

# AN EMPIRICAL ANALYSIS OF FISCAL FEDERALISM IMPLEMENTATION AND OF COST ACCOUNTING IN ITALIAN PUBLIC ADMINISTRATIONS

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## Abstract

The concept of cost has been introduced in Italian Administration since the early nineties. There is a copious legislation referring directly or indirectly, to the need, as well as to the utility of measuring the costs of public administration, in deference, to a renewed interpretation of the constitutional principle of Good Performance in pursuance of Article. 97 of the Italian Constitution. The most recent and probably the most significant intervention at institutional level, is the implementation of fiscal federalism as provided by Law. 42, 2009. The core features of fiscal federalism are the transition from historical expenditure to standard costs as a criterion for determining financial needs of public bodies, together with the attempt to establish more meaningful accountability mechanisms, both to policy makers and to public management. The measurement of standard costs represents one of the pillars of fiscal federalism and it will be pursued using the mechanism of "best practice". Full implementation of fiscal federalism, therefore, requires the verification of the operating costs of all public administrations. According to statutory law, regions are also required to provide verification of operating costs, for the successful pursuing of fiscal federalism. The present research is going to assess the level of diffusion of cost accounting in Italian regional public administrations. The methodology used for this paper includes the analysis of regional law as well as interviews to the officials of accounting and auditing offices.

**Keyword:** Fiscal Federalism; Costs; Regional Administrations

**JEL classification:** H83, R11, M48

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## Introduction

The concept of cost has been introduced in Italian public administrations since the early nineties. A copious regulation refers directly or indirectly to the necessity as well as the resourcefulness for costs accounting in accordance to the renewed interpretation of the constitutional principle of Good Performance according to article 97 of the Italian Constitution<sup>19</sup>.

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<sup>19</sup> References can be found in the following laws: n. 142 of 1990 Ordinamento delle autonomie locali, law n. 241 of 1990 Nuove norme in materia di procedimento amministrativo e di diritto di accesso ai documenti amministrativi, legislative decree n. 29 of 1993 Razionalizzazione dell'organizzazione delle amministrazioni pubbliche e revisione della disciplina in materia di pubblico impiego, legislative decree n. 77 of 1995 Ordinamento finanziario e contabile degli enti locali, law n. 94 of 1997 Modifiche alla legge 5 agosto 1978, n. 468, e successive modificazioni e integrazioni, recante norme di contabilità generale dello Stato in materia di bilancio. Delega al Governo per l'individuazione delle unità previsionali di base del bilancio dello Stato, legislative decree n. 286 of 1999 Riordino e potenziamento dei meccanismi e strumenti di monitoraggio e valutazione dei costi, dei rendimenti e dei risultati dell'attività svolta dalle amministrazioni pubbliche, a norma dell'articolo 11 della legge 15 marzo 1997, n. 59,

The grounds of these said legislation lie in the vast and complex modernization process of public administrations activated by the legislature (D'Alessio, 2012). The most recent and probably the most significant institutional intervention in this direction, was the implementation of fiscal federalism according to Law 42 of 2009. The crux of fiscal federalism is certainly recognizable in the transition from historical expenditure to standard costs in setting the criteria for borrowing requirements of public

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legislative decree n. 56 of 2000 Disposizioni in materia di federalismo fiscale, a norma dell'articolo 10 della legge 13 maggio 1999, n. 133, legislative decree n. 76 of 2000 Principi fondamentali e norme di coordinamento in materia di bilancio e di contabilità delle regioni, in attuazione dell'articolo 1, comma 4, della legge 25 giugno 1999, n. 208, legislative decree n. 165 of 2001 Norme generali sull'ordinamento del lavoro alle dipendenze delle amministrazioni pubbliche, law n. 42 of 2009 Delega al Governo in materia di federalismo fiscale, in attuazione dell'articolo 119 della Costituzione, legislative decree n. 150 of 2009 Attuazione della legge 4 marzo 2009, n. 15, in materia di ottimizzazione della produttività del lavoro pubblico e di efficienza e trasparenza delle pubbliche amministrazioni, law n. 196 of 2009, Legge di contabilità e finanza pubblica.

entities. Indeed fiscal federalism aims to set up more coherent accountability mechanisms for both policy makers and general management (Freeman, 2007). Key features of federalism concern the cessation of the derivative financial model, replacing transfer to territorial administrations with the allocation of own and profit-sharing resources. The gradual transition from the criterion of historical expenditure to the evaluation of public entities' borrowing requirements, through an assessment of standard costs and needs, and finally to a funding system for further functions based on the actual fiscal capacity of the body.

The enabling law activating the legal procedure for the introduction of a fiscal federalism system in Italy specifically provides for transfers from central State to Regions (or to local bodies) for devolved powers shall be based on "standard costs". The range of application of the concept of standard costs is specified by Art. 8 of Law 42, issuing directive principles and criteria for legislative powers implementation and financing arrangements. The expenses Regions shall incur according to letter m, second paragraph of Art.117 of the Italian Constitution will be determined accordingly to the standard costs appraisal for basic benefits levels, as indicated by Ordinary Law. Furthermore the said basic levels shall be supplied on all national territory in efficient and appropriate condition. The aforementioned paragraph of Article 117, provides for the exclusive competence of the State in determining basic levels of performance, concerning civil and social rights which should be guaranteed on all national level. Commonly performance appraisal is based on the efficiency of public health, education and social benefits according to specific parameters for each system. The financial requirement to ensure for basic levels of performance will be estimated with the assessment of standard costs. Financial requirements for each circumstance, or rather the total amount of financial means to guarantee a quantitative and qualitative basic level of duties performance, will be defined by resulting standard costs for benefits. Therefore, for a nationwide enforcement of fiscal federalism, operating costs require thorough verification. (State-Regions conference July 2010)<sup>20</sup>. Indeed standard costs assessment represents one of the stages of fiscal federalism implementation; this will be carried out using the "best practice" procedure.

Standard costs represent values that shall accurately be determined in advance on the basis of management conduct operating conditions (output quality, input characteristics procedure progress, etc). Standard costs assessment can provide an asset for public administrations Good Performance beyond the mere computational aspect of public expenditure financing system. Expectations regarding this mean of analysis are rather ambitious considering the potential for standard costs efficient running to become a vector

for public accountability. Standard costs will be the planning instrument for public expenditure once fiscal federalism will be fully enforced, and for this reason they may be employed as objective parameters to guarantee satisfying levels of economy.

Awareness of the "value" of resources used for utility requirements supply is vital for an effective application of the standard costs methodology in Italian administration. For this purpose, accounting theory and practice indicate cost accounting systems as the most suited instrument of analysis. Italian legislation issued a law on the matter, introducing economic and cost accounting systems per cost center. However the very same accounting tribunal has noted how the real diffusion and implementation of the aforementioned instrument are somewhat limited.

Coherently with what has been written so far, this research intends to measure the extent to which cost accounting is implemented in Italian public administrations, basing the study on the knowledge and the analysis of the legislative context. The institutional level chosen for the empirical analysis is regional. The reasons for this are firstly of a legislative kind; indeed Statutory Law included regions in the obligation for economic and cost accounting record-keeping, and in second instance because of an issue of relevance. Regions will indeed have a key role for the implementation of fiscal federalism, thus implying for them, the mandatory necessity have a detailed knowledge of basic performance and utilities costs. The methodology of the research is based on the analysis of regional legislation (specifically concerning accounting laws and regulations as well as ad hoc resolutions) as available on the web and interviews to cost accounting and audit offices.

## **2 Legal framework for cost accounting in public administrations**

By definition, traditional financial accounting systems enforced by public administrations statutory law, cannot measure the economic use of levied wealth (or rather, to minimize utilities costs and to maximize their impact on collectivity, so-called outcome). For this reason the legislature issued an economic-cost accounting system (G Liberatore, N Persiani -1995, A Bubbio - 1989 -1997, L Brusa - 1995, E Santesso 1982, M Mulazzani 2002, A Barretta - 2001) introduced by Title III of the Decree 7<sup>th</sup> of August 1997, n. 279 consequently to the devolution to the Government provided by the Law 3<sup>rd</sup> of April 1997, n. 94. The economic-cost accounting system shall reclassify financial accounting values from an "economic viewpoint", to be adjusted and integrated according to matching concept.

To achieve the required coupling between the annual budget estimate and public administrations economic accounting, there needs to be an accounting system that allows to connect each liability center with the resources assigned, the achieved results and with

<sup>20</sup> <http://www.regioni.it/mhonarc/readsqltop1.aspx>

the related liabilities. Legislation considers the economic accounting system for cost centers, as a suitable instrument to draft budgets and in the internal management audit procedures. Basically, the system will integrate financial budget with an economic balance structure, highlighting segments management costs, according to a private sector model. (P.Ricci, A.De Luca, 2008). The introduction of cost accounting in government budget system therefore represents the necessary fulfilling of an administrative reform developed with the main objective to audit public administrations activity and to create coherent accountability mechanisms for the agents involved. Cost accounting recognizes the costs of those factors involved in the production process, or rather,, the value of human and of instrumental resources actually used; being indeed based on the matching concept of management phenomena. Unlike expenditure, cost arises when the resource is used, exploited in relation to the actual use of the resource itself and therefore it is assigned to the management period during which it is expressed rather than to the actual time of financial disbursement. In budget estimate procedure, the economic accounting system will replace the former criterion of historical incremental expenditure. On regional level, management cost accounting was introduced with the Decree. Law 76/2000, which by enforcing Law n.208 of 1999 activated the accounting system reform of the State enforced with the Law 94 of 1997. Decree 76 of Art. 4 provides that “regions shall adopt suitable management measure to allow for the analysis and auditing of costs and statements related to government ad management activities as well as to organizational decisions...”.If the rule were

to be fully implemented, it would provide policy makers with a wider range of information allowing for an improved examination of intervention proposals, from the traditional financial point of view as well as from the economic valence perspective. (Qualgiani, Robotti, 2002).

Economic - cost accounting has been fully implemented in central government, however this is not the case for regional administrations. The empirical analysis that follows serves the purpose to assess the extent of cost accounting implementation in Italian regions. In the regions where the standard has been enforced, a closer examination will focus on recognition systems and on implementation areas, to evaluate the role of cost accounting in planning and audit mechanisms.

### 3 Empirical evidences of the implementation of economic-cost accounting per cost center, in Italian regions

#### 3.1 Methodology

The empirical section of the present research wishes to illustrate the extent of cost accounting implementation in Italian regions. The reason for this goes beyond the mere acquisition of general summary data, indeed the aim is to understand the differences among individual regional governments. For this purpose the analysis extends to all 20 Italian Regions, 5 under special statute and the remaining 15 under ordinary statute.

**Table 1.** Descriptive table of the methodological aspects of the research

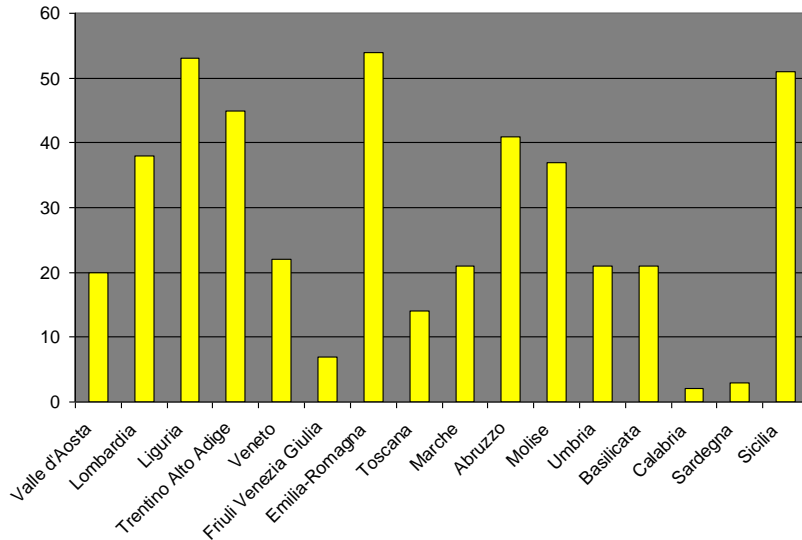
REGION	Data retrieval modality	Response times for data retrieval	Data availability	Accuracy of data
Valle d’Aosta	e-mail	20 days	Yes	High
Piedmont	e-mail/telephone	—	No	—
Lombardy	e-mail/telephone	38 days	Yes	Medium
Liguria	e-mail/telephone	53 days	Yes	Low
Trentino Alto Adige	e-mail/telephone	45 days	Yes	Low
Veneto	telephone	22 days	Yes	Medium
Friuli Venezia Giulia	e-mail	7 days	Yes	Low
Emilia-Romagna	e-mail/telephone	54 days	Yes	Medium
Tuscany	e-mail	14 days	Yes	Medium
Marche	e-mail/telephone	21 days	Yes	Medium
Latium	e-mail/telephone	—	No	—
Abruzzo	telephone	41 days	Yes	Medium
Molise	telephone	37 days	Yes	Low
Umbria	e-mail/telephone	21 days	Yes	High
Campania	e-mail/telephone	—	No	—
Basilicata	e-mail/telephone	21 days	Yes	Medium
Apulia	telephone	—	No	—
Calabria	e-mail	2 days	Yes	Medium
Sardinia	e-mail	3 days	Yes	High
Sicily	e-mail/telephone	51 days	Yes	Medium

Accounting and audit officials were contacted via telephone and via email. They were then interviewed about the legal and technical accounting instruments used by the administration for the implementation of cost accounting. The following stage of the research focused on the analysis of interviewees' responses and of the documents

downloaded from regional governments institutional websites.

The descriptive-statistic table 1 briefly reports the research and data retrieval modalities, response times and the level of accuracy of the information provided.

**Figure 1.** Response times in terms of days



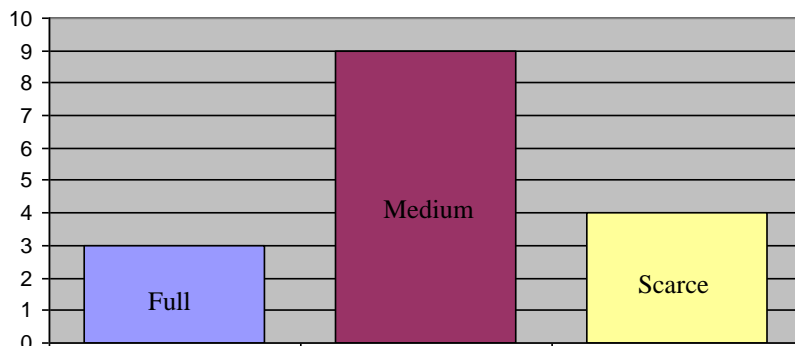
The graph shows that Calabria Region promptly provided all the requested information, taking only 2 days, whilst Emilia Romagna, closely followed by Liguria and Sicily took more than 50 days to provide medium to low quality of information. Furthermore considering the regions that actually provided the requested data, thus excluding Apulia, Campania, Latium and Piedmont, the average response time is of 28 days.

Lastly, administrations provided different levels of quality of information, in clarity and in accuracy, meaning that in some cases drawing conclusions for

the purpose of the research proved to be rather difficult. Only 3 Regions out of 16 (not considering the ones that did not provide any data at all), that is ca. 18% adequately responded to the requested information, with fairly accurate data. Indeed 4 Regions out of 16, 25% showed very little willingness to help the research, communicating scarcely accurate data; this leaves the remaining Regions, 57% that provided sufficiently accurate data.

The graph below reports in absolute terms the statistic illustrated above.

**Figure 2.** Completeness of data provided



### 3.2 Research results

Relatively to cost accounting implementation, the national context is hugely varied, completely lacking

homogeneity of approach, affecting implementation modalities and results. The following table briefly describes and reports the most relevant information retrieved.

**Table 2.** Summary of retrieved information relatively to cost accounting implementation

REGION	Cost accounting recording	Year of cost accounting implementation	Stage of implementation	Regional Law for Accounting	Internal regulation for cost accounting implementation	Instruments supporting cost accounting	Reports drafting	Entity's evaluation	Management audit implementation
<b>Valle d'Aosta</b>	<b>YES</b>	2008, starting with a testing phase	Fully implemented since 2009	L. R n. 30/2009	DGR n. 2648/2009	A software component for accounting data recognition for management audit and cost accounting purposes.	Yes, to monitor expenditure	Satisfactory, consequently to the good results obtained from the previous implementation of cost accounting in Valle d'Aosta's local entities.	Yes, fully operational since 2010, using cost accounting as an instrument for management costs recognition.
<b>Piedmont</b>	<b>NO</b>	—	—	L.R. n. 7/2001	—	—	Yes, for the purpose of estimating the "cost" of each organizational body, and to improve the administrative machine's efficiency and effectiveness.	n/a	no
<b>Lombardy</b>	<b>YES</b>	2002, starting with a testing phase.	The project was never actually realized, therefore it should still be considered in a testing phase.	L.R. n. 34/1978	—	Non-accounting instruments (statements, excel work-sheets, reports...) drawn up by individual executives for each activity. Personnel Costs is the only item to be retrieved with an integrated system of accounting to that of financial accounting.	Yes, drawn up to monitor expenditure and for decision-making and strategic purposes.	The Region enjoys the positive results of cost accounting, however continuing to work on the project.	Yes, a competent body drafts an annual Management Report including the analytical data gathered with non-accounting retrieval.
<b>Liguria</b>	<b>YES</b>	2002, starting with a testing phase.	Not a real cost accounting system, but rather a straining of it.	L.R. n. 15/2002	—	A so called "Commitment traceability system", an IT procedure connecting commitment appropriations to types of intervention, to define the nature of the expenditure.	no	Scarcely satisfactory, because limited exclusively to expenditure monitoring.	Implemented through the economic accounting of interventions, aimed at monitoring public expenditure to improve efficiency and effectiveness.
<b>Trentino Alto Adige</b>	<b>NO</b>	—	—	L.R. n. 3/2009	—	—	—	The Administration does not intend to endow itself with an analytical accounting system, fearing the consequential need for a thorough intervention on the whole organization.	The Regional Law 3/2009, does not provide for the activation of a management audit system.

**Table 2.** Summary of retrieved information relatively to cost accounting implementation (continuation)

REGION	Cost accounting recording	Year of cost accounting implementation	Stage of implementation	Regional Law for Accounting	Internal regulation for cost accounting implementation	Instruments supporting cost accounting	Reports drafting	Entity's evaluation	Management audit implementation
Veneto	YES	2002, starting with a testing phase.	Fully implemented since 2004	L.R. n. 39/2001	—	A software application to access and browse data and information produced by the economic accounting system using SAF inputs.	Yes, for the sole purpose of expenditure monitoring.	Scarcely satisfactory. Cost accounting is applied exclusively for operating costs, therefore the Region decided not to use it for decision-making purposes.	Yes, with a budget methodology
Friuli Venezia Giulia	NO	Implemented in 2007, but not currently scheduled.	—	L.R. n. 21/2007	—	—	no	The article of the Regional Law 21/2007, providing for cost accounting was annulled because considered scarcely significant.	no
Emilia-Romagna	YES	Implemented in 2004, starting with a testing phase.	Fully implemented	L.R. n. 40/2001	—	The methodology used starts with the re processing of financial data (SAP). From this a data base is obtained where to periodically retrieve the value of assets used for cost centers operations.	no	Implementation presented some limitations in the enforcement, demanding an improvement over time. The intention seems to be that of overcoming risks of error, with a number of corrective actions.	Yes, and a competent body provides for the analytical accounting of expenses.
Sardinia	YES	2009	Testing phase	L.R. n.11/2006	—	An integrated accounting information system (SAP). SIOPE coding (Information System for Public Entities Operations).	Yes for regional expenditure	Scarcely Satisfactory. Due to encountered problems, the request is for a reformulation of the cost accounting system.	Yes, drawing information from costs accounting.
Tuscany	NO	—	It was never actually implemented, but over time it was pursued with a basic re-location of general administration costs among the different expenditure liability centers.	L.R. n. 36/2001	—	There is no autonomous analytical recognition procedure, but rather a re-processing of data retrieved from financial accounting.	no	Significant problems were found, obstructing effective implementation.	Yes devising "Management plans" functional for budget provisions concerning operating costs directly pursued by the Entity.

**Table 2.** Summary of retrieved information relatively to cost accounting implementation (continuation)

REGION	Cost accounting recording	Year of cost accounting implementation	Stage of implementation	Regional Law for Accounting	Internal regulation for cost accounting implementation	Instruments supporting cost accounting	Reports drafting	Entity's evaluation	Management audit implementation
Marche	NO	—	—	L.R. n. 31/2001	—	—	no	There seems to be no intention to implement it in the future, due to both the difficulty to match costs data with financial accounting recording instruments available and especially for the prejudice of scarce significance of the obtained result.	Yes but limited to the analysis of determined indicators suitable for the assessment of administrative action efficiency and effectiveness as well as for the evaluation of financial reports, for the exclusive purpose of expenditure monitoring.
Latium	NO	—	Project in progress	L.R. n. 25/2001	—	n/a	n/a	n/a	n/a
Abruzzo	NO	—	It was never implemented due to severe slowdowns.	L.R. n. 3/2002	—	—	Yes, reporting activity to monitor operating expenditure.	—	Activated in 2003 to qualitatively improve the reporting activity.
Molise	NO	—	—	L.R. n. 4/2002	—	—	—	—	Although it endowed itself with the regulatory instrument for internal audits, it has not yet concluded the implementation procedure for the whole system.
Umbria	YES	2000	Fully implemented since 2000	L.R. n. 13/2000	DGR n. 2108/2005	An integrated accounting information system (SAP), in some cases using non-accounting inputs, however providing for appropriate "compliances" with official accounts.	Yes, to support decision-making processes as well as to compare in real time, costs and results, allowing to take potential corrective actions.	Until today, results have been positive, especially for the great advantage given by an accounting system, that provides for a full management of accrual accounting.	Implemented in 2000, it includes cost accounting as a suitable instrument to compare costs incurred with the results obtained.
Campania	n/a	n/a	n/a	L.R. n. 7/2002	n/a	n/a	n/a	n/a	n/a

**Table 2.** Summary of retrieved information relatively to cost accounting implementation (continuation)

REGION	Cost accounting recording	Year of cost accounting implementation	Stage of implementation	Regional Law for Accounting	Internal regulation for cost accounting implementation	Instruments supporting cost accounting	Reports drafting	Entity's evaluation	Management audit implementation
<b>Basilicata</b>	<b>YES</b>	Implemented in 2001, starting with a testing phase.	Fully implemented since 2005	L.R. n. 34/2001	DGR n. 2733/2001	An integrated accounting information system, created ad hoc for the entity's needs, and based on a Oracle database. Cost accounting is implemented in part automatically and in part thanks to the monitoring and re-processing activity of Management Audit.	Drafting of quarterly reports with the purpose of enforcing corrective actions to improve the performance of management activities and to optimize the cost/results relation. Periodically drafting of reports concerning specific financial indicators.	Both cost accounting and Management Audit were judged scarcely useful in decision-making processes. The reason for this was not inherent in the systems, but it was more related to a general lack of corporate culture.	It was introduced together with cost accounting in pursuance of the Regional Committee Resolution n.2733/2001, however specific for the year 2002, it does not seem to have been subject to significant changes.
<b>Apulia</b>	<b>NO</b>	—	—	L.R. n.28/2001	n/a	n/a	n/a	n/a	n/a
<b>Calabria</b>	<b>NO</b>	—	Project in progress	L.R. n.8/2002	—	The plan is to use an integrated accounting information system (SIAR)	—	—	Yes, and cost accounting will represent the main instrument for the monitoring of costs.
<b>Sicily</b>	<b>YES</b>	Implemented in 2003, starting with a testing phase.	Testing phase	L.R. n. 6/2001	—	An integrated accounting system operating on a common data basis, made of a number of subsystems fed with related book entries.	The system was devised to print budget sheets issuing final balance reports.	The implementation on cost accounting was welcomed with an attitude of trust, and when it will be fully activated, it will undoubtedly be a worthwhile instrument for management monitoring.	n/a

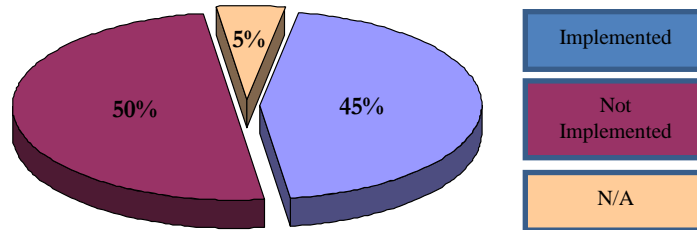


With reference to the data and information obtained here follow first some descriptive statistics regarding the phenomenon of interest and then a description of the retrieved phenomenon from contents perspective.

By observing and analyzing the table above, the first reflection concerns the fact that although all

regional governments did reform their accounting system according to the innovative project issued by the Decree Law 76/2000, not all of them actually implemented an internal cost accounting system in their accounting organization. The following circular graph illustrates this conclusion in terms of percentages.

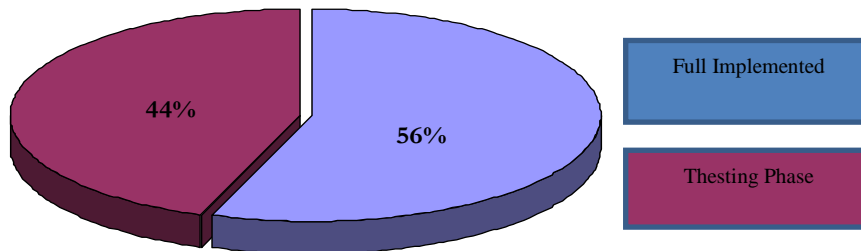
**Figure 3.** Regions that implemented cost accounting



From the graph we can deduce that in absolute terms, only 9 Regions out of 20 implemented a cost accounting system whereas the remaining ones, excluding the unknown data of Campania, still have not provided for the implementation of the system.

However Tables 3.1 and 3.2 show the different level of development of the procedure in the Regions that activated the system. The circular graph below proves how some regions are still in a testing phase whilst others have achieved full implementation.

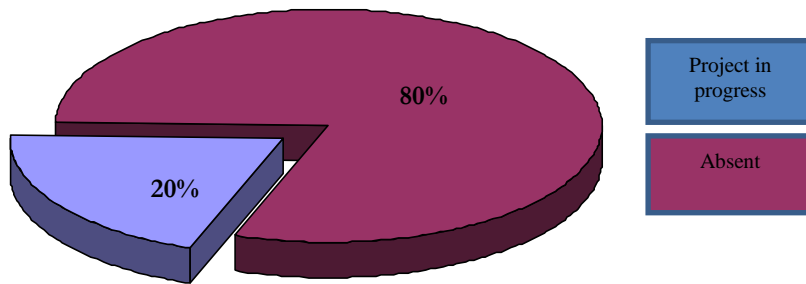
**Figure 4.** Stages of implementation in the Regions using the cost accounting system



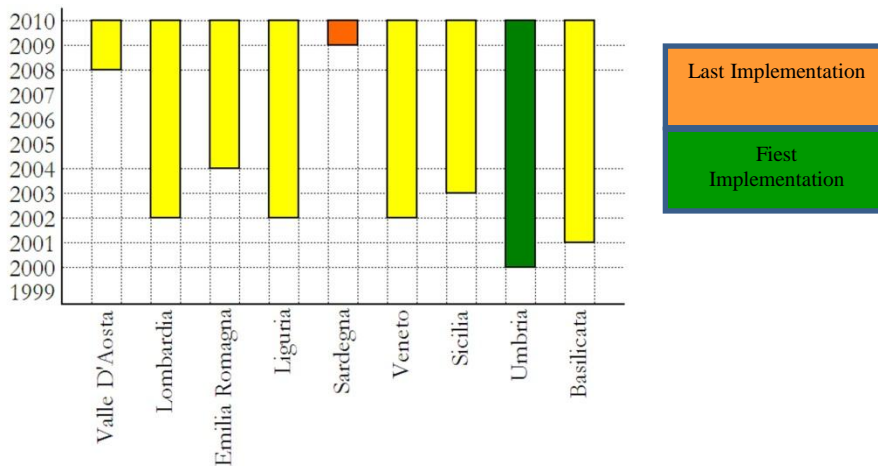
Furthermore the research showed that those Regions that still have not endowed themselves with economic accounting, show different approaches to the matter, indeed some are in the stage of realizing

the project whereas the rest do not seem intended to act on it in the future.

**Figure 5.** Regions that do NOT use cost accounting.



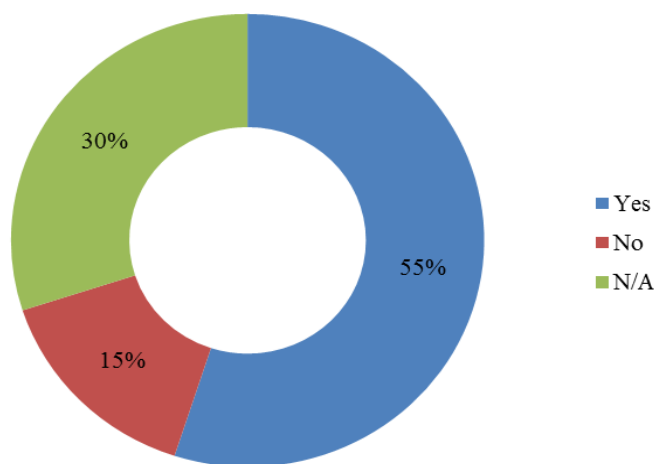
**Figure 6.** Year of implementation of cost accounting



The graph also illustrates how even though Sardinia was the last Region to activate a cost accounting system, the Region proved higher levels of development if compared to Regions with earlier

implementations. The last column of the summary table, reports the information relative to the activation of management audit systems by examined governments; the data is graphically illustrated below.

**Figure 7.** Regions using management audit



Ultimately, only 11 Regions out of 20 actively use management audits, and the majority of these, specifically gather information and data from cost accounting for this purpose. However a significant element can be drawn by cross-checking the second and the last column of the summary table, that is

taking into account how many regions have an internal audit system without having a cost accounting system. In detail, the analysis showed that Tuscany, Marche Abruzzo and Calabria activated internal audit systems, without having ever presented expenditures in the accounts. These regions used alternative methods such

as the analysis of specific economic and financial indicators solely for the purpose of monitoring regional expenditure.

As previously mentioned the process of implementation of cost accounting in Italian Public Administrations is at very different stages. In some cases cost accounting has been implemented through an integrated management information system for accrual, cost and financial accounting, allowing managing all procedures and accounting operations in a single operating context. The advantage of an integrated system is self-evident, indeed for one recording in financial accounting, there is automatically a double-entry recording for accrual accounting, therefore reporting cost or profit and in counterpart the debit or credit owned to third parties. Cost accounting instead charges cost or profit to the related cost center. The latter coincide on a one-to-one basis with liability centers, which have the duty to manage resources according to assigned objectives. The analytical accounting of the cost is processed contextually to the settlement phase of financial accounting, because when "settling" the expenditure, the integrated system, automatically provides for the charging of the data to the related cost center and therefore to the competent liability center. The said procedure was chosen (either in trial or in full implementation) by Sardinia, Calabria, Veneto, Valle d'Aosta, Umbria, Basilicata and Sicily. In other cases, namely Tuscany, Emilia Romagna, Liguria and Piedmont, activated a simple accounting relocation of general management costs (overheads) among the different expenditure liability centers, acquiring the reprocessed data of financial accounting. The aim is to reach a reclassification of expenditure according to kind, to allow the management to gain a more thorough knowledge of how financial resources were used, so to plan future expenses with greater awareness.

There are also some isolated cases, such as Lombardy and Basilicata. The former Region pursues recognition of costs with non-accounting means, (statements, excel work-sheets, reports, etc.) drawn up by individual executives. In Basilicata cost accounting was introduced after the implementation of a management audit method, with an integrated accounting system for the analytical recognition of costs, used mainly for management audit purposes. At last, there are a number of regions that did not at all provide for the implementation of cost accounting, these are: Friuli Venezia Giulia, Marche, Molise, Trentino Alto Adige, Latium, and Apulia.

#### **4 Conclusions**

In conclusion it seems clear that the degree of diffusion of cost accounting systems in Italian regional administrations is rather limited from both a quantitative and qualitative perspective. Indeed even in administrations with cost recognition systems, their

use is partial, limited only to direct costs categories, excluding other ones that would result relevant for management audit purposes. Moreover, in no case is there an assessment of overheads that could then be recharged to liability centers.

The implementation of cost accounting has been enforced since 2004; however its real activation still does not comprise the full administrative structure. Indeed its functions are limited to greater expenditure items, with large importance given to personnel expenses, and to the costs section of bigger trades (information system, telephones, consumer goods, etc...). Therefore, the cost accounting system currently in use refers exclusively to the area of the so called operating costs, borrowing the financial concept of operating expenditure. Inevitably the said concept represents a real difficulty when differentiating resources used to run the regional apparatus from those for the actual realization of the entity's objectives. This is the reason why in a number of regions, cost accounting is mainly used to monitor public expenditure, without exploiting the opportunity to also use it for strategic and decision-making purposes.

Devised systems also show a further important limit, indeed every time costs audits are achieved (to control public expenditure, or rather to monitor cost centers consumption), an error in the accounting procedure inevitably arises at the time of cost recognition. The latter coincides with the issuing of the liquidation order, implying that all expenditure commitments issued during a trade that was not followed by a liquidation order, do not allow for the recognition of the corresponding costs. In other words purchased and used inputs do not feature as operating costs, if they were not liquidated at the time of the trade itself. This mechanism causes a loss of relevant information for the economic audit of management. The use of cost related data in planning as well as in auditing will be a decisive factor in the implementation of fiscal federalism. The compensation mechanism will commensurate the requirements determined by the issuing of basic duties and utilities, the summarized condition of which will be provided by standard costs. The functionality of the entire system therefore requires a careful monitoring of costs. The empirical evidences illustrated above, prove that Italian regional administrations are not ready yet for this challenge.

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