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Evaluation of assets
in Swedish local
governments

- A comparative study between Kristianstad
and Landskrona municipality

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Abstract

A good and functioning accounting system is vital for public sector entities, therefore, they have to observe all requirements and disclosures that are recommended in the accounting standards of financial reporting. When a public sector entity acts and follows the legislation correctly it will affect the citizens' participation, which in turn will also lead to increased democracy. Because of the IPSAS's and the SCMA's standards which in turn are influenced by the business accounting standards (IAS and IFRS), the public sector entities have had issues whether to follow some of the standards. One example of this issue is the evaluation of assets which has been problematic, therefore, the imitation of the private sector has been criticized by academics, like for example Mautz (1981) and Pallot (1992).

The main objective with this study is to explore to which extent Swedish municipalities are following the recommendations from SCMA regarding the evaluation of the assets. The purpose of the article is also to compare two municipalities and explore differences and similarities between them. Further we can explore if the quality of the financial information is affected by the size of the municipality, that is, if a small municipality does have a poorer quality in comparison to a bigger one; which many assume. We also want to discover the main similarities and differences between the IPSAS and SCMA, that is, when it comes to the standards regarding the evaluation of assets. To achieve the purpose of this case study, we will interview two people from two different municipalities, that is, two employees on the financial department who have accounting and the annual report as their main tasks.

This study shows that there are mostly similarities and not major differences between these two municipalities regarding the evaluation of assets. Hence, both municipalities follow the national standards from the SCMA, but with very few exceptions when it comes to assets evaluation. This study also showed that the IPSASB and the SCMA recommend different methods when measuring the value of an asset, therefore, there is a difference between them two in this matter. In brief, the SCMA rather recommends the cost method; the IPSASB on the other hand proposes the fair value method as the most appropriate. This study shows that there are no major deviations between the two municipalities when it comes to following the standards regarding the evaluation of assets, hence, the quality mostly does not differ.

Keywords: Evaluation, assets, local governments, Sweden, SCMA, IPSAS.

Introduction

Researchers have recently become very interested in accounting in the public sector. This is a previously unexplored area, which has led to the increased interest. According to scientists there are much that the public sector can learn from the private sector regarding accounting since the private sector has more requirements, regulations and different standards to follow (Broadbent & Guthrie, 1992). There are also many similarities between the private and public sector according to the researchers, and one example is that public sector entities are now introduced to the New Public Management (NPM) (Pallot, 1999). The NPM has led to that accounting and cost-efficiency are focused in public organizations, as they are one of the major focuses in private sector entities (Falkman and Tagesson, 2008; Christiaens et al., 2010). This is one of the major changes that public sector entities have undergone the last decades (Hood, 1995), but another accounting change is different standards that have been created and developed to contribute to harmonization in the public sector. Therefore, the public sector has been through different changes when it comes to accounting and accounting standards, but also the role of the financial statements has developed (Brorström, 1998). The changes concerning accounting are; the introduction to a new accounting model, that is, from cash to accrual accounting model (Christiaens et al., 2010, Pina et al., 2009), but also the increase of standards regarding the disclosures in the financial statements and the way the information is presented (Robb and Newberry, 2007).

A good and functioning accounting system is vital for public sector organisations and, therefore, they have to observe all requirements and disclosures that are recommended in the accounting standards (Bergmann, 2008). When a public sector entity acts and follows the legislation correctly it will affect the citizens' participation, which in turn will also lead to increased democracy. Thus, the public sector has a broader legislation to take into account and follow than the private sector, which makes it more challenging for them because they have a bigger responsibility towards their users (Bergmann, 2008). If important standards are mismanaged then users, like for example citizens, will not have the opportunity to access the right information that they require to have good insight in the operation (Pallot, 1992). Therefore, municipalities are obligated to have an accounting system that focuses on requirements and standards. Also the principle of public access to official documents and the fact that their revenues consists of taxations makes it fundamental that municipalities report how they manage the resources (Dittenhofer, 2001).

The changes that the public sector has gone through have led to several difficulties, which even today have not been entirely solved. One example is the increase of requirements regarding the presentation of financial information in the annual report from the IPSASB (International Public Sector Accounting Standards Board) and the SCMA (Swedish Council of Municipal Accounting). The purpose of the SCMA is to guide and supervise Swedish municipalities and other organizations in the public sector by publishing standards regarding accounting and financial reporting (SCMA, 2011a). The IPSASB is focused on public sector entities all over the world, and provides them with standards for accounting and financial reporting. In the latest handbook, that is the one from 2011, the IPSASB state clearly which entities that could apply the IPSAS (Chan, 2003). According to them “*The IPSASs are high quality global financial reporting standards for application by public sector entities other than Government Business Enterprises*” (IPSAS Handbook 2011, p.13). It is an organisation with the aim to consult, assist and support the public sector with guidelines, which in turn will lead to improved quality of financial information for the sector (Ifac, 2011a; Jones, 2007).

The requirements concerning the management of documents have also increased, because of digitalization, which also leads to new issues in the public sector (Hong, 1991). The more complex and broad legislation has resulted in that municipalities have had a difficult time to adapt and follow all the recommendations in the right way; thus, they have neglected certain disclosures. According to Lapsley (1988) the fundamental reason for this problem is the fact that there has not been any clear framework for the public sector earlier. Because of the business accounting standards (IAS and IFRS) influence on IPSAS and the SCMA standards, the public sector entities have had issues regarding following some of the recommendations. One example of this issue is the evaluation of the assets which has been problematic, therefore, the imitation of the private sector has been criticized by academics (Mautz, 1981; Pallot, 1992). The reason is that assets in the public sector do not have the objective to generate profit like in the private sector, but instead to provide services to the citizens (Bergmann, 2008). Therefore, because of the different objectives, there are difficulties when evaluating the assets and the public sector has been criticized for neglecting some of the standards (Benito, et al., 2007). One example of an asset that is very complicated to evaluate for public sector entities is infrastructure. Difficulties arise when deciding which the right value is for such an asset because of the fact that the meaning of these assets is to be available for the citizens and not to generate future cash inflow for the entity, like for example a road or a bridge (Benito, et al., 2007).

Given the problem that exists within the public sector, the purpose of this study is to analyze two Swedish municipalities and explore to which extent they apply the standards regarding accounting and financial reporting. Hence, the research question for this report is: *To which extent do Swedish municipalities follow the recommendations from SCMA regarding the evaluation of the assets?*

The objective of the article is also to compare two municipalities and explore differences and similarities between them. In doing so, it will also explore if the quality of the financial information is affected by the size of the municipality. We also want to discover the main similarities and differences between the IPSAS and SCMA, that is, when it comes to the recommendations regarding the evaluation of assets.

Literature review

International public sector accounting

In the early 70s, the first legislation was introduced that included a requirement that demanded municipalities to have a financial statement accounting for their financial situation for their users (Jones and Pendlebury, 2004). Major changes in the public sector occurred in the 1980s when a new accounting reform was under discussion in municipalities (Brorstrom, 1998). Then, in 1986, this led to the introduction of a new model of accounting in the public sector, that is, the accrual basis accounting model (Falkman and Tagesson, 2008; Christiaens et al., 2010, Pina et al., 2009). Earlier the cash basis accounting model had been used, but the city council considered accrual accounting to be a much better alternative after comparing the old system with the private sector, that had used this model for a long time (Rubin and Kelly, 2007; Pallot, 1999). Accrual accounting introduced and promoted Generally Accepted Accounting Practices (GAAP) (Ellwood and Newberry, 2007). Therefore, the change from cash to accrual accounting has led to significant advantages for public sector entities according to authors, as for example Pina and Torres. (Christiaens et al., 2010). Apart from the modification of cash basis to accrual basis, NPM also implies the introduction of decentralization and externalization in the public sector (Torres and Pina, 2002), which has led to that the decision-making in public sector entities is now simplified and more effective (Christiaens et al., 2010). This means that the public sector has gone through big changes the last thirty years, due to the endeavor to become more efficient in the operation. Through the NPM reform, public organizations have become more cost effective. Now they put more

focus on the need for accounting to be more transparent and cost effective; at the same time it should provide qualitative service to their citizens (Upping and Oliver, 2011). This means that the public sector is now trying to imitate the private sector regarding these areas, and it has become more important to focus on the result; not just the processes (Pallot, 1999; Hood, 1995, Pina et al., 2009).

Something else that the public sector has imitated from the private sector is the accounting standards that contain recommendations for accounting and financial reporting (Robb and Newberry, 2007). For a long time public organizations have worked with various financial reporting systems, but now all organizations are adopting the same standards. IPSASB (International Public Sector Accounting Standard Board) is an independent body under IFAC's (International Federation of Accountants) control. The board has developed a set of standards for the public sector named IPSAS (International Public Sector Accounting Standards). The IPSAS are standards that are based on the private sector standards, that is, IFRS from IFAC (Robb and Newberry, 2007). As mentioned, these standards are prepared and designed specifically for public sector entities around the world. The definition of public sector entities is included in their handbook as: *"The term public sector refers to national governments, regional governments, local governments and related governmental entities"* (IPSAS Handbook 2011, p.4). The board has produced 31 standards that cover the different areas of the public sector. For example, this framework contains guidance for how public entities should present their financial statement and cash flow statement. The objective with the development of IPSAS is to present accounting standards with high quality. In this way, the presentation of financial information of public organizations will be clearer but also contribute to other benefits (SAP AG, 2009).

The standards of IPSAS are widely accepted and the adoption will lead to greater transparency of financial statements across the world. The IPSAS design allows and makes it possible for different countries with different regulation and laws to adapt to IPSAS. Thus, at present there are a total amount of 53 countries that have chosen to that have chosen to comply with the standards from the IPSASB (IPSAS Adoption by Governments, September 2007). This was the aim of the board and something that they took into account when developing this framework for the public sector. The purpose was to develop guidelines that can work for everyone and everywhere, which means that it is adjusted to the respective legislation. The board also believes that the adoption of their disclosures for the public sector

will lead to harmonization between the national regulation and the standards of IPSAS (Christiaens et al., 2010; IPSAS 22, 2006). The IPSAS standards are recommendations with the purpose to help organizations perform the best practice. They are not laws, but instead they are considered as soft legislation, where the organizations can choose themselves if they want to comply or not (Thomsen, 2008). The standards of IPSAS have the objective to harmonize not only the international financial reporting in the public sector, but also national reporting. In this way the public sector will have a more homogeneous financial reporting, but this will also result in more developed and updated national governments and systems (FEE, 2003). Benchmarking and comparability are vital in the public sector, and especially for the countries in the European Union. Therefore, countries belonging to the European Union primarily support the idea of the adoption of IPSAS (International Public Sector Accounting Standards) which will in turn lead to harmonization and other benefits (Benito et al., 2007; Lüder, 1988).

The arguments for the application of IPSAS are that it will mostly simplify comparability, which is something that many agree on. This means that citizens, possible investors and other that are interested, can easier get access to the right information regarding different financial situations in different countries (Benito and Brusca, 2011; Jones, 2000). Accounting harmonization will also help less developed countries and improve their accounting systems (Lüder, 1988). Furthermore, the harmonization will facilitate benchmarking but also equality when it comes to European Union grants and dues, which will in turn lead to greater transparency (Benito and Brusca, 2011). The process for the harmonization of public accounting can be complicate because of diversities. Examples of difficulties are different legal systems and regulations and different public sector entities have different aims and objectives. Moreover, IPSASB does not have the authority to demand compliance with their standards, and this enhances the difficulty to reach accounting harmonization (Jones, 2007; FEE, 2007). There are many obstacles to overcome and a long way to go in order to reach harmonization for public sector accounting. Even though there are many supporters there are still some countries that need to become more involved in the process, in order to achieve more similar public sector accounting systems (Benito et al, 2007). As mentioned earlier, some are opposed to accounting harmonization, but the IPSAS set of accounting standards are mostly widely accepted and the opposition is most likely going to disappear in the near future (FEE, 2003).

Evaluation of assets according to IPSASB

The objective of IPSAS 1, Presentation of financial statements, is to guide public entities on how their financial information should be presented. According to IPSAS 1.7, assets are “resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity”. Benito et al. (2007) point out that some countries have issues regarding if some items should be considered as an expense or a future economic benefit. An example of such an item is infrastructure, which some think should be included in the income statement as an expense, instead of in the balance sheet as an asset. Public sector entities are non-profit organizations, which mean that most of their assets do not have the purpose to generate cash inflows and future economic benefits (Pallot, 1992). Public sector organizations do not have the right to sell an asset, like for example a park. This leads to that it cannot be considered as an asset but instead as an expense, since it is expensive to maintain, and at the same time it cannot be sold or generate cash inflows like assets in the private sector (Pallot, 1992).

IPSAS 1.2 recommends public sector entities to use an accrual basis accounting model when adopting the recommendations from IPSASB, like IAS does for the private sector. The imitation and the similar framework to the private sector, has created issues regarding the evaluation of some assets in the public sector entities. According to Christiaens (2004), assets in the public sector are difficult to value as a consequence of the fact that the definition of assets in the public sector differs from the ones in the private sector, therefore, the adoption of accrual accounting in public entities is mostly problematic. The main reason for this problem is that most of the assets that are owned by public sector are not supposed to generate cash inflows and future economic benefits, like the assets in the private sector (Bergmann, 2008). Most of the assets in the public sector have the objective to provide service to the citizens, therefore, these difficulties when evaluating assets have appeared (Mautz, 1981; Pallot, 1992).

Assets should be presented by dividing them into current and non-current assets, and according to IPSAS 1.76, for an asset to be classified as a current asset, it has to fulfill the criteria below:

- (a) It is expected to be realized in, or is held for sale or consumption in, the entity's normal operating cycle;*
- (b) It is held primarily for the purpose of being traded;*
- (c) It is expected to be realized within twelve months after the reporting date; or*
- (d) It is cash or a cash equivalent (as defined in IPSAS 2, unless it is restricted*

from being exchanged or used to settle a liability for at least twelve months after the reporting date

All other assets shall be classified as non-current (IPSAS 1.76).

According to Bergmann (2008) there are four different methods when measuring and valuating an asset. The first method is called the fair value method which points out that an asset should be evaluated by its worth, that is if the owner should sell it today on the current market. The cost method is the second, and here the value of the asset is measured by its value on its acquisition, less the depreciation. The third method, that is the lowering of cost or net realizable value method, says that the asset should be evaluated by the lowest value; either the acquisition cost or the sales value on the current market. With the fourth and last method, an asset can be measured by the nominal value method, which means that its value is the current value, without price changes over time included. After presenting the four methods, Bergmann (2008) points out that the fair value method is not always an appropriate method to use in public sector entities when evaluating their assets. The reason is a lack of knowledge of the present value on market of an asset, therefore, he finds it difficult to use this method.

Table 1. Evaluation of assets according to IPSASB.

Asset	Standard	Definition	Evaluation
Inventories	12	In the form of materials or supplies to be consumed in the production process.	Lowering of cost or net realizable value
Financial assets	15	Cash and a contractual right to receive/exchange cash or another financial asset from another entity.	Nominal value
Investment property	16	Land or a building – or part of a building – or both.	Fair value
Tangible assets	17	Property, plant and equipment.	Cost <i>or</i> Fair value
Intangible assets	31	An identifiable non-monetary asset without physical substance.	Fair value

In table 1 above, we can see which methods that are recommended to use when evaluating assets according to IPSASB. As seen in the table, fair value is the most common method when evaluating assets. This method is used when measuring the value of investment property and intangible assets, among others. Furthermore, the other three methods are also

recommended. The IPSAS board recommends public entities to evaluate for example their financial instruments by using the nominal value method, while when it comes to the inventories the method of lowering of cost or net realizable value is most appropriate.

IPSASB also brings up four principal of financial reporting, which has the objective to help public sector entities to construct an annual report with high quality and information that is useful to their users (IPSAS 1, Appendix B). Furthermore, the four are: understandability, relevance, reliability and comparability. Regarding reliability, it has five qualitative characteristics beneath, where prudence is one of them. The meaning of prudence is that entities should be cautious when evaluating for example their assets. Assets and revenues should be rather evaluated low, unlike liabilities and expenses that should be evaluated high (IPSAS 1, Appendix B). This means that assets are not overstated, and uncertainty can be avoided.

Accounting in Swedish local governments

A new law, the Municipal Accounting Act, came to Sweden in 1998. Before this, there was no legislation regarding accounting for the public sector in Sweden (Falkman and Tagesson, 2008). The Municipal Accounting Act and the rest of the legislation for the public sector are not much different from the legislation for the private sector. Both the legislation for the public sector and the private sector refer to organizations that have the responsibility to guide them and make them have a good accounting system. Therefore the SCMA was founded to guide the public sector (Falkman and Tagesson, 2008). Thus, the Swedish Council of Municipal Accounting (SMCA) was founded in 1997 due to the new law. Therefore, the legislation has led to that the public sector now focuses on accounting but also the important guidelines and recommendations from the SCMA. If a municipality does not act as recommended, they must explain the reasons why. This comply-or-explain requirement has led to that many municipalities are now trying to do their best to follow the standards. It has also resulted in a greater harmonization of the public sector organizations.

The objective with the SCMA is to promote and develop GAAP (Generally Accepted Accounting Principles) in accordance with the Municipal Accounting Act in the Swedish public sector. Through their recommendations they aim to demonstrate for the public sector how they should proceed to achieve GAAP. Therefore, the major tasks of the SCMA are to:

- make interpretations of GAAP,
- develop and improve standards,
- publish and expand the standards to public organizations,
- monitor their own work, that is to analyze if and how they have helped the public sector to improve their accounting,
- and to follow the news and developments regarding accounting at both national and international level in order to be well updated (SCMA, 2011a).

Due to that the SCMA was founded by the state, it is a nonprofit organization. To be able to fulfill its main objective and its tasks, SCMA publishes a script that is called an “Idea script”. In 1998 their first script was published, but in 2010 a renewal was available for the public sector organizations. These scripts precisely describe the standards, in order to help and guide the public sector to achieve a well developed accounting system. The public sector has received a lot of criticism, and because of this SCMA wanted to make the standards easier to understand and apply. The reason for the renewal in 2010 was to make the recommendations more transparent and complete (SMCA, 2010). Since the start, now a total number of 18 standards regarding accounting and financial reporting have been published. All of them, except two, are recommendations that are applicable only to the public sector. On the official website all standards are available, as is the legislation but also further information about accounting to support and guide the users when applying the standards (SMCA. 2010).

In the Swedish journal “Kommunal ekonomi” there are many articles published with discussions where the SCMA and their standards are in focus. In the article “The financial statements need to be improved”¹, the authors Hansson and Lindström (2010) argue that many Swedish public sector entities are neglecting standards from the SCMA. In 2003, a research was made where all Swedish public entities were included with the objective to control their financial statements and explore if the standards were followed. This study resulted in the conclusions that there were many deficiencies in the financial statements. Furthermore, the critique was instead directed to the SCMA because of the fact that their standards were not complete and only referring to the legislation, which led to unnecessary difficulties for the entities. After receiving the criticism, the SCMA acted and worked on improving the

¹ The titles of the articles have been translated into English by the authors of the article.

standards. A new similar study was made six years later which revealed that there are still entities that do not follow the standards entirely. One example brought up by the authors, is that entities do not inform the users clearly in the notes about the tangible assets, which is required by RKR 11.1. Hence, there are obviously still improvements that need to be made in the public sector entities' financial statements regarding this issue (Hansson and Lindström, 2010).

There is an ongoing discussion in Sweden, regarding the neglect of the national standards where the objective is to resolve the reason for this issue. In 2010, in the journal *Kommunal ekonomi*, a discussion started with criticism directed to the auditors in the article "Audited auditors creates debate". According to Pettersson (2010), the author of the article, auditors do not sufficiently control the financial statements in the annual report of the entity. Thus, the author argued that auditors are more or less not careful regarding the principle of materiality, that is they do not find some deficiencies in the financial statements as material, which the SCMA does. Furthermore, in the article "The auditor is not the problem" Bastun and Eriksson (2010) support the auditors, and instead criticize accountants and controllers in the public sector entity. According to this article, they do not pay enough attention to all recommendations from the SCMA and even neglect some of them, because it is their responsibility to take all recommendations in consideration when preparing an annual report. Furthermore, the third part involved in this debate is of course the SCMA, which for instance has received criticism in the article "Too detailed regulation" (Eriksson, 2010). The author argues that the SCMA's recommendations are unnecessarily complex and that there is a major focus on details which makes it difficult for the entities to be accurate and follow the recommendations completely.

Evaluation of assets according to SCMA

The legislation in Sweden, the Municipal Act, and the standards from the SCMA give guidelines about how assets should be evaluated in public sector entities. Thus, according to the legislation entities should give a description in the annual report about which principles and methods they follow when their assets are evaluated (Municipal Act 6.12). SCMA mentions six different principles that are important to focus in the financial reporting, including when measuring the value of the assets, and those are: relevance, reliability,

prudence, materiality comparability and the principle of public access to official documents (Rådet för kommunal redovisning, 2010, p. 143). According to SCMA, the principle of public access to official documents is vital. This principle is important for Swedish public sector entities to follow for the benefit of the users, especially the citizens. As mentioned earlier, because of the fact that the revenues of the entity are taxations from the citizens, they have the right to know for example how their financial assets are managed and evaluated (Dittenhofer, 2001).

According to the Municipal Act 6.1, assets should be divided in current and non-current assets in the balance sheet. Therefore, public entities should first determine the classification of their assets, and RKR 9 says: “A non-current asset, in accordance with the legislation, is an asset for permanent use or possession. All other assets are current assets”². Thus, according to RKR 9, when classifying a non-current asset, it is not well-founded enough to classify an asset as non-current only because it is long term oriented.

Table 2. Evaluation of assets according to SMCA.

Asset	Standard	Definition	Evaluation
Inventories	11.1	In the form of materials or supplies to be consumed in the production process.	Cost
Financial assets	9	Cash and a contractual right to receive/exchange cash or another financial asset from another entity.	Lowering of cost or net realizable value
Investment property	11.1	Land or a building – or part of a building – or both.	Cost
Tangible assets	11.1	Property, plant and equipment.	Cost
Intangible assets	12.1	An identifiable non-monetary asset without physical substance.	Cost <i>or</i> Lowering of cost or net realizable value

Here above, in Table 2, we can see a summary of what SCMA recommends the public sector entities when it comes to evaluation of assets. It is clear that in SCMA’s case, the cost method is the most common method in Swedish municipalities. Thus, the cost method is

² The recommendation has been translated into English by the authors of the article.

recommended to all different kinds of assets, except financial assets, which SCMA thinks should be evaluated by the lowering of cost or net realizable value method. Regarding intangible assets, their value should be measured by the cost method the first time they are recognized in the balance sheet, but they should thereafter be evaluated by the lowering of cost or net realizable value method. With this said, it is clear that the other two methods that Bergmann (2007) introduces, the fair value and nominal value, are not methods that public sector entities should use when evaluating their assets according to SCMA

Comparative results between IPSASB and SCMA

After studying what both IPSASB and SCMA recommend regarding the evaluation of assets, we have found similarities and differences between them. For a better overview, we have summarized the similarities and differences in table 3.

Table 3. Similarities and differences.

Asset	IPSASB	SCMA
Inventories	Lowering of cost or net realizable value	Cost
Financial assets	Nominal value	Lowering of cost or net realizable value
Investment property	Fair value	Cost
Tangible assets	Cost or Fair value	Cost
Intangible assets	Fair value	Cost or Lowering of cost or net realizable value

In table 3 above, we can clearly see that when it comes to measuring the value of the assets, there are mostly differences between the international standards and the Swedish national standards. The only similarity we can find regards the tangible assets, where they both recommend the cost method as the best option, but according to IPSASB the fair value method is also a functioning option in this matter. Furthermore, when it comes to the remaining assets, the two standard setters (SCMA and IPSAS) disagree regarding which method that suits public sector entities the best. As a conclusion, we can clearly see in Table 3 that the main difference is that IPSASB emphasizes the fair value method when it comes to the majority of the assets, while the SCMA instead considers the cost method as the most

suitable evaluation method. In other words, IPSASB believes that assets should be evaluated by their worth on the today's market value, while SCMA finds that the value should be measured by the cost of acquisition less depreciation.

Method

This research is a qualitative case study where we will focus on two Swedish municipalities in the Skåne Region, and the selected municipalities are Kristianstad and Landskrona. The main reason for our choice of municipalities is that their sizes differ. Kristianstad municipality has approximately 80 000 citizens, which is twice the population of Landskrona municipality with only about 41 000 citizens. According to the Swedish Central Bureau of Statistics the SCB (Statistiska centralbyrån), for a municipality to be considered as big, it has to have more than 100 000 citizens. Furthermore, a small size municipality is a municipality with less than 50 000 citizens (SCB, 2011). In this way, we are going to study a medium size and a small size municipality to examine if the quality of financial information differs when it comes to a municipality's size. Moreover, it is interesting to compare these two municipalities because Kristianstad municipality has won the award for the best annual report in 2009. Many assume that the larger a municipality is, the better financial statements they have, which means that we will find out if a small municipality like Landskrona actually does have an annual report with a poorer quality regarding the information about assets.

In order to answer our research question and to be able to achieve the objective of this article, we will use both primary and secondary data. Hence, to be able to receive a greater understanding of our subject, we will start with the help of secondary data, that is the Internet and literature, but also other documents that are relevant for this subject like for example the municipalities' annual reports.

According to Merriam (1993) and Scapens (2004) the best way to collect empirical data, when it comes to qualitative case studies, is by interviewing respondents. Sieber (1982) confirms this, and according to him the best source of information when performing a study is interviews. Therefore, we will interview two people from each municipality, that is, two employees on the financial department that have accounting and the annual report as their main tasks. In Kristianstad municipality our two respondents are the CFO (Chef Financial Officer) and one controller, while in Landskrona municipality the respondents are two

controllers. There are three different interview structures: structured, semi-structured and unstructured interviews (Merriam, 1993). We have chosen to do semi-structured interviews because it suits our type of study the best. A semi-structured interview means that you have prepared some written questions but there will also be room for follow-up questions that may arise during the interview (Merriam, 1993). Therefore, we have ten written questions (see appendix 1 and 2) and not more, because in this way we will hopefully obtain internal data that you are normally not able to receive in other ways (Patton, 1985).

By studying the standards regarding evaluation of assets from the SCMA and IPSASB, we will be able to conclude and find out how well each municipality follows the national recommendations. Thus, we can also explore the differences and similarities between the standard setters (SCMA and IPSAS), but also between the evaluation of assets in the chosen municipalities.

Analysis

Kristianstad municipality

Kristianstad is a medium size municipality with almost 80 000 citizens, which means that the number of employees is high, more specifically it had 10 000 employees in 2010 (Kristianstad Annual report 2010, p. 6). It has a financial department with 17 employees that are the municipality's central body for financial administration, where five of them are responsible for the annual report, budgeting, monitoring, and so on. Regarding the annual report, the CFO has the main responsibility for following the national accounting standards issued by SCMA for financial reporting, but he is also in control when it comes to updating the accounting system in order to adjust to new requirements and recommendations from the SCMA. The CFO of Kristianstad municipality considers it essential to monitor and in this way be updated, even though it is still only a proposal or a draft and not yet recognized as a new standard.

When a new standard is published, the CFO has the task to inform the rest of the department, that is, the employees that needs and are interested in this information. Municipalities receive a draft before it is published and recognized as a recommendation; in Kristianstad municipality they therefore always begin to discuss and prepare themselves on how these changes will affect their accounting system and how they should proceed. In Kristianstad

municipality they have controls annually, that is, internal controls that they do by themselves, but also controls done by their auditors. Regarding the internal controls, they go through all of the SCMA's standards annually and make a comparison with their annual report in form of a table. This they do in order to confirm that they follow all the recommendations and get a better overview on if there are any improvements that need to be made. Furthermore, when comparing their own accounting system and routines with what the SCMA recommends, in this way the municipality can see if there are any deviations on their part. The auditors who control the financial statements, both the politically elected and the ones from the audit firm PWC, are also responsible to inspect and ensure that the municipality complies with all the national rules and standards. Thereafter, they should write an audit report where they state whether or not the municipality has followed accounting standards issued by the SCMA.

Benchmarking is commonly used among public sector entities; Kristianstad municipality makes comparisons with two different groups of municipalities in the region. The first group is called "3KVH" and includes the following municipalities: Kristianstad, Karlskrona, Kalmar, Växjö and Halmstad. The other group consists of municipalities of the northeast of the Skåne region, that is: Kristianstad, Hässleholm, Bromölla, Östra göinge, Osby, Perstorp and Hörby. The two groups have meetings annually where they discuss different topics, like for instance the national standards for financial reporting. When a new standard is published, they discuss how they are planning to proceed in this matter. Thus, they can benefit from this, because they can take help and inspiration from each other. The municipality also receives help from its auditors since they also have other municipalities as their customers. Therefore, the external auditors are knowledgeable in this subject and can provide qualitative and useful material to the municipality, and in this way Kristianstad also receive more information.

According to the CFO and the controller in Kristianstad municipality, the standards from the SCMA are, in some specific cases too complicated and detailed. This is also confirmed by Eriksson (2010), who argues that the national standards from the SCMA often have too detailed guidelines. On the other hand, regarding the recommendations about the assets and their evaluation, the respondents are satisfied with the guidelines and requirements from the SCMA. In the case of the intangible assets, Kristianstad municipality follows the standard, but with a slight difference. According to the SCMA, intangible assets should be evaluated by the cost method or the method of lowering of cost or net realizable value, but since the municipality does not have an essential amount of intangible assets, these are recognized as

expenses on the income statement; instead of as assets in the balance sheet (Kristianstad Annual report 2010, p. 47). The tangible assets are valued after the cost method as recommended by SCMA, that is, their value is measured by the cost at its acquisition minus depreciation (Kristianstad Annual report 2010, p. 47). In the standards of the SCMA, investment property and inventories are included in the same recommendation as the one concerning the tangible assets, that is RKR 11.1, which therefore lead to same evaluation method as for the other tangible assets. After studying the Annual report of Kristianstad municipality, it is clear that they follow the recommendations also regarding tangible assets, thus these are valued after the cost method (Kristianstad Annual report 2010, p. 47). Kristianstad municipality value its financial assets through the lowering of cost or net realizable value method, which is also suggested by the standard RKR 9 from the SCMA.

The CFO and the controller in Kristianstad municipality are both quite familiar with the IPSASB, but they believe that they do not have a complete knowledge about the IPSAS's standards and their content. However, regarding assets and their evaluation, they are both aware of what the standards of IPSASB propose, and that the fair value method is the most recommended method. Therefore, they support the recommendations from the SCMA, because according to the CFO and the controller the cost method is the most appropriate method when it comes to measuring the value of assets in public sector entities. A difficulty with the IPSAS and using the fair value method when evaluating some types of assets, like with for example infrastructure assets, is that it is hard to find out the right market value of the specific asset. This is also confirmed by Bergmann (2008) who argues that it is very difficult to determine the right market value of an assets, and that the fair value method therefore should not be used by public sector entities.

After studying the four latest annual reports of Kristianstad municipality, that is from 2007 to 2010, it is clear that there have been improvements. According to the CFO, the main reason for the improvements is that the municipality received some criticism when publishing the annual report in 2007. Hence, this led to that the CFO and the other employees took the criticism seriously and began putting even more effort on the standards, which in turn resulted in an annual report with even higher quality. Regarding the evaluation of assets, we can confirm that there have not been big changes when it comes to the financial reporting about the chosen evaluation method; the reason is that Kristianstad municipality has been very clear concerning this since 2007. The audit firm PWC has an annual contest where the price for

best annual report is distributed, and due to the changes made after 2007, Kristianstad municipality came a second in 2008. Furthermore, with a higher confidence and ambition to improve the annual report, they made further changes the next year, that is in 2009, which resulted in the price for the best annual report in the public sector.

Landskrona municipality

Landskrona is a relatively small municipality with about 41 000 inhabitants (Landskrona Annual report 2010, p.5), and the total number of employees was approximately 5300 at the end of 2010 (Landskrona Annual report 2010, p.16). When it comes to the financial department, the 15 employees have tasks that include for instance administration, financial planning, budgeting, monitoring, and so on. Three of these employees have accounting as one of their main tasks and are responsible for compiling financial statements in the annual report. After interviewing two of these employees, both of the controllers agree that the municipality make good effort in taking in information about the standards of SCMA. They are meticulous when it comes to being updated on new standards by reading all the publications from SCMA, that is, they have a high ambition and believe that it is vital to be correct. Another way for them to stay updated is by participating at different seminars that are related to SCMA where information about the standards is presented. Furthermore, they are especially cautious about the standards, and before the final accounts they control the financial statements in order to have a correct annual report. This control is the only internal control they make regarding the standards from SCMA, but they have external controls that are done by their auditors, that is, both the politically elected and those from the audit firm Ernst & Young. The respondents say that they are satisfied with the control system they have, and that there is no need for more controls beyond these.

According to the controllers, SCMA have changed a lot in the past years for the better and that standards today are more clear and simpler to understand. The respondents both argue that before SCMA only referred to the legislation and did not have clear standards, which led to that Landskrona municipality encountered difficulties when trying to adopt the requirements. According to Hansson and Lindström (2010) the national standard has receiving much criticism when publishing their first standards due to this issue. Thus, after the changes and improvements that the SCMA has made regarding their standards, also the

municipality has improved its accounting system significantly according to the interviewed controllers. Therefore they, think that the SCMA today has very good and instructive standards.

As some public sector entities, also Landskrona municipality uses benchmarking and makes comparisons with other municipalities. In this way the municipality is able to improve its accounting system and being updated about all news in the public sector, like for example new standards. Landskrona municipality is a member of a group that make comparisons with each other, under the name "Skånska Redovisningsakademin", with five other municipalities; Ängelholm, Helsingborg, Kävlinge, Lund and Malmö. Twice a year they get together and have meetings where they discuss different issues they have and at this way they help each other. One of the main subjects in these meetings is accounting, which includes discussions about the SCMA and its standards. According to the respondents benchmarking is vital for public sector entities, therefore, they also have spontaneous contact by telephone and e-mail continuously during the year. Landskrona municipality does not really rely on its auditors when it comes to benchmarking, that is, they do not receive help from the auditors to find out how other municipalities act regarding different accounting issues.

Regarding assets, Landskrona municipality follows the standards from the national standard setter (SCMA), but with some exceptions. An example is that they do not focus RKR 11.1 and 12.1 enough when they propose that public entities should update the useful life of an asset continuously; especially at the end of the period it is significant to determine the depreciation. Thus, in Landskrona municipality the respondents find it difficult when it comes to depreciation of assets, and they therefore have some issues and are not accurate enough when following this standard. Instead of updating the useful life of an asset annually, they only do it once, that is, when the assets is recognized in the balance sheet at the first time. But regarding the evaluation of assets and the choice of evaluation method, the cost method is used when evaluating the tangible assets and this according to what SCMA has recommended in RKR 11.1 (Landskrona Annual report 2010, p.20). The cost method is also the method that the SCMA suggest when it comes to inventories and investment property, which Landskrona municipality follows completely (Landskrona Annual report 2010, p.20). Further, for the financial assets , the municipality applies the cost or lowering of cost or net realizable value, which also is proposed by SCMA on the recommendations RKR 9 and 12.1 (Landskrona Annual report 2010, p.20). When it comes to intangible assets, Landskrona municipality does

not have assets of this kind, and this has been the case for several years. Therefore, the interviewed controllers could not answer concerning the method of evaluation of the intangible assets, but they believe that they would do as proposed by the recommendation RKR 11.1, that is chose the cost method or the lowering of cost or net realizable value method.

Regarding the international accounting standard issued by IPSASB, both the respondents from Landskrona municipality are familiar with them. Furthermore, when it comes to the standards from the IPSASB, they do not have enough knowledge about what IPSASB suggest concerning financial reporting. In the case of assets (and suggested evaluation methods), both the controllers are familiar with the fact that IPSAS rather recommends the fair value method. According to the respondents, the fair value method is not appropriate for public sector entities and, therefore, they agree with the SCMA. They believe that it is problematic for a municipality to value the assets after market value because it is not easy to determine the right value on today's market for some assets. As earlier mentioned, also Bergmann (2008) emphasizes this, that is, he argues that the fair value method should be avoided in public sector entities because of the lack of knowledge of the value on today's market. According to the controllers from Landskrona municipality, the cost method makes it easier to be long-term oriented and thus certainty and continuity can be achieved, therefore, they are satisfied with what the SCMA recommends in this matter.

We have also studied Landskrona municipality's annual reports, from 2007 to 2010, with the purpose to see if there are any differences and improvements in this four year period when it comes to following the national standards. We can conclude that their annual report has improved. Regarding the evaluation of assets, they have used the same methods, but one clear improvement is that today the municipality better inform the users how they value their assets. According to the Municipal Act 6.12, entities should describe in the annual report about which principles and methods they follow when evaluating their assets. Previous years the municipality did not give a precise explanation about their chosen methods, and only informed the users that they follow the recommendations from the SCMA. Furthermore, in their latest annual report Landskrona municipality now has a section with the headline "Accounting principles" where the evaluation methods are mentioned; hence a improvement on their part, and now more understandable for the users.

Comparative results between the two municipalities

In this section, we will now continue by analyzing the information received from the interviews and the annual reports, to be able to discern similarities or differences between the two chosen municipalities. We will start this comparison by going through the similarities that we have found between Landskrona and Kristianstad municipality, and thereafter the differences are analyzed.

One important similarity is that both municipalities believe that it is vital to be informed and updated regarding the national standards and when new standards are published. Because of their ambition and strive to act correctly and follow the standards from the SCMA, they also internal have controls annually. These are done to be able to discover if there are any deficiencies in the financial statements, and also to make the necessary changes before the annual report is published. Another similarity between Landskrona and Kristianstad municipality is the fact that they both use benchmarking as a way of improving and developing their accounting system and annual report. They also are members of benchmarking groups which they have annually meetings with, but also continuous contact over the year.

Due to the fact that Landskrona municipality does not have any intangible assets and that Kristianstad does not have the necessary amount, they both desiderate intangible assets in their balance sheet. The only difference in this matter is the fact that in Kristianstad municipality the intangible assets are recognized as expenses in the income sheet, and that in this case Landskrona had chosen to act as the standard of the SCMA requires. Regarding the rest of the assets and their evaluation, both municipalities follow the standards of SCMA regarding choice of method. When it comes to the evaluation of assets, there is one little difference between our chosen municipalities regarding the depreciation of assets. Kristianstad municipality does what is recommended by the SCMA and update the useful life of an asset annually, but Landskrona only does this once, that is, when the assets is recognized in the balance sheet for the first time.

Furthermore, our respondents from Landskrona and Kristianstad municipality agree on that they rather follow the standards from SCMA than the IPSASB standards. This because the respondents have the same opinion regarding the fair value method, and this method is mostly recommended by the IPSASB; not the SCMA. They consider the cost method as the best

method to use for public sector entities, as the SCMA recommends. They find that the international standard is unnecessarily complicated. According to the respondents, it is very difficult for a municipality to find the right market value of an asset; therefore, the cost method is the most appropriate method for them.

Regarding the differences between our chosen municipalities, one of the vital differences in this study is the size, that is, the fact that Kristianstad municipality has twice as many citizens than Landskrona municipality. This leads to the definition of that Kristianstad municipality as a medium size municipality, while Landskrona is a relatively small one. Due to the fact that Landskrona is a smaller municipality than Kristianstad, Kristianstad municipality obviously has more employees that work in the financial department and that are responsible for the annual report. Another difference between the municipalities is that the employee in each municipality that has the main responsibility for the preparation of annual report has a different function and title. Hence, in Kristianstad it is the CFO, but in Landskrona municipality it is one controller that has the responsibility for following the national standards for financial reporting.

When a new standard is published, in Kristianstad municipality there is always a discussion and in this way the accountants and controllers further together decide how they are going to approach it. This is a difference from Landskrona municipality, which instead leaves the decision making on how to proceed and address the new standard to the controller who has this as his main responsibility. When it comes to taking in new information from the SCMA, the controllers in Landskrona municipality, beyond the information that is sent to them about the new recommendations, also participate in seminars. These seminars have the purpose to help municipalities with the standards and spread new information, but also to discuss about the difficulties the public sector entities have encountered. When it comes to Kristianstad municipality, they do not participate in these types of seminars. Instead they believe that the information that is sent to them by the SCMA and the discussions with their two benchmarking groups about the national standards and new standards are enough.

To insure that they follow the national standards, both municipalities have controls done by their auditors, which may be the most important control. Furthermore, in both municipalities they also have an internal control annually before the annual report is published, where they control if all recommendations are adopted. The difference between the municipalities in this matter is that Kristianstad municipality also constructs a document where they clearly report if

they follow all the recommendations. Thus, this way the accountants and controllers also can get a better overview on if there are any improvements that need to be made and can continue improving their annual report.

The last differences we explored after the interviews regard the municipalities' ways of benchmarking. As mentioned earlier, both the municipalities are members of benchmarking groups with a few other municipalities. The difference here is that Landskrona municipality has work with five other municipalities whereas Kristianstad has ten municipalities, that is twice as many. Another difference is that Kristianstad municipality also uses external auditors from the audit firm PWC. Landskrona municipality does not and believes that benchmarking is enough.

Conclusion

After interviewing Kristianstad municipality and Landskrona municipality, but also studying their annual reports, we can confirm that there are mainly similarities and not major differences between these two public sector entities regarding the evaluation of assets. Hence, this study shows that both municipalities follow the national standards from the SCMA, but with very few exceptions when it comes to assets evaluation. The exception from Kristianstad municipality was that they do not use the evaluation methods recommended by the SCMA when it comes to intangible assets, that is the cost method or lowering of cost or net realizable value method. In the notes they explain that they do not have a necessary amount of intangible assets, therefore, they instead are recognized as expenses in the income statement. Regarding Landskrona municipality, their exception from the national standards was that they do not update the useful life of an asset continuously like recommended. In the notes they describe this issue and that they update the useful life only at the first recognition of the asset, this because of that they do not find it necessary. Therefore, due to the fact that the national standards require that the public sector entities have an explanation when they deviate from the standards; it is positive that both municipalities have taken this in consideration and explains why they consider to not following these specific standards. In conclusion, our study shows that these are also the only differences between our chosen municipalities, Landskrona and Kristianstad municipality, regarding the evaluation of assets. Further differences could not be found because of the fact that both municipalities are very accurate when following the

national standards.

When it comes to the differences and similarities between the IPSASB and the SCMA regarding the evaluation of assets, which also is one of the objectives with our article, our result was very interesting and unexpected. Our hypothesis was that there would be more existing similarities between the two standard setters, but this study instead showed that they recommend diverse methods when measuring the value of an asset. In brief, the SCMA rather recommends the cost method, that is, the value of the asset is measured by its value on its acquisition, but with the depreciation subtracted. The IPSASB on the other hand instead proposes the fair value method as the most appropriate, which indicates that an asset should be evaluated by its worth, that is if the owner should sell it today at the current market. Surprisingly, when it comes to the similarities, our study shows that the only similarity between the two standard setters is regarding the tangible assets, where they both recommend the cost method as the best option.

One of the objectives with this study was also to explore if the quality of the financial information is affected by the size of the municipality. Landskrona is a relatively small municipality with circa 41 000 citizens and Kristianstad is a medium size municipality with approximately 80 000 citizens, that is, twice as many citizens. The result and conclusions of this study may appear different, if the size between the municipalities differed more than the two selected municipalities in this study. That is, if the chosen municipalities were a big size and a small one, instead of a medium size and a small municipality. Both municipalities have improved their information to the users in the annual report from 2010, in compare with the four last years we have studied. Regarding the assets and their evaluation Landskrona municipality has upgraded their information, more than Kristianstad municipality which has had clear information the four last years. That is, Landskrona now have better and more detailed descriptions about how they measure the value of their assets. Furthermore, we came to the conclusion that in the two cases the size of the municipalities did not have a significant impact on the quality of the financial statements in our case study. This study shows that there are no major deviations between the two municipalities when it comes to work practices; they basically work similar when it comes to following standards from the SCMA. This brings us to the conclusion that the present quality between Landskrona and Kristianstad municipality are similar, that is, when it comes to the standards regarding the evaluation of assets.

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Appendix 1

Intervjufrågor

Generella:

1. Hur arbetar ni för att följa rekommendationerna från RKR?
2. Hur stor vikt lägger ni på att uppdatera ert redovisningssystem och följa nya rekommendationer?
3. På vilket/vilka sätt görs granskningar/kontroller av era finansiella rapporter för att kontrollera att de följer upplysningskraven?
4. Många kommuner har mottagit kritik för att de inte följer alla upplysningskrav. Varför tror ni att kommuner inte lägger fokus på dessa krav?
5. Anser ni att det i lagstiftningen borde finnas krav på att endast använda RKS's rekommendationer, eller ser ni det som en fördel att kommuner även kan välja själva om de vill följa dem eller inte? Varför?

Specifika:

6. Hur arbetar ni med RKR's rekommendationer angående tillgångar och hur de ska värderas? Tycker ni att de är tillräckligt bra utformade när det gäller er kommun?
7. Upplever ni några svårigheter när det gäller värderingen av tillgångar?
8. Känner ni till de internationella rekommendationerna för offentlig sektor (International Public Sector Accounting Standards, IPSAS) och vad de säger om hur tillgångar ska värderas? Är sådana rekommendationer något ni tycker är viktigt att känna till?
9. Fair value = En tillgång ska värderas efter sitt nuvarande värde, det vill säga vad tillgången skulle vara värd ifall ägaren skulle sälja tillgången idag på aktuell marknad. Cost method = Värdet på en tillgång är detsamma som tillgångens anskaffningsvärde minus avskrivningar.

De internationella standarderna rekommenderar *fair value method* när det gäller värdering av fastighetsinvesteringar, materiella tillgångar och immateriella tillgångar, medan RKR hellre föreslår att *cost method* är den mest passande. Vad anser ni om detta? Hade ni kunnat tänka er att följa IPSAS rekommendationer när det gäller dessa tillgångar, eller tycker ni att RKR's metoder passar er bäst?
10. Då benchmarking är vanligt bland kommuner, tar ni hjälp från andra kommuner och jämför era redovisningssystem? Vilka kommuner och varför? Vilken av dessa kommuner har ni jämfört er med när det gäller värdering av tillgångar?

Appendix 2

Interview questions

General:

1. How do you work to follow the recommendations from the RKR?
2. How much focus do you put on updating your accounting system to comply with new recommendations?
3. In which way/ways do you control your financial statements to verify that you are complying with all of the recommendations from the SCMA?
4. Many municipalities in Sweden have received criticism because they do not comply with all recommendations from SCMA. Why do you think municipalities do not put focus on this?
5. Do you think that the Swedish legislation should require that all municipalities only should follow the recommendations from the SCMA, or do you think that it is a benefit for municipalities to choose for themselves whether they want to follow SCMA or not? Why?

Specific:

6. How do you work with the recommendations of the SCMA regarding the assets and how they should be valued? Do you think they are well enough designed to fit your municipality?
7. Do you experience any difficulties regarding the valuation of assets?
8. Are you familiar with the international recommendations for the public sector (International Public Sector Accounting Standards, IPSAS) and what they suggest about the evaluation of assets? Are these standards something you feel is important to be familiar with?
9. Fair value = an asset should be evaluated by its worth, that is if the owner should sell it today at the current market. Cost method= value of the asset is measured by its value on its acquisition, but with the depreciation subtracted.

The international standards recommend the *fair value method* when evaluating investment property, tangible and intangible assets, while RKR rather suggests that the *cost method* is the most suitable method. What do you think about this? Can you consider following the IPSAS regarding these assets, or do you think that the method SCMA proposes suits you best?

10. Because of the fact that benchmarking is common in municipalities, do you take help from other municipalities and compare your accounting system? What municipalities and why? Which of these municipalities have you have a comparison with regarding the evaluation of assets?

Disclaimer: I hereby certify that in preparing this Term Paper I did not consult the help of another person or made use of a different source other than the ones stated. I have indicated the positions where I adopted the exact or abstract content of a source and credited its origin (including internet sources). This document has never been presented to any other examining board in this or a similar format. I am aware of the fact that any false declaration will lead to legal consequences.

Kristianstad University, 2011-06-30, Arlinda Isufi and Melida Idrizovic