



UNIVERSITY OF
GOTHENBURG

DEMOCRATIC ORIGINS OF AUDITING

“Good Auditing” in Democratic Perspectives

MARIA GUSTAVSSON

WORKING PAPER SERIES 2013:13

QOG THE QUALITY OF GOVERNMENT INSTITUTE
Department of Political Science
University of Gothenburg
Box 711, SE 405 30 GÖTEBORG
October 2013
ISSN 1653-8919
© 2013 by Maria Gustavsson. All rights reserved.

Democratic Origins of Auditing. “Good Auditing” in Democratic Perspectives
Maria Gustavsson
QoG Working Paper Series 2013:13
October 2013
ISSN 1653-8919

ABSTRACT

This paper addresses the democratic origins of auditing of the public sector and aim at developing a concept of “Good Auditing” based on democratic theories. The paper argues that the normative characteristics of auditing found in the literature, such as independence and professionalism, are well founded in democracy theory. The unclearness of the role and responsibility of auditors is argued to be a consequence of both uncertainty of the main principle and how the accountability process of auditing should be arranged, as well as changes in the professions attitude towards the scope of the audit objectives. From a democratic perspective there is need for auditors to recognize the citizens as the principle, which implies fulfilling the people’s expectations of their role as well as aiming at limiting mismanagement of the public sector. This requires a higher ambition than merely report to the administrative management and elected politicians. “Good Auditing” is defined the following way: *Good auditing of the public sector is distinguished by recognizing the people as the principal, independence to the auditee and professionalism in the exercise of the audit practice.*

Maria Gustavsson
The Quality of Government Institute
Department of Political Science
University of Gothenburg
Maria.gustavsson@gu.se

Democracy Theory and Controlling the Power of Bureaucracy

In research and politics an increased interest in audit, inspections and oversight of the public sector is noted by many scholars (Dye & Staphenhurst 1998; Gendron et al. 2007; Guénin-Paracini & Gendron 2010; Hood et al. 1999; Kelly 2003; Pentland 2000; Power 1999; Rose-Ackerman 2005; Skaerbaek 2009). This increase is not merely driven by efficiency considerations but also by confidence that external audit of the public sector contributes to the overall legitimacy of the democratic society. Despite the trust we have in audit as a mechanism of democratic accountability and the increased audit activities observed in society, there is today a lack of theoretically developed concepts of what may constitute “Good Auditing” of the public sector. This can be compared with extensive discussions on concepts such as good governance, quality of government as well as on democracy itself.

A large literature on accountability however exists, in which elaborated discussion on the wide range of mechanisms of accountability in the public sector is held (c.f. Behn 2001; Bovens 2005; Day and Klein 1978; Hanberger 2009; Mulgan 2000; 2003; Romzek and Dubnick 1987; Sinclair 1995). Yet these discussions are generally held separate from democracy theory and do not seek to develop any normative framework for how a mechanism of holding the bureaucracy to account best should be organized, to serve its democratic purposes.

In turn, within democracy theory, little attention has been paid to how accountability of the public sector should be organized (c.f. Prezeworski et al 1999; Fukuyama 2011). Rather focus has been on how the general will may be realized through competitive elections (Shapiro 2003), inclusion (Mendus 1992; Phillips 1991), voter and elite behavior (Dahl 2000; Lively 1975), and the necessity of political rights (Hadenius 1992). Although Dahl (2000) recognizes how the people delegates their power indirectly to large groups of public officials and that these officials constitute a powerful elite, yet in designing necessary criteria for a democracy he does not include a democratic control of the bureaucracy. Instead, he focuses on the importance of holding political leaders to account. (p. 125). Even though the control of the public sector has been neglected in political theory, there are exceptions; Aristotle, John Stuart Mill and Max Weber emphasize the importance of a function such as audit to reassure that the power of the public administration will not be too extensive as well as they highlight various aspects to constitute its character.

To seek the theoretical foundations for a mechanism like auditing is significant; several normative aspects of auditing are highlighted in the literature, while other parts of its role and responsibility are much vaguer. Auditors have been criticized to not fulfill their responsibilities, in particular in the aftermath of the financial crisis their position has been heavily questioned (Sikka 2009), and the gap of expectations between what the auditing profession considers their responsibility and what the general public expects of them is a well-known theme in the auditing literature. To be able to continue a discussion of the role of auditing in the democratic society, there is thus a need to connect the discussion to the history of political theory and the democratic foundations of auditing (c.f. Dunn 1996). The aim of this paper is to seek the theoretical roots of understanding audit as a part of democratic accountability, and second, on the basis of this analysis, the aim is to outline a normative concept of how “Good Auditing” can be defined and organized in the democratic society.

Democratic Accountability in Athens

The Athenians held their democratic system sacred and created several procedures to limit the possibilities of exceeding the power given in political and administrative positions. In particular, there seem to have been a particular concern with how public officials fulfilled their obligations at office as there was, as Todd (1993) describes it, “an astonishing wide range and frequency in our sources of penal procedures brought against public officials” (p. 301). Several different procedures for holding public officials accountable existed in parallel in Athens, where some were more prominent and politically important during some periods of time than others (Todd 1993 p. 113). Beyond discussing the ideas advanced by Aristotle, the paper also provide a general picture of the various processes for holding officials to account in the early democratic state of Athens during the fifth and fourth century B C.

In book VI in *The Politics*, Aristotle reviews which public offices are necessary within the democratic state and at the end of this enumeration he states that:

But since some, not to say all, of these offices handle the public money, there must of necessity be another office which examines and audits them, and has no other function. Such officers are called by various names – Scrutineers, Auditors, Accountants, Controllers.

(Aristotle, *The Politics*, Book VI, 1322b5-15)

He continues in the Constitution of Athens to declare that these auditors were in number ten and were selected by lot by the Boule (the Council) among its members (Aristotle, *The Constitution of Athens*, XLVIII 3)¹. This procedure directed specifically towards public officials was called euthunai and it was a process where public officials had to present their accounts (*logoi*) at the end of their office term. The first stage in euthunai was directed towards public officials who have handled the public money. This process was led by auditors (*logistai*) assisted by public advocates (*sunégoroi*). If mismanagement of the public funds was found, the euthunai process could be continued in court, where public advocates were used as prosecutors and the process was led by auditors. The first stage of euthunai was an examination of the officials' financial records and it intended to discover corruption and embezzlement among the officials (Todd 1993, p. 112-113) If the auditors found any embezzlement or bribe-taking the jury could sentence the official to pay a fine of ten times the amount the official had received or stolen (Aristotle, *The Constitution of Athens*, LVI 2). If no problems with the accounts were found by the auditors, the general public was invited to make charges against the public official regarding the financial management of the officials in the second stage of euthunai (Euben 1997, p. 96, Elster p. 267).

The second stage of euthunai examined any other kind of misconduct in public office. This process was not handled by auditors but by other particular officials (*euthunoi*), who accepted accusations made against the officials whose accounts had been audited from anyone in the general public. Allegations in this process commonly concerned misuse of power or having neglected duties. If the euthunoi found the charges made credible, the case was handed over to a court (Euben 1997, p. 96-97). Similar to the auditors, the particular officials handling this second stage of euthunai as well as their assistants were selected by lot by the Boule and consisted of one member from each tribe (Aristotle, *The Constitution of Athens*, XLVIII 4).

As Todd (1993) argues, the well-developed procedures in two stages with different investigators, where a specific process examined particularly how the public funds had been handled, indicates that the Athenian democracy considered the work of the public administration and particularly the financial side of it to be of substantial significance for their democratic society (p. 302). Public offi-

¹ The body which handled the everyday life in Athens, it consisted of 500 members, 50 from each tribe who were selected by lot also called the Council or the Council of Five Hundred. In this paper the Boule will be called the Council

cially were not allowed to exercise several rights such as traveling and transferring property, until the process of euthunai was finished and they were acquitted of all charges (Euben 1997, p. 97).

Euthunai appears to have been an important procedure of creating democratic accountability particularly in the fifth century in Athens, while in the fourth the *eisangelia* became more popular, probably due to the fact that this process was not restricted to the end of the officials term, but could be used at any time of the year (Todd 1993, p. 113, p. 302). Hansen (1975) however claims that we cannot be sure of how the euthunai process looked like in the fifth century, and that his descriptions of the process apply only to euthunai in the fourth century (p. 45). Unlike euthunai where a case resulted in a court trial, in the *eisangelia* process the cases were brought to the *Ekklesia* (the Assembly) and the Council (Hansen 1975, p. 9).

The different processes were chosen not only depending on which allegations were made, the prosecutor had large possibilities to select which of the processes to use. Different penalties for the same crime could be the result of the selection of process. For instance, as Hansen (1975) points out, if a case of corruption was processed in an *eisangelia* the consequence could be death penalty, while in a euthunai the penalty for the same crime could be a large fine (p. 9). It appears to be difficult to sometimes distinguish between processes of *eisangelia* and the process in the second stage in euthunai, as there are examples of the same trials described as both *eisangelia* and euthunai, which dealt with treason and bribes, Hansen (1975) however argues that this could be a result of euthunai being a general term for holding someone accountable (p. 45). A possible way to distinguish which process was used would be to see if the process was held by the end of the officials' term at office, by the end of the year. The audit process at the first stage of euthunai was however easier to distinguish from the *eisangelia* as the officials could merely be charged with embezzlement, corruption or misconduct at office and not with treason and overthrow of democracy, as they could in the second stage of euthunai and in the *eisangelia*, (Hansen 1975, p. 45-47).²

Although the *eisangelia* primarily was directed towards public officials, due to a specific clause also ordinary citizens could in this process be charged with overthrow of democracy (Todd 1993, p. 114). Similar to euthunai, cases in *eisangelia* could be brought to court, if the cases were judged as serious by the Council where they first were presented. The most common procedure was however

² The *Ekklesia* was the general Assembly. The Council of Five Hundred is another name on the Boule, which in this paper is called the Council

that the Council presented the charges directly to the Assembly, and the Assembly decided if the case should be brought to court or if it should be processed in a juridical sitting in the Assembly itself (Todd 1993, p. 114).

As auditors and other examiners of the conduct of public officials were members of the Council selected by lot, the Council became the main investigator of the public positions (Aristotle, *The Constitution of Athens*, XLV 2). Yet, the Council themselves were not left unexamined. The Assembly met for a plenary session each *Prytany* (every tenth of the year) to vote on whether the performance of these office-holders were satisfactory or not (XLIII 4).

The third procedure existing in Athens to create democratic accountability directed specifically towards the tenure of public office was *apophasis* which was introduced in 350 BC. The investigations and charges made within an *apophasis* concerned similar issues as the *euthunai* and *eisangelia*, for instance charges of treason, bribes and attempts to overthrow democracy. In different from the above processes *apophasis* was a procedure where the Areopagos (the Aristocratic Council) of Athens undertook the investigation and not the Council of Five Hundred. The Aristocratic Council wrote a particular *apophasis* reports including also decisions of whether the officials were guilty of the allegations or not. The investigation did however proceed in a court trial where the decision of the Aristocratic Council could be changed (Hansen 1975, p. 39- 40; Todd 1993, p. 115). Despite all these various procedure to control public officials and the financial administration, the public financial situation in Athens is described as being chaotic and ordinary citizens in Athens not to be likely to have understood the accounts and figures presented to them (Todd 1993, p. 303-304).³

It has become an established idea that our contemporary world has turned into an “Audit Society” where audits and inspections of various kinds have increased largely in scope and significance (c.f. Power 1999). Considering the situation in Athens, this does not seem to be a new phenomenon however. Rather it appears to be a deeply rooted concern in a democratic society to limit the possibilities to exceed power in public positions, which just has been reshaped to suit our modern society and modern techniques. Or, to put it in the words of Aristotle: “For the people do not take any

³ Aristotle is however not entirely consistent with these democratic ideals on the behalf of meritocracy, which will be further discussed in the following section on professionalism. Some exceptions were made, Aristotle lists the public positions where he thinks that elections could be beneficiary, those were for instance generals and high financial positions.

great offence at being kept out of the government ... but what irritates them is to think that their rulers are stealing the public money” (Aristotle, *The Politics*, Book V 1308b34-38).

Independence

As we see in above review of processes holding public officials to account in the early Athenian democracy and in Aristotle’s works, the normative idea of auditors holding an independent position from the auditee, which still is argued to be core fundament in contemporary literature on audit and accountability (Flint 1988; Mautz & Sharaf 1961; Normanton 1966; Power 1999; 2005; Hollingsworth & White 999) was then already established. As Aristotle claims in the first quotation above, he regarded is as necessary that the officials who handled the public money were reviewed by other officials who were separated from them, and had no other assignments (Aristotle, *The Politics*, Book VI, 1322b5-15). To be independent constitute auditors possibility of fulfilling the role of an external examiner. Without such independence the administration could present their accounts and evaluate their work, with the immediate risk of merely serving their own interest (Wildavsky 1979).

Yet, independence contains several dimensions and the manner by which independent auditing should be understood has been debated in the literature. Sikka and Willmott (1995a) argue that independence is not merely about actual independence, the justification of auditors’ work is dependent on how their independence is perceived by others, such as politicians, journalist and the general public. If they are too closely connected to the audited organization their position to serve the public interest and hold that organization to account may be challenged. Bartlett (1993) demonstrates how perceptions of audit independence are not dichotomous but operate on a continuum. The perceptions varied depending on how involved the auditors were in the clients beyond auditing their accounts, where participation in a joint venture with the client was regarded as representing a very low degree of independence. Responses from the audit profession on criticism of insufficient independence have been to strengthen ethical guidelines and strengthen the disciplinary arrangement. Hence the question of independence has been made into a question of integrity of the individual auditor, while larger reforms to change the institutional relationships between the auditors and the auditees have been absent (Sikka and Willmott 1995a). Thus a distinction between indi-

vidual and institutional level can be distinguished, is auditing independence a question of moral virtue and ethics among auditors (Antle 1984; Bayou, Reinstein & Williams 2011; Gendron, Cooper & Townley 2000; Preston et al. 1995) or does it rather concern the auditors structural position to the auditee (Sikka & Willmott 1995b; Cullinan & Sutton 2002)?

Although Aristotle holds elaborated discussions of ethics in the *Nicomachean Ethics* and the *Eudemian Ethics*, there are few such discussions in the *Politics* or in the *Constitution of Athens*. A passage in the *Politics* illustrates his intentions that these ethical considerations should be valid also in the characteristics of the political life and in organizing the democratic state. “And the same principles of excellence and badness are characteristics of cities and of constitutions; for the constitution is so to speak the life of the city” (The *Politics*, Book IV 1295a 39-41). There are however less specific ideas as regarding how individual ethics and integrity of auditors, or the other specific scrutinizers reviewing the work of the public administration, should be obtained, or how institutional arrangements should be designed to guarantee an independent review of the bureaucracy, apart from the statement that auditors should be in a separate office from the officials they audit (Aristotle, *The Politics*, Book VI, 1322b5-15).

The auditors and the other examiners of public work in Athens were selected by lot the Council among its members and members of the Council were in turn also selected by lot. Thus it appears unlikely that would have been a discussion of choosing specific persons with certain skills or with high integrity and moral standards to conduct this work. In particular since election to positions instead of selection by lot was regarded by Aristotle as a sign of elitism and not as an entirely democratic procedure (Todd 1993, p. 292). Additionally, in most of the processes holding public officials to account the general public was given large possibilities to make charges, which does not indicate that ethics and moral virtue of those who reviewed officials was a central issue, rather it illustrates extended democratic ideals of how examination of public office was regarded as a concern for all citizens.

The question of auditors’ ethical standards and moral virtue and its importance for legitimizing the audit work was however emphasized by Mill in *Considerations on Representative Government* ((1861) 2001). Although he holds a general discussion stating that a first component of good government is virtue and intelligence among the general public (p. 24) he later specifically argue that this virtue is of significance for the ones reviewing the conduct of the administration:

But political checks will no more act of themselves than a bridle will direct a horse without a rider. If the checking functionaries are as corrupt or negligent as those whom they ought to check ... little benefit will be derived from the best administrative apparatus

(Mill, John Stuart (1861) 2001, p. 24)

Similar to Aristotle, Mill clarifies in his discussions the need to create systems of control of the administration and that it was necessary to separate “these offices of control and criticism” from the administration whose work they were to examine (p. 70). In addition, he states that these offices of control and criticism should be subordinated the parliament. In different to Aristotle and the organization of the democratic society in Athens, Mill made a distinction between the democratic institutions and the administration, where the latter constituted the representative bodies which were to be separated from the administration and justice and he regarded political interferences in the administration as harmful (Urbinati 2002).

It is difficult to clarify whether the institutional design in Athens entailed an independent review of the public positions. Beyond the procedure of the lot to decide upon public appointments, there was in Athens also a system of rotation, which meant that a person could not hold the same office more than once and as the general period of holding office was for one year, the rotation on the public positions must have been extensive (Todd 1993). Thus although the auditors did not share the same office as those they were appointed to review, the vast system of rotating public positions indicates a likelihood of reviewing each other in turns. In particular as all public positions, including auditors, were selected by lot among the members of the Council there was a fairly limited number of people being possible to appoint to the various positions.

Hence, the Council, which was the institution that governed the everyday life in Athens which may be regarded as the institution responsible for the review of its own officials conduct, cannot be regarded as particularly independent in these processes. Although processes in *eisangelia* to a large extent were handled by the Assembly, they were still processed by the Council at the first stage before allegations were presented to the Assembly, or the court. It should be added in this context that the Athenian system of justice was heavily politicized and they did not share the view of separation of power as a fundamental part of democracy (Todd 1993), rather involvement by all citizens in all parts of the political life were regarded as the fundamentals of democracy (c.f. Aristotle *the Politics Book V* 1309a 2 and *Book VI* 1317a40-b1-2), which may explain also the lack of independent administrative scrutiny.

Professionalism

Although the Athenian system operated on amateur basis, (Todd 1993), the auditing guild has in our contemporary society developed into a proper profession (see for instance Bédard 1989; Mautz & Sharaf 1961). In Anglo-Saxon countries the process of professionalize auditors is argued to have taken place during the late 19 century, while in other countries such as Greece and Belgium auditing became a proper profession first in the 1940s and 1950s (Ballas 1998; De Beelde 2002). A profession according to Abbott (1988) is distinguished by a claim for abstract knowledge and application of such knowledge to particular cases (p. 8). Professional groups aim to control the knowledge and skill within the profession and in doing so they exercise authority over techniques and over the abstract knowledge in the area (Abbott 1988). Professional authority and control can be exercised in several ways, for instance through regulating the entrance to the profession through demands for specific education and particular professional exams controlled by the profession, but also by internal regulation such as professional standards and ethical codes of conduct (Bédard 1989; Preston et al. 1995). The auditing profession is recognized to have increased their number of standards and guidelines for their members significantly, and this is argued to be a reaction from the profession on external pressures questioning their legitimacy (Byington, Sutter & Munter 1990; Power 2003). The development of the audit professionalization to increase standardization of procedures is demonstrated by Preston et al. (1995) when they study the changes in the profession's code of conduct. They argue that the profession's concerns of ethics has been a significant part in

legitimizing their work, but the focus of ethical conduct has changed over time from emphasizing values such as “virtues of courage”, “integrity”, and “the professional state of mind” to “what rules the members ought to follow” and “what standards ought to be set and adhere to” (Preston et al. 1995, p. 536). The auditing profession has also been criticized for focusing too closely on following the proper procedures and not considers what may be in the stakeholders’ interest to examine and report upon (Öhman et al. 2006). These changes and the criticism could be a consequence of the more disciplinary side of the profession, as decisions in court on whether auditors should be charged with professional negligence or not are primarily based on the extent to which auditors have followed the professional standards (Byington, Sutton & Munter 1990).

The conditions of professionalization are not merely determined by the profession; the state constitutes an important part in the process as there is a need for the profession to be recognized by the state as well as the state may use the profession to serve its own interest, such as demonstrating economic and political control, and create legitimacy for its actions (Ballas 1998). However, upon a closer examination, the relationship between professionalization, in the sense of selecting public official based on merits, and democracy appear as somewhat ambiguous.

Todd (1993) argues that: “The most important underlying characteristics of Athenian democracy is that it was and remained an amateur system” (p. 291). These characteristics are demonstrated in the manner by which public officials were selected by lot and not by merit and how they were not allowed to hold the same office for more than one term, which generally was one year. Due to its size, exception from reappointment was made for the Council, but it was restricted to a maximum of two terms, and the Council members were not allowed to serve two consecutive terms in office. Elections were regarded as supporting an elite system, as it generally favors persons who are well acknowledged in the community. Exceptions were made for military officials and high financial officials who were elected, military officials without any restrictions in terms and financial officials from the mid-fourth century with extended terms. The latter is argued to indicate a change from a full democratic system to a system which focused more on efficiency (Todd 1993, p. 292, 292n). Athens shift from full democratic system towards allowing more efficiency and merit-based positions in which certain public positions were entrusted substantial power is thoroughly described by Rhodes (1980). In the fifth century in Athens the state finances were centrally controlled by the Assembly, who had to approve all expenditures, a procedure which changed in the fourth century when separated funds for separate purposes were created. Although the new system entailed more

advanced financial procedures, in which the Assembly did no longer need to authorize all financial transactions, a disadvantage with the more fragmented system instead became the difficulties to attain a proper picture of the overall financial situation in the city. A fragmentation which was strengthened by the prevailing strong democratic principles, where citizens rotated on all public position and were only allowed to hold them for a limited amount of time (Rhodes 1980, p. 309-311). Due to poor finances a need to use and control resources more efficiently emerged in Athens in the mid fourth-century, which led to gradual steps away from the democratic principles in the administration of the city. The single financial official who was elected, and could be re-elected, to manage the theoric funds⁴ was given expanded assignments and became involved in activities in the rest of the state administration, an area previously controlled only by the Council, and through this position the single public official became highly powerful (Rhodes 1980). The arrangement led to economic success in Athens, but as Rhodes (1980) argues it was “one in direct conflict with the democratic principles of democratic administration evolved in the fifth century” (p. 313). Despite this shift from a full democratic system to focusing more efficiency in the administration, the main part of the public duties was still carried out by amateurs selected by lot on a rotation basis (Rhodes 1980).

The ambiguity, between professionalism and efficiency on the one hand and democracy on the other, is also discussed by Aristotle in the *Politics*. In his comparative discussions on Sparta, Cartago and Crete he argues that many of the Carthaginian institutions are excellent and claims that an improvement in Cartago is that their magistrates are elected according to merit, and not by chance as the leaders of Sparta (Aristotle the *Politics* Book II, 1272b 35-37). He does however classify election according to merit as aristocracy and not democracy: “If, then, election of magistrates for their wealth be characteristic of oligarchy, and election for merit of aristocracy” (Aristotle the *Politics* Book II, 1273a 26-27). Aristotle’s position was that genuine democratic systems involved possibilities for all citizens to hold public office and in large states these positions should be divided among many people. This statement is yet followed by another, somewhat contradictory to the principles of rotation and sortation practiced in Athens and more in favor of professionalism among public officials: “this arrangement is fairer to all, and any action familiarized by repetition is better and sooner performed” (Aristotle the *Politics* Book II, 1273b 15). This argument favoring the rule by

⁴ Theoric funds were financial funds which aimed at covering citizens’ theatre tickets and major festivals.

excellence and merit is elaborated further in Book III, in which Aristotle argues that rulers need to be both good and wise, while citizens merely need to be good (Book III, 1277a15-16) and concludes by arguing that the best form of government is the government which is administered by the best and: “in which there is one man, or a whole family, or many persons, excelling all the others together in excellence, and both rulers and subjects are fitted, the one to rule, the others to be ruled, in such a manner as to attain the most desirable life” (III, 1288a34-37). This more elitist view is nuanced and elaborated in other parts of the *Politics*, for instance in Book IV in which he refers to the *Ethics* and states that excellence is a mean which should be attainable by everyone and the excellence of the city should follow the same principles (1295a35-41).

In a similar vein, Weber ((1922) 1978) discusses the conflict between democracy and a professional specialized administration. He argues that there is a necessity of having special education and particular exams for the public officials and that it is unavoidable that the bureaucracy becomes more specialized. However when he elaborates on its characteristics and its implication he does not regard it as all advantageous and claims that the reasons behind this special education and exams are not “a sudden awakened ‘thirst for education’ but the desire for restricting the supply for these positions and their monopolization by the owners of educational certificates” (p. 241, c.f. Abbott 1988). In particular Weber ((1922) 1978) argued that the special examination and the merit system was in conflict with democratic principles: “On the other hand ‘democracy’ fears that a merit system and educational certificates will result in a privileged ‘caste’ Hence, democracy fights against the special-examination system.” (p. 240). Consequently, Weber ((1922) 1978) claims that it would be in the democratic interests to promote “universal accessibility of office” and expand the “the sphere of influence of ‘public opinion’ as far as practicable” into the administration, to reduce its authority (p. 226). Otherwise there was a risk that the administration developed into a too closed group of experts. Since Weber ((1922) 1978) saw a risk in the administration becoming too powerful as it became more specialized and filled with experts, universal accessibility to office and public influence into the administration he also discussed other measures to limit its authority. He argued that public officials needed to be controlled and that such control would likely be more effective if experts were used to control other experts, since leaders generally lacked the kind of knowledge needed to be able to control the experts’ work. (p. 236). In addition he argued that there should be possibility to criticize the officials in public, yet in a manner sensible to the officials “honor” (p. 208).

If Aristotle and Weber saw conflicts between democracy and professionalism, Mill considered depoliticization of the bureaucracy as a necessary way forward for democracies. Even if he considered a growing bureaucracy a threat towards democracy, he still argued that there was a need to separate the political bodies and the administration and that the administration needed skilled persons working there who carried out their duties in an impersonal manner according to specific procedures (Urbinati 2002, p. 54-55). Mill made a distinction between politics and policy-making and regarded it as important to keep political preferences away from those who carried out the politics in practice, to him this was “a crucial step toward democratization” (Urbinati 2002, p. 55).

Accountability Relationships, Audit Assignment and “Good Auditing”

As mentioned in the introduction, auditors have been criticized for not acting in stakeholder’s, such as the public, interest and not being concerned about whether the society hold other expectations of them than what they consider their assignment. In addition, the critique have pointed out that auditors closeness to the top management as well as the fees they charge are reasons for why they have not been able to, or willing to, detect and alert stakeholders on problems in the audited entities (Cullinan and Sutton 2002; Sikka 2009). Partly this may be explained by the development of a strong profession which to a high extent is self-regulated, but it may also be explained by an actual uncertainty of how the relationship to their principle should be arranged and what may be expected of them in terms of detecting corruption, mismanagement and fraud.

According to democratic ideals, in audit of public sector entities the citizens may naturally be regarded as the main principle towards which the audit should direct its findings and deliver its reports. Although it may have been fairly easy to manage in a small scale democracy such as Athens where the people directly could confront the public officials in various procedures, the relationship between the citizens and the audit becomes more complicated in large scale modern democracies.

Some categorize auditing to serve primarily as a function within the framework of legal accountability, wherein a high degree of external control of the compliance of laws and regulations exists and the auditors have possibilities to demand sanctions (Bundt 2000; c.f. Romzek & Dubnick)

1987). In the countries using this juridical audit system (for instance France and the Netherlands) the national audit offices serve as courts wherein the public entities may be charged with penalties, if auditors detect irregularities. In such arrangement the auditors acquire large discretion and become final judges of the performance of the administration, without any participation from the citizens.

In other countries such as Sweden and Great Britain auditing builds on recommendation to elected politicians and administrative management, which then are responsible for managing the recommendations from the auditors (Pollitt and Summa 1997). As auditors lack possibilities to sanction the auditee and the audit process to a great extent builds on communication with management external audit can also in the main be considered an instrument for the political leaders to evaluate the performance of the bureaucracy (Hollingsworth et al. 1998; Sinclair 1995). In such an accountability arrangement it mainly becomes the responsibility of the political leaders and the administrative management to act on the basis of the results from the audit, on behalf of the citizens. Andersson and Bergman (2009) demonstrate in their study that the significance management attaches to audits can have critical consequences for the opportunity to detect maladministration in the public administration. Weak audits and limited attention to the audit reports constituted partly the explanation for why two otherwise seemingly similar regions in Sweden experienced different levels of corruption (Andersson and Bergman 2009).

Accountability may also be realized through openness and access to information (Dunn 2003; Mulgan 2000; Romzek and Dubnick 1987; Sinclair 1995), wherein the mere access to information of public sector performance result in democratic control of the administration. Particularly, information produced by an independent auditing body may contribute to the trust in the administration (Ahlbäck 1999; James 2010). Ferraz and Finan (2008) illustrate in their study the manner by which audit reports significantly may impact on how citizens hold political leaders to account in elections. As part of the anti-corruption strategies, the Brazilian state started an extended audit of randomly selected municipalities in 2003. The results from the audit were published on the internet and handed over to the local media. The audit reports on the prevalence of corruption in some municipalities turned out to largely impact on whether the local politicians were reelected or not. Politicians who were reported as corrupted by the audit were to a much lesser extent reelected and vice versa; politicians reported on as “clean” in the audits had a much higher chance to be reelected (Ferraz and Finan 2008). In a similar vein, James (2010) argues that citizens to a large extent are affected by

the information on public sector performance generated by external audit agencies. In his study, the expectations and the satisfaction rose among the citizens in cases where the audit information showed a well performing administration, as well as the opposite was demonstrated; in cases where the audit information generated negative reviews of the performance, the levels of satisfaction declined. Yet, it may be questioned whether the information produced by auditors are accessible and used by the citizens, and if media, as a mediator through which the relationship between the citizen and the audits is managed, always is beneficial.

Hanberger (2009) argues that the direct contact between auditors and citizens rarely works, few citizens have knowledge of audit reports and the reports are experienced as linguistically inaccessible. On the other hand, Hanberger (2009) finds that political decision makers attach great importance to audits, although auditors emphasized that their recommendations were not followed to any great extent (p. 12-13). To inform the citizens through the use of media is however not uncontroversial among auditors. In general, auditors regard their assignment as based on a dialogue with the administrative management and the political leadership, and public criticism may ruin such relationships. The Swedish National Audit Office (SNAO) does however not follow this more careful attitude. Bringselius (forthcoming) argues that the SNAO aims at maximizing their reports' impact in media, as they desire to increase the legitimacy for their existence. The consequences pointed out can however be that negative aspects are specifically searched for and sometimes exaggerated in the reporting, in order to attain attention in the media. Such strategy is argued to harm not only the audited entities but also make the national audit office become "partner with the media" instead of an independent examiner of the public administration (Bringselius forthcoming).

Although a juridical process was used when the auditors found corruption and fraud in Athens, the system advocated by Aristotle was however that all citizens hold office on a rotation basis, thus the courts were amateur courts filled with ordinary citizens: "that all men should sit in judgment, or that judges selected out of all should judge" (The *Politics* 1317b25-26). This is very different from the contemporary system used in many countries, in which auditors become specialized and act as judges in a court. There are likely little chances for ordinary citizens to easily access such positions in society. In addition, in Athens, if the auditors did not find any mismanagement, corruption or fraud, the public had every opportunity to accuse the public officials for mismanagement, corruption or fraud. Hence the general public played a significant role in the audit processes, not only in terms of the financial management but also the review of the performance in general. From primarily have used the court

in the audit processes, the Assembly eventually gained a more prominent role in these procedures. In the fourth century, it was commonly the Assembly which decided on whether these processes should be taken to court or be processed in a juridical sitting in the Assembly. Aristotle also states when defining the characteristics of a democracy that the Assembly should be supreme over all causes, or at least the most important causes such as the constitution, private contracts and the scrutiny of the accounts. The officials on the other hand, should not be supreme over any, or only over a few (The *Politics* 1317b25-30).

In modern democracies elected politicians generally serve as representatives for the people, and holding officials to account for their performance and financial management in front of all citizens appear not as a desirable scenario. However, the link between the citizens and the audit through elected representatives and administrative management do not always appear to work as intended. It has been demonstrated that auditors sometimes are too aligned with the management to actually report sufficiently on maladministration, or when they report, auditors' experience that their reports are not paid attention to, and the use of media in some cases become a way of trying to draw attention to their findings. In addition, the divergent manners by which audits are handled by the administrative and political leadership have contributed to explanations of differences in levels of corruption. Thus, the question which unfolds is if this arrangement serves its democratic purposes sufficiently. If auditing should regard citizens as the main principle towards which the public administration should be accountable, the responsibility for calling attention to maladministration in a manner which aim at limiting mismanagement as well as improving its assignment in the public's interests must be the auditors. Consequently, in contrast to Bringselius (forthcoming) I argue that there is need for auditors to use the appropriate measures to able to fulfill its democratic purposes, which includes using media to call attention to their findings when they find such methods necessary. Public criticism, but with respect for the officials' honor, was also argued by Weber ((1922) 1978) to be essential in order to limit the powers of the bureaucracy (p. 208).

Another aspect related to the gap of expectations between stakeholders and what the auditing profession consider being a part of their assignment is whether auditors should detect embezzlement, fraud and corruption (c.f. Larsson 2005). Power (1999) argues that it has long been debated among scholars if detection of such malpractices should be a part of auditing, but the debate come to a general agreement that it was not to be within the audit objectives, in the 1940s, even if this might have been a purpose when auditing was established (c.f. Hood xxxx). The character of auditing has

changed, most likely as a consequence of an internal professional transformation. Yet, the general public still believes and expects that such malpractices should be detected by auditors, even if the auditing profession argues that this is a misunderstanding from the public side regarding the role and responsibility of auditors (Power 1999, p. 21-22).

Turning to the to the democratic origins of auditing it becomes obvious how the establishment of auditing is argued to mainly be a matter of detecting mismanagement, embezzlement, fraud and corruption. When Aristotle discusses the necessity and function of auditors in the democratic state the examples he gives of what kind of issued the auditor may come to handle he makes the following statement:

If they detect anyone who has been guilty of embezzlement, the jury condemns him for theft of the public money, and he is sentenced to pay ten times the amount stolen; if they demonstrate that anyone has taken bribes and the jury convicts him, they assess the size of the bribe, and again he pays ten times this amount. If they condemn him for maladministration, they assess the amount, and this is what he pays...

(Aristotle, *The Constitution of Athens* XLIX LIV2)

Although assignments need to change when society is modernized and the audited entities becomes more complex, it yet appears as if the auditing profession has altered their role and responsibility to the degree that its democratic purposes have been lost. If they are no to discover and prevent mismanagement, fraud and corruption in the public administration, then who are? As discussed previously, there a need for auditors to recognize the citizens as their main principle. Instead of explaining to the general public how it has misunderstood auditors' responsibilities, perhaps it is time that the auditing profession better fulfill the societies' expectations on its role, in the democracy. Finally, what then may be defined as "Good Auditing" from a democratic perspective? This paper has argued that the normative characteristics of auditing found in the literature, such as independence and professionalism, are well founded in democracy theory. Even if the latter have been debated, the development of political theory indicates that as the public sector becomes more professionalized, there is a need for experts to control experts in the public administration (c.f. Weber (1922) 1978), or else there is a risk that auditors fall into the same asymmetric relationship to the bureaucracy as politicians, which means that they would be disadvantaged against those they control. Furthermore, the unclarity of the role and responsibility of auditors have been argued to

be a consequence of both uncertainty of the main principle and how the accountability process of auditing should be arranged, as well as changes in the professions attitude towards what they consider is within the scope of the audit objectives. This paper has argued that from a democratic perspective there is need for auditors to recognize the citizens as the principle, which implies fulfilling the people's expectations of their role as well as aiming at limiting mismanagement of the public sector. This requires a higher ambition than merely report to the administrative management and elected politicians. Auditors should seek to bring attention to their audit findings, in cases when it can lead to improvement in the administration, using mediators such as the media when they consider it necessary. Hence, "Good Auditing" can be defined the following way: *Good auditing of the public sector is distinguished by recognizing the people as the principal, independence to the auditee and professionalism in the exercise of the audit practice.*

REFERENCES

- Abbott, Andrew D. 1988. *The System of Professions: An Essay on the Division of Expert Labor*. Chicago: University of Chicago Press.
- Ahlbäck, S. 1999. *Att kontrollera staten. Den statliga revisionens roll i den parlamentariska demokratin* (Diss.). Uppsala: University Publications from Uppsala.
- Andersson, S. & Bergman, T. 2009. Controlling Corruption in the Public Sector. *Scandinavian Political Studies*, 32: 45-70.
- Antle, R. 1984. Auditor Independence. *Journal of Accounting Research*, 22: 1-20.
- Aristotle. 1996. *The Politics and the Constitution of Athens*, ed. Steven Everson. Cambridge: Cambridge University Press
- Ballas, A.A. 1998. The creation of the auditing profession in Greece. *Accounting, Organizations and Society*, 23: 715-736.
- Bartlett, R.W. 1993. A Scale of Perceived Independence. New Evidence on an Old Concept. *Accounting, Auditing and Accountability Journal*, 6: 52-67.
- Bayou, M.E., Reinstein, A. & Williams, P.F. 2011. To tell the truth: A discussion of issues concerning truth and ethics in accounting. *Accounting, Organizations and Society*, 36: 109-124.
- Bédard, Jean. 1989. Expertise in auditing: myth or reality? *Accounting, Organizations and Society*, 14: 113-31.
- Behn, R. 2001. *Rethinking Democratic Accountability*. Washington: Brooking Institution Press.
- Bovens, M. 2005. Public Accountability, in E. Ferlie, L. Lynne & C. Pollitt (Eds.), *The Oxford Handbook of Public Management*: 182-208. Oxford: Oxford University Press
- Bundt, J. 2000. Strategic Stewards: Managing Accountability, Building Trust. *Journal of Public Administration Research and Theory*, 10: 757-777.
- Bringselius, L. (forthcoming 2014). The Dissemination of results from Supreme Audit Institutions: Independent partners with the media?, *Financial Accountability and Management*.
- Byington, R.J., Sutton, S. & Munter, P. 1990. A Professional Monopoly's Response: Internal and External Threats to Self-Regulation. *Journal of Corporate Accounting and Finance*, 1: 307-316.
- Cullinan, C.P. & Sutton, S.G. 2002. Defrauding the public interest: A critical examination of reengineered audit processes and the likelihood of detecting fraud. *Critical Perspectives on Accounting*, 13: 297-310.
- Dahl, R. A. 2000. *On Democracy*. New Haven and London: Yale University Press.
- Day, P. & Klein, R. 1987. *Accountabilities. Five public services*. London: Tavistock.
- De Breelede, I. 2002. Creating a profession 'out of nothing'? The case of the Belgian auditing profession. *Accounting, Organizations and Society*, 27: 447-470.

- Dye, K.M. & Staphenhurst, R. 1998. *Pillars of Integrity: The Importance of Supreme Audit Institutions in Curbing Corruption*. Washington DC: The Economic Institute of the World Bank.
- Dunn, J. 1996. *The History of Political Theory and other essays*. Cambridge: Cambridge University Press.
- Dunn, J. 1999. Situating Democratic Political Accountability, in Prezewoski, A. Stokes, S. C. and Manin, B. *Democracy, Accountability and Representation*: 329-344. Cambridge: Cambridge University Press
- Elster, J. 1999. Accountability in Athenian Politics, in Prezewoski, A. Stokes, S. C. and Manin, B. *Democracy, Accountability and Representation*: 253-279. Cambridge: Cambridge University Press
- Euben, Peter J. 1997 *Corrupting Youth. Political Education, Democratic Culture and Political Theory*. Princeton: Princeton University Press.
- Ferraz, C. & Finan, F. 2008. Exposing corrupt politicians: The effects of Brazil's publicly released audits on electoral outcomes. *The Quarterly Journal of Economics*, 123: 703-745.
- Flint, D. 1988. *Philosophy and principles of auditing: an introduction*. Basingstoke: Macmillan Education.
- Fukuyama, F. 2011. *The Origins of Political Order. From Prehuman Times to the French Revolution*. New York: Farrar, Straus and Giroux.
- Gendron, Y., Cooper, D.J. & Townely, B. 2000. In the name of accountability. State auditing, independence and new public management. *Accounting, Auditing and Accountability Journal*, 14: 278-310.
- Gendron, Y., Cooper, D.J. & Townley, B. 2007. The construction of auditing expertise in measuring government performance. *Accounting Organization and Society*, 32: 101-129.
- Guénin-Paracini, H. & Gendron Y. 2010. Auditors as modern pharmakoi: Legitimacy paradoxes and the production of economic order. *Critical Perspectives on Accounting*, 21: 134-158.
- Hadenius, A. 1992. *Democracy and Development*. Cambridge: Cambridge University Press.
- Hanberger, A. 2009. Democratic Accountability in Decentralized Governance. *Scandinavian Political Science Studies*, 32: 1-22.
- Hansen, M. H. 1975. *Eisangelia. The Sovereignty of the People's Court in Athens in the Fourth Century B. C. and the Impeachment of Generals and Politicians*. Odense: Odense University Press.
- Hollingsworth, K., White, F. & Harden I. 1998. Audit, accountability and independence: the role of the audit commission. *Legal Studies*, 18: 78-99.
- Hood, C., Scott, C. James, O. Jones, G. & Travers, T. 1999. *Regulation inside Government. Waste watchers, quality police and sleaze-busters*. Oxford: Oxford University Press

- James, O. 2010. Performance Measures and Democracy: Information Effects on Citizens in Field and Laboratory Experiments. *Journal of Public Administration Research and Theory* Advanced Access published October 21, 2010, doi: 10.1093/jopart/muq057
- Kelly, J. 2003. The audit commission: Guiding, steering and regulating local government. *Public Administration*, 81: 459-476.
- Larsson, B. 2005. Auditor regulation and economic crime policy in Sweden, 1965-2000. *Accounting, Organization and Society*, 30:127-144.
- Lively, J. 1975. *Democracy*. Oxford: Basil Blackwell.
- Mautz, R. K. & Sharaf, H. A. 1961. *The philosophy of auditing*. Iowa City: American Accounting Association.
- Mendus, S. 1992. Loosing the Faith. Feminism and Democracy. In Dunn J. Ed. *Democracy. The Unfinished Journey*: 207-219.
- Mill, J. S. (1861) 2001. *Considerations on representative government*. Kitchener: Batoche Books,
- Mulgan, R. 2000. 'Accountability': An ever-expanding concept. *Public Administration*, 78: 555-573.
- Mulgan, R. 2003. *Holding Power to Account. Accountability in Modern Democracies*. Basingstoke: Palgrave Macmillan.
- Normanton, E. L. 1966. *The accountability and audit of governments: A comparative study*. Manchester: Manchester University Press.
- Pentland, B. T. 2000. Will auditors take over the world? Program technique and the verification of everything. *Accounting Organization and Society*, 25: 307-312.
- Phillips, A. 1991. *Engendering Democracy*. Cambridge, Polity Press.
- Pollitt, C. & Summa, H. 1997. Reflexive watchdogs? How supreme audit institutions account for themselves. *Public Administration*, 75: 313-336.
- Power, M. 1999. *The Audit Society. Rituals of Verification*. (2ed). Oxford: Oxford University Press.
- Power, M. 2003. Auditing and the production of legitimacy. *Accounting, Organization and Society*, 28: 379-394.
- Power, M. 2005. The Theory of the Audit Explosion. I E. Ferlie, L.E. Lynn & C. Pollitt (Eds.), *The Oxford Handbook of Public Management*: 326-44. Oxford: Oxford University Press.
- Preston, A.M., Cooper, D.J., Scarbrough, D.P. & Chilton, R.C.1995. *Accounting, Organizations and Society*,20:507-546.
- Prezewoski, A. Stokes, S. C. and Manin, B. 1999. *Democracy, Accountability and Representation*. Cambridge; Cambridge University Press.
- Rhodes, P.J. 1980. Athenian Democracy after 403 B.C. *The Classical Journal*, 75: 305-323.

- Romzek, B.S. & Dubnick M.J. 1987. Accountability in the Public Sector: Lessons from the Challenger Tragedy, *Public Administration Review*, 47: 227-238.
- Rose-Ackerman, S. 2005. *From Elections to Democracy. Building Accountable Government in Hungary and Poland*. Cambridge: Cambridge University Press.
- Shapiro, I. 2003. *The State of Democratic Theory*. Princeton and Oxford: Princeton University Press.
- Sikka, P. 2009. Financial crisis and the silence of the auditors, *Accounting, Organization and Society*, 34: 868-873
- Sikka, P. & Willmott, H. 1995a. The Power of “Independence”. Defending and extending the jurisdiction of accounting in the United Kingdom. *Accounting, Organizations and Society*, 20: 547-581.
- Sikka, P. & Willmott, H. 1995b. Illuminating the state-profession relationship: accountants acting as department of trade and industry investigators. *Critical Perspectives on Accounting*, 6: 341-369.
- Sinclair, A. 1995. The chameleon of accountability: Forms and discourses. *Accounting, Organization and Society*, 20: 219-237.
- Skaerbaek, P. 2009. Public sector auditor identities in making efficiency auditable: The National Audit Office of Denmark as independent auditor and modernizer. *Accounting Organization and Society*, 34: 971-987
- Todd, S. C. 1993. *The Shape of Athenian Law*. Oxford: Clarendon Press.
- Urbinati, N. 2002. *Mill on Democracy*. Chicago: University of Chicago Press.
- Weber, M. (1922) 1978. Original title: *Wirtschaft und Gesellschaft. Grundriss der verstehenden Soziologie*. English translation: G. Roth & C. Wittich (Ed.), *Economy and Society. An outline of interpretive sociology*. Berkeley and Los Angeles: University of California Press.
- Wildavsky, A.B. 1979. *Speaking Truth to Power: The Art and Craft of Policy Analysis*. New Brunswick, U.S: Transaction Books.
- Öhman, P., Häckner, E., Jansson, A-M. & Tschudi, F. 2006. Swedish Auditors’ View of Auditing: Doing Things Right versus Doing the Right Things. *European Accounting Review*, 15: 89-114.