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An alternative approach to IPSAS consolidation

- The case of Sweden

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Abstract

The New Public Management (NPM) has made the public sector go through a period of privatization and externalization which has affected the method of accounting of municipalities, from cash to accrual accounting. The NPM has also resulted in a mix of private and public sector that makes the matter of consolidation of municipal groups complicated because of the municipalities' use of public sector accounting and the municipal companies' use of private sector accounting.

In Sweden, the Swedish Council of Municipal Accounting (SCMA) has the task of producing recommendations concerning the accounting of municipalities so that the goal of the "true and fair" view of the municipalities' is met. In 2009, the SCMA produced the recommendation 8.2 (RKR 8.2) containing guidelines concerning consolidation of the municipal group. The purpose of this article is to investigate the use of RKR 8.2 and what kind of municipality is more inclined to use the recommendation. This question shall be answered by a quantitative, document study of the annual reports of Swedish municipalities from 2009 together with the Stakeholder Theory and the Positive Accounting Theory.

The result of the article shows that the municipalities that are more inclined to implement the RKR 8.2 and to implement it to a larger degree are municipalities of a larger size, with a high performance, with a high tax income and with large municipal companies.

Still, the document study shows that only 43 out of 239 municipalities have implemented the recommendation. To increase the implementation and use of the recommendations of SCMA we suggest merger of municipalities as larger municipalities, for different reasons, have implemented the recommendation to a larger degree than smaller ones.

Keywords: Consolidation, Swedish Municipalities, Government Business Enterprises, Swedish Council of Municipal Accounting, RKR 8.2

Preface

We would like to thank our supervisors Giuseppe Grossi and Pernilla Broberg for all their support during the process of writing this article. We also thank Annika Fjelkner for her support with the language in this article and our opposition group for their constructive criticism.

Disclaimer:

We hereby certify that in preparing this Term Paper we did not consult the help of another person or made use of a different source other than the ones stated. We have indicated the positions where we 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. We are aware of the fact that any false declaration will lead to legal consequences.

Kristianstad University College, 2010-06-02

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Introduction

Accounting should be seen as a picture which neutrally and objectively records the facts about what has happened in an organization over a particular period of time (Timoshenko & Adhikari 2009), to give a true and fair view. How the objective of a true and fair view should be reached is a problem especially in the public sector because it is fairly complex and has a variety of objectives stretching from financial to non-financial objectives. The New Public Management (NPM) has increased the need for efficiency and effectiveness in the public sector. This has led to decentralization, externalization and the use of different private business entities in the public sector (Torres & Pina 2002). The consolidation of these companies is a big piece in the jigsaw puzzle of the search for a true and fair picture of the public sector. Also the growing need for financial and political accountability demands a broader and more complete accounting system such as the consolidated financial report to provide feedback for decision making and improve accountability (Grossi & Pepe 2009). With the increased use of consolidation methods and the increased demand for information and transparency from corporations and organizations, it is interesting to investigate the consolidation methods of Swedish municipalities.

According to Grossi and Tagesson (2007) the change from cash accounting to accrual accounting in accordance with the NPM has had implications for public sector accounting and financial reporting, one of them being the use of accrual-based consolidation financial reporting. In the public sector, the consolidated financial statement is a useful instrument for governments which deal with a large number of publicly-owned companies, because it presents a clear picture of the group's function and current economic status. The method to gather information to the consolidated financial statement is based on accrual accounting. Therefore, accrual accounting must be implemented in a uniform way in all entities of the municipal corporate group and the local government itself to reach comparability and consolidation without conflicts of principles. Without the development of the NPM through decentralization and externalization as well as the increased focus on accountability of the public sector the recommendation of SCMA would not exist. The development of recommendation is a result from the shift from cash to accrual accounting and the increased degree of judgment in accounting and the ever continuing search for the true and fair view. The importance of RKR 8.2 lies in its aim of the true and fair view of the consolidation of municipalities as it is the Swedish equivalent of the IPSASs (International Public Sector Accounting Standard).

Chan (2003) sums up the three main purposes of government accounting: to safeguard the public treasury, to facilitate sound financial management and to help government discharge its public accountability. One aspect that cannot be ignored which affects the choice of accounting standards, recommendations and policies is the self-interest of politicians to stay in office. Therefore, the discussion about accountability, especially public accountability summarized by Glynn and Murphy (1996, p. 127) as "*those who are charged with drafting and/or carrying out policy should be obliged to give an explanation of their actions to the electorate*", arises in connection with accounting and consolidation in the public sector.

The Swedish municipal accounting was not regulated by law until the execution of the Municipal Accounting Act in 1998 with the objective to suppress "creative" accounting and increase harmonization and comparability between municipalities. The difference between the Municipal Accounting Act and the acts that regulate the private sector accounting (The Bookkeeping Act and the Annual Accounts Act) is that the public sector regulation does not have any connection to the penal code (Falkman & Tagesson 2008).

In connection to the passing of the Municipal Accounting act a special standard-setting body, the Swedish Council of Municipal Accounting (SCMA), was founded and given the responsibility to develop and interpret the generally accepted accounting principles within the municipal sector. During a short period of time the regulation of municipal accounting has developed from voluntary to a more comprehensive and complex regulation (Falkman & Tagesson 2008; Grossi & Pepe 2009).

The aim of this article is to present a comprehensive overview of the method of consolidation of Swedish municipal corporations. Its purpose is to investigate the implementation and use of the SCMA's recommendation 8.2 Consolidation published and enforced in the year of 2009, in Swedish municipalities. The accounting reform and recommendations in Sweden is not based on the standards of the International Public Sector Accounting Standard Board (IPSASB) but we cannot show that these standards might have had an influence on the Swedish accounting context. Despite the difference the Swedish recommendations is a system of accrual based accounting similar to IPSAS which makes it relevant to compare the Swedish/National Consolidation of Municipal Accounting (NCMA) to the standards of (IPSASB) considering consolidation:

- IPSAS 6: Consolidated Financial Statements – Accounting for Controlled Entities
- IPSAS 7: Accounting for Investments in Associates
- IPSAS 8: Financial Reporting of Interests in Joint Ventures

The article proceeds with a section that reviews the Stakeholder Theory, Positive Accounting Theory as they are the theories the article is built upon. The article then makes a literature review and comparison between consolidation according to IPSAS and the NCMA to present the complexity of the public sector and that not even recommendations of public accounting are uniform world-wide.. The methodology of the study is then presented and accounted for as well as the Swedish context and its effect on the public sector. Finally, the article concludes with the study findings and conclusions.

Theory

Stakeholder Theory

A stakeholder is defined as *"[a]ny group or individual who can affect or is affected by the achievement of the organisation's objective"* (Freeman 1986, p.46). The Stakeholder Theory explains the relationship between the company and the groups or individuals that have some kind of interest in the operations of the company also known as stakeholders as defined by Freeman above. Several researchers (Deegan & Unerman 2005; Deegan 2002; Deegan *et al.* 2002; Zambon & Del Bello 2005; Gao & Zhang 2006) claim the main problem with the theory are that the company does not only act toward one group of stakeholders, they act toward several different stakeholders where each has different and changing interests and values.

The public sector has a different structure compared to the private sector. According to Chan (2003) the rise of government accounting was due to the greater demand of accountability in a democracy and market economy. Accounting information can be used to monitor and enforce the terms of social, political and economic contracts. Gray, Dey, Owen, Evans, and Zadek (1997) argue that the information that pass through the relationship depends on the entity's will to disclose information to the stakeholder and the strength of the stakeholder to influence the entity. Therefore, politicians at the local level that are elected by the citizens of the municipality will have an incentive to go beyond the level of information mandated as openly available to discharge accountability and manage stakeholders, the largest group being the citizens of the municipality (Chan 2003). The annual report does no only discharge external accountability through the citizens. As Grossi (2009) identifies, politicians are considered as a "primary" stakeholder which means that the annual report also serves as a discharge of internal accountability between entities in the municipality.

Because of the relationship between politicians and their electors the management of primary stakeholders proven by Galbreath (2006) to have a positive effect on performance and outcome of the entity is substantially important for the public sector. The classification between internal and external stakeholders and their relationship with the organization can lead to problems (Mack & Ryan 2007). One problem is that investment in external "primary" stakeholders does not need to ensure success (Galbreath 2006). O'Dwyer (2002) shows that it is more likely that a less detailed annual report is used to satisfy stakeholders of lesser power. A combined report to all stakeholders, factor of power irrelevant, will let the management of an organization to successfully steer the organization forward. A successful organization is measured after its ability to satisfy strong stakeholder groups (Deegan & Unerman: 2005). Antonacopoulou and Meríc (2005) criticize the Stakeholder Theory because it has reached a status of common sense and are therefore generally criticized for its misleading distinctiveness. It would be naive to think that the theory is value free because of its basic assumptions (Antonacopoulou & Meríc 2005). This criticism wont affect our study or our use of the theory as we do not think that the theory is value free and that the result of the study that are connected to the theory are not affected by the value of the basic assumptions

There are several papers that highlight the importance of stakeholder assessment and are devoted to the identification of stakeholders in public and quasi public markets. For example Collier (2008) and Grossi (2009) identifies the government or politicians, city- and sector managers as primary stakeholders. Mack and Ryan (2007) review research with the purpose to investigate the use of the annual report by the public sector to its stakeholders. They highlight two approaches that can be used to communicate with stakeholders: the indirect approach through intermediates such as the media and the direct way through the public report and they come to the conclusion that the direct approach through the issuance of an annual report is the most effective way to inform stakeholders of the actions of the company.

Louma-aho (2006) highlights the importance of stakeholder assessments as vital for the public sector organization because they contribute to organizational legitimacy through the public sector's reputation amongst the stakeholders. To maintain a good reputation the organization is required to invest in reputation-building. Marketing is an orientation that Maignan, Ferrell and Ferrell (2005) place weight on as a way to communicate with stakeholder and to invest in reputation and trust. Gao and Zhang (2006) urge companies to engage their stakeholders and suggest an effective way to communicate with them. The engagement can take many different forms depending on the degree of engagement and the number of stakeholders taking part in the process. Gao and Zhang (2006) propose a dialogue through stakeholder councils with the aim to reduce present and future conflict of interests, to manage stakeholders. However, it is important that the power between the stakeholders are equal so one stakeholder cannot get the decisive vote over the group (Gao & Zhang 2006; Yamak & Süer 2005).

Positive Accounting Theory

The Positive Accounting Theory, henceforth called PAT, was popularized by Watts and Zimmerman (1978, 1979, 1990). The theory focuses on the relationships between different individuals involved in providing resources to an organization and how accounting is used to assist in the functioning of these relationships. These relationships lead to delegated decision-making authority that can be explained through the Agency Theory (Deegan & Unerman 2005). Given the PAT's central assumption that all individuals' actions are driven by self-interest, it will predict that organizations will seek to put in place mechanisms to align the interests of the managers of the organization (the agents) with the interest of the owners of the organization (the principals). The implementation of mechanism will result in agency, bonding and monitoring costs, through the action to try to align the conflicting interests between the agents and the principals (Watts & Zimmerman 1979; Deegan & Unerman 2005). In the municipal companies in Sweden there are politicians in the board and in the city council who issues detailed directives for the companies to follow. Therefore, the communication between the owners, the board and the managers does not seem complicated. The relationship between the board and the city council should not result in large agency costs as the board consists of primarily the same politicians that are in the city council. There are no elaborate mechanisms to align the different interests of the board and the city council. The mechanisms put in place are simply the production of the annual report and the follow-up of the directives which will result in bonding and monitoring costs.

The PAT tries to explain managers' choice of specific accounting methods and it emphasized the role of accounting to reduce agency costs of an organization. It also emphasize the importance of efficiently written contracts, with many people being tied to the output of the accounting system, as a crucial component of an efficient corporate governance structure (Deegan & Unerman 2005). The Agency Theory provides a necessary explanation of why particular accounting methods might matter based on the key three hypotheses frequently used to explain whether an organization would support or oppose a particular accounting method: management compensation hypothesis, debt hypothesis and political cost hypothesis (Deegan & Unerman 2005; Watts & Zimmerman 1990). A possible answer to why companies would expend resources to influence the determination of accounting standards can be provided by the government intervention argument or, as named above, political cost (Watts & Zimmerman 1978). As this article investigates the consolidation of municipalities the government intervention argument carry more weight because the companies affected are owned by the local government and it is easier for the government to interact with it owns companies.

The PAT has been widely criticized for not providing a means of improving accounting practice. The critics of the assumption that all actions are driven by self-interest feel that this assumption gives a far too negative and simplistic perspective of people. One last piece of criticism concerns the development of the theory as it has not been developed since Watts and Zimmerman about 30 years ago (Deegan & Unerman 2005). The development or the simplistic view of people is not in question in this article which makes us disregard this criticism.

Consolidated reporting according to IPSASB

Grossi and Tagesson (2007) state that there are two standard methods of consolidation: the IPSASB and the national GAAP/NCMA. In the private sector, the obligation to compile consolidated financial statements and the consolidation area is based on the concept of control. The definition of control used in the private sector cannot satisfy the complexity of the public sector because local governments both have non-financial and financial objectives. The criteria that define control according to the IPSAS 6 are the following:

- The local government benefits from the activities of the decentralized organization
- The local government has the power to govern the financial and operating policies of the decentralized organization
- The power to govern the financial and operating policies is presently exercisable. (IPSAS 6.36)

If the three criteria are met the local government controls the decentralized organization and there is an obligation to prepare a consolidated financial statement.

The public sector's definition of control is fixed in the two elements benefit and power. The benefit element signifies that the controlling entity has to receive a financial or non-financial benefit from the activities of the decentralized organization. The power element signifies that the government or the parent of a sub group must be able to exercise the power to govern the financial and operational policies of the decentralized organization (IPSAS 6.26; Grossi & Tagesson 2007; Christiaens, Cauwenberge & Rommel 2009).

Generally, every controlled entity should be consolidated (IPSAS 6.21). Only when:

:

> *(a) Control is intended to be temporary because the controlled entity is acquired and held exclusively with a view to its subsequent disposal in the near future; or*
>
> *(b) It operates under severe external long-term restrictions which prevent the controlling entity from benefiting from its activities (IPSAS 6.22)*

should the entity be excluded from consolidation.

If control does not exist, it is necessary to investigate if the entity might be a joint venture or an associate. According to the IPSAS 8.5 a "*[j]oint venture is a binding arrangement whereby two or more parties are committed to undertake an activity which is subject to joint control*". This means that a controlling company cannot alone decide about the entity because it is jointly controlled together with another venturer. According to the IPSAS 7.6 an *"[a]ssociate is an entity in which the investor has significant influence and which is neither a controlled entity nor a joint venture of the investor"*. Significant influence means the power to influence, not control, the financial and operating policy decisions of the investee (IPSAS 7.6). An investor should have a voting power of at least 20 percent to have a significant influence. If the voting power is below 20 percent, significant influence does not exist.

Depending on the classification of the decentralized entity (wholly-owned, associate or joint venture) the method of consolidation is determined. The consolidation method should represent the different influences the public sector entity has on its subsidiaries:

- If it is a wholly-owned company by another public sector entity, it shall be fully consolidated (IPSAS 6.17).
- If it is a joint venture it should be consolidated according to proportional method or by using equity method (IPSAS 8.36).
- If it is an associate the equity method should be used (IPSAS 7.18).

Consolidated reporting in Swedish Municipalities

In Sweden, consolidated reporting was first introduced in the 1980s on a voluntary basis. In 1989, the Swedish Federation of Local Authorities (SFLA) published a booklet with instructions and ideas about objectives and techniques for municipal consolidation reporting. The ideas of the booklet came to dominate the praxis and standards in the field of municipal consolidation reporting. The Municipal Act of 1992 introduced a requirement that municipalities should include a consolidated financial statement in their annual report. In connection to the execution of the Municipal Act the SFLA's reference group in accounting issues issued standard 7 on consolidated reporting (Grossi & Tagesson 2007).

From 1998, the municipal sector has been regulated by the Municipal Accounting Act which requires municipalities to establish a consolidated accounting report including a balance sheet and an income statement. The legislation refers to the national GAAP and standard-setters pertaining to the more detailed issues about the consolidation methods and concept of control. The SCMA took over the power of standard-setting body in the municipal sector when the Municipal Accounting Act was introduced and issued a recommendation, RKR 8.1, which was built on the same foundation as previous standards and the GAAP (Grossi & Tagesson 2007). The RKR 8.1 was replaced in 2009 with the updated version RKR 8.2.

In Sweden, the area of consolidation is governed by ownership. There are two categories of ownership important to the consolidation in Sweden. The first one is when the municipality has, direct or indirect, influence over more than 50 percent of the company and, therefore, is the majority shareholder. The company should also be included in the consolidation if the municipality, direct or indirect, has a material/significant influence in the company. The rule of thumb is that the municipality should have control over 20 percent of the votes. However, there are situations where the control is below 20 percent, but the ownership involves an economic commitment of materiality; therefore, it should be included in the consolidated accounting. Wholly-owned companies, as well as companies with joint-ownership, are included. The new recommendation, RKR 8.2, introduces a new category in the area of consolidation that came into effect in the beginning of the fiscal year of 2009. The municipality is required to produce a consolidated financial statement if:

- *the municipality's share of the company's turnover is equal to or more than 5% of the income of taxes and government grants of the municipality.*
- *The municipality's total share of the company's balance-sheet total is equal to or more than 5% of the municipality's balance-sheet total. (RKR 8.2 2009)*[1]

[1] The recommendation has been translated into English by the authors of the article.

If none of these conditions are fulfilled the municipality is not required to produce a consolidated financial statement. According to RKR 8.2, entities that can be excluded from the area of consolidation:

- *should have been acquired with the purpose to sell within a year.*
- *should have a substantial and permanent obstacle for the municipality to exercise its power*
- *should be of trivial magnitude, defined as the municipality's share of the company's turnover is below 2% of the income of taxes and government grants of the municipality. The municipality's total share of the turnover of the companies excluded cannot exceed 5% of the income of taxes and government grants of the municipality. (RKR 8.2 2009)*[2]

The accounting principles of the municipality should guide the preparation of the consolidated financial accounting reports. As a general rule, the proportional method should be used when consolidating companies. According to Grossi and Tagesson (2007) this is based on the fact that the full consolidation method may imply that a company that is jointly owned by, for example, two municipalities can only be included in the consolidated reporting of one of the municipalities. This method of consolidation would not give a true and fair view of the consolidated accounting.

The general use of the proportional method of consolidation has one exception. If an intra-group has been consolidated with a full consolidation method and, due to time and cost reasons, it is not justifiable to consolidate each company one by one; hence, it is acceptable to proceed from the intra-group's annual accounts even if it is prepared according to the full consolidation method (Grossi & Tagesson 2007).

Differences

The IPSASB and the NCMA have some differences in their methods of consolidation and in table 1 below the differences are presented.

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

Table 1: Grossi and Tagesson's (2007) table of differences in methods of consolidation

	IPSASB	**NCMA**
	Decision-making approach	*Accountability approach*
Controlled Entities	Purchase method Full consolidation	Purchase method Proportional consolidation
Associates	Equity method	Purchase method Proportional consolidation
Joint Ventures	Purchase method Proportional consolidation (Equity method)	Purchase method Proportional consolidation

The IPSASB standards have a central concept of control and companies are treated differently depending on equity interest and the municipality's power to govern the corporation. There is no corresponding division in the NCMA as the concept of control is not as crucial in the NCMA as in the IPSASB's. As we can see from Grossi and Tagesson's (2007) table above the IPSASB leads to the use of several methods of consolidation while the NCMA only use proportional consolidation according to the purchase method, no matter the equity interest. Tagesson (2009) argues that proportional consolidation leads to comparability. Full consolidation according to the purchase method will overestimate the cost of service delivery while the equity method will underestimate it. According to Kothavala (2003) proponents of the equity method, as opposed to the use of proportional method for joint ventures, argue "*that there is no basis for including jointly controlled assets and liabilities with those fully controlled by the investor"* (Kothavala 2003, p.519). They argue that the investor cannot control pro-rata shares of joint venture assets and liabilities, while the proportional method gives the assumption that the investor could. Proponents of the proportional method argue that:

> *joint venture depth is often the responsibility of the investor and /.../ equity accounting offers an opportunity to use joint ventures as a means of off-balance sheet financing" (Kothavala 2003, p.519)*

However, it is acknowledged, even by opponents, that the proportional method gives a more comprehensive view of the company (Kothavala 2003).

Hybrid organizations and hybrid accounting

The public sector is organized differently than the private sector. The ownership structure differs as well as the accounting and budgeting methods which also means different standards and recommendations to follow. The companies affected by municipal consolidation are government business enterprises (GBE), entities which are organized and managed according to private sector but created to address public needs and produce services that are public in character, and are hybrid organizations Thomasson (2009).

Hybrid organizations are a result of the NPM as the organizations are a way to make the public sector more efficient and effective as these organizations are more flexible than for example public agencies. However, there is a problem with the duality of legislation and the demands both sectors put on the company (Grossi 2009) which leads to problems with consolidation when the financial information produced is not always homogeneous and fully compatible. Hybrid organizations will create hybrid accounting, a mix between the public sector and private sector accounting which will create a hybrid method of consolidation. Collin, Tagesson, Andersson, Cato and Hansson (2009) establish that the municipal organization has a need to have separate accounting systems because of the different objectives of the private versus public parts of the operations as well as the issue that funds from the public sector are used for activities in the private part of the organization.

Methodology

The investigations of the method of consolidation of Swedish municipalities have been made through a document study of the 290 municipalities' annual reports displayed in Appendix 1. Of these 290 municipalities 239 annual statements have been acquired which represent 82.4 percent. The article has investigated:

- the different methods of consolidation of municipalities

- if the municipalities in Sweden follow the RKR 8.2 (recommendation concerning consolidation from the SCMA) that was enforced in June 2009.

The study has been built upon the information that was available in the 2009's annual reports of the municipalities. Quantified variables from the SCMA's recommendation RKR 8.2 have facilitated the comparison of the recommendation's introduction in 2009 and how municipalities have followed it. To measure the annual reports' congruence to the RKR 8.2 a classification scheme was developed based on nine different variables concerning the implementation of RKR 8.2. A detailed scheme of each variable and its coding can be seen below:

1. <u>Agent's report:</u> If the municipality had an agent's report in the annual report it is given the number 1 and if there were no agent's report according to the requirements of RKR 8.2 the municipality is given a zero.
2. <u>Distinguished information:</u> RKR 8.2 requires distinguished information about the companies of the municipality and if this information was present in the annual report the number one is given. If it was not present it was given the number zero.
3. <u>Principle of consolidation:</u> The principle of consolidation required by the recommendation was the purchase method, proportional consolidation. If this was mentioned the municipality was given the number 1 and if not the number zero.
4. <u>The guiding role of the municipality's principles:</u> The RKR 8.2 requires that the municipality's accounting principles should have a guiding role over the consolidation and to be used above the principles of the municipal companies. If this was mentioned the municipality was given the number 1 and if not the number zero.
5. <u>Adjusting of deviating companies:</u> The RKR 8.2 requires the municipality to adjust deviating companies to give a fair and clear view of the group and if this was mentioned the municipality was given the number 1 and if not the number zero.

6. Accounting method of pensions: According to the legislation and the recommendations pensions should be accounted for by the mixed model (pensions before 1998 should be accounted for outside the balance sheet as a contingent liability and after 1998 as a pension liability inside the balance sheet) and if it was mentioned it was given the number one, not present the number zero. This variable also had a third code, the number two given to municipalities that were using the so called full fund method which meant that the municipality accounts for all its pension inside the balance sheet.
7. Structure of the financial reports: In the financial statements the municipality should include both the municipality and the consolidated municipal group. If this was done the municipality was given the number one and a zero was given when the financial statements of municipality and the consolidated group were in different statements.
8. Recommendations from SCMA (RKR): If recommendations from SCMA were mentioned the municipality was given the number one and a zero was given when it was not present. This variable also had two subgroups, the recommendations 8.1 and 8.2 which were using the same codification scheme.
9. The Act of Municipal Accounting: If the Act of Municipal Accounting was mentioned the municipality was given the number one and a zero was given when it was not present.

The total number of points any municipality could get was 11 when all of the variables are put together, this sum is represented by the variable "RKR Sum" as a means to measure the degree of implementation of the recommendation. The variable "RKR Sum" can also be seen as a control variable to prevent municipalities that only mentions RKR 8.2 and has not shown any implementation to get the same score as municipalities that has implemented the recommendation fully. The classification scheme, the coding of both numerical and categorical data as well as the entering and checking the data for errors have been made in accordance with the recommendation of Saunders *et al.* (2009). Criticism to this classification scheme can be that 8.2 was not an entirely new recommendation as it was built on 8.1 so there were similarities between the recommendations. Because the study is a document study and it is based on the mentioning of the different variables criticism can be voiced towards our method as they can use the recommendation and, therefore, do not mention it (the comply or explain aspect). As the RKR 8.2 have introduced a new category in the area of consolidation we believe that this change would be prudent to mention even if the comply or explain aspect is taken into account.

Milne and Adler (1999) discuss the aspect reliability in content analysis of disclosures. Content analysis "*is a method of codifying text of a piece of writing into various groups depending on selected criteria*" (Milne & Adler: 1999, p. 237). Although they discuss environmental and social disclosures, we believe that their advices can be used in our content analysis of annual reports. One issue that Milne and Adler (1999) focus is on is the reliability associated with the coding instrument itself, and it is the advice pertaining to this part that we can use. This study have few coding categories and a classification scheme that do not give much room for interpretation (either they mention the variable or not). This will result in a strong coding reliability as the same sentences or information content is coded in the same way by our coders.

The Swedish context

The public sector in Sweden is divided into two main levels: central and local. The local level is further divided into two different administrative systems: county councils and municipalities. The 21 county councils have healthcare as their primary responsibility, but the county councils also deal with public transportation, culture and tourism. The inhabitants of a county council vary between 50.000 and 1.5 million people. The 290 municipalities are responsible for local public issues in the immediate environment of the citizens such as primary and secondary schools, elderly care, roads, water and sewerage. The number of inhabitants in a municipality varies considerably, with the smallest of fewer than 2.600 and the largest approximately 760.000 people (Argento *et al*. 2010).

According to the SCB (2009) there are more than 1 million people who work at the local governments in Sweden, approximately 830.000 in the municipalities and 250.000 in the county councils. There are also around 75.000 people who work in organizations owned by the municipalities. The total population of Sweden was 9.349.059 people the 28 February 2010 according to SCB (Statistics, Sweden). According to SCB (2009) the public sector's consumption of the GDP was 20 percent.

If there is no applicable legislation for the municipalities to work after the municipalities have general authority to decide "issues of general public interest". According to Argento *et al.* (2010) this general authority means the municipalities have to work according to certain principles:

- Cost price principle: there is a prohibition on making a profit
- Equality principle: municipalities must treat all citizens equally unless there is an objective reason for doing otherwise
- Publicly open principle: all documents should be held open to read by everyone.

The local government can appoint a number of committees to deal with various tasks and different kinds of entities and forms of cooperation in the public sector. Over the last few years the cooperation between municipalities have increased; hence, now several new organizational forms are used such as joint committees, municipal federations, partnership, limited partnership companies, limited companies, economic associations and non-profit organizations (Argento *et al.* 2010).

Hypotheses

The explanation of RKR 8.2 and what it introduces compared to its predecessor RKR 8.1, as well as the theories put into the Swedish context, have led us to the elaboration of several hypotheses with the aim to explain the characteristics of municipalities that mention and have started to implement the new accounting recommendations from SCMA (B-hypotheses), RKR 8.2 (A-hypotheses) as the main one.

- H1A: The size of the municipality will affect the implementation of RKR 8.2 positively.
- H1B: The degree of implementation of recommendations will be affected by the size of the municipality group.
A larger municipality will have an incentive to invest in the process of producing the annual report to give a true and fair view of its operations, maybe as a way to increase the municipality's reputation as suggested by Louma-aho (2006). Therefore, the municipality will implement the new recommendations and the RKR 8.2 and to implement it to a larger extent than smaller municipalities. The variable size will be divided in the categories inhabitants in the municipality, tax income of the municipality, operation income of the municipal group and balance sheet total of the municipal group.

- H2A: A higher performance of the municipality group will affect the implementation of RKR 8.2 positively.
- H2B: The degree of implementation of recommendations will be positively affected by the generation of a higher performance by the municipal group.
Galbreath (2006) proves that the management of ”primary” stakeholders has a positive effect on the municipality group's performance. If the municipality group generates a higher income it has more money to invest in the process of producing the annual report and to focus on the kind of marketing that Maignan, *et al.* (2005) believe is the best way to communicate with stakeholders. Therefore, the implementation and the degree of implementation of the new accounting recommendations and RKR 8.2 will be higher in municipalities with a high performing group. Performance will be divided into operating income in total and per capita.

- H3A: A higher tax income per capita of the municipality group will affect the implementation of RKR 8.2 positively.

- *H3B: The degree of implementation of recommendations will be positively affected by the generation of tax income per capita by the municipal group.*

As in the performance hypothesis, if the municipality group has more tax income it has more money to invest in the process of producing the annual report and to focus on the marketing of Maignan, *et al.* (2005). Therefore, the implementation and the degree of implementation of the new accounting recommendations and RKR 8.2 will be higher in municipalities with a high tax income.

- *H4A: The size of the Municipal companies will affect the implementation of RKR 8.2 positively.*
- *H4B: The degree of implementation of recommendations will be positively affected by the size of the Municipal companies.*

The larger the municipal companies are the more important it is for the municipality to have a correct, accurate and qualitative accounting process. Therefore, larger municipalities will implement the new accounting recommendations and RKR 8.2 and will implement it to a larger degree than municipalities with smaller municipal companies. The size of the municipal companies will be divided in the categories municipal companies' operating income and the balance sheet total of the municipal companies.

Study Findings

The study consists of 239 out of the 290 municipalities in Sweden. Of these 239 municipalities only 43 of them mention RKR 8.2 in their annual report. As the correlations between all of the variables are too high we cannot perform a reliable multiple regression analysis. Therefore, we have used bivariate analysis with parametric tests and a significance level of 90 percent. Due to the large sample we disregard normality distribution.

Table 2: Descriptive statistics

	N	Mean	Std. Deviation
Tax (percent)	239	32.04	1.05
Inhabitants	239	35 523.05	69 211.87
Group operating income (MSEK)	239	893.94	2 248.86
Group result (MSEK)	239	81.92	384.25
Municipal operating income (MSEK)	239	410.16	806.00
Municipal income tax (MSEK)	239	1 279.48	2 527.04
Municipal equalization (MSEK)	239	226.54	337.97
Municipal result (MSEK)	239	40.85	81.57
Municipal Companies operating income (MSEK)	239	484.53	1 513.92
Municipal Companies result (MSEK)	239	41.12	366.03
Group BS total (MSEK)	238	3 517.78	9 544.66
Group capital assets (MSEK)	239	3 132.06	8 820.08
Group equity (MSEK)	239	1 398.17	5 629.53
Group liability (MSEK)	239	1 846.10	3 836.41
Group pensions inside BS (MSEK)	238	143.54	434.82
Group pensions outside BS (MSEK)	238	643.88	994.04
Municipal BS total (MSEK)	239	2 352.01	6 716.72
Municipal capital assets (MSEK)	239	1 813.96	4 324.50
Municipal equity (MSEK)	239	1 176.62	3 472.65
Municipal liability (MSEK)	239	981.08	2 931.22
Municipal pensions inside BS (MSEK)	239	132.44	374.40
Municipal pensions ouside BS (MSEK)	239	626.73	888.99
Municipal Companies BS total (MSEK)	239	1 223.31	3 222.28
Municipal Companies capital assets (MSEK)	239	1 321.48	4 811.98
Municipal Companies equity (MSEK)	239	223.21	2 440.06
Municipal Companies liability (MSEK)	239	867.06	1 711.35
Municipal Companies pensions inside BS (MSEK)	239	10.64	160.95
Municipal Companies pensions outside BS (MSEK)	239	15.93	186.78
Operation income capita (TSEK)	236	20.53	8.76
Tax income capita (TSEK)	239	35.63	3.30
Total BS Municipal companies capita (TSEK)	237	29.82	19.69
RKR sum	238	5.97	1.57

Table 2 shows the descriptive statistics, the mean and standard deviation, of variables found in the financial statements of the municipalities' annual reports. The only variable that differs from this is the "RKR Sum" which is a sum of the frequency variables presented in appendix 2 where the municipalities could get as much as 11 points if all the variables were accounted for. "RKR Sum" is here interpreted as the variable that presents the mean degree of implementation of the

RKR 8.2 and with a mean of 5.97 with a standard deviation of 1.57 there is room for improvements.

Table 3: T-tests of hypothesis

Hypothesis	Variable	RKR 8.2	N	Mean	Std. Deviation	Sig. (2-tailed)
H1A1	Inhabitants	Yes	43	74 752.44	146 739.43	.039
		No	196	26 916.61	28 196.32	
H1A2	Group operating income	Yes	43	2165.25	4 787.33	.040
		No	196	615.03	895.38	
H1A3	Group BS total	Yes	42	8 642.73	21 218.79	.065
		No	196	2 419.57	3 031.11	
H1A4	Municipal income tax	Yes	43	2 704.09	5 366.39	.040
		No	196	966.94	1 022.60	
H2A1	Group operating income	Yes	43	2 165.25	4 787.33	.040
		No	196	615.03	895.38	
H2A2	Operation income capita	Yes	43	22.29	10.76	.145
		No	193	20.13	8.23	
H3A	Tax income capita	Yes	43	36.06	2.53	.347
		No	196	35.54	3.44	
H4A1	Municipal Companies operating income	Yes	43	1 314.57	3 215.64	.046
		No	196	302.43	620.45	
H4A2	Municipal Companies BS total	Yes	43	2 881.04	6 884.63	.062
		No	196	859.63	1 313.38	

Table 4: Regression analysis of hypothesis

Hypothesis	Dependent Variable: RKR Summa	Beta	R Square	Adjusted R Square	t	Sig.
H1B1	Inhabitants	.185	.034	.030	2.887	.004
H1B2	Group operating income	.177	.031	.027	2.768	.006
H1B3	Group BS total	.165	.027	.023	2.567	.011
H1B4	Municipal income tax	.183	.033	.029	2.854	.005
H2B1	Group operating income	.177	.031	.027	2.768	.006
H2B2	Operation income capita	.066	.004	.000	1.015	.311
H3B	Tax income capita	.093	.009	.004	1.429	.154
H4B1	Municipal Companies operating income	.162	.026	.022	2.529	.012
H4B2	Municipal Companies BS total	.160	.025	.021	2.484	.014

- H1A: The size of the municipality will affect the implementation of RKR 8.2 positively.

Table 3 shows that the implementation of RKR 8.2 is significantly affected by the number of inhabitants, group operation income, total balance sheet value of the municipality and the municipal income tax according to the t-tests. The size of the municipalities will affect the implementation of RKR 8.2.

– H1B: The degree of implementation of recommendations will be affected by the size of the municipality group.

The regression analysis, presented in table 4, of all the size variables inhabitants, operating income of the group, balance sheet total of the group and municipal income tax, is significant which indicates that the size of municipalities will affect the degree of implementation of recommendations. The explanation rate, R square, is high compared to other variables with .023 - .030.

From the frequency table, table 5, on the right we can also see the mean of the size variables of the municipalities that have mentioned RKR 8.2. Table 5 presents a large standard deviation compared to the mean which means that the municipalities in question have a large spread from large to small municipalities. In table 6, the three largest municipalities (Stockholm, Göteborg and Malmö) have been excluded as they are extreme in size compared to other municipalities in Sweden. This is an attempt to get a reliable descriptive table. Both the mean and the standard deviation have drastically decreased between tables 5 and 6, but there is still a large standard deviation in table 6 compared to the mean. From these two tables we can draw the conclusion that while the mentioning of RKR 8.2 is widely scattered among municipalities of different size variables, the smallest municipalities' inhabitant wise, approximately below 3.700 inhabitants, are not included in the range of

Table 5: Means of size variables amongst municipalities who mentions RKR 8.2

	N	Mean	Std. Deviation
Inhabitants	43	74 752.44	146 739.43
Group operating income (MSEK)	43	2 165.25	4 787.33
Group BS total (MSEK)	42	8 642.73	21 218.79
Municipal income tax (MSEK)	43	2 704.09	5 366.40

Table 6: Means of size variables amongst municipalities who mentions RKR 8.2 (three largest municipalities excluded)

	N	Mean	Std. Deviation
Inhabitants	40	39 592.48	35 892.61
Group operating income (MSEK)	40	1 086.13	1 678.31
Group BS total (MSEK)	39	3 724.53	4 740.86
Municipal income tax (MSEK)	40	1 439.19	1 299.47

municipalities that mention RKR 8.2 (see table 6). To support hypothesis 1 (A and B), the t-tests, the regression analysis and the frequency tables indicate that the smallest municipalities will not mention the RKR 8.2. Therefore, size has a positive effect on the implementation of RKR8.2 and the degree of implementation of the new recommendations.

- H2A: A higher performance of the municipality group will affect the implementation of RKR 8.2 positively.

The t-tests shows that the performance, or operating income, of the municipality group has a significant effect on the implementation and of RKR 8.2 on the total operating income while it is not significant for the operating income per capita.

- H2B: The degree of implementation of recommendations will be positively affected by the generation of a higher performance by the municipal group.

The regression analysis supports that the effect on RKR sum and the degree of implementation of new recommendations is affected by higher performance in total while the operation income per capita contradicts the hypothesis.

- H3A: A higher tax income per capita of the municipality group will affect the implementation of RKR 8.2 positively.

- H3B: The degree of implementation of recommendations will be positively affected by the generation of tax income per capita by the municipal group.

The tax income per capita does not have a significant effect on the use (H3A) or the degree (H3B) of implementation of new recommendations either in the t-test or in the regression analysis. This might be explained by the area the recommendation covers. Consolidation should not affect the tax income as they are not correlated to each other in accounting: the consolidation method will not affect municipalities' tax income. In the t-test and regression analysis of hypothesis 1 we can see the total tax income and its significant result which further support the difference between total sums and capita sums. Although, the use of capita sums is the only way to justly compare municipalities it might just be too small of a category to make the variables significant.

- *H4A: The size of the Municipal companies will affect the implementation of RKR 8.2 positively.*

The size of the municipal companies, defined as the operation income and the total balance sheet value, do have a significant effect on the use of RKR 8.2 in the t-tests of table 3.

- *H4B: The degree of implementation of recommendations will be positively affected by the size of the Municipal companies.*

In the regression analysis the size of the companies of the municipal group has a significant effect on RKR Sum and the degree of implementation of new recommendations. Conclusions that can be drawn by this is that the larger the municipal companies are the more inclined the municipality will be to follow new recommendations. This can be because of the quality of the accounting system that is required in a larger group of companies.

Discussion

Grossi (2009) has identified politicians as a primary stakeholder group in the public sector. This means that we can assume that the annual statements the study is based on are mainly used to manage the "primary" stakeholder group of politicians. Therefore, the annual report could be seen as a tool for internal accountability towards politicians at the local level. Politicians should have an incentive to implement recommendations as a way to increase the quality of control of the internal accountability. In addition to politicians being identified as a "primary" stakeholder group we also identify the citizens of the municipality as one. If politicians are the symbol for internal accountability of municipalities the citizens symbolize the external accountability. The incentive should be even greater concerning the external accountability to reach a high quality of control by following recommendations with the aim of a true and fair view of the municipality's financial position and performance. If what Deegan and Unerman (2005) state is correct, that an organization's success is measured after its ability to satisfy strong stakeholder groups, then politicians and decision makers would welcome the recommendations of SCMA and implement them to make the municipality successful.

The result of the study findings are such that we present the A and B hypothesis as one unit in this part of the article.

H1: Size of the municipality will affect the implementation and degree of implementation.

The hypothesis is confirmed by all the variables. It may be that large-sized municipalities implement new recommendations and RKR 8.2 to a larger degree than municipalities of lesser size. The frequency tables as well as the t-test and regression analysis support that the larger the municipality is the more it will implement RKR 8.2 and the new recommendations. This might imply advantages of economy of scale and development of the processes of more advanced systems of accounting, information and control.

H2 and H3: Performances (H2) and tax income per capita (H3) will affect the implementation and degree of implementation.

Where the tests are made based on the sums of the municipality there are support for a higher performance and higher income tax's effect on the implementation of recommendations. The degree of recommendation implementation will be positively affected by the result of the municipal group which could be explained through the recommendations probable increase of structure and quality of the municipalities' accounting processes. Municipalities with higher operating income will also, probably, have a more efficient finance department which explains the contradictory results. The increase of structure and quality could result in more relevant information for decision makers and an increase in the amount of information available to stakeholders as Mack and Ryan (2007) suggest. However, the result of the municipal group is not affected by the use of RKR 8.2. This might be a complication caused by the novelty of the recommendation as only 43 municipalities have mentioned RKR 8.2 in the range of having implemented the recommendation during the fiscal year 2009 or planning to do so during the fiscal year of 2010. The test on capita sums contradicts the results of the municipality tests because there is not any significant difference concerning the degrees of implementation of the recommendation between smaller and larger municipalities. This supports the economy of scale thesis by both the result of the t-test and regression analysis of the total sums. The economy of scale will be facilitated by the use of recommendations which give politicians incentive to invest in the implementation of the new recommendations.

H4: Size of municipal companies will affect the implementation and degree of implementation.

According to both the t-test and the regression analysis we come to the conclusion that the larger the municipal companies are the more inclined the municipality will be to follow new recommendations. This might be because of the aspects previously discussed in conjunction to H1 or that the adoption of the recommendation will give stakeholders and politicians a true and fair view of the municipal companies which might facilitate for politicians in the boards of the companies.

As discussed, the result of H2 and H3 could imply an increased quality of accounting processes which can make more relevant information available to stakeholders. The implementation of RKR 8.2 might be low because it is a new recommendation which in turn suggests that the distribution of recommendations by SCMA is inefficient or that municipalities do not even consider implementing them. The missing connection to the penal code if a municipality should not follow the recommendations might also explain the absence of their use. The absence of use of the recommendations might be explained further by the PAT by Watts and Zimmerman (1978, 1979, 1990) and that the recommendation has the likeness of a mechanism that will try to align the agents'/politicians' interest with the ones of the principals'/citizens'. If employees of the municipality do not have knowledge of the existence of the recommendations then it can be assumed that the citizens also do not possess this knowledge. To compare the NCMA with the IPSAS and the argument for both methods leads us to the conclusion that it should be more user friendly to adopt the NCMA as it only uses one kind of method while the IPSAS have many different methods of consolidation. Therefore, we see that the Swedish alternative to IPSAS is well elaborated and is giving a true fair view, if followed. If the municipalities in Sweden had implemented the NCMA to a higher degree, Sweden could be in leading position in the area of public accounting.

We also have to comment on the problem of hybrid organizations mentioned by Thomasson (2009), publicly owned companies have to conform to both private and public sector accounting regulations and recommendations which could decrease the prioritization the recommendations of RKR receive. Therefore, there can be inefficiencies in contracts between the agent and principal (politician and citizen) that the recommendations could possibly fill if they were effectively imposed on the agent. If these recommendations would receive a connection to the penal code it would, probably, benefit all stakeholders as the recommendations of SCMA have the true and fair view as a goal. By this, it can be assumed that the implementation of these recommendations would lead to an annual statement with more relevant information than one without the recommendations implemented. Important to point out here is that we see an importance of the recommendations and that municipalities can strive for a high degree of implementation of the recommendations as long as the true and fair view is not compromised.

There is not only the aspect of economy of scale that is important in the discussion of these hypotheses and the implementation of RKR 8.2. The size of the municipality will affect both if and to what degree municipalities implement RKR 8.2 in municipalities. As the quantity of the “primary” stakeholder groups politicians and citizens are much larger in larger municipalities the adoption of recommendations such as RKR 8.2 might not just only be because of economy of scale. It might also be, as Louma-aho (2006) points out, that the adoptions of recommendations is an investment in reputation building so that the municipality will achieve a good reputation internally as well as externally by an implementation.

Summary and conclusion

Of the municipalities in Sweden there are not many that have mentioned RKR 8.2 in their annual report (43 of 239) which points to a slow working process within the public sector to adapt new recommendations. One reason can also be that these recommendations have no connection to the penal code of Sweden and will not be punished if the municipality does not use the recommendations. Then why can the adoption of recommendations that give a true and fair view of the municipality and facilitate the accountability process not be prioritized? One answer might be cost. In smaller municipalities the cost to implement a recommendation can be greater than the benefits of a true and fair view and stakeholder management. We can see that many of the municipalities that have mentioned RKR 8.2 are larger municipalities or municipalities with a large municipal group which means that it can also be an organizational aspect for the municipality to structure its accounting systems and processes in accordance with the recommendations to get an efficient structure. The variable "RKR Sum" which we used to measure the degree of implementation of RKR 8.2 only had a mean of 5.97 out of 11. This is a concern because the municipalities should want to implement the recommendation as they give the inhabitants a more accurate true and fair view of the municipality. To get municipalities to implement the recommendations of SCMA better than today we suggest, from an accounting stand point and with support from our study, that a merger of municipalities might be beneficiary. Larger municipalities both have the resources, the knowledge and the incentive to use these recommendations together with the accounting system to strive towards a true and fair view.

We believe that the subject discussed in this article can be researched further to grasp more aspects of the consolidation of municipalities in Sweden. Some municipalities have stated that they will align themselves to RKR 8.2 during the fiscal year of 2010. This will make it a possible development for comparability reasons to investigate recommendations further implementation in 2010. The Swedish model could also be compared to the IPSAS to put it into a practical context that we have not done here.

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Appendix 1: Municipalities of Sweden

Ale
Alingsås
Alvesta
Aneby
Arboga
Arjeplog
Arvidsjaur
Arvika
Askersund
Avesta
Bengtsfors
Berg
Bjurholm
Bjuv
Boden
Bollebygd
Bollnäs
Borgholm
Borlänge
Borås
Botkyrka
Boxholm
Bromölla
Bräcke
Burlöv
Båstad
Dals-Ed
Danderyd
Degerfors
Dorotea
Eda
Ekerö
Eksjö
Emmaboda
Enköping
Eskilstuna
Eslöv
Essunga
Fagersta
Falkenberg
Falköping
Falun
Filipstad
Finspång
Flen
Forshaga
Färgelanda
Gagnef
Gislaved
Gnesta
Gnosjö
Gotland
Grums
Grästorp
Gullspång
Gällivare
Gävle
Göteborg
Götene
Habo
Hagfors
Hallsberg
Hallstahammar
Halmstad
Hammarö
Haninge
Haparanda
Heby
Hedemora
Helsingborg
Herrljunga
Hjo
Hofors
Huddinge
Hudiksvall
Hultsfred
Hylte
Håbo
Hällefors
Härjedalen
Härnösand
Härryda
Hässleholm
Höganäs
Högsby
Hörby
Höör
Jokkmokk
Järfälla
Jönköping
Kalix
Kalmar
Karlsborg
Karlshamn
Karlskoga
Karlskrona
Karlstad
Katrineholm
Kil
Kinda
Kiruna
Klippan
Knivsta
Kramfors
Kristianstad
Kristinehamn
Krokom
Kumla
Kungsbacka
Kungsör
Kungälv
Kävlinge
Köping
Laholm
Landskrona
Laxå
Lekeberg
Leksand
Lerum
Lessebo
Lidingö
Lidköping
Lilla Edet
Lindesberg
Linköping
Ljungby
Ljusdal
Ljusnarsberg
Lomma
Ludvika
Luleå
Lund
Lycksele
Lysekil
Malmö
Malung-Sälen
Malå
Mariestad

Mark
Markaryd
Mellerud
Mjölby
Mora
Motala
Mullsjö
Munkedal
Munkfors
Mölndal
Mönsterås
Mörbylånga
Nacka
Nora
Norberg
Nordanstig
Nordmaling
Norrköping
Norrtälje
Norsjö
Nybro
Nykvarn
Nyköping
Nynäshamn
Nässjö
Ockelbo
Olofström
Orsa
Orust
Osby
Oskarshamn
Ovanåker
Oxelösund
Pajala
Partille
Perstorp
Piteå
Ragunda
Robertsfors
Ronneby
Rättvik
Sala
Salem
Sandviken
Sigtuna
Simrishamn
Sjöbo
Skara
Skellefteå
Skinnskatteberg
Skurup
Skövde
Smedjebacken
Sollefteå
Sollentuna
Solna
Sorsele
Sotenäs
Staffanstorp
Stenungsund
Stockholm
Storfors
Storuman
Strängnäs
Strömstad
Strömsund
Sundbyberg
Sundsvall
Sunne
Surahammar
Svalöv
Svedala
Svenljunga
Säffle
Säter
Sävsjö
Söderhamn
Söderköping
Södertälje
Sölvesborg
Tanum
Tibro
Tidaholm
Tierp
Timrå
Tingsryd
Tjörn
Tomelilla
Torsby
Torsås
Tranemo
Tranås
Trelleborg
Trollhättan
Trosa
Tyresö
Täby
Töreboda
Uddevalla
Ulricehamn
Umeå
Upplands Väsby
Upplands-Bro
Uppsala
Uppvidinge
Vadstena
Vaggeryd
Valdemarsvik
Vallentuna
Vansbro
Vara
Varberg
Vaxholm
Vellinge
Vetlanda
Vilhelmina
Vimmerby
Vindeln
Vingåker
Vårgårda
Vänersborg
Vännäs
Värmdö
Värnamo
Västervik
Västerås
Växjö
Ydre
Ystad
Åmål
Ånge
Åre
Årjäng
Åsele
Åstorp
Åtvidaberg
Älmhult
Älvdalen
Älvkarleby
Älvsbyn
Ängelholm

Öckerö
Ödeshög
Örebro
Örkelljunga
Örnsköldsvik
Östersund
Österåker
Östhammar
Östra Göinge
Överkalix
Övertorneå

Appendix 2: Descriptive statistics: Frequency

Variable		Frequency	Percent	Cumulative Percent
Agents report	No	5	2.1	2.1
	Yes	234	97.9	100
	Total	239	100	
Distinguished info	No	22	9.2	9.2
	Yes	217	90.8	100
	Total	239	100	
Proportional consolidation	No	61	25.5	25.5
	Yes	178	74.5	100
	Total	239	100	
Municipality guiding	No	198	82.8	82.8
	Yes	41	17.2	100
	Total	239	100	
Differing companies adjusted	No	211	88.3	88.3
	Yes	28	11.7	100
	Total	239	100	
Pension	No	129	54.0	54.0
	Blandmodellen	103	43.1	97.1
	Fondmodellen	7	2.9	100
	Total	239	100	
Structure	No	75	31.4	31.4
	Yes	164	68.6	100
	Total	239	100	
RKR 8.1	No	234	97.9	97.9
	Yes	5	2.1	100
	Total	239	100	
RKR 8.2	No	196	82.0	82.0
	Yes	43	18.0	100
	Total	239	100	
RKR	No	52	21.8	21.8
	Yes	187	78.2	100
	Total	239	100	
Act of Municipal Accounting	No	30	12.6	12.6
	Yes	208	87.4	100
	Total	239	100	

Appendix 3: Descriptive statistics: Correlation Table

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1 Tax	1.000														
2 Inhabitants	-,246***	1.000													
3 Group operating income	-,179***	,922***	1.000												
4 Group result	-,214***	,870***	,713***	1.000											
5 Municipal operating income	-,217***	,986***	,942***	,841***	1.000										
6 Municipal income tax	-,237***	,998***	,926***	,865***	,987***	1.000									
7 Municipal equalization	-0,007	,489***	,542***	,133**	,501***	,458***	1.000								
8 Municipal result	-,272***	,585***	,616***	,324***	,596***	,568***	,724***	1.000							
9 Municipal Companies operating income	-,150**	,844***	,984***	,611***	,866***	,851***	,538***	,598***	1.000						
10 Municipal Companies result	-,164**	,782***	,611***	,978***	,750***	,782***	-0,022	0,117*	,508***	1.000					
11 Group BS total	-,213***	,981***	,938***	,899***	,974***	,983***	,404***	,513***	,874***	,830***	1.000				
12 Group capital assets	-,200***	,979***	,928***	,905***	,971***	,981***	,383***	,491***	,861***	,841***	,999***	1.000			
13 Group equity	-,213***	,909***	,759***	,981***	,886***	,906***	,195***	,331***	,655***	,956***	,931***	,940***	1.000		
14 Group liability	-0,119*	,831***	,940***	,522***	,858***	,839***	,631***	,627***	,939***	,408***	,828***	,817***	,585***	1.000	
15 Group pensions inside BS	-,238***	,812***	,812***	,732***	,796***	,812***	,329***	,464***	,783***	,664***	,826***	,813***	,729***	,650***	1.000
16 Group pensions outside BS	-0,092	,594***	,681***	,174***	,627***	,595***	,813***	,740***	,678***	0,017	,514***	,502***	,261***	,824***	,306***
17 Municipal BS total	-,211***	,962***	,892***	,923***	,950***	,961***	,350***	,457***	,820***	,867***	,982***	,983***	,955***	,754***	,812***
18 Municipal capital assets	-,210***	,953***	,917***	,851***	,947***	,952***	,443***	,535***	,857***	,774***	,965***	,961***	,894***	,812***	,789***
19 Municipal equity	-,248***	,900***	,761***	,951***	,872***	,891***	,275***	,427***	,666***	,903***	,913***	,917***	,967***	,578***	,748***
20 Municipal liability	-,132**	,912***	,948***	,742***	,922***	,922***	,440***	,465***	,917***	,675***	,940***	,934***	,798***	,906***	,738***
21 Municipal pensions inside BS	-,227***	,681***	,682***	,605***	,668***	,677***	,306***	,454***	,658***	,533***	,680***	,665***	,590***	,518***	,931***
22 Municipal pensions ouside BS	-0,102†	,581***	,639***	,170***	,603***	,578***	,833***	,746***	,629***	0,012	,489***	,478***	,255***	,781***	,278***
23 Municipal Companies BS total	-,171***	,906***	,924***	,736***	,909***	,911***	,474***	,569***	,887***	,646***	,920***	,914***	,770***	,887***	,753***
24 Municipal Companies capital assets	-,177***	,937***	,876***	,894***	,927***	,942***	,304***	,419***	,807***	,845***	,968***	,969***	,919***	,768***	,781***
25 Municipal Companies equity	-,139**	,816***	,667***	,909***	,802***	,823***	0,058	,155**	,564***	,920***	,849***	,863***	,931***	,526***	,617***
26 Municipal Companies liability	-0,040	,299***	,483***	-,101†	,343***	,302***	,661***	,610***	,535***	-,242***	,253***	,231***	-0,057	,689***	,191***
27 Municipal Companies pensions inside BS	-0,118†	,605***	,603***	,566***	,590***	,613***	,174***	,196***	,581***	,550***	,646***	,646***	,595***	,547***	,530***
28 Municipal Companies pensions outside BS	-0,005	,390***	,574***	0,117*	,461***	,410***	,355***	,379***	,608***	0,038	,405***	,393***	,173***	,659***	,305***
29 Agents report	0,068	0,047	0,046	0,023	0,051	0,047	0,055	0,037	0,041	0,016	0,040	0,039	0,028	0,048	0,044
30 Distinguished info	-0,119	0,083	0,087	0,049	0,088	0,083	0,082	0,092	0,082	0,030	0,077	0,077	0,058	0,092	0,073
31 Proportional consolidation	0,027	0,090	0,076	0,051	0,099	0,091	0,092	0,077	0,060	0,036	0,072	0,076	0,063	0,106†	0,006
32 Municipality guiding	-0,023	-0,012	0,016	-0,013	0,000	-0,016	0,009	0,030	0,023	-0,020	-0,002	-0,011	-0,019	-0,015	0,041
33 Differing companies adjusted	0,027	-0,012	-0,009	-0,005	0,006	-0,011	-0,002	0,070	-0,016	-0,021	-0,011	-0,017	0,000	-0,018	-0,058
34 Pension	-0,100	0,112*	0,106†	0,069	0,110*	0,114*	0,063	0,040	0,099	0,063	0,095	0,095	0,082	0,093	,240***
35 Structure	-0,058	0,058	0,004	0,040	0,039	0,055	0,039	0,050	-0,015	0,030	0,036	0,040	0,055	0,003	0,042
36 RKR 8.1	0,036	0,049	0,113*	0,029	0,066	0,050	0,098	0,110*	,133**	0,006	0,074	0,067	0,059	0,082	0,002
37 RKR 8.2	-0,074	,266***	,265***	,188***	,257***	,265***	,152**	,195***	,257***	,154**	,249***	,252***	,211***	,230***	,305***
38 RKR	-0,046	0,088	0,100	0,072	0,087	0,086	0,078	0,052	0,101	0,063	0,083	0,084	0,065	0,090	0,094
39 Act of Municipal Accounting	-0,061	0,030	0,041	0,022	0,036	0,028	0,037	0,041	0,041	0,014	0,036	0,038	0,032	0,032	0,044
40 Operation income capita	,128**	,278***	,481***	,171***	,335***	,275***	,369***	,322***	,535***	0,108*	,324***	,312***	,169***	,453***	,307***
41 Tax income capita	,169***	0,060	0,047	0,023	0,067	0,105†	-,173***	0,009	0,034	0,023	0,043	0,049	0,028	0,068	0,066
42 Total BS Municipal Companies capita	0,051	0,123*	,152**	0,107†	0,114*	0,123*	0,115*	,131**	,166**	0,083	,150**	,144**	0,073	,214***	0,082
43 RKR Summa	-0,093	,185***	,177***	0,124*	,188***	,183***	,139**	,157**	,162**	0,095	,165**	,166**	,145**	,158**	,222***

	16	17	18	19	20	21	22	23	24	25	26	27	28	29
16 Group pensions outside BS	1.000													
17 Municipal BS total	,429***	1.000												
18 Municipal capital assets	,529***	,982***	1.000											
19 Municipal equity	,290***	,957***	,924***	1.000										
20 Municipal liability	,605***	,916***	,932***	,767***	1.000									
21 Municipal pensions inside BS	,236***	,678***	,672***	,642***	,565***	1.000								
22 Municipal pensions ouside BS	,986***	,413***	,516***	,300***	,569***	,188***	1.000							
23 Municipal Companies BS total	,646***	,829***	,811***	,712***	,868***	,599***	,605***	1.000						
24 Municipal Companies capital assets	,444***	,920***	,863***	,850***	,875***	,615***	,411***	,946***	1.000					
25 Municipal Companies equity	,188***	,841***	,748***	,807***	,750***	,447***	,161**	,763***	,910***	1.000				
26 Municipal Companies liability	,810***	0,121*	,223***	-0,018	,318***	,192***	,775***	,501***	,222***	-0,106†	1.000			
27 Municipal Companies pensions inside BS	,276***	,610***	,564***	,524***	,676***	,185***	,312***	,635***	,677***	,626***	0,069	1.000		
28 Municipal Companies pensions outside BS	,616***	,311***	,356***	0,117*	,505***	,361***	,479***	,548***	,401***	,233***	,612***	-0,018	1.000	
29 Agents report	0,061	0,040	0,047	0,037	0,038	0,046	0,062	0,038	0,028	0,012	0,043	0,010	0,030	1.000
30 Distinguished info	0,094	0,075	0,090	0,077	0,064	0,076	0,096	0,077	0,060	0,023	0,096	0,019	0,036	0,055
31 Proportional consolidation	0,126*	0,066	0,080	0,051	0,083	-0,002	0,123*	0,084	0,066	0,072	0,095	0,026	0,057	0,049
32 Municipality guiding	-0,013	-0,017	-0,022	0,003	-0,057	0,102	-0,032	0,021	0,000	-0,047	0,063	-0,125*	0,051	-0,011
33 Differing companies adjusted	0,041	-0,023	-0,026	-0,001	-0,053	-0,002	0,021	0,010	-0,008	0,001	0,049	-,150**	0,072	0,053
34 Pension	0,042	0,092	0,091	0,072	0,076	,268***	0,029	0,103†	0,093	0,087	0,078	0,028	0,076	0,076
35 Structure	0,021	0,060	0,071	0,080	0,027	0,066	0,031	-0,010	0,008	0,012	-0,040	-0,037	-0,057	0,090
36 RKR 8.1	0,118*	0,086	,130**	0,123*	0,053	-0,002	,135**	0,035	0,007	-0,040	0,092	0,010	-0,012	0,021
37 RKR 8.2	,157**	,251***	,265***	,225***	,233***	,334***	,128**	,241***	,223***	,168***	0,116*	0,046	,179***	-0,008
38 RKR	0,069	0,092	0,114*	0,081	0,093	0,102†	0,069	0,060	0,050	0,033	0,041	0,021	0,056	-0,006
39 Act of Municipal Accounting	0,014	0,033	0,041	0,034	0,024	0,044	0,010	0,040	0,031	0,023	0,028	0,013	0,043	0,033
40 Operation income capita	,333***	,328***	,410***	,280***	,366***	,318***	,327***	,294***	,203***	-0,009	,387***	0,085	,220***	0,073
41 Tax income capita	0,090	0,042	0,054	0,017	0,062	0,072	0,089	0,053	0,042	0,040	0,047	0,012	0,059	0,039
42 Total BS Municipal Companies capita	,162**	0,040	0,016	0,030	0,042	0,058	,160**	,360***	,249***	0,124*	,407***	0,084	0,107*	0,086
43 RKR Summa	,134**	,166**	,185***	,162**	,131**	,271***	0,116*	,160**	,136**	0,102†	0,126*	-0,032	0,121*	0,081

	30	31	32	33	34	35	36	37	38	39	40	41	42	43
30 Distinguished info	1.000													
31 Proportional consolidation	,212***	1.000												
32 Municipality guiding	0,068	0,114*	1.000											
33 Differing companies adjusted	-0,109*	,154**	,352***	1.000										
34 Pension	0,046	0,084	0,019	0,007	1.000									
35 Structure	0,065	0,100	0,045	-0,006	0,093	1.000								
36 RKR 8.1	-0,055	0,019	0,089	,129**	0,029	-0,027	1.000							
37 RKR 8.2	0,074	0,074	,134**	0,100	,195***	0,082	-0,068	1.000						
38 RKR	0,043	,133**	-,137**	-0,092	,136**	0,102†	0,006	,141**	1.000					
39 Act of Municipal Accounting	,168***	0,077	-0,039	-0,095	,140**	,152**	-0,033	0,080	,343***	1.000				
40 Operation income capita	0,101	0,011	0,057	0,058	-0,007	-0,094	,299***	0,095	0,095	-0,022	1.000			
41 Tax income capita	0,030	0,062	-0,002	-0,002	,136**	0,024	0,034	0,061	-0,015	-0,022	0,015	1.000		
42 Total BS Municipal Companies capita	0,125*	0,041	0,097	0,091	0,012	-0,088	0,021	0,009	-0,048	-0,001	,262***	0,052	1.000	
43 RKR Summa	,306***	,488***	,356***	,289***	,532***	,450***	0,021	,475***	,427***	,447***	0,066	0,093	-0,013	1.000

†The correlation is weakly significant on a 0.01-level
*The correlation is significant on a 0.1-level
**The correlation is significant on a 0.05-level
***The correlation is significant on a 0.01-level