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The Local Government Audit

a study of the effects expected from the new legislation
Healthy Finances

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Preface

This bachelor thesis in Accounting and Financing was written at the School of Economics and Commercial Law at Göteborg University, Sweden.

We wish to thank everyone who helped us in some way with our thesis.

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Abstract

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Title: The local government audit – a study of the effects expected from the new legislation Healthy Finances

Background and problem: The Swedish municipalities and county councils have from the beginning of the 1990s been burdened with extensive financial problems. As a result of the municipalities and county councils poor financial situation and failure to handle the effects of the deteriorating economical conditions, new firmer rules and regulations were established. As of the fiscal year of 2005 the municipalities are required to not only strive for fiscal balance, but to focus more on the requirement Healthy Finances. The local government auditing is an important part of the democratic system and the authors believe this matter is of high importance and worth studying.

Purpose: The purpose of this thesis is to survey what affects the new legislation Healthy Finances will have on the local government auditors' audit work when it comes to the day-to-day work, the work with budgets and forecasts, the work with annual and interim reports and the role of the local government auditor.

Delimitation: In this thesis four municipalities in the western part of Sweden are investigated. Only chairmen and vice chairmen of the auditors in the investigated municipalities are included in the study. Since the study cannot examine every aspect of the legislation, the authors have therefore chosen only to examine the audit work of the local government auditors affected by the legislation.

Methodology: This thesis is based on a hermeneutic approach and is a qualitative study based on personal interviews using a questionnaire.

Results and conclusion: The local government auditors expect the new legislation to mean a deeper involvement in the day-to-day work, with an increase of the auditing and a need for improved communication. The role of the local government auditor will be strengthened as a result of the new legislation. The new legislation will also increase the involvement in the audit of the annual reports as well as a harmonization of the work process between municipalities regarding the work with interim reports.

Suggestions for further research: Suggestions for future studies would be to, in one or two years from now, carry out a research similar to the one carried out by the authors of this thesis. The object would be to investigate the actual effects of the new legislation Healthy Finances and compare them with the expectations surveyed in this thesis.



Word List

English

Assembly
Assembly drafting committee
Certified accountant
Committee
County council
Government bill
Healthy finances
Local Government Act
Local Government Auditing Act
Local government auditor
Municipal executive board
Municipality

Swedish

Kommunfullmäktige
Utskott
Auktoriserad revisor
Nämnd
Landsting
Proposition
God Ekonomisk Hushållning
Kommunallagen
Kommunala redovisningslagen
Kommunal revisor
Kommunstyrelse
Kommun



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1 Introduction

In this chapter the authors will present an introduction to the subject Local Government Auditing and the reason why this subject is an interesting and relevant object of research. The authors will also define the delimitations and give an explanation of the disposition of the thesis. The purpose of this chapter is to present a basis for the research.

1.1 Background

Since the beginning of the 1970s the municipalities and county councils in Sweden have undergone immense changes. The development has gone from a pure political government to a more complex governance, coordination and implementation structure (Björk, Bostedt & Johansson, 2003). As one part of these changes several new review systems have been implemented. For instance, the auditing, evaluation and quality measures have increased in the recent decades. Although these measures have been implemented, the view of the local government operations has not been adequate (Almqvist, Hanberger & Sköllerhorn, 2004).

The Swedish municipalities and county councils have from the beginning of the 1990s been burdened with extensive financial problems. These problems arose first and foremost from an inability to adapt the organizations to deteriorating financial conditions, caused by the economical crisis in the first years at the turn of the decade. The crisis led to a five percent fall in GNP and both tax revenues and government grants decreased for a number of years. As the municipal sectors tax revenues diminished, the government restricted the possibilities for compensating the loss of income using raised taxes (Government bill¹ 2003/04:105).

As a result of the municipalities' and county councils' poor financial situation and failure to handle the effects of the deteriorating economical conditions, in spite of numerous measures, new firmer rules and regulations were established. In 1998 the Swedish Local Government Accounting Act was introduced, followed by a requirement of a balanced budget, *fiscal balance*, which came in effect in 2000 (Gov. bill 2003/04:105).

The economical situation of the municipalities improved at the start of the century, even though almost forty percent of the municipalities were unable to meet the fiscal balance requirement. An increase in consumer spending and increased tax revenues led to positive results in total for the municipalities between the years 2000-2003. The government contributed the positive economical development in the municipalities to the introduction and establishment of the fiscal balance requirement (Gov. bill 2003/04:105).

As of the fiscal year of 2005 the municipalities are required to not only strive for fiscal balance, but to focus more on the requirement Healthy Finances. The Healthy Finances requirement was first introduced in 1991 as a reaction to the municipalities' poor economic situation (Gov. bill 2003/04:105).

¹ Government bill will be abbreviated into Gov. Bill for the remainder of the thesis

The regulation Healthy Finances has never been clearly defined as the government estimated it to be neither meaningful nor possible to clearly define the regulation. In short, the meaning of the regulation stipulates that the municipality should not exhaust its capital used for fixed costs or finance operating costs with loans. An accepted meaning of the term Healthy Finances is that the revenues should exceed the costs (www.skl.se).

1.2 Problem Discussion

One of the most important instruments for the audit of the local government is the local government audit, which function is to be a democratic control instrument. Unfortunately the knowledge of how this instrument works in reality is limited. In order to establish whether or not the local government audit is functioning properly or if a change is necessary, it is vital to create an understanding of how the work is carried out in reality. In the past there has been limited research concerning this subject, with the exception of Olle Lundins *Kommunal revision – en rättslig analys* (1999), which is the most comprehensive study on the subject. There have been very few researches regarding the independence and credibility of the local government auditors (Almqvist, Hanberger & Sköllerhorn, 2004).

However, the Swedish Association of Local Authorities and Regions has sponsored a research carried out by the Umeå Centre for Evaluation Research. The study showed what is audited in the Swedish municipalities (*Vad granskas i kommunal revision? – en studie av revisionsrapporter i fyra kommuner 1995-2002*). This research was published in 2004 and was the first comprehensive study since Lundins study, which focused on the legal aspects of the audit. The fact that the Swedish Association of Local Authorities and Regions are sponsoring research in this field indicates that it is an important subject worth conducting research in.

The Swedish municipalities have since the introduction of the fiscal balance requirement in 2000, to a larger extent focused their attention on this regulation than on the requirements concerning Healthy Finances. Beginning 2005 the government introduced additional requirements regarding the municipalities' healthy finances. In the Activity Plan the municipalities have to specify significant goals and guidelines, financial and operational, concerning Healthy Finances. The municipal auditor evaluates the goals and guidelines in order to verify whether the goals have been reached or not. The result of the evaluation is presented in the Directors' Report of the municipalities' Annual Report (www.skl.se).

The local government auditing is an important part of the democratic system as the auditors are elected and appointed by the assembly. The auditing aims among other things to give the assembly basic data for decision-making regarding liability issues. The assignment of the elected auditors is to review how the municipalities' finances are handled and if the internal control of boards and committees is sufficient (Gov. bill 2003/04:105).

Another important topic concerning the local government auditors as a democratic control instrument is their task to review if the households receive adequate municipal service in relation to the taxes and fees paid (Lindbeck et al).

The government believes that in the long run these new requirements in the Local Government Act will have a positive effect on the municipalities' economy and thus on the economy in general. This new requirement involves further reviews and assessments from the auditor, which means that the general public will have a better view of the municipal economy (Gov. bill 2003/04:105).

In the coming years we are faced with an escalating number of elderly people, who requires rising government efforts in, for example, healthcare. Along with the fact that the municipal pension payments will increase, this puts the municipal and county councils resources under pressure and great financial straits. In order to meet these growing demands it is essential that the municipals and county councils are well prepared by focusing on healthy finances in both the long term as well as in the short term (Gov. bill 2003/04:105).

During the authors' initial research phase they found a lot of information about the new legislation concerning Healthy Finances. They did however find a lack of information about what the local government auditors' thought about this new legislation and what repercussions this legislation might have on the municipalities. The authors believe this matter is of high importance because if this new legislation is to have any effect on the economy of the municipalities, it is vital that the parties involved believe that the legislation is useful in achieving positive results.

As the legislation Healthy Finances will lead to changes in the work of the local government auditor, the authors find it important to view the different aspects of institutional change. Siverbo describes in the study *Organisationskultur för framgångsrika kommuner. En studie av Munkdal, Sotenäs, Strömstad och Tanum*, various concepts to help to explain how institutions handle change. The model uses qualities as reciprocity, co-operation and confidence to explain the organizations ability to handle changed conditions (Siverbo, 2004).

It has not yet been established how the local government auditors view this new regulation and their thoughts and expectations of the effects of the new legislation on their work as local government auditors.

As the authors find the work of the local government auditor to be somewhat comprehensive, they have decided to focus their attention to specific tasks in the work of the local government auditors. The authors believe that the most important aspects of the work of the local government auditor is the work with the financial reports, their involvement in the budget and forecast process as well as the day-to-day work. As previously mentioned there has been little research regarding the practical work of the local government auditor, and the authors believe that this thesis will help to provide an understanding of how the work of the local government auditor is carried out. The new legislation concerning Healthy Finances states that a purpose of the legislation is to strengthen the role of the local government auditor (Gov. bill 2003/04:105). The authors find the issue of how the new legislation will help strengthen the role of the local government auditor to be of importance to study.

1.3 Problem Formulation

Based on the discussion above, the authors have found several interesting research subjects. However, instead of doing a complete research of the effects of the legislation, the authors have decided to focus their attention on one part of the legislation. The part chosen for this research is the local government auditors' expectations of how the legislation affects their audit work. The main question of this thesis is:

What are the effects expected from the new legislation Healthy Finances on the local government auditors' work with regards to:

- The day-to-day work
- The work with budgets and forecasts
- The work with annual reports
- The work with interim reports
- The effects on their role as a local government auditor.

1.4 Purpose

The purpose of this thesis is to survey what effects the new legislation Healthy Finances will have on the local government auditors' work. The authors aim to illustrate the municipal auditors' work process with regards to the day-to-day work, the work with budgets and forecasts, the work with annual and interim reports, and the role of the local government auditor and what effects the new legislation will have on their work. The authors' intention is to compare the municipal auditors' view of the changes to the legislators' intentions. This thesis appeals to readers with interests in both local government auditing in general as well as the practical work of the local government auditor.

1.5 Delimitation

In the work with this thesis, the authors are strained to make some delimitation in order to make the work feasible. First and foremost the authors examine only municipalities. The county councils will be excluded from the thesis. The authors will furthermore only include auditors from four municipalities in the western part of Sweden. The interviewees were carefully selected on the basis of their expertise and active interest in the research subject. The authors have decided to only include the chairmen or vice chairmen in the study. Other potentially involved persons as members of the committees, assembly drafting committees, municipal executive board or the assembly will not be a part of the thesis. This study cannot examine every aspect of the legislation; the authors have therefore chosen only to examine the local government auditors' audit work affected by the legislation.

1.6 Disposition

In *chapter 1*, the background and a discussion of the problem is presented. It also includes the purpose, delimitation and the disposition of the thesis.

In *chapter 2*, the authors present the choice of methodology used for the thesis.



In *chapter 3*, the authors present the framework for the thesis, the Swedish local government, Local Government Auditing, the government bill Healthy Finances and institutional changes.

In *chapter 4*, the empirical research based on the answers from the interviews is presented.

In *chapter 5*, the results of the empirical research are combined with the framework. The information is analyzed in order to find out what the effects of the new legislation are on the local government auditors' work.

In *chapter 6*, the conclusions from the analysis are presented. The aim with the chapter is to fulfill the purpose of the study by providing an answer to the research question. The chapter also contains suggestions for further research.

2 Methodology

In this chapter the authors present the methodology used for this thesis as well as a brief description of the options of methodology available. The authors will also explain why the specific form of methodology has been used in order to assist the reader in the interpretation and evaluation of the thesis.

2.1 Scientific Approach

There are two main ways of approaching a scientific problem, the positivistic and hermeneutic approach (Wallén, 1996). These two approaches have several similarities as well as differences. The differences are based on the view and understanding of the world, mankind, science, philosophy and knowledge. What the different approaches have in common is that they have a critical view of mankind.

A positivistic approach is based upon facts and logic, which are the results of measurement whereas the hermeneutic approach is based on interpretation and understanding of the subject of the situation (Patel & Davidson, 2003).

The authors of this thesis have been inspired by the hermeneutic approach to the subject, as the purpose of the study is to gain a comprehensive view by interpreting and understanding a situation rather than to measure it. The already acquired knowledge, experience as well as the thoughts, impressions and emotions, the authors possess are seen as an asset and not an obstacle in the writing of this thesis. The authors believe that it is necessary to be inspired by the hermeneutic approach to the subject as the aim is not to answer the question as such but to explain to the reader the effects of the implementation of Healthy Finances on the local government auditors' audit work, based on a description and discussion of the overall picture.

2.2 Research Approach

There are several different research approaches, but the two main approaches are the explanatory and descriptive approaches. In this thesis the authors have a descriptive approach to the subject. The theoretical part of the thesis has a descriptive approach as it aims to describe to the reader the municipal legislation, the local government auditors work as well as theories concerning municipal governance and development. As the framework is the basis of analysis this description is necessary.

2.3 Research Method

There are two ways of conducting a research, the quantitative method and the qualitative method (Holme & Solvang, 1997). The quantitative method uses measurements and statistics to answer the research problem. The qualitative method on the other hand, aims to provide a deeper understanding of the problem. In a qualitative research the information gathered varies depending on the respondent and the most frequent method of gathering information is by interviews (Patel & Davidson, 2003).

This thesis is mainly qualitative, as the authors intend to describe the circumstances they have studied. The aim is to understand which effects certain events have on the work of the local government auditor and describe them through analysis. The focus of this thesis is the legislation Healthy Finances and the effects it will have on the local government auditors' work. The qualitative research consists of interviews with four local government auditors in four municipalities in the western part of Sweden. The answers from the interviews and the theoretical parts presented in the thesis are the basis for the analysis.

2.4 Data Collection

2.4.1 Secondary Data

Secondary data is information that has been collected and interpreted by other researchers or authors for a specific purpose and published in books, journals and other forms of documents. In this thesis the authors have used secondary data to build a theoretical foundation, since the use of secondary data is cost efficient and provides the authors with the possibility to view the existing models on the subject as well as study the existing theories concerning the subject.

In this thesis the authors have used both secondary and primary data. The theoretical part of the thesis is based on secondary data from journals, literature, articles and municipal guidelines and legislation.

Literature

As the authors had no prior knowledge concerning municipal auditing the first thing they did was to read as much literature they could find concerning both the municipal auditing process and literature concerning municipal governance and management. In the research the authors have used articles, books and municipal legislation. The articles, books and the legislation have been used for the methodology chapter as well as for the background chapter and the theoretical framework, while for the empirical chapter primary data in form of interviews have been used. The issues of interpreting another researcher's work is a significant problem when studying articles and books, one must always be aware of the problem of interpretation and maintain a critical perspective on the literature being read. In order to avoid this problem the authors have evaluated the sources with great care and also compared different sources in order to ensure accurate information and avoid misinterpretations.

The authors searched for articles, books and journals relating to the subject of municipal auditing and municipal internal control. The Swedish Association of Local Authorities and Regions published most of the literature the authors found. The search was made through the Gothenburg city library and the library at the School of Economics and Commercial Law at Gothenburg University. The authors found that the literature concerning municipal auditing was scarce, although they did find literature relating to municipal governance and internal control. The information the authors found was somewhat inadequate so they acquired help from Caroline Nyman at The Swedish Association of Local Authorities and Regions. Caroline provided the authors with certain articles and books relating to municipal auditing that they had good use for. The literature found gave the authors a

foundation for narrowing down their research in order to find an interesting and feasible research question.

Internet

The authors searched the Internet for articles and literature concerning municipal auditing and municipal governance in general. They also searched the different municipalities' web pages thoroughly in order to get a better understanding of how the municipal system is functioning. The authors used the search engine Google.com in order to find supplementary information that was not published on the municipals web pages or in any literature. The authors used key words like: municipal, auditing, Healthy Finances etc. At the web pages of The Swedish Association of Local Authorities and Regions the authors found useful information relating to their subject.

2.4.2 Primary Data

Primary data are data that the researcher collects for a defined purpose. When gathering primary data for a thesis, there are several options to consider. First you need to determine what kind of method to use when gathering primary data (Patel & Davidson, 2003). In this case, the authors felt that personal interviews were a better method than for example a questionnaire. There was a need to form a dialogue with the respondent in order to learn about the respondents' feelings and thoughts regarding the subject and research question. In this way, the authors could also extract more information by adding questions during the interview as well as to give the respondent an opportunity to provide the authors with information outside the boundaries of the questions asked. Furthermore, the research question is of such, that resulting questions are to be asked, something the authors felt could not be done in a satisfactory way by using a questionnaire.

The purpose of this thesis is to review four different local government auditors' work, focusing on their work with the compliance to the new legislation Healthy Finances and their attitude to this new legislation. As the authors want to explore the local government auditor's attitudes, feelings and thoughts concerning this subject, they use interviews instead of a questionnaire. Using a questionnaire they worried that the information they would receive would not be as detailed and extensive as the information they receive by interviewing the respondents. In addition, when interviewing a respondent you can obtain information not spoken in words, for example the body language or tone of voice can give you an idea of the respondents' feelings concerning the subject, which can be an incentive for further questions (Patel & Davidson, 2003).

The authors used a form of qualitative interview technique with relatively open questions, which gives the respondent an opportunity to provide the authors with answers with his/hers own words. Also, resulting questions may arise as a result of the respondents answer (Patel & Davidson, 2003).

Some of the questions asked in the interviews has not been used in the research and has therefore been omitted, as they are not useful for the purpose of the study.

Interviews

The authors choose to review the work of local government auditors in four different municipalities in the western part of Sweden. They conducted four interviews with the chairman or vice-chairman of the municipal auditors in the municipalities. The first contact with the respondents was by telephone; the authors called them and described the research project and the purpose of the study. If they agreed to participate the authors then made an appointment for the interview. The authors explained that the question was of an open character and when the question form was completed the authors e-mailed the form to the respondent in order to give them time to prepare themselves for the interview. The respondents were given the opportunity to contact the authors if they needed clarification or further information concerning the subject.

The authors decided not to tape the interviews with a tape recorder as it might make the respondent feel inhibited and less relaxed. The follow up work would also be far too extensive considering our limited time-frame (Patel & Davidson, 2003).

The authors decided that the best way to conduct the interviews was that one of the authors would ask the questions while the other would record the answers from the respondent on a laptop computer. The authors started the interviews with a presentation of the thesis and explained the procedure of the interview with one person asking the questions and the other typing the answers. The interviews were held in Swedish to avoid misunderstandings.

Following the interviews the authors removed questions not needed for the purpose of the study from the information gathered in the interviews. The authors then proceeded to remove information from the answers that was not useful for the study and also rearranged the information gathered in order to obtain a better view of the information. The rearranged information from the respective respondents was then divided under the appropriate questions in order to more easily be able to interpret the information.

Selection of respondents

The authors decided to contact four municipalities and due to the fact that personal interviews are time consuming the authors decided that four municipalities was an acceptable number. In addition, the authors wanted to interview local government auditors with a great deal of experience from municipal auditing as well as municipal work in general. The authors decided that the chairman or vice-chairman of the municipal auditors fit these requirements and therefore they should be the focus of the interviews. The authors moreover made the presumption that a chairman or a vice-chairman is so familiar with the audit activity of the present municipality that they can speak for the whole audit group. Due to the limited time-frame the authors were forced to contact the municipalities in the surrounding region and the municipalities chosen were Göteborg, Härryda, Mölndal and Kungälv. The municipalities were chosen because they showed an interest in the study as well as the local government auditors in the municipalities were familiar with the new legislation. In addition, the authors wanted to include Göteborg municipality due to the fact that they had their separate audit office in order to see how this affect their work.

2.5 Discussion on credibility

In order to evaluate the credibility of the thesis it is vital to examine both the gathering of the information used as well as the research process as a whole. In order to do so, there are certain aspects to look at when evaluating the thesis. First, it is important to examine the validity and reliability of the qualitative information used for the thesis. Secondly, the relevance of the content is to be examined as well as the sources the information is based on (Patel & Davidson, 2003).

2.5.1 Validity

In order to assure that the validity of the research is high, it is important to make sure that the information reflects what is intended to be reflected. There are two types of validity, internal and external. Internal validity is to make sure that the interview or a questionnaire measures the intended subject and external validity concerns the respondent and the answers given and to what extent they might be distorted or dishonest. In addition, the researchers can weaken the validity of the research, if they draw wrong conclusions from the collected material. It is also important that the research problem as well as the delimitation is well defined (Patel & Davidson, 2003).

The authors consider the validity of this research to be relatively high, as the problem and delimitation are well defined. The authors have no reason to doubt the respondents and their answers and can see no incentives for them to diverge from the truth. To assure a high internal validity, the authors studied the issue of Local Government Auditing in order to obtain a deeper understanding of the subject. The authors have also documented the collection and use of data to ensure the validity of the research.

2.5.2 Reliability

The reliability of the research measures the accuracy of the results and how well they can be replicated. If the research is reliable another researcher can conduct the research at another time and still reach the same conclusions and results. Factors that affect the reliability of the research are how thorough the researchers are when processing the information as well as the way the measurement is carried out. If the reliability is high, the research is not affected by coincidence to any great extent (Andersen & Schwencke 1998).

In this research the authors prepared the questions before the interviews were sent to the respondents, and they also sent them to the authors' advisor for review in order to assure that the questions were comprehensible. The interviews were conducted in similar ways in order to avoid any random mistakes and they were transcribed immediately in order to obtain as much information as correctly as possible.

2.5.3 Criticism of the sources

It is important when conducting a research to maintain a critical view of the sources. Since the information as well as the result of the research is based on these

sources the reliability and accuracy is important to question (Patel & Davidson, 2003). The authors have through the course of this research maintained a critical perspective on all sources in order to ensure the reliability and validity of the research.

The secondary data, which the authors have gathered and used in the research, are either published by specialists in the field of municipal theory or documents published by the Swedish Government giving the sources high reliability. The information gathered from various government agencies are also considered highly reliable and will therefore not be criticized.

The authors are aware of the possibility that information gathered from the Internet can be incorrect and distorted. However, the Internet web pages used for gathering information are either from a government agency or from the municipalities' homepage and are therefore considered reliable. The authors see no incentive for the municipalities or other government agencies to publish incorrect or distorted information regarding their activities.

The information gathered for this thesis is mainly in Swedish and are translated by the authors into English and therefore there is a risk of mistranslation that could affect the reliability of the research. However, the authors consider themselves to have a good knowledge in both Swedish and English, which minimizes the risk of mistranslation.

The primary data collected from the interviews are considered relevant and reliable, as the authors believe that the respondents have no incentive to provide incorrect or distorted information.

3 Framework

In this chapter the authors will present adequate theories to the reader, including a presentation of the Swedish local government followed by a description of the Local Government Auditing along with a presentation of the concept of Healthy Finances. The chapter aims to give the reader knowledge about the laws, studies, investigations and other theories that surrounds the auditing of Swedish municipalities.

3.1 The Swedish local government

This section aims to give the reader an understanding of the Swedish local government, focusing on the municipals, needed to appreciate the function of the local government audit.

The assembly holds the decision-making power of the municipality and the members of the assembly are elected in public elections from political opinions and expectations. Furthermore, the assembly sets up the committees, the assembly drafting committees and municipal companies. The role of setting local taxes and budgets along with overall and principle decisions is also exercised by the assembly (Tengdelius & Nyman, 2004).

Responsibility for preparing matters and for administration and execution rests with elected representatives in committees and assembly drafting committees. These two organs should follow goals, decisions, laws and directions; moreover they must see to it that the internal control is sufficient and that the activities are carried out in a satisfying way. Furthermore, they account for their activities to the assembly both current and annually in the annual report (Tengdelius & Nyman, 2004).

The municipal executive board has the responsibility to direct and co-ordinate the administration and to supervise the administration as well as the municipal enterprises. In addition, the municipal executive board has the responsibility of following matters of concern to the municipality's development and financial standing. Furthermore the municipal executive board has the responsibility to prepare or express their opinion on matters concerning the assembly (Tengdelius & Nyman, 2004).

3.2 Local Government Auditing

This section aims at giving the reader an understanding of Local Government Auditing. This is done using the document "God Revisionsse – I Kommunal Verksamhet 2002"², which is published every three years, as well as different legislations.

The assembly exercises the role as principal of the committees and the municipal executive board, which makes the assembly in need of control and follow-ups of the activities carried out by these organs. The local government audit is the controlling

² Generally accepted auditing standards – In municipal activity 2002

organ of the municipality and thereby the organ of democratic control. It has the important function of recommending the assembly whether or not to discharge the municipal administration from liability (Tengdelius & Nyman, 2002).

Being auditor in the local government is a commission of trust and aims to promote and audit the activities in the committees and assembly drafting committees. The keywords of the audit are independence, objectivity and integrity. The auditor has political and public anchorage in his/her judgment of whether the municipal administration fulfills its duties or not. The expert knowledge of accounts and activity auditing is generally provided by external specialists (Ch 4, sec 1, Local Government Act³).

The legislations, which regulate the audit, are to be found in the following laws and directives:

- The Local Government Act (LGA), chapter nine, concerning the audit.
- The Companies' Act, especially chapter three, concerning lay auditors and legislation regarding other forms of enterprise
- Audit directives, handed out by the local government assembly
- Owner directives, handed out by the local government assembly and concerns the municipal companies

The audit is also, as a part of the official machinery concerned by the Press Act, the Secrets Act and the Administrative Law (Tengdelius & Nyman, 2002).

3.2.1 The audit assignment

The purpose of the audit assignment is first and foremost to decide whether or not to recommend the assembly to discharge the administration from liability. Their decision must be stated to the assembly. The Local Government Act (Ch 9, sec 9) declares:

“The auditors consider whether the municipal activities has been carried out in a appropriate and from an economic perspective satisfying way, whether the accounting records are correct and whether the internal control carried out in the committees are sufficient or not.”

Furthermore, the auditors should audit the activities carried out in the committees, the boards and the assembly drafting committees (Ch 3, sec 2-4, 7, LGA). The audit concerning the internal control of the committees and the boards is a significant part of the audit as well as the audit of the interim and annual reports (Ch 8, LGA).

The exercise of public authority is not an object of audit for the auditors (Ch 9, sec 10, LGA); however more general aspects of the municipal organization, such as communication, can be audited. In cases of causing great economic damage to the municipality the exercise of public authority is though possible to audit (Tengdelius & Nyman, 2002).

³ Local Government Act will be abbreviated into LGA for the remainder of the thesis.



Moreover, the local government audit has a responsibility to report any suspicion of property crime in the municipal administration. Property crime includes theft, deception, swindle, embezzlement, breach of trust and bribery (Ch 9, sec 9, LGA).

The audit is carried out according to generally accepted auditing standards (Ch 9, sec 9), which signifies that the audit should apply exemplary and fair principals and procedures that are generally accepted in the audit. In certain ways, local government audit differs from ordinary audit in terms of generally accepted auditing standards. The local government audit function as a public authority and is therefore obligated to observe the Swedish constitution and thereby observe matter-of-factness and impartiality as well as equality before the law. Additional matters concerning the local government audit is the liability to engage experts if necessary to observe generally accepted auditing standards (Tengdelius & Nyman, 2002).

The audit hires external specialists at required extent (Ch 9, sec 8, LGA). The specialists are chosen freely by the audit and can be employed as well as hired through a purchase process. The audit controls the work of the specialists and the level of competence of the specialists is of great importance. They should have knowledge about municipal activities covering areas such as economics, municipal administration and internal control. Finally, the specialists' reports should not be modified by the audit whereas additional opinions stated by the audit should be presented separately from the reports carried out by the specialists (Tengdelius & Nyman, 2002).

Important to the Local Government Audit is that it should be carried out complying with the people's legitimate demand for independence, objectivity and competence. The legislation provides the audit with certain means to withhold these demands.

Independence:

- Independently choose what should be audited.
- Independently choose working methods and experts when performing the audits.
- Independently compose and present analysis and judgments.

Objectivity:

- No party politics or political processes are to be combined with the audit process of the auditor role. Impartiality and objectivity permeate the acting, judgments and statements.
- The auditors should defend their integrity in the audit work (Ch 9, sec 14, LGA).
- A person who has accountability to the municipality cannot be elected as auditor; neither can he/she be closely related to a person who has accountability to the municipality (Ch 5, sec 20a, LGA).
- An auditor must not take part in an audit where the auditor or a closely related person to the auditor has interests, otherwise there would be a bias situation (Ch 6, sec 25, LGA)(Ch 9, sec 4-6, LGA)(Ch 9, sec 15, LGA).

Finally, the local government audit does not audit the assembly, which enables the auditors to be members of the assembly (Tengdelius & Nyman, 2002).

3.2.2 Forms of work

Each municipality sets up audit regulations, which form the foundation of the audit work in the municipality (Ch 9, sec 18, LGA). Further more, the number of auditors must be at least three and should be as many as it takes to fulfill the obligations of the audit (Ch 9, sec 2, LGA). The auditors are, as previously mentioned, independent and have every right to make their own individual statements, however, there are no regulations preventing the auditors from cooperating to strengthen the function of the audit (Tengdelius & Nyman, 2002).

The local government auditors should compose an audit strategy running of a period of one term of office and should include the audit's overall and long-term standpoints regarding their assignment and results. Moreover the audit should make up work regulations concerning the day-to-day work. The work regulations should be evaluated at least annually (Tengdelius & Nyman, 2002). Further regulations state that each auditor is responsible for the complete audit even though a mutual job splitting has been carried out (Ch 9, sec 2, LGA). The local government audit must have at least three substitute auditors who should replace a permanent auditor, for example when the auditor has a long-term excuse and is unable to fulfill his/her duties (Ch 6, sec 25, LGA)(Ch 9, sec 4-6, LGA).

The local government auditors should have an open-minded communication and aim at being easily accessible. Moreover, they should have a preventive and continuing communication with the assembly and others who are subject-matter of audit (Tengdelius & Nyman, 2002). The *right to take initiative* provides the local government audit with a formal tool for communication and information. The auditors use their right to take initiative on the specific organ, which compels the chairman of the organ to put the matter on the agenda (Ch 4, sec 17-17a, LGA)(Ch 5, sec 23, LGA).

The local government audit is a part of the public sector and is thereby subject to the same regulations regarding accessibility and insight as other official machinery. The audit aims at publicity and openness in the role as auditors and every audit carried out by the audit results in a public report. The reports should be stored in the audit archive (Tengdelius & Nyman, 2002).

The assembly is assigned to provide the auditors with funds sufficient to fulfill their assignment. If the auditors believe the funds to be insufficient they have the formal right to resign (Tengdelius & Nyman, 2002).

3.2.3 The audit process

The audit process includes the whole audit work from risk analysis and planning to the judgment in the audit report and the assembly's decision in the discharge matter. The audit should be carried out in a coherent and systematic way that makes the discharge matter possible to judge through the audit report. The fundamental part of the audit process is to support the municipality administration in its purpose to carry on an activity with sufficient internal control, financial satisfactory and correct accounts (Tengdelius & Nyman, 2002).

Each committee and assembly drafting committee is audited annually and the audit, of which the audit determines the direction and extent, aims at giving the assembly enough information to make a well-founded decision in the discharge matter (Ch 9, sec 9, LGA). Furthermore, the audit audits the committees and assembly drafting committees under a day-to-day basis. The auditors communicate with the audited organs and examine reports and other documentation presented by the organ. Moreover, the auditor makes a more detailed and deeper audit to the extent that an analysis of risk and essentiality is shown. This is presented more thoroughly later in this chapter (Tengdelius & Nyman, 2002).

The local government auditor finally has the task to audit the annual report including the compiled accounting carried out annually by the municipal administration. In addition, the auditor audit, when such exists, interim reports to a necessary extent (Tengdelius & Nyman, 2002).

The auditors need to understand the municipal administration and its activities to be able to fulfill their assignment in a satisfying way. The auditors acquire their knowledge from both internal and external sources. Having gathered adequate knowledge, the auditors should actively choose what audits their work should include. The auditors identify and evaluate existing obstacles, threats or risks in the activities. They evaluate the importance of these factors and the probability that they occur. Thereafter, the auditors evaluate the essentiality of the factors and what consequences they would bring. The evaluation of risk and essentiality has a day-to-day character; however, it still needs to be reviewed annually to make a foundation for the annual audit plan. The evaluation being a day-to-day process facilitates the audit to be up-to-date with risk and essentiality and thereby showing what to focus on in the audit work (Tengdelius & Nyman, 2002).

The audit work is in practice outsourced to specialists who has great knowledge in local government auditing. The auditors are however responsible for the extent of the audit and the auditors are free to choose as to what level they want to participate in the actual audit work. The auditors are mainly active in terms of communicating with other involved politicians and personnel but, in addition, they have a day-to-day communication with the specialists. When an audit has been carried out, the specialists report their results, including judgments and propositions, to the local government auditors. The auditors discuss the report and the audit. Thereafter, they decide which of their opinions should be enclosed to the specialists' report; and moreover which proposals and advice that should be presented in order to enhance the activity. The audit should be regularly followed up to investigate whether the audited organ has carried out the measures proposed by the audit or not. The results of the follow-up are useful data when the audit creates the annual risk and essentiality analysis (Tengdelius & Nyman, 2002).

The audit process concludes with a summarization of the audit followed by a judgment leading to a consideration of whether to grant discharge or not. Finally, the results are to be documented and communicated to the assembly. The legislation does not provide directions concerning objections or grounds for not recommending discharge. The audit should make its own decision in this matter. A unanimous decision is preferred; however, a single auditor is always free to make his/her own judgment (Tengdelius & Nyman, 2002).

The audit report is the final part of the audit process. It is included in the annual report and is presented to the assembly. Included in the audit report are the results of the audit work during the past year, possible objections, a discharge statement and a possible approval of the annual report. The specialists' reports are to be attached to the audit report (Ch 9, sec 16, LGA). Finally, the decision-making in the discharge matter is fully handled by the assembly whose decision can differ from the audit's recommendations (Ch 5, sec 25, 31, LGA).

3.3 Healthy finances

The government bill concerning Healthy Finances (Gov. bill 2003/04:105) proposes certain changes in the Local Government Act, changes that are presented in this section.

3.3.1 Goals and guidelines for healthy finances

The first change proposed by the government deals with the demand for goals and guidelines concerning healthy finances in Swedish municipalities and county councils.

“Municipalities and county councils should in their activity plan put up goals and guidelines which are of importance to healthy finances. The financial plan should include financial goals which are of importance to healthy finances. An evaluation of the achievement of the goals should be presented in the annual report.”

The government's reasons for the proposal are that it is of great importance that Swedish municipalities and county councils are well prepared in order to face the steadily growing demands for municipal activities. Healthy finances are the key, both in the short and long run, in order to be able to carry out the activities in an effective way. The requirement for fiscal balance, which was established in 2000, has received more of the municipal's interest than the more long-term demand for healthy finances; however, the government believes that the changes in the legislation will have a positive effect on that matter. The government also believes that a well functioning follow-up and evaluation of economy and activity is of great importance for the municipalities to be able to reach healthy finances (Gov. bill 2003/04:105).

The government emphasizes that the fact that municipalities and county councils themselves are obligated to put up goals and directions is of importance when aiming at healthy finances. Moreover, the government point out that an additional goal of the new legislation is to strengthen the municipal self-government and that the goals and guidelines will be the municipalities' most important document of control (Gov. bill 2003/04:105).

The operation perspective concerns the municipality's ability to run the municipal activities in a cost effective and appropriate way and the financial perspective aims at the municipality's financial standing and development. The instrument of controlling whether healthy finances are being achieved is in this perspective the accounting. Furthermore, the government proposes that the municipalities should

state a clear level of ambition regarding the financial standing and development with the use of goals (Gov. bill 2003/04:105).

In the annual report, an evaluation of whether the goals have been achieved or not should be presented. According to the government, this is vital in order to give healthy finances the level of significance the government promotes. The evaluation should be included in the operating statement and must thereby be included in the local government audit's audit of the annual report (Gov. bill 2003/04:105).

3.3.2 Interim reports

The second change in the Local Government Act, proposed by the Swedish government states that:

“The interim report should be handled by the assembly.”

Until now, whether the interim reports have been handled by the assembly or not has varied among the municipalities. The government believes that by including the interim reports in the assembly's line of work, a more significant importance to the interim reports and in addition involves the local government audit in the process. Furthermore, handling the interim reports in the assembly will strengthen the assembly's ability to evaluate the financial standing of the municipality. The government also points at the importance of follow-ups associated with the interim reports, in order to take measures when the financial or operational development deviates from the plans (Gov. bill 2003/04:105).

3.3.3 Audit of accomplishment of purpose

The third governmental proposal of changes in the Local Government Act declares:

“The auditors should judge whether the results in the interim and annual reports are consistent with the goals of the economic administration. The auditors' documentation should be enclosed to the interim or annual report.”

According to the government, local government auditors rarely judge the results presented in the interim reports. It is important for the goal of achieving healthy finances, that the knowledge and experience of the local government audit are utilized. Thus, the government proclaims that both the interim reports and the annual reports should be audited by the audit. The government believes that in the legislation, demands for the local government audit to audit the interim and annual reports, and would strengthen the audit's standing. The proposal also requires the audit to leave a written statement with the judgment, presented to the assembly together with the presentation of the interim and annual reports (Gov. bill 2003/04:105).

3.4 Institutional changes

In this section of the thesis the authors will present a theoretical model of institutional change. The model was developed by Sven Siverbo (2004) in the study *Organisationskultur för framgångsrika kommuner. En studie av Munkdal, Sotenäs,*

Strömstad och Tanum. The model originates from two essential concepts within the social science in order to explain organizational development, namely continuity and change (Brorström, 2004).

The model is under continuous development and should therefore be assessed with this in mind. The foundation of the theory is that the organization is capable of handling competing values. This capability provides the organization with cost effectiveness and at the same time a necessary gradual adjustment to changed condition can be made. The organization is thought to be efficient in both the long as well as the short run. Qualities concerning change produce development while qualities associated with continuity preserves stability for the organizations (Brorström, 2004).

A fundamental basis for the discussion is the thought that the organization handles the balance between continuity and change in a way that suits the organizations purpose in the best possible way over time, in other words not treating the two phenomenons as incompatible. Klein and Miller (1996) argue that the organization must be open for observation and inspection in order to expose and phase out obstacles for change. This is vital in order to adapt new knowledge and development promoting values (Brorström, 2004).

Continuity	<i>High</i>	Contentment Unwillingness to change	Constructive trial of situations and ideas Gradual change
	<i>Low</i>	Isolation Change through chock	Struggle of ideas Resource demanding change
		<i>Low</i>	<i>High</i>

Change

Table 1. Brorström, 2004

Other qualities whose effects are propitious for the organization are reciprocity, co-operation and confidence. Reciprocity deals with the fact that decisions are made in proportion to its consequences for others. A decision is made based on how it will affect other parts of the organization and promotes co-operation between participants in the organization is the foundation for the development of trusting relationships. In turn, an increase in confidence promotes co-operation and reciprocity in the decisions. These qualities reduce uncertainty and create a basic sense of security as well as it also promotes continuity (Brorström, 2004).

An organization that promotes both continuity and change gives the participants space to try, develop and execute changes without being questioned. The basic confidence within the organization is then favorable for the totality. This view creates an environment for constructive trials of ideas that will lead to a gradual development and adjustment to new and changed conditions (Brorström, 2004).

Low values of continuity combined with high values of change provide an organization with a strong will to change but where the participants lack in reciprocity and confidence in each other. The effect of this combination is an organization with a constant struggle of whose and what ideas to be tried and executed. The implementation process demands a lot of resources and is energy consuming and associated with high costs of transactions. In addition, the organization is also characterized by a distinct discontent due to the difficulty to implement changes and ideas (Brorström, 2004).

In contrast, high values of continuity combined with low values of change create an organization with contentment with the state of things. Changes are non-existent and the organization and its activities run the risk of becoming stagnant. The stable situation along with the basic confidence in each other implies that the need for change is overlooked (Brorström, 2004).

An organization with low values of continuity combined with low values of change give rise to an organization with a great need for change, but with a lack of will to change and a lack of confidence in each other. These kinds of organizations are not usual or long-lived. If they do exist the organizations different parts are isolated from each other and management and operations are separated from each other and the decisions concerning change do not reach out in the organization. The only way the organization as a whole can change is if it is exposed to severe shocks, for example dramatic changes in the financial situation (Brorström, 2004).

This discussion results in the classification of four kinds of changes. These situations do not exist in practice but can be used to discuss the level of change and continuity in actual organizations. When it comes to the ideal situation with high values of continuity and change it is important that the organization is not too pleased with the current situation and the dividing, using and expending of the resources must be questioned in order to be cost efficient. With this view of the theory the ideal organization should be located somewhere between high and low for both the qualities, slightly above the center to the right (Brorström, 2004).

4 Empirical research

In this chapter the results of the empirical research will be presented. The interviewees will be introduced and thereafter the questions and answers from the interviews will be presented and summarized by the authors. The chapter is based mainly on the primary data provided from the interviews, when secondary data has been applied this is mentioned in the text.

4.1 Responding municipalities

This section deals with the four responding municipalities and their audit organization and working practice. Each presentation begins with a description concerning the responding auditors in terms of their position in the audit organization, experience with auditing and their political standing.

4.1.1 Mölndal

Arne Friberg is the vice-chairman of the local government auditors in Mölndal municipality. He has been active in the local government audit for twelve years and has been the vice-chairman since the latest term of office in 2002. In his work as a municipal politician Friberg represents the Centre Party.

The Mölndal audit was during the previous term of office organized by approximately eleven permanent local government auditors and eleven substitutes. During the present term of office the number of local government auditors has been reduced to nine permanent auditors and three substitutes. At the end of the year each local government auditor makes a list of areas they think are in demand for audit. The different lists are then put together to a complete list that includes the different auditors' ideas of what should be audited, classified in priority precedence. The prioritizing is carried out through discussions between the local government auditors. The two main factors when prioritizing the audit work are risk and essentiality (www.molndal.se). According to Friberg the main function of the audit is to do the operating follow-up but he also points out the importance of audit of reports and goal follow-ups.

The local government auditors are part of control groups with three auditors in each group. In addition, each group consists of a certified accountant to complement the group with expert knowledge. Friberg declares that certified accountants are involved in the audit of accounts but not in the audit of operation. The experts assigned to accomplish the audit of operation have a different background than accounting. Mölndal is now in contract with Ernst & Young and has occasional contact with Komrev/Öhrlings. Previously, Mölndal contracted KPMG as certified accountants but according to Friberg their co-operation did not work out very well. Friberg feels a great difference in knowledge and performance between individual accountants, but less difference between the different firms.

4.1.2 Göteborg

Björn Johnsson is the vice-chairman of the local government auditors in Göteborg municipality. He has been active in the local government for over thirteen years and vice-president for the local government auditors since the latest term of office in 2002. Johnsson represents the Moderate Party in his roll as a municipal politician.

Göteborg has its own audit office entitled *Stadsrevisionen*, which works as a separate office in the municipal organization. The audit office has a number of full-time employed accountants and some of the local government auditors are full-time employed as well (www.goteborg.se). According to Johnsson the audit office and the full-time employed staff gives the audit the opportunity to make deeper analysis and to maintain a high level of competence in the organization. He sees a clear advantage of having a separate audit office in the Göteborg municipality.

The Göteborg audit has eleven permanent local government auditors and eleven substitutes. Like Mölndal the audit in Göteborg compiles an audit plan that includes the top priority audits that the audit should manage during the year. The prioritization is made from the aspects of risk and essentiality (www.goteborg.se). Johnsson states that the risk analysis can include scenarios such as a massive strike or a container ship that runs aground. Johnsson finally emphasizes the importance of not making politics of the audit and declares that the audit does not let an issue pass before the audit is unanimous.

4.1.3 Kungälv

Lennart Thorsson is the chairman of the local government auditors in Kungälv municipality. He has been active in the local government for over twelve years and has been the chairman of the local government since the latest term of office in 2002. In his roll as a municipal politician Thorsson represents the Moderate Party.

The Kungälv audit has five permanent local government auditors and five substitutes. The audit meets once a month and the chairman and vice-chairman twice a month. In addition, the local government auditors meet with the local government companies (www.kungalv.se). Kungälv uses external experts with a background in the different areas of the public sector, for example education or the social sector. Some of the experts have experience from working in different districts of Göteborg. Kungälv also contracts firms of accountants to manage the audit of accounts. According to Thorsson they sometimes do not accept the reports presented by the certified accountants. This is however not very frequent. Thorsson believes that it would be wrong to audit their own administration and consider that as the main reason for outsourcing the audits. He points out the assignment given to the firms to be the most important part of the audit process. Their responsibility is to order prioritized and essential audits from the firms of accountants. This is according to Thorsson the core of the audit, to find the most important audit areas in the municipal administration. Thorsson claims that the new legislation will not have an effect on that.



4.1.4 Härryda

Ulf-Göran Willén is the chairman of the local government auditors in Härryda municipality. He has been active in the local government for over twenty years and the chairman of the local government auditors since the latest term of office in 2002. In his work as a municipal politician Willén represents the Social Democrats.

Seven permanent local government auditors and between four and five substitutes form the Härryda audit (www.harryda.se). According to Willén, the substitutes participate in all meetings but do not have the grade of authority that the permanent local government auditors have. The audit puts together a list of ten to fifteen audits that outline the base for the audit's work for the next year. The audits are according to risk and essentiality. The list becomes the audit plan and the audits will be carried out in the order of the plan (www.harryda.se). Willén states that the risk and essentiality analysis makes the foundation of the planning process, however the auditors occasionally and informally evaluates possible audit areas in consultation with the municipal administration. Willén claims that the administration too has benefit from the audit; however, the administration is not permitted to directly order an audit.

In practice, the audit orders an audit from an external audit firm that performs the audit according to the instructions from the audit. The resulting report is presented to the administration and the audit expects feedback from the administration. If the report contains remarks the assembly will consider the need for measure and Willén declares that the assembly sometimes does not agree with the audit regarding the need for measures. Willén believes that the assembly should focus on the report rather than the presented solution.

Härryda purchases accountant services every fourth year with a contract for two years and an option for two further years. After the first two years an evaluation is made and if the evaluation falls out well the contracted firm is offered another two years assignment. To achieve continuity the purchase process is carried out one year after the new audit has been appointed (www.harryda.se). According to Willén the reports presented by the firms vary in quality; however, he believes that a poor report might as well be the result of inadequate preparatory work from the audit. He moreover states that even though the audit role will change the need for external experts will continue to be significant.

4.2 Budget and forecast

4.2.1 Question

How will your participation in the budget and forecast process be affected by the new legislation?

4.2.2 Mölndal

According to Friberg the law will not affect their participation to any great extent. They will not be active in the budget process. They will however review if the goals set by the local government concerning results are met. There will be more focus on the follow-up of the fulfillment of the goals set by the local government.

4.2.3 Göteborg

The local government auditors will not be participating in the budget process at all. The only participation will be in the forecasts made by the local government. The local government auditors will comment on these forecasts and the only difference is the way the comments are presented. With the new legislation the method of commenting on the local government reports are made more stringent according to Johnsson.

4.2.4 Kungälv

Thorsson puts a lot of emphasis on the external audit role of the local government auditor. “It would be wrong of us to work with the budget, because we have approved it and it does not work out, we would be auditing our own work and that would not be impartial.” According to Thorsson the biggest changes regarding the budget and forecast process will affect not the local government auditors but the assembly, who are given a strengthened role in the budget process.

4.2.5 Härryda

Willén believes that the local government auditors in Härryda will be more involved in the budget process. The involvement will however be more formal than before, due to the fact that the new legislation stipulates that a local government auditor are not allowed to work in any of the committees. According to Willén this will mean that the local government auditors in Härryda will focus more on the drafts and design of the budgets rather than on the audit of accounts. Furthermore, Willén believes that the information and communication between the local government auditors, the assembly and the committees concerning the budget and forecast will be improved. The local government auditors in Härryda will also put more emphasis on developing the process of using forecasts in their work.

4.3 Annual Reports - Present

4.3.1 Question

Up until the fiscal year of 2004 in what way have you been involved in the annual reports of your municipality?

4.3.2 Mölndal

According to Friberg, they are involved to a full extent, although Ernst & Young provides the audit of accounts. The audit of the annual report is collaboration between the local government auditors and the certified accountants at Ernst & Young. The local government auditors and the certified accountants post their comments on the report in the audit report.

4.3.3 Göteborg

According to Johnsson the local government auditors in Göteborg have a total involvement in the auditing of the annual reports. They provide with the audit of accounts as well as the audit of the operations in the municipality. “It is important to maintain our level of skill when it comes to the audit of accounts”, Johnsson says, “Although we sometimes use the services of an external auditing firm for the audit of accounts”. Regarding the audit of the operations the local government auditors perform the audit mainly on their own, although they on occasion acquire a package audit used in other municipalities, due to benchmarking aspirations.

4.3.4 Kungälv

“We are not involved in the audit of the annual reports, we purchase the audit from KPMG and Komrev who composes the annual reports and comment on them”, says Thorsson. “Our involvement is to approve the audit which we almost always do”. It happens that the local government auditors in Kungälv sometimes have opinions on certain aspects of the annual reports, something they point out and discuss with the assembly.

4.3.5 Härryda

In Härryda the local government auditors purchase the audit on accounts and audit of goal fulfillment from an external auditing firm. The external auditors and the local government auditors meet and discuss the annual report. The meeting results in a statement from the auditors presented in connection with the annual report. Regarding the annual report the local government auditors in Kungälv focus on the operations, and mainly on how the municipal organization is governed.

4.4 Annual Reports - Future

4.4.1 Question

How will the new legislation affect your involvement in the audit of the annual reports in the municipality?

4.4.2 Mölndal

The local government auditors will be more involved because the extent of the audit will be increased through the strengthening of the legislation.

4.4.3 Göteborg

The involvement will not change.

4.4.4 Kungälv

The only change is that the local government auditors will have to produce a report of their comments on the annual report; this has previously been done by the external auditors.

4.4.5 Härryda

The legislation will not have any major effects on the involvement of the local government auditors concerning the audit of the annual reports, according to Willén. The most notable effect is that they will work more with comparing annual and interim reports and present the comments to the assembly in a more formal way.

4.5 Interim Reports - Present

4.5.1 Question

Up until the fiscal year of 2004 in what way have you been involved in the interim reports of your municipality?

4.5.2 Mölndal

Mölndal municipality have not used interim reports in their operations, the municipal executive board has earlier worked with a reconciliation method in order to view the progress of the municipality. The local government auditors have not had any insight into this report.

4.5.3 Göteborg

The local government auditors in Göteborg audit and comment on the interim reports of the municipality, both the audit of accounts as well as the audit of the operations is performed by the local government auditors.

4.5.4 Kungälv

According to Thorsson, the local government auditors in Kungälv purchase all the audit of the interim reports from external auditing firms and the local government auditors have no involvement in the auditing process. The external auditors comment on the reports and the local government auditors ratify the audit.

4.5.5 Härryda

In Härryda the local government auditors audit the interim reports and make comments on the issues they believe need to be corrected. They purchase the audit of accounts from an external auditing firm. Willén states that the local government auditors in Härryda decide what to audit and the extent of the audit. Afterwards they discuss the proposed alterations with the concerned administration. “We discuss the adjustments needed to be made in an informal way, we do not publish any reports because we believe the dialogue is the most important aspect”, Willén claims.

4.6 Interim Reports - Future

4.6.1 Question

How will the new legislation affect your involvement in the audit of the interim reports in the municipality?

4.6.2 Mölndal

The most noticeable change in their work is that the local government auditors will have to present a report of the audit of the interim reports to the assembly with their remarks clearly stated. In Mölndal the local government auditors will still purchase the audit from external firms according to Friberg. The certified accountants will also assist in the drafting of the comments to the assembly.

4.6.3 Göteborg

Johnsson claims that their work with the audit regarding interim reports will not change. They will not be affected by the new legislation since they have a history of performing the audits in a distinct and extensive fashion.

4.6.4 Kungälv

Thorsson states that the only difference will be that the local government auditors will have to present a written report with their comments on the audit. The external firm of accountants will still be performing the actual audit and the local government auditors' involvement in the process will not change.

4.6.5 Härryda

Willén claims that the difference in their involvement in the auditing of the interim reports is that the audit will be more thorough than before and they will also be more explicit regarding the follow up of the interim reports. "We will be stricter concerning the measurements proposed by the assembly in order to correct the remarks we have on the reports", Willén declares. "They will have to present realistic solutions for the problems we point out".

4.7 General opinions of the legislations significance for the auditors' work

4.7.1 Question

In what way do you believe that the new legislation will influence your work as a local government auditor?

4.7.2 Mölndal

Friberg believes that the new legislation will provide the local government auditors with an improved instrument for the auditing process, an instrument which will help the local government auditors in their effort to push the municipality towards a

healthier financial situation. “Our work will be more structured and our work will also gain importance within the municipality due to the new legislation, together with the fact that we continuously improve our work methods”, Friberg comments. Friberg then adds “it is important that we get this legislation to back us up, it helps us to further motivate our actions within the municipality”. Friberg also believes that the new legislation will mean more work for the local government auditors in Mölndal as they become more involved in the day-to-day work of the municipality.

4.7.3 Göteborg

It will influence the work of the local government auditors in Göteborg in a positive way, according to Johnsson. “This legislation provides us with a weapon to better justify our measures as well as a clarification of the boundaries for the rest of the organization”, Johnsson explains. The differences for the auditors in Göteborg will be that they will have to measure and verify the operations more extensive. Johnsson believes that the new legislation will force the auditors to be more alert than before, they will also have to dig deeper in the audit and primarily when it comes to the audit of operations.

4.7.4 Kungälv

According to Thorsson, the biggest influence on the auditors work in Kungälv is that there will be an increase in the demand for communication and understanding between the auditors and the rest of the municipal organization. The auditors’ role will be strengthened and this will give rise to an open dialogue within the organization. “With the new legislation we are required to compose more formal reports of our audits than before, this means that our own viewpoints will matter rather than the opinions of the certified accountant and this gives us a more prominent role in the municipal organization.

4.7.5 Härryda

Willén states that the work of the auditors in Härryda will be improved, there will be more focus on the operational audit than on the audit of accounts. The municipalities are, the new legislation states, required to post financial goals for the operations and the auditors will review these goals in order to make sure they are satisfactory, which will mean more work for the auditors. “I believe the planning process of our work will change as a result of the new legislation, it will take some time but it is important that we make the process a part of our day-to-day work”, Willén declares.

4.8 The auditors’ position in the local government - Present

4.8.1 Question

“What is your opinion about your position in the local government today and how has the position developed during the last few years?”

4.8.2 Mölndal

Back in time the position was weak but the position has strengthened during the last terms of office, Friberg claims. Earlier the reports only resulted in a fall of the hammer while today the local government auditors strive to initiate a debate, which will lead to changes in the municipality. Friberg also point at the importance of a fair and open debate where every participant respect the other's opinion and that the goal always should be to improve the activities in the municipality.

Finally Friberg states that the local government audit's position has strengthened through higher competence. "Earlier you became an auditor if there were not any other position for you. Now this has changed. Today, competence is a very important factor and you always look for the most suitable for the job."

4.8.3 Göteborg

Johnsson believes that the local government audit has a strong position foremost due to the fact the no one can influence their work. The local government audit chooses freely what to audit and according to Johnsson they are only somewhat controlled by their grants in the budget.

Johnsson notices a change in position over the last ten years thanks to more stringent rules. Furthermore, Göteborg has had the privilege of a separate audit office for around fifty years and Johnsson believes that the separate audit office and the size of the Göteborg municipality has helped to strengthen the position of the local government audit in Göteborg compared to other, smaller municipalities.

4.8.4 Kungälv

Thorsson points at the fact that the individual auditors are independent in their auditor role. "Four of us can approve and one can object, for example in the discharge process. If the audit is not unanimous we will have to present different reports." Thorsson believes that the audit should not be about politics and that a politically independent audit is of importance for the system.

Furthermore, Thorsson believes that their position has strengthened during the last couple of years and that the discussions concerning the discharge process now are more substantial. Thorsson feels that they are working differently now and that they contribute much more to the improvement of the municipal activities. "Today our work does not only include audits and I believe that it means a lot to the role of the audit and the work we do."

4.8.5 Härryda

Willén claims that the local government audit is the control organization of the assembly. Furthermore, he states that the local government auditors generally have a quite good standing but that the position might differ between various members of the assembly.

4.9 The auditors' position in the local government - Future

4.9.1 Question

“What is your opinion about how the new legislation will affect your position in the local government?”

4.9.2 Mölndal

The new legislation makes the local government audit stronger, although they have to work continuously with their competence to further strengthen their position. “The legislation gives us the support we need when we are questioning the committees.”, Friberg claims and say that changes in the local government organization is a time-consuming process. However, the new legislation is an additional step on the way.

4.9.3 Göteborg

”The role will strengthen due to the new framework.”, Johnsson declares and says that the “Persson investigation⁴” will further more strengthen the position of the local government auditors.

4.9.4 Kungälv

Thorsson believes that the new legislation will have a positive effect on the local government auditors' position; however, he expresses the difficulties in foreseeing the concrete position strengthening factors the legislation carries out.

4.9.5 Härryda

According to Willén, the role of the local government auditor will be more precise than before due to the new legislation. “It seems like we will be involved in the municipal auditing to a greater extent than before”, Willén declares. “But I believe that the biggest changes will come after the next electoral period, this first year will be very important for the implementation and application of the legislation”. They believe that the best way to influence their role as a local government auditor is through the comments published in the annual reports.

⁴ Persson, P., 2004, Att granska och pröva ansvar i kommuner och landsting (SOU 2004:107).

5 Analysis

In this chapter the authors will analyze the empirical research using the information presented in the framework chapter. The authors consider the theory of institutional change to be of an overall character and it is therefore analyzed separately.

5.1 Day-to-day work

The framework chapter describes that the audit assignment is to consider whether the municipal activities have been carried out in an appropriate and from an economic perspective satisfying way, whether the accounting records are correct and whether the internal control carried out in the committees are sufficient or not. Their work should be carried out according to generally accepted auditing standards and specialists should be hired to required extent in order to fulfill the assignment.

The new legislation seems to provide new and extended tasks to the local government audit and the question is whether the respondents share that prediction or not. Further, the new legislation aims at involving the local government auditors in the municipal administration in a more distinct way, but to what extent is the new legislation expected to affect the local government auditors' day-to-day work?

In Mölndal the audit believes that the new legislation will provide the auditors with an improved instrument for the auditing process. Moreover, they anticipate that their work will be more structured as a result of the new legislation along with the fact that they continuously improve their work methods. Furthermore, they believe that the new legislation will have importance in terms of backing up and further motivate their actions within the municipality. The local government audit in Mölndal also believes that the new legislation will mean more work for the auditors in Mölndal as they become more involved in the day-to-day work of the municipality.

In Göteborg the audit believes that the new legislation in general will have a positive effect on the auditors' work and that the new legislation provides them with a weapon to better justify their measures as well as a clarification of the boundaries for the rest of the organization. Moreover, they predict that they will have to measure and verify the operations more extensively, be more alert and furthermore dig deeper in the audit, primarily when it comes to the audit of operations.

According to the local government audit in Kungälv, there will be an increase in the demand for communication and understanding between the audit and the rest of the organization, which will give rise to a more open dialogue. Furthermore, they foresee that the new legislation will entail more formal reports than before.

The audit in Härryda predicts that the new legislation will improve their work and that there will be more focus on the operational audit than on the audit of accounts. Furthermore, they believe that the planning process of their work will change as a result of the new legislation and that it is important to make the planning process a part of the day-to-day work.

It is clear that the responding auditors of this thesis find the changes in the legislation of importance to their general day-to-day work. Foremost they feel that the new legislation will back up them in their work and moreover that the changes in the legislation will mean more work to the audit, mainly in form of deeper audits, more formal reports and a generally higher level of involvement. These expectations seem to go hand-in-hand with the government's expectations on the legislation, involving the audit at a higher extent and providing the audit with additional tasks.

Furthermore, one of the responding audits points at the demand for communication and understanding as an expected result from the new legislation, which should be a natural outcome of a more involved audit role. This is in accordance with the demand for an open-minded, preventive and continuing communication described in the framework chapter.

5.2 The role and standing of the audit

According to the Local Government Act, the audit should be independent and objective. Two factors which are of importance to the role and standing of the audit. In practice, the independence of the auditors means that they should independently choose what to audit and how they audit together with the requirement of an independently composed and presented analysis and judgment. A further strengthening of the independent role of the local government audit is the fact that the legislation does not provide the auditors with directions concerning the discharge process. The audit should make its own decision in this matter. In terms of objectivity the auditors are not allowed to be involved in committees or other similar municipal activities. Moreover, the auditors should defend their integrity and should not in any way be connected to any municipal activity that could create a bias situation.

The government claims the role and standing of the audit to be of great significance to the municipal operation and the new legislation clearly states that one purpose of the changes is to strengthen the audit role, mainly by deepening the involvement of the auditors.

The local government audit in Mölndal feels that the role and standing of the audit has strengthened during the last terms of office, partly thanks to an increase in competence. Foreseeing the outcome of the legislation, the Mölndal audit expects a strengthened audit. However, they have to work continuously with their competence to further strengthen their position. They furthermore state that the new legislation will back them up in the audit work. Although, changing the local government organization is a time-consuming process this is, according to the responding audit, an additional step on the way.

In Göteborg the audit believes that the audit has a strong position foremost due to the fact that no one can influence their work. Furthermore, they declare that the fact that Göteborg for more than 40 years has had a separate audit office with great resources, which comes with a larger municipality, have had a positive effect on the standing of the audit. Predicting the effect of the new legislation, the audit believes

that their position will be strengthened even more; however they expect more significant changes from the outcome of the Persson-investigation.

The audit in Kungälv points out their individual independence as a strengthening factor to the audit. They also believe that their role has strengthened during the last couple of years and that the discussions concerning the discharge process now are more substantial. Furthermore, the auditors think that they contribute much more to the improvement of the municipal activities nowadays and consider that a strengthening factor. When it comes to the outcome of the new legislation the responding auditors believes that it will have a positive effect on the local government auditors' position.

The local government audit in Härryda feels that the audit generally has a good standing but that the position might differ between the leaders and the other members of the assembly. According to the responding audit, the new legislation will make the audit role more precise than before, however, they believe that the biggest changes will come after the next electoral period. This first year will be very important for the implementation and application of the legislation, the audit claims. Finally, the audit in Härryda believes that the best way to influence their role as a local government auditor is through the comments published in the annual reports.

Most of the responding auditors feel that the role and standing of the audit has strengthened during the last couple of years, though it seems difficult to decide whether the strengthened role is an effect of new legislations, improved internal work methods or an increase in competence. The view of the auditors' current role and standing differs somewhat between the responding municipalities. However, the expectations on the new legislation show a concordant attitude towards the new legislation and the positive effects it will have on the role and standing of the local government audit.

5.3 Budget and forecast

In the government bill Healthy Finances it states that the municipality should put up goals and guidelines for the operations as well as financial goals for the municipality in the budget in order to achieve healthy finances. With this proposal the government aims to strengthen the self-government as well as it gives the municipalities an instrument of control. The local government auditors' role in the audit of the budget is to review if the goals and guidelines presented in the budget are met.

The local government audit in Mölndal will focus on the follow-up of the fulfillment of the goals set by the local government but they will take no active part in the budget process at all.

In Göteborg, the local government auditors will comment on the forecasts made by the local government and present the comments to the assembly in a more formal way.

The local government auditors in Kungälv believe that the work with the municipal budgets and forecasts will not change with regards to the new legislation. They

claim that the biggest change will be with the assembly, which is given a strengthened role in the budget process.

In Härryda, the local government auditors believe that they will be more involved in the budget process, but will put more emphasis on the development and design of the budget process itself, rather than on the work with auditing the budgets. They will also put more weight on the use of forecasts in their work. The local government auditors in Härryda also believe that the communication and information processes are the most important aspects when it comes to working with the municipal budgets and forecasts.

According to the local government auditors in the investigated municipalities, their involvement in the budget process will not change to any great extent. The change regarding the extent of their work with the budget will not be altered.

5.4 Annual reports

As presented in the framework chapter the local government auditors are obligated to present an evaluation of their audit of the municipal's goals and guidelines. The purpose of the legislation is that the municipalities should be well prepared to be able to meet the increasing demands for municipal activities. In order to achieve healthy finances in the municipalities it is of great importance that the goals and activities of the municipality are evaluated and followed up.

The instrument used for assessing whether or not the goals have been met is the auditing. The evaluation is to be made by the local government auditors and is to be presented in an operating statement of the annual report and should therefore be included in the local government auditors' audit of the annual report.

In addition the local government auditors should audit the annual reports of the municipalities in order to help the municipalities achieving healthy finances. The new legislation states that it is important for the municipalities to use the knowledge and expertise of the local government auditors in order to achieve healthy finances. The legislation also believes that the audit of the municipalities' annual reports will help strengthen the role of the local government auditor, something that would help the municipalities to achieve healthy finances more efficiently. The new legislation also requires the audit to leave a written statement of the results to the assembly together with the presentation of the annual report.

The local government auditors in Mölndal believe that, due to the new legislation, their involvement in the annual reports will increase because of the strengthening of the legislation. The extent of the work with annual reports will increase for the local government auditors in Mölndal. They will however still outsource the audit of accounts to external certified accountants.

In Göteborg, the local government auditors' role with the annual reports will not change, as they prior to the legislation were involved to the full extent of the legislation. They provide both the audit of accounts and the audit of the operations. This procedure will not change with the new legislation because the local government auditors in Göteborg feel that it is important to maintain their knowledge and skill.

The difference for the local government auditors in Kungälv is that they, according to the new legislation, will be obligated to compose the reports on the annual reports on their own, which has previously been done by external auditors. Prior to the new legislation, the local government auditors in Kungälv have outsourced the entire audit of the annual reports to external certified accountants and will continue doing so when the new legislation is implemented.

The most notable effect for the local government auditors in Härryda is that they will put more emphasis on comparing interim and annual reports than before. Due to the new legislation they will also have to present their comments on the annual report to the assembly in a more formal way than before. The actual audit of the annual reports and the goals set by the municipality will not change as a result of the new legislation. The audit will also in the future be purchased from external certified accountants with a discussion between the local government auditors and the external certified accountants prior to the presentation of the report to the assembly.

According to the local government auditors in the responding municipalities the involvement in the annual reports will increase despite the use of outsourcing. The involvement will increase mostly due to the fact that the local government auditors will have to produce the audit report of the annual report on their own. Some local government auditors will also put more emphasis in comparing the annual and interim reports.

5.5 Interim reports

As presented in the framework chapter the local government audit's work with the interim reports should in some ways be affected by the new legislation concerning Healthy Finances. The goals and guidelines must be included in the interim reports and the local government audits are obligated to audit whether the goals and guidelines are achieved or not. Furthermore, the interim reports are to be managed by the assembly, which should additionally involve the auditors.

Starting out with Mölndal, the administration has not until now produced a complete interim report. However, the municipal executive board has earlier worked with a reconciliation method in order to view the progress of the municipality. The results from this method have neither been handled by the assembly, nor by the local government audit. According to the vice-chairman of the Mölndal audit, the local government auditors will be more involved in the work with the interim reports, when it comes to the audit part of the work. They will also state their judgment of the interim reports in an attached statement. In practice, the audit of the interim reports will be outsourced to external firms, where certified accountants will manage the work. They will also assist in the drafting of the comments to the assembly. The practical work at the Mölndal audit will not change.

The administration of the Göteborg municipality has for several years been using interim reports in which the audit has been involved to a rather vast extent, including auditing and commenting. Furthermore, both the audit of accounts as well as the audit of the operations is performed by the local government auditors. In Göteborg the audit work with the interim reports will not be affected by the new

legislation in any significant way, since they have a history of performing the audits in a distinct and extensive fashion.

The local government audit of Kungälv has until today outsourced their audit of the interim reports. External auditing firms have carried out the audits and the local government auditors have ratified the results. With the new legislation Kungälv will continue to outsource the audit and the local government auditors' involvement will not change in any considerable way. The only change pointed out by the chairman of the local government auditors in Kungälv is the requirement of a written report attached to their comments on the audit.

The local government auditors in Härryda audit the interim reports and make comments on the issues they believe needs correction. They purchase the audit of accounts from an external auditing firm, although the local government auditors decide what to audit. Härryda does not publish any reports, as they choose to discuss the adjustments needed to be made in an informal way. According to the local government auditors in Härryda, the new legislation will force the audit work to be more thorough. They will also be more explicit regarding the follow-up of the interim reports and the measures taken by the assembly to correct the remarks they have on the reports.

The four municipalities participating in this thesis have previously had different ways of carrying out the interim reports and the audit of the same. This seems to change with regards to the new legislation. The interim reports produced by the municipal administration must now be managed by the assembly, which will include the local government auditors in the process, regardless of how the municipalities have carried out the interim reports in the past. The interim reports should furthermore include goals and guidelines concerning Healthy Finances, the achievement of which should be audited by the local government audit. However, three of the participating municipalities outsource their audit work to external firms, which entails that the practical work of the local government audit will not change dramatically.

5.6 Institutional change

In the theory concerning institutional change, developed by Siverbo (2004), the foundation is the ability to handle the balance between continuity and change in a way which suites the purposes of the organization. The organization must be open for inspection and observation in order to remove any obstacles for change. Other qualities that are important for the organizations ability to change are reciprocity, co-operation and confidence.

Reciprocity concerns the fact that decisions are made in proportion to what consequences it has for the rest of the organization and promotes co-operation between participants in the organization and is the foundation for the development of trusting relationships. In addition, confidence promotes co-operation and reciprocity in the decisions.

The local government auditors participating in this thesis have stated that they put emphasis on consensus and that a matter is not disposed of until the local



government auditors are agreed. This is a vital part of the ability to handle change according to the theory of institutional change.

The use of external assistance as well as discussions between different parts of the organization is frequent, which implies that co-operation is important and common in their work. The co-operation between the different parts of the organization along with the reciprocity in the decision making process create confidence between the local government auditors as well as between the local government auditors and the rest of the organization.

6 Concluding discussion

In this chapter of the thesis the authors will present the concluding results of the study based on the problems presented in the first chapter of this thesis. The purpose of this chapter is to present and discuss the results and findings of the research. Finally, the authors will conclude with suggestions for further research.

From the study, the authors have drawn the conclusion regarding the change of the local government auditors' day-to-day work that the legislation will mean deeper audits and that the extent of the audits will increase. Moreover, it is clear that the new legislation will enhance the local government auditors' level of involvement in the day-to-day work of the municipalities. That will in turn lead to an increasing need for communication and understanding within the municipality. In addition, the local government auditors are also required to present their reports in a more formal way.

From these changes the authors draw the conclusion that the expectations of the local government auditors concerning their day-to-day work is in accordance with the purpose of the legislation. Since the work process concerning the day-to-day work differs between the municipalities and the fact that the legislation is in its implementation stage makes it difficult to point to specific changes and therefore the expected changes are more of a general character. However, the need for improved communication and understanding between the involved actors in the local government auditing, is something that both the legislators and the local government auditors agree upon.

Regarding the role of the local government auditor, it is clear that the respondents believe that the legislation will strengthen their role as local government auditors but they find it difficult to point out in what way and why. The respondents all agree that their role has been strengthened in the last decade partly as a result of the government's goal to strengthen their role. They also believe that the new legislation is a further step in the strengthening of their role. It is difficult to contribute the strengthened role to one specific object. It could be because of the legislation, the improved internal work methods of the local government auditors or a higher level of competence among the local government auditors. The authors believe that the strengthened role can be contributed to a mixture of all these factors.

The authors believe that the view of the local government auditors differs between the municipalities and also between individuals within the municipalities. The authors believe that the process of changing attitudes is time-consuming and therefore it is important to try to strengthen the role of the local government auditor gradually.

It is apparent that there is a need for support to justify the work of the local government auditors. The study shows that the legislation provides the local government auditors with additional support in order to fulfill their assignment.

The purpose of the use of forecasts and prognosis within the municipalities is also to give the local government auditors an opportunity to contribute with their knowledge when reviewing the forecasts made by the local government.

When it comes to the local government auditors' work with budgets and forecasts, the general opinion is that their work process will not change dramatically. However, the involvement might become somewhat deeper. The thoughts and opinions regarding this matter vary between the municipalities, as do the work methods. It is therefore difficult to analyze the effects the legislation might have on the work of the local government auditors concerning the work with budgets and forecasts.

The authors believe that communication and information within the municipality are important factors for the local government auditors' work. The authors draw the conclusion that there is still much work to be done in order to increase the local government auditors' involvement in the work with budgets and forecasts. The use of forecasts and prognosis in the financial reports are an important tool for the municipalities to achieve balance in their economy in order to achieve healthy finances. This procedure of using budgets and forecasts in the municipal organization has not yet been established to any great extent, something the authors believe is essential in order to achieve a more stabile financial situation for the municipalities.

Regarding the annual reports and the local government auditors' involvement with the reports, the respondents all believe that their involvement will increase, despite the fact that most of the municipalities outsource their work with annual reports. The biggest changes will be that the local government auditors from now on will have to produce the audit report of the annual report on their own. Earlier this has been done by the external accounting firms. However, this is also different between municipalities, for example Göteborg has earlier produced the reports on their own as well as some of the actual audit while the other municipalities have used external accounting firms for most of the process. Other changes that will affect the work with annual reports are that some local government auditors will put more emphasis on the comparison between annual and interim reports.

The authors believe that the resources of the local government auditors in Göteborg provide the audit in Göteborg with an opportunity to carry out a more extensive audit than the local government auditors in the other municipalities. The level of necessary changes due to the new legislation is therefore depending on the level of involvement prior to the legislation as well as the resources at hand.

Regarding the work with interim reports the local government auditors believe that the new legislation will lead to a harmonization of the work process between the municipalities. The work process has earlier differed between the municipalities; some municipalities have not used interim reports at all, while some municipalities have had interim reports in use for years. Although the work with interim reports is mostly outsourced, the local government auditors believe that their work will be more thorough than before, for example will the follow-up be more explicit.

Regarding the local government auditors' ability to adapt to changed conditions and situations, the authors believe that the auditors are well equipped to handle these changes caused by the new legislation. They seem willing to question their work methods, as well as they are confident in each other and the municipal organization as a whole. The local government auditors also have a great deal of experience in other parts of the municipal organization. They also put emphasis on co-operation between the different parts of the organization. These facts support the authors believe that the local government auditors have a good ability of adopting their work process to changed conditions.

When the authors started the research for this thesis it became apparent that the local government auditors outsourced their work to a greater extent than the authors had assumed. It did say in the legislation that external specialists could be used to the extent needed to achieve generally accepted auditing standards and to fulfill the audit assignment. When the interviews were conducted the scope of the use of external specialists became clear. The authors believe that the extensive use of external specialists means that the local government auditors' practical work will not change to the extent it would if they were to perform the auditing work themselves instead of outsourcing it.

The level of changes of the work is subject to municipal differences, the authors can see a clear connection between the resources available and the extent and depth of the audit work. For example, the audit in Göteborg, with their own separate audit office and full-time employed auditors, has resources to perform their own auditing and this is not an option for the smaller municipalities, which are forced to outsource their work at a larger extent.

The authors believe that co-operation and sharing of resources between the smaller municipalities would lead to an improvement of the work and create opportunities similar to the larger municipalities.

The authors believe that the legislation will have an impact of the leveling of the differences between the working practices of the local government auditors. In other words, have a harmonizing effect on the work of the local government auditors. A more equal method of working will also promote the comparison between the municipalities on a national level.

The fact that the legislation is new means that it will take some time for the changes in the work practice to become apparent. The implementation of the legislation will be adopted by the municipalities at various rates, though the authors believe that next edition of the document *God Revisionssted - i Kommunal Verksamhet* will give the municipalities more concrete instructions on how their work is to be carried out.

One distinct understanding that the authors have received during the course of this research is that the local government auditors are awaiting the results of the Swedish Government Official Reports (SOU) *Examining and determining accountability in local governments*, also known as the Persson-investigation, which will be handled by the Swedish parliament this summer. The report will clarify the role of the local government auditor, the assignment and work practice. As this report aims at more clearly defining the local government auditors work

practice, the authors of this thesis believe this is one reason why the new legislation concerning Healthy Finances will not have an immediate impact on the work practice of the local government auditors, as they await the results of the Swedish government official report.

Finally, the authors consider the legislation Healthy Finances to be a needed contribution to the local government audit as a democratic control instrument. Although, it will not have a crucial effect on the local government auditors' work practice it is certainly a step on the way in the development of the role of the audit.

6.1 Future research

In this section the authors will present their suggestions and ideas for future research in the subject Local Government Audit. While conducting the research, the authors have discovered interesting angles and new phenomenon that can be studied. These are presented below.

- As presented in the end of the concluding discussion, an investigation carried out by The Swedish Governmental Official Reports, regarding examining and determining accountability in local governments, will be handled by the Swedish parliament in the summer of 2005. The investigation proposes several changes to the local government audit, changes of which some will enter into force on the 1st of July 2005 and legislative amendments from the Financial Year 2007. Due to the significant impact the investigation is expected to have on the Local Government Audit, the authors of this thesis suggest further research concerning the local government audit and the effects the proposals in the investigation will have on the audit work.
- The authors came to the conclusion that the local government audits to a significant extent outsource the practical audit work and that it has a considerable impact on the work practice and further more the effects the legislation Healthy Finances will have on the audit. As the audit firms play such an important role in the local government auditing, the authors suggest further research in this matter. Such research could for example concern the audit firms' role in the local government auditing and the relation between the local government auditors and the audit firms.
- This study was conducted with a qualitative method, using four personal interviews. As an interesting suggestion, the authors propose a future research to be carried out with a different kind of research method or a different group of respondents. It would give the research a different perspective and would enable other questions to be asked.
- One conclusion the authors drew from the results of this thesis was that there seems to be quite significant differences between various municipalities. These differences have not been the object for this study, while the authors recommend a future study focusing on the differences concerning the local government audit in various municipalities. Such a study could, for instance, be carried out using a quantitative method with a



large series of data collected with a questionnaire sent to local government audits all over Sweden. It would enable a more extensive comparison between different municipalities and would in addition enable to answer various kinds of questions concerning the work practice of the local government audits in different municipalities.

- Increased co-operation between first and foremost smaller municipalities, which do not have the same resources as larger municipalities, is a recommendation made by the authors of this thesis. It would therefore be interesting to conduct a study that would survey the existing co-operation between local government audits in different municipalities and for example describe the kind of co-operation performed.
- The final suggestion for future studies would be to, in one or two years from now, carry out a research similar to the one carried out by the authors of this thesis. The object would be to investigate the actual effects of the new legislation Healthy Finances and compare them with the expectations surveyed in this thesis.

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APPENDIX 1 – Questions in Swedish

- Presentation, befattning, tid vid befattning, tidigare erfarenheter, etc.

Nu

- Vad anser du om revisorernas ställning/roll i er förvaltning idag?
- Har den förändrats under den senaste 5-årsperioden? På vilket sätt?
- Har er kommun före årsskiftet 2004/2005 använt sig av delårsrapporter?
- På vilket sätt har ni varit delaktiga i framställande och granskning av delårsrapporterna för t.ex. 2003/4?
- På vilket sätt har ni varit delaktiga i framställande och granskning av årsredovisning för t.ex. 2003/4?

Framtiden

- Hur uppfattar du den nya lagstiftningen om God Ekonomisk Hushållning?
- Känner du till vad den nya lagstiftningen kommer att innebära för förändringar (för- och nackdelar) för revisionsarbetet?
- Vad tror du om ert kommande deltagande i budget- och prognosarbete? Löpande arbete.
- Vad har ni vidtagit för åtgärder i samband med införandet av den nya lagstiftningen (ex ökad användning av sakkunniga)?
- Har er kommun efter årsskiftet 2004/2005 använt sig av delårsrapporter?
- Hur granskas om kommunerna har nått upp till God Ekonomisk Hushållning?
- Vad prioriteras i ert revisionsarbete? Kommer prioriteringen att förändras?
- På vilket sätt har den nya lagstiftningen förändrat/kommer att förändra ert arbete med delårsrapporter (fördelar/nackdelar för revisionsarbetet)?
- På vilket sätt har den nya lagstiftningen förändrat/kommer att förändra ert arbete med årsredovisningen (fördelar/nackdelar för revisionsarbetet)?
- På vilket sätt kommer den nya lagstiftningen att påverka er roll som revisor i kommunen (delaktighet, lagstiftningens ambition)?
- Hur ser du på skillnaden mellan olika kommuners revisionsarbete?
- Hur arbetar ni gentemot revisionsbyråerna?

APPENDIX 2 – Questions translated into English

- Presentation, position, period on position, earlier experiences, etc.

Present

- What are your opinion about the role and standing of the audit in your municipality today?
- Has the role changed during the last 5-year-period? In what way?
- Have your municipality prior to the turn of the year 2004/2005 carried out interim reports?
- In what way have you taken part in the production and audit of the interim reports concerning i.e. 2003/2004?
- In what way have you taken part in the production and audit of the annual report concerning i.e. 2003/2004?

The future

- What is your general opinion of the new legislation concerning Healthy Finances?
- What changes to the audit work do you expect from the new legislation (pros and cons)?
- What are your expected participation in the budget and forecast work? Day-to-day work?
- What measures have been taken regarding the introduction of the new legislation (i.e. increasing usage of external specialists)?
- Have your municipality subsequent to the turn of the year 2004/2005 carried out interim reports?
- How is the achievement of Healthy Finances audited in your municipality?
- What is prioritized in your audit work? Will the prioritization change?
- In what way has the new legislation changed/will change your work with interim reports (pros and cons to the audit work)?
- In what way has the new legislation changed/will change your work with annual reports (pros and cons to the audit work)?



- How do you expect that the new legislation will affect the role of the local government auditor (involvement, the intention of the legislation)?
- What are your thoughts regarding variations between the audit work in different municipalities?
- To what extent do you work with external auditing firms?