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Does an expectations gap exist in the municipal audit?

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Preface

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Abstract

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Does an expectations gap exist in the municipal audit?

As the title indicates, our purpose is to investigate whether an expectations gap exists in the municipal audit. The problem involves the relations partly between the elected representative auditors and the municipal council, partly between the elected representative auditors and the committees. We have combined the research made on the expectations gap in the private sector with information about how the municipalities are managed.

We have performed a qualitative study consisting of interviews with representatives from the municipal council, the committees and the elected representative auditors in three Swedish municipalities. Our conclusions are based on the interviewees' personal opinions and should therefore not be seen as a general overview of all Swedish municipalities. However, we believe we have discovered certain important tendencies.

We point to five fundamental aspects that shall be seen as indicators of areas where expectations problems may occur. These aspects are the auditors' tasks, the fulfilment of the commission, the information about the auditors' role, the continuous communication and the auditors' competence. After analyzing these aspects on the basis of the empiric material, we come to the conclusion that the expectations gap is modest between the respondents, who are all chairmen or vice chairmen. However, there is a significant expectations gap between the auditors and the *members* of the councils and the committees.

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Appendix 1: Interview guide in Swedish

Appendix 2: Interview guide in English

Wordlist

Activity - Verksamhet

Association of municipal authorities - Kommunförbund

Code of audit practice - God revisionsred

Committee - Nämnd

County council – Landsting

Municipal executive board - Kommunstyrelse

Municipal council - Kommunfullmäktige

Drafting committee - Fullmäktigeberedning

Elected representative - Förtroendevald

Financial audit - Redovisningsrevision

Layman - Lekman

Local Government Act- Kommunallag (KL)

Member of the committee – Nämndledamot

Member of the council – Fullmäktigeledamot

Performance audit - Förvaltningsrevision

Standing committee - Utskott

Swedish Association of Local Authorities and Regions - Sveriges Kommuner och Landsting

1. Introduction

We open the thesis' first chapter by describing the background and discussing the problem area in order to reach our problem formulation. Then we define our purpose and the delimitations. Finally, there is a description of how we have chosen to arrange the chapters in our thesis.

1.1 Background

The basic purpose of auditing is to critically revise, judge and comment on the accounts and the administration of a company. The fact that the audit is built on confidence, makes independence, competence and confidentiality the basic demands for the auditor to gain credibility¹. Recently, there has been a lot of attention around the auditor and its reliability, which to some extent is due to the business scandals revealed in recent years, regarding for example the companies Enron and Skandia². These events have resulted in a focus on whether there are differences in expectations between the auditor, his client, and society. This so-called *expectations gap* consists of differences in perception of what the auditor shall do in comparison to what clients and society expect him to do³.

The expectations gap is not a new research area. There are several studies defining how the expectations gap occurs in the private sector and from this, the gap has received several definitions. The term 'expectations gap' was first mentioned in 1974 by Liggio⁴ who described it by using the following definition: "*An expectations gap is the difference between the levels of expected performance as envisioned by the independent accountant and by the user of financial statements*". Since then, a lot of research has been done regarding this gap, mainly the gap between society and auditors, but also the one between auditors and their clients. Sikka et al⁵, indicate that society does not understand the auditors' role and the purpose of an audit. Ojasalo⁶ has organized different types of negative expectations into three groups and he gives suggestions on how to transform these into positive expectations. Hubbert et al⁷ claim that those performing a service have different perceptions about the parts of the service, compared with those receiving it, that are important. The expectations gap between auditors and their clients is, in comparison to the gap between the auditors and society, an area that recently has become a subject for significant research. The scandals we mention above have lead to discussions on the importance of knowing what you can expect from an auditor. Is the auditor supposed to

¹ <http://www.hallen-samuelsson.se/sida.asp?sida=6> 2005-04-19

² SOU 1998:71. *Den kommunala revisionen – ett demokratiskt kontrollinstrument*

³ Chye Koh H, Woo E S. (1998) *The expectation gap in auditing*, Managerial Auditing Journal. Vol. 13; issue 3

⁴ *ibid*

⁵ Sikka P, Puxty A, Willmott H, Cooper C. (1998) *The impossibility of eliminating the expectations gap: some theory and evidence*, Critical Perspectives on Accounting. Vol 9; issue 3

⁶ Ojasalo, J. (2001) *Managing expectations in Professional Services*, Managing Service Quality. Vol. 11, Issue. 3

⁷ Hubbert A R, Sehorn A G, Brown S W, 1995, *Service expectations: The consumer versus the provider*, International Journal of Service Industry Management. Vol. 6, issue. 1

notice all the flaws and mistakes in a company's accounts⁸? Knowledge in the business world about the auditors' role is often scarce and their role is far from obvious⁹.

Most of the former research refers to the situation in the private sector. However, as the title of our thesis indicates, we focus on the situation in the Swedish public sector, and more specifically on the municipalities. Swedish municipalities are politically controlled organizations with a democratic way of making decisions¹⁰. The municipal administration is complex since it is responsible for a division of economic resources, whose size only can be compared with the resources of the national economy and those of the larger industrial companies. The municipal audit is an important part of the insight into the way these resources are allocated¹¹. Lundin¹² has written a thesis that examines the problems regarding the control of municipal activity. He claims that the efficiency of the municipal audit is unsatisfactory. Lately, the municipal audit in Sweden has been brought into focus as a result of debates about whether the audit system is sufficient and if it fulfils its purpose¹³.

The Swedish Government has carried out several studies with the purpose of improving the municipal audit system. One of these, SOU 2004:107, refers to the high expectations on the audit to serve as a model and to be able to handle the strengthened legislation. There are expectations that imply a desire that the auditors make deeper analyses than today in their judgement of the responsibility taken¹⁴. The Swedish Association of Local Authorities and Regions has also elucidated the municipal audit by handing out several studies, among others the publications *Fullmäktige och revisionen, God revisionssed i kommunal verksamhet 2002* and *Ett granskande samhälle - kommunerna och revisionen*.

To be able to comment on the fulfilling of the auditors' commission, it is necessary to have sufficient knowledge about what it actually includes. The municipal auditors' tasks are regulated in the Local Government Act. It states that what the auditors look at is whether the activity is managed in an appropriate way from an economic viewpoint. They also see if the accounts are correct and if the internal control within the committees is sufficient. The auditors shall further pay attention to the interests of the members of the municipality and see that there exist well-functioning means of contact between the members and the municipal activity¹⁵. The municipal auditors' role has, during recent decades, changed towards a wider focus on the review of the municipalities' efficiency¹⁶.

⁸ Master thesis 04-05-42D Eklund K, Jonsson T. *The expectations gap between auditor and client*. School of Economics and Commercial Law, Göteborg University.

⁹ Beck-Friis U. (2003) *Kunskapen om revisorns roll är helt otillräcklig*, Svenska Dagbladets näringsliv. 2003-12-08, Stockholm.

¹⁰ *God revisionssed i kommunal verksamhet 2002*, Swedish Association of Local Authorities and Regions.

¹¹ Lindqvist U, Losman S. *1991 års kommunallag i dess lydelse den 1 januari 2004*. Norstedt juridik. p 193

¹² Lundin O. (1999) *Kommunal revision – en rättslig analys*. Iustus förlag.

¹³ Cassel F. (2000) *Behovet av kommunal externrevision*. Studieförbundet Näringsliv och Samhälle.

¹⁴ SOU 2004:107. *Att granska och pröva ansvar i kommuner och landsting*

¹⁵ Lundin O. (1999) *Kommunal revision – en rättslig analys*. Iustus förlag. pp 235-240

¹⁶ Coupland, D. (1993) *The internal auditor's role in public service orientation*, Managerial Auditing Journal. Vol. 8; issue 1

The misunderstandings and the confusion regarding the municipal audit's tasks and conditions are numerous¹⁷.

As described above, some research has been made on the subject. Still, there is a wish from the Swedish Association of Local Authorities and Regions to obtain further studies. One area in which the organization asks for further studies is the one we have chosen to investigate; whether an expectations gap exists between the auditors and the municipal council, and between the auditors and the committees.

1.2 Problem discussion

A trustworthy audit is a condition for a trustworthy activity. For public activity in a democratic system it is necessary that faith in it is maintained. If it is not, the commitment of the citizens is lost, something which in the long run threatens the democratic system¹⁸. On the basis of this, the importance of a well-functioning audit system becomes obvious. The status of the audit is not always high and the knowledge within the organization about the auditors' role of it is often limited¹⁹. During the past ten years, many scandals have also been discovered in different areas of the public sector, for example in Gävle and Motala where municipal employees have used taxpayers' money in breach of law and rules²⁰. The public debate has therefore many times been about the function and the efficiency of the audit, focusing on the question of how to avoid scandals in the future²¹.

Much has happened within and around the municipal audit²². It has become more complex; beside the financial audit there is a wider focus on the area defined by Malan as performance audit²³. Percy also mentions these two sides of the audit; he claims that performance indicators are not only set in quantitative but also in qualitative measures²⁴. This is a fairly new phenomenon. For a long time, the audit only consisted of pure review of the accounts, concentrating on preventing and discovering irregularities such as fraud and embezzlement. Gradually, the legislation and the habits have developed and extended the audit commission to be more and more concentrated on reviewing whether the activity lives up to objectives and decisions²⁵. Hence, the complexity increases the risk of misunderstandings, which is why people involved in municipal audit need to know what the audit's task is. The complexity regarding expectations has yet another dimension in the municipalities; the fact that the audit involves three instances; the auditors, the municipal council and the committees²⁶. Therefore, the collaboration between these instances needs to be well defined and understood by everyone involved.

¹⁷ Cassel F. (2000) *Behovet av kommunal externrevision*. Studieförbundet Näringsliv och Samhälle. p7

¹⁸ Lundin O. (1999) *Kommunal revision – en rättslig analys*. Iustus förlag. p 125

¹⁹ SOU 2004:107. *Att granska och pröva ansvar i kommuner och landsting*

²⁰ www.riksdagen.se/debatt/9899/motioner/k/K217.asp

²¹ SOU 1998:71. *Den kommunala revisionen – ett demokratiskt kontrollinstrument*

²² *Fullmäktige och revisionen*. (2004) Swedish Association of Local Authorities and Regions

²³ Malan, R M. (1991) *Internal auditing in government*, The Internal Auditor: Vol. 48; issue 3

²⁴ Percy, I. (2001) *The best value agenda for auditing*, Financial Accountability & Management: Vol. 17; issue 4

²⁵ *Fullmäktige och revisionen*. (2004) Swedish Association of Local Authorities and Regions

²⁶ *God revisionssed i kommunal verksamhet 2002*, Swedish Association of Local Authorities and Regions.

As mentioned earlier, the research made in the area of expectations and possible expectations gaps is primarily focused on the private sector. Hence, on the basis of the request from the Swedish Association of Local Authorities and Regions to receive further research, we choose to focus on the possible expectations gap in the area of municipal audits. The existing research about municipal audit mainly describes the way it is organized but to a much smaller extent how the organization is seen by the persons involved. Our thesis focuses on the “blank spot” between how the research conducted on the audit expectations gap in the private sector can be combined with the existing information about municipal audit. More specifically, we believe that the most interesting way to investigate this is to find out what the persons involved expect from the municipal audit. Therefore we focus on representatives from the municipal councils as well as from the committees and from the audit.

1.3 Problem formulation

Referring to the problem discussion, our problem is the following:

Does an expectations gap exist in the municipal audit?

The question involves the following relations:

- Elected representative auditors ↔ municipal council
- Elected representative auditors ↔ committees

1.4 Purpose

Our intention is to investigate whether an audit expectations gap exists regarding the municipal sector. We want to survey the possible differences in perception of the auditors’ role between the municipal council, the committees and the auditors themselves. We hope to be able to give the interested reader, who we think is someone interested in or with insight into municipal audit, a picture of how the audit is perceived by people involved in the municipal organization. We also hope that the examination conducted in our thesis will provide a foundation for further research for the persons who work with these questions. By investigating this particular problem, we hope that the purpose of diminishing possible misunderstandings about the audit can be reached.

1.5 Delimitations

To make this study possible to carry out, we have made the choice to investigate the conditions only in three municipalities. Given these circumstances, it is not possible to interview more than one person from each of the three respondent groups; the municipal council, the committees and the audit. Further, we have chosen to delimit our study to the relation partly between the auditors and the council, partly between the auditors and the committees. Hence, we neither treat the relation to the professional experts nor the audit in the municipal companies. Our conclusions are based only on the answers received in the interviews; these are the interviewees’ personal opinions and should therefore not be seen as a general conception in all Swedish municipalities. Still, we hope to point to certain important tendencies.

1.6 Outline of the thesis

The introduction is followed by the method chapter where we describe our sequence of work; the selection, the collection of data and the delimitations. We also discuss the quality and credibility of the study. The subsequent chapter consists of our frame of references, which purpose is to provide an understanding of the subject. Here we look at the municipal audit as well as research made on the expectations gap. The frame of references is completed with a summary, where we bring up some fundamental aspects.

The frame of references is followed by the empirical research which contains a compilation of the respondents' answers in the interviews. After the empirical research the analysis is treated; here the empirical research is compared and brought together with the frame of references. The analysis chapter is based on the fundamental aspects mentioned earlier. The thesis concludes with a discussion and conclusion where we compile the results that have emerged from the study and where we get the opportunity to reflect and give our viewpoints on the results. In the final chapter we also give suggestions for further studies.

2. Method

In this chapter we describe our line of action in carrying out this investigation. We start by describing the approach, which is the basis for the study. We then explain how the collection of data has worked out by specifying how our selection is made and what interview method we have used. Further, we describe how the data has been interpreted and analyzed. Finally we discuss the quality of the study and the criticism of the sources.

2.1 Approach

The problem we want to investigate is whether or not there exists an expectations gap in municipal audits. Our point of departure is to look into several theoretical lines of argument, discovering how former research has been done on the subject. Our approach is a qualitative investigation and we use personal interviews since they are more useful when you want the interviewees to express feelings and opinions. The purpose of using a qualitative method is to create understanding²⁷; to discover and identify characteristics and the nature of a subject²⁸. The method focuses on the individual more than its surroundings. Instead of questioning what the objective reality looks like, the question is how the individual interprets and shapes his or her reality²⁹.

There is a link between the qualitative method and hermeneutic. The latter is focused on interpretation and understanding of what people have said, thought and done³⁰. This becomes obvious when considering the fact that we interpret and draw conclusions from what the persons we interview say. Unlike positivism, which is more scientific and works out of information that is exact and safe³¹, our investigation is not to be seen as objective. Our comprehension is based on *our* interpretations of the interviewees' answers.

2.2 Collection of data

Our thesis consists of primary as well as secondary data. The primary data consists of facts and information that the authors of the thesis collect themselves, in other words data that is not available before the study is made. The empirical information in this thesis is exclusively taken from the interviews that we have performed and we describe these further below in the section of the interview method. Secondary data, on the other hand, involves usage of already existing data³². Our frame of references is exclusively based on secondary data, mostly in the form of articles and books. The articles to which we refer are mainly found on the web databases Business Source Premier and Emerald. In the

²⁷ Andersen, I. (1998) *Den uppenbara verkligheten: val av samhällsvetenskaplig metod*. Lund: Studentlitteratur. p 31

²⁸ Patel R, Davidson B. (1994) *Forskningsmetodikens grunder: att planera, genomföra och rapportera en undersökning*. Lund: Studentlitteratur. (2 uppl.) p 78

²⁹ Backman, J. (1998) *Rapporter och uppsatser*. Lund: Studentlitteratur. p 48

³⁰ Patel R, Davidson B. (1994) *Forskningsmetodikens grunder: att planera, genomföra och rapportera en undersökning*. Lund: Studentlitteratur. (2 uppl.) p 25

³¹ Lundahl U, Skärvad P-H. (1999) *Utredningsmetodik för samhällsvetare och ekonomer*. Lund: Studentlitteratur. p 39

³² Dahmström, K. (2000) *Från datainsamling till rapport*. Lund: Studentlitteratur. (3 uppl.) p 59

search we have used the words *expectation**, *audit**, *public sector** and *internal audit*³³. When searching for books, we have used the university's library catalogue GUNDA and in some cases the national library catalogue LIBRIS. Apart from using articles and books, we have examined web sites and former student theses. Since the municipal audit is part of the public interest, the government inquiries and publications from Swedish Association of Local Authorities and Regions have been important as sources of information. We have also studied the legislation that treats the municipal audit.

2.3 Selection

We are well aware of the fact that personal interviews are demanding in terms of how much time it takes to form questions, perform the interviews and analyze the results. To make this study feasible, we have therefore only chosen three municipalities, Helsingborg, Falun and Essunga. These municipalities were chosen after consultation with the Swedish Association of Local Authorities and Regions. The reason for not choosing fewer than three municipalities is that we believe that we not would have been able to see a pattern for how expectations on the audit are perceived. The municipalities are located in three different geographical areas; Skåne, Dalarna and Västra Götaland, in order to avoid answers that may be similar due to geographical similarities.

The different respondent groups are, as the problem formulation indicates, the municipal council, the committees and the auditors. In each municipality, we have chosen one of the largest committees, by number of members. We tried to the greatest extent possible to perform interviews with the chairman of each respondent group but in two cases that was not possible. There, the respondents consist of the vice chairmen.

2.4 Interview method

We started by contacting the municipalities by telephone. Everyone was, from the first moment, positively inclined and willing to take part in an interview. Before the interview we sent them our interview guide. We have chosen to conduct interviews by meeting the persons in question. The main advantage of doing it this way is that it is possible to ask questions that are more complicated than in, for example, questionnaires sent by mail³⁴. We performed the interviews in each respondent's place of work and they lasted for 20-40 minutes. The location of the interviews resulted in a calm environment without anything interrupting us. We used semi-structured interviews which is a mix between an, in advance, very well-structured form with questions put in order, and a non-structured interview where the interviewee is allowed to develop his or her answers to a greater extent³⁵. Hence, the interviews had the characteristic of discussions around the questions in our interview guide and when something needed to be clarified or developed, we asked complementing questions. In order to make it easier to make comparisons and to collect the material, we have developed a similar structure in the interview guide for each respondent group. To minimize misunderstandings and the poor quality that this may lead to, we have tried to use simple language and clear formulations. In order to ensure the

³³ Using the * means that we have applied truncating. This extends a word, for example *expectation** gives expectations, expectations gap et cetera.

³⁴ Dahmström, K. (2000) *Från datainsamling till rapport*. Lund: Studentlitteratur. (3 uppl.) p 72

³⁵ Denscombe, M. (2000) *Forskningshandboken*. Lund: Studentlitteratur. p 135

relevance of the questions and to ensure that they were understandable, we discussed the interview guide with our tutor who suggested some changes that we took into consideration. The Swedish Association of Local Authorities and Regions also examined the questions before the interviews. Our interview guide is to be found in the appendix.

During the interviews we used a tape recorder in order to get complete documentation. None of the interviewees expressed any kind of discomfort with that. Afterwards, the interviewees' answers were written down word for word and then summarized in the thesis' empirical research. The interpretation of the empirical research was an ongoing process that took place during, as well as after, the interviews. All of the interviews were held in Swedish.

2.5 Compilation of empirical research and method to analyze

To organize the primary data that we received when performing the interviews, we made a complete print-out of the interviews, assisted by the recorded tapes and complemented by the notes that were taken during the interviews. This was a relatively time-consuming process but since we found it important to reproduce the interviewees' opinions and viewpoints in a proper way, we still chose this method. Since our interview guide is developed on the basis of the secondary sources, which in turn are the basis for our frame of references, it was not very difficult to find the relevant parts of the empirical research material. Consequently, when beginning the evaluation of the empirical research, we already had the fundamental aspects that we were to focus on in the continuing work. During the entire work of the compilation, we tried to identify patterns and to find similarities and differences in the collected material.

Even though the fundamental aspects in the frame of references are the basis for the empirical research as well as for the analysis, these chapters are not organized in exactly the same way. In the empirical research we have chosen to separate the different respondent groups, that is, the representatives from the municipal councils, the committees and the auditors. We did it this way in order to be able to see patterns in their answers, which in turn follow the disposition of the interview guide. The reason to choose not to divide the answers municipality by municipality is that we find this connection to be less relevant than the connection between the respondent groups. In the analysis chapter, the fundamental aspects from the frame of references form our starting point. Here, we do not make any division out of the respondents; instead we have gathered the patterns that can be discovered in the empirical research. Since the interview guide and hence, the fundamental aspects, are designed with the purpose of creating the possibility to find an answer to our problem formulation, our intention is to create possibilities to conduct a further discussion about the expectations gap in municipal audit.

2.6 Quality of the study

When investigating the quality of our study, we have taken into consideration the two concepts validity and reliability.

2.6.1 Validity

Patel & Davidsson state that you achieve good internal validity by investigating what you intend to investigate³⁶. We try, during the entire investigation, to connect the frame of references with the empirical research, and simultaneously have the problem formulation in mind, in order to reach the highest possible validity. We consider the interview guide to be well connected to our problem formulation and to our purpose, since we have discussed it with our tutor as well as with the Swedish Association of Local Authorities and Regions. External validity is the conformity between the measured value and the reality³⁷. Because of the fact that we are only investigating three municipalities, it is difficult to confirm completely whether our conclusions are representative for the whole municipal sector but as we have mentioned earlier, we still hope to point to certain important tendencies.

2.6.2 Reliability

Reliability treats how well an instrument of measure gives reliable and stabile results³⁸. This results in the fact that reliability is a problem in interpretational investigations, because there is a risk that we interpret the answers in the wrong way³⁹. The fact that we translate the empiric material into English is also a factor that could reduce the reliability. We try to counteract wrongful interpretations by asking clear and well-delimited questions and by using a tape-recorder. The reliability can also be influenced in a negative way since the selection of municipalities is not a random selection⁴⁰.

2.7 Criticism of the sources

To be able to get a perception of the credibility of the investigation, it is important to study the sources that have been used and for what purpose the material was published⁴¹. In our study, we have used primary as well as secondary sources.

2.7.1 Primary data

The opinions of the interviewees do not necessarily need to represent their municipality as a whole. Firstly, there are several auditors; secondly, there are many representatives in each municipal council. Thirdly, the various kinds of committees may differ a lot. Our study is therefore limited, since we only interview one person from each instance in each municipality. The fact that we have studied municipalities of different sizes could

³⁶ Patel R, Davidson B. (1994) *Forskningsmetodikens grunder: att planera, genomföra och rapportera en undersökning*. Lund: Studentlitteratur. (2 uppl.) p 98

³⁷ Eriksson, L, Wiederheim-Paul, F. (1999) *Att utreda, forska och rapportera*. Liber, Malmö p 39

³⁸ *ibid.* p 40

³⁹ Patel R, Davidson B. (1994) *Forskningsmetodikens grunder: att planera, genomföra och rapportera en undersökning*. Lund: Studentlitteratur. (2 uppl.) p 103

⁴⁰ Denscombe, M. (2000) *Forskningshandboken*. Lund: Studentlitteratur. p 138

⁴¹ Patel R, Davidson B. (1994) *Forskningsmetodikens grunder: att planera, genomföra och rapportera en undersökning*. Lund: Studentlitteratur. (2 uppl.)

negatively influence the comparability. Nevertheless, we have made this choice in order to avoid answers that may be similar due to likeness in size.

There is a possibility that our questions can be understood as sensitive by the interviewees, since they are about to give their opinion on persons working close to them. As mentioned before, there is also a risk that we interpret the information wrongly when compiling the primary data. However, we have perceived all persons involved as open-minded and honest. The answers were also very clear in most cases and we estimate the risk that we have interpreted them incorrectly as low.

2.7.2 Secondary data

When estimating the credibility of secondary data, it is important to keep in mind what personal interest the source of information has. This interest can express itself in the choice of words, expressions, or in the selection of facts exposed⁴². However, scientific articles and studies, such as those we have acquainted ourselves with, go through a review before they are published in a scientific journal. This leads to high relevance and reliability. We have, despite this, still considered ourselves justified to use some non-scientific sources, since the scientific research about municipal audit is brief. Besides, the knowledge that we have provided ourselves with by reading inquiries and non-scientific publications has been indispensable when it comes to creating comprehension for the subject. The governmental inquiries that we have used are to be considered as reliable, since they are produced by civil servants who are independent and well-informed. The publications that are used as references in our thesis are based on the law and apart from that, the publishing organization, Swedish Association of Local Authorities and Regions, is to be seen as very professional.

We have, to a smaller extent, referred to some student theses. These are not to be seen as scientific but since these sources are the only ones we have found that deal with the expectations gap between the auditor and the client, we think that these studies should not be disregarded. The scientific articles on their hand treat the relation between the auditor and the public. Many of the articles that underlie our frame of references have their origin abroad. Extensive national laws distinguish the audit industry and it is therefore important that the reader of this thesis keeps in mind that the conditions in Sweden may differ from the reality described in the articles.

⁴² Eriksson, L, Wiederheim-Paul, F. (1999) *Att utreda, forska och rapportera*. Liber, Malmö. p 151

3. Frame of references

This chapter deals with the frame of references that can be used to create comprehension for the subject. As we mentioned in the background, our angle is the “white spot” between the research made on the expectations gap in the private sector and the facts about management of the municipal sector. Therefore, we divide this frame of references into two parts. We start by giving insight into the municipal sector, how the municipalities are edified and the municipal auditors’ role. We then survey the research made on the expectations gap. Finally, there is a summary of the chapter, the purpose of which is to provide a better understanding of the way the thesis continues.

3.1 Public sector audit

In order to understand the function of the auditor, it is necessary to have an overview of how a municipality is organized. Therefore, the first part deals with this issue. There are distinct principal differences between public activity and private activity. We find it important to clarify these differences, since the complexity in the public sector organization makes it particularly interesting to investigate. Hence, the second part treats how the municipal audit differs from the review of private, profit-demanding companies. Then we discuss the auditors more concretely.

3.1.1 Municipal organization

Today, there are 290 municipals in Sweden⁴³. The municipal organization is a lay board-organization that consists of elected representative laymen, both in the municipal council and in the committees. The municipalities’ organization and tasks are regulated in the third chapter of the Local Government Act. The municipal organization is principally composed of the council, as the highest deciding authority, and the committees, which prepare and carry out the decisions made by the council. The committees are principally composed of elected representatives and civil servants. The municipal council comes to decisions in matters of principal nature, draws out objectives for the activity and makes decisions regarding the committees’ organization and budget. The committees, in turn, make decisions about the administration and questions that they, according to the constitution, shall be responsible for. Preparation and execution are also tasks for the committees.

An important part of the citizens’ democratic control is that responsibility can be demanded from those responsible for the activity. This democratic control occurs in elections where the citizens express their will by voting. Within the limits of the municipal autonomy, the council also demands responsibility from the committees, the municipal executive board, the drafting committees and the individual politicians whose mission is to implement the activity. The auditors are the council’s instrument to perform this democratic control⁴⁴.

⁴³ <http://www.skl.se/artikel.asp?A=5028&C=2199> 2005-05-01

⁴⁴ *God revisionssed i kommunal verksamhet 2002*, Swedish Association of Local Authorities and Regions.

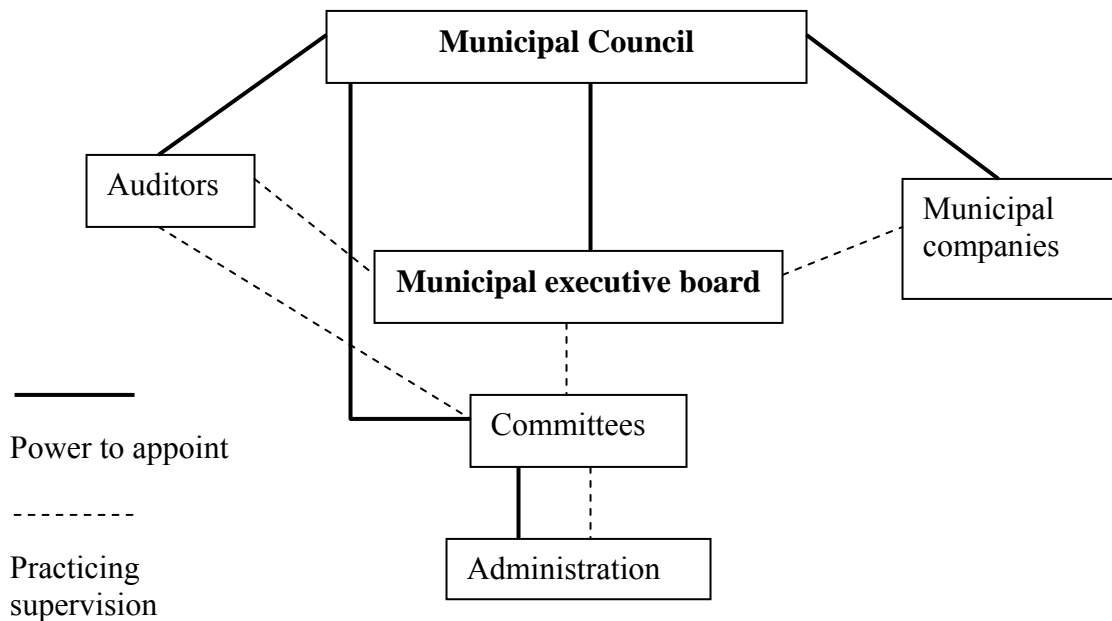


Figure 1: The municipal organization and the different authorities' relations.
Taken from Lundin O. (1999) "Kommunal revision – en rättslig analys" and translated by the authors of the thesis.

3.1.2 Differences between public and private sector audit

Internationally, auditing in the business industry has received considerable attention because of the evolution towards information that is not financially measurable. The evolution of the audit in the public sector on the other hand, has gone largely unnoticed, mainly because of the fact that the public sector authorities do not go bust and therefore corporate failure is not seen as an issue. Instead, the issue in the public sector is whether taxpayers' money is spent in the most efficient way possible⁴⁵. With that, public service institutions have a responsibility towards the whole community⁴⁶. This difference between public and private sector audit has strong repercussions on the focus of the audit, which the picture below shows.

⁴⁵ Percy, I. (2001) *The best value agenda for auditing*, Financial Accountability & Management. Vol. 17; issue 4

⁴⁶ Coupland, D. (1993) *The internal auditor's role in public service orientation*, Managerial Auditing Journal. Vol. 8; issue 1

| | Municipal activity | Industrial activity with profit demand |
|-------------------------------|---|---|
| Purpose | Activity of public utility Service, performance etc. | Earnings/profit |
| Means | Taxes, fees, contributions | Commercial activity Production of goods and services |
| The focus of the audit | Appropriate and economically satisfying activity Correctly performed accounts Internal control <i>Assignments according to the municipal law</i> | Annual report and accounting Administration of the management <i>Assignments according to, among others, the law of joint-stock companies</i> |

Figure 2: The basic differences between municipal audit and industrial audit. Taken from “God revisionssed i kommunal verksamhet 2002” and reworked and translated by the authors of the thesis.

3.1.3 Municipal audit

The role of the municipal audit has changed during recent decades. The traditional role of auditing within public service organizations has primarily been to provide an independent review of the accounts. The reemphasis during the last decades on the allocation of resources has necessitated auditors to pay greater attention to the organizational structure through which public services are provided. In doing so, they have had to adopt a more sophisticated approach to their work, and broaden their repertoire of techniques to include such matters as the efficiency of operations⁴⁷. This new phase of audit has resulted in the division of the auditors’ tasks into two parts; financial audit and performance audit⁴⁸. The financial audit can be described as the review of the accounts and the internal control while the performance audit involves, among other things, the activity’s efficiency and accordance to the purpose. Lately, the performance audit has received more and more attention⁴⁹.

The auditors are designated by the council and possess a municipal commission of trust. The audit takes place under official insight and is regulated in the Local Government Act⁵⁰. The thought behind the system with elected representative auditors is that civil

⁴⁷ Coupland, D. (1993) *The internal auditor’s role in public service orientation*, Managerial Auditing Journal. Vol. 8; issue 1

⁴⁸ An important remark is that the concept ‘performance audit’ has another significance within the industrial audit. There, the review refers to the board of directors’ and the MD’s administration of the company.

⁴⁹ Lundin O. (1999) *Kommunal revision – en rättslig analys*. Iustus förlag. pp 191-196

⁵⁰ *ibid.* pp 235-240

servants cannot reasonably try the democratic responsibility⁵¹. KL 9:1⁵² establishes that in the years of elections, the council shall elect at least three auditors and three substitutes for the upcoming term of office, which is the following four years. The qualifications of the elected representative auditors consist of having a political and civil support as a basis for trying if the politics and the commissions that the council decides about also are implemented⁵³. Otherwise, there are no special requirements for auditors to be elected, more than that they have to be more than 18 years old and have the right to vote in the municipality⁵⁴.

Since the elected auditors only are laymen, the law (KL 9:8) gives them scope to turn to expert assistants such as professional auditors, legal experts et cetera. This possibility is also a condition for ensuring that the commission is carried out in the best way possible. The experts shall, according to KL 9:8 have the insight and experience of municipal activity that is necessary to be able to carry out their task. In Sweden, approximately 70% of the municipalities are using Komrev for this purpose⁵⁵. Komrev is a part of the audit company Öhrlings PriceWaterhouseCoopers. In some municipalities, mainly large ones, there are special audit offices with employed staff whose task is to assist the elected representative auditors⁵⁶.

KL 9:9 regulates that the auditors shall, in the extent that is prescribed as the code of audit practice, every year review all the activities that are pursued within the committees' areas of activity. This is a reinforcement of the municipal audit commission⁵⁷, the previous commission involved review of all the activities within one term of office. Committees and boards are the administrative authorities that carry out the activity they are responsible for, either according to the law or by decisions made by the council. They shall follow the objectives, decisions and laws; see that the internal control is sufficient and that the activity as a whole is pursued in a satisfactory way. They also prepare the council's issues. When the auditors plan the review, certain consideration is given to the two factors essentiality and risk. On the basis of the auditors' essentiality- and risk analysis, certain activities or functions may be reviewed more thoroughly if there is a need for that⁵⁸. KL 9:9 further states that what the auditors try is whether the activity is managed in an appropriate, and from an economic viewpoint satisfying way, if the accounts are correct and if the internal control within the committees is sufficient. The auditors shall also pay attention to the interests of the citizens of the municipality and see that there exist well-functioning means of contact between the members and the municipal activity⁵⁹. The auditors sometimes give advice to the municipal committees

⁵¹ *Ett granskande samhälle. Kommunerna och revisionen.* (2005) Swedish Association of Local Authorities and Regions

⁵² We will use this formulation in the remainder of the thesis. KL stands for the Local Government Act, 9 is the number of the chapter and 1 is the number of the paragraph

⁵³ *God revisionssed i kommunal verksamhet 2002.* Swedish Association of Local Authorities and Regions.

⁵⁴ Lundin O. (1999) *Kommunal revision – en rättslig analys.* Iustus förlag. pp 235-240

⁵⁵ <http://www.vardforbundet.se/upload/L%C3%A4kem%20konf%20injudan-program.pdf> 2005-05-12

⁵⁶ Lundin O. (1999) *Kommunal revision – en rättslig analys.* Iustus förlag. p 181

⁵⁷ SOU 2004:107. *Att granska och pröva ansvar i kommuner och landsting*

⁵⁸ *Fullmäktige och revisionen.* (2004) Swedish Association of Local Authorities and Regions

⁵⁹ Lundin O. (1999) *Kommunal revision – en rättslig analys.* Iustus förlag. pp 235-240

about improvements, which means that they make use of their right to take initiative. This is called *positive audit*⁶⁰. KL 9:16 regulates that the auditors have an obligation to provide an annual report that summarizes the results of the audit concerning the activity during the previous budget-year, a so-called *audit report*. In the audit report the auditors can, according to 9:17, express dissatisfaction with the committees and the council. The report shall also contain a statement, saying whether they grant discharge or not. The municipal audit also involves the municipal companies and foundations in which the council has appointed laymen-auditors⁶¹.

Consequently, the internal control is an important part of the municipal activity and since it is not unusual that the committees are not completely aware of their responsibility for this control and what this responsibility concretely involves, it is worth explaining further. The purpose of this control is to secure an efficient administration and to avoid serious faults being committed. The auditors' commission regarding this is to review whether the internal control is sufficient, not to implement it, something which the misunderstandings many times have been about. By their review, the auditors may notice shortages in the internal control and contribute to improvements. The council, as well as the auditors, has an important task in making the committees aware of this⁶².

As mentioned earlier, the audit shall take place according to the code of audit practice. The concept is central for the principals and ways that are used within the audit in order to guarantee high quality. These principals have a great meaning for the credibility and strength of the audit because it constitutes an important platform for the elected representative auditors. The auditors themselves develop the code of audit practice within the municipal activity and the practice has its point of departure in the special circumstances in the municipal sector, mainly the fact that the audit is practised by elected representative auditors under public insight. An important part of the commission of audit is the fact that it is a commission of trust which purpose is to use *independence*, *objectivity* and *integrity* in supporting and revising activities⁶³. In KL 9:6, the position of the auditors is stated. It is expressed that every auditor performs his commission independently with the intention marking the individual auditors' independent position. This means the fact that every auditor has the right to give his own audit report if dissonance should appear. This independence is a condition for a trustworthy audit. A trustworthy audit is further a condition for a trustworthy activity. For public activity in a democratic system it is necessary that the faith is maintained. If it is not, the commitment of the citizens becomes absent, something which in the long run threatens the democratic system⁶⁴. Even though the law does not demand the elected representative auditors to be members of any political party, the auditor possesses a political commission and is usually elected by his own companions⁶⁵. Generally, this special insight in the circumstances concerning the activity of the committees is seen as something positive⁶⁶.

⁶⁰ Lundin O. (1999) *Kommunal revision – en rättslig analys*. Iustus förlag. p 183

⁶¹ *God revisionssed i kommunal verksamhet 2002*. Swedish Association of Local Authorities and Regions

⁶² *Fullmäktige och revisionen*. (2004) Swedish Association of Local Authorities and Regions

⁶³ *God revisionssed i kommunal verksamhet 2002*. Swedish Association of Local Authorities and Regions

⁶⁴ Lundin O. (1999) *Kommunal revision – en rättslig analys*. Iustus förlag. p 125

⁶⁵ *ibid.* pp 130-131

⁶⁶ SOU 1993:109. *Förtroendevaldas ansvar vid domstolstrots och lagtrots*. p 71

However, there could exist difficulties in keeping an independent approach⁶⁷. The auditors are allowed to participate in their parties as members of the council but have to keep their independent position when performing the audit⁶⁸.

The communication between the auditors and the ones being reviewed is important in order to make the final result as good as possible. Constantly recurring information about the audit may be important for widened knowledge and comprehension. When reviewing, it is of great importance that the auditors have open dialogue and communication with those being reviewed. Open dialogue before and after the reviews facilitate the attempt for responsibility at the end of the year and also shapes an honest cooperation between the council, the committees and the auditors. To improve this dialogue, a suggestion to have a standing point on the council's agenda for the auditors has been brought up⁶⁹.

3.2 The expectations gap

This part of our frame of references treats the research made on the concept *expectations gap*. In order to understand the meaning of an expectations gap, the initial part treats expectations as a concept by looking into the way expectations are created in a professional service relation. Then the particular area of audit expectations gaps is surveyed. This area is divided into two parts: First the gap between auditors and society is reviewed, and then we look into the gap between auditors and their clients. All the research in this part of the frame of references regards the private sector, but as we will see in the analysis, it is still highly applicable to the municipal audit.

3.2.1 Service expectations

There are often differences between the performance of a service and the expectations that the client has on the particular service. Furthermore, professional services are somewhat different from other types of services, and often so are client expectations⁷⁰. Since the audit fits the description of such a service, we believe this research has significance for our study.

According to Ojasalo⁷¹, managing service expectations is important since service quality and satisfaction result from how well the actual service performance, in other words the service process and outcome, matches the expectations. Much can be done to achieve long-lasting satisfaction with sophisticated expectations management. Ojasalo treats three types of expectations typical in the professional service context; *fuzzy*, *implicit*, and *unrealistic* expectations. All three types are applicable to the audit area.

Clients do not always have a clear understanding of what they want from the service provider. They may feel that something is wrong or deficient but do not know what is

⁶⁷ Lundin O. (1999) *Kommunal revision – en rättslig analys*. Iustus förlag, pp 130-131

⁶⁸ *God revisionssed i kommunal verksamhet 2002*. Swedish Association of Local Authorities and Regions

⁶⁹ *Fullmäktige och revisionen* (2004) Swedish Association of Local Authorities and Regions

⁷⁰ Hubbert A R, Sehorn A G, Brown S W, (1995) *Service expectations: The consumer versus the provider*, International Journal of Service Industry Management. Vol. 6, issue. 1

⁷¹ Ojasalo, J. (2001) *Managing expectations in Professional Services*, Managing Service Quality, Vol. 11, Issue. 3

wrong. They wish for an improvement in their situation, but do not know what kind of improvement this should be. This kind of wish can be understood in terms of *fuzzy expectations*. The fuzzy expectations can be changed by *focusing expectations*, referring to the service provider's efforts to make the client's expectations more precise. This happens in a dialogue between the service provider and the client. Together with the service provider, clients realize and become more convinced about what they need the most and what will satisfy them in the long run. Thus, focusing fuzzy expectations involves a process of defining unclear problems and needs⁷².

Implicit expectations are associated with situations in which some characteristics or elements of the service are so self-evident that clients do not actively or consciously even think about them, or about the possibility that they will not materialize. The existence of implicit expectations becomes obvious when they are not met. Implicit expectations become explicit when the client realizes that he or she has to sacrifice time to give the service provider detailed information. *Explicit expectations* are conscious wishes about the service in the client's mind. The client pays explicit attention to whether these expectations are met and knows clearly what went wrong if they are not met. However, they are not necessarily expressed openly, at least not all of them⁷³.

Clients sometimes have *unrealistic expectations* of a service, expectations that cannot be met by anyone, neither by a professional service provider, nor by the clients themselves. When clients have expectations that are not fulfilled by the service, they will be disappointed, and when these expectations are unrealistic, disappointment cannot be avoided. However, if the unrealistic expectations can be transformed into *realistic expectations*, then it is possible to provide a service that satisfies the expectations. When unrealistic expectations are made realistic before or in the beginning of the service process, future disappointment can be avoided. The more realistic client expectations are, the greater the possibility that they will be met in reality, and good client-perceived service quality is more likely⁷⁴.

Hubbert et al have presented a different research approach, which investigates whether the same components of a service encounter are identified as important by both sets of participants or not. Some important questions rise within the issue of tasks included in a service and the issue of the extent to which it can be expected to be performed: Do the expectations of a participant on one side of the interaction complement and/or coincide with the expectations of the other? Are both sets of expectations comparably detailed? Obtaining client perceptions may reveal expectations that are not currently being met. On the other hand, it may reveal that clients are not aware of some of the benefits that are being provided. In order to explain benefits, it may be helpful for service providers to mention potentially hidden services in the course of conversation with the client or in literature distributed to them. Client satisfaction is likely to be sub optimal when the

⁷² Ojasalo, J. (2001) *Managing expectations in Professional Services*, Managing Service Quality, Vol. 11; Issue. 3

⁷³ *ibid*

⁷⁴ *ibid*

client is unaware of service benefits or when the provider fails to provide the client with sufficient information⁷⁵.

3.2.2 Audit expectations gap

Here we focus on the particular issue of the expectations gap in the audit profession, where there are two different kinds of expectations gaps. First there is the gap between auditor and society, and then there is the one between auditor and client. Our thesis principally treats the latter one, but it should not be disregarded that there has been significant research done about the first relationship, which can help us understand the concept *expectations gap*. Hence, after a more general definition, we describe society's expectations of the auditor and then we describe the research made on the client's expectations of the auditors.

3.2.2.1 Definitions of the audit expectations gap

The expectations gap, signifying the differences between what society expects from an auditor and what the audit profession prefers the audit objectives to be, has been a recurring issue in the audit literature⁷⁶. As we have mentioned earlier in our thesis, the term was first described by Liggio who defined it in the following way: "*Expectations gap is the difference between the levels of expected performance as envisioned by the independent accountant and by the user of financial statements*"⁷⁷. The gap is a problematic issue for the auditors since the greater the expectations gap, the lower the credibility, earning potential and prestige associated with their work⁷⁸.

Porter defines the expectations gap as the gap between society's expectations of auditors and auditors' performance as perceived by society. She also defines the expectations gap as the difference between the way the auditor perceives his responsibility and the perception that society has on the matter. In most cases, society expects the auditors' responsibility to be a lot wider than it actually is. In addition, Porter refers to a report from 1978, which was charged to "*consider whether a gap may exist between what the public expects or needs and what auditors can and should reasonably be expected to accomplish*"⁷⁹.

FAR has defined the expectations gap as expectations from the client that are too high in relation to what the auditor is able to perform. In order to diminish the gap, regulations have to be made and the code of audit practice needs to be developed. The audit

⁷⁵ Hubbert A R, Sehorn A G, Brown S W. (1995) *Service expectations: The consumer versus the provider*, International Journal of Service Industry Management. Vol. 6; issue. 1

⁷⁶ Sikka P, Puxty A, Willmott H, Cooper C. (1998) *The impossibility of eliminating the expectations gap: some theory and evidence*. Critical Perspectives on Accounting. Vol 9; issue 3

⁷⁷ Chye Koh H, Woo E S. (1998) *The expectation gap in auditing*, Managerial Auditing Journal. Vol. 13; issue 3

⁷⁸ Sikka P, Puxty A, Willmott H, Cooper C. (1998) *The impossibility of eliminating the expectations gap: some theory and evidence*. Critical Perspectives on Accounting. Vol 9; issue 3

⁷⁹ Porter, B. (1993) *An empirical study of the audit expectation-performance gap*. Accounting and Business Research, vol. 24; issue 93

profession needs to take responsibility for the communication with the clients; the purpose is to clarify the tasks included in the audit commission⁸⁰.

3.2.2.2 The gap between auditor and society

There have been attempts to establish whether there are any differences in perception regarding auditors' duties. As described above, research has shown that an audit expectations gap exists, specifically in areas such as the nature of the audit function and the perceived performance of auditors. The critical components of the expectations gap have been found to include auditors' fraud detection role, and aspects of the conduct of audit work, for example auditors' ability to cope with risk and uncertainty. Evidence has shown that auditors and society have significantly different beliefs and preferences on the extent of auditors' responsibilities, particularly in the area of detecting and disclosing irregularities and illegal acts. Society holds auditors more responsible for this area than the auditors believe themselves to be⁸¹.

Sikka et al consider the expectations gap to be one of the main issues confronting the audit profession. The users of audit reports; investors, journalists, politicians and others, expect auditors to detect and report fraud and irregularities, amongst other things. In response, the profession argues that society misunderstands the role of the auditor, and that fraud detection and reporting is not a main audit objective. The profession's conception of, and response to, the expectations gap is formulated in terms of others' ignorance coupled with the right and responsibility of the profession to take care of "the problem". Although not blameless, the profession is placed in a "positive space" where its responsibility is defined primarily in terms of educating a confused and ignorant society. The auditors strive for silence, or at least try to draw private boundaries around their work, in order to avoid discussions of issues that could unsettle their authority, such as the status of auditor independence⁸².

At the heart of the expectations gap is a difference of preferred meanings about the nature, practice and/or outcomes of the audit. As sellers of audit services, members of the audit profession have a stake in securing the material and symbolic value of their labour. Since auditors are expected to pay meticulous attention to matters such as internal control and accuracy of accounts, the public continues to assume that auditors must necessarily be looking for fraud and irregularities⁸³. It must be noted that the expectations gap arises from a combination of excessive expectations and insufficient performance. According to Chye Koo and Woo, steps must be taken to lower society's expectations as well as to improve the auditors' performance. Misconceptions and differences in expectations will persist unless effective and timely solutions are implemented⁸⁴.

⁸⁰ *FARs revisionsbok 2002*. p 111

⁸¹ Chye Koh H, Woo E S. (1998) *The expectation gap in auditing*, Managerial Auditing Journal. Vol. 13; issue 3

⁸² Sikka P, Puxty A, Willmott H, Cooper C. (1998) *The impossibility of eliminating the expectations gap: some theory and evidence*. Critical Perspectives on Accounting. Vol 9; issue 3

⁸³ Sikka P, Puxty A, Willmott H, Cooper C. (1998) *The impossibility of eliminating the expectations gap: some theory and evidence*. Critical Perspectives on Accounting. Vol 9; issue 3

⁸⁴ Chye Koh H, Woo E S. (1998) *The expectation gap in auditing*, Managerial Auditing Journal. Vol. 13; issue 3

3.2.2.3 The gap between auditor and client

There are several aspects that need to be elucidated in the area of client expectations. One client interviewed by Eklund and Jonsson described the communication with the auditor as rather disappointing; he had expected the auditor to provide more concrete suggestions on, for example, investments and tax issues, together with explanations about the consequences the actions taken would have on the company. One important conclusion in Eklund and Jonsson's report is that the clients' expectations are not very explicit and well-defined due to the fact that most of the clients do not have full insight into the auditors' role and assignment. Nevertheless, the clients have several expectations on the auditor that lead to disappointment when these expectations are not fully performed. In most cases, lack of knowledge of the auditors' role and lack of continuous communication are the main reasons why the expectations gap exists. The problem in both cases seems to be that the information provided by the auditors is insufficient⁸⁵.

The auditors for their part expect the clients to act professionally, to have confidence in their work, to be open, and to supply the auditor with adequate information⁸⁶. An issue that the auditors find important is that many clients do not understand the difference between accounting and auditing. This leads to the misunderstanding that the auditor should look into every single detail of the accounts, not only perform an accurate audit.⁸⁷ In recent years the demands from clients have increased regarding more extensive supervision than the one described in laws and regulations. Therefore the clients often perceive the auditor as a consultant and a valuable resource in making managing easier⁸⁸.

⁸⁵ Master thesis 04-05-42D Eklund K, Jonsson T. *The expectations gap between auditor and client*. School of Economics and Commercial Law, Göteborg University

⁸⁶ Bachelor thesis 04-15-17 Ericksson A, Forsberg P. *Does an expectations gap exist?* School of Economics and Commercial Law, Göteborg University

⁸⁷ Master thesis 04-05-42D Eklund K, Jonsson T. *The expectations gap between auditor and client*. School of Economics and Commercial Law, Göteborg University

⁸⁸ Master thesis 04-05-39D Björkström P, Olofsson M, Töyrä J. *Expectations and gaps*. School of Economics and Commercial Law, Göteborg University

3.3 Summary: Fundamental aspects

Our intention with this section is to help the reader of the thesis understand the connection between the frame of references, the empirical research and the analysis. We point to certain fundamental aspects that in the first section, *municipal audit*, shall be seen as indicators of areas where expectations problems may occur. These aspects form the base for our interview guide. The second section, the *expectations gap*, is to be seen as an explanation of how these problems can find expression in different areas that have been surveyed by researchers who have developed information about the expectations gap as a concept. We have discovered five fundamental aspects, which are presented below.

3.3.1 The auditors' tasks

The municipal auditors' commission is in many ways complex; it is a commission of trust which takes place under official insight, meaning that the municipal auditors serve a function for the public. Besides the review of the correctness of the accounts, the auditors are also supposed to check if the internal control is sufficient and if the activity is performed in an efficient way. In addition, everything is to fit within the frames of the code of audit practice. All this, together with the requirement for independence and objectivity, bring about incentives to believe that there may occur differences between the way the audit is performed and the way those involved expect it to be performed.

The study made by Chye Koh and Woo is applicable on this issue, since the study mentions that the expectations on the tasks included in the auditors' responsibility often differ, due to the belief that the auditors shall detect for example illegal acts, not only review how the internal control is performed. Hubbert et al also examine this; they have investigated whether the same components of a service encounter are identified as important by both sets of participants or not. The question is if the expectations of the client coincide with the performance of the auditor regarding the tasks included in the audit commission.

3.3.2 Fulfilment of the audit commission

Our second aspect is a result of the complexity mentioned above, together with the fact that the law now regulates that the auditors shall review *all* the activities *every* year. The pressure on the auditors to perform a more extensive commission leads to an issue that regards auditors' possible inability to perform their commission to the expected extent.

According to Chye Koh and Woo, an expectations gap arises from a combination of excessive expectations and insufficient performance. Steps must be taken to lower expectations as well as to improve the auditors' performance.

3.3.3 Information provided about the auditors' role

The fact that constantly recurring information about the audit is important for widened knowledge and comprehension for what the auditors do, makes our third aspect interesting. One of the concrete suggestions made on how to improve the knowledge, is to have a standing point on the council's agenda for the auditors. We would like to investigate how this suggestion is perceived.

Ojasalo's theory on different kinds of expectations is applicable in this context. Fuzzy expectations indicate that the client has not received sufficient information about the audit to be able to understand what to expect from it. When the auditors provide information about their role, they make an effort to focus the expectations, meaning that they try to make them less fuzzy. Furthermore, the information provided must be sufficient to erase the client's unrealistic expectations since client satisfaction only can be obtained when the expectations are realistic. Sikka et al point to another aspect, which involves the auditors' different perception of their responsibility to provide information. They refer to the fact that auditors mainly provide information in order to avoid discussions of issues that could unsettle their authority, such as the status of auditors' independence.

3.3.4 The continuous communication

The importance of a well-functioning communication between the auditor and the municipal organization is pointed out by the publication *Fullmäktige och revisionen*. This publication further says that an open dialogue before and after the reviews shapes a faithful cooperation between the council, the committees and the auditors. We find it interesting to investigate how this continuous communication is perceived in the organization.

The study made by Eklund and Jonsson is applicable on this issue, since one of their most important conclusions is that apart from lack of knowledge, lack of continuous communication is the main reason why the expectations gap exists. This perception can also be applied on the part of Ojasalo's model that treats the area of implicit and explicit expectations. In the communication with the auditor, the client often realizes that there are certain aspects, that were perceived as obvious, that turn out not to be a part of the service from the auditors' point of view. This is when the expectation becomes explicit. The client needs to communicate this problem to the auditor, otherwise the situation cannot improve and the communication will continue to be insufficient.

3.3.5 Elected representative auditors' competence

There are no special requirements for elected representative auditors to be elected, apart from having a political and civil support as a base for their commission. We find it interesting to investigate if the persons involved in the municipal organization are aware of this fact, since we believe the audit profession normally is perceived as a strictly economic commission where the main purpose is to review accounts.

As mentioned earlier, the research made on the expectations gap does not regard the public sector, and we can therefore not apply the expectations gap on the question of municipal auditors' competence.

4. Empirical research

In this chapter we present the information from the interviews conducted. The interviews are based on the questions in the interview guide, which is to be found in the appendix. We have chosen to divide this chapter into two parts. First, there is a presentation of the studied municipalities and then, in the second part, we have compiled the interviews.

4.1 Presentation of the studied municipalities

The purpose of this part is to give an overview of the investigated municipalities; where they are situated, numbers of inhabitants and how they are organized, generally as well as the audit specifically. We also find it important to tell who the interviewees are in each municipality.

4.1.1 Municipality of Helsingborg

Helsingborg is situated in northwest of Skåne and has just over 120 000 inhabitants⁸⁹. The surface area is 345 square kilometres⁹⁰. The municipal council consists of 65 elected members. Below this, there are eleven committees apart from the municipal executive board; building, care & chief guardian, culture, development, education, election, environment, rescue, social and technical committee. All of these, except for the two last-mentioned, have their own administration that looks after their tasks. Helsingborg has a citizen standing committee which is based on five geographical areas; north, centre, west, south and east. The purpose of these committees is among other things to create an overall picture on the citizens' needs in each area. Helsingborg has an own audit office. The audit consists of two groups with elected representative auditors; these have divided the review of the committees between themselves. Each group is composed of seven regular auditors and three substitutes. Helsingborg is a member of Starev, a cooperation-authority for elected representative auditors in municipalities, county councils and regions with own audit offices⁹¹. We conducted interviews with the chairman of the municipal council, the vice chairman of the social committee and the chairman of the audit office.

4.1.2 Municipality of Falun

Falun is situated in Dalarna. The municipality has approximately 55 000 inhabitants and its surface area is 2052 square kilometres. The council in the municipality consists of 61 persons. There are eight regular committees below the council, apart from the municipal executive board; building, culture, election, environment, school, service, social, and traffic & leisure committee. All of these, except for the election committee have their own administration that looks after their tasks. The municipal audit consists of six auditors with the same number of substitutes⁹². We conducted interviews with the chairman of the municipal council, the chairman of the social committee and the chairman of the audit.

⁸⁹ www.helsingborg.se 2005-05-15

⁹⁰ www.sna.se 2005-05-15

⁹¹ www.starev.se 2005-05-15

⁹² www.falun.se 2005-05-15

4.1.3 Municipality of Essunga

Essunga has approximately 5700 inhabitants and is centrally situated in Västra Götaland⁹³. The municipality's surface area is 236 square metres⁹⁴ and Nossebro, with 2000 inhabitants, is the central community. The municipal council is composed of 35 members. There are two standing committees below the council, apart from the municipal executive board; culture- and leisure. There are also four committees; building & rescue, education, environment and social committee. The municipal audit consists of four members⁹⁵. We conducted interviews with the chairman of the municipal council, the vice chairman of the education committee and the chairman of the audit.

4.2 Compilation of the interviews

To make this part as straightforward as possible, we present the interviews on the basis of each respondent group. We start with the representatives from the municipal councils, followed by the ones from the committees and finally, the elected representative auditors.

4.2.1 Municipal councils

The following information is a presentation of the interviews with the chairmen from the municipal council in each municipality.

4.2.1.1 Helsingborg

The most important tasks included in the audit commission are to independently review the municipal activity and to point out problems and shortages in the organization. The audit is fulfilled to a necessary extent; the problem is instead a lack of knowledge among members of the council. They do not understand that the task is to survey, not to take actions.

The chairman is working together with the auditors on providing the members with the necessary information. The auditors' independence causes the recurring perception of the auditors as "secret", one of the factors that in turn contribute to the suspicion and to the misconceptions. However, the auditors are not able to perform their commission any other way. They *shall* be independent and they do not have the opportunity to be as open-minded as others within the activity.

The auditors inform voluntarily about their role, which is good and also a basic condition to avoid the knowledge problem. A standing point on the council's agenda has been introduced; "information from the auditors". This is a difficult problem to handle, since *too* much information can create discontent. The members may get the impression that the council thinks that the audit all of a sudden has become the only important part of the organization. This information problem is present in other municipalities as well, which has become clear in network gatherings.

⁹³ www.essunga.se 2005-05-15

⁹⁴ www.sna.se 2005-05-15

⁹⁵ www.essunga.se 2005-05-15

The communication between the chairman and the auditors functions well. The council presidium⁹⁶ and the auditors used to meet twice a year but nowadays they meet more often. There are more meetings about processes, not only about the delivery of reports. The members of the committees also have changed their attitudes; they have realized that it is possible to have an active, constructive dialogue with the auditors, which makes the auditors' advisory role more obvious.

When it comes to the elected representative auditors' competence, the political knowledge is of primary importance, but basic knowledge of economy is also desirable. As an elected representative auditor, you are not supposed to have all the economic knowledge, this is provided by the professional experts. It is impressive that the auditors obtain the purpose of independence even though they are politically active and well aware of their political party's opinions on the issues reviewed. The auditors can handle and separate their two tasks; the fact that they are members of the municipal council as well as independent auditors.

4.2.1.2 Falun

Two things are included in the audit commission; survey of money distribution and survey of the way decisions made in the council are implemented in the committees. The survey of money distribution shall provide the taxpayers with a clear view of how the political organization handles its task, which is to make sure the money is distributed in a good way. The survey of decision implementation shall make sure that the quality and the alignment of the implementation correspond to the decisions taken by the council. The auditors not only have a reviewing role but also work as advisors regarding alternative ways to perform activities.

The auditors work methodically on fulfilling their task to a necessary extent. The question is how the commission is perceived by the committees. It has not been understood that the auditors' knowledge can be used, that they can be seen as advisors. In many committees they are instead perceived as people who annoy, question and criticize. It is a sensitive issue in this municipality since the auditors point at the budget deficit each year, which naturally is their responsibility, but sometimes it creates discontent. The chairman of the audit was very active at the beginning of the term of office, he "stirred the pot" and created new ways to perform activities. It was very useful, but to some extent it created confusion and discontent, above all in the social committee. The problem is not the extent of the commission, instead the audit is sometimes perceived by the committees as too invasive.

It is important that everybody understands the auditors' role, especially what they are about to perform. You can say that the role is communicated to the council's presidium by meetings twice a year. The problem in the organization is not that the auditors are bad at informing about their role, instead there is a lack of understanding among the members of the council for what the auditors in fact are doing.

⁹⁶ A presidium is in the national encyclopaedia defined as "*the leading members of an organization or a public authority, in general the chairman and one or several vice chairmen*".

The communication between the auditors and the chairman of the council is excellent. As soon as something happens, the chairman of the audit provides the council with information about the event. According to the law, the auditors have the right to, continuously during the year, review any kind of commission that concerns them. With that, they have the opportunity to participate in the council's debate. They have not yet used this possibility, but there is a hope that they soon will. There is also a wish that the auditors should have a more informal participation, in order to improve the communication.

As laymen, the auditors do not need any special competence but an economic background is desirable in order to understand the economic information. The risk involved when auditors have very good political knowledge is that they will continue to think like active politicians in their role as auditors. They need to be careful and make sure that they separate their different roles. However, it is important that they understand how the political organization works. The chairman of the audit is very competent, and the other auditors also have a good knowledge of the tasks involved in their commission.

4.2.1.3 Essunga

The tasks included in the audit commission are to check the municipality's accounts and to make sure that the decisions made are carried out. Advising is also important; the auditors have to be able to make suggestions about measures that can be taken. Financial audit and performance audit are of equal importance. From the council's point of view, the commission is fulfilled to a necessary extent.

The council undoubtedly benefit from receiving information about the auditors' role. The auditors inform after they have handed in the annual report and provide the council with continuous reports. In general, the members' knowledge of the role needs to be improved. This arises from lack of interest; the political commission is rather seen as a leisure pursuit in a small municipality like this one. Thus, it is not the auditors who should further clarify their role. The council needs to accept responsibility by attending courses where the auditors' role is explained. This is important since the audit commission is becoming more and more extensive.

The communication between the council and the auditors is very good; well-functioning forms have been developed. The auditors report continuously about what they are up to at the moment. The council has the possibility to see them more often than only at the hand-in of the annual report. The communication is mainly performed directly between the chairman of the auditors and the chairman of the council, since the audit is placed directly below the council. There is no permanent audit point on the council's agenda.

The auditors' competence includes a good knowledge of economics, in order to understand budgets and other economic information. They should also be updated on news regarding the economic aspect. Knowledge of municipal activity is not a basic condition; instead the auditors gain this knowledge throughout the process. Political knowledge can be an advantage even though it is not a must.

4.2.1.4 Matrix of the questions answered by the municipal councils

| Questions | Municipal councils | | |
|---|---|---|--|
| | Helsingborg Chairman | Falun Chairman | Essunga Chairman |
| What tasks are included in the municipal audit commission? | Independently review the municipal activity and point out problems and shortages in the organization. | Survey of how taxpayers' money is distributed and survey of the way decisions made in the council are implemented in the committees. Not only review but also advise. | Check the municipality's accounts and make sure that the decisions made are carried out. Advising is also important. |
| Is the audit commission fulfilled to a necessary extent? | Yes. The audit is not in need of improvement; the problem is instead lack of knowledge among members of the council. | Yes. The problem is not the extent of the commission but the way the commission is perceived as too invasive by other members of the organization. | Yes. |
| In what way is the council informed about the auditors' role? | The chairman of the council and the chairman of the auditors work together on the issue of providing the members of the council with sufficient information. | Two meetings per year give both parties the opportunity to discuss important issues. The problem is lack of understanding of their role among the members of the council. | They inform them after the annual report and provide the council with continuous reports. In general, the members' knowledge of the role needs to be improved. |
| Is the continuous communication with the auditors satisfactory? | Yes. The communication between the chairman and the auditors functions well. | Yes. There is a very good dialogue. The chairman of the council is satisfied with the contact with the chairman of the audit. | Yes. There is a very good dialogue. The communication is mainly performed directly between the auditor and the chairman of the council. |
| What professional competence is most adequate for an elected representative auditor? | Political knowledge is of primary importance, but basic knowledge of economics is also desirable. Independence is highly important, something that is working satisfyingly. | No special knowledge but an economic background is desirable. Important to understand how the political organization works. | Good knowledge of economics. Knowledge of municipal activity is not a basic condition. The auditor gains this knowledge throughout the process. |

4.2.2 Committees

Here follows a presentation of the interviews with the representatives from the committees in each municipality.

4.2.2.1 Helsingborg

There are two main tasks involved in the audit commission; partly to survey the economy, partly (and of equal importance) to make sure that decisions made by the council are fulfilled in the committees. Earlier, the second part was not carried out completely, which is understandable since this municipality has changed its organization several times. Today it is easier, the transformation is completed and the auditors have a clear view of the situation.

The audit commission is now fulfilled to a necessary extent. All members of the organization, auditors as well as members of the committees, have found their role. The auditors are conscious about the way the organization works and cannot be “fooled”. They ask relevant questions and know what is necessary to review, due to their political knowledge. The audit reports provide information about the issues reviewed. The reports contain criticism, positive as well as negative. The criticism is very well founded, which makes it possible to push the work forward since the committee is informed about the issues it has to deal with. It is important that the report shows *why* the auditors are criticising certain things. It is good that someone is looking more closely at the underlying reasons why a variety of things look the way they do.

The auditors are very direct in their information about their role. They give clear criticism that shows that the coverage is functioning well. They have a good allocation between economic review and survey of how the decisions made by the council are fulfilled in the committees. The audit is a good link between these decisions and the task to make the decisions understandable in the committees. The auditors are good at dividing the big questions into comprehensible parts.

The communication works the way it should. Everyone involved knows what is expected of him or her. The communication is mainly performed through the audit reports which are discussed a few times during the year. Once a year, the auditors meet all the committees to do a follow-up and to discuss the most important questions. In these meetings all those involved in the audit are represented; laymen auditors as well as professional experts and the committee’s presidium.

Regarding the auditors’ competence, their political knowledge should be stressed. A politically competent auditor cannot be “fooled”. The professional experts provide the economic competence, and the two kinds of auditors complement each other. It is important that the auditors are politically active and have a long political career behind them.

4.2.2.2 Falun

The main tasks included in the audit commission are to make sure that activities are kept within the budget, and that the finances are handled in a good way. Another purpose is to review the quality of performed activities. The chairman of the audit has explained this role and clarified that the audit is an entirety that handles more than just review of accounts. This is good, because if the auditors know how activities are performed they understand why for example budget deficits exist. They then also understand why certain decisions are made in order to try to improve the situation. The committee has more or less become dependent on the advice provided by the auditors.

These days the audit is working well, the auditors fulfill the commission to a necessary extent. When the chairman of the social committee started her job she did not have this opinion. The perception at that time was that the auditors’ task was to make the committees feel “busted”. Now a lot of support is received from them and the dialogue functions well. However, the chairman is conscious of the fact that not all members of the

organization are satisfied with the way the auditors interfere in a large number of questions. Many people are annoyed and think the auditors interfere too much. Sometimes the chairman feels annoyed as well, for example, when the auditors say in the audit report that the committee has to keep the budget, even though they know that it is impossible, they know that further reductions cannot be made.

It is very important that the committee is informed about the auditors' role, that everybody knows what the auditors' assignment consists of. The chairman wants to know the current issues, what plans they have, etc. Their role is mainly communicated through e-mail and telephone conversations. At the beginning of this term of office they also provided all committees with general information about their role and assignment.

The communication with the auditors is good. The chairman of the social committee has their support which she considers safe, even though the auditors of course come up with criticism. There is open communication with the chairman of the audit. This shapes an unconstrained relationship. It is not only "here comes the auditor to check our accounts". This well-functioning communication does not only concern the relation to the chairman but to all the elected representative auditors and also the professional experts. When contact is made, direct response is provided. The committee meets the auditors at regular intervals, approximately three times a year, which is a bit more often than the other committees in the municipality. This is due to the problematic economic situation.

The auditors' competence involves economic as well as political competence, together with knowledge of how municipal activities work. All parts are equally important.

4.2.2.3 Essunga

The main task involved in the audit commission is to review the activities and check whether the money is used in an adequate way. These days the review is more detailed than it was earlier, it is no longer just about survey of accounts. The auditors shall not give concrete advice and suggestions; the committees are the ones who have to take action on the problems pointed out by the auditors. The audit is fulfilled to a necessary extent, especially considering the fact that the auditors are supported by professional experts. In the vice chairman's opinion, every person working in this municipality knows the meaning of the auditors' role.

The committee benefits from receiving information about the auditors' role. If the committee knows their standpoint in certain questions, the collaboration works better. There is no general information about the role at the beginning of the term of office. It is possible that the persons recently involved in municipal activity receive a kind of general information, but not the ones who have been involved for a long time, since these persons already know what the auditors do. The auditors continuously have meetings with the committees. Some years they are more thorough in their review of certain committees.

The communication with the auditors is good. The communication consists of continuous meetings with the auditors, approximately three or four times a year, and there is also the possibility to contact them when necessary.

Regarding the auditors' competence, economic knowledge is important to be able to review whether the money is used in the most efficient way possible. Political knowledge is also desirable, as well as knowledge of municipal activities.

4.2.2.4 Matrix of the questions answered by the committees

| Questions | Committees | | |
|---|--|---|---|
| | Helsingborg Vice Chairman Social Committee | Falun Chairman Social Committee | Essunga Vice Chairman Education Committee |
| What tasks are included in the municipal audit commission? | There are two main aspects; partly to survey the finances, partly (and of equal importance) to make sure that decisions made by the council are fulfilled in the committees. | The main purpose is to make sure that activities are kept within the budget. The other purpose is to review the quality of performed activities. The committee has become dependent on the advice provided by the auditors. | Survey the activity and make sure that the money provided is used in the best way possible. Hence, the review includes more aspects than just accounts. The auditors do not give concrete advice, only point to problems and shortages. |
| Is the audit commission fulfilled to a necessary extent? | Yes. The auditors ask relevant questions and know what is necessary to review. | Yes. The auditors provide the support needed. However, not all members of the organization are satisfied with the way auditors interfere in a large number of questions. | Yes. The audit is working well. |
| In what way are the committees informed about the auditors' role? | Audit reports provide most of the necessary information. The auditors are very clear in presenting their role and they give adequate criticism. | Mainly by e-mail and telephone. In the beginning of the term of office they also provided general information about their role and assignment. | There is no general information about their role at the beginning of the term of office. But the auditors continuously have meetings with the committees. All members of the organization are conscious of the role of the auditors. |
| Is the continuous communication with the auditors satisfactory? | Yes, it works the way it should. Everyone involved knows what is expected of them. | Yes. The dialogue is good and there is open two-way communication. | Yes. The communication consists of continuous meetings with the auditors and there is also the possibility to contact them when necessary. |
| What professional competence is most adequate for an elected representative auditor? | The political knowledge should be stressed, a politically informed auditor cannot be "fooled". The economic competence is provided by the professional experts. | Economic as well as political competence together with knowledge of how municipal activities work. All parts are equally important. | Economic competence is important in order to be able to review whether the money is used in the most efficient way possible. Political knowledge is also desirable, as well as knowledge of municipal activities. |

4.2.3 Elected representative auditors

This is a presentation of the interviews with the representatives from the audit in each municipality.

4.2.3.1 Helsingborg

The tasks included in the audit commission are regulated in the municipal law. The auditors survey yearly all municipal activity. The main issue is to survey that the activities are carried out in the way the council and the committees have decided. Review of the internal control is an assignment that has high priority and importance. The internal control needs to be good enough to assure that the auditors only need to ensure that it is performed according to the existing policies and regulations. The auditors must *examine* the internal control, not *perform* it. If the control performed by the committees does not live up to the demands, the auditors should point out the shortages and make sure that improvements are made.

The task is fulfilled to a necessary extent according to the code of audit practice and with good quality. The elected representative auditors have good interaction with the professional experts, a collaboration that brings about a fulfilled commission. Together they form an audit plan and then work on the basis of this plan.

There is a lack of knowledge about the auditors' role; hence the chairman of the audit believes that they have a certain duty to inform individuals about their role. During recent years the auditors and the council have worked together on building a "bank of knowledge" in the committees as well as in the council. The auditors meet all committees' presidiums twice a year, where they go through different parts. They also have discussions about the activities, about the budget and about the internal control. The auditors try to explain that it is the committees' own task to see that the internal control works. Open discussions result in the possibility to establish well-functioning cooperation. All members of the committees should have better knowledge on what the audit really is about.

Many persons think that the auditors' only duty is to control that the accounts are correct. It is clear that more information is needed, but still, a certain level has been reached. The chairman is particularly satisfied with the collaboration with the chairman of the council. A new point on the council's agenda is introduced; "Information from the auditors". There are also suggestions for developing this further. A question often discussed is whether the auditors should be members of the council or not. The chairman of the auditors is a member herself and her opinion is that it is an asset to the organization. Yet, a basic condition is that the independence is maintained and that different roles are not confused.

The communication is never so good that it cannot be better. As an auditor, you want everybody to know about the code of audit practice and about the ninth chapter in the Local Government Act. However, this is kind of a utopia. Despite the fact that many members have been politically active for several years, they think that the auditors are "policemen" whose purposes are to catch criminals and to detect fraud. The fact that

many members of the council, who in fact are the assigners of the audit commission, do not know what the commission involves is a major problem. There have been comments like “we cannot approve your audit report”; they have not understood that the report is already approved by the elected representative auditors after consultation with the professional experts, and that the members only are to use the reports as a foundation for the decision about granting discharge or not. This is one of the reasons why it is positive when the auditors also are members of the council. The communication has become better in recent years. The auditors have learned that they have to clarify the role every year and come up with continuous information all the time.

The most important competence that an elected representative auditor must have is knowledge of municipal activity. The political competence is important, as long as the auditor knows how to separate the role as an active politician from the role as an independent auditor. Economic competence is not necessary since professional experts provide these skills; the basic knowledge is enough for the elected representatives. The chairman of the audit stresses the importance of the system with elected representative auditors; without the political knowledge a good democratic process cannot be secured.

4.2.3.2 Falun

The audit commission is complex. The tasks roughly concern what the law regulates, which is a review of purpose adequacy and efficiency. The concrete adequacy and efficiency shall be performed by the committees. It is important to point out that auditors have an individual audit responsibility. A review of activities is of primary importance, a survey of accounts is secondary. In addition, the auditors also have a role as advisors.

On the question of whether the commission is fulfilled to a necessary extent, the chairman’s answer is both yes and no. Since a review of all activities now is regulated to be performed every year, the auditors are having difficulties to fully perform their task. The review is often too shallow, the chairman would prefer deeper analyses. Naturally this is a question of economic resources. Given the circumstances, the audit is nevertheless functioning at a decent level. In general, the quality of the reviews performed in Swedish municipalities depends on the attitude among the auditors; it has to be in their interest to do a good job.

If the members of the committees are aware of the auditors’ role, it is easier to carry out a good review. The general perception used to be completely wrong. People believed that the auditors were “secret” people that just showed up with the audit report once a year. Another common misconception is that they work in the same way as a regular committee. This is wrong; instead they are working independently. Because of all these misconceptions, the chairman held a one-day course about the role of the auditors last year. This resulted in very positive reactions, mainly due to the fact that it is possible to, during the year, have a dialogue with the auditors.

The chairman of the auditors is very satisfied with the communication, and particularly with the very positive attitude that the chairman of the council has towards the audit. The impression of the auditor is that this is not the general opinion in Sweden. The auditors

have meetings with the council at least twice a year and apart from that, they have a continuous dialogue. It is also interesting that the council has a positive attitude towards the proposal to have a permanent point on the council's agenda for the auditors. The auditor hopes to get the opportunity to report about actualities in order to create a dialogue. Normally they see the committees once a year but in problematic situations the meetings become more frequent. In some cases there have occurred controversies but these have resulted in positive discussions and development of the auditors' role as advisors.

When it comes to the competence of the auditors, comprehension for the municipal environment is a prerequisite. The chairman of the audit stresses that the profession of the auditors is not important; the most basic knowledge that they need to possess is the one that concerns municipal activity. The economic knowledge is of a secondary nature since the professional experts handle this aspect.

4.2.3.3 Essunga

There are several tasks included in the municipal audit commission. Many people think that the auditors only check how much money has been spent. Instead the primary issue is the performance audit. The purpose is simply to check what is obtained using the money provided. The auditors visit the committees themselves in order to see the activities performed with their own eyes, which is not the case in bigger municipalities. The close collaboration provides the auditors with information about aspects that need to be reviewed more thoroughly. The auditors also question the decisions made by the council and the committees, and work as advisors. However, it is important not to give advice that is too broad. When reviewing the activities you do not want to have to criticize something that you suggested in the first place.

A few years ago it was decided that the review of *all* activities was to be performed once a year, not within the term of office. This is in part a question of resources, but thanks to the small size of this municipality, the audit commission is fulfilled to a necessary extent. The chairman of the audit feels comfortable when he hands in the audit report. If something is incorrect it will be revealed within a short period of time.

Directly after a new election, the auditors explain their role by presenting themselves. The second year, they more thoroughly examine the plan for internal control. Often the committees think that the auditors are the ones who should establish this plan but the task is to be performed by the committees. The task of the auditors is only to check that it gets done. The members of the council do not have sufficient knowledge about the auditors' role. Many people are surprised by the fact that the auditors are working to a large extent with performance audits. The way the auditors are perceived has changed a lot during recent years. This is due to the fact that the auditors now are "out in the activity" more often and that they have become better at showing who they are.

The communication has in general become more open. There have been discussions about the possibility to adopt a permanent point on the council's agenda for the auditors but the chairman is a bit doubtful about this. The auditors are working very actively

during a certain part of the year but it may be seen as strange not to have anything to present during the rest of the year. This may strike back at the audit. Yet there is the possibility to come to the council's meetings whenever the auditors would like to. The auditors have meetings with the committees at least once a year. Meetings with the council take place after the development of the audit plan, which is then discussed to a satisfactory extent.

Regarding the auditors' competence, a general interest for the society and the social services is of primary importance. The auditors need to take an active interest in the activities and to be curious and questioning. Financial knowledge is an advantage.

4.2.3.4 Matrix of the questions answered by the auditors

| Questions | Auditors | | |
|--|--|--|--|
| | Helsingborg Chairman of the Audit | Falun Chairman of the Audit | Essunga Chairman of the Audit |
| What tasks are included in the municipal audit commission? | The task is regulated by the municipal law. The main issue is to survey that activities are carried out in the way the council has decided. Review of the internal control has high priority and importance. | Roughly what the law regulates; review of purpose adequacy and efficiency. Review of activities is of primary importance, survey of accounts is secondary. The auditors also have a role as advisors. | The primary issue is the audit of administrations; review of the committees' internal control, their management – what is obtained using the money provided? The professional experts perform the audit of accounts. |
| Is the audit commission fulfilled to a necessary extent? | Yes, the municipal auditors have good interaction with the professional experts, a collaboration which brings about a satisfied commission. | Both yes and no. Since review of all activities now is regulated to be performed every year, the auditors are having some difficulties. | Thanks to the small size of our municipality, the audit commission is fulfilled and the auditors have a good grasp of the situation. |
| In what way are the council and the committees informed about the auditors' role? | The collaboration with the chairman of the council is a positive relation that helps communicating the auditors' role. More actions will be taken since the members' knowledge about the role is still insufficient. | Last year, the chairman of the audit held a one-day course about the role of the auditor. This resulted in better understanding of the role among the members of the organization. | Directly after a new election, the auditors present themselves; who they are and what they do. The members of the council do not have sufficient knowledge about the auditors' role, but efforts are made to improve this. |
| Is the continuous communication with the council and the committees satisfying? | The communication is never so good that it cannot be improved. The best situation would be perfect knowledge among all members, and the auditors have the main responsibility for the striving towards this goal. | Yes. The chairman of the council has a very positive attitude towards the audit, which has resulted in good communication. In the committees they also now understand the importance of communication. | Yes. The audit has in general become more open. We have meetings with the committees at least once a year. Meetings with the council take place after the development of the audit plan, which is then discussed to a satisfactory extent. |
| What professional competence is most appropriate for an elected representative auditor? | The most important competence is knowledge of municipal activity. Economic competence is not necessary. | Comprehension of the municipal environment is primary; interest, talent for and experience of municipal activity. Economic knowledge is of a secondary nature. | A general interest in society is of primary importance. The auditors need to be curious and questioning. Knowledge of economy is an advantage. |

5. Analysis

In this chapter we analyze the research described in the empirical research. We draw parallels between the different answers provided by the interviewees as well as parallels between the empirical research and the frame of references. We have chosen to base the analysis on the fundamental aspects presented in the summary of the frame of references.

5.1 The auditors' tasks

All respondents have understood the basic tasks involved in the audit; review of accounts and review of activities, formally expressed as financial audit and performance audit. The auditors all think that the performance audit is the primary issue, and that the financial audit is of secondary importance and something that in a larger extent can be performed by the professional experts. The legislators have also pointed out this aspect, that the performance audit becomes more and more important, when making the decision that *all* activities shall be reviewed each year, not within one term of office. With respect to the frame of references, the fact that all respondents have understood the basic tasks of the audit commission is to be seen as evidence that no expectations gap has occurred regarding this aspect. Chye Koh and Woo say that the expectations gap arises from a combination of excessive expectations and insufficient performance. Therefore we believe, using the term explained by Ojasalo, that the expectations regarding the tasks are realistic. Furthermore, the auditors' performance of the basic tasks can be seen as sufficient, due to the absence of an expectations gap.

An issue discussed is the auditors' role as advisors to the committees. As mentioned in the frame of references, the auditors have the opportunity to make use of their right to take initiative as a part of the improvement of the performed activity. It seems that the advisory audit is rather well-known since six of the interviewees mentioned it. However, their opinions in the matter are different. The perception of this aspect differs between the municipalities, as well as between those involved in the same municipality. In the small municipality, there are certain contradictions; to neither the auditor nor the committee representative the auditors' role as advisors is very important. However, the chairman of the council expresses a clear perception of advising as a task included in the audit commission. All the persons interviewed in one of the other municipalities are of the opinion that the auditors' role as advisors is important and positive to everyone involved. These opinions have also been expressed in the frame of references where Eklund and Jonsson as well as Björkström et al explain that the clients expect the auditor to work as an advisor and that the auditor is seen as a valuable resource in making the management easier. In the third municipality, the issue has not been discussed to the same extent.

In our frame of references, we point to internal control as an issue that creates several difficulties; it is not unusual that the committees are not completely aware of their responsibility for this control and what this responsibility concretely involves. Chye Koh and Woo mention that the expectations of the extent of auditors' responsibility often differ, due to the belief that the auditors shall detect, for example, illegal acts, not only review how the internal control is performed. Similarly, Porter points to the fact that people often expect the auditors' responsibility to be a lot broader than it actually is. This

corresponds to our empirical research, since two of the auditors discuss the same issue. According to them, the common misconception among the committees is that the auditors are supposed to *perform* the internal control. The expectations gap involves the fact that this performance is not included in the auditors' task; the commission is only to *try* the internal control.

5.2 Fulfilment of the audit commission

All the interviewees believe that the commission is fulfilled in a satisfying way. However, with the regulation that the auditors every year shall, in the extent that is prescribed as the code of audit practice, review all the activities that are pursued within the committees' areas of activity, two of the auditors point out that this extensive review is a question of resources. The auditor in Falun says that given the circumstances, they manage to "...*perform a decent review*", while the auditor in Essunga says they can manage the task to a satisfactory extent due to the small size of the municipality.

In one of the municipalities, the audit is in a way perceived as *too* active, since many people are annoyed with the way the auditors interfere in a large number of areas. The question can be discussed using Ojasalo's terms of realistic expectations: Who should decide about the level of the audit and set the limits for when expectations cease to be realistic; the auditors or the committees? On the basis of what is regulated, it may be assumed that this limit is to be set by the auditors when they make their essentiality- and risk analysis.

5.3 Information provided about the auditors' role

According to the publication *Fullmäktige och revisionen*, the auditors have a significant part of the responsibility when it comes to providing the committees with necessary information about their role. Applying Hubbert et al in this context, the level of satisfaction is likely to be low when the auditor fails to provide the committees with sufficient information on the benefits included in the role. In order to clarify benefits, it may be helpful for the auditor to mention potentially hidden services in the information distributed to the committees. The auditors' role as advisors is an example of such a benefit. It has to be understood that the knowledge of the auditors can be used.

The auditors we have interviewed believe they fulfill the obligation to provide information; in one of the municipalities the auditors work together with the council presidium on different ways to provide the members with the necessary information through hand-outs, meetings et cetera. In another municipality, the chairman of the audit has had an information day that changed the common attitude towards the auditors' role in a positive way. In the last municipality, there is a difference in perception regarding the information provided by the auditors. The chairman of the audit says that they give general information about their role after every election, while the representative from the committee says that there is no general information at the beginning of every term of office. This is particularly remarkable since the representative is a member of the committee's presidium, and therefore should be well-informed. However, this can of course be a result of indistinct explanations from the auditors. The same representative from the committee also believes that there is no need for further information, that

everybody knows what the audit is about. On the other hand the chairman of the audit mentions that the committees sometimes misunderstand the purpose of the audit. In this context, Sikka et al claim that at the heart of the expectations gap there is a difference in perception of the purpose of the audit, about its nature, practice and/or outcomes.

In general, the auditors and the representatives from the committees believe the knowledge has improved significantly during recent years. The chairmen of the councils all believe that the information provided to them personally is sufficient, but that the main problem is a lack of interest among the members. The auditor of the small municipality points to the organization as a reason for this problem; when people are involved in politics only in their spare time, they tend to ignore issues they are not personally interested in. However, we believe that lack of interest is not to be seen as an excuse. One of the auditors points to the fact that many members of the council, who in fact are the assigners of the audit commission, do not know what the commission involves. That is a large problem and an issue that requires further actions. Ojasalo's concept of fuzzy expectations explains this issue. In this context the problem is that the members do not take enough interest in the audit to understand what to expect from it. When the auditors provide information about their role, they make an effort to focus the expectations, in order to make them less fuzzy. In addition, the information provided must be enough to erase the client's unrealistic expectations. Client satisfaction can only be obtained when the expectations are realistic.

As mentioned in the frame of references, there is a suggestion to introduce the audit as a standing point on the council's agenda. This proposal has been discussed in all the municipalities involved in our empirical research, and so far it has been adopted in the biggest one of them. However, the chairman of this council says that they need to be careful not to provide *too* much information, since this may cause discontent and the belief that the audit is the only thing that matters these days. In the small municipality, the situation is reversed. The auditor thinks that a permanent point on the agenda can strike back at the auditors, since they will have more information during hectic periods and it therefore "*...will be seen as strange that we do not have anything to present during the rest of the year*". In bigger municipalities this problem does not occur since the review of the activities is in progress throughout the entire year. In the third municipality the council and the audit agree on the proposal as a positive issue that should be adopted as soon as possible.

5.4 The continuous communication

All the interviewed representatives from the councils and the committees have a good opinion of their personal communication with the auditors and believe that they are working together on informing the members. They think the dialogue is working at a good level, not too formal but correct and with a good level of constructive criticism. The auditors are also satisfied with the communication. They say that it has become better and more open during recent years. This may be due to the fact that publications that treat this area of communication, such as *Fullmäktige och revisionen* and *God revisionsd i kommunal verksamhet*, recently have been handed out. The inquiry SOU 2004:107 also

explain the importance of a well-functioning communication in the municipal organization.

The open communication is an important part of Ojasalo's model, explained in the area of implicit and explicit expectations. In the communication with the auditor, the client often realizes that there are certain aspects that he has perceived as obvious, but later turn out not to be a part of the service from the auditors' point of view. This is when the implicit expectation becomes explicit. The client needs to discuss his perception with the auditor, otherwise the situation cannot improve and the communication will continue to be poor. Eklund and Jonsson believe that apart from insufficient knowledge, a lack of continuous communication is the main reason why the expectations gap exists.

5.5 Elected representative auditors' competence

As mentioned in the frame of references, there are no special requirements for elected representative auditors to be elected, apart from having a political and civil support as a basis for their commission. In one of the municipalities neither the chairman of the council nor the representative from the committees has fully understood this. They both believe that the economic knowledge shall be the primary, and the chairman of the council even believes that former knowledge of municipal activity is not important; instead "*...the auditors gain this knowledge throughout the audit process*". The persons from the councils and committees in the other municipalities all have a more correct perception. In one of them, both interviewees have clearly perceived the primary nature of knowledge about municipal activity, whilst in the other municipality, the two interviewees believe that economic and political knowledge should be of equal importance. The law points out that the elected auditors need to be assisted by professional experts, in order to secure a correct economic perspective of the commission. All the interviewed auditors are aware of this confirmation and share the opinion that this is the best way to perform the municipal audit. They all believe that economic knowledge is of a secondary nature and that the professionals provide them with the expertise they need.

6. Discussion and conclusion

In this final chapter, we start with discussing certain interesting issues that have occurred in the empirical research as well as in the analysis. Then we present an answer to our problem formulation and to conclude, we give suggestions for further research.

6.1 Discussion

There are some main areas brought up in the analysis that we believe involve certain perceptions that can be seen as indicators of an expectations gap. Thus, we want to further discuss the three areas *internal control*, *the audit as a permanent point on the council's agenda* and *positive audit*. Many of the factors studied in our thesis are affected by the interviewees' personal perception. Therefore we cannot draw any general conclusions in this discussion. However, we hope that we have pointed to certain important tendencies.

The way the *internal control* should be performed is one of these areas. The meaning of internal control is to internally perform the control within the committees. As mentioned earlier, the audit commission is only to examine the internal control. The auditors are well aware of this wrongful perception and are working on providing the committees with information about their role in this matter. Perhaps actions ought to be taken on a higher level in the organization, in order to help the auditors in their struggle towards diminishing this gap.

The suggestion to adopt the audit as a *permanent point on the council's agenda* is perceived differently in the municipalities. In one of them, the lack of knowledge among the members of the council is seen as one of the most important issues to be solved in order to fulfill the audit commission. Therefore, this municipality has adopted the suggestion and now has the audit on the agenda. This is one of the actions taken in their struggle to give sufficient information on the auditors' role. Regarding this subject, we have perceived an important difference between large and small municipalities. In the municipality described above, which is large, the present concern is whether the information can be too overwhelming, whilst the auditor in the small municipality does not want to adopt this suggestion since he is concerned they may not have enough information to provide throughout the year. These different perceptions lead us to the conclusion that it is recommended to keep this issue as a suggestion and not turn it into an obligation. The issue needs to be further discussed in all municipalities as well as in the higher instances, since we believe it is a good way to provide better information on the role of the audit.

The third area involves the discussions about the auditors' role as advisors, referred to as *positive audit*. A problem arises when the opinions differ within a municipality since there is a need for consequent applications of this task. As our research has shown, the small municipality is an example of this difference. The chairman of the council believes the auditors should give concrete advice on actions that can be taken in order to improve the organization. The auditor on the other hand, is concerned that the audit may have to

criticize the implementation of their own suggestions. However, since the role as advisors mainly concerns the committees, the difference between the auditor and the council is less severe than would have been the case if the difference had occurred between the auditor and the committee representative. Nevertheless, we believe more extensive discussion is needed at all levels of the organization, since a consequent use of this issue is necessary in order to decide on the extent of this part of the audit commission. If the information on the advisory aspect is insufficient, the auditors work can be perceived with discontent.

6.2 Conclusion

Our problem formulation involves the relationship between the auditors and the council as well as between the auditors and the committees. We find that our conclusion is applicable to both relationships to the same extent.

The expectations gap in the municipal sector is modest. Despite the areas mentioned above, the comprehension of the audit commission is in general to be seen as good, at least regarding the presidiums of the councils and committees. The problem seems to be to provide the *members* of the councils and committees with necessary information; their expectations are to some extent unrealistic due to lack of knowledge. The reason for this lack of knowledge is that the members seem to have neither the time nor the interest necessary to be able to provide themselves with information about the audit. The auditors should not be perceived as responsible for this gap; the presidiums work together with the auditors on trying to provide the members with sufficient information. The question is whether the actions taken are enough to decrease this problem; we believe that this issue needs to be further discussed. However, there have been some main improvements during recent years; the common opinion is that the audit commission as well as the information about it has improved over time. The auditors specifically mention the active role of the Swedish Association of Local Authorities and Regions as one of the reasons for this positive development.

6.3 Suggestions for further research

Beside the purpose to discover possible expectations gaps, another interesting discussion on the management of municipal audit has occurred in the interviews. As one of the auditors points out, the system with elected representative auditors ensures a good democratic process. Discontent has been expressed regarding the change of Komrev; the auditors we have interviewed believe that the former system was better, they feel that it was a mistake to make this organization a part of a large audit firm. There is a concern that the municipal audit may be transferred into a commission that is performed only by professional auditors. Those involved fear that the perception of the audit should take a step backwards if the auditors involved no longer have the necessary knowledge about municipal activity. Therefore, one of our suggestions for further research is to conduct a survey among the Swedish municipalities in order to discover the general attitude towards an audit only performed by professionals.

It could also be of interest to study how the municipal audit is perceived by the public and hence discover a possible expectations gap regarding that relation. This aspect is

particularly interesting since the municipal audit commission involves paying attention to the interests of the citizens of the municipality and seeing that their money is used in the most efficient way possible. Finally, we suggest a larger survey on the subject in our thesis, to be able to draw more generally applicable conclusions.

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Chairman of the audit, Falun, 2005-05-10

Chairman of the audit, Essunga, 2005-05-13

Appendix 1

Interview guide in Swedish

Frågor till kommunfullmäktige och representanter från nämnder

- Vad anser du ingår i det kommunala revisionsuppdraget? Anser du att revisionsuppdraget uppfylls till alla delar du anser ska ingå? Vad skulle kunna bli bättre?
- Anser du att ni betjänas av om de förtroendevalda revisorerna informerar er om deras arbete? Varför/varför inte? På vilket sätt tydliggörs/förmedlas deras roll till er?
- Anser du att den under året löpande kommunikationen med revisorerna är tillfredsställande? Hur sker denna kommunikation?
- Vilken kompetens anser du att en förtroendevald revisor bör besitta?

Frågor till förtroendevalda revisorer

- Vad anser du ingår i det kommunala revisionsuppdraget? Anser du att ni revisorer uppfyller uppdraget fullt ut? Vad skulle kunna bli bättre?
- Anser du att det är viktigt att fullmäktige och nämnder har kunskap om vilka era arbetsuppgifter är? Hur tydliggörs er roll gentemot fullmäktige och nämnder, dvs. hur förmedlas kunskap om era arbetsuppgifter?
- Anser du att den under året löpande kommunikationen med fullmäktige och nämnder är tillfredsställande? Hur sker denna kommunikation?
- Vilken kompetens anser du att en förtroendevald revisor bör besitta?

Appendix 2

Interview guide in English

Questions to the representatives from the municipal council and from the committees:

- What do you consider is involved in the municipal audit commission? Do you think the audit commission fulfils to all requirements you consider it to involve? What parts could be improved?
- Do you consider your organization to benefit from information from the elected representative auditors about their work? Why/why not? In what way is their role conveyed to you?
- Do you consider the continuous communication during the year to be satisfying? How does this communication take place?
- What competence do you consider most important for an elected representative auditor to possess?

Questions to the elected representative auditors:

- What do you consider is involved in the municipal audit commission? Do you believe that you fulfil this commission completely? What parts could be improved?
- Do you consider it important that the municipal council and the committees have knowledge about your tasks? How is your role conveyed to the council and the committees?
- Do you consider the continuous communication during the year to be satisfying? How does this communication take place?
- What competence do you consider most important for an elected representative auditor to possess?