



Summary and recommendations

The Annual Municipal Accounts (“Räkenskapsammandraget” or RS) is the Swedish State's main source of information on the economic situation and development of the municipalities. The income statements and balance sheets in the RS serve as the basis for the National Accounts, which in turn are a key basis for the Swedish Government's fiscal policy. The data are used in the government's budget proposals, as well as for financial performance indicators and reporting to the EU's statistics agency, Eurostat. It is therefore important that this information is reliable.

According to Statistics Sweden (“Statistiska centralbyrån”, SCB), the data in the RS income and balance sheets, are highly reliable. Among other things, this assessment is based on two assumptions: 1) that the information in the RS is a summary of the corresponding data in the municipalities' annual reports (“årsredovisningar,” ÅR), and 2) that the municipalities' ÅRs are reliable. It is the assessment of the Swedish National Audit Office that the bases of these assumptions have been insufficiently elucidated.

The objective of the audit was to examine whether the state has taken adequate measures to ensure that the income statements and balance sheets in RS are reliable.

The audit has focused on two main issues:

1. Has SCB done enough to validate the consistency between the ÅRs and the RS?
2. Has the government done enough to delimit municipal financial performance adjustments?

The results of the audit

The consistency between the ÅRs and the RS is not satisfactory

The municipalities' reporting of income statements and balance sheets to the RS involves transferring data already published in their financial statements. The transfer of data to the RS should therefore be a purely administrative task. Despite this, the audit of the Swedish National Audit Office indicates that inconsistencies between the ÅRs and the RS are significantly greater than what could be expected if they only concerned rounding errors. The inconsistencies for certain items and years is so evident that one cannot exclude the possibility that they will negatively affect the actors that use data from the income statements and balance sheets in the RS.

Not all inconsistencies entail inaccurate data in the RS. Discrepancies also arise when inaccurate information in ÅRs is corrected in connection with reporting it for the RS. Similarly, perfect consistency is also no guarantee that the data in the RS are correct. We have seen many examples of questionable and sometimes downright incorrect data in ÅR which have been reported for the RS. It is especially evident in the consolidated financial reporting that municipalities frequently deviate from both the common conceptual apparatus and the disclosure requirements.

SCB does not validate the consistency between the ÅRs and the RS

SCB does not have a mandate to ensure consistency between the ÅRs and the RS. However, SCB has undertaken to regularly validate the source data for its statistical products. This has never been done for the RS. Because municipal auditors likewise do not audit the transfer of data to the RS, the SCB has been unaware of the scope of the discrepancies. For obvious reasons, the authority has not taken action.

Given the importance of the income statements and balance sheets for various users, the identified inconsistencies between the ÅRs and the RS are not satisfactory. The Swedish

National Audit Office is therefore recommending that SCB regularly validate the consistency between the ARs and the RS. An appropriate method might be to impose audit certification requirements. The auditor's review should focus on the consistency between the ARs and the RS. SCB should also consider a certification requirement for particular risky parts of the RS, for example the accounting of costs relating to the Act (1993:387) concerning Support and Service for Certain Persons with Disabilities, "lagen (1993:387) om stöd och service för vissa funktionshindrade", LSS. SCB can regulate the requirement through a change to an existing regulation.

Municipal financial performance adjustments occur, but has a limited impact on the overall result

The municipalities' external reporting is conducted within a political context. Our audit confirms the findings of previous studies, which have shown that some municipalities adjust their underlying results so that more politically desirable results can be reported. The audit indicates that in certain municipalities, such income adjustment has a significant impact on the reported income. The fact that the results are adjusted makes it difficult for stakeholders such as residents, politicians, journalists, researchers and credit institutions to monitor the true economic development of these municipalities. It also affects the financial performance indicators that municipalities use to make municipal comparisons.

For stakeholders using nationwide data, the problem is likely to be more limited. The fact that municipalities adjust their results has affected overall performance in certain years. However, the financial performance adjustments we have been able to estimate in this audit has not changed the overall picture of the municipal sector's finances in any significant way. This is because defensive and offensive strategies for performance adjustments largely neutralise each other in the overall result.

Our auditing approach has essentially captured the financial performance adjustments that occurred through accruals of expenses. Previous surveys have shown that accruals of income, not least government subsidies, may include significant amounts. Moreover, our audit has not included incorrect classifications as a method by which to adjust financial performance, nor the performance adjustments that may occur in the corporate sector. There are thus good reasons for the government to monitor the development.

Local regulatory reserves have not affected the degree of income adjustment

The Swedish Parliament and the Swedish Government have introduced the option for municipalities to reserve funds in so-called local regulatory reserves (“resultatutjämningsreserver,” RUR). One of the aims is to ensure better adherence to accounting rules, standards and principles. RURs have had a broad impact, and almost 60 percent of the municipalities have earmarked funds in RURs. In 2017, the closing balance in municipal RURs amounted to approximately 13 billion SEK. However, the RURs have not affected the level of financial performance adjustments among the municipalities. Municipalities that have adopted RURs have adjusted their results to a lesser extent than other municipalities, but this distinction already existed before the RURs were introduced. Moreover, there is nothing to suggest that the municipalities have reduced their performance adjustments since they introduced RURs.

The State should take measures to ensure that it can monitor RURs

The parliament and the government have noted that RURs must be monitored, in order to ensure that the RURs are applied as intended. The ability to conduct such monitoring is currently limited, partly because the information about RURs in the RS is contradictory, and partly because SCB has removed cash flow analysis from the RS. If the government wants to be able to evaluate the effect of RURs, these two obstacles must be removed.

The Swedish National Audit Office believes that SCB should introduce controls in the RS reporting form that prevent conflicting information in the income statements and balance sheets. A second step should be that audit certification requirement should also include the reporting of RUR-related data. SCB should reintroduce cash flow analysis in the RS and apply it to both municipal administrations and consolidated financial reporting.

Recommendations

Based on this audit, the Swedish National Audit Office hereby issues the following recommendations to SCB:

- SCB should implement measures to regularly validate the consistency between the ARs and the RS. An auditor's certificate may be an appropriate measure.

- SCB should introduce automated checks to ensure that RUR-related data are consistent between the income statements and balance sheets in the RS.
- SCB should reintroduce the cash flow analysis in the RS. The cash flow analysis should include both municipal operations and the consolidated financial reporting.