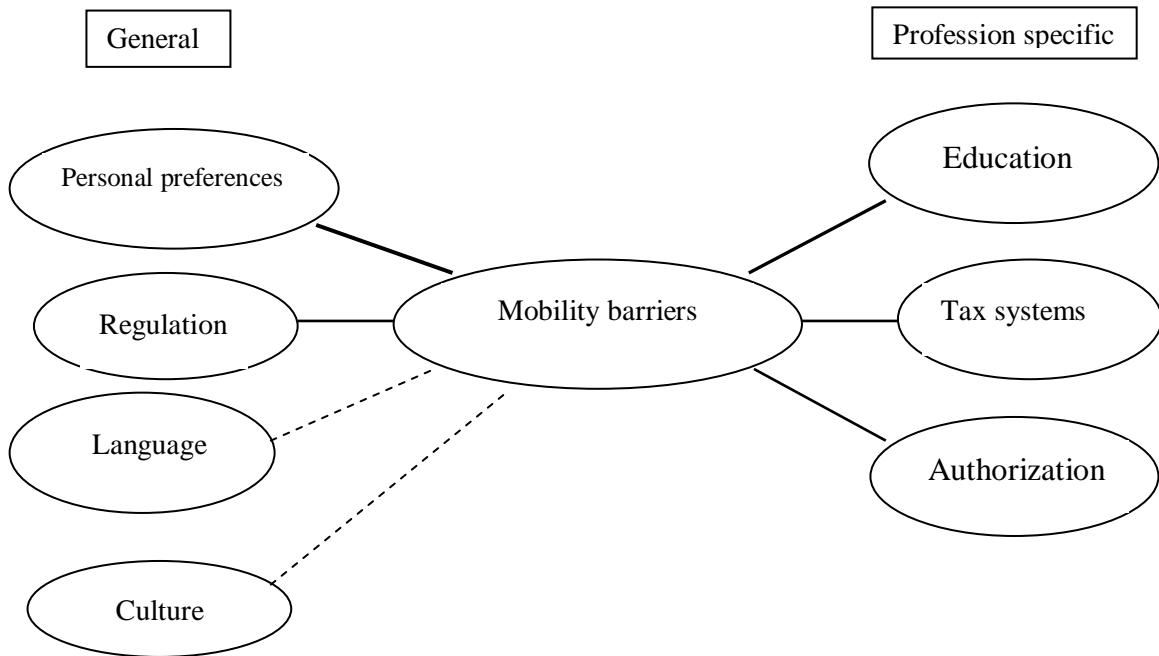
### **7.3.3 Other organizations**

Other organizations have not been mentioned to affect the mobility.

### **7.3.4 The culture**

Some of the empirical material, the fact that the Danish have a more hierarchical climate and that their decision process does not involve as much discussion and planning as the Swedish, confirms our prior collected information in chapter four regarding the differences in the general business climate. We may conclude that this is also applicable on the business climate within the audit firm. On the other hand none of the firms confirmed that Danes feel that they belong more to the profession than the employer in comparison to Swedes. Important to point out is that none of our respondents see the differences as a problem or barrier for the mobility. Neither the language is seen as a significant barrier and our respondents mean that individuals often adjust their language depending on who they are talking to. Language as a possible barrier is, according to us, only mentioned more in general, regarding how Danes and Swedes interact and discuss at the firm and is not referred to as a business-specific barrier, when it comes to e.g. interpret national laws.





The model gives an overview of the barriers. The thickness of the lines shows in what extent the different barriers impact the mobility.

## 7.4 Harmonization

Our respondents believe that a harmonization of the auditor education would take place at an EU level, not specifically between Denmark and Sweden, and since EU is striving towards an union that is to compete freely a harmonization is fundamental. The primarily barrier for a harmonization of the education is the differences in the national legislation, since the principles of today are the same. Most respondents feel that there will always be differences regarding tax law, which will leave a difference in the education of auditors. From the Danish respondents it is also pointed out that the level of the education in Denmark is very high, higher than for example in Sweden and equal demands are of course one step closer to a harmonization. Since the Big Four are global firms, it is obvious that they would benefit from a harmonization of the education. The majority of respondents also point out the importance of the methodology which is used globally within each firm, as a way to harmonize the work and make it easier to move within each firm. Some respondents also see this as their firm's way of effecting a future harmonization.

If the education would be totally harmonized to such extent that the tax legislation would be harmonized as well, there will no longer be any differences between the countries. The majority of our respondents believe that a harmonization would create an increased cooperation, but without any differences there would not really be a need for a strategic alliance. In a more harmonized climate with fewer barriers there might be a need for the firms to find different ways to cooperate. As one respondent also pointed out, it would be possible for them to function more as one office on two locations. This would in fact be a form of merging. A merge could lead to the possibility for the relatively small offices in Denmark and Sweden to be more influential globally. Whether a harmonization of the education will lead to an increased cooperation or not is uncertain, and is still to be found out.

The respondents believe that the mobility would increase in a more harmonized environment. Today it is mostly personal reasons that influence the mobility, therefore it is doubtful what impact the harmonization will have on the mobility. However, it can be stated that the conditions for an increased professional mobility will be more favourable with a greater harmonization.

## 8 Conclusion

*In this chapter we will answer our research question; **How does each of the Big Four audit firms cooperate across the Öresund strait and do they experience any mobility herein? – an investigation of the benefits and the restraining barriers.** This will be done by presenting our conclusion based on the previous discussion. In the later parts we summarize the theoretical contribution of our study and recommend propositions for continued research.*

### 8.1 The Result

It can be concluded that there is a definite cooperation within each of the Big Four in the Öresund region and these can be seen as strategic alliances. The greatest benefit of the cooperation is the knowledge sharing between the offices of each firm. As a result of the bridge, the integration and mobility of companies has increased and the firms therefore can benefit from using their counterpart across the strait to a greater extent. There is a clear indication that the Big Four are following the development of the market and the clients.

There are general differences, as language and culture, between Denmark and Sweden but none of them is seen as significant hindrance for the cooperation. The differences in legislation are, on the other hand, seen as profession specific barriers. However, important is to mention that they are crucial conditions for the alliances. A harmonization is by the respondents believed to increase the cooperation. If there were total harmonization and no differences, there would be no point entering an alliance, which could mean that they would have to choose another form of cooperation.

A reflection regarding the mobility is that it has increased a lot within the Öresund area since the bridge was opened. The auditors do follow their clients, which mean they are performing work across the strait. There is hardly any mobility of auditors, neither permanent nor temporary, between the offices within each firm. The mobility existing, exist because of more general and personal reasons, e.g. family, and not because of professional reasons. One significant more general barrier for the mobility is the different tax systems, which also is seen as a profession specific barrier. Other profession specific barriers are the education and authorization demands. A harmonization in the area is therefore, by our respondents believed to facilitate and increase the mobility. However, this is doubtful, while the reasons for the mobility today are mostly personal. As we see

it, the low mobility could also partly be a result of the well functioning strategic alliances that exist between the offices within each of the Big Four.

## **8.2 The theoretical contribution**

Our area of research is legitimate and relevant, due to the fast developing and interesting era, which both the audit profession and the Öresund region are subject to. There is no previous research done regarding the Big Four in the region. We have clarified that there is cooperation within each of the Big Four and what significance this has, which there were no existing research regarding. Neither concerning the mobility, no previous research has been done, why the investigation contributes to an increased knowledge both regarding the cooperation and the mobility. The study regards specifically the Öresund region, although the results that have been generated can also, if not totally, partly be applicable for other similar regions. The specific conditions for respective area then have to be taken into consideration.

By combining the two types of cooperation, strategic alliances and networks, we have formed a different kind of theory, explaining how firms within a network can cooperate and benefit from each other. Numerous groups of companies may face a similar situation to the Big Four in the Öresund region, whose cooperation could be analyzed using this modified theory.

## **8.3 Suggestions for further research**

It would be interesting to compare the Öresund region to other similar cross-border areas, like the Benelux countries, to find out what similarities and differences that exist. Do other firms within the Big Four, in similar regions, experience the same type of barriers and benefits as the firms in the Öresund region? It could also be investigated whether the results, our research has generated, also applies for firms in different sectors, within the Öresund region.

Our research concerns the offices in Malmö and Copenhagen within each of the Big Four in the Öresund region. There are other offices within the Big Four in the region. It would be interesting to investigate how these experience the situation and if they have any part in the cooperation.

The Big Four dominates the audit market in the world, but there are numerous other smaller, but still international, audit firms, like BDO and Grant Thornton. Are these firms acting different in the Öresund region or do they cooperate across the border like the Big Four are? Do they experience any mobility? Are the generated results applicable to these firms as well?

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## **Respondents**

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## Appendix 1

### Intervjuguide

#### 1. Samarbete

Är ert samarbete med kontoret i Köpenhamn tydligare jämfört med samarbete med andra kontor?

Hur är det här eventuella samarbetet utformat?

Sträcker sig samarbetet över hela organisationen?

På vilket sätt drar ni nytta av varandra?

Öresundsbron och det senaste decenniets diskussion om Öresundsregionen – har det förändrat Ert samarbete?

Vilka anser ni är de största hindren/barriärerna för ert samarbete?

Hur tror ni samarbetet kommer att se ut i framtiden?

#### 2. Rörlighet

Hur vanligt är det inom er byrå att svenskar jobbar permanent i Danmark och vad är i så fall anledningen?

Hur vanligt är det inom er byrå att svenskar jobbar en period i Danmark och vad är i så fall anledningen?

Är ni intresserade av att anställa danskar?

Söker danskar sig till er byrå i Sverige?

Vilka anser ni är de största hindren/barriärerna för rörligheten? Vad hindrar danskar ifrån att jobba här och vice versa?

Hur ser lönenivån inom er byrå ut i Sverige i förhållande till Danmark?

Öresundsbron och det senaste decenniets diskussion om Öresundsregionen – har det påverkat rörligheten av revisorer i regionen?

Vad jobbar de som rör sig över sundet med? Revision, konsulttjänster, internationell skatt?

Inom vilket område är rörligheten störst?

### **Kulturella aspekter**

Vi har tagit del av en undersökning som visar att det finns en tendens att medarbetare i Danmark känner högre tillhörighet till professionen än till arbetsgivaren än vad som är fallet i Sverige. Visar det här sig inom er firma på något sätt?

Hur fungerar praktiska saker som språk och kultur då en dansk jobbar i Sverige och vice versa?

### **Regleringsaspekter**

Om en dansk anställs på kontoret i Sverige, är då tanken att man senare ska bli auktoriserad i Sverige och vice versa?

Finns det ett behov av revisorer med auktorisation i både Danmark och Sverige?

## **3. Harmonisering**

Tycker ni att det finns en poäng med en framtida harmonisering av revisorsutbildningen i Sverige och Danmark?

Hur tror ni en sådan harmonisering skulle gå till?

Vad skulle det innebära för er?

Vad tror ni det skulle innebära för samarbetet och rörligheten?

Hur påverkar ni som organisation harmoniseringen?

## **4. Avslutning**

Är det någonting som vi inte har tagit upp som du anser är av betydelse för vår undersökning?

## **Appendix 2**

### **Interview guide**

#### **1. Cooperation**

Is there a more specific cooperation between the Copenhagen-office and the Malmö-office than with offices in other countries?

If then, how is this cooperation implemented?

Does this cooperation involve the whole organization?

In what way do you benefit from the cooperation?

The Öresund bridge and the last decade's discussion about the Öresund region – has it influenced on your cooperation, if any?

Are there any significant hindrances or barriers that impact on the cooperation?

How do you think the cooperation will develop in the future?

#### **2. Mobility**

Is it common within your firm that Danish people are working in Sweden?

If so, what is the reason?

How common is it within your firm that Danish people are working for a period of time in Sweden?

If so, what is the reason?

Are there plenty of Swedish people that want to work in Denmark? Do you want to employ Swedish people?

In terms of mobility, what hindrance/barriers do you consider to be most significant? What stops the Swedes from working in Denmark and vice versa?

The Öresund bridge and the last decade's discussion about the Öresund region – has the mobility of auditors increased in the region?

Are the reasons to the possible increased mobility the same today as earlier?

What are the employees that move across the strait working with?

In which department is the mobility most noticeable?

How are the salaries within your firm when comparing to Swedish circumstances?

### **Specific culture aspects**

We have understood that you are interested in employing Swedish students.

What kind of impact will practical things as language and culture have?

People in Denmark tend to feel that they belong more to the profession than to the employer when compared to Swedish people. Is this apparent in your firm?

### **Specific regulatory aspects**

When employing Swedish students, are they later supposed to do the aptitude-test in Denmark?

What about required courses they may lack?

Since it is not possible to use the period of practice in Denmark in the Swedish authorization later, will it mean that they will continue their career in Denmark?

Is there a practical need for auditors that are authorized both in Denmark and in Sweden?

## **3. Harmonization**

Do you think it would be justified, in the future, to harmonize the education of auditors between Denmark and Sweden?

How do you think this could be made?

What would it mean to your firm?

Do you think that the cooperation and mobility would increase?

How are you, as an organization, effecting the harmonization?

## **4. Summary**

Is there anything that we have not asked you about, that you feel is important to our investigation?