Chapter 4

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

Cristian Carini
University of Brescia, Italy

Claudio Teodori
University of Brescia, Italy

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...
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,

While attention remains high at central government level (Chow, Humphery, & Moll, 2007; Bar-
ton, 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 govern-
ments 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 in-
formation 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 ele-
ments 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 partici-
pates 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 consoli-
dation 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, conse-
quently, 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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