

Transparency and accountability of public service delivery in financial statements of public authorities

– Citizens as armchair auditors?! –

Dr. Ellen Haustein

Prof. Dr. Peter Lorson

Dr. Christina Wigger



Outline

1 Motivation and Research Objectives

2 Research Methods

3 Findings

4 Conclusion

1 Motivation and Research Objectives

Audit Commission Act 1998

Commissioner

Regulator

Supervisor

Audit Commission for Local Authorities

- independent public corporation that existed between 1 April 1983 and 31 March 2015
- In house audit practice

Auditing Process

Local Authority

Local Audit and Accountability Act 2014

Commissioner

Regulator

Supervisor

Local Authority

National Audit Office

Financial Reporting Council

Local Auditor

Independent, external auditor

Auditing Process

Local Authority

Inspection of documents by „any person interested“

Transparency Initiative

1 Motivation and Research Objectives

- **Creation of an army of armchair auditors**

Problems:

- Public has no interest in the publication of public sector financial statements (Jones, 1992)
- Ability to hold municipality to account is lacking (Eckersley et al., 2014)

→ 1st research question: Are citizens interested in their municipality's financial situation?

→ 2nd research question: Are citizens able to extract basic financial information from a municipal financial statement?



2 Research Methods

Three consecutive elements:

1. Prospective Interview (RQ 1)
2. Think Aloud Protocol (RQ 2)
3. Retrospective Interview (RQ 2)



2 Research Methods

1. Prospective Interview (RQ 1)

- What do you think of the **work** of your local administration?
- What do you **expect** from your home municipality?
- Which **information** would you **like to get**? What would you **do** with this information?
What would you like to **check**?
- What do you **expect** from municipal (financial statement) **information**?

2 Research Methods

2. Think Aloud Protocol (RQ 2)

- Common technique to get insights in thought processes (Ericsson and Simon, 1999; Konrad, 2010)
- Subjects verbalize their thoughts on a specific task or problem
- **Here:** task to extract basic (financial) information from a municipal financial statement
 - a. Please describe the composition of assets as accurately as possible!
 - b. Please search for facts and figures which show how the municipality is financed!
 - c. Please search for facts and figures which tell you whether and whereby the municipality produces profit or loss!

3. Retrospective Interview (RQ 2)

Confronting the subject with particularities realized during the think aloud method



2 Research Methods

2. Think Aloud Protocol (RQ 2)

- **Research object:** original financial statement of a German city (64 pages, printed)
- **Research subjects:** judgmental sampling of Rostock's inhabitants, considering differences in:
 - Age,
 - Gender,
 - Income,
 - Level of Education.

2 Research Methods

Sample (n=30) and 190 pages interview/Think Aloud protocol

Attribute	No. of subjects
Qualification for university entrance	26
Knowledge about (cost) accounting	23
Income between 1,000€ and 3,000€ (monthly, before tax)	16
Female	10

3 Findings

RQ1: Are citizens interested in their municipality's financial situation?

Information needs

- General financial overview
- Information about the use of money / efficiency
- Information about actions of the municipality
- Information about problems and corrective actions
- Specific information about social expenditures

Expectations

- Transparency
- Comprehensibility
- Trustworthiness

3 Findings

Think Aloud Protocol and Retrospective Interview

RQ2: Are citizens able to extract basic financial information from a municipal financial statement?

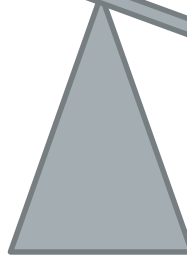
- Irrespective of groups, most subjects were **not able** to solve all tasks
- Concerning the **composition of assets**, most respondents were able to provide a description (Task 1)
- Concerning **sources of financing** (Task 2) of the municipality most respondents answered the question explaining where cash inflows/outflows come from (i.e. taxes or allocation of funds from the federal state). The majority of respondents did not answer the question with respect to liabilities.
- Most respondents were not able to solve Task 3 about whether the municipality made a **profit or loss**.

3 Findings

Think Aloud Protocol and Retrospective Interview: Common Themes

Expectation:
Transparency

Actual reaction:
1. Information Overload
2. Doubts/Mistrust



3 Findings

Think Aloud Protocol and Retrospective Interview: Common Themes

1. Transparency vs. Information Overload

- Main expectation was transparency, people would like to be provided with a general financial overview and detailed information
- **BUT:** after being presented the financial statement, soon most respondents showed symptoms of being overwhelmed by the mass of information
- One subject explicitly expects transparency, but: “As a citizen, I would not actually read these 50 pages.”
- Another subject is “so overstimulated by the numbers and of all the words, which are there, and of the tables anyway”

3 Findings

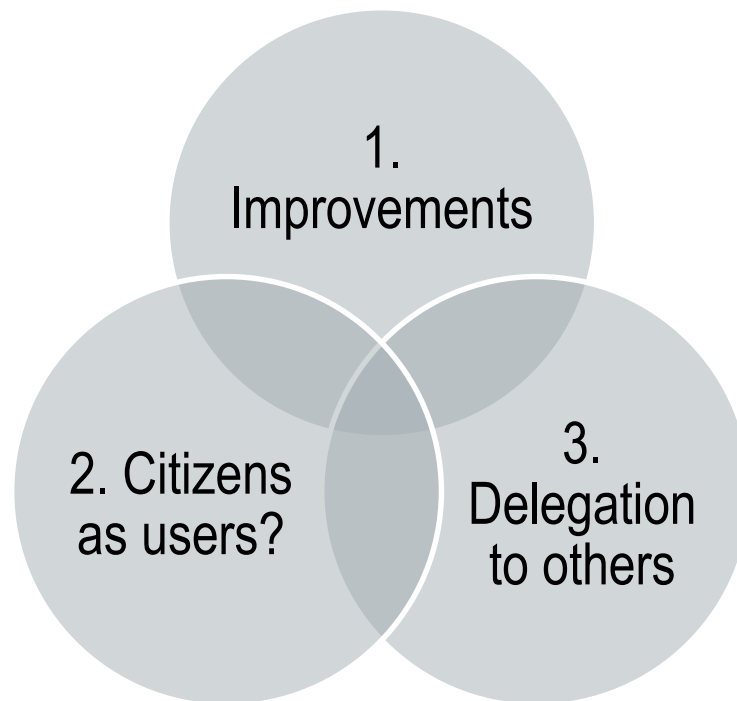
Think Aloud Protocol and Retrospective Interview: Common Themes

Transparency vs. Doubts/Mistrust

- Transparency should increase legitimacy and confidence in government policies (Fine Licht et al., 2014, da Cruz et al. 2016)
- Da Cruz et al. (2016) already stated that (too) detailed information can create frustration and disappointment, and as a result diminish perceived legitimacy
- Respondents here showed mistrust, because information were too detailed and not understandable
- Some respondents show general mistrust and passivism
- “probably they flipped everything so that they have no losses”

3 Findings

Think Aloud Protocol and Retrospective Interview: Reflections



3 Findings

Think Aloud Protocol and Retrospective Interview: Reflections

1. Recommendations for improvements

- General overview missing: key facts on financial situation
- Length of documents
- More tables and overviews, key ratios
- Preference for an electronic version
- Problems with expert terms: glossary needed
- Comparative figures missing, e.g. of other municipalities
- Table of contents served as a “savings anchor”

3 Findings

Think Aloud Protocol and Retrospective Interview: Reflections

2. Citizens as users?

- Skepticisms towards usability of financial statements for citizens
- Main points of criticism:
 - Too much information
 - Lack of knowledge
 - No ability to assess information
 - Benefit from / use of information?
 - Lack of time
- Comprehensibility of financial information seen as a “learning process”

3 Findings

Think Aloud Protocol and Retrospective Interview: Reflections

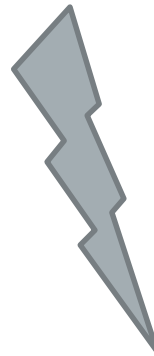
3. Delegation to others

- Despite the call for transparency, others shall read the documents: “In detail, that is something for experts. They should make up their mind about it.”
- Presumption that financial statements are picked with expert terms intentionally in order to discourage readers
- Freelancers refer to their tax accountants

4 Conclusion

RQ1: Expectations / Information needs

- General financial overview, especially budgetary information
- Calls for transparency and comprehensibility



RQ2: Ability to extract financial information

- Lack of knowledge: majority is not able to solve tasks
- Information overload
- Mistrust / doubts
- Suggestions to increase comprehensibility
- Doubts about citizen users
- Delegation to others

Citizens as armchair auditors?