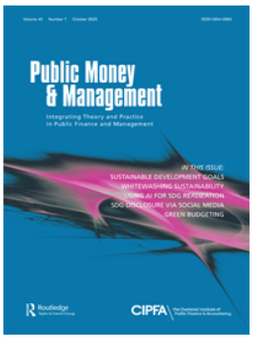

Public Money & Management

ISSN: 0954-0962 (Print) 1467-9302 (Online) Journal homepage: www.tandfonline.com/journals/rpmm20

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To cite this article: Jaakko Rönkkö & Mika Luhtala (18 Sep 2025): Empirical review of local government annual reports in Finland: Considerations of sustainability, Public Money & Management, DOI: 10.1080/09540962.2025.2556996

To link to this article: https://doi.org/10.1080/09540962.2025.2556996

Published online: 18 Sep 2025.

PUBLIC MONEY & MANAGEMENT
https://doi.org/10.1080/09540962.2025.2556996

Routledge
Taylor & Francis Group

Empirical review of local government annual reports in Finland: Considerations of sustainability

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IMPACT

This article will be useful to policy-makers and managers in understanding how the sustainability agenda is deployed in the field of local government financial reporting. Local government authorities were found only rarely to present Sustainable Development Goals (SDGs) in their annual reports in a regulatory environment where introducing SDGs was not strictly required in local government financial reporting. In fact, the empirical data from this study, consisting of virtually all Finnish local governments' annual reports from financial year 2022, shows that only 4% of municipalities mentioned the SDGs in their annual reports. However, a striking 87% of municipalities presented aspects of environmental, social or economic sustainability in their annual reports. Practitioners could therefore incorporate the SDGs more strongly into their financial reporting, so that sustainability becomes a more integral part of the annual reporting.

ABSTRACT

A growing literature has been exploring the different aspects of sustainability in local government financial reporting, and this article contributes to the literature by examining the reporting of the SDGs in local government annual reports. The empirical data of this study is based on Finnish local governments' annual reports from the financial year 2022. The findings indicate that local governments have not yet widely included the SDGs in their annual reports. However, the different aspects of sustainability have already become an essential part of local governments' annual reports. The findings are discussed in relation to the concepts of social infrastructure, institutional capacity, and three institutional isomorphic processes.

KEYWORDS

Annual report; Corporate Sustainability Reporting Directive (CSRD); European Sustainability Reporting Standards (ESRS); institutional theory; local government; SDGs; sustainability

Introduction

This study investigates the inclusion of Sustainable Development Goals (SDGs) and different aspects of sustainability (environmental, social and economic) in local government (LG) accounts. Specifically, this article measures the extent of sustainability disclosure reported by LGs in their annual reports. We provide reflections in this article on how sustainable the LGs are trying to be and whether they mention the SDGs. In the prior literature, the sustainability reporting of LGs has been highlighted as an important research topic (Guthrie et al., 2010; Manes Rossi et al., 2020; Mol et al., 2024). Previous studies have highlighted the importance of integrating sustainability perspectives into the considerations of organizational performance which should be reflected in LGs' annual reports.

Guthrie et al. (2010) argue how 'sustainability has become a master discourse within modern organizational life' and how it 'should be central to public services'. In 2015, the United Nations (UN) published the 2030 Agenda for Sustainable Development, commonly referred to as the Sustainable Development Goals (SDGs) (United Nations, 2015), to guide sustainable development for the next 15 years. In the same year, in UN General Assembly resolution 70/1, each UN member state agreed to implement this plan and, in 2016, in resolution 70/299, the member states committed to engage in systematic follow-up and review of the implementation of the agenda. Systematic follow-up and review could be seen as core to the accounting discipline as accounting concerns the process of recording and processing information which is used in organizational management and informing stakeholders. Reflecting this, this study answers recent calls (Kaur & Lodhia, 2019; Cohen et al., 2023) for research to analyse sustainability and SDG information included in financial reporting in the public sector to assess if there is organizational intent to achieve the SDGs.

This study is focused on the context of Finland. Finland ranks first in the SDG Index Score which measures SDG achievement (Sachs et al., 2024). This indicates that Finland has considerable institutional capacity (Bhagavan & Virgin, 2004) concerning sustainability and makes Finland an interesting research context. For example the Finnish Local Government Act (410/2015) states that economic, social and environmental sustainability should be considered in the arrangement of LG services. Furthermore, Luhtala et al. (2024) found that Finnish forerunner cities in SDG accounting have begun to accrete social infrastructure (Power, 2015), i.e. roles, rules, and routines focused on the performance object of sustainability, around the SDG framework. SDG reporting of LGs is done primarily through voluntary local reviews (VLRs) but forerunners have also begun to integrate SDGs in strategic management which should have implications for financial reporting (ibid.). While the Finnish Local Government Act does not require disclosure on sustainability or SDGs in financial reporting, it requires the reporting of any important matters concerning an LG's finances. This allows the disclosing of sustainability

information in the annual reports and—with a long-term perspective of climate change with its financial and societal implications—it could also encourage the consideration of sustainability information.

There are also considerable changes in the regulatory environment as the Corporate Sustainability Reporting Directive (CSRD) and related European Sustainability Reporting Standards (ESRS) of the European Union (EU) concern the companies owned by LGs. EU companies have to address sustainability issues in their annual reports. In addition, the International Federation of Accountants (IFAC) has been active in consolidating sustainability reporting standard-setters and in developing sustainability reporting standards similar to ESRS for companies through the International Sustainability Standards Board (ISSB) and through the International Public Sector Accounting Standards Board (IPSASB) for the public sector. Furthermore, Mol et al. (2024) present contextual factors that earlier literature claims to influence LG sustainability reporting and they present political and organizational variables as main determinants. Thus, it could be argued that the institutional isomorphic processes, or institutional forces (DiMaggio & Powell, 1983), are in play to make sustainability reporting similar across organizations by driving the disclosure of sustainability information in the annual reports of organizations, including LGs.

This article contributes to the academic and professional discussion by providing new insights into sustainability reporting as a part of LG financial reporting. The research was targeted at LG financial reporting in a unitary state of Finland with 309 municipalities. The study set out to investigate *what proportion of annual reports of LGs mention environmental, social or economic sustainability or the SDGs*. This research question is addressed by gathering all available annual reports from LGs in continental Finland and extracting quotes that mention any of these concepts from the annual reports. The method used allows for brief descriptions of the considerations of sustainability aspects and SDGs in the annual reports.

This empirical study shows the different aspects of sustainability that have entered LG financial reporting. However, the SDGs are rarely mentioned in annual reports. The findings of this study, in tandem with recent research (for example Luhtala et al., 2024; Mol et al., 2024) and recent reporting standard developments, are used to consider the future developments of sustainability reporting in LGs by reflecting on the institutional theory of three influencing forces and the concepts of institutional capacity and social infrastructure.

This study is organized as follows. The Finnish system for LG financial reporting and the role of sustainability in LG governance are explained in the second section which also elaborates on the concepts of institutional capacity and social infrastructure. The third section presents prior literature on the development of sustainability reporting in LGs. The institutional forces influencing the sustainability information in LG annual reporting are reflected in the fourth section. The fifth section presents the data and methods of this study. The results of the study are presented in the sixth section, while the seventh section discusses the results by reflecting on the LG sustainability reporting literature and the three institutional influencing forces, institutional capacity, and social infrastructure. The last section concludes the study.

The setting: the sustainability regulation in Finland, the SDGs and LG annual reports

'Our common future', a report published by the United Nations in 1987, also known as the 'Brundtland report', defined sustainable development as development that meets the needs of the current generation without compromising the ability of future generations to meet their own needs. The report is also considered a pivotal event in mainstreaming sustainable development (Mensah, 2019). In addition, the three perspectives of sustainable development (environmental/ecological, social and economic) are clearly visible and discussed in the document.

The Finnish Local Government Act (410/2015) reflects the Brundtland report's sustainability perspectives in the mission of LGs. The act states that LGs 'shall advance the well-being of their residents and the vitality of their respective areas, and shall arrange services for their residents in a way that is economically, socially and environmentally sustainable'.

The act does not explicitly enforce requirements to report on these sustainability perspectives. However, the legislator has clarified the sustainability principle in the background work (Government Proposal, 2014) of the act in the following way, which reflects the sustainable development definition of the Brundtland report, and which could be perceived to have possible implications for the accounting, management control and reporting of LGs: 'LG must assess its decisions, actions, and solutions from the perspective of future generations and the environment. LG must avoid decisions that include substantial economic risks or excessively burden the environment or future generations'.

UN Agenda 2030—with the SDGs—is the current global policy to foster sustainable development that is agreed upon by all UN member countries. In the 2030 Agenda publication (United Nations, 2015), countries have also declared that they will work closely with local authorities, among other public organizations, to implement the SDGs. The Agenda also invites virtually all organizations and people to action, to participate voluntarily. Therefore, the SDGs offer a relevant concept system in the construction of sustainability performance and its disclosure in LGs.

Finland ranks first in the SDG Index Score which measures SDG achievement, although Finland also faces significant challenges in achieving some SDGs, especially because of unsustainable consumption patterns and international spill-over effects (Sachs et al., 2024). Thus, it can be argued that Finland has built institutional capacity (Bhagavan & Virgin, 2004) that takes sustainability perspectives, such as SDGs, reasonably well into account in societal governance. Bhagavan and Virgin (2004, p. 3) emphasize three categories of institutions and organizations that they consider most relevant in building institutional capacity:

- Knowledge-generating institutions, for example universities.
- Government entities, for example ministerial departments, policy-making authorities and regulatory authorities.

- Civil society organizations, for example environmental organizations, that supervise the interest of certain parties and lobby their views to the lawmakers and society in general.

Following Bhagavan and Virgin's (2004, p. 3) definition of institutional capacity, the institutions of Finland 'have on the one hand, the *functions (tasks)* that institutions should have the *competence (ability)* to perform, and, on the other, *the resources* (human, technical and financial) and *structures* they need to that end' to take sustainability into account more extensively than most other institutional settings.

Luhtala et al. (2024) describe the Finnish context of LGs' SDG reporting through the six largest cities of the country and note the emphasis of SDGs on strategic management of LGs. SDG reporting is voluntary in Finland and, in practice, developed individually in each LG—although the development of SDG implementation and reporting is fostered and enhanced through interorganizational networks unique to each forerunner LG. 'Forerunner LGs' publish VLRs that elaborate on the LG's progress on the SDGs (Cohen et al., 2023). Nordic countries are forerunners in terms of SDG and VLR reporting by LGs (Cohen et al., 2023). However, there is considerable variance in the content of the VLRs, as they are free-form and voluntary (Cohen et al., 2023; Luhtala et al., 2024). Internationally developed guidelines for SDG reporting for LGs and the work of LG networks might diffuse best practices for reporting the SDGs and their managerial integration. Luhtala et al. (2024) argue that by accounting for the SDGs the case cities have accreted and are further accreting social infrastructure (Power, 2015), i.e. roles, rules and routines, focused on the performance object of sustainability. Power (2015, pp. 51–52) argues that:

- The social infrastructure arising from the new accounting statements is more durable than the form and content of the new accounting statements.
- The influence of these new accounting processes in decision-making grows as the social infrastructure accretes.
- As social infrastructure accretes, it creates routines which shorten organizational time horizons which makes the organization consider the related performance perspective, in this case, sustainability, routinely more often.

Social infrastructure is built and in effect on the field level —in institutions and networks—and on the organization level (Power, 2015; see Luhtala et al., 2024).

The Finnish Local Government Act stipulates that the local council should approve the annual report. According to the act, the annual report needs to consist of a balance sheet, income statement and cash flow statement, with appended notes, and a budget review and report on operations. The report on operations must provide information on any important matters connected with the finances of the municipality and any local authority corporations that are not evident from their balance sheets, income statements or cash flow statements, such as an assessment of likely future developments. However, the act does not specify the exact content and structure of the report on operations, nor does it give specific guidance on the matters that should be considered important. Furthermore, the Local Government Act stipulates that the LG sub-committee of the Finnish Accounting Board issues instructions and opinions on the application of the Accounting Act and of sections 113–116 of the Local Government Act, which includes the content of the annual report. However, the LG sub-committee of the Finnish Accounting Board has so far not taken an active role in steering sustainability reporting in Finnish LGs. Therefore there is no established structure in Finland to present sustainability information in the annual reports. This ambiguous regulative background creates a fruitful ground for examining the adoption of the SDGs and different aspects of sustainability as part of LGs' annual reports.

The role of sustainability reporting in LG governance

Recent literature reviews of public sector sustainability reporting have highlighted the growing importance of sustainable practices and reporting (Manes Rossi et al., 2020; Mol et al., 2024). Manes Rossi et al. (2020) show, based on a structured literature review of non-financial reporting formats in public sector organizations, that the sustainability reporting of LGs has been one of the main foci inside the research theme. They infer that the research interest on LGs is 'explained by the pivotal role played by LGs in promoting the sustainable development agenda at the local level'. Ríos et al. (2024) further argue that LGs are responsible for many direct and indirect services in collaboration with central government and other stakeholders, and LGs are also familiar with and close to the needs of their citizens, which places LGs in a position to collaborate with various actors that can support the achievement of the SDGs.

However, several research gaps can be identified (Manes Rossi et al., 2020; Mol et al., 2024). Recent studies (Kaur & Lodhia, 2019; Cohen et al., 2023) have called for research to analyse sustainability and SDG information included in financial reporting in the public sector to assess if there is organizational intent to achieve the SDGs, an issue which this study addresses concerning the LGs. Manes Rossi et al. (2020) call for more research efforts on *integrated reporting*, by which they refer to the reporting guidelines of International Integrated Reporting Council (IIRC). According to the IIRC, integrated reporting refers to 'high-quality corporate reporting and connectivity between financial statements and sustainability-related financial disclosures, bringing together the information that investors need to assess a company's ability to create value over time' (IFRS Foundation, 2024).

The IIRC was recently consolidated into the IFRS Foundation's ISSB (IFRS Foundation, 2021). The ISSB is said to develop standards that are compatible with the CSRD and, thus, with the ESRS that the EU is beginning to require in the annual reports of corporations. Therefore, in essence, integrated reports could be described as annual reports that take sustainability issues into account—somewhat on a par with financial disclosure. The International Public Sector Accounting Standards Board (IPSASB) is developing sustainability accounting standards for the public sector, including LGs (see Brusca et al., 2024; IFAC, 2024). IPSASB sustainability reporting standards also intend to 'provide

principles for an entity to disclose information in its general purpose financial reports' (IFAC, 2024). This study explores the integration of sustainability perspectives and the SDGs in the annual reporting of LGs in Finland on a voluntary basis, which could be described as a form of integrated reporting.

France is the only country where sustainability reporting is mandatory in LGs with over 50,000 inhabitants—elsewhere it is currently voluntary. However, so far, there is no research on the matter from the French context (Mol et al., 2024). In any case, government regulation that makes sustainability accounting and reporting mandatory seems not to be a straightforward solution. Larrinaga et al. (2018) describe how, in Spain, sustainability accounting regulation concerning public sector owned corporations has failed to achieve remarkable success. They found that imitating the private sector explained most of these organizations' sustainability reporting practices. In addition, they highlight the importance of continued communication, education and structured governmental social networks and their utilization in participating organizations to deliver real changes in sustainability reporting. In other words, it could be said that they advocate for the accretion of social infrastructure on sustainability accounting and reporting and, perhaps, building institutional capacity that fosters this accretion.

Niemann and Hoppe (2018, p. 203) consider sustainability reporting in LGs and argue that external reporting has been a characteristic feature of reform processes in recent decades, and that external reporting arrangements usually feature in any performance management discussion. Based on earlier literature, they present uses, influences and outcomes associated with sustainability reporting, which they divide into two organizational perspectives: internal and external. They describe internal use and influence as conceptual and instrumental. Conceptual use influences organizational change through generating knowledge, ideas and perceptions, networks built around the conceptual understanding, and new views on efficiency. The actors most influenced by conceptual use are the staff and associated organizations of the LG. Instrumental use influences the management through affecting decision-making and evidence-informed policy-making. The actors most influenced by instrumental use are the senior civil servants and elected politicians. They describe external use as political symbolic, with which the LG aims to communicate agenda-setting, establish and maintain legitimacy and accountability, and justify (non-)action to citizens, media, businesses and civil society groups. This conceptualization gives ideas of the possible effects the accretion of social infrastructure of sustainability accounting and reporting might have organizationally in a LG and on societal level.

Consideration of the SDGs in LG management and reporting has been a point of interest, or even a main research focus, of several recent studies (Bekier & Parisi, 2023; Cohen et al., 2023; Guarini et al., 2022; Luhtala et al., 2024; Ríos et al., 2024; Sinervo et al., 2024; Vikstedt et al., 2024). The findings of the studies (Luhtala et al., 2024; Sinervo et al., 2024; Vikstedt et al., 2024) that focus on the process of integrating the SDGs into the management and accounting of LGs reflect the perceptions of Niemann and Hoppe (2018) on the uses, influences and outcomes associated with sustainability reporting. As Luhtala et al. (2024) summarize: '[integration of SDGs into performance management and reporting] shapes the city administration's perception, i.e. interpretive scheme, *of* and *toward* sustainability'.

Many studies highlight the need to integrate sustainability into strategic management and budgetary cycles to achieve organizational change in LGs (Brorström et al., 2018; Brorström, 2019; Brorström, 2023; Cohen et al., 2023; Guarini et al., 2022; Luhtala et al., 2024; Niemann & Hoppe, 2018; Zeemering, 2018). Studies also indicate that to achieve change, sustainability should be a universal priority or interpretive scheme that is considered and reflected in the general performance, and performance measurement, of the LG (Bekier & Parisi, 2023; Brorström et al., 2018; Brorström, 2019; Brorström, 2023; Cohen et al., 2023; Guarini et al., 2022; Luhtala et al., 2024; Niemann & Hoppe, 2018; Sinervo et al., 2024; Vikstedt et al., 2024; Zeemering, 2018). This would imply that, for LGs take sustainability into account, sustainability should be an important enough subject to be considered in the annual report (see Cohen et al., 2023; Guarini et al., 2022; Luhtala et al., 2024). Therefore, the considerations and mentions of sustainability and the SDGs in the annual report should reflect the integration of these perspectives and concept systems in the organizational performance of a single LG and, when looking at the annual reports of LGs on a national scale, the institutionalization in the field nationally (see also Niemann & Hoppe, 2018; Luhtala et al., 2024).

This study maps the extent to which sustainability perspectives and SDGs are included in the annual reporting of LGs in Finland, the most successful institutional setting of SDG achievement currently (Sachs et al., 2024), to assess:

- How important these perspectives are in the LG field.
- How integrated the sustainability perspectives and SDGs are in current annual reporting.

We acknowledge the results of Luhtala et al. (2024) that LGs can have managerial SDG integration processes even if they do not mention SDGs in their annual reporting. However, like many studies (Cohen et al., 2023; Guarini et al., 2022; Luhtala et al., 2024) emphasize, if SDGs are an important management and performance perspective, they should be considered in documents, such as annual reports, that address the key management and performance issues of the LG to inform stakeholders.

Reflecting institutional forces influencing the sustainability information in LG annual reporting

Organizations are influenced by their context, so they should not be studied separately from the institutional environment in which they operate (Deegan, 2002). Isomorphic processes, or institutional forces (coercive, normative and mimetic; more detail given below), can be considered a deeply rooted foundation for understanding differences in European accounting institutions (Brusca et al., 2015) and interpreting how various pressures or factors (DiMaggio & Powell, 1983) influence accounting practices (Christiaens et al., 2015; Collin et al., 2009; Dacin & Dacin, 2008; Manes Rossi et al., 2016; Mol et al., 2024; Oulasvirta, 2014). In their recent study, Mol et al. (2024) suggest that public organizations may adopt sustainability reporting policies based on

different types of isomorphism: coercive, normative or mimetic. Furthermore, prior literature also suggests that institutional factors such as mimetic forces might have an impact on the adoption of sustainability aspects as part of public sector financial reporting (Larrinaga et al., 2018). This study reflects the different institutional forces and prior academic discussion on LG annual reports in pursuing an explanation of the inclusion of the different aspects of sustainability and SDGs in LG annual reporting. Regarding the Finnish case, LGs are not unambiguously demanded to report sustainability information in their annual reporting, which offers a fruitful opportunity to examine the impact of different types of institutional forces on the adoption of sustainability reporting as part of LG annual reports.

DiMaggio and Powell (1983) identify in their framework three different types of mechanisms through which institutional isomorphic change occurs and makes organizations more similar: coercive, normative and mimetic. Drawing from DiMaggio and Powell (1983), coercive isomorphism may be a result of legal acts and rules compelling organizations to adopt the same kinds of structures and processes in the pursuit of legitimacy. A source of coercive isomorphism could be, for example, a supranational regulator such as the EU. So far, the CSRD requires only larger and listed companies to report on sustainability according to the ESRS. However, this regulation also affects municipally-owned companies, among others. In addition, the IFAC has been active in developing sustainability reporting standards for public sector through the IPSASB. Furthermore, an example of coercive forces at the national level could be voluntary national legislative reforms requiring LG sustainability reporting born from strong political interests.

When organizations face uncertainty, i.e. problems with unclear solutions, the mimetic forces encourage them to imitate similar organizations and their practices (DiMaggio & Powell, 1983). If the ESRS is successfully implemented in larger listed Finnish companies (and around the EU), and sustainability reporting is built on a solid structure, it could be considered as a benchmark in LG sustainability reporting in Finland. Larrinaga et al. (2018) found that, in Spain, imitating private sector practices explained most of public sector owned corporations' sustainability reporting practices. The potential outcome of implementing the mandatory sustainability reporting for LGs could be more transparent reporting for citizens, as they need to assess the impact of public services on people and the environment (see Niemann & Hoppe, 2018). These arguments are supported by the results of Stefanescu (2021) which suggest that public sector sustainability reporting evolved under high institutional pressure driven by the desire to answer stakeholders' demand and the willingness to meet their expectations for increasing reputation.

Normative isomorphism stems from professionalization and different types of stakeholders pursuing affecting organizational behaviour. In the context of this study, the normative forces represented by the accounting profession and its associations are of special interest. Organizational developments like sustainability reporting guidelines more often have an influence when they are supported by national or international professional associations (Carpenter & Feroz, 2001, p. 570). As mentioned, the accounting profession, through the IFAC, is working to develop sustainability reporting standards for the public sector. Nevertheless, mimetic or new normative forces might have difficulties in changing the tradition if the prevailing accounting tradition is deeply entrenched (Dacin & Dacin, 2008).

Drawing from prior literature (Larrinaga et al., 2018; Luhtala et al., 2024; Mol et al., 2024; Sinervo et al., 2024; Stefanescu, 2021; Vikstedt et al., 2024) and recent developments concerning sustainability reporting standard setting, it could be argued that the institutional isomorphic forces—coercive, mimetic, and normative—(DiMaggio & Powell, 1983) are in play to make sustainability reporting similar across organizations by driving the disclosure of sustainability information in the annual reports of organizations, including LGs. In this study, we analyse the empirical data from the annual reports of Finnish LGs, focusing on their sustainability aspects. We explain our findings by comparing them with recent literature.

Data and methods

This study is based on data from continental Finland LG organizations' annual reports from the financial year 2022. In Finland, there are 16 LGs in the Åland Islands, which is a self-governing territory outside continental Finland. These LG organizations were excluded from the study because the financial reporting system in Åland differs somewhat from that in continental Finland. Thus, the data consisting of 279 annual reports represents virtually all Finnish LGs, as the total amount of LGs in Finland in 2022 was 309 (Statistics Finland, 2024). The initial data consisted of 293 LGs, but the number of observations decreased by 14 due to missing information resulting in a final sample of 279 observations. As there is no centralized authority in Finland from which the annual reports could have been drawn, the annual reports were manually collected from the LG organizations' websites.

The annual reports obtained from the LGs were carefully analysed by the research assistants and the sustainability information included in the annual reports was transformed into a binary numeric form. Content analysis was employed as a method to classify the data. We searched the annual reports for four types of sustainability information: the SDGs; environmental sustainability; social sustainability; and economic sustainability. First, we searched for the sustainability information from the annual reports with the following keywords (Finnish equivalents): 'sustaina*', 'Agenda 2030' and 'SDG'. After locating sustainability information using these keywords, we compiled the exact quotes of the sustainability information into an MS Excel table. Next, we analysed whether this information related to the SDGs, or the environmental, social, or economic aspects of sustainability, or none of these. We treated the classification in a manner that one sentence, a target of categorization, can be classified to a mention of one sustainability aspect or as a mention of the SDGs. Thus, the categorization is mutually exclusive. Concerning the SDGs, we searched for any mentions related to the SDGs in general or any specific SDG. After locating a quotation related to one of the four types of sustainability information, the quotation was extracted into an MS Excel table, and no further quotations from the same type of

information were sought from the annual report. The authors also performed random double-checks on the results of this analysis and complete check concerning the mentions of SDGs. As a result, we formulated four binary variables to reflect whether an LG had mentioned the four aspects of sustainability examined in this study. The variable equalled 1 if the LG mentioned the keyword, and otherwise 0.

Second, we formulated a fifth binary variable reflecting the broader view of sustainability by measuring if any of the three aspects of sustainability was mentioned in the annual report. The combined sustainability variable equalled 1 if the LG mentioned environmental, social or economic sustainability, and otherwise 0. This data classification was carried out using MS Excel.

After classifying the data into the five binary variables, we formulated an empirical review on the status of sustainability information in LG annual reports. First, we formulated a classification of SDGs and the broader view of sustainability by showing whether the annual reports mentioned SDGs or any of the different aspects of sustainability. Second, we formulated a classification of the three aspects of sustainability (environmental, social and economic) included in the annual reports. Finally, we formulated a concluding analysis showing how the SDGs, the three aspects of sustainability examined, and the combined sustainability variable were included in the annual reports analysed. Through these analyses, we were able to form a comprehensive outlook on the status of sustainability themes as part of LGs' financial reporting, specifically their annual reports.

Results

Figure 1 presents the inclusion of sustainability information and SDGs in the LG annual reports analysed in this study. The results show that 242 LGs mentioned at least some aspects of sustainability (either environmental, social or economic sustainability) in their annual reports, which is 87% of the total sample. Thus, altogether 37 LGs did not mention any kind of sustainability information in their annual reports. Furthermore, Figure 1 highlights that only 11 LGs, or 4% of the total sample, mentioned the SDGs in their annual reports. A striking 96% of LG annual reports that we examined did not mention the SDGs.

Figure 2 illustrates the inclusion of different aspects of sustainability in LGs' annual reports. By 'different aspects of sustainability', we mean environmental, social and economic sustainability. Figure 2 shows that environmental sustainability was mentioned most often in the annual reports examined: 207 LGs or 74% of the total population mentioned environmental sustainability in their annual reporting. Furthermore, according to Figure 2, 181 LGs or 65% of annual reports examined mentioned economic sustainability. According to our data, social sustainability was adopted less often in LG annual reporting, as only 102 LGs or 37% mentioned social sustainability.

Our results unequivocally show that the SDGs have not become an essential part of LG annual reporting, as only 4% of the annual reports analysed mentioned the SDGs. At the same time, our results indicate that the sustainability theme has been integrated into the LG annual reporting, as a promising 87% of LGs mentioned at least one of the aspects of sustainability examined. However, a majority (74%) of the annual reports analysed mentioned environmental sustainability, which was the most frequent aspect of sustainability presented in LGs' annual reporting.

In our content analysis, we first identified the sustainability information in LG annual reports with keywords. We then compiled the exact quotations of this information into an MS Excel table. Finally, we classified the information into four binary variables: the SDGs; environmental sustainability; social sustainability; and economic sustainability. In Table 1, we provide the exact wording used in a selection of LG annual reports when discussing the three different aspects of sustainability: environmental, social and economic. Table 1 shows that many of the mentions of different aspects of sustainability are linked to strategic goals, while some are rather superficial.

Our results show that only 11 LGs mentioned the SDGs in their annual reports. In Table 2 we provide the comments of these 11 LGs related to SDGs to show the exact wordings used in annual reports. Table 2 also provides the name, population and location/region of these LGs and the year(s) the LG has published a VLR or if VLR was not available from the LG.

Discussion of the results

Different aspects of sustainability have entered LG financial reporting

We set out to investigate what proportion of annual reports of Finnish LGs mention environmental, social or economic sustainability or the SDGs. Our results show that the discussion of different aspects of sustainability has entered LG financial reporting as 87% of LGs mentioned at least one of the examined aspects with environmental aspect being the most mentioned with 74% of LGs considering it. Only 4% mention the SDGs. However, the LGs that did mention the SDGs come from all sizes—small, medium, and large—and from various regions (Table 2). Given this, these findings do not provide grounds for further cause-and-effect analysis, but they do give a positive signal that any LG can consider SDGs in their annual report. The SDG quotations in Table 2 reflect the different position of SDGs in the management of LGs: many LGs' annual reports emphasize the SDGs' connection to LG strategy while in some annual reports of LGs the SDGs are only an emphasis of a certain branch or unit (education in Tuusula and Puolanka) or a subsidiary (Turku). Interestingly, not all of the LGs that published a VLR mentioned the SDGs in their annual reports (see Luhtala et al., 2024).

Modest SDG integration in the annual reports of LGs

This study builds on previous research calling for more evidence on SDG reporting in the public sector (Kaur & Lodhia, 2019) and for research to analyse sustainability and SDG information included in financial reporting in the public sector to assess if there is organizational intent to achieve the SDGs (Cohen et al., 2023). Furthermore, it answers the call of Manes Rossi et al. (2020) for more studies on integrated reporting, that is, financial reporting that includes sustainability information, in public sector organizations. In the following, the findings are first reflected through the concepts of social infrastructure and

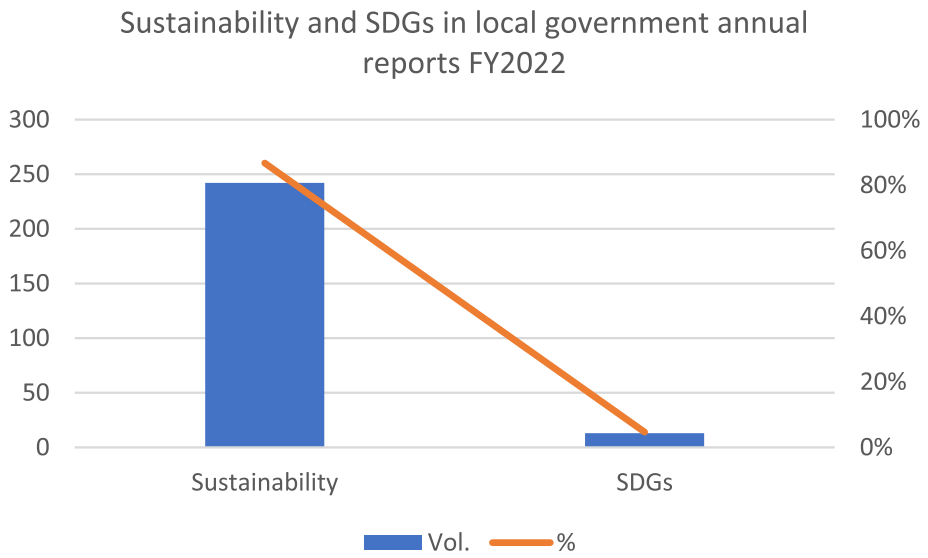

Figure 1. Sustainability and SDGs in Finnish local governments' financial statements (FY2022; total: 279 local government organizations).

institutional capacity and, second, through the institutional influencing forces. Third, practical implications are discussed. Lastly, the limitations of this study and future research are considered.

Power (2015) discusses the implications of the accretion of social infrastructure born from accounting—the ability to accrete and grow is important for the social infrastructure concerning sustainability accounting and reporting to deliver change. Although the reporting of LGs' organizational economic sustainability is well standardized (see the last two quotations in Table 1), by themselves, the economic, ecological, and social sustainability perspectives appear to have no coherent reporting structure or standards to build accounting processes on. The consideration of these perspectives in LG annual reporting and management varies widely, which makes the accretion of accounting infrastructure difficult.

In contrast, the SDGs offer a more actionable approach from the point of view of accounting. Table 2 shows the connection between the SDGs and LGs' strategic management. Similar results were found in recent studies (Cohen et al., 2023; Guarini et al., 2022; Luhtala et al., 2024; Sinervo et al., 2024; Vikstedt et al., 2024), and many LGs mention accounting for SDGs, for example in the form of monitoring or setting of indicators. However, SDG accounting and reporting is more likely to appear in documents other than annual reports in Finland. Luhtala et al. (2024) show that LGs can have quite extensive managerial SDG implementation processes, even though they do not include SDGs in their annual reports. This suggests that, in 2022, more than the 11 LGs that accounted for SDGs were following them in strategic management. Our results suggest that some LGs already have SDG accounting infrastructure and there are early signs of SDG accounting infrastructure accretion in the Finnish LGs. However, progress is at best modest considering that most LGs do not recognize the SDGs in their annual reporting.

Despite the modest SDG integration in the annual reports of LGs, Finland ranks first in the world in terms of SDG achievement (Sachs et al., 2024). This study shows that nearly all the Finnish LGs recognize the concept of sustainability in their annual reporting. These facts imply that Finland has had some success in building institutional capacity (Bhagavan & Virgin, 2004) concerning sustainability performance, governance and management in LGs. The Finnish institutional setting allows LGs to take sustainability into account and, arguably, even encourages it as the Local Government Act promotes the three sustainability perspectives as the focus of the performance of the LGs. However, there is a lack of structures to foster the development of sustainability accounting. Through institutional variables affecting sustainability reporting in LGs, Mol et al. (2024) highlight visibility, assurance, reporting standards, legislation and sustainability reporting certification. In Finland today, there is little to no institutional support for these perspectives for the sustainability reporting of LGs although there might be possibilities for creative actors to create institutional practices inside these current institutional structures. Current and future developments such as VLRs likely offer the opportunity to further build capacity for such structures and practices.

Institutional isomorphic processes in play

Institutional isomorphic processes (mimetic, normative, coercive) are clearly in play to make sustainability reporting more similar across organizations, LGs included. In general, annual reports are intended to give stakeholders information about the performance and activities of the organization concerning the financial year. Recent developments in the EU's regulations (CSRD and ESRS) have established sustainability as a performance perspective to be accounted for and addressed in the annual reports of corporations active in the EU. IFAC in the form of ISSB is developing similar sustainability reporting standards on a global scale associated with IFRS. The public sector in general (Guthrie et al., 2010; Manes Rossi et al., 2020), and LGs in particular (Mol et al., 2024), are also very relevant for fostering sustainable development but, in the absence of regulation, sustainability reporting is voluntary—a mode of operation that is ill-suited for public sector organizations which are often characterized as bureaucracies, an organizational form that is built on following rules efficiently and discarding the rest in the name of efficiency.

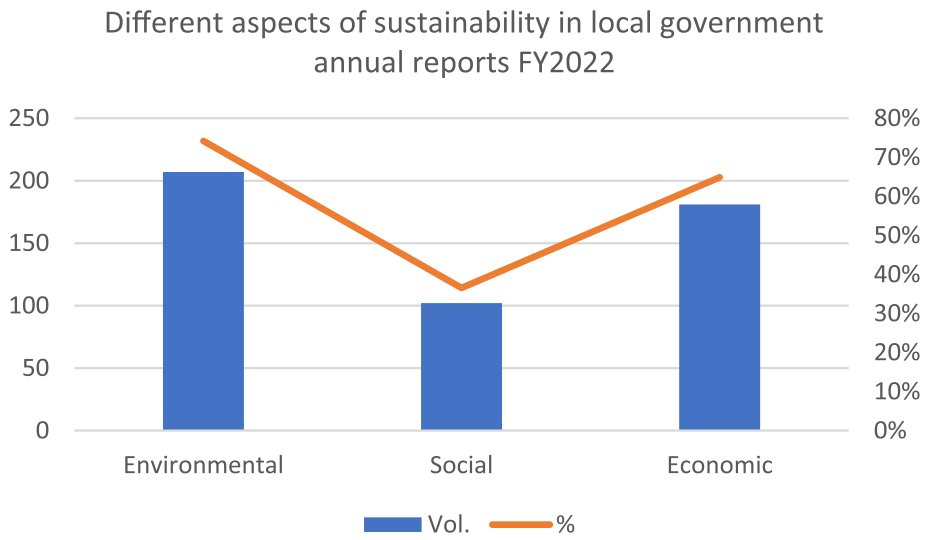

Figure 2. Different aspects of sustainability in Finnish local governments' annual reports (FY2022; total: 279 local government organizations).

However, IFAC is developing and driving sustainability reporting standards to annual reports of the public sector, including LGs, through IPSASB.

First, we consider that mimetic forces might be one way to explain the adoption of sustainability reporting in LGs, as the CSRD has started to pressure listed companies in Finland to start preparing their sustainability reports. As well, reporting the SDGs in LGs in the form of VLR has gained momentum globally and especially in the Nordic countries (Cohen et al., 2023). Finnish LGs of different sizes have included SDG accounting and reporting processes in their management systems and Luhtala et al. (2024) show that there are also other LGs implementing SDG accounting processes.

Second, as normative isomorphism stems from different types of stakeholders trying to change organizational behaviour, we argue that organizational developments, such as LG sustainability reporting, more often have an influence when they are supported by professional associations. The voices demanding sustainability reporting from LGs have started to grow (Stefanescu, 2021; see also Mol et al., 2024), and our data shows that the LGs are responding to this demand. In addition, the activities of IFAC and IPSASB might encourage the sustainability transformation of the accounting profession concerning the public sector globally and in Finland.

Third, coercive regulatory power does not exist in Finland, as it is not mandatory to address the SDGs or different aspects of sustainability in LGs' annual reports. The Finnish public sector does not utilize IPSAS but, rather, has its own national accounting regulations. However, it seems likely that the Finnish LG accounting regulations will take sustainability into account when IPSASB starts to publish sustainability reporting standards. It is also noted that a simple regulatory requirement for sustainability reporting is not ideal, but that sustainability reporting likely requires supporting social infrastructure to have the intended effect (Larrinaga et al., 2018). Our study shows conclusively that institutional isomorphism (DiMaggio & Powell, 1983) is useful in reflecting the development of LG sustainability reporting practices. However, the developments of LG

Table 1. Comments (direct quotations) on the different aspects of sustainability in local government annual reports (FY2022).

Environmental sustainability
'The City of Hyvinkää aims to be carbon-neutral, waste-free, and sustainable in consumption by 2050'.
'The council term goal 'The City of Espoo achieves carbon neutrality by 2030' progressed according to plan'.
'We are building a sustainable future and promoting climate actions in all activities'.
'The City of Turku is implementing the Paris Agreement goal to limit global warming to 1,5 degrees and enabling sustainable living in line with this goal together with citizens, businesses, and communities'.
'The City of Vihti's climate work is based on the European Covenant of Mayors and the Sustainable Energy and Climate Action Plan (SECAP) mandated by the agreement'.
'The city is part of the carbon-neutral municipalities network. The goal is to reduce greenhouse gas emissions by 80% from the 2007 level by 2030'.
Social sustainability
'The city-wide *Code of Conduct – minimum obligations for social responsibility* -material has been completed'.
'Our operations are based on the values of equality and socially and culturally sustainable development, as well as regenerative cooperation'.
'The City of Kemi has established itself as a people-oriented and sustainable city that also takes responsibility for the social dimension'.
'Social responsibility is part of the broad development of responsibility in line with the city strategy'.
'The City of Karkkila is a hometown of sustainable development: Improving residents' equal opportunities for influence and social justice'.
'We also recognize the importance of social sustainability. We encourage residents to participate in the development of services and the creation of new ones'.
Economic sustainability
'We are a renewing municipality with a sustainable municipal economy'.
'The area is home to successful entrepreneurs, and the economy is managed sustainably'.
'Decision-making and operations take into account sustainable development and economic sustainability'.
'Growth has been too rapid from the perspective of a sustainable economy'.
'Achieving long-term economic sustainability for the City of Raahe requires balancing income and expenses'.
'Managing the group's debt and rental liabilities is central to sustainable economy and preparing for investments'.

Table 2. Comments (direct quotations) on the SDGs in local government annual reports (FY2022).

SDGs	LG name	Population	Region	VLR	Quotation
1.	Espoo	305,274	Uusimaa	2020, 2023	'The city aims to achieve carbon neutrality by 2030 and acts as a pioneer in the UN's Sustainable Development Goals (SDGs)'.
2.	Oulu	211,848	North Ostrobothnia	n/a	'The evaluation of the city's guiding documents regarding the implementation of the UN's Sustainable Development Goals has been developed and piloted'.
3.	Kemi	19,499	Lapland	n/a	'Kemi's commitment to the UN's global Sustainable Development Goals (Agenda 2030) is being widely implemented, for example, by aligning the strategy's action plans with the UN's goals'.
4.	Karkkila	8603	Uusimaa	n/a	'Out of the 17 SDG indicators, 11 have developed positively and 6 negatively'.
5.	Muonio	2281	Lapland	n/a	'Our strategy strongly reflects sustainable development and Agenda 2030'.
6.	Salo	50,933	Southwest Finland	n/a	'Sustainable development indicators (SDGs) have been selected and monitoring has begun'.
7.	Lahti	120,175	Päijät-Häme	n/a	'Achievement of the goals of the group's subsidiaries: The companies are developing their own sustainability reporting in accordance with the UN's sustainable development classification, utilizing metrics in line with the GRI standard'.
8.	Tuusula	40 384	Uusimaa	n/a	'We have made significant strides in developing sustainability through the implementation of the early childhood education environmental plan, the basic education Agenda2030 teaching program, and the food services sustainability plan'.
9.	Turku	197,900	Southwest Finland	2022, 2022	'Additionally, the Company promotes the achievement of the UN's sustainable development goals through its operations'.
10.	Imatra	25,208	South Karelia	n/a	'We implement and report on the Climate Program, Agenda 2030 (Voluntary Local Report) - the sustainable development action program'.
11.	Puolanka	2380	Kainuu	n/a	'Global education in basic education contributes to creating conditions for just and sustainable development in line with the UN's development goals'.

sustainability reporting should be examined in different types of regulatory and governance environments. While integrated reporting can hardly be described as an innovative model for measuring sustainable development at this point, integrated reporting can be viewed as a novel research perspective concerning LGs. In the light of isomorphic processes, integrated reporting seems a likely future development for sustainability disclosure in LGs.

Practical and policy recommendations

We have some practical and policy recommendations as a result of this research:

- First, following Power (2015), social infrastructure is likely more durable than the form of reports it creates. Thus, SDG accounting and reporting in LGs is likely building useful social infrastructure for possible future sustainability accounting requirements and practices: start and continue doing sustainability reporting in LGs, for example in the form of SDGs.
- Second, the more the infrastructure grows, the more influential its performance perspective likely is (Power, 2015). Therefore, the accretion of social infrastructure on sustainability reporting seems essential in fostering the sustainability transformation of LGs and society: foster and enhance the development of social infrastructure on sustainability reporting in LGs (see Luhtala et al., 2024).
- Third, institutional capacity can be built for LG sustainability reporting through developing visibility, assurance, reporting standards, legislation and sustainability reporting certification (Mol et al., 2024) for it. This also expands the social infrastructure of sustainability accounting. National and supranational actors should have an influence by publishing sustainability reporting standards for the public sector.
- Fourth, building institutional capacity for taking sustainability into account in the management and governance of LGs seems important and effective for enabling the consideration of sustainability in LGs: create regulation and structures that allow and foster sustainability practices and performance in the public sector organizations and activities.

Limitations and future research avenues

Although comprehensive, this study has limitations. It was a one-year cross-sectional study focusing on LG sustainability reporting in one country and, thus, useful for establishing situational awareness and preliminary evidence in planning future advanced studies while lacking in strict methodological explanatory power (this study relies on reflecting on the literature). This study searched for mentions of the search terms in the annual reports of LGs. It is likely that many annual reports consider similar substance with different wordings as, for example the aspect of social sustainability could be considered as the core of the activities of Finnish LGs. Despite these limitations, the results of this study give an overview of the consideration of and orientation on sustainability in the annual reports of LGs. It is also noted that the focus of this study was on annual reports, and that other documents or websites of the LGs might contain information on sustainability and SDGs.

Future studies could further explore these themes by making statistical causal inferences and using longitudinal data (multiple years) and considering different contexts. This study reflected on earlier LG sustainability reporting literature, institutional isomorphic processes and the concepts of social infrastructure and institutional capacity. Future studies could consider institutional capacity (Bhagavan & Virgin, 2004) and its components in the ability to produce sustainability transitions in activities and in reporting. Zeemering (2018) points out critically that even though there is evidence on mimetic and isomorphic responses to sustainability *reporting*, implementation in strategy, management and performance seems difficult and lacking, which some studies confirm (Brorström et al., 2018; Brorström, 2019; Luhtala et al., 2024; Sinervo et al., 2024; Vikstedt et al., 2024). Thus, even though this study predicts an increasingly favourable institutional push for sustainability reporting by LGs through isomorphic processes, more studies on integrating sustainability into LG performance are needed. To gain a deeper understanding

of the impact of institutional forces, future studies could investigate the incorporation of various aspects of sustainability using longitudinal data (mimetic forces) and within contexts where there is a requirement to report on sustainability aspects (coercive forces).

Conclusion

We analysed the inclusion of sustainability and SDG information in the financial reporting of LGs to assess whether there is organizational intent to achieve the SDGs. Through the background of the study, it is argued that isomorphic processes are in play to drive sustainability reporting in the annual reports of organizations, LGs included. Now is an opportune time for policy-makers and practitioners to foster this development. The results of this study show that different aspects of sustainability have entered Finnish LGs' annual reports. However, it seems that social sustainability has not gained as much attention as environmental or economic sustainability. Furthermore, our results unequivocally show that the SDGs have not found their way into LGs' annual reports, and the deadline is 2030. Therefore there is a clear need for clarifying reporting requirements so that the SDGs, or a similar sustainability concept system, can be institutionalized as a conceptual reference in LGs' annual reporting as soon as possible. Finally, building long-term institutional capacity for taking sustainability into account should be considered in all LG management and governance reforms and policies.

Disclosure statement

No potential conflict of interest was reported by the author(s).

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