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**Innovations in public sector accounting standards: are EPSAS
the best way to European harmonization?**

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ACCOUNTING HARMONIZATION AS A POST-NPM RESPONSE TO THE ITALIAN FINANCIAL CRISIS

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AGENDA

Context

Research aims

Methodology

The Italian case

Concluding remarks

Three issues defining the context

Financial crisis

- Strengthening expenditure control
- Reducing debt and deficits
- Increasing demand for public services

NPM unintended effects

- Reduced reliance of central regulations
- Fragmentation of policymaking and service delivery
- Did the NPM really increase accountability?

Complex problems

- Natural disasters, international terrorism, climate change, poverty, social inclusion
- Internationalization, Europeanization

Two approaches for remedying to the loss of control

Grip back

- Based on recentralization of public management functions
- Especially in countries affected by the crisis, for policy coherence and cutback measures (Pollitt, 2010)

Whole of Government

- “A group of responses to the perception that services had become fragmented and that this fragmentation [is] preventing the achievement of important goals of public policy” (Ling, 2002: 616)
- To improve coordination, while keeping intact public organizations’ autonomy
- WoG initiatives include: multi-level government reforms, increase of horizontal co-ordination, partnerships between public and private organizations, improvement of policy-making coordination, integration of services delivery (Politt, 2010)
- Especially in Anglo-Saxon countries

Implementation of WoG reforms

Christensen and Lagreid distinguish between (2007: 1061-2):

Aggressive top-down style

strengthening the role central government stressing the hierarchical component

Negotiation version

stress on coordination from below

- In both cases, WoG reforms are not mere administrative techniques, rather they entail fundamental political issues and require changes in accountability systems and dominant cultures
- Some continuity between NPM and post-NPM reforms (Christensen and Laegreid, 2011; Lodge and Gill, 2011; Christensen, 2012); combination of old and new traditions (Kickert, 2007); dragginf effect which persist over time (Dunleavy and Margetts, 2010:6)

Financial Management in the Post-NPM era: the point of departure

Post- NPM trends can also be detected in the budgeting, accounting and reporting systems:

Expenditure management systems

- Decentralization of performance budgeting (OECD, 2013)
- Expenditure decentralization (Alonso et al., 2011)
- Decrease in the amount of sub-national governments' share of transfers (as a proxy of local autonomy) in countries such as Italy, Ireland and Austria, while increasing in Norway, Denmark, France and Luxembourg

Control and coordination of expenditures

- NPM accounting techniques have reduced accountability, because of a few attention on long-term goals, and poor disclosure and communication (Nasi and Steccolini, 2008)
- The impact of the crisis has pushed towards more centralized budgetary frameworks, to enhance the supervision on LGs and control the fiscal performance of the public sector as a whole (Di Mascio and Natalini, 2013)

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A twofold research interest

1

Analysis of the evolution of budgeting and accounting systems of Italian local governments, in reaction to the global financial crisis

→ Can these initiatives be ascribed to recentralization or WoG approaches?

2

Mandatory use of accrual accounting and reporting is imposed to sub-national governments

→ Does this represent an element of continuity between NPM and post-NPM reforms?

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Main focuses to address the two research aims

Description of the connection between the financial crisis and accounting reform, through the followings:

Nature of reforms: grip-back or WoG?

Style of reforms: top-down or bottom-up?

Continuity of reforms: are current reforms completely different from NPM reforms?

Expected impact of accounting harmonization: trade-off between micro and macro aims

Instruments and approaches

Units of analysis

Various official documents on accounting harmonization

Approaches

- Narrative approach: “(it) refers to a family of methods for interpreting texts that have in common a storied form” (Reissman, 2008: 11), and represent “tales of unsatisfactory pasts and better futures” (Pollitt, 2013: 900)
- Participant observation: the author has been a member of the “Experimentation Working Group”
- Contextualization of the case is a 30-years Italian experience of busdgeting and accounting reforms

Perspective

Not technical on accounting innovations and on the organizational level, but adopting an institutional point of view to the macro and processual aspects

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The Italian New Public Financial Management

Budget procedures

Input-oriented, highly fragmented spending responsibility in the 1990's



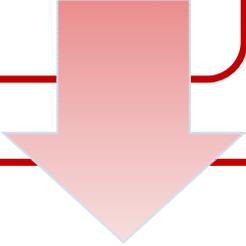
Output-oriented attribution of spending responsibilities at the end of 2000's

Accounting systems

Towards the adoption of accruals reporting and managerial control systems, nevertheless as supplementing, rather than replacing, the traditional cash-and commitment-based budgetary accounting system

The devolution reforms

Gradual shifting of powers, competencies, and responsibilities from the central to the regional and local levels of government (Mussari 2005)



“Duplication and confusion in areas of shared competency among different tiers of government, scarce financial autonomy of local governments, and a financial system based on historical expenditures, which has triggered an increase in Italian public spending and a decrease in intergovernmental accountability” (Mussari and Giordano, 2013: 28)

The effects of devolution on financial management

Increase in public spending and decrease in intergovernmental accountability

Reduced financial autonomy of LGs and recentralization

Problems with stability, timeliness of data, and with monitoring of public accounts within the year

Unreliability and lack of information to quantify local expenditures and needs

Unreliability of accounting information to determine the financial position of LGs

“From the start, the use of national accounts statistics for multilateral surveillance raised two problems that are still unresolved today:

- 1) the trade-off between stability and timeliness of the data and
- 2) the possibility of adequate monitoring of public accounts within the year. Both issues depend somehow on timely acquisition of data from decentralized entities and on the use of uniform accounting instruments”. (Italian Ministry of Economy and Finance, 2008)

Post-NPM reactions in three stages

1991-1997

- LG contribute to the public financial adjustment through typically national instruments

Since
1999

- Progressive reduction of LGs financial autonomy

2008-
2012

- The financial crisis emphasises the need to control public spending across levels of government
- Accounting harmonization is introduced

Towards accounting harmonization

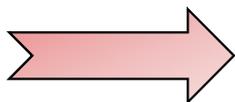
**Art. 117 Cost.
(issued in 2001)**

Accounting harmonization as a constitutional requirement in the scope of the shift towards a federal governmental structure

Public Administration	Legislative references
Central government	Law 31.12.2009 n.196
Sub-national governments	Law 5.5.2009 n.42, art. 2 ⁸ ; Legislative Decree 23.6.2011 n.118, Title I; Directive of the President of the Council of the Ministries 28.12.2011
Healthcare organizations	Legislative Decree 23.6.2011 n.118, Title II
Universities	Law 30.12.2010 n.240; Legislative Decree 27.1.2012 n.18
Other public administrations	Law 31.12.2009 n.196, art. 2; Legislative Decree 31.5.2011 n.91

2012

The Ministry of Economy and Finance declares accounting harmonization to be the main tool for addressing problems of stability and timeliness of data



The financial crisis is the key factor in explaining the passage from the constitutional provision to the legislative intervention

Significance of accounting harmonization

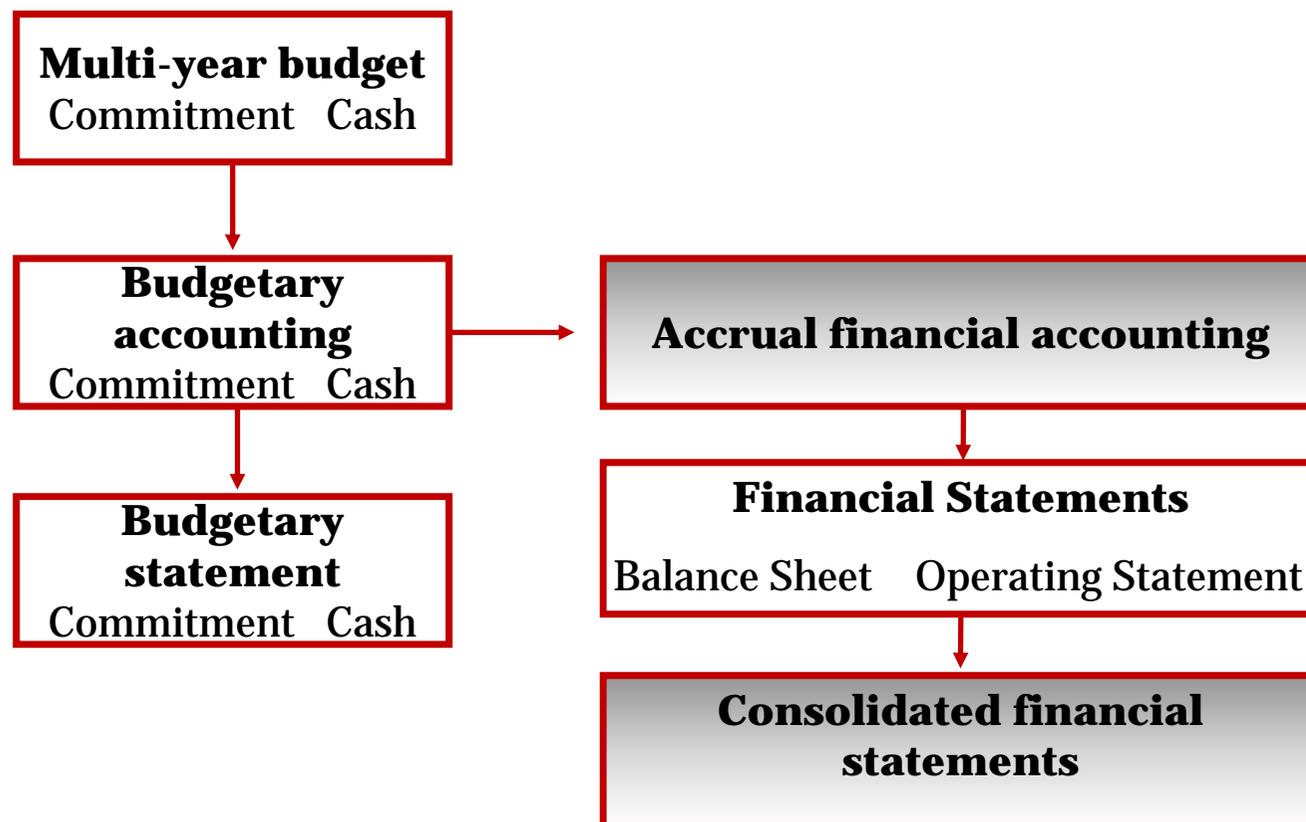
Stated Objectives

- Allow the control of national accounts (safeguard of national public finances)
- Check compliance of public accounts with the conditions of Article 104 of the EU Constitutive Treaty
- Support the implementation of fiscal federalism
(<http://www.rgs.mef.gov.it/VERSIONE-I/eGOVERNME1/ARCONET/index.html>)



- Accounting harmonization is valued as a pre-requisite for effective governance and control of public finance and debt
- It has not been given neither a micro-economic nor a managerial meaning

THE NEW BUDGETING AND ACCOUNTING SYSTEM OF ITALIAN LGs



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Italian case contribution to the research aims

Nature and style of reforms

- The Italian accounting reform is not a case of harmonization, rather of unification
- A centralistic culture has prevailed, especially after the crisis, inconsistently with the federal spirit

Approaches and Continuity

- Accounting harmonization as a policy response to the crisis which adopts a grip back approach
- The 1990's reforms emphasized external accountability, while recently the focus has been on intergovernmental accountability relationships
- The accounting reforms entails the continuity between NPM and post-NPM reforms, eventually with this latter addressing the shortcomings of the former

Limitations of the study and future directions

- ❑ Accounting is not merely a technical matter, rather a socio-economic and political one: changing the accounting system in a post-NPM perspective implies changing the power relationships in influencing decision-making at different levels of government
- ❑ The time is not yet mature to discuss the consequences of reforms, especially the consistency between the motivations and results
- ❑ Contextualizing the accounting system in its social situation will allow to test the consistency between the production and the consumption of accounting information