Chapter 4
A New Useful Tool or a Further Misunderstood Obligation?
Perceptions on the LG Consolidated Report

Cristian Carini
University of Brescia, Italy

Claudio Teodori
University of Brescia, Italy

Davide Giacomini
University of Brescia, Italy

ABSTRACT

Italy offers an important experience on the consolidated report since it was one of the first countries in the European Union to expressly provide for compulsory adoption. Using institutional theory to explain the role of shared values, culture and the influence of existing practice during the accounting reform, the paper aims to explore the perception of local government (LG) on the users, the uses, and the utility. We sent a questionnaire to a statistical stratified sample of 800 LG, collecting a response rate of 17%. The results find out that social legitimization pressures than by accountability patterns or performance analysis drive the adoption process more. Even if the empirical evidence confirms that the stakeholders most interested are perceived on the internal members, the results indicate that the report is perceived as a potential tool for pursuing performance assessment strategies in a group context. However, this potentiality depends on the coordination effort made by the LG. This raises many questions on how the council views the LG group.

INTRODUCTION

In an economic world context of financial crisis, debates are emerging on the debt management of the local government as a whole, including both local authority and the municipal corporations. Attention is on the local government groups and consolidated financial report. The group has hired vitality after the enlargement of the boundaries of public administration and the obvious limitations of the individual

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financial statements, unfit to grasp and to represent the dynamics of the public sector in its complexity. Often the supply of public goods and services it is delegated to hybrid organizations, represented by companies and entities with the most varied legal forms, controlled directly or indirectly by the local government. In addition, attention to the consolidated financial report has been further fueled by the intervention of international regulators. The International Public Sector Accounting Standard Board published in January 2015, the IPSAS 35, applicable from January 2017 (Carini et al., 2016; Bisogno et al. 2015. Looking at the European Union, the European Commission has launched a debate on the suitability of implementing the IPSAS as a common base to develop and harmonise public sector financial reporting (EU Commission, 2013).

With reference to this context, Italy offers an important experience since: (i) it is involved in financial crises with limited growth that impose a restructuring of public finance; (ii) municipal corporations have a great economic importance (Grossi et. al. 2008a; Grossi et al., 2008b; Teodori et. al. 2009; Scarpa et. al. 2010; Teodori et. al. 2011; ANCI 2012; Cottarelli, 2014; Corte dei Conti; 2015; Istat[1], 2015; Italian Minister of Economy and Finance, 2016; Cassa Depositi e Prestiti, 2016; Mediobanca; 2016); (iii) although the provision for the consolidated financial report has been present for several years in the legal system, only with Legislative Decree no. 118/2011 was voluntary drafting abandoned. The Italian local government (n. 8.058) from 2016 have to prepare the consolidated report, that is consolidated financial statement completed by the notes and the management commentary: this document is voluntary until 2017 for Municipalities with less than 5,000 inhabitants; (iv) the implementation of the consolidated report is aimed at controlling and reporting of public finances and of performance of the local government (LG) group as a whole. Recent Italian public sector accounting reform aims to represent the financial performance of the local government group with particular reference to the need to manage and control public sector finance.

The objective of public sector consolidated financial reporting is to provide information on the financial position and financial performance of the local government and its controlled and participated entities[2]. In the Italian Accounting Standard (PCA 4/4), that is a country specific accounting standard Carini et al. 2017a), there is no definition of the LG reporting entity, which is identified indirectly including, in addition to the controlling local government, the entities that should, if judge material, be considered in the consolidated statement. These individual entities, can be summarised as follows (Carini et al. 2017b; Carini et al. 2016):

- Controlled institutions ("enti strumentali"), it comprises everything which, in juridical terms, is different from a company (for example, a foundation), independently of the nature of the shareholders (private or public). The control could be control by law or control in substance;
- Participated institutions ("enti strumentali partecipati"), the peculiarity is the presence of the participation, with other partners, without the condition of fully or jointly control. The category aims to represent the public sector "common" control of externalised services, such as cultural, educational, environmental or social issues;
- Controlled companies ("società controllate"), the distinguishing element is the concept of company, as defined by Italian commercial law and with evident reference to companies with share capital. Here again, reference is made to control by law and control in substance, both direct and indirect;

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