

The public accounting system in Italy

Italy's accounting reform : “State of Play”

Istanbul, 3-5 October 2011

Legal Framework

Law 196 of 31 December 2009 reforms Italian public finances and accounting to adapt the legislative and regulatory framework to the needs of public financial and budgetary management in the context of Italy's membership of the European Monetary Union, the evolution of the economy and the new institutional arrangements between central and local governments.

Legal Framework

The Law is addressed to all the entities that make up the aggregate of general government as defined, under the national accounting rules, by Istat (S13). The perimeter of Law 468/1978 (now abrogated) is thus extended, and a single, consistent normative framework is laid down for all the entities forming part of general government.

Legislative choice

- **a financial accounting system** in order to exercise budgetary control by the Parliament and by legislative bodies at local level

flanked by

- **an accrual accounting** system in order to have the economic results of the management and to facilitate the consolidation with some public entities that have accrual accounting system

Constitutional Federalism 1/3

- The 1948 Italian Constitution attributed administrative responsibilities to Provinces and Municipalities and legislative powers to a limited extent in specific subject matters to ordinary Regions and to a larger extent in a higher number of fields to the special-charter Regions
- the decentralization process in Italy from the beginning of the '90's

Constitutional Federalism 2/3

Constitutional law n. 3/2001, confirmed by a referendum, modified the Second Part –Title V –of the Constitution with reference to Regions, Provinces, Municipalities. Some of the main articles relative to Regions are the following:

- Art. 117:Apportions responsibilities between the Regions and the State. Regions' responsibilities have been expanded to all areas not specifically reserved to the central government (foreign policy, defence, immigration, antitrust, etc.) or explicitly shared with it, such as healthcare and education

Constitutional Federalism 3/3

• Art. 119: Accords Municipalities, Provinces, Metropolitan Cities (a novelty in our constitutional panorama...) and Regions financial autonomy, through:

- own taxes
- participation in the revenue of State taxes
- grants for specific purposes
- transfers from a general equalisation fund in favour of economically weaker regions

Legal Framework - Federalism

The harmonization of accounting systems and formats is also provided, under the same standards and guidelines, for regional and local governments.

Law 42/2009 implementing fiscal federalism, in fact,

has been amended in its provisions concerning budget harmonization in order to ensure **consistency** with the measures of **Law 196** bearing on all the other general government bodies. For these regional and local governments, the procedures are laid down by Law 42.

The public accounting system

financial accounting is adopted by:

- Central administrations (ministries, the parliament and some other central agencies)
- Regions
- Municipalities
- Social securities institutions
- Research bodies

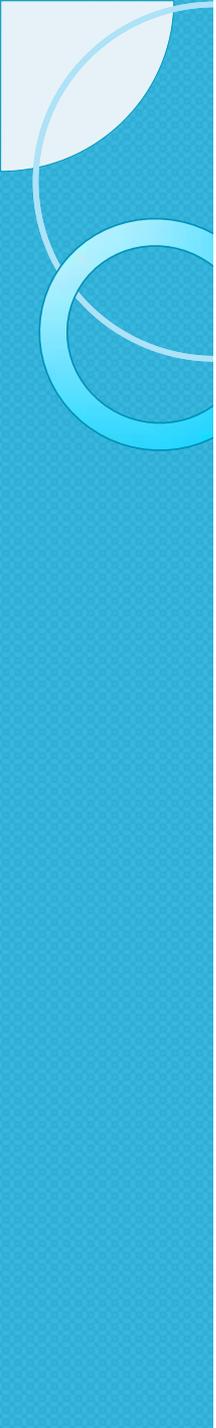
The public accounting system

These entities adopt:

- *Competenza basis* : legal criteria reporting revenue assessment and expenditure commitments relevant for the fiscal year
- statement of operations and a statement of assets and liabilities.
- Single-entry book-keeping

The public accounting system

- **Local Government Accounting Act** requires local governments to annually produce a statement of operations and a statement of assets and liabilities.
- Double-entry book-keeping, however, is not mandatory.
- A specific “reconciliation statement” must be included in the financial statement.



The public accounting system

Accrual accounting is adopted by:

- Local health institutions
- Universities (from 2014)
- Chambers of commerce
- Others Public entities

The public accounting system

These entities adopt:

- Accrual – accounting
- a statement of operations and a statement of assets and liabilities.
- Double-entry book-keeping

The Reform: law 196/2009 (and 42/2009)

- The confirmation of double accounting system : financial and accrual accounting (for the entities that adopt the corporate “civil” accounting procedures)
- Budget based on mission and programmes (functional classification)
- Common integrated chart of account (the entities adopting financial account derives automatically the balance sheet)
- Adoption of common accounting principles and standard

Purposes of the reform

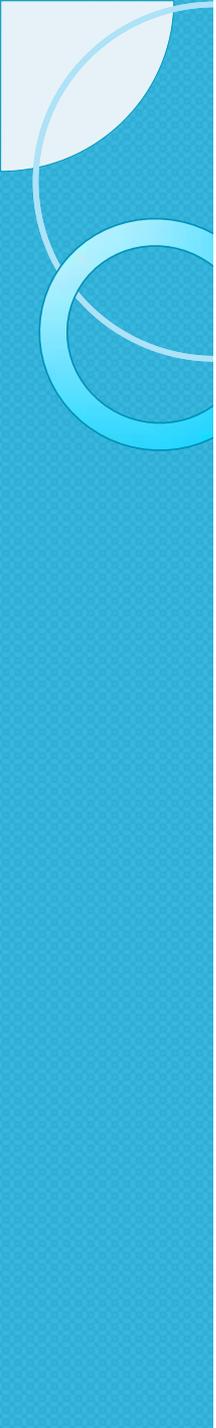
- harmonization of accounting procedures related to accounting and budgetary systems, in order to represent a true and correct policy choices and the managerial capability;
- The prompt availability of budget data that are readily comparable and no longer require complicated reconciliation procedures, will also facilitate the monitoring and control of the public accounts;
- Support to the audit bodies
- accounting information comply with the principles of efficiency and effectiveness.

Accounting systems and formats should be

- reconcilable with those used for the European Union's excessive deficit procedure
- and consistent with the economic and functional classification set out in Community regulations (COFOG).

This provision

- ensures a more direct and transparent relation to the purposes of expenditure and public policies, represented by missions and programmes.



Accounting systems and formats

- Accounting system must be able to reinforce the evaluation of government performance in economic terms,
- financial accounting is to be flanked by a system of cost and asset accounting and a specially designed set of indicators for gauging results.

Important provisions of the Law

- The delegation to the Government to harmonize the budget format and accounting systems of general government bodies and
- to institute a single data bank for all their budget and operating data.

The prompt availability of budget data that are readily comparable and no longer require complicated reconciliation procedures, will also facilitate the monitoring and control of the public accounts.

Implementation

- Bodies budget have to be homogeneous, easily reconcilable, and promptly and easily accessible.

This presupposes that

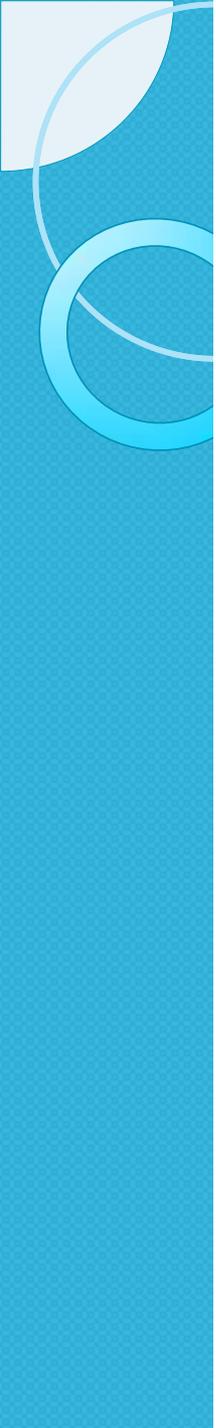
- the data are collected and presented in a shared format and follow the same accounting standards.
- The enabling act accordingly provides for the adoption of uniform accounting rules and a common chart of accounting items.

Consolidated accounts

- The framework of information is completed by the introduction of consolidated accounts for general government bodies including firms that they own or control (on accrual basis).
- For general government entities required to follow corporate (civil) accounting procedures, a taxonomy (on cash basis) must be devised to reclassify the accounts for reconciliation with the provisions of other entities that adopt financial accounting system.
- The consolidation at the public sector level for the balance sheets

State of play -Legislative acts

Accordingly to the new legal framework, a Committee has drafted the legislative decree defining the general accounting principles and the rules to elaborate the integrated chart of account , in coordination with the Joint Technical Commission for the implementation of fiscal federalism in order to ensure coordination with the process of harmonization of local government accounts.



Data bank

Under the principle of harmonization of the public accounts, the Law calls for the institution of a single general government data bank (Article 13). This data bank will result in easier consolidation and monitoring of public finance data, the acquisition of information for the implementation of fiscal federalism, and the creation of benchmark data for the analysis and evaluation of expenditure. Instituted at the Ministry for the Economy and Finance, the data bank will collect all data on general government bodies' budget projections, outturns and operations, plus any other information relevant to the accounting reform and fiscal federalism.

Data bank

- The data for the bank will be acquired by information interchange with the other general government bodies that are already collecting such data. This will simplify and lighten the communication requirements now imposed on general government bodies by those assigned institutionally to their oversight. Access to the data bank will be according to procedures defined in special decrees by the Ministry for the Economy and Finance.

State of play and next steps

The Committee has defined the chart of accounts .

In the next months (by the end of March) will be defined:

- Further standards and rules for financial accounting system
- which international accounting principals should be adopted

The new accounting system will start in 2014.