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*Understanding the accounting choice in  
Swedish municipalities*

*A Study about how Swedish municipalities reason when valuating  
tangible fixed assets.*

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# Summary

- Title:** Understanding the accounting choice in Swedish municipalities  
– A study about how Swedish municipalities reason when valuating tangible fixed assets.
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- Authors:** Al-kuwaity, Samar
- Advisor/s:** Loft, Anne & Paulsson, Gert
- Five Key Words:** Swedish municipalities, new/old recommendations, accounting choice, System-oriented theories, Positive accounting theory.
- Purpose:** The purpose of this master thesis is to increase understanding of how Swedish municipalities reason when they value tangible assets and why they reason this way.
- Methodology:** In this study the author have used a qualitative, abductive and exploratory approach.
- Theoretical perspectives:** This paper consists of a multi-theoretical approach. Positive Accounting Theory and Accountability, Institutional Theory and Legitimacy Theory are used.
- Empirical foundation:** Interviews were conducted with Lund municipality and Trelleborg municipality. Furthermore two empirical studies have been used.
- Conclusions:** There is no fundamental way of valuate assets' useful life time and municipalities do not even have a process for reviewing these. Determination of depreciations also differs among municipalities. Municipalities follow the new recommendations because it is important to follow current regulations and to be comparable. Municipalities does not follow the new recommendations because it is hard to break entrenched patterns, it is consuming and financially demanding.

## ***Acknowledgement***

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***Special Thanks to:*** *The Respondents from the municipalities of Lund and Trelleborg*

*Lund, May 2012*

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Samar Al-kuwaity

# List of abbreviations and definitions

ESV	<i>Ekonomi styrningsverket</i>
FEE	<i>Federation of European Accountants</i>
IFAC	<i>International Financial Reporting Standards</i>
NPM	<i>New Public Management</i>
OECD	<i>Organization for Economic Co-operation and Development</i>
RKR	<i>Rådet för kommunal Redovisning</i>
SKL	<i>Sveriges Kommuner och Landsting</i>

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## **1. Introduction**

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*The introduction part provides a background of the development and reforms in public sector accounting standards combine with the descriptions of Swedish public sector and Swedish Municipalities Accounting setting Board. Further the author motivate a research discussion, state the research questions that lead to the research purpose and finally the author present the dispositions of this thesis.*

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### **1.1 Background**

#### **1.1.1 Public sector accounting development**

200 years ago Thomas Jefferson (former US president) wrote that he wished to see “*the finance of the Union as clear and intelligible as a merchant’s book, so that every member of Congress, and every man of any mind in the Union, should be able to comprehend them to investigate abuses, and consequently to control them*”, that is how Jefferson described the purpose of accounting and he suggested accounting in the private sector as a model for the public sector. (Chan, 2003, p.15)

During the last 20 years the public sector has been subjected to transformations in order to improve the accountability and efficiency of public service delivery (OECD, 1993, 1994). Due to the fact that public affairs are conducted with public resources, the concept of accountability is viewed as the most important principle. This principle is about; how has the resource been applied and who have been gaining from them? The concept involves more than the economic dimension and it is also about moral, political and social responsibility. (Cassel, 2000) Unlike private sector, profit is not the main objective of public activities. Instead, the core objective in the public sector is to offer residents high quality services efficiently within limit resources. (Chan, 2003)

The preponderance of reforms in the public sector had the aim of introducing tools to improve governance and control (Pina et al., 2009). Some academics believe that there is much that the public sector can learn from the private sector, and this is due to the fact that the private sector has more requirements, various standards and regulations to comply with (Broadbent and Guthrie, 1992). Pallot (1999) consider that the public sector and the private sector have not only differences but also similarities; one similarity of which the public sector has emulated from the private sector is the New Public Management (NPM). Falkman and Tagesson,

(2008) and Christiaens et al (2010) refer to that NPM has led to focus on accounting and cost-efficiency in public organizations, which in private sector entities already has been one of the key focuses. This is one of the major reforms that the public sector entities have experienced the last decades (Hood, 1995). The trend of reforms in financial information systems has been one of the most vital aspects of New Public Management. Guthrie et al (1999) believe that these transition elements are of importance to improving the management and decision-making of government institutions. Lapsley (1999) considers that the introduction of accrual accounting in the public sector is the main reason for financial information system reforms.

### **1.1.2 Reforms of public sector accounting**

For many years cash accounting has been the conventional accounting and financial information system in the public sector and some government nowadays are still using this system. Cash accounting has, as any system its advantages and disadvantages. One major disadvantage is that this system gives little information regarding either liabilities or of potential benefits from assets in the future. An improvement in the financial information system of public sector entities was seen as needed and that is when the new concept of accrual accounting was introduced to the public sector. Accrual accounting is constituted, so it suits better for planning financial management and decision-making (FEE, 2007). Through this system comparability within different jurisdictions and accountability of public resources are also improved (Guthrie, 1998).

Between the reforms from cash to accrual accounting, two other systems of accounting arose by International Federation of Accountants (IFAC): *modified cash accounting* and *modified accrual accounting*. IFAC identifies the cash basis of accounting as: *'the basis of accounting that recognizes transactions and other events only when cash is received or paid'* (IFAC, 2008: 926). The financial result for a period is measured as the differences between cash receipts and cash payments and the most common documents are the cash flow statements and the cash balances (IFAC, 2008; IFAC PSC, 2000).

The *modified cash accounting* system recognizes transactions and other financial events on a cash basis during the year. However creditors' accounts and/or debtors at year's end are also taken into account. (IFAC PSC, 2000).



The modified accrual accounting system, unlike the modified cash accounting system recognizes transactions and other financial events on an accrual basis, but certain classes of assets or liabilities are not recognized. The recording of all non-financial assets at the time of purchase is a typical example. (IFAC PSC, 2000).

According to IFAC accrual accounting is; *“a basis of accounting under which transactions and other events are recognized when they occur (and not only when cash or its equivalent is received or paid). Therefore the transactions and events are recorded in the accounting records and recognized in the financial statements of the periods to which they are related to.”* (IFAC, 2008: 32–3). However according to some experts in the field, most national reforms are moving towards the introduction of accrual accounting and the accounting practices generally accepted in the business sector. (FEE 2003, 2007; Athukorala and Reid, 2003). Several countries change of public sector accounting systems in to the International Public Sector Accounting Standards (IPSASs) can be an incentive to the harmonization of public sector accounting.

### **1.1.3 Swedish Regulations for municipalities**

SCMA (Rådet för Kommunal Redovisning) is an independent nonprofit agency established in 1997 by the state, the Swedish Association of Municipalities and the Association of County Councils. The benchmark for the work of the SCMA is the Law of Municipal Accounting, which came into force on 1 January 1998. SCMA’s main task is to guide and supervise Swedish municipalities and other organizations in the public sector by publishing standards regarding accounting and financial reporting (RKR, 2012).

Today Sweden has 290 municipalities, which together account for 20 percent of Sweden's total GDP. The municipalities’ revenue sources are 68 percent of tax revenues and 7 percent of fees and charges (SKL, 2012). Until the 1950s municipal annual reports were more or less unregulated, which lead to divergent practices in the municipal accounting (Falkman & Orrbeck, 2001).

At the end of the 1990s, Swedish municipalities went through a tremendous reform, the result of this reform lead to the introduction of the Municipal Accounting Act (1997:614). This new regulation lead to that the municipals accounting were stricter regulated and mandatory. The Municipal Accounting Act regulates how municipalities should value and depreciate assets,

but also that the municipalities are obligated to inform what accounting and valuation principles they apply when evaluating their assets. (Falkman & Orrbeck, 2001)

Falkman and Tagesson (2008) study “*Accrual Accounting Does Not Necessarily Mean Accrual Accounting: Factors that counteract compliance with accounting standards in Swedish municipal accounting*” had the aim to see whether the municipalities do or do not comply with the accounting standards issued by the Council for Municipal Accounting. Further the authors also aimed to see if the reform and the de jure implementation of new legislation and accounting standards lead to de facto implementation in practice? And what factors could explain a possible observance gap?

The authors collected empirical data for the financial year 2003 through an e-mail survey and this was supplemented by secondary data from the Association of Local Authorities and data from the four major auditing firms. The survey was sent to financial directors of the municipalities. In total, 210 respondents out of the whole population of 290 municipalities answered the survey. The authors also conducted interviews with 12 financial managers. In order to obtain a richly varied picture from the interviews, the authors chose respondents from both small and large municipalities as well as municipalities with poor as well as relatively good compliance with the accounting standards issued by the Council for Municipal Accounting.

The outcome of the empirical findings of the study was that all interviewed financial managers, declared that financial accounting and especially the annual financial report as a document is not considered to be a priority. One of the respondents explained it in the following way; ‘*The annual accounts are produced during a very hectic period of the year in order to then be forgotten.*’ Another respondent clarified that; ‘*nobody actually reads the annual report.*’ Further the interviewees stated that financial reporting also has low priority among municipal politicians in relation to the budgetary process and the budget document.

The general result of the study was that the authors found that the standards issued by the Council for Municipal Accounting had until 2008 had a limited impact on municipal accounting practice. The reason could according to the authors be explained by the following factors; deficient competence among the preparers, weak audit quality, negative attitude

among the preparers, possibly due to the absence of sanctions and, inconsistent and unclear standards.

However in 2009 another reform took place and before this reform Swedish municipalities applied standards that were published by the Swedish Association of Local Authorities (Svenska kommunförbundet) and The Reference in accounting to recognize assets (Falkman & Orrbeck, 2001). The old recommendations were primarily designed to clarify the rules and recommendations. These were designed to give instruction concerning depreciation of tangible fixed assets. The purpose was to create harmony and contribute to a comparison between the municipalities. Those recommendations gave suggestions about appropriate depreciation schedules for different types of tangible assets, and were aimed to work as guidance for valuation of the assets useful life time. Machines useful lifetime was recommended to be divided in to 20, 10 and 5 years, depending on the type of the machine. For example ships, major special machinery, tug boat, quay cranes and dredgers' recommended useful lifetime was 20 years. While electric motors, snow machines and sewing machines were recommended to 10 years. However, Inventories such as measuring apparatus and communications equipment in buildings was recommended to have a useful lifetime of 10 years. Furthermore small inventories such as lawnmowers, mirror, office equipment, rehabilitation technology and microwave were recommended to have a useful lifetime of 5 years. Lastly PC's useful lifetime was recommended to 3 years. When it comes to properties it is logical that they have a longer lifetime and therefore the recommended useful lifetime for land was unlimited while Town hall was recommended to 50 years and hospitals, fire department, schools and retirement home were recommended to 33 years. Lastly small properties such as public WC, camping facilities and athletics tracks were recommended to a shorter useful lifetime of 20 years. (<http://skl.se>, *Avskrivningstider*)

Nevertheless municipalities did not use the recommendations as a support for valuation of the assets' useful life time, but instead they applied the recommendations as law and followed the recommended time limits without performing any valuation to determine the proper depreciation for each asset. As a result tangible fixed assets in Swedish municipalities did not give a fair view of the asset's actual value. (The Reference in accounting, 1997).

Between 2006 and 2009 the new municipalities' standard-setting body, the Swedish Council on Municipal Accounting (RKR) were founded and new accounting recommendations for how Swedish local authorities should deal with valuation of assets were issued. According to

these new recommendation, comparability between municipalities would be reached if municipalities applied valuation based on actual useful lifetime in the specific business while the old recommendation advocated the use of same depreciation method for similar assets. Furthermore the new recommendations states that each municipality shall conduct individual tests for each tangible fixed asset's useful lifetime, based on the asset's use in the business. The purpose of the new recommendations is to give a reflection of current norms and rules. Yet the main aim with these recommendations is to reflect the actual resource consumption and the valuation, appreciation and assessment of useful lives of the assets. The new recommendations encourage municipalities to valuate assets subjectively and separately. (Falkman & Orrbeck, 2001). The new guidelines for the recommended useful lifetime for different types of assets are as following; Machines such as ships, major special machinery, tug boat, quay cranes and dredgers are now recommended to have a useful lifetime between 20 and 33 years, while electric motors, snow machines and sewing machines are recommended to between 10 to 20 years. However, inventories such as measuring apparatus and communications equipment in buildings are now recommended to have a useful lifetime between 10 to 20 years. Furthermore, small inventories such as lawnmowers, mirror, office equipment, rehabilitation technology and microwave now are recommended to have a useful lifetime between 5 and 10 years. Lastly PC's useful lifetime is recommended to between 3 to 5 years. When it comes to properties, land still is recommended to have unlimited lifetime while Town hall, hospitals, fire department, schools and retirement home are recommended to have a useful lifetime between 33 and 50 years. ([www.rkr.se/download.asp?115](http://www.rkr.se/download.asp?115))

## **1.2 Research discussion**

Municipalities are responsible for providing social services, and thus accountable to society. The primary source of revenue for municipalities is national tax revenue, beyond that income is also obtained from local citizens through taxes. Since municipalities conduct activities through funding from the local residents, there are high demands on the use of resources. Municipalities have an obligation to economise their resources and not waste taxpayers' money (SKL, 2011).

In municipalities' activities, substantial amounts of tangible fixed assets are being used. Evaluating, the determination of the useful life time and accounting for those assets, and the use of assets in the municipalities, has been shown to have a significant impact on the municipalities' financial position (RKR, 2009). Correct useful life time and depreciation of tangible fixed assets, thereby lead to proper valuation, to ensure that taxpayers' money is not used inappropriately. (Nyman, Nilsson & Rapp, 2005). Incorrect depreciation of assets used in tax financed activities, might in turn lead to that the wrong generations have to bear the costs. Therefore it is essential that local governments use tax revenues in an optimal way to achieve the best benefit for the society (Nyman et al., 2005) Proper accounting of how public resources have been used therefore becomes important, to show local residents what economic conditions the municipality has (RKR , 2007).

Due to a number of international accounting scandals in recent decades, correct and public available reporting has become increasingly important. These scandals have resulted in a damaged confidence in public civil servants, which in turn increased the pressure on the public accounts, which meant that the municipalities' accountability towards the society has increased. (Coy, Fischer & Gordon, 2001)

Political organizations and municipalities have a hierarchical structure, which contributes to an increased difficulty in monitoring that the accountability is being reached in the organization. With this hierarchical structure comes a variety of principal agent relationship due to inconsistent data sharing. (Tarschys, 2002) Problems due to inconsistent data sharing could be analyzed and explained through the positive accounting theory and more specifically the principle-agent theory.

Municipalities depreciation of assets is governed by the Local Government Act (1991:900) and the Law on Municipal Accounting (1997:614). The Local Government Act states that municipalities should have good financial management, which means that costs and revenues

must be balanced; municipalities thereof may not recognize gains or losses in the financial statements. The balanced requirement may in turn lead to that the employees of the municipalities choose accounting practices that lead to increased depreciation for years when the result looks to be positive, in order not to risk having reduced budget for future years. This behavior mean that the employees primarily are working in self-interest, to benefit their own administrations instead of giving priority to the municipality's best. This action will influence the recognition of assets negatively because it is not honest and fair since it gives an incorrect image of the municipality's financial position.

### **1.3 Research purpose**

The purpose of this research is to increase understanding of how Swedish municipalities reason when they value tangible fixed assets and why they reason this way.

To achieve the purpose the following questions will be answered;

- How do Swedish municipalities decide the useful life time and depreciation scheduler for tangible fixed assets
- Why do or do not Swedish municipalities follow the new recommendations issued by RKR in 2009?

### **1.4 Disposition of the thesis**

This thesis has the following disposition

**Introduction** - The background to this study, research discussion and the research purpose will be presented.

**Methodology** - Description of how the author proceeded in the work of this research regarding the research approach, data collection and interviews.

**Theoretical framework** – Provides a theoretical basis of appropriate theories that could explain the research question.

**Empirical Framework** – Provides the empirical material that the author' analysis and conclusion will be based on

**Analysis** - In this part the theoretical framework is being linked to the empirical framework and then analyzed.

**Discussion & Conclusion** – This chapter is a continuation of the analysis, focusing on my own thoughts and gives answers on the research questions.

## 2. Methodology

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*In the methodology part, the author describes the methods that will be applied in this research. Firstly, the introducing point for this part is the qualitative and abduction method as the author chooses to use qualitative and abductive approach in this thesis. Further the author gives a short introduction to descriptive context to then analysis the data collection method were a discussion about primary and secondary data is given who then is finally followed by the criticism about the methodology utilized.*

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### 2.1 Research approaches

#### 2.1.1 Qualitative and abductive

When this study started the literature findings were most about valuation of different assets in Swedish municipalities. This report is aimed to increase understanding of how Swedish municipalities reason when they value tangible fixed assets and why they reason this way, which is supported by the qualitative method. (Jacobsen, 2004) The qualitative method suites this report because it gives the researcher a deeper understanding of what (s)he is studying, and as the purpose is to answer the why and how question the qualitative approach is most appropriate (Kvale, 1997). Furthermore the qualitative method helps to fulfill the wish to see things in the eyes of the beholder (Bryman, 2009). The author has also chosen this method because the qualitative method adds the importance of details, shades and the uniqueness of every respondent. (Jacobsen, 2004) This is important for this study as the author is dependent on the answers from the interviews made with different Swedish municipalities.

Moreover this study has used an abductive method to connect the empirical results with the theories. The abductive method can be said to be a combination with the two other methods: deductive and inductive. During this study the inductive and deductive approaches are being used interchangeably as they are closely associated with each other. Furthermore as the author believes it is hard to follow a research approach strictly to generate a theory the abduction approach is utilized in this thesis. Through the use of this research approach, the author can freely choose the order in the arrangement of this paper. By finding different theories the author made up some expectations about the outcome of this work; however this research was made to see if real life is consistent with the expectations, and this is typical for the deductive approach. Moreover the inductive approach was used when collecting the empirical material in order to answer the “why” question.

At the beginning of this study the author first read and made judgments of the different thoughts and opinions on how Swedish municipalities resonate when valuating tangible fixed assets and why the reason that way. Subsequently the author made conclusions to propose a theoretical structure from an individual observable fact, which is an inductive method. Furthermore the author used this theoretical structure to see if it works and can be developed to different theories, which is a deductive method. (Jacobsen, 2004) From the already existing theory it was determined what new information was needed to be gathered and how to interpret the information. Basing the examination on existing theories helps decreasing the author' subjectivity and makes the objectivity stronger. The author' choice of the abductive method is also based on the fact that the author did not want to be locked in which can be the case with the inductive and deductive case, instead the author aimed to be more open mind. (Davidson & Patel, 2003)

### **2.3 Descriptive contexts**

There are three different types of studies according to Saunders et al., (2009); Descriptive study, Exploratory study and Explanatory study. The descriptive study is used when the researcher want to give an exact profile of events, situations or persons. When conducting this type of study it is of importance to have a clear picture of the phenomena on which the researcher wishes to collect data before collecting the data. The exploratory study on the other hand aims to find out what is happening; seek new insight, ask questions and assess phenomena in a new perspective. The third and last type of study is the explanatory study which is suitable when an informal relationship exists between variables. (Saunders et al., 2009) Since this research explores an area of research where few studies have previously been conducted and the aim is to answer "what" and "why" questions, the paper is exploratory.

### **2.4 Data Collection: primary and secondary**

The aim of this study is to increase understanding of how Swedish municipalities reason when they value tangible fixed assets and why they reason this way. The reason Sweden is used as a case in this study is because it is the author's country of origin and it is also a good example of how recommendations are being used. Studying Sweden gives an understanding for how recommendations are affecting the valuation decision in municipalities. Different data gathering methods have been used in order to collect data for this study, and these methods



can be labeled as *triangulation*. The aim to use different methods is to provide an as rich and detailed view as possible. (Patel & Davidson, 2003)

The empirical data in this research is based on both primary and secondary data to gain a broader insight of how valuations of tangible fixed assets are conducted. The author has gathered the primary data from e-mail interviews with two high positioned persons with good knowledge in accounting from the municipality of Lund and Trelleborg. The secondary data however, were gathered from two previously made studies. The reason of using both primary and secondary gathering of data is to get a deep understanding within the subject. The collected data is used for answering the research questions and for making an analysis which lead to a conclusion.

#### **2.4.1 Primary data**

As Sweden is chosen as a case the interviews have been conducted with two high positioned persons with a satisfying knowledge in accounting, one from the municipal of Trelleborg and the other one from the municipal of Lund. The choice of respondents in this study has been done through purposive sampling. This sampling is a non-probability, which means that participants that are relevant are those who have direct reference to the research question being asked. (Bryman and Bell 2007) In Sweden municipalities high positioned persons in each municipality are responsible for how the regulation and recommendations are being followed; therefore the choice to interview them was obvious.

#### ***Choice of respondents***

The aim when choosing the respondents to the interviews was to get the Swedish municipalities opinion on how and why they value tangible fixed assets. The most important criteria when choosing the respondents was that the respondent needs to have knowledge about how tangible fixed assets are being valued. Therefore the author chose to interview high positioned persons, as the author knows that they have been valuating tangible fixed assets for several years. The respondents were also required to have working experience and knowledge about the old recommendation from 1997 to be able to compare the advantages and disadvantages with the old and the new recommendations. The author aimed to interview as many knowledgeable persons as possible in dissimilar municipalities to get a broad view

with many opinions, but as most municipalities were unwilling to be interviewed the author only conducted two interviews. (Jacobsen, 2004)

### *The interviews*

In this thesis semi-structured interviews has been used to be able to understand the reasoning and the “how”. As the author needs to find answer to the “how” and “why” structured interviewed cannot be used. Because of the fact that the interviews was conducted through e-mail unstructured interviews was not relevant. However, when using semi-structured interview the respondents were allowed to explain their answer freely (Saunders et al., 2009). The flexible structure is suitable for the topic of this thesis, because it allows the author to ask attendant questions (Bryman & Bell, 2007). Even though the author made the interviews via e-mail the respondents gave approval to answer further questions and give clarifications if needed. Since the author interviewed experts within the field new words and ideas that the author did not previously considered, but are of importance for the understanding of the topic of this thesis may be used (Sunders et al., 2009). There are however some concerns when using this interview structure. The lack of standardized question might lead to issues about reliability and other issues could be different bias concerns. This can be a factor when questions are poorly articulated, biased response or inaccuracies due to poor recall. (Yin, 2009)

Before the interviews the author contacted the respondents via phone to make sure the respondent was familiar with the topic for the interview and when the interview questions were sent via e-mail the respondents was given several days to prepare and answer the questions (Davidson & Patel, 2003) The questions being asked had a low level of standardization which let the respondents answer with their personal thoughts, experiences and arguments. (Davidson & Patel, 2003) As the interviews were conducted via e-mail the respondents was able to chose a natural place when answering the questions without disorders and with enough time for the respondent to come up with answers. (Jacobsen, 2004) Furthermore the author gave the respondents several days to think deeply within the subject and to let them think freely for not missing anything of importance. (Bryman, 2009)

The answers were sent back in written by the respondents which lowered the risk of ignoring important details. (Jacobsen, 2004) The written answers might affect the respondent’s answers and can get the respondents less spontaneous in their answers, but as the author gave the

respondent the option to be anonymous hopefully made them comfortable and let them write freely. (Davidson & Patel, 2003)

#### **2.4.2 Secondary data**

The interviews are the primary data and have been conducted to prove if the secondary data is reliable. Since most of the municipalities that were asked for an interview either did not answer or declined, secondary data had to be used. As secondary data already have been reviewed by several researches, the accuracy and reliability will increase when conducting a report. This type of data has low costs as in financial and time (Bryman & Bell, 2007). The negative aspect of secondary data is the lack of familiarity but this is weighed up by the primary data which has the power of being exactly tailor fitted for the research problem (Bryman & Bell, 2007). To be able to find former studies and relevant articles, the author's secondary data was gathered from different databases, such as LIBHUB and Google Scholar. The former studies that have been used are; *Kommunal värdering av nyttjandetider: Hur uppnår kommuner rättvisande avskrivningstider på materiella anläggningstillgångar?* By Hedlund, L & Rinsén, H (2011) and *Evaluation of assets in Swedish local governments - A comparative study between Kristianstad and Landskrona municipality*, by Idrizovic, M. & Isufi, A. (2011).

The secondary data has been analyzed critical when reading and evaluating the material. (Jacobsen, 2004) To obtain a national perspective of how tangible fixed assets are being valued and why they are valued that way the findings from both the primary and secondary empirical data are being used as they cover different municipalities in Sweden. The study made by Hedlund, L & Rinsén, H (2011) was chosen because it covers the northern part of Sweden while the study made by Idrizovic, M. & Isufi, A. (2011) was chosen for it focuses on two municipalities from the southern part of Sweden. As the second study only covers two municipalities the author choose to conduct interviews with southern part municipalities to be able to strengthen and generalize the conclusion. The reason for that no municipalities in the middle part of Sweden were interviewed was because of the simple fact that they had no interest to participate in interviews.

When reading about the opinion of the different municipalities the author aimed at having an open mind and treats the different municipalities opinions equally and thereafter see the different views and problems and compare them. (Jacobsen, 2004)

## **2.5 Multi-theoretical approach**

According to Gong and Tse (2009) each accounting theory has its own primarily explanation of accounting practice. This study does not limit the explanation of accounting practice to only one theory, but several theories. The different theories that have been used in this study should not be seen as competitive perspectives, but rather as concurrent perspectives aiming to increase the understanding of accounting (Gray et al, 1995b). Gong and Tse (2009) argue that in order to provide a more complete explanation researchers should acknowledge the existence of contradictions in accounting theories and use different accounting theories, instead of focusing on one perspective. This is especially suitable when the researcher is trying to explain complex phenomena, therefore it could be beneficial to use an alternative theoretical approach that involves unrelated perspectives instead of one traditional theoretical approach (i.e. Lewis and Grimes, 1999; Collin et al, 2009). Eclectic- or multi-theoretical approach is being used in multiple researches within financial accounting when explaining accounting practice (i.e. Mezias, 1990; Neu and Simmons, 1996; Collin et al, 2009; Broberg et al, 2011).

The purpose with this study is to explain an empirical phenomenon rather than provide an explanatory power of one specific accounting theory to explain the empirical results. Therefore this thesis views positive accounting theory and system-oriented theories as complementary instead of competitive (Gray et al, 1995a; Ljungdahl, 1999). In this study a multi-theoretical approach will be applied with the objective to explain the empirical phenomenon of the choice of accounting practices. System-oriented theories will be used to explain the accounting practice in Swedish municipalities through social and cultural perspective. However positive accounting theory will be used to explain the accounting practices through an individual self-interest perspective.

## **2.6 Criticism of sources: Reliability and validity**

The examination has to be performed in a way that generates trust. One way to have into consideration is if the examination would give the same result if it were completed one more time. (Jacobsen, 2004) This would almost certainly be the case with this study if it was conducted at the exact same time since the accounting regulations and recommendations is in the light for changes new information and proposals for changing it are frequently being published.

Regardless of what kind of empirical data a study is about it needs to fulfill two criteria: the empirical data must be *valid* and relevant and *reliable* and trustworthy. (Jacobsen, 2004) The validity criteria is the importance of how the author is measuring what (s)he are supposed to measure, but also that the measurement is relevant and that the things the author are measuring in a small group can be applicable for the general.

The reliability criteria explain how the examination needs to be able to be trustworthy. (Jacobsen, 2004) There are no specific rules or procedures for ensuring the validity in a paper. (Patel & Davidson, 2003) The author' chooses to use qualitative rather than quantitative method which resulted in that the performance was difficult to generalize. The best approach, according to Jacobsen (2002) is to use both survey methods, but due to the fact that the author did not have enough time to perform both survey methods, the author choose one of them. If the author had used both research methods, the reliability and the validity of this research would have increased.

However to create validity in this study the author are well conversant within the subject for getting an understanding of what the positive and negative characteristics of the different recommendation are and what conclusions could be expected.

One thing that can be in conflict with the validity criteria is the older sources but as the context in the old sources is still relevant and can help explain how the Swedish municipalities reason when valuating tangible fixed assets today, the author choose to include them.

### 3. Theoretical framework

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*Firstly this chapter starts with a short description of tangible fixed assets. Then it continues to present the theories that the author have chosen to apply in the author's search for clarity. The theories that mainly are being applied are the System-oriented theories but Positive accounting theory and Accountability principle will also be taken into consideration. The reason institutional theory is used is to try to understand the underlying factors to individuals' behavior. Positive accounting theory especially agency theory is used because this could clarify municipalities accountability. Lastly this chapter will end up with a table that summarizes the theories.*

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#### 3.1 Definition of Tangible asset

In the Swedish Financial control Board's (ESV) regulations, Chapter 5. 1 § Regulation on Annual Reports and Budget (FÅB), assets are defined as follows; "*An asset is a resource controlled by an authority as a result of past events and are expected to give the Authority financial benefits or service potential in the future.*" Furthermore fixed assets are stated as an asset that is intended for permanent use or possession. It is not the asset's nature in itself but the intent of the holding which is crucial for the asset classification in the balance sheet. For example stock that is held for emergency purposes are classified as tangible fixed assets, although stocks usually are reported as current assets. (ESV, 2009)

#### 3.2 Introduction and choice of theory

In recent years there have been a lot of examples of how companies manipulated the accounts, this has according to Nyman et al (2005) increased public interest and awareness of public activity and led to an increased need for accountability and transparency in corporate activities. This has also led to a higher demand on the transparency of public authorities' accounts.

The explanation of accounting practice can be done through two main theories; positive accounting theory and system-oriented theories. In order to explain managerial behavior and accounting practice the accounting literature relies greatly on positive accounting theory (Neu

& Simmons,1996) However, when speaking about public sector accounting behaviour, the theoretic system-oriented perspective has been seen as useful (Bealing, 1994; Carpenter & Feroz, 2001). In this study the author argues that these two theories can be used as complement to each other in order to understand the level of compliance with and the conditions for, accounting standards in the municipal sector (Collin, Tagesson, Andersson, Cato, & Hansson, 2004; Neu & Simmons, 1996; Tagesson, 2007). The author need a theory about how rational individuals interact, with each and every individual acting in their own self-interest, in order to understand how different accounting choices influence individuals and stakeholders, positive accounting theory is suitable (Jensen & Meckling, 1976). Furthermore the author need a theory that unlike PAT reject the rational individual model and therefore system-oriented theories are used as these theories seek to explain state-owned units' managerial behavior and accounting practice through a cognitive and cultural perspective. These theories argues that organizations' accounting behavior is not affected by aggregations and are not a direct consequences of individuals' attributes or motives. (DiMaggio & Powell, 1991)

### **3.3 System-oriented Theories**

#### **3.3.1 Introduction**

In recent years several researchers have adopted Legitimacy theory, Stakeholder theory and Institutional theory which also sometimes are referred to as system-oriented theories. (Deegan, 2011). Gray et al (1996,p45) states: *“a system-oriented view of the organization and society ... permits us to focus on the role of information and disclosure in the relationship(s) between organizations, the State, individuals and groups.”* The entity within this system-based perspective is assumed to have influence upon the society in which it operates. These theories are also applied to explain why certain companies adopt particular financial accounting techniques. (Deegan, 2011).

#### **3.3.2 Legitimacy Theory**

According to legitimacy theory organizations continually seek to ensure that they are being perceived as operating within the bounds and norms of their society, since they want to be perceived as legitimate. These bounds and norms are dynamic and change over time; thereby organizations have to be responsive to ethical changes. Lindblom (1993) makes a clear

differentiation between *legitimacy* which is a status or a condition, and *legitimization* which is the process that leads to that an organization is being judged as legitimate. Lindblom (1993, p. 2) define legitimacy as: “*a condition or a status which exist when an entity’s value system is congruent with the value system of the larger social system of which the entity is a part. When a disparity, actual or potential, exists between the two value systems, there is a threat to the entity’s legitimacy.*” (Deegan, 2011). Legitimacy is considered to be a resource on which the organizations are dependent for survival (Dowling and Pfeffer, 1975; O’Donovan, 2002). This “resource” is considered to be easier than other resources for an organization to impact or manipulate through different disclosure- related strategies (Woodward et al., 1996)

According to Deegan (2011), Legitimacy theory is based on the assumption that there is a contract between the organization and the society in which it operates. Further, Deegan (2011) states that organizations exist because the society has approved them a social contract that makes the organizations legitimate. If the society does not agree with the organization then the society can cancel the social contract. The social contract is hard to explain but is basically the expectations that the society has on how organization should conduct its operations. Traditionally profit maximization was the optimal measure of corporate performance but nowadays this has shifted to factors such as; employee health, environment and other social issues. Legitimacy theory underlines that the organizations must consider the rights of the public and not only the investors. An organization cannot maintain with its operations unless it fulfills its social obligations since it will lose its legitimacy. This could be made through restrictions from the society, for example through less demand for their products and no workforce supplied. (Deegan, 2011)

Deegan (2011) states that the operations of the organizations should change if a society’s expectations change or the organization should at least be able to justify why their operations have not changed. Maintaining the congruence between society’s expectations and its perceptions about how the organization performs is a process that leads to what is known as organizational legitimacy.

DiMaggio and Powell (1983) states that organizations follow rules in order to gain legitimacy, support and to survive. Organizations that implement accepted rules and requirements increase the chances to survive and minimize the bankruptcy risk. (DiMaggio and Powell, 1983). For example; when the state of New York had a financial crisis in 1975 many in the



society started to question their financial reporting techniques, and as response to this uncertainty U.S. GAAP was implemented. (Deegan, 2011)

### **3.3.3 Institutional Theory**

Institutional theory was first developed during the 70's and has become a major and powerful theoretical perspective within organizational analysis. This theory provides explanation for why organizations within a specific "organizational field" tend to take on similar characteristics and forms. (Larrinaga-Gonzalez, 2007). The institutional theory is unique in its kind because this theory takes social pressure into consideration, and assumes that managers and organizations will adopt those structures and policies that are viewed as legitimate by others in their organizational field. (Carpenter & Feroz, 2001). While legitimacy theory discusses how specific disclosure strategies might be adopted to gain, maintain or regain legitimacy, the institutional theory explores how. Carpenter and Feroz (2001, p. 565) states that: *"Institutional theory provides another lens through which to view economic resource dependency incentives for accounting rule choice. Institutional theory views organizations as operating within a social framework of norms, values and taken-for-granted assumptions about what constitutes appropriate or acceptable economic behavior (Oliver, 1997). According to Scott (1987), "organizations conform [to institutional pressures for change] because they are rewarded for doing so through increased legitimacy, resources, and survival capabilities"(p.498)"*

Moreover DiMaggio & Powell(1983) explain that managers decision-making process are influencing by three institutional mechanisms (isomorphism) (Collin et al., 2009). These isomorphism are according to DiMaggio & Powell (1983, p.150);

*Coercive isomorphism* (pressure) – This isomorphism is a consequence of informal and formal pressures by organizations that the organization is dependent on. This is also a result of pressure from the society in which the organization operates and the society's cultural expectations on the organization. Coercive isomorphism is the explanation to why organizations adopt policies that will make them appear as legitimate. DiMaggio and Powell formed two hypotheses that relate to this isomorphism. The first hypotheses; *"The greater the dependence of an organization on another organization, the more similar it will become to that organization in structure, climate, and behavioral focus."* The second hypotheses; *"The greater the centralization of organization A's resource supply, the greater the extent to which*

*organization A will change isomorphically to resemble the organizations on which it depends for resources.”*

This isomorphism has been applied to a range of practices adopted by organizations. One example explained by Carpenter and Feroz (2001) is about applying coercive isomorphism to government's selection of accounting procedures. Organizations that can provide resources, for example the credit markets, can exercise power over government entities. This power can be used to decide the use of certain institutional rules, such as GAAP

*Mimetic isomorphism* (process) –Organizations that deal with a lot of uncertainty through poorly understood organizational technologies, ambiguous goals or the society creates symbolic uncertainty then organizations might emulate or copy other organizations as a response to the uncertainty. DiMaggio and Powell (1983) explain further that organizations often copy other organizations for reasons of competitive advantage in terms of legitimacy. The mimetic isomorphism does not only mean that an organization intentionally copy the other, but it can be a result of employee turnover or through the usage of the same consulting companies.

*Normative isomorphism* (pressure) –Through pressure, professionals such as auditors and lawyers try to put pressure on organizations to establish a base and a legitimate way of doing certain procedures, as a way to define the conditions and methods of their work. There are two aspects of professionalism that are important sources of this isomorphism; education at universities and networks amongst the professionals.

Carpenter and Feroz (2001) states that; in practice it is not easy to differentiate among these three isomorphism. Two or more isomorphism may be operating at the same time which makes it almost impossible to determine which form of institutional pressure that is more powerful. For example Carpenter and Feroz used institutional theory to explain four US state government's decision to switch from one accounting method to another. The outcome of their study was that an early decision to adopt the new method could be understood in terms of coercive isomorphism pressure from credit market. Later adopters however, were associated with influence from both normative and mimetic institutional pressure.

There is another dimension of Institutional theory; organizations might be seen as highly rationalized but this appearance might be decoupled from actual organizational practice. This

means that the practice is not integrated into the organization's managerial and operational process. The formal structure of an organization is associated with how the organization presents itself and not with the actual operations of the organization. (Meyer & Rowan, 1977). There are some advantages to decoupling, since formal structures are considered to be working if they do not get in the way and interrupt technical procedures. (Meyer & Rowan, 1977)

### **3.4 Positive Accounting Theory & Accountability**

The main characteristic of a positive theory is that the theory seeks to explain and predict particular phenomena. Positive accounting theory is based on the assumption that all individuals' action is driven by self-interest, they will always try to increase their own wealth. The positive theory tries to explain the phenomena of the relationship between the various individuals involved in providing resources to an organization and how accounting is used to assist in the functioning of these relationships. One example of this relationship is between the principle and the agent, where the principle is the one who delegates work to the agent. A very usual example is the relationship between managers and their employees. (Deegan, 2011) This principle-agent relationship is suitable to apply when studying municipalities, since the ownership and the management is separated in Swedish municipalities. Due to the fact that ownership and monitoring is separated, it is hard for the principal to control that the agent is working in the best interest of the principle. (Nyman *et al.*, 2005). Agency theory is used as a framework for structuring and managing the contractual relationship between the principle and the agent, as well as explaining the behavior between them (Van Slyke, 2006). The agent does not always working in the best interest of the principal, because there might not be any incentives to do so and the agent is motivated by personal goals instead of organizational goals, and this leads to what is referred to as agency cost. (Nyman *et al.*, 2005).

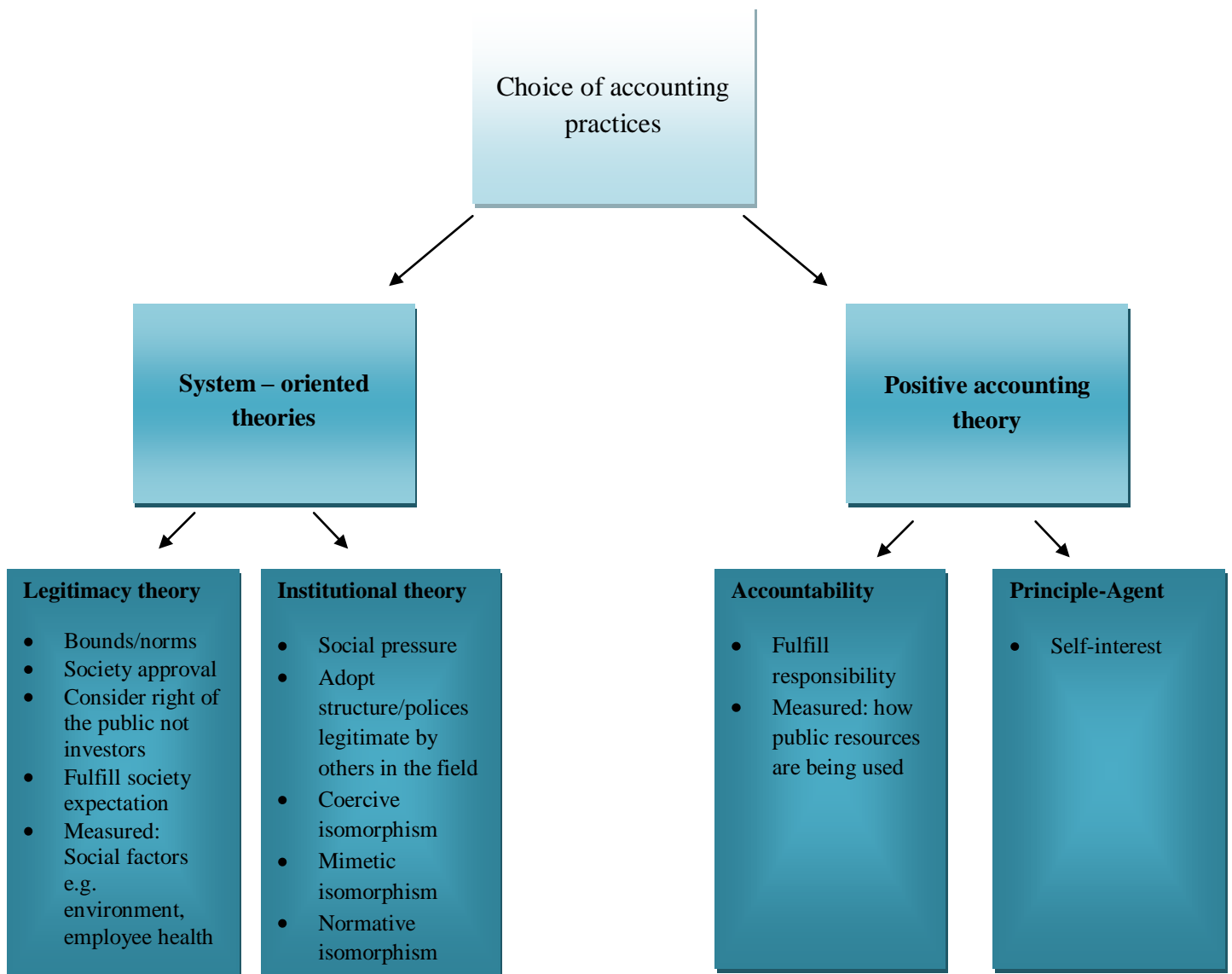
The civil servant (agent) in the Swedish municipalities has the obligation to prepare and provide information to the municipal politicians (principle), who is later being used as a basis for their decisions. The political decisions are based on information from civil servant therefore it is of importance that the information is correct. However it should be noted that it is the politicians and not the civil servant that are responsible for the accountability in the municipalities. (Nyman *et al.*, 2005)

In public accounting accountability is an important perspective that emphasizes the importance of having control over the own organization. The meaning of this perspective is that we take responsibility for our actions (Mulgan, 2000). Further we are also required to explain our actions (Robinson, 2003). It is sometimes difficult to determine the accountability of the municipality. One example is if the city councilor overrides his responsibility to set clear goals and tasks for the council leaders, it would be unclear what the goals are and who should be taking responsibility achieving them. (Nyman, et al., 2005)

The accountability of the municipalities to the local residents is being measured in how they use available resources as efficiently as possible. Since municipalities are non-profit organizations, incentive to work as efficiently as possible may not exist. However if accountability is found at several levels within an organization there will be a principle-agent relationship, and if the relationship between operators is not strong enough these relationship cannot serve as a control mechanism (Nyman et al., 2005)

Due to the complexity of determining accountability of municipalities, asymmetric information can in many cases give rise to costs which the local residents will have to pay. In addition these costs which arise due to weak control and monitoring over the municipalities' activities, may lead to that the budgets are exceeded. Moreover this means that the municipal tax revenues who has been paid by the local residents, have not been used in an appropriate and effectively way. (Nyman et al., 2005)

### 3.5 Summarizing the theoretical framework



*In this figure the author presents an overview of the theoretical model that has been applied in this study. The author has summarized the main factors developed from both system-oriented theories and positive accounting theory that might influence and affect the choice of accounting practices in Swedish municipalities.*

## 4. Primary Empirical Framework and Secondary Empirical Studies

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This chapter contains the information that the author bases the analysis and discussion on. First, the author starts by presenting the primary empirical material which is gathered from interviews with two different municipalities. Second, the author presents the secondary empirical information which is held from two articles. The author starts with; *Kommunal värdering av nyttjandetider; Hur uppnår kommuner rättvisande avskrivningstider på materiella anläggningstillgångar?* Hedlund, L. & Rinsén, H. (2011). At last the author presents the second article; *Evaluation of assets in Swedish local governments - A comparative study between Kristianstad and Landskrona municipality*, Idrizovic, M & Isufi, A. (2011).

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### 4.1 Primary Empirical Framework

#### 4.1.1 Interview - Trelleborg Municipality

The first interview was conducted with "Person A" who currently holds a high position at the municipality Trelleborg and has worked continuously from this position since the year of 2006. Person A explains that he/she has the main responsibility for updating and adjusting for new recommendations that occurs within the municipality. The respondent is in general responsible for all areas concerning accounting in the municipality. The interviewee emphasizes on the importance of keeping up with current regulations and recommendations issued by authorized standard setting bodies such as SCMA, and that is exactly the way the municipality of Trelleborg complies with the new recommendation.

Furthermore, Person A explains that by complying with the new recommendation of SCMA, the municipality becomes comparable with the other municipalities in Sweden, but stresses the importance that they all must and should follow the same accounting standards to be comparable in every single aspect. Further municipalities need to comply with the latest issued recommendations because these are the best suited at the moment. The respondent explains that the new recommendations raise some uncertainty among the municipalities due to the fact that none has previously experienced the advantages and the disadvantages regarding the new standards of work, but this uncertainty could be reduced if municipalities are willing to take certain risks and if all of the municipalities have the risk taking mentality. Person A believes that it will benefit the most parties to apply the current regulations.

According to the interviewee, municipalities that follow the old recommendations, exhibit these standards in order to reduce the risk, save time and money and the important fact that they argue that everybody is doing things in the same way which Person A claims to be incorrect. The respondent believes that even different departments within the same municipality differ in the way of work standards, for example the technical administration and the real estate department cannot depreciate things in the same way because they deal with different types of assets and they have to take into consideration regulations that are special designed for specific industries.

Trelleborg municipality follows the new recommendations with one exception: the municipality does individual assessment about each asset's useful life time, however the assessment is based on the asset's initial cost, and thereafter the depreciation is determined based on what the personal municipal finds to be proper. According to the interviewee the asset's initial cost is used as a base to determine the depreciation amount due to the fact that the asset's use in the business can change from time to time which will lead to that the depreciation amount could be wrong one year and reflect a correct amount the year after. Therefore Trelleborg finds it proper to determine the depreciation amount based on the initial cost and their personal experience. Person A further clarifies that this process comprises on every type of asset as the situation is the same for almost all assets.

Moreover, the interviewee declares that if they find that the depreciation is incorrect, the correction will be done in the holding register; which is used to follow movements in a company's facility record of the year. Transactions such as; purchase, depreciation and amortization, are recorded in the holding register. Correct depreciation schedulers are very important in order to give a true and fair view of the municipalities current economical situation and to be comparable to other municipalities but as the depreciation is based on the asset's initial cost and experience the changes are few in Trelleborg the respondent explains. Trelleborg municipality does not find it necessarily to change their current way of dealing with depreciation as they believe this way is the fairest and the most correct reflection of the assets value. Person A clarifies further that the municipality have not experienced any major problems with incorrect depreciation times during his time at the municipality.

Finally, Person A explains that the risk with wrongly assessed useful life time is that it leads to wrongly distributed costs over the years. As mentioned before the interviewee means that

the value of an asset could be correct one year and incorrect another year. The respondent further explains his point of view on this matter by that if the municipality have deprecate scheduler that stretches on for a long time, they may not have depreciated the full amount when it is time to reinvest and that would cause a financial problem for the municipality. Trelleborg solved this problem by using the initial cost as the base for the depreciation and the respondent find this way as the most suited and correct. Person A lastly thinks that the reason for incorrect estimation of useful life time and depreciation also could refer back to bad communication within a municipality and insufficient knowledge and education among the employees in the municipality.

#### **4.1.2 Interview - Lund Municipality**

The second interview was conducted with “Person B” who is and have been highly positioned for the last twenty-seven years, at Lund municipality. Person B is working with diverse accounting issues such as various follow-ups during the year and is further responsible for the computer-systems in the municipality. The main responsibility of the respondent is also to update and adjust for new recommendations issued by SCMA.

Lund municipality finds it important to keep up with current regulations and recommendations and is a member of “Skånska Redovisningsakedemin” which is a group of five municipalities in the county of Skåne that meets at least twice a year to discuss diverse accounting issues, give advice to each other and share their different experience. Such groups and meetings are very good according to the respondent as the member municipalities encourage each other to follow new recommendations and in that way these municipalities are not afraid to implement new ways of doing things. Person B explains that it is easier for a municipality as Lund to take risk if others in the same region are taking and facing the same risk.

Lund municipality complies with the new recommendations of SCMA as their aim is to follow current regulations. Person B states that it is essential to be up to date and that is way the municipality of Lund follows the new recommendation. Comparability also becomes easier by complying the same regulation and recommendation as other municipalities. As Lund municipality is a member of “Skånska Redovisningsakedemin” they follow the new recommendations as at least the four other members of this group. Person B believes that the new recommendation gives a more fair view of the assets value than the old recommendations



that encouraged the same depreciation methods for similar assets. With the new recommendations depreciations can be adjusted to fit the specific asset, which gives a more correct value of each asset the respondent argues.

In the municipality of Lund the valuation of an asset's useful life time is conducted subjectively and separately at the time of investment and thereafter each administration is responsible to monitor the value and judge if further depreciations may be required. This way reflects the actual resource consumption and the value of the useful life time of an asset according to the respondent. The main reason to why each administration faces the possibility of deciding if depreciation is needed is because they have the education and the knowledge to judge correct. This process of valuation of assets comprises on every type of asset in Lund municipality, except for some special kind such as streets and parks. However as these assets only exists in municipalities the determination if depreciation is needed is hard.

Moreover, Person B explains that in general the most common problem that arises when valuating tangible fixed assets is that investigation costs and maintenance cost has to be added to the investment. This could lead to minor difficulties as unfair valuation of the investments can occur.

Furthermore, the interviewee declares that if depreciations are incorrect, adjustment are made on the remaining useful life which means that the municipality does not go back in time to correct incorrect values. The respondent states that correct useful life time and depreciation is important as unfair reporting and incorrect economical situation will be a fact otherwise. Person B believes that incorrect useful life time and depreciation scheduler could be due to the fact that many persons does not have the education and the knowledge to determine correct useful life time.

Finally Person B say that the advantages with the new recommendations issued by SCMA is that municipalities can determined the useful life time of an asset on a local level. With other words the new recommendations are more flexible concerning this area. The interviewee continues by stating that accounting is important and therefore it is essential that everybody use the current and correct recommendations. Person B means that the new recommendations are especially important to follow, as for example to record maintenance as investment leads

to advancement of costs ahead and that he thinks is to betray the elected politicians and tenants.

## **4.2 Secondary Empirical Studies**

### **4.2.1 Study by Hedlund, L. & Rinsén, H. (2011)**

Hedlund, L & Rinsén, H (2011) Kommunal värdering av nyttjandetider: *Hur uppnår kommuner rättvisande avskrivningstider på materiella anläggningstillgångar?* Luleå tekniska universitet, Institutionen för ekonomi, teknik och samhälle

The purpose of the research is to increase understanding of how local governments values and sets tangible assets useful life. The authors explore that through three other purposes;

The first purpose is to identify and describe the municipalities' valuation of property fixed assets. The second, is to identify municipalities work processes for determining the useful life of tangible fixed assets and the third, is to develop a working model for municipal use to make it easier to determined the value of tangible fixed assets. ( The third purpose will not be further concerned as it is irrelevant for this study)

### **Methodology**

The authors conducted two sub-studies to meet the various sub-objectives. The first study, examines how northern municipalities valuate and determine useful life of tangible fixed assets, and what recommendations they make use of. The second study examines the circumstances that exist to create a valuation model for tangible fixed assets, based on the new recommendations. (I will not explain or refer to the second sub-study as it is irrelevant for this study)

The collection of primary empirical material was reached through semi-structured interviews. The authors interviewed people who work in different units in Luleå Municipality and in reference municipalities, whose knowledge and job title was relevant to their study. In Luleå, the authors conducted eight interviews with members of the technical administration and the finance departments. The authors used a snowball sample to obtain an adequate sample for smaller projects like theirs. Interviews were also conducted with representatives from Sveriges Kommuner och Landsting and Rådet för Kommunal Redovisning (SCMA).

To look deeper into the subject of "depreciation of assets in municipal business" the authors have searched for relevant scientific papers in Luleå University Libraries' databases and other databases such as: Emerald Insight, Ebsco, Elsevier and Google Scholar.

## **Empirical findings**

### ***4.2.1.1 Interview with SCMA***

The first interview was conducted with a representative from SCMA. The interviewee explained that the main mission of SCMA is to promote and develop generally accepted accounting principles in municipalities, county and municipal associations in accordance with the Law on Municipal Accounting. SCMA make interpretations and give opinions on generally accepted accounting principles and formulates recommendations. Further the interviewee states that SCMA determines in its recommendations and information what constitutes good accounting principles. According to the interviewee municipalities, county councils and local authorities shall besides to comply with the regulations, also taking into account the generally accepted norms of municipal accounting and auditing.

### ***4.2.1.2 Interview with SKL***

The second interview was conducted with a representative from SKL. According to the interviewee, SKL recommend that all municipalities should comply with the new recommendations in their treatment of depreciation. The respondent states however that there is an exception. Municipal corporations that have other legal texts to relate to because they are companies are exempted. The respondent continues further by explaining that municipality must strive to find the right depreciation and that the new depreciation intervals should only be used as a guide.

### ***4.2.1.3 Interview with Boden - Technical administration***

The third interview was conducted with an employee of the Technical Administration of Boden. The respondent explains that until 2009 their administration followed the old recommendation but from the end of 2010 they changed to SCMA's new recommendation regarding depreciation. The Interviewee continues to state that the assessment of depreciation and useful lifetime are based on the municipality's past experience in the specific field. The respondent argues that the advantage of this assessment method is that they come closer to the actual useful life of the asset. However the disadvantage is that it is difficult to achieve comparability with other municipalities as the judgments are subjective.

#### ***4.2.1.4 Interview with Piteå- Technology and Road Department***

The fourth interview was made with an employee at the Technology and Road Department. The respondent starts by explaining that the Technology and Road Department follow the old recommendations as the municipality believes that there is a big uncertainty about the new recommendations which makes them difficult to apply. The respondent continues to explain that the advantage of following the old recommendations is that everyone does the same, which the respondent believes increases the comparability between municipalities. The old recommendation instructions about the depreciation periods are easier to deal with, as these sets clear deprecation intervals for different types of plant and equipment. Further the interviewee means that the new recommendation requires a long induction period for new employees, with other words; application of the new recommendations would require significant resources and time to be applicable in practice. The respondent finish by stating that; the Technology and Road Department does not have any regular process for the review of asset useful lives.

#### ***4.2.1.5 Interview Piteå - Pireva***

The fifth interview was conducted with an employee from Pireva (Piteå Sanitation and Water Company). According to the respondent this company is a municipal company in charge of water supply, collection and recycling of waste and wastewater treatment in Piteå. The company is 100% owned by Piteå Municipality. The interviewee continues further by stating that Pireva follows the industry association Swedish Water Recommendation which is based on The Water Services Act. Therefore the depreciation is made according to plan and based on original cost less estimated residual value. With other words the depreciation is based on the estimated useful life time.

#### ***4.2.1.6 Skellefteå - Technical Office and Real Estate***

Interview number six was conducted with an employee from Skellefteå municipality. The Interviewee starts by explaining that Skellefteå municipality followed the old recommendation until 2009, but now they use the old recommendation and partly the new recommendations. The respondent continues by stating that the municipality applies the new recommended depreciation intervals as long as they comply with the old intervals in the old recommendation. The interviewee means that the advantage to not make individual determinations, and instead apply the recommended intervals for each investment, is that it goes fast. The disadvantage is according to the respondent, that useful lives in some cases are wrong. At last, the interviewee says that the municipality does not have any regular process for the review of asset useful lives.

#### ***4.2.1.7 Interview Umeå - Real Estate Department***

Interview number seven was made with an employee from the Real Estate Department. The respondent explains that the Real Estate Department apply an own manual for depreciation, which is a combination of the old recommendations and real estate office's own estimates of what is reasonable depreciation of an asset. Further the interviewee clarifies that the advantage with this method, to calculate the depreciation is that depreciation periods becomes more accurate but the disadvantage is that the process of calculating the values are very time consuming. The Real Estate Department does not have any regular process for the review of asset useful lives, according to the respondent.

#### ***4.2.1.8 Interview Umeå - Service and Technology Department***

Interview number eight was conducted with an employee from the Service and Technology Department. According to the respondent, the Service and Technology Department apply the old recommendations for the determination of assets depreciation schedules and there is no regular process for the review of asset useful lives.

#### ***4.2.1.9 Interview Umeå - UMEVA***

Interview number nine was made with an employee from UMEVA (Umeå Water and Waste Ltd), which is a municipal company 100% owned by Umeå Municipality. The respondent starts by explaining that as a limited company the UMEVA follows the Companies Act. The interviewee continues to explain that the company also follows the industry association Swedish Water's recommendation which is based on the Water Services Act. The company also follows the Annual Accounts Act and its reference on depreciation schedules for assets. There is also a process within the company, to monitor that the company has the correct useful life time on their assets.

#### ***4.2.1.10 Interview Örnsköldsvik - Technology Office***

The tenth and last interview was conducted with an employee of Örnsköldsvik Technical Office. The respondent starts by explaining that they previously followed the old recommendations, except when there was reason to depart from these recommendations but today they apply the new recommendations. The interviewee continues by stating that, the municipality makes individual assessments for each asset and that the assessments are based on where and how the asset will be used. The assessment is based on historical information, in terms of how the business historically been able to use an asset and thereafter the depreciation schedule is determined. Örnsköldsvik does not have any regular process for the review of asset useful lives, according to the respondent.

## **The result of the study**

The result of the study was as follows; the first sub-study showed that the investigated municipalities use different valuation methods for assets and most of the interviewed municipalities in the study do not conduct a valuation for each asset's useful life, and therefore motivation and basis are absent for the depreciation of the assets. One of the interviewees believed that the biggest problem with making individual valuation of each asset is the lack of knowledge among employees. Further, in one municipality they used a self prepared calculation model, while in others they used the old recommendations because it was considered to be the easiest valuating the asset's useful life time. This study also showed that only two of the six analyzed municipalities applied the new recommendations. The second sub-study showed that the Swedish municipalities' in the study did not make a measurement of the asset's useful life time.

### **4.2.2 Study by Idrizovic, M. & Isufi, A. (2011)**

Idrizovic, M. & Isufi, A. (2011) "*Evaluation of assets in Swedish local governments - A comparative study between Kristianstad and Landskrona municipality*", Kristianstad University, Business and Economics Administration

The objective of the article: *is 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. The authors 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.* (The last part will not be mentioned any further as it is irrelevant for this study)

## **Methodology**

This research has a qualitative case study approach where the authors focus on two Swedish municipalities in the county of Skåne, and the selected municipalities are Kristianstad and Landskrona. The reason for the authors choice of municipalities is that the sizes difference. Kristianstad municipality has approximately 80 000 citizens, which is twice the population of Landskrona municipality with only about 41 000 citizens.

The authors used both both primary and secondary data in order to answer their research question and to be able to achieve the objective the article.

The authors interviewed two persons from each municipality. In Kristianstad municipality the authors interviewed the CFO (Chef Financial Officer) and one controller, and in Landskrona municipality the authors interviews two controllers. Further the authors choose to have semi-structured interviews because they believe it suits their type of study best.

Further, by studying the standards regarding evaluation of assets from the SCMA and IPSASB, the authors were able to conclude and find out how well each municipality follows the national recommendations.

## **Empirical Findings**

### ***4.2.3.1 Interview Kristianstad Municipality – CFO and Controller***

The CFO starts by explaining that he has the main responsibility for following the national accounting standards issued by SCMA. Further he also has the responsibility for updating the accounting system in order to adjust to new requirements and recommendations from the SCMA. The CFO considers that it is essential to be updated about new recommendations and regulations, even though they are still a proposal or a draft and not yet recognized as new standards.

However, the CFO continues to explain that when a new standard is published, he has the obligation to inform the rest of the concerned employees in the department but also those who are interested, and after the employees have been informed the department starts to discuss and prepare itself to how these changes will affect their accounting system and how they should proceed.

When it comes to control of the annual report the CFO states that they both have annual internal controls that they conduct by themselves and where they look over all of the SCMA's standards and make a comparison with their own annual report, and controls done by their auditors. The CFO clarifies that these controls are done in order to be sure that the municipality is complying with all recommendations, and if there are any improvements that need to be done. He further states that the external auditors who control the financial statements, both the politically elected and the ones from the audit firm, also are responsible to inspect and ensure that the municipality complies with all the national rules and standards.

According to the interviewees Kristianstad municipality further have meetings with two different groups of municipalities in the region annually, to discuss different topics such as the national standards for financial reporting. The first group consists of the following municipalities: Kristianstad, Karlskrona, Kalmar, Växjö and Halmstad. This group is called "3KVH". However 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 interviews clarifies that these meetings are held in order for a municipality to compare itself with the other municipalities as they for instance discuss how they are planning to proceed when a new standard is issued. The respondents further make clear that Kristianstad municipality also receives help from its auditors since they also have other municipalities as their customers. This is also a way to compare the municipality with the others, according to the respondents.

Regarding the standards of SCMA the CFO and the controller in Kristianstad municipality argue that in some cases these standards are too complicated and detailed. However when it comes to recommendations about the assets and their valuation, the respondents are satisfied with the guidelines and requirements from the SCMA. The CFO and the controller especially support the recommendations from the SCMA, as they find the cost method as most appropriate method when it comes to measuring the value of assets in public sector entities.

#### ***4.2.3.2 Interview Landskrona municipality - two controllers***

According to the interviewed controllers, the financial departments in Landskrona which consist of 15 employees are responsible for; administration, financial planning, budgeting and monitoring. Further the controllers explain that only three of these employees have accounting as one of their main task and are in charge for compiling financial statements in the annual report.

Furthermore, the respondents perceive that Landskrona municipality make good effort in taking in information about the standards of SCMA. As the municipality aims to be updated on new standards, they read all the publications from SCMA. The interviewees make clear that they have a high ambition and believe that it is vital to be correct. Landskrona municipality also participates at different seminars that are related to SCMA where information about the standards is presented, in order to be updated. Furthermore Landskrona municipality is also a member of "Skånska Redovisningsakademin", which consists of a group of five other municipalities that make comparisons with each other. This group consist of the following municipalities; Ängelholm, Helsingborg, Kävlinge, Lund and Malmö. Twice



a year they get together and have meetings where they discuss different issues they have and the aim is to help each other. However Landskrona municipality does not receive help from the auditors to find out how other municipalities act regarding different accounting issues.

The interviewed controllers continue further to explain that the municipality is cautious about the standards, and before the final accounts they control the financial statements to make sure they have a correct annual report. The controllers further clarifies that this is the only internal control they make concerning the standards from SCMA. However they have external controls that are done by their politically elected auditors or auditors from the audit firm. According to the interviewed controllers, the control system in Landskrona municipality is very satisfying and there is no need for more controls beyond these.

The respondents' opinion about SCMA standards is that they have changed a lot for the better in the past years and the standards today are more clear and simpler to understand. The respondents believe that this is because SCMA earlier only referred to the legislation and did not have clear standards. The old unclear complicated rules led to that Landskrona municipality faced difficulties when trying to adopt the requirements. The improvement of SCMA regarding their standards also improved Landskrona municipality's accounting system significantly according to the respondents. Therefore they believe that the SCMA today has very good and instructive standards.

Finally, the interviewed controllers states that Landskrona municipality comply to the standards issued by SCMA, but with some exceptions. For example the municipality does not put a lot of focus on updating the useful life of an asset continuously. When it comes to depreciation of assets in Landskrona municipality the respondents find it difficult, and therefore they have issues and does not follow this standard completely. The respondents continues to clarify that Instead of updating the useful life of an asset annually, Landskrona municipality only do it once, when the assets is recognized in the balance sheet for the first time.

### **Result of the study**

The authors found that there are mainly similarities and not major differences between Kristianstad and Landskrona municipally regarding the valuation of assets. Both municipalities also follow the national standards from the SCMA, with some few exceptions regarding assets valuation. However the differences between the municipalities is that

Kristianstad do not use the valuation methods recommended by the SCMA when it comes to intangible assets and Landskrona do not update the useful life of an asset continuously like recommended by SCMA.

## 5. Analysis

*This chapter will provide an analysis based on the theoretical framework in this thesis and the empirical material which consist of both primary and secondary empirical information. This analysis will take a start point from the table where a summary of the studies is conducted.*

<b>Municipality</b>	<b>Applied recommendation</b>	<b>Handling of depreciation</b>	<b>Valuating useful life time</b>
<b>Trelleborg</b>	New recommendation	Based on what the municipality finds proper	Individual assessment based on initial cost
<b>Lund</b>	New recommendation	Each administration decide what is proper	Individual assessment when investing except for roads and parks
<b>Boden - Technical Administration</b>	New recommendation	General for all types of assets Component depreciation	Usefulness
<b>Piteå – Technical &amp; Road Department</b>	Old recommendation	General for all types except cars and inventories	According to old intervals
<b>Piteå – Pireva</b>	The Water Services Act & Annual Accounts Act	According to plan	According to Annual Accounts Act
<b>Skelefteå – Technical Office &amp; Real Estate</b>	Old + New recommendation	General for similar types Individual assessment for new investments	Old or New depends on which is best for the particular asset Experts for new investments

<b>Umeå – Real Estate Department</b>	Old recommendation + Own methods	Component	Calculation model based on Old recommendation + Own perception
<b>Umeå- Service &amp; Technology Department</b>	Old recommendation	General for all no individual assessment	According to old intervals
<b>Umeå – UMEVA</b>	The Water Services Act & Annual Accounts Act	According to plan Individual assessment on specific assets	According to Annual Accounts Act Expert
<b>Örnsköldsvik – Technology Office</b>	New recommendation	Individual assessment for new investments	Usefulness
<b>Kristianstad</b>	New recommendation	According to the new recommendation	Cost method
<b>Landskrona</b>	New recommendation	Not complying with new recommendation	Only when recognized in balance sheet for first time

*This table shows a summary of how each municipal deal with valuation of assets useful life time and depreciation.*

The empirical material in this study shows; four (Trelleborg, Lund, Kristianstad and Landskrona), of the six (Trelleborg, Lund, Kristianstad, Landskrona Boden - Technical Administration and Örnsköldsvik – Technology Office) municipalities that are currently following the new recommendations are from the county of Skåne. These municipalities are also members of different groups that meet annually to discuss new regulation and give advice on how to proceed. The pattern among these municipalities could be explaining through a mimetic isomorphism approach. As new recommendations maybe hard to understand, organizations tend to copy each other as a response to this uncertainty (DiMaggio & Powell, 1983). However, it is not surprising that there is a pattern to act similar within the region;

according to Lindblom (1993) organizations seek to be perceived as operating within the bounds and norms of their society to be legitimate.

Moreover, six (Piteå – Technical & Road Department, Piteå – Pireva, Skelefteå – Technical Office & Real Estate, Umeå – Real Estate Department, Umeå- Service & Technology Department and Umeå – UMEVA) of the total eight (Piteå – Technical & Road Department, Piteå – Pireva, Skelefteå – Technical Office & Real Estate, Umeå – Real Estate Department, Umeå- Service & Technology Department, Umeå – UMEVA, Örnsköldsvik – Technology Office and Boden - Technical Administration) analyzed municipalities in the northern region of Sweden did not follow the new recommendation. The fact that the majority of the municipalities in the northern part of Sweden do not follow the new recommendation could be explained with the coercive isomorphism theory; organizations in the same region acts similar in order to appear legitimate. According to DiMaggio and Powell (1983) the more dependent an organization is on another organization the more it will copy and the more similar it will become to the organization, in order to be perceived as legitimate.

However this study further showed that Skellefteå municipality applies both old and new recommendation. When deciding the useful life time of an asset this municipality applies either the old or the new recommendation depending on what they find proper. This behavior could be analyzed as decoupling, because according to Meyer and Rowan (1977), formal structures are considered to be functioning if they do not get in the way and interrupt technical procedures.

This study also showed that there are only a few municipalities (Trelleborg, Lund, Boden - Technical Administration, Örnsköldsvik – Technology Office, Kristianstad and Landskrona) that have applied the new recommendations. Some of the interviewed municipalities argue that they have been waiting with the introduction of the new recommendations in their accounts because they have not yet seen the benefits of reporting in the new way. According to the legitimacy theory organizations feel that changes are justified and legitimate when other organizations conducted them first. However, Carpenter and Feroz (2001) state that municipalities believe that a change in the current recommendation is less risky and more legitimate if other municipalities already have implemented this change.

Moreover, only two (Boden - Technical Administration and Örnsköldsvik – Technology Office) out of the twelve (Trelleborg, Lund, Boden - Technical Administration, Piteå – Technical & Road Department, Piteå – Pireva, Skelefteå – Technical Office & Real Estate, Umeå – Real Estate Department, Umeå- Service & Technology Department, Umeå – UMEVA, Örnsköldsvik – Technology Office, Kristianstad and Landskrona) municipalities conducted valuation of an asset's useful life time in accordance with the new recommendation. Several of the interviewees' argued that to achieve comparability between municipalities, a common set of values that all municipalities should base their assessment on is required. This could be analyzed through mimetic isomorphism as; municipalities choosing to apply the old methods although it is an irrational decision, only because it is taken for granted and they have always done valuation in that way (Carpenter & Feroz, 2001).

Furthermore, this study shows that there is not a uniformed way for municipalities to decide on how to value assets' useful life time. The majority of the concerned municipalities do not have a process for reviewing an asset's useful life time. This could be explained by the fact that municipalities have for the past decades conduct depreciation of assets in the same way. This similar way of dealing with depreciation has become a norm or an unwritten rule. Bang (1999) explains that unwritten rules are a type of norms and these are hard to change. This could explain why municipalities are critical to the new recommendations.

Most of the respondents that follow the new recommendations argue that these recommendations need to be followed as everyone should comply with the current correct regulation, in order to be comparable with other municipalities. Their opinion is further supported by the Local Government Act (1991:900) which states that the municipal accounts should be available to the public, which means that local residents should have free access to the municipality's annual report. In order to give the residents a fair picture of the municipality's financial position, it is important that the accounting is correct. This could be analyzed through a legitimacy perspective. According to DiMaggio and Powell (1983) organizations follow rules in order to gain legitimacy, support and sustainability.

Other respondents in this study criticized the new recommendations. They argued that the application of the new recommendation will lead to lost in comparability between municipalities, as all will apply different useful lives. Scott (2001) explains this critic as;

institution's values represent what is desirable in an organization and that together with the norms creates stability in the organization.

The reason for why municipalities choose to apply the old recommendation could be that application of the new recommendations would mean that municipalities must change their approach. According to one interviewee the implementation of the new recommendation would need more resources and education for the employees. As this change would require more resources for implementation and application of the recommendations, organizations tend to avoid implementing the new recommendation. This behavior can find its explanation in the positive accounting theory as this theory predicts that agents such as civil servants do not always work in the best interest for the principal which in this case is the municipality's politician, because they might not find incentives to do so.

According to Jensen and Meckling (1976) civil servants primarily look to their own interest which gives rise to agency problems within the municipality. This self-interest perspective which is in line with the positive accounting theory, is confirmed by the fact that six out of twelve financial managers in Falkman and Tagesson's (2008) study, declared that political standpoint was given more consideration than accounting standards, when the accounting treatment was decided upon. This further indicates that even politicians are focused on their self-interest as they aim to show the voters good figures in order to be re-elected. However it should be noted that Falkman and Tagesson's (2008) study is conducted in 2008 and this maybe has changed.

Furthermore, all of the interviewed financial managers in the same study stated that the annual financial report as a document was not considered to be a priority. This additional states the self-interest behavior among the civil servants in Swedish municipalities. According to Nyman et al (2005), it is the politicians who bear the accountability to the local residents and therefore the civil servant has no incentives to evaluate the assets' useful life in a way that ensures that resources are used efficiently.

The politician's self-interest and the behavior of the civil servant to avoid implementing the new recommendations because they wish to work as little as possible, is a threat against the accountability principle, as this leads to that municipalities reverse their accountability toward local residents and they fail to use the available resources effectively. Nyman et al (2005)

suggest that the accountability of the municipalities to the local residents is being measured in how they use available resources as efficiently as possible.

According to the new recommendation the depreciation shall be based on each asset's useful life time. This study shows that the majority of the municipalities apply the old recommendation's interval for depreciation. According to one of the interviewees in Hedlund and Rinsén's (2011) study, it takes time to change the valuation method of an entire municipality as the municipality may feel unsure of how the valuation should be conducted. The uncertainty may also be the reason that municipal civil servant mostly performs the valuation of the assets' useful lives in the same way in all departments. This behavior could find its explanation in the legitimacy theory as Carpenter & Feroz, 2001 explain that; people and organizations like to imitate others who they think are good in their area. This could further be analyzed from the mimetic isomorphism approach as municipalities prefer that other municipalities take the initiative to determine how the valuation of useful lifetime should be conducted, to reduce the risk of their own municipality when introducing the new valuation method.

Furthermore as the old recommendation urge for same depreciation for similar assets, it may also lead to the existence of asymmetric information about the municipality's assets, as it is only civil servants who know the real value of the assets in the balance sheet. One could analyze that the existence of asymmetric information may cause agency problems. According to Baye (2009) the asymmetric information could lead to that civil servants secrete information about the assets that the residents never get to know.

Falkman and Tagesson's (2008) survey showed that big municipalities tend to have a better administrative competence with more accountants employed than small organizations. This relationship could be explained by the fact that big organizations are more exposed to political attention and therefore they need to be perceived as legitimate. According to Deegan (2011), if the society does not agree with the organization then the society can cancel the social contract.

Furthermore, Falkman and Tagesson's (2008) study also suggest that there is a connection between engaged auditor firm and compliance with accounting standards. This connection implies that poor compliance with accounting standards among Swedish municipalities could



be explained by insufficient audit quality. This connection that Falkman and Tagesson found could be analyzed through normative isomorphism, which states that auditors pressure organizations to establish a base and a legitimate way of doing procedures. This connection is in line with DiMaggio & Powell (1983) statement that auditors through pressure on organizations can establish a base and a legitimate way of doing certain procedures.

## 6. Discussion & Conclusion

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*In this chapter the author will start by answering the research questions and in that way present the conclusion to then end up with a closing discussion. Finally the author will give some advices on future researches.*

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### 6.1 Conclusion

The purpose of this research was to increase understanding of how Swedish municipalities reason when they value tangible fixed assets and why they reason this way. This purpose was reached through finding answers to the two research questions.

The first question was; *how Swedish municipalities decide the useful life time and depreciation scheduler for tangible fixed assets.*

The result illustrate that the valuating methods for the tangible fixed assets among Swedish municipalities differ. Only half of the municipalities follow the new recommendation. The other half however follows a combination of the old recommendation and own methods, the old recommendation, or other regulations and recommendations that is specific for their industry area, when determining the depreciation scheduler. Further the result reveal that due to municipalities' uncertainty, a fundamental way of valuating assets' useful life time does not exist and the majority of the municipalities does not even have a process for reviewing the assets' useful life time.

The second research question was; *why do or do not Swedish municipalities follow the new recommendations issued by RKR in 2009?*

Following current regulations and being comparable to other municipalities seems to be the reason why Swedish municipalities follow the new recommendation. However, the result further shows that it is hard for municipalities to break entrenched patterns, this explain way municipalities tend to avoid the implementation of the new recommendations. Finally, municipalities also seem to avoid implementation of the new recommendations, as they are time consuming and financially demanding.

## **6.2 Discussion**

Municipalities should have a clear and fair presentation of their financial position in order to meet their accountability toward the local residents. It is therefore important that civil servants work in the best interest for the society and value assets correctly and without any self-interest. However, in order to make civil servants value the assets in a correct and unbiased way that gives a fair presentation, these civil servants need to find incentives to be motivated; otherwise, the existence of asymmetric information will arise. As people tend to affect each other's behavior and imitate their role model, the self-interest problem has first to be solved among politicians.

The result indicates that there is a lot of uncertainty among Swedish municipalities when it comes to breaking certain behavior. I believe that this uncertainty is not unique for the municipalities but this is a generalized character among the Swedish population. In Sweden, there are unwritten rules and norms that say you must not stand out from the crowd and therefore people avoid the unknown.

Further, I believe that because of the fact that people base their actions on unwritten and sometimes unconscious norms, a change takes time to apply. A safe way to apply changes is to imitate other people or organizations that we perceive as legitimate; this way we justify our actions. Due to people's fear of the unexplored, we may choose to act irrationally only because we are used to act in that certain way.

## **6.3 Future researches**

As this study deals with valuation of tangible fixed assets, it would be interesting to study valuation of other types of assets such as heritage assets.

In the future, it would also be interesting to compare how municipalities in other countries follow the national and international regulations concerning valuation of different kinds of assets.

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## **Regulations**

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Lag (1991:900) Kommunallagen

*Municipal Accounting Act*

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## **APPENDIX**

### **Interview questions**

1. Please introduce yourself.
2. Which recommendations regarding depreciation of assets do you follow?
3. Why these recommendation?
4. Can you describe how you value the assets based on these recommendations?
5. Does that valuation concern any kind of tangible assets or do you make different valuations depending on what kind of asset it is?
6. What is the valuation of assets based on?
7. Why do you value the assets in this way?
8. What problems can arise when valuating assets?
9. What can affect the valuation of tangible fixed assets?
10. Whose interest is taking to consideration when valuating assets?
11. If the depreciation periods are wrong what do you do?
12. What do you think is the biggest problem with having incorrect useful life / depreciation schedules?
13. What do you think is the cause of the problem with incorrect usage times / depreciation?
14. What do you feel are the major differences between the new (issued 2009) and old recommendations?

15. What would the new recommendations mean for your business?

16. If you do not follow the new recommendations: Why have not you started to follow them?

17. Why do you think it is important that municipalities follow the new recommendations?