

Chapter 4

Potential Uses and Usefulness of Italian Local Government Consolidated Financial Reporting: The Case of the Town Council of Brescia

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ABSTRACT

Debate on consolidated financial reporting has considerably increased over the years, also due to the various public sector accounting reforms. In this regard, Italy offers an important experience since it was one of the first countries in the European Union to expressly provide for compulsory adoption. The Legislative Decree no. 118/2011 will introduce consolidated financial reporting for local government as from 2017, after an initial “experimentation” period. In view of the recent adoption, the methodological approach implemented in the chapter is based on a case study. After discussion of the boundaries of the consolidation performed by comparison with international experiences – IPSAS 6, new IPSAS 35 and GASB 14 – a critical analysis of the Italian proposal is also provided. The chapter aims to contribute to the debate on consolidated financial reporting both from the theoretical and empirical points of view.

INTRODUCTION

Debate on local government financial reporting has considerably increased over the years, also due to the various public sector accounting reforms inspired by the assumption that improving the mechanisms of public governance will result in better public sector performance (Ongaro, 2008; Hoque, 2008; Ongaro, & Valotti, 2008). Among the reporting tools implemented to measure, plan, control and communicate

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performance, in recent years consolidated financial reporting has become increasingly important both for the practitioner and the academic debate (IFAC, 2000; IFAC, 2005; Walker, 2009; Karlsson, & Nilsson, 2010; Walker, 2011; IFAC, 2013).

While attention remains high at central government level (Chow, Humphery, & Moll, 2007; Barton, 2011; Grossi, & Soverchia, 2011; EC, 2013), the academic debate has become gradually oriented also to local government. In this regard, Italy offers an important experience since it was one of the first countries in the European Union to expressly provide for compulsory adoption, owing to the large number of entities controlled by local governments (Grossi, & Reichard, 2008; Teodori, & Falini, 2009; Teodori, Falini, Carini, Veneziani, Bosio, & Tanghetti, 2011). In Italy, although the provision for the consolidated financial report has been present for several years in the legal system, voluntary drafting was abandoned only with Legislative Decree no. 118/2011, introducing the obligation for local governments with more than 5,000 inhabitants to draw up a consolidated financial report as from 2017, after an initial “experimentation” period.

Recent Italian public sector accounting reform aims to represent the financial performance of the local government group as a whole with particular reference to the need to manage and control public sector finance. The objective of Italian public sector consolidated financial reporting is to provide information on the financial position and financial performance of the local government and its controlled institutions and companies and non-controlled entities. Consolidated financial reporting should show the results of the management’s stewardship of the resources entrusted to it. This implies that consolidated financial reporting represents a suitable document to measure, plan and control the performance of the local government group as a whole.

Since implementation of the Italian regulation on the consolidated report is recent, and therefore not many town councils have already drawn up this document, the methodological approach implemented in the chapter is based on case study. The town council of Brescia is analyzed because it presents elements of interest for achievement of the objectives of the paper (Yin, 2012). (i) This local government is one of the most important in Italy in terms of wealth and it is located in Lombardy, the Region with the highest number of controlled companies. Referring to ANCI 2012 (Associazione Nazionale Comuni Italiani, The National Association of Italian Municipalities), in this region 1,547 town councils have shareholdings in 1,502 entities, 597 of which are companies. In addition, (ii) the town council participates in many institutions and companies, which present widespread economic characteristics. Finally (iii) the town council of Brescia is engaged in the “experimentation period” introduced by the decree of December 28th 2011 by the Italian Central Government to assess the adequacy of the new regulation for the purposes of the public sector accounting reform. Consequently, in 2013 the local government drew up the consolidated report for the first time.

Specifically, the aims of the chapter are twofold. After discussion of the boundaries of the consolidation performed by comparison with international experiences – IPSAS 6, new IPSAS 35 and GASB 14 – a critical analysis of the Italian proposal is provided. The chapter finishes with a case study.

As regards the first point, there is substantial agreement in literature, which considers that the most important and most critical aspect refers mainly to the boundaries of the consolidated report and, consequently, the definition of the consolidation area (Grossi, & Pepe, 2009). Concerning the boundaries of the public sector consolidated financial report, the many solutions proposed are embodied in two reference approaches. These differ in relation to the reporting entity concepts adopted and therefore, in the last analysis, in relation to the objective assigned to the consolidated report and to the notion of users and uses adopted. These approaches are the test of control approach (IPSAS 6 – IPSAS 35) and the financial

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