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Financial or Performance auditing? The role of elected auditors in Swedish Municipalities.

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Abstract

The aim of this thesis is to see if the elected auditors in the Swedish municipalities focus more on financial or on performance auditing in the audit report. This is a very important question today in the public sector because of the change in the elected auditor's duties and responsibility. The public organizations management and accounting today are influenced by the private sector; therefore there must be a change in the elected auditor's role in the public organization.

The investigation was done by going through the audit reports of the municipalities of Sweden. The factors looked at were connected to both financial auditing and performance auditing and public management and accounting. Besides looking for factors, the number of words connected to each factor was counted. Since we only received audit reports from 232 out of 290 municipalities, our result is a little skewed representing the larger municipalities. The results from this study is that there is significantly more information concerning financial auditing rather than performance auditing in the audit report in the municipalities of Sweden. Also the political majority has no effect on the content of the audit report, nor do the political parties affect the amount of information concerning financial or performance auditing. The study also shows that the use of professional auditors in the municipalities can affect the content of the audit reports, both when it comes to financial and performance auditing.

Keywords: Public sector, Financial auditing, Performance auditing and Swedish municipalities

1. Introduction

1.1 Background

The elected auditors' assessment has gone from just being about the financial evaluation to be more about the performance evaluation, this due to the change in their function as an auditor in the public organizations. The auditors' evaluation on public organizations is today not just about the assessment of the accounts; it also includes evaluation guided by the fact review which is more oriented towards performance factors (Lundin and Riberdahl, 1999). The auditors are the ones that make judgments and give feedback according to the performance of the organization (Burrowes and Persson, 2000). When the government finds performance indicators that may be measured, this can be used to check on the level of action the councils of the municipalities have taken to try and reach the financial goals. When attempting to measure the performance it is not as simple as investigating whether customers are satisfied (in the public sector's customers are the same as local residents). Auditors in public organizations also look at how efficient, effective and adaptable Councils have been against the budget. This is where the budget will serve as a performance measure in the public sector (Dittenhofer, 2001).

Performance auditing provides information to a government organization, program, activity or function by contributing the accountability that help provide an independent assessment of their performance, helping them improve public accountability (Dittenhofer, 2001). One of the main differences between a private organizations and a public organizations (such as a municipality) is that the public organizations is more affected by political decisions, and one of the similarities are that when it comes to improvements both companies and politicians advocate effectiveness as a solution (Radcliffe, 1999). In Ammons and Rivenbarks (2008) article it says that there are eight purposes for performance measurement and those are: to evaluate, control, budget, motivate, promote, celebrate, learn, and the most important one is improve. Although these factors are important in order to obtain performance measurements in the public organizations there are opponents who argue that auditors do not only look at these factors. These opponents argue that the auditors are more interested in whether the local governments are following good management practice or if good management of the resources has been rewarded. This is something that is very difficult to measure, since good management is basically a matter of preference regarding the style and values of the auditors themselves (Pollitt, 2003). When auditors perform their work, there are certain factors that

affect their work process. Factors such as different goals that the municipality has set which may serve as ethical guidelines for the process. But there are also the duties which the auditor has in his profession, so as to achieve a fair judgment of municipality's activities (Duska 2005). The public organizations makes up a big part in the Swedish economy where the municipal sector stands for 20 percent of the gross domestic product (GDP) (Häck and Larsson, 2006). There are laws affecting the balance between income and costs; therefore it is a big responsibility for the public organizations when it comes to budgetary requirements and financial management. Hence, *“the elected auditors of municipalities, counties and regions are the council's and ultimately the citizens' instrument of democratic control. Therefore, they have an important role in the local self-government [our translation]”* (SKL, 2010 p. Regu).

According to SKL (2010) the auditor should examine if the activities are performed in an appropriate and financially satisfying way, if the accounting is accurate and if the internal control are sufficient. The council decides which auditors they are going to use in the municipality. The auditors review the committees, boards and preparations, municipal companies and municipal and financial coordination covenant (Nyman, 2010).

The law affecting the municipalities in Sweden is old and over the years it has gone through some changes, such as in the year of 1953 when the content of the audit report were developed, and it has the same foundation today. The latest changes made were in the year 2000, when the auditors' assignment was extended and clarified. In Sweden the municipal auditing is done by elected auditors and it is the auditor's assignment to view the board's management. The auditors look into the organization to see if it is managed properly and in a financially satisfying manner. They also check if the figures are accurate and if the internal control is sufficient. It is common that the auditors produce one audit report, but depending on the size of the municipality, they might leave one for each board. The audit report is where the auditors summarize their view and judgment of the municipal activities. The council is the receiver of the audit report, and they are also the ones who decide on freedom of responsibility and if any sanctions are necessary. The audit report shall also give a perspective of the municipal situation, which might be of interest for the political parties and citizens (Swedish Association of Local Authorities and County Councils, 2000).

Aim: The aim of this study is to see if the elected auditors focus on financial auditing or performance auditing or both in their evaluation of the public sector organization while doing their audit report of the year 2009.

Structure: We will start with a literature review, to be able to formulate hypothesis regarding financial and performance auditing. Later in the empirical part an investigation with 232 out of the 290 municipalities of Sweden was done. We have investigated the audit reports of the Swedish municipalities to be able to draw a conclusion whether the elected auditors focus more on financial or performance auditing in their work with the municipalities audit reports.

The research question of this study is as follows: Financial or performance auditing, what do the elected auditor focus on when evaluating the municipal audit report?

2. Literature review and hypotheses

2.1 The need of New Public management and Performance measurement

New public management (NPM) is the desire to turn public organizations and governmental organizations more businesslike. NPM has a broader perspective on performance measurement rather than the financial spending indicators (Jansen, 2008). NPM emphasizes economy, efficiency and effectiveness of government organizations, instruments and programmers and higher quality service delivery. With NPM less attention is paid to compliance with formally prescribed processes, rules and procedures (Leeuw, 1996). On of the point that Jansen (2008) points out with NPM is that it tries to combine an internal perspective, with a customer perspective, that way it focus on both internal processes and outputs. Greater quality of service delivery is one of the things that NPM strives for. Less attention is paid to prescribed processes, rules and procedures. Performance audit and NPM are similar in the way that they both focus on efficiency and effectiveness. But performance auditors should focus on NPM because NPM has goals that converge with the goals of performance audit. However, there are no promises that those goals will be realized. Leeaw (1995) finds that performance auditing makes it possible to distinguish different ambitions and intentions from realizations.

According to Hood (1995) NPM is about the accountability connected to the results and it is thought to remove some of the differences between the private and the public organizations. Performance measurement in the public sector is traditionally focused on inputs, for taking decisions affecting the budget, and performance evaluation focused on deviations between the

budget and the actual result (Jansen, 2008). NPM is a tool for the public organizations to know the accountability of the organization. It is also a tool to see if the public organization uses the taxpayers money effectively. This means that the public funds are not wasted on high-cost and low-quality products. Accountability is a word that points at trust in the public organizations, and therefore, there is need for evaluation and this is something that NPM is supposed to achieve, in other words it is supposed to make municipalities to be more economic rationalistic (Hood, 1995).

The focus in the public organizations has gone from being all about the input to be more about the output when it comes to budgeting and management. Today the politicians and the citizens think in terms of outcomes instead of output terms as the managers in the public sector are forced to think in (Kromann Kristensen Groszyk and Bühler 2002).

There is an affinity between performance auditing and NPM. Proponents of NPM have fixed an image of government organizations as engaged in a production-like process. A processes that transforms inputs into outputs with outcomes as achieved desire. These rise standards for governmental activity, standards which in general terms are economy, efficiency and effectiveness (Barzelay, 1996). Jansen (2008) writes that politicians seldom use quantitative performance information, this is manly because politicians have a different perspective on performance rather than the perspective NPM suggests. He also writes that according to research that has been done, the board seldom uses the information that is available in budgets and managements reports, even though they carefully evaluate their professional managers' performance. There is a difference between the citizens' and the customers' perspective on performance. The citizens are voters and their perspective is reflected in the results of election, hence, it is relevant to the elected politicians. On the other hand, the customers' perspective concerns the view of the service of a governmental organization. Therefore, you can not say that the the citizens' and the customers' perspectives are not always the same.

Terms like output, outcome and input can be connected to measurement such as efficiency and effectiveness (Kromann *et al*, 2002). For NPM, performance information is essential. It is needed to set targets for management contracts, to focus on efficiency, to be able to compare targets with the actual result (Jansen, 2008). According to Jansen (2008) this suggests that NPM adopts a perspective on performance that is different from how the public organizations approach it. If compared to the traditional public management, NPM focuses on efficiency

with an explicit internal perspective on performance, and its focus on outputs and results gives it more of a customer perspective on performance (Jansen, 2008). Public organizations performance audits and financial audits are usually believed to lead to more efficient and effective performance, but adherents of NPM are critical to this (Leeaw, 1995).

To be able to connect the output, outcome and input we need to know the means of these factors. Input is the available resources in the organization which are necessary to be able to achieve an output or outcome for example employees. Output is the services or goods that the public organizations provides the citizens, one keyword talking about outputs is that it could be measured in absolute numbers. Outcome is how the actions of the state authorities have influenced the results. Outcome provides the background information to output level. For example if the state puts more money in the school sector there could be better results. Perhaps more students learned how to read with more help from the teachers as a result of more investments. Efficiency is about the ability to convert inputs to outputs. It is also connected to the way we have chosen to convert the inputs, for example how long time it has taken, what it has cost, resources used and so on. It can also be explained as how many units of products have been produced for each unit of resources consumed. Effectiveness on the other hand is about the achievement of the planned objectives and goals, in other words the outcome. Effectiveness can be discussed from the managers and the politicians and citizens perspective, in other words it concerns both managerial effectiveness and social effectiveness. Effectiveness is about the ability to: implement programs, satisfy the potential and real demand and also the quality evaluation and customer's satisfaction (Kromann *et al*, 2002). NPM “*emphasizes economy, efficiency and effectiveness of governmental organizations, policy instruments and policy programmers*” (Leeaw, 1995 p.92). According to Leeaw (1995) NPM auditors are needed in order to compare the goals formulated with the ones realized.

2.2 Auditing in the Public Sector

Auditing is an important element of the public organizations management because of the public control that grows bigger and bigger as municipalities are getting more and more responsibility (Shlomo and Idit, 2007). An auditor can provide much information to measure and oversee important factors and indicators that can play an important role in the

organization in the future (Burrowes and Persson, 2000). As we see it, auditing is a very important tool no matter what organization the auditor works for. In Englund, Nyman and Tengdelius it is written that: “*A well functioning audit and a clear accountability are important elements in local self-government and local democracy. It helps to create legitimacy and confidence in the municipal sector [our translation]*” (Englund, Nyman and Tengdelius, 2010 p.14). One key word in public organizations is governmental accountability; this means that the ones involved (citizens, elected representatives and program managers) need to have information to be able to work with factors such as integrity, performance and stewardship in the public organization (Dittenhofer, 2001). There are also different kinds of accountability, Deleon (1998) mention bureaucratic, political, and professional accountability, all with different focus. Bureaucratic accountability is where the goals are clear and the means are known. According to Deleon (1998 p. 547), in a democratic system bureaucratic accountability extends upwards, “*to the interface between the administration and the people’s elected representatives*”. Political accountability is where the goals are unclear, but the means to achieve the goals are understood. Here is accountability only for process not for result. Professional accountability is where the goals are clear but not the means to get there. This is sometimes similar to how it is in the public organizations, knowing what needs to change but not knowing how to do it.

2.2.1 Differences between private and public organization auditing

The auditing work in the public sector organizations is different from the auditing work in the private sector. This is because of the public funds that are monitored by the democratic insight. This is in order to see whether the money is used in accordance to the Parliament’s decision and goal perspective, or not (Blegvad, 2007). Taxation is a factor that differs between public organizations and private organizations. Taxation is a factor in the public organizations that can increase the fact that the politicians need to work in a responsible way; no such thing exists in private organization (Tagesson, Klugman and Lindvall, 2009). Accounting has the function of producing information to the decision makers in the private organization, such as shareholders and other stakeholders, and it has the function of distributing the result of production between agents and principals. Therefore, the accounting system is closely linked to the agency problem (Falkman and Tagesson, 2008). In the public organization, however, there are no such thing as shareholders. Instead it has to consider the residents in the municipality to be a receiver of the auditing information because of their role as a funder of the public ministry (Lundin and Riberdahl, 1999). The information that is

produced can be used as support in making big decisions. An agency problem exists whenever a principal delegates decision-making to an agent and the agency problem may exist between elected and appointed officials and voters (Zimmerman, 1977). In his article Copley (1991 p. 247) talks about studies that propose “*That information asymmetries exist between public-sector organizations and voters, appointed officials, bondholders, and other levels of government*”. The asymmetric information increases the incentives of monitoring. Other incentives for monitoring are the use of debt financing and dependence on external funding (Copley, 1991).

There are also differences between the private organizations and the public organizations when it comes to auditing and finances. Examples are the accounting function, the way the financial management is set (such as budget and so on), the assessment of financial performance, financial spending and accountability in the different sectors is also set differently (Lapsley, 1988). Anthony (1985) also mentions the situation that the public organization does not need to make a profit. It only needs to break even. In private organization there is a need for profit to be able to have a successful business. The public organization is financed by taxation which is not the case in the private organizations. Therefore, earnings is not even long-term goals in the public organizations; rather, the goal is to offer services to the citizens. In the public organizations is it also the fact that it is the residents that will read the financial statement and, therefore, there is a chance that it will not be understood by all readers. Therefore, it must be easier to understand the financial statement in the public organization than in the private organization because of this lack of knowledge. There are framework and legislation in the public organizations that should make it easier for the auditor to publish information that residents can understand when it comes to the financial statement. This is also the reason for the recommendation of a balance sheet with a profit and loss structure to be able to send a message to the residents that is easy to understand (Jones and Pendlebury, 2004). Assessments in public organization are also different from the private organization because the public organization cannot put the assessments as capital assessments because the public organization could have received some of the money as grants (such as new buildings, roads and so on) that should be accounted for several years and should be distinguished from revenues. In the private organization you can put the assessments as capital assessments without any thoughts about it (Anthony, 1985). It is also important to mention that the public organization is controlled by politicians that the citizens

have voted for in a popular vote (every four year in Sweden). These politicians make decisions on the behalf of the citizens (SKL, 2008).

The public organization is heavily regulated by legislation compared to the private organization because all the activities in the public organization must be authorized by the legislation. The public organization is not a profitability organization and, therefore, it is not as interested in cost factors as the private organization is (Goodwin, 2004). Even if the public organization is a non-profit organization it does have the pressure to produce non financial facts (Lapsley, 1988). The law makes a distinction between private companies and public companies. Private companies have a number of shareholders and their right to transfer shares is limited. Public companies do not have the same restrictions, and their shares can be traded (Mulgan, 2000).

In the public organizations there is great pressure when it comes to auditing since they are handling public funds and when the internal audit is to be reported, this is done to the top person in charge which is not the case in the private organizations. That the internal audit activities are more likely to be delegated to external auditors in the public organizations rather than in the private organizations is a way to point out that the public organizations does not just see the internal audit as a tour of duty, as is often the case in the private sector organizations (Goodwin, 2004). In the public organizations you can relate financial audits to the public organization needs good accounting risk measurements because of the market for municipal debt. In private organization there is a need to have financial audit because the capital markets need good information about the company to be able to evaluate the risk measurement to predict fraud (Lapsley, 1988). While companies in the private organizations, that work for profit are more accountable in the terms of their `bottom line`, the public organizations is more bound by process and general policy. Mulgan (2000) writes that the emphasis on accountability in the public organization is on how to make governments, their agencies and officials more accountable to the citizens that are their ultimate owner. Governments are more and more contracting public services out to private organization, and with this putt the responsibility on the private organization. A key variable in the public organization is the degree of ministerial accountability. Government departments are in the centre, and they are commonly under direct ministerial control. Around them are different executive agencies and statutory bodies that are all publicly owned and different ways under direct ministerial control. External auditors that are elected by the shareholders are to view the

companies accounting and report if anything is wrong. The elected auditor's relationship to the company directors and managers is less open than the general relationship between auditors in governments (Mulgan, 2000).

The elected auditors that view the public organizations board and management are supposed to be laymen and in their work they are allowed to hire professional auditors. The inspections that are done in the public organization are much more extensive than in a private company. Because organizations above in the political hierarchy inspect the finances and the internal control, they also view the organization according to the political decisions. One of the main functions behind the audit report is that it helps the council make a decision concerning the freedom of responsibility. Because of the extent of the assignment, the criteria are much more extensive in a municipality than in a private company. The auditor's work in a limited (private) company is more limited and defined. There, the auditor should review the annual report and accounting, and the board and vice president. In a private company the competence requirements are fixed, and a professional auditor is needed (Swedish Association of Local Authorities and County Councils, 2000).

2.3 Financial auditing

When it comes to the financial audit the objective is to investigate to what degree public resources is used, in order to be able to achieve the objectives (Goodwin, 2004). There are two aspects that are very important for a government to be successful. They need to have good policies with good execution but the financial control is also a very important tool for the government to be successful (Ng, 2002). Obtaining measurement of performance in public organization through budgetary, economic and financial information (financial performance) is one of the most common ways (Zafra-Gómez, López-Hernández and Hernández-Bastida, 2009). Financial reporting is a big question in public organization accounting, and which person should be accountable for the action in accordance with financial issues (Ng, 2002). Ng (2002) writes how financial control is an important tool for governmental success. The Swedish Association of Local Authorities and County Councils (2000) writes that it is included in the auditor assignment to look into the organization to see if it is managed in a financially satisfying manner. Keeping ones budget is important for any public organization, therefore, financial information and information concerning financial auditing should be a big

part of the audit report. The basic instrument of auditing is connected to the assessment of the accounts and therefore it could have an impact on the information which is available (Lundin and Riberdahl, 1999). This leads to the following hypothesis:

H1: There is more information about financial auditing than any other factor measured in elected auditors audit report of the Swedish municipalities in general.

The use of indicators for evaluating financial performance has advanced considerably in the last years. However, public organization managers have criticized many of these indicators. One problem is that in many cases the values are measured differently by different auditors and, therefore, they are not comparable, as the service the auditors provide differ significantly (Zafra-Gómez *et al*, 2009). The external financial audits have been defined as an autonomous examination of, and expression of opinion on the financial statements of an private organization, and the audit adds credibility to these statements (Power, 1993). According to Power (1993) the financial reporting gives an abiding image that it is a neutral representation of the financial affairs of an entity. The financial auditing was the beginning of auditing in public organization. This evaluation is measurement orientated, which means measuring individual outcome factors without putting the factors in context with a casual model so public action could be an explanation. Today this should be the same as “monitoring” in the public organizations (Häck and Larsson, 2006). When it comes to financial auditing there are similarities between the private and public organizations. It is important to know that the government audit has more responsibility in order to take in consideration that the audit has a special relationship to the stewardship function when it comes to management (Ng, 2002). On the behalf of the shareholders, the external financial auditors act to ensure that the accounts given by management are not misleading (Power, 1993).

Rahaman Shiraz and Lawrence (2001) explain in their article that financial auditing is an instrument for financial control to see what the outcomes looks like and also see what the “*underlying socio-political reality*” looks like. Municipal financial managers that are rational should according to Dwyer and Wilson (1989) also mention finical auditing as a view of timeliness as one of the aspects of financial reporting, among others, that can be used to signal above average financial management.

2.4 Performance auditing

Performance auditing distinguishes itself from other forms of auditing because it focuses on the performance of an organization, on the organizations' projects or programmes and the systems and procedures they use to control the performance. Improving an organization's efficiency and effectiveness is one of the purposes of performance auditing (Tilleman and Bogt, 2010). Talbot (1999) has written that performance measurement is the relationship between the organizational actions and the results the organization wants to achieve. Also how the result will come out in the end. This could be connected to the public organization because of its existence is depending on the social outcomes it can provide as a part of the democratic insight as a legitimate government. This is also something that Verbeeten (2008) claims, that performance management is how the public organization have set up goals to achieve and also evaluating the performance of the actions that are made to reach the goals that were set up from the beginning. According to Tilleman and Bogt (2010) the use of performance auditing is widespread across the public organization in many countries. Similar to other forms of auditing, performance budgeting implies that an independent body may conduct an investigation in order to make an assessment of the organization. The findings are then used to draw up an audit report, which can be used by parties within or outside the organization (Tilleman and Bogt, 2010). For many years professional associations and others have urged public organizations officials to measure their performance for the sake of greater accountability and service improvement (Ammons and Rivenbark, 2008). There are performance accountability (PA), then there are performance improvement (PI); they have similar goals but not identical. PA is concerned with establishing and operating a proper relationship between government organizations and their principals. This involves how the principals can enforce responsibility for performance on their agents. PI on the other hand is more concerned with achieving desired changes in efficiency and effectiveness. Both goals of performance are important. For democratic governance accountability is essential, and performance is one of the things government organizations are accountable for. PI has importance because the public and their political representatives most probably want the resources evaluation and oversight to have a beneficial effect on governmental organizations and public programmes (Barzelay, 1996).

According to Ammons and Rivenbark (2008) many public organizations measure their performance but most of the time only the workload or output level. The measurements are

then usually reported in their budget or in a report on their website. Performance auditing provides information to a government organization, program, activity or function by contributing the accountability that help provide an independent bas of there performance, helping them improve public accountability (Dittenhofer, 2001).

According to Ammons and Rivenbark (2008), performance measurements have long been promoted as a method of achieving greater accountability in the public organizations. But there are some officials who have a narrower definition than others regarding accountability. For those who follow the narrow definition, accountability means performance reporting. Believing that an accountable city or country government will keep the governing body, media and citizens is informed about the government's financial condition and performance of its major functions. The broader view of accountability include the obligation for basic performance reporting but extends beyond the counting of raw workload (the counting of money or hours spent), and look more into service efficiency, quality and effectiveness. Officials taking this broader view must be able to assure themselves and others that they are achieving reasonable levels of efficiency and service quality (Ammons and Rivenbark, 2008). According to Ijiri (1983) a conceptual framework of accounting can be decision or accountability based. The decision based framework is centred on the decision maker, who is the user of the accounting information. The accountability framework on the other hand focuses on the relation between account and the accounted. The account is the supplier of accounting information and the accounted is the user of the information. Providing useful information for economic decisions are the objective of the decision based framework. The content and importance is not always relevant, more information is preferred in front of less, as long as it is cost effective. Then in the accountability based framework the objective of accounting is to provide a fair system of information between the account and the accounted. In their article Tilleman and Bogt (2010) explain that other auditors have argued that performance auditing could damage accountability relationships and reduce the quality of political and democratic processes. One author points out that in many policy areas the focus of performance audits is on the inputs used and the outputs produced by the organizations program, rather than what the outcomes are. In this way performance audits produce information which is not that useful (Tilleman and Bogt, 2010).

According to Fryer, Antony and Ogden (2009) performance measurement is a way to see whether an organization has reached its goals and missions. It is also a way to do an

evaluation of the factors and indicators. Performance audit is dependent on the internal control of the organization to be able to evaluate the organization (Goodwin, 2004). According to Shlomo and Idit (2007) auditing is very important, especially measurement of effectiveness, as this is an indicator of the elected representatives' work. This means that by measuring the auditing you can see whether they have acted in a political and bureaucratic way in the auditing process (Shlomo and Idit, 2007). They also mention that citizens are nowadays more aware of what quality they should expect from the public organization and, therefore, they put much heavier pressure on the public organization in regards to improvement of their performance in accordance to services that public organizations should provide.

There are difficulties when it comes to performance measurement in the public sector. De Bruijn (2007) explained difficulties and problems that can occur in the work with performance measurement and as you can see in figure 2 below there are some examples when performance measurement can be possible and also what kind of problem each performance measurement can be exposed to.

Figure 2 problems with performance measurement (De Bruijn, 2007 p.14)

An introduction to performance measurement	
Conditions under which performance measurements is possible and problematic.	
Type 1 products: Performance measurements possible	Type 2 products: Performance measurements problematic
Products are single value	Products are multiple value
An organization is product-oriented	An organization is process-oriented
Autonomous production	Co-production: products are generated together with others
Products are isolated	Products are interwoven
Causalities are known	Casualties are unknown
Quality definable in performance indicator	Quality not definable in performance indicators
Uniform products	Variety of products
Environment is stable	Environment is dynamic

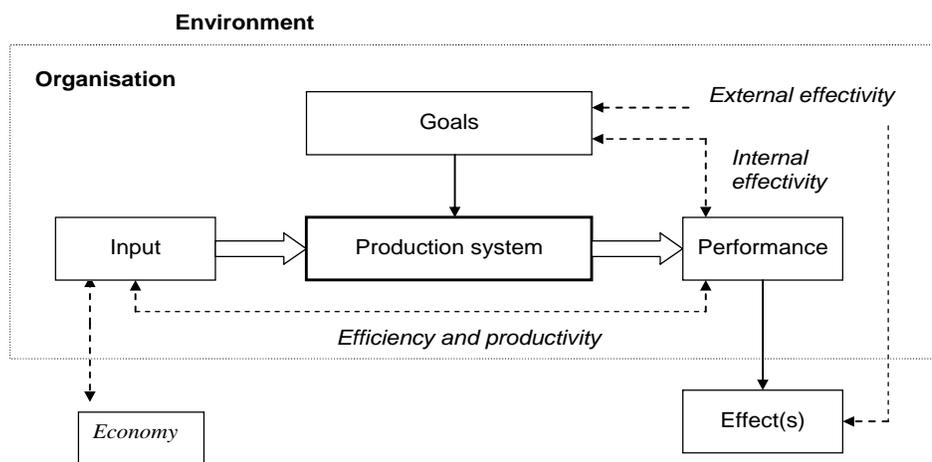
It is much easier to measure performance in the private organization because of the customer situation, while in the public organization there are the perspectives of the citizens. In the public organization they try to use performance measurement such as efficiency, effectiveness and conformance to the budget to be able to present an evaluation of the performance (Dittenhofer, 2001). In the performance of the public organization it is not only a matter of measures of efficiency and effectiveness but also non-economic issues such as equity, responsiveness, impartiality, social justice, legality and legitimacy (Tilleman and Bogt, 2010). Ng (2002) points at difficulties with performance indicators: *“There are barriers to the use and development of performance indicators in public sector organizations. These arise from the uncertainty about what is being measured, the relationship between activity and outcomes, the usefulness of performance information and the manner in which performance information is reported”* (Ng, 2002 p. 114). It is important to know that performance measurement is all about the past, while performance management is about collecting information to be able to understand the future (Ng, 2002).

Performance measurement in public organization is much about the evaluation. It is not something that you do one time and then are satisfied with it. It can have many purposes and, therefore, it is important to find out what kind of purpose performance measurement will have in the specific organization. Performance measurement in the public organization is important because of the organization demands and goals. The desire to achieve the goals and demands is also important but also monitoring and evaluation of the result is important to be able to see if the organization has done some process to achieve the goals they have set up (Behn, 2003). According to Fryer *et al*, *“Performance measurement is quantifying, either quantitatively or qualitatively, the input, output or level of activity of an event or process. Performance management is action, based on performance measures and reporting, which results in improvements in behavior, motivation and processes and promotes innovation”* (Fryer *et al*, 2009 p.480). Ammons and Rivenbark (2008) say that there are eight purposes for performance measurement and those are: to evaluate, control, budget, motivate, promote, celebrate, learn, and the most important one is improve (Ammons and Rivenbark, 2008). The explanation of efficiency is connected to economy, the quality of output, but also what the relation between input and output looks like. This could be very hard to measure when it is not measured in quantitative terms. Effectiveness of a government depends on effective and efficient administration striving to fulfill the government’s political goals. (Ng, 2002). Brujin (2002) claims that performance measurements are about formulating envisaged performance

and this performance can be measured by defining indicators. He also writes that a government's performance is hard to measure, and it is hard to know whether the outcome is true. The outcome is the final effect that is wanted, and it depends on many different variables, making it hard to measure. Direct outputs are easier to measure, as in how many people are in jail or how many patients get treated by a doctor. Things are also easy to measure and that is why many focus on output. Even so, outcome presents a more complete picture of the government's performance than output.

Talbot (1999) suggests a clear definition of what performance auditing really is connected to the words mention above such as output, outcome, input and so on. He has drawn up a picture (figure 1 below) of performance auditing as a simple model connected to efficiency, economy, fairness and high performance. In the model you can see how efficiency has a relationship to the input and the output and the differences between them. You can also see what effect a reducing of inputs or output can do on the performance and the equity and the due process. The final thing that can be seen is how the relationship between inputs, outputs and outcome looks like. Performance can be seen as a tool to control the operations in the public organization and on the input-output-outcome model. According to Verbeeten (2008) an output model is displays the results that the organization have had during the year. He also mention that a output model is the government's tool to evaluate and reward people in the organization for their actions to be able to reach the goals that have been set up for the organization. Today output control is the most common performance measurement in the public sector.

Figure 1 Public Performance model (Talbot, 1999 s.17).



2.5 Auditing in local governments

In the local governments there is no clear relationship between the input and output of resources because they do not work on a profit or loss basis. However, the local governments should be committed to fiscal auditing; this auditing show where the resource come from and also in what way they are invested or used in the municipality (Dittenhofer, 2001). Today a large number of resource are invested in the local governments, therefore, there is great pressure on local governments to monitor the organization when it comes to auditing and responsibility (Shlomo and Idit, 2007). The most common way to get money for the different departments in local governments today is on a cash basis. This means that local governments get money in accordance to their spending and purpose when the funds are appropriated. This is the cause of the basic financial control, to see what the money have been spent on (Ng, 2002). The public officials are the ones that take care of the public resources and also the ones that are accountable to the public and other levels in the government (Dittenhofer, 2001). Zimmerman (1977) claim that the fundamental assumptions are that in general are all economic agents rational, evaluative, maximizing individuals, also called REMMs (Zimmerman, 1977 p. 117). He also writes that the local governments are collections of interacting REMMs, and that accounting systems are made out of the rational choices these individuals make.

Local government auditing is not only about the auditor's opinion on fairness and financial statement, but also whether the internal control is good enough and if the local governments have followed the laws and regulations as they are supposed to. The traditional way to do a governmental auditing is to use a financial statement with a statement regarding laws, regulation and internal control. This is important because of the public funds. Keywords such as efficiency and effectiveness are tools to be able to measure the goals and other factors in the local government (Ng, 2002).

Rahaman Shiraz and Lawrence (2001) talk about the balance of power between the actors in an organization when it comes to accounting system. This means that the accounting system must shift in accordance with the shift in the organizational interactions (Rahaman Shiraz and Lawrence, 2001). This can be connected to the Swedish auditing system, even if the elected

auditors and the expert auditor are the ones that evaluate the organization. They strive for openness and availability because they want the organization to be better and take their evaluation in consideration in daily work situations. Basically, they want their auditing to have an effect on the organization and they do not want to be in power, rather, they want the organization to work in a balance of power (Englund *et al*, 2010). Copley (1991) points at the impact of state regulation and how the state governments impose accounting and auditing requirements on local governments. Political majority could also be a factor, due to that they want to be re-elected the following mandate period. This self-interest from the political side can be a reason which may affect the content of public documents. Politicians want to show the citizens that they work in an efficient manner, in order to be seen as accountable by the voters and to be re-elected by the citizens. Depending on what party that is in majority there are differences between the information they want the citizen to receive, this because of the reason that different parties have different morality and political messages (Tagesson *et al*, 2009). Transparency of results is important for politicians, because what they do are linked to their political agenda. Therefore, is it important to know the outcome and results of political programs, as the level of achievement can be considered a reason for being re-elected, as remaining its position is one of the primary goals of a politician (Kuhlmann, 2010). This leads to the following hypothesis:

H2: Some political parties deliver more information concerning financial auditing in their audit report than others.

Jarrar and Schiuma (2007) claim that performance measurements have increased in the local governments because of the fact that they need to be more customer oriented (in the case of local governments, towards the citizens). They need to increase their performance measurement in the local government to be able to be more efficient and improve their performance. Efficiency is an indicator that has become more relevant for the local government during the last decades because it is a way to increase the result and customer orientation in the local governments. During the last decades efficiency has also become more important and in focus of the local government. This in order to see the productivity of the staff in the local government. Efficiency and performance has improved the decision making and also improved the cost-value orientation in the local governments. This leads to the following hypothesis:

H3: Some political parties deliver more information concerning performance auditing in their audit report than others.

Evaluation and assessment of administrative actions, effects, results and impacts by means and ratios can be seen as performance measurement. Performance measurements can be referred as the aim to attempt to improve political steering and administrative action. It is a self-evaluation directed at monitoring institutional action and outputs, analyzing, explaining and comparing it with other organizations (benchmarking). Performance measurements vary in different countries depending on the actual application of indicators and the use of performance information for decision making. There are different types of performance measurements, internal measurements (within an organization), that take place vertically, as between central units of administration and the decentralized departments. Then there are the external performance measures (between several organizations), which can be conducted vertically as between central and local authorities, but it can also be horizontally, between two organizations on the same administrative level (Kuhlmann, 2010).

2.6 Auditing in the Swedish municipalities

Falkman and Tagesson (2008) point out that municipal accounting in Sweden did not become regulated by law until 1st of January 1998; before that it had only been voluntarily regulated. Following the law concerning a standard setting board was formed. The board's role is to develop and interpret generally accepted accounting principles for municipal accounting. Some of the things they wanted to accomplish with the legislation and reform were to suppress creative accounting and to increase the level of harmonization and comparison.

The elected auditors in the municipalities of Sweden should review municipalities' organization in accordance with "Kommunallagen". This law states certain bulletins which local auditors must consider when they do their evaluation. These points are; 1.) If the organization is managed in an effective manner; 2.) If the organization is managed in an economically satisfactory manner; 3.) If the accounts are true; and 4.) If the internal control is sufficient (Englund *et al*, 2010). The Elected auditors is the councils tool to evaluate and assess whether the organization has worked in accordance with the Council's guidelines, goals and decisions. In other words, if the organization has taken their responsibility. The elected auditor should not only assess the financial result but also assess whether the organization has reach the financial goals that the Council has set up. The most usual goal in

the Swedish municipalities is to have reached at least one of the balancing requirements according to Englund *et al* (2010). The elected auditors are also a tool for democracy which means that the elected auditor is a tool for the citizens to know whether the representative politicians are doing a good job representing their opinion and see whether they are responsible in their actions. In the end of their evaluation the elected auditor should leave a statement based on their evaluation to the Council of the municipality. The elected auditors should be assisted by expert auditors when it comes to audit work. However it is always the elected auditors that decide the need of an expert and what area they need the expert to focus on. It is always the elected auditors that hire and steer the work that the expert auditor is performing. It is important to mention that when expert auditors work in the municipalities they represent elected auditors in the municipality and the elected auditors in the local companies, then the expert auditors need to follow directions from generally accepted auditing standards for municipal operations (Englund *et al*, 2010). Falkman and Tagesson (2008) write that the factor auditing firm could have an influence on the accounting standards and also on the culture around the auditing. The only thing is that as an audit firm they cannot put pressure on the local governments because of their relationship between them. This means that the auditor in the professional firm is just an assistant to the elected auditors in the municipality, therefore, they cannot put pressure on the local government to have a qualified audit report. We already mentioned that they can make a standardization of the audit model when the municipality takes in the professional help (Falkman and Tagesson, 2008). The professional auditor is very dependent of the standardization of the audit report in the private sector; therefore, this could be a reason to why they follow the framework that the public sector has instead of the standardization in the private sector. Therefore, this could be a reason to why the municipalities that use professional auditor's help have more information in their audit report connected to financial and performance auditing than the municipalities that have not taken any help from professional auditors (Jones and Pendlebury, 2004). This leads to the following hypotheses:

H4a. The municipalities which use an auditing firm have more information about financial auditing than other municipalities in the audit report.

H4b. The municipalities which use an auditing firm have more information about performance auditing than other municipalities in the audit report.

Copley (1991) writes that population is a factor that you need to consider, because it reflects the level of resources (taxes). The grade of taxation is connected to the number of citizens. If a municipality has a large number of citizens it also has more money in its funds to the municipality organization. Smaller municipalities do not get as much money as bigger ones. This could be a reason that smaller organizations focus on the activities that have a better connection to the main functions of the organization instead of going into detail on several functions that are not as important to the organization (Tagesson *et al*, 2009). Size of the public sector is connected to the number of citizens in the municipality. Size could be an explaining factor of the amount of information in public documents, but also to the type of information that are reliable in public documents (Tagesson *et al*, 2009). This leads to following hypothesis:

H5: Bigger municipalities have more information in their audit report than smaller municipalities.

3 Research Method

In our study we have chosen to involve all the 290 municipalities of Sweden and view their audit reports, believing this would give us a good overall picture. This study is relevant for all municipalities as they all use an audit report every year. Therefore, there is no need for the selection of specific municipalities. The audit report of the year 2009 was studied as the audit report of 2010 was not complete in all municipalities, and the use of different years would not give an accurate result. Our information has been acquired from the different municipalities' websites and in some cases by contacting officials by e-mail. 232 audits reports were received. Some of the audit reports are available on the websites and others were not available. The municipalities that did not have their audit reports available on the websites were connected by e-mail in order to include as many municipalities as possible in the study. Limitations were also made by only looking at the municipality not the municipal owned companies, or the contracting organizations that are a part of the Swedish municipality's organization. Because Stockholm is the capital of Sweden we wanted to include it in our study. Since Stockholm is so big, they have an audit report for each board. To get an as accurate picture as possible we chose to combine three of their audit reports, and let them represent the whole municipality. Including Stockholm, the three biggest municipalities of Sweden; Stockholm, Göteborg and Malmö were all included. They were included because

they might have an influence on other municipalities when it comes to the content of the audit report.

The different factors looked at were in accordance to Financial Auditing and Performance Auditing, in order to see whether the different factors were mentioned or not in the audit report of the municipalities. The factors for financial auditing looked for were: monitoring, consumption, financial control, financial management and financial performance. The factors for performance auditing were: efficiency, quality, effectiveness, reach goals mission, guidelines, internal control and accountability. These factors were chosen because they are the most common factors discussed in the literature. They would give a good picture of the content of the audit report. In order to be able to evaluate whether the elected auditors of the different municipalities focus on finance or performance in their auditing evaluation, we also assessed the audit report, to see whether it was financial or performance auditing which occupied the main part of the audit report. This was achieved by counting the number of words that are connected to financial and performance auditing respectively.

The independent political parties are divided into political blocks; “left wing”, “right wing” parties; there is also one block containing local parties of various political orientations. As left wing party’s counts: Social democrats (Socialdemokraterna) and The left party of Sweden (Vänsterpartiet), as right wing parties count: Moderation (Moderaterna), the Centre Party (Centerpartiet), Christian Democrats (Kristdemokraterna) and Liberal Party of Sweden (Folkpartiet). The third block consists of different local parties. The categorization of the different political parties is, number 1 stands for “left wing parties” , 2 is “right wing parties” and 3 is parties with unknown political orientation. The reason to put the political parties into different blocks was because there were so few political parties and otherwise it would be hard to do the Anova test (Djurfeldt, Larsson and Stjärnhagen, 2010). We received information concerning the political majority of each municipality from the webpage of SKL.

To know whether bigger municipalities have more information in their audit report connected to Performance auditing, we had to look into the sizes of the municipalities. The size of a municipality is connected to the number of residents in the municipality. We chose to measure the size of the municipality by using the number of residents. Then we took the factor total number of words on performance auditing information in the audit report and put them against each other in a regressions test.

When investigating whether the municipalities that use professional auditors have more information about performance auditing or/and financial auditing than the municipalities that do not use the professional auditors, we needed to encode the municipalities that have used a professional auditor in the audit report and also the ones that did not use a professional auditor. Therefore, we encoded the elected auditors as 0 and the municipalities that have used professional auditors have the code 1.

We used a quantitative research method. Articles gave us the information about factors regarding financial and performance auditing. The indicators were found while studying several articles and books to get a clear picture of the most important factors both in financial auditing and performance auditing. Since the evaluation was done separately, we started with evaluating the 10 first audit reports together. This was in order to calibrate our evaluation so that the evaluation would be as accurate as possible. The data received from the audit reports were entered into Excel to make it easier to convert it to SPSS when testing our hypothesis.

4. Empirical part

4.1 Descriptive statistics

This study used information from 232 of the 290 municipalities of Sweden. In order to see if the 58 missing municipalities would affect the result, a T-test was used. The municipalities that we did not receive answers from had 19840 as mean number of residents, and those that we did receive answers from had a mean of 35263 residents. The test was significant 0.045, which indicates that the information mostly came from the largest municipalities, and that those 58 municipalities missing were smaller ones. Hence, the result is a little twisted, which has to be considered when drawing our conclusions.

Table 1 present the dependent variables. When it comes to the financial factors you can see that the mean is higher than for performance auditing in the municipality in general.

Table 1 Dependent variables

Dependent variables	Mean	St. deviation
FINANCIAL		
Total amount of factors	2.35	1.046
Amount of Words	68.03	44.54
PERFORMANCE		
Total amount of factors	2.03	1.277
Amount of words	52.61	45.57
Total amount of words financial and performance auditing	120.13	76.574

In table 2 the independent variables, political majority, professional assistants (auditors from the private sector that helps the elected auditors in the municipalities) and residents, are displayed. The political parties were divided into political blocks. Block 1 consists of Social democrats (Socialdemokraterna) and The left party (Vänsterpartiet), Block 2 consists of The moderate party (Moderaterna), Centre party (Centerpartiet), Christian democrats (Kristdemokraterna) and Liberal Party of Sweden (Folkpartiet), Block 3 consists of local parties of various political orientations. The majority Block is number 2 as you can see in table 2.

When it comes to the professional assistance (auditors from the private sector that helps the elected auditors in the municipalities) in the municipality, there are 30 municipalities which take help from professional auditors while there are 194 municipalities that do not use professional auditors. The mean number of residents in the municipalities in Sweden are 32 178 as you can see in table 2.

Table 2 Independent variables

Independent variables	Frequency
Political majority	
Block 1	97
Block 2	131
Block 3	4
Professional assistance	
Yes	30
No	194
Residents	
Mean	32178
st. deviation	63640

Since the response rate was high, the decision was taken to ignore the normality distribution. Nevertheless, parametric tests such as the T-test, Paired sample test, Regression test and Anova were performed. In this study, lowest accepted value is 1% when evaluating the hypotheses.

4.2 Hypotheses testing

The following chapter is about the results from the evaluation of the 232 municipalities of Sweden that were involved in the study. The hypotheses are evaluated one by one. In table 3 below, the significant result for each hypothesis is presented and in Table 4 are the mean values presented.

Table 3 Results

	Independent variable	Test		Dependent variable				
				Total indicator Performance	Total indicator Financial	Total amount of words Performance	Total amount of word Financial	Total amount of Words
H1	Financial vs. Performance	Paired Samples Test	Sig.	0.000***				
H2	Political Majority	Anova	Sig	-	0.488	-	0.604	-
H3	Political Majority	Anova	Sig	0.123	-	0.197	-	-
H4a	Professional Assistance	T-test	Sig	-	0.016*	-	0.040*	-
H4b	Professional Assistance	T-test	Sig	0.134		0.009**	-	-
H5	Residents	Regression	Beta	-	-	-	-	9.197
			Sig	-	-	-	-	0.031*

* Significant 0.05 level

** Significant 0.01 level

*** Significant 0.001 level

Table 4 Mean values

	Independent variable	Dependent variable			
		Total indicator Performance	Total indicator Financial	Total amount of words Performance	Total amount of word Financial
H1	Financial vs. Performance	2.03	2.35		
H2	Political Majority				
	Block1	-	2.27	-	71.97
	Block2	-	2.40	-	65.27
	Block3	-	2.75	-	64.00
H3	Political Majority				
	Block1	2.02	-	54.97	-
	Block2	2.08	-	52.09	-
	Block3	0.75	-	13.25	-
H4a	Professional Assistance				
	Yes	-	2.77	-	84.0
	No	-	2.27	-	65.93
H4b	Professional Assistance				
	Yes	2.17	-	73.17	-
	No	1.99	-	49.97	-

Hypothesis 1

H1: There is more information about financial auditing than any other factor measured in the elected auditors audit report of the Swedish municipalities in general.

To find out whether the audit report is mostly about financial auditing or performance auditing a paired T-test was used. The test indicated that there is a significant difference between the two auditing forms. In table 4, the mean value for financial auditing is larger than

the mean value for performance auditing. Since the test is significant the conclusion is that there is more information concerning financial auditing in the elected auditors audit report.

The final conclusion is that the audit reports have more information about financial auditing in general and therefore, the hypothesis is not rejected.

Hypothesis 2

H2: Some political parties deliver more information concerning financial auditing in their audit report than others.

In order to test if there are any connections between the political parties and the information concerning financial auditing, two Anova tests were done. One Anova test was connected to the amount of indicators concerning financial auditing¹ and the other test was about the amount of words concerning financial auditing in the audit report. This was done to investigate whether there are any connections between the political parties and the use of financial auditing in the audit report. Table 3 represents results from hypotheses tests. No significant value was found, neither when it comes to the amount of indicators which were used nor the amount of words concerning financial auditing.

The Anova test is used to test differences between several means, in this case political blocks were tested. Therefore, it is important to discuss the mean values as well as the significant value. In table 4 the mean values are presented. The tests were not significant and the mean values were at the same level, therefore, the conclusion could be drawn that there are no differences when it comes to the amount of information, available concerning financial auditing in the audit report and the political parties majority in the different municipalities. The final conclusion is that the hypothesis is rejected because the political parties have no influence on the amount of information available concerning financial auditing in the audit report.

Hypothesis 3

H3: Some political parties deliver more information concerning performance audit in their audit report than others.

¹ See Appendix

In order to see if there are any connections between the political parties and the information concerning performance auditing in the audit report, two Anova tests were performed. One Anova test was connected to the amount of indicators concerning performance auditing². The other one concerned the number of words according to performance auditing in the audit report. This was done to be able to see if there are any connections between the political parties and the use of performance auditing in the audit report. Table 3 represents the results of the performed tests. There was no significant value, neither when it comes to the amount of indicators that were used nor the amount of words concerning performance auditing.

In table 4 the mean values are presented and there are some differences between the political parties. Block 3 has a lower mean value than the other blocks and, therefore, they report less on performance auditing than other political parties. Even though the hypothesis is not significant we can see a difference when looking at the mean values. But the conclusion is that the hypothesis is rejected.

Hypothesis 4

H4a. The municipalities which use an auditing firm have more information about financial auditing than other municipalities in the audit report.

Two T-test were done to draw a conclusion in this case, looking at the significant value which was 0.016 regarding the use of financial indicators in the audit report. This means that the hypothesis is significant at a 5% level. When it comes to the number of words connected to financial auditing, the significant value is 0.040 and, therefore, there is a significant result at a 5% level looking at the number of words connected to financial auditing in the audit report.

Table 4 shows that both the mean values for financial indicators and the number of words (financial) are in the municipalities that use professional assistants higher, than the mean values for the municipalities that do not use professional assistance. The conclusion is that the municipalities which use professional auditors, have more information about financial auditing when it comes to the number of indicators but also when it comes to the total

² See Appendix

information of financial auditing in their audit report when looking at significant level. Therefore, the hypothesis is not rejected.

H4b. The municipalities which use an auditing firm have more information about performance auditing than other municipalities in the audit report.

Looking at the significant value according to table 3 the significant value lies on a level of 0.134, regarding the use of performance indicators. The number of words which are related to performance auditing in the audit report were also measured and the significant value was 0.009 and, therefore, was significant at 1% level. Therefore, the conclusion can be drawn that there is a connection between the use of a professional auditing firm and the use of performance auditing in the audit report when it comes to the amount of information on performance auditing, while there is no connection between the use of performance indicators and the use of professional auditors in the municipalities.

In table 4 the mean values was higher for the municipalities which use professional assistants (auditors from the private sector that helps the elected auditors in the municipalities) than the mean value for the municipalities that do not use professional assistance both when it comes to the number of words and the use of indicators connected to performance. The amount of words connected to performance, was significant at 1% level and the mean value affirmed that the municipalities which use professional assistance have more information concerning performance auditing in the audit report. The conclusion is that there was significant connections between the municipalities which use an auditor firm regarding the amount of information concerning performance auditing in the audit report. However, there is no connection when it comes to the amount of indicators and the use of professional assistance in the municipalities of Sweden. There is a difference between the information concerning performance auditing and the text connected to performance auditing in the audit report. Therefore, the hypothesis is both rejected and not rejected in different contexts.

Hypothesis 5

H5. Bigger municipalities have more information about Performance auditing in their audit report than smaller municipalities.

Table 3 indicates that there was a positive regression between the two variables, size and information about performance auditing. The regression was significant at 5% significant level. The beta coefficient (9.197) showed a positive linear regression. This means that the hypothesis is not rejected, since there is a link between the size of the municipality and the amount of information that is connected to performance auditing in the audit report. In this context this means, that the bigger municipalities have more information about performance auditing in their audit reports than the smaller ones. In addition, those bigger municipalities have a more extensive audit report in general than the smaller ones. The conclusion is that the bivariate regression for more performance auditing as a function of bigger municipalities is true.

Summary of hypothesis

H1: There is more information about financial auditing than any other factor measured in the elected auditors audit report of the Swedish municipalities in general → not rejected

H2: Some political parties deliver more information concerning financial auditing in their audit report than others → rejected

H3: Some political parties deliver more information concerning performance audit in their audit report than others → rejected

H4a. The municipalities that use an auditing firm have more information about financial auditing than other municipalities → not rejected

H4b. The municipalities that use an auditing firm have more information about performance auditing than other municipalities → rejected/not rejected

H5. Bigger municipalities have more information about Performance auditing in their audit report than smaller municipalities → not rejected

5. Discussion and Conclusion

Since we did not include all 290 municipalities (because of time restrictions) we have to consider that our result might have been different if all municipalities were included. This

means the results of this study might not represent the smaller municipalities, since our data represents the larger municipalities.

Financial auditing is a tool to evaluate the accountability of the local government's work during the year (Ng, 2002). Dittenhoffer (2001) mentions that financial auditing is the first auditing instrument that the public sector used. Also the fact that the basic instrument of auditing is connected to the assessment of the accounts and, therefore, it could be more information regarding financial auditing in the audit report of the municipalities (Lundin and Riberdahl, 1999). Our hypotheses showed us that there is significantly more information about financial auditing in the audit report of the elected auditors in the municipalities of Sweden.

Even though authors like Jarrar and Schiuma (2007) talk about the importance of performance we did not find it significant in our research. We find it strange that it was not significant, because as Tagesson *et.al* (2009) say politicians have a self interest and want to be seen from a good side by the residents of the municipalities. Jarrar and Schiuma (2008) also write that performance measurement has become more common in the public sector during the last decades. This because of the cost and customer orientation the public sector need to face today. But on the other hand, it is not the politicians who write the audit report and, therefore, they cannot decide on the content of the audit report. As efficiency is one of the indicators of performance, as Barzelay (1996) writes performance improvement concerns achieving the wanted changes in efficiency and effectiveness and, therefore, should be an important factor to consider while doing the audit report. We did also find it strange that there were no differences between the political parties and the use of financial auditing in the audit report, since financial auditing is closely connected to the public funds that the municipalities should review (Ng, 2002). Tagesson *et.al* (2009) also write that the political majority affects the information the politicians want the citizens to receive, but according to our findings, there are no differences. In the audit report there are no significant differences regarding the political parties morality and political messages; they all write similar statements in the audit report. The lack of information concerning performance might be because it is hard to pinpoint what performance really is. The political parties do not affect the amount of information concerning performance, nor do they affect the amount of information or indicators concerning financial auditing included in the audit report. So what is written in the audit report is not affected by the political party running the municipality.

The municipality organization has the elected auditor as their tool to review the political organization in the audit report. The extent of the criteria that should be reviewed in the public sector is greater than it is in the private sector. The criterion elected auditor should review involve internal control, inspection of the financials and also investigate into whether the organization has worked in accordance with the political decisions and guidelines. Therefore, the elected auditors in the public sector could need the professional auditor's help. In the end it is the elected auditors who decide whether they need the professional help or not (Swedish Associations of Local Authorities and County Councils, 2000).

The relationship between the municipality and the elected auditors can be connected to the accountability framework that Ijiri (1983) writes about. The elected auditor provides information that might be important when making economic decisions made by the municipalities or by others with interest in the municipality. Falkman and Tagesson (2008) write that the professional auditor can influence the accounting standards and also the culture around the auditing in the public sector. In addition, the fact that the professional auditor has requirements that are fixed in the private sector could be a reason why they can influence the public sector when it comes to the auditing (Swedish Associations of Local Authorities and County Councils, 2000). Also the fact that the professional auditors work mostly in the private sector can have an impact on the information they think should be available in the audit report of the municipalities. The shareholder situation is different in the two different sectors, this because of the non-profit organization that the public sector and the profit based private sector has. Shareholders in the private sector have different requirements on the audit report compared with the citizens which are the "shareholders" in the public sector. Also restrictions are different between the two sectors can have an impact on the information available in the audit report, this because the public sector has benchmarked some issues from the private sector when it comes to auditing (Falkman and tagesson, 2000, Anthony, 1985, Goodwin, 2004 and Mulagan, 2000).

What we wanted to achieve with our hypotheses was to find out whether the municipality that use professional auditors can affect the auditing in the audit report. What we found was that the municipalities that use professional auditors in their audit report have more information about financial auditing both regarding the number of indicators and also the number of words compared to the municipalities that do not use professional auditors help. We also wanted to

see if there was a connection between the use of professional auditors and the use of performance auditing in the audit report. Here we found that the amount of information is bigger when the municipalities use a professional auditor, but in the end the use of performance indicators have no significant connection to the use of professional auditors.

Bigger municipalities get more resources from taxation into their municipal organizations, and thus, the use of performance auditing has a bigger part in these municipalities. The size of the organization in the municipalities is connected to the number of residents and, therefore, also taxation is dependent on the number of residents (Copley, 1991 and Tagesson *et.al* 2009). Tagesson *et.al* (2009) write that smaller municipalities are more interested in the main functions of the auditing and, therefore, perhaps because of the amount of resources in the organization they are not so interested in performance auditing as the larger ones. When we did our hypotheses to see whether there is a connection between the size of the municipality and the use of performance auditing we can see that there are positive regressions and, therefore, there is a connection between the size of the municipality and the use of performance.

We have found that in general the elected auditors in the municipalities in Sweden focus financial auditing rather than performance auditing in the audit report. If the municipalities have more information about performance auditing this has a connection to the use of professional auditors and the size of the municipality. It is also important to mention that the elected auditor's role is not affected by the political majority.

For a future study a possible subject is to see if you are able to detect any differences now, after the 2010 election. But since all our hypotheses concerning political parties were rejected, it is not likely that there will be any differences the following year, even though there has been an election. One possibility if continuing with this study, including all 290 municipalities would be a better idea, as we would then get a more accurate result by including the smaller municipalities. Also taking more time, evaluating each municipality, and reading more reports than the audit report might also be an option to get other results.

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Kristianstad / 2011

.....
Mary-Ann Andersson

.....
Rebecka Nilsson

Appendix

Checklist

Factors concerning Financial Auditing:

- Monitoring
- Consumption
- Financial Control
- Financial Management
- Financial Performance

Factors concerning Performance Auditing

- Efficiency
- Quality
- Effectiveness
- Reach Goals, mission, guidelines
- Internal Control
- Accountability