

PRELIMINARY EFFECTS ON THE POLITICAL ACCOUNTABILITY OF THE NEW ACCOUNTING SYSTEM FOR ITALIAN LOCAL AUTHORITIES

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Abstract

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The issue of accountability, particularly with regard to the use of public resources, represents one of the most significant and necessary aspects faced by a public administration. This work, therefore, focuses on the transparency of information with regard to the economic viability of a public administration, paying specific attention to the local and regional authorities which have been subject to major reforms in accounting systems. Harmonised accounting is the term given to the complex and multifaceted process of reforming public accounting, as provided by Italian Law No. 196, Article 2, December 31, 2009, and is aimed at unifying, comparing and aggregating the public administration financial statement, carrying out the operations with the same methods and accounting policies, and seeking to satisfy the necessity for information and accountability relating to the coordination of public finances. Several studies have analyzed the effects of accounting reforms on accountability. However, there is still a lack of studies addressing the effects of the Italian accounting reform on accountability in Italian local authorities. This article contributes to research in this area by examining the question of whether, in the first 18 months since the Italian reform's introduction, accountability has become more or less apparent between the local politicians who use the financial reports both as a method for checking public finances and in order to help inform their own decision-making. Through two case studies, this work analyses the perceptions of local politicians with respect to the level of accountability displayed as part of the accounting reform.

Keywords: Public Governance, Economic-Financial Communications Tools, Public Communications, Accountability, Local Governments, Public Sector Accounting Reform

Authors' individual contribution: Conceptualization — M.M.; Methodology — M.M. and D.P.; Investigation — D.P.; Writing — Original Draft — D.P.; Writing — Review & Editing — M.M.

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1. INTRODUCTION

Since the 1980s there has been a radical wave of organisational, managerial and accounting reforms in public administration across many countries.

The public sector accounting reform is one part of the set of reforms associated with the New Public Management (NPM). The public administration has been subjected to transformations with the aim to enhance the efficiency and accountability of its

public service delivery. Many countries initiated reform processes inspired by methods oriented to accrual accounting.

The reform process in the public sector is still being implemented and it invests in public administration in the vertical sense, involving various levels of government (state, regional and local authorities) and in the horizontal sense, affecting most of the industrialised countries and, more recently, some developing countries (Soverchia, 2008).

Studies on public reforms are often affected or by the characteristics of reform processes or by their effects. Often they focus on models of influence between actors, on the efficiency and efficacy of public services (Pollitt & Bouckaert, 2004). However, these studies are rarely addressed fundamental questions about accountability. The reforms can change the provisions on accountability deliberately through formal changes in design or involuntarily, resulting in a new practice of accountability. Usually, accountability is an ambiguous issue in the reform initiatives, and it has been said that the reforms both produce overload of responsibility and lack of responsibility (Bovens, Schillemans, & Hart, 2008).

As previously stated, an important step in the Italian public sector reform process would see the abandonment of the traditional cash accounting system, replacing it with an accrual accounting system transferred from the profit sector (Broadbent & Guthrie, 1992). In fact, the current public accounting systems have shown limitations with respect to the recent requirements for information of the public administration and its main stakeholders. The subject of accrual accounting and that of the harmonisation of accounting systems both fall within the broader concept of *accountability*, understood by public administrations as acting responsibly with financial resources, whilst at the same time, maintaining accountability for its citizens (Giacomini, 2016; Giacomini, Rocca, Zola, & Mazzoleni, 2021; Caperchione & Pezzani, 2000; Rocca, Giacomini, & Zola, 2021).

In Italy, during the last 25 years, local governments (LGS) have undergone a reform process, involving significant changes to their accounting systems. The subject of the reform of public accountancy, when approached from a financial business perspective, is nothing new within the field of public administration. On the contrary, it is one of the pillars of NPM.

The accountancy systems are considered as one of the key components of the reforms linked to the principle values of NPM. These values influence the viewpoints of the active members and contribute to both the diffusion of a quantification-culture and rationalism within the public sphere (Bertocchi, Giacomini, & Carini, 2015).

The aim of the research is to analyse the initial impact that the reform has had on the local authorities about the level of political accountability, what challenges and opportunities have been identified by local politicians in the implementation of the accounting innovations. Accordingly, this work attempts to answer the following question: *What is the impact of the Italian accounting reform on political accountability?*

The paper is structured as follows: in the subsequent Section 2, the literature review and the background are presented, while the Section 3 highlights the research method. The research results and discussion are shown in Sections 4 and 5. Finally, in Section 6, the main conclusions and future research avenues are summarised.

2. LITERATURE REVIEW

2.1. The evolution of public sector accounting

Over the last 25 years, researchers have normatively and conceptually studied the characteristics of different public sector accounting systems, and later, studies were made from an empirical perspective (Jones, 1992; Christiaens & Rommel, 2008). Broadly speaking, the initial research, which began in the mid-1980s, was mainly focused on conceptual/normative vision, while empirical approaches have come to be prevalent in more recent research contributions (Lapsley & Pallot, 2000; Jagalla, Becker, & Weber, 2011). The first publications focused primarily on the transferability of private sector accounting frameworks, public sector settings, and the benefits which they might bring. Later studies focused on decision-making utility (Jones, 1992) thus identifying the relevant user groups for public accounting; among these, politicians play a key role. About ten years ago, Pollitt (2006) pointed out that it was by no means clear how, and to what extent, politicians use the information provided by the public administration (Pollitt, 2006, p. 42). More recently, Peebles and Dalton (2022) have also pointed out that financial information will be at the heart of a local politician's role. However, this analysis reveals that councillors do not fully understand the financial information provided by their local authority and find it quite or highly complex (Peebles & Dalton, 2022). However, the topic of substantial relevance in the field of public management deserves further attention. According to Melkers and Willoughby (2005), performance information plays a role in political decision-making but its contribution is both limited and controversial and, therefore, complicated and deceptive when empirically analysed. It appears that scholars concentrated their attention mainly on the managerial uses of accounting information (Liguori, Sicilia, & Steccolini, 2012) and only a few exceptions have extended politicians' use of accounting information (Askim, 2007; Giacomini, Muzzi, & Albertini, 2016; Giacomini, 2020b; Guarini, 2016; Raudla, 2021; van Helden, 2015; ter Bogt, 2003a, 2004; Weiss, 2020). It is easy to understand how politicians are the first to be considered after stakeholders are affected by the accounting reform, when, as public decision-makers, they must use the accounting information and financial reports that should be made both understandable and transparent. For this reason, this article focuses on the degree of accountability of the local authorities' financial statement, reformed in accordance with Law No. 118/11¹.

¹ <https://www.normattiva.it/uri-res/N2Ls?urn:nir:stato:decreto.legislativo:2011;118-art51!vig=>

After a broad look at the effects of accounting reform — as reported by Jagalla et al. (2011) — relevant studies conclude that, overall, the accounting reforms have had no positive effect on the issue of accountability (Jones & Puglisi, 1997) and instead it has resulted in various underestimated downsides and side effects such as a poorer quality of decision-making. In addition to this, other publications consistently conclude that benefits from the new accounting and budgeting techniques were largely overvalued (Connolly & Hyndman, 2006; ter Bogt & van Helden, 2000).

However, it should be pointed out that there are studies that also reveal the positive effects of regulatory measures related to public sector accounting, those being:

- effects on organisational culture and, therefore, on individual behaviours in public sector organisations (ter Bogt, 2008);
- effects on internal and external transparency (according to Guthrie, 1998). For example, greater transparency was achieved through the accounting reform which introduced an accrual-based system considered to be more comprehensive.

Interestingly, there have been empirical studies on the users of public sector financial reports. These analyses (Alijarde, 1997; Coy, Dixon, Buchanan, & Tower, 1997; Jones & Pendlebury, 2004; Mack & Ryan, 2007; Carini, Giacomini, & Teodori, 2017) reveals the evidence that the most important stakeholders interested in local government financial reports are members of the “*internal community of the institutions*” (Coy et al., 1997, p. 122).

In particular, those who have interest in the financial report include politicians, public managers, auditors, and other users that deal in public finance. The findings of this report also apply to Italian systems of accounting (Steccolini, 2004). For this reason, in this work, the reform was observed above all from the perspective of political accountability. It is appropriate to specify the concept of accountability as it is itself an ambiguous and contested concept irrespective of the effects of reforms. In this paper, the narrow concept of accountability elaborated by Bovens (2007) will be used: “accountability is a relationship between an actor and a forum, in which the actor has an obligation to explain and to justify his or her conduct, the forum can pose questions and pass judgments, and the actor may face consequences” (p. 450). One key question about accountability is the problem of many actors potentially interested and then the question arises: which audience are we addressing?

A first distinction can be made starting from the works of Gray and Jenkins (1993) and Sinclair (1995), “managerial” accountability is seen as closed mainly oriented to check the public managers; whereas “political/public” accountability refers to the institutional relationship where the citizen is the principal and the government is the agent. More specifically Bovens (2007), starting from an article by Romzek and Dubnick (1987), identifies five types of accountability: political, legal, administrative/managerial, professional and social.

The focus of this work is political accountability that, according to Bovens (2007) is built on a sequence of principal-agent relationships, i.e., the voters delegate the responsibility for public

choices to representatives in elected bodies, who further delegate part of their authority to the cabinet and the civil service. The accountability process then moves in the opposite direction: in the case of Italian local governments from the public servants to the municipal board and the mayor, from the municipal board to the council and from council to citizens.

In this paper, we use these definitions of political accountability to investigate how a major reform in the local governments’ accounting changed accountability relationships between the municipal board and the council since they are fundamental for decision-making.

In other words, the theme of this work is the impact on horizontal political accountability (Cendón, 1999) by the accounting reform.

2.2. Background: Italian local government accounting reform process

Italian municipalities are particularly relevant for local economies (Giacomini & Simonetto, 2020) and provide several important public services for citizens, such as social services, urban planning, waste disposal, water and energy supply, nursery schools, policing, and many leisure services (e.g., swimming pools, local museums, and theatres).

During the last 25 years, Italian LGs have undergone a pervasive reform process, prompted by various legislative initiatives inspired by managerialism and marketisation principles which has resulted in (see also Mussari, 2012):

- recognising greater organisational and financial autonomy to LGs;
- the increase of managerial autonomy and accountability;
- activities being contracted out and privatised (Caccia & Steccolini, 2006).

Looking more closely, since 1990, it has been recognised that LGs have had more autonomy, and, at the same time, there has been a consistent reduction in the number of transfers from the central government (Giacomini, 2020a). They have also been obligated to introduce new accounting rules and systems after considering that the aim of making public administrations more efficient cannot be separated from the adoption of new accounting standards; standards that attempt to ensure accountability resulting in better management of public resources. The first intervention of harmonisation within Italian local authorities dates back to 1979. At that time, because of the regional and state budgetary innovations introduced prior to this intervention, a revision had become necessary, especially with regard to local government accounting. After the Presidential Decree No. 421 of 1979, which played an important role in the process of harmonisation of accounting systems in the public sector, the need for homogenisation returned in the early 2000s. In fact, over the years, the subject of state and regional laws on accounting contributed again to differentiate the accounting systems of the entities concerned. Finally, in 2009, the state decided to intervene again in the harmonisation, this time more substantially regulating overall management of public finance. Law No. 196, Article 1, “Accounting Law and Public Finance” (December 31, 2009) outlines two

fundamental principles: the harmonisation of accounting systems and the coordination of public finance. These principles have been fully implemented with the enactment of Legislative Decree No. 118 of 2011.

After several years of experimentation involving some LGs, from January 1, 2016, the regional, local and governmental harmonised accounting has been fully implemented.

A significant effect has been felt by the local bodies since the introduction of the accounting reform (legislative document No. 118/2011) and specifically its concept of increased financial capability. This influences the revenue and expenditure management which creates issues that, as a consequence, require the inclusion of further amendments in administrative acts. The heart of the reform lies in the harmonisation and the expansion of accrual accounting (Carini, Giacomini, & Teodori, 2019).

The latter, however, is a very controversial subject in the international scientific debate which sees writers of different opinions promoting positive aspects of accrual accounting and the benefits that it could also bring to public business. On the contrary, other academics demonstrate that it might result in challenges on a practical and theoretical level.

Among the main benefits of economic and financial accounting Mellor (1996) and Funnell and Cooper (1998) recommend that an institution has the ability to have a complete overview and thorough understanding of their own financial liabilities, considerable accountability of the management and use of resources, better control on costs and public spending, and an easier means of measuring and evaluating performances.

The reform No. 118/11 states that the accounting policies presented ensure the consolidation and transparency of public accounts in line with EU Directives and the adoption of homogeneous and interoperable information systems.

Therefore, Legislative Decree No. 118/2011 emphasises a concept of great importance: the objective of transparency of the local authorities' budgetary that is of equal relevance to the protection of public finances.

Both these objectives can be obtained with technical means and operational methods set out for accounting harmonisation. The reform, therefore, aims both to increase the transparency of budgetary documents to both the EU — as the harmonisation process will allow Italy to align Eurostat accounting methodologies with a level of detail and analyticity complying with the SEC95 standard to monitor the Maastricht parameters and thus to facilitate the control of deficits (Article 104 of the EC Treaty) — and to other stakeholders, in particular political decision-makers and citizens.

Moreover, Legislative Decree as of March 14, 2013, No. 33² confirms the link between financial information and accountability, where it clearly states that “*public administrations must publish the documents and annexes of the financial statement and of the final account within thirty days of their adoption, as well as the forecasted budgetary data. The summary should be synthetic, aggregated*

and simplified, and where necessary, include graphical representations in order to ensure complete comprehensibility” (p. 28). In addition to shifting the accounting system to a sort of accrual accounting, the reform includes the introduction of the doubtful creditor fund (a prudential fund to cover historically uncollected income), a plan of indicators and expected budget outcomes and a simplified reporting for the citizen.

3. METHODS

In order to empirically investigate the new level of political accountability found in the local authorities' financial statements renewed by the accounting reform, a multiple case study has been developed. Case studies are useful for describing and expanding the understanding of a phenomenon (Stake, 1995; Giacomini, Sicilia, & Steccolini, 2016).

Two case studies will be used in order to offer multiple perspectives on this subject. The case study enables researchers to investigate differences within and between the cases considered.

Since the subject of perceived accountability for politicians regarding the accounting reform is relatively unexplored, the case study allows an in-depth analysis of the phenomenon in order to identify relevant patterns of behaviour and influencing factors (Yin, 2009). In Italy, there are almost 8,000 municipalities, of which more than 90% are with a population of fewer than 20,000 inhabitants. For this reason, given the utmost importance of small municipalities, a case study will be developed. The study will compare a small municipality with about 9,000 inhabitants (referred to in this article, for reasons of anonymity, as a ‘small municipality — SM’) against those municipalities which have more than 190,000 inhabitants (referred hereon as a ‘large municipality — LM’).

Following Christensen and Parker (2010) and Pollanen and Loiseau-Lapointe (2012) in their studies of the introduction of accruals accounting in Australia and Canada, data has been gathered through a combination of documentation analysis and semi-structured interviews. Both the analysis of the documentation and the interviews were carried out between the end of 2017 and the first months of 2018.

So, this study uses a qualitative research approach which, although it has already been used in other countries, has never been applied to Italy.

Keeping in mind that the focus of this work is set around the degree of accountability brought by the reform of accounting and how it has been perceived by politicians, the analysis will focus on documentation from the council and interviews with both majority and minority politicians in each municipality and with the chief financial officer of each municipality.

Semi-structured interviews were made, following a previously elaborated script containing the main questions, as suggested by Yin (2009). Research questions addressed to respondents are as follows:

- Do you think the reform of local government accounting has increased or decreased the level of budgetary accountability for local politicians?
- In the light of the reform, is the municipal financial report more or less understandable?

² <https://www.normattiva.it/uri-res/N2Ls?urn:nir:stato:decreto.legislativo:2013-03-14;33!vig>

4. RESULTS

In order to produce a complete analysis, the two selected cases are supported by interviews from the budget alderman, the minority councillor, and the chief financial officer of the two municipalities. Additionally, both the budget documents of 2017 and the meeting minutes and records of the municipal council were analysed.

4.1. Large municipality (LM)

According to the alderman for budgeting, the new accounting system for local governments will not have a positive effect on the accountability of financial actions as perceived by politicians. There are new tools introduced by the reform, although a number of these haven't been fully understood by councillors. The new local government financial report, therefore, appears to be more problematic. These items are the doubtful creditor fund and the multi-year tied fund. For the majority of councillors, the budget remains unknown. To confirm this, according to the alderman, there is a small number (only five) of proposed amendments and the discussions which advise the budgetary have limited reference to data and budget documents. For this reason, the presentation of the financial statement made by the alderman was based on two documents rather than the financial statement. These were the auditor's report and the statement of discretionary spending. The city council's record analysis confirms the information provided by the alderman.

A chief financial officer's (CFO's) opinion of LM is in line with that of the alderman. The new financial statement is defined as only somewhat comprehensible for the public servants and even less understandable for the councillors. *"For 20 years I've been working in the field of accountancy and I have noticed a fall in the level of accountability between new councillors and the recent financial statement. The doubtful creditor fund and the multi-year tied fund limit the councillors' understanding. If you look at the number of amendments presented to the budget, you will notice how the councillors have relinquished the budget documents. An effort was made to produce a prospectus foreseen by law, a statement of discretionary spending, to facilitate the reading of the budget"* (CFO, personal communication, January 22, 2018). The CFO also highlights the number of issues that are touched upon during a budgetary debate, often without referencing financial statement documents.

A minority councillor offers another opinion on this point. In his view, the level of accountability of the financial statement is sufficient for a general reading of the main items, not for a detailed analysis that would allow for amendments. The impression is that the financial statement (reform No. 118/11) is functional for the monitoring of public spending by central government but not for municipal councillors. The minority councillor appreciates the statement of discretionary spending, even if the choice to make them discretionary is not a mere technicality.

The analysis of the debate advocating the approval of the preventive financial statement provides further interesting indications. References to the true financial statement data are scarce; both the councillor and the leading figure of a majority councillor and a minority councillor recall the auditors' report as the first source of data used during the council discussion. Interestingly, two councillors have also mentioned the statement of discretionary spending.

4.2. Small municipality (SM)

According to the alderman for budgeting in the SM, the level of accountability of the new financial statements used by local politicians has neither increased nor decreased. The financial statement provided and continues to provide information that is too generalised. For this reason, during the presentation of the financial statements, the alderman presents further data regarding the financial statements in order to make the presentation more coherent and meaningful. Nevertheless, the same alderman describes the discussion that advises the financial statement as superficial and disconnected from the data in the document.

The small municipality CFO confirms the opinion of the alderman, often expressing a more negative perception about the usefulness of the councillors' new financial statement. In the CFO's opinion, the usability of the financial statement for the councillors has drastically fallen during the transition to the new accountancy methods, defining it as *"a hybrid, difficult to understand even for public servants"* (CFO, personal communication, January 22, 2018). *"The new financial statement has been designed precisely to provide information to the central government and not with the intention that it will be used by local politicians. The only positive element is the introduction of the doubtful creditor fund"* (CFO, personal communication, January 23, 2018).

As proof of this, the CFO emphasises the council debate on the financial statement as being less exhaustive than in the past: *"There is more information but going into details is more difficult. The DUP (document unico di programmazione — whole document for planning) is useless"* (CFO, personal communication, December 15, 2017). From analysing the council minutes, the problems encountered by the councillors in understanding the financial statement become clear. There seems to be no difficulty in understanding the investments, where there are few voices of high amounts. The opinion of the minority councillor is slightly different. He believes that the new accounting system will provide more information to the councillors. However, he also believes that the new accounting is currently unclear to the councillors and aimed mainly at controlling municipal spending for the central government.

In conclusion, after assessing the findings from the interviews and the analysis of the recordings of the city council with regard to the financial statement, the accountability and the usability of the new local financial statement have been defined as:

Table 1. Accountability and usability of the new municipal financial statement

<i>Interviewee</i>	<i>Significantly worsened</i>	<i>Worsened</i>	<i>Neither improved nor worsened (remained the same)</i>	<i>Improved</i>	<i>Significantly improved</i>
Alderman for financial statement – LM		×			
CFO – LM	×				
Minority councillor – LM		×			
Alderman for budget – SM			×		
CFO – SM	×				
Minority councillor – SM			×, possible improvements in the future		

5. DISCUSSION OF THE RESULTS

The analysis of the documentation and the interviews conducted for this research show that the local government accounting reform has generally worsened the accountability and usability of the new municipal financial statement.

The complexity of financial information is not new (Pollitt, 2006; Peebles & Dalton, 2022). What was initially stated by Buylen and Christiaens (2016) seems to be confirmed. This explored the expectation for how the new financial analysis would influence the financial statement discussion within the council (Lapsley, 1999) and that it remained largely unsuccessful. Also, the results obtained by Jagalla et al. (2011) were confirmed. There is low interest amongst local politicians and CFOs for some of the much-acclaimed benefits of accrual accounting used with reference to public sector organisations.

It is interesting to note that the most critical of the accountability and usability of the new budget by the politicians are the two CFOs. It should not be underestimated that public servants are often refractory to change (Barton Cunningham & Kempling, 2009; Giacomini & Sancino, 2016), but the two CFOs interviewed have followed all the transition to new accounting rules and can understand the difficulties encountered by local politicians.

Nevertheless, the results from this work must be considered as preliminary since the reform has only been in place since 2016 and because some of its tools have not yet been fully implemented.

6. CONCLUSION

About twenty-five years ago, a process has begun that took the Italian government from a derived financial system of centralised state transfers to a more evolved situation of financial autonomy (Bisio, 2006). In this context, with increased autonomy of local authorities, the role of the financial statement and the documents attached to it is heightened, both as a basis for the municipal board for the decision-making, and above all as essential tools in the exercise of the prerogatives of guidance and control that the political administration of the local government, the council, must exercise over the executive body, the municipal board.

Local government accounting reform, implemented by Legislative Decree No. 118/11, could be an opportunity to increase the accountability and usability of budget documents by local politicians. Currently, the in-depth analysis of the two cases mentioned above does not seem to confirm these expectations. Thus an important element emerges: the reform was

created for a general increase in the level of accountability of the local authorities, but actually the focus on the accountability administration does not allow reaching even a higher level of horizontal political accountability.

The main accounting tools dedicated to councillors and, therefore, functional to raise the level of political accountability do not seem to have positive effects. Curiously, accounting tools born for the democratic accountability it is hoped will also work to increase political accountability.

It is possible to hypothesize that tools are not thought solely or principally for councillors, such as the plan of indicators and expected budget outcomes and the simplified reporting for the citizen may become a support for the councillors' activity. The purpose of the plan of indicators is to complement the accounting information provided in the balance sheet. Maintaining a simple balance sheet as a measurable indicator system, referring to the programs, and other financial statement aggregates drawn up in accordance with common criteria and methodologies.

The statement for the citizen presents the management account data in a simplified summary form, highlighting the human and instrumental financial resources used by the institution in pursuit of the various institutional aims and achievements. This aims to monitor and establish a level of accountability between the administration and all citizens to whom public services are addressed. In particular, in the case of 'large municipality', there emerged a simpler and more concise document than the financial report, namely the auditor's report, which has almost replaced the financial statement as the primary source of information for the council debate. The same result may be possible with one or both of the aforementioned documents.

As any piece of research, this paper has limitations. The results are exploratory and may only reflect the country and the size of local governments where the analysis was performed, supported only by subjective perceptions of the respondents. As mentioned above, the perceptions of local politicians and LG financial officers' have been chosen to be measured, as long-term precise data is naturally not yet available. This is a limitation of the study, however, it is a research method already used in the field of public management regarding newly adopted reforms (Giacomini, Sancino, & Simonetto, 2018).

Further studies, both developed with qualitative methodologies, and others with quantitative methods are needed to investigate the transition to reform No. 118/11 and the effects on the use of financial statements by politicians.

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