Scand. J. Mgmt. (2008) **24**, 271–283

Available at www.sciencedirect.com

ScienceDirect

http://www.elsevier.com/locate/scaman

Accrual accounting does not necessarily mean accrual accounting: Factors that counteract compliance with accounting standards in Swedish municipal accounting

Pär Falkman[a], Torbjorn Tagesson[b,*]

[a]*Technical Department, Ernst & Young AB, SE-401 82 Göteborg, Sweden*
[b]*Kristianstad Business School, Kristianstad University, SE-291 Kristianstad, Sweden*

KEYWORDS
Accounting standards;
Compliance;
Institutional theory;
Legislation;
Municipalities;
Positive accounting theory

Summary
The regulation of Swedish municipal accounting has undergone fundamental changes over recent decades. Municipal accounting became regulated by law the 1st of January, 1998 after having been merely voluntarily regulated in the past. In accordance with the legislation, a standard-setting body was formed, with responsibility for development and interpretation of generally accepted accounting principles for municipal accounting. Important aims of the legislation and reform were to suppress 'creative' accounting and to increase the level of harmonization and comparability. Using the lens of positive accounting theory as well as institutional theory, this paper describes and explains the impact of the legislation and standard setting in the Swedish municipal sector. We have used a triangulation approach, collecting data through a survey, documentary study and interviews. The overall results show that the reform has had a very limited impact on accounting practice. Compliance with accounting standards was in general poor. This result is in line with the assumptions of positive accounting theory. However, the study also shows that there are differences among the preparers which can be explained by institutional theory. Large municipalities produce better accounting information (i.e. more in line with generally accepted accounting principles) than the municipalities in general. Weak audit quality seems to be another important factor that explains the poor compliance with accounting standards.

Introduction

Accrual accounting, i.e., where revenues and costs are recognized as they are earned or incurred, and not as money is received or paid, is an important part of the New Public Management reform movement (Olsson et al., 1998); over recent decades many countries have changed from cash-based accounting towards accrual accounting in their public sector (see e.g., Lüder & Jones, 2003; OECD, 2000). This shift from cash to accrual accounting can be considered as a move towards managerialism (Broadbent & Guthrie, 1992) and associated with an endeavour to induce efficiencies into public institutions (Hopwood, 1984).

*Corresponding author. Tel.: +46 44 20 31 07; fax: +46 44 20 31 03.
E-mail address: Torbjorn.Tagesson@hkr.se (T. Tagesson).

0956-5221/$ - see front matter
doi:10.1016/j.scaman.2008.02.004

The stimuli behind, and the processes regarding, these accounting reforms have been discussed and studied by several researchers (e.g., Bourmistrov & Mellemvik, 2005; Brorström, 1997; Falkman, 1998; Fihn, 1994; Lüder, 1992, 1994; Lüder & Jones, 2003; Monsen & Näsi, 1998a; OECD, 2000; Olson, Guthrie, & Humphrey, 1998). Thus, the origin and shaping of the formal set of rules and regulations, e.g., accounting norms valid for public sector accounting, has been thoroughly studied and elucidated. However, the actual impact of the reforms on accounting practice and among the preparers has not yet been given that much attention. The basic assumption is that accounting norms should control accounting practice/action (Bergevärn, Mellemvik, & Olson, 1995), but accounting is a social system and as such it tends to evolve by adapting to its context (AICPA, 1973; Bergevärn et al., 1995). This is applicable for both the norm system and the action system, which has to confront its context (Bergevärn et al., 1995). Thus, the accounting action system can be influenced not only through the norm system but also directly by its context. On the other hand, the norm system as well as the context can learn from the action system (Bergevärn et al., 1995). According to Bergevärn et al., the separation between the norm system, the action system and the accounting context is in line with the basic assumption of institutional theory.

An alternative, or complementary, perspective to the institutional theory is an economic theory based on self-interest. Positive accounting theory offers such an alternative or complement. The theory assumes that the relative power between agents and principals affects the choice and use of accounting methods. An agency problem exists in all organizational contexts, no matter whether they are commercial or political (Zimmerman, 1977). This problem arises whenever a principal delegates decision-making authority to an agent (e.g., Scott, 2003; Zimmerman, 1977). Politicians, who act in a political market, have to consider the voters and other stakeholders in their ambition to be re-elected (Downs, 1957). Since accounting choice affects the distribution of resources, it cannot be ignored that the self-interest of politicians in being re-elected and/or advancing their careers in the political system can affect accounting practice and compliance with accounting standards.

The aim of this paper is to describe and explain the actual outcome of the latest municipal accounting reform in Sweden by investigating the actual observance of the accounting regulation among the preparers. Further, we discuss the conceivable consequences of the outcome. Thus, we intend the paper to contribute to the debate and research within the field of public sector accounting reforms and move the focus from the design and stimuli behind the reforms on a regulative level (e.g., Bourmistrov & Mellemvik, 2005; Lüder & Jones, 2003) to a focus on adherence among the municipalities. As Sweden is one of the pioneers and early adopters of accrual accounting in the public sector (Lüder & Jones, 2003), and the implementation of accrual accounting in the public sector is a trend that is likely to continue during the years to come (Lüder & Jones, 2003; OECD, 2000; Paulsson, 2006), the Swedish case may be interesting and instructive for countries that belong to a later 'reform wave' or are about to start implementing accrual accounting in their public sector. In order to study adherence among the municipalities, i.e. the preparers, we will investigate the compliance with accounting standards issued by the standard-setting body, the Council for Municipal Accounting, and statistically test hypotheses derived from institutional theory as well as positive accounting theory.

The paper is organized as follows: The following section describes the latest municipal accounting reform in Sweden. This section ends with the overall research questions of the paper. We follow up with a section describing the theoretical framework and the basis of analysis. Factors that may explain a possible observance gap are put in specific form through the derivation of hypotheses. In the section coming next we describe the methods used in collecting empirical data. A subsequent section presents the statistical analysis and the one next that presents implications from the statistical analysis, the documentary study and the interviews. In the last section we present the concluding remarks.

Municipal accounting reform in Sweden

What later became known as the New Public Management had its start in Swedish municipalities in the mid 1980s (Brorström, Haglund, & Solli, 2005). Municipal administration was decentralized, and the financial responsibilities were redefined and emphasized (Brorström et al., 2005). Even though Swedish municipal accounting was not regulated in law until 1998 when the Municipal Accounting Act (1997, p. 614) was executed, the need for regulation and reform of municipal accounting had been discussed since the early 1980s. In 1986, the municipal sectors voluntarily introduced an accounting model (Kf/Lf-86) which was based on accrual accounting. The co-ordination and development of the accounting model was led by the Association of Local Authorities through the issuing of guidelines, white papers, manuals and instructions. The development of municipal accounting was in many ways driven by a number of municipalities that constituted good examples (Brorström, 2007, chap. 7). However, the impact of this voluntary reform varied considerably across municipalities, and partly between different sub-operations within the same municipality. In order to suppress 'creative' accounting and increase the level of harmonization and comparability, the Swedish Parliament decided in 1997 to regulate municipal accounting through legislation. However, in contrast to the Bookkeeping Act (1999, p. 1078) and the Annual Accounts Act (1995, p. 1554) that regulates the accounting in the private sector, the Municipal Accounting Act does not have any connection to the penal code. Otherwise the legislation of private and municipal accounting is very similar. They are both types of framework legislation referring to standard-setting bodies in the wording of the law and in the preparatory legislative work. This has increased the importance of standards, decrees and guidelines from regulatory bodies. With the private sector as a model, a special standard-setting body with representatives from different stakeholders was founded in connection with the passing into law of the Municipal Accounting Act. This standard-setting body, the Council for Municipal Accounting, has been given the responsibility to develop and interpret the generally