

A General View on Italy's Accounting Jurisdiction

In Italy, the adoption of International Public Sector Accounting Standards could be only partially compatible within our jurisdiction because of the primary statements that many of the public sector entities are required to issue are not financial statements. Secondly, the progress recently achieved in the accounting reform implementing law no. 196 of 2009 and by law no. 42 of 2009, in terms of domestic harmonization, and setting up of domestic accounting standards is aiming at the same set of targets that the adoption of common accounting standards is aiming at.

Besides, if European standards are at stake, we could not neglect the extra costs for updating IT systems, training the personnel and for travel expenses to cooperate to the working out of a new set of standards.

Coming to the point of public sector accounting reforms, a general framework for financial reporting - and, actually, also for budgeting - has been adopted where revenues and expenses are grouped into missions and programs for State Departments, (article 21 and article 25 of law no. 196 of 2009), Local Authorities (article 12 of legislative Decree no. 118 of 2011) and other Public Bodies (article 9 and article 11 of legislative decree no. 91 of 2011). Missions are the "main functions and the strategic objectives persecuted through expenses" by each Ministry or Department, while Programs may be defined as "aggregates directed to the achievement of the objectives defined in the frame of the Missions" and constitute, in the system of the new law, the unity parliamentary vote. This general framework is aimed also at comparing of financial data consistently with economic and functional classification of expenses as set in the European Union's regulations concerning Government Finance Statistics.

Actually, the State, the Regions and almost all the local authorities do not prepare, at the end of financial year, the financial statements as required by the International (European) Accounting Standards.

As far as adoption of the accrual basis, law no. 196 of 2009 tries to harmonize the accounting statutes of the great deal of entities that exist in Italy, notwithstanding their very remarkable differences. Generally speaking and taking into account new public sector entities, the Ministry of economy and finance would recommend adopting traditional accounting systems, based on commitments and on a juridical (or legal) accrual, although twinned with recording and reporting on an accrual basis. For Local Authorities as well, the accounting reform, whose testing is under way, provides for the adoption of both basis of accounting (juridical and accrual), through a charter of accounting already worked out for the public sector entities. It should also be pointed out that the accrual basis as coming out from our new accounting laws is mainly targeted to cognitive purposes and that the Ministry of Economy and Finance strongly believes this feature does not prevent us from getting a system on the same basis that are likely to be adopted within the European Union's Member Countries.

We believe therefore that our system would anyway be able to face the heavy tasks of harmonization and of the transmission of reliable financial data. However, we believe in the importance of working, together with our other national standard setters and institutions, on European standards, should this initiative take off.

Coming to the primary accounting statements, it should be said that article 36 of law no. 196 of 2009 shapes the pattern and structure of them for State Departments. Such statements are set up accordingly to a juridical accounting basis.

As far as Local Government, it is very differentiated, but in general they are required to adopt multiple common statements, any of which should comply to jurisdictional or accrual basis, beside a consolidated statement. As well as with regards to this level of government, the final pattern of accounting reform seems to be completed at last and since 1st January 2012, a wide sample of local entities have been selected to start a two-year testing, aimed at assessing the consistency of the system with needs of Government Finance Statistics.

As far as public sector entities other than the State and the Local Government – that is the so called national public entities – article 1 of legislative decree no. 91 of 2011 provides for accounting basis, system and the related statements to be definitely consistently with economic and functional classification, as set up in the EU's regulations concerning the Excessive Deficit Procedure

Implementation of legislative decree no. 91 of 2011 implies, among many other consequences, the issuance of criteria to adopt the rules of accounting integration, upon which the whole accounting architecture is based and within which the updating of a very important statute concerning the pattern of accounting law for national public sector entities has almost come to its conclusion, as well as the emission of a set of accounting pronouncements.

As far as the statements and the accounting system of the State, article 36 the law 196 provides only that economic outturns, by Ministry, should be adopted, by the means of the analytical accounting for State department, adopted in 1997 by a legislative decree (no. 279 of 1997). At article 40 of the same law, the State is delegated to work out a system of integrated system of accounting accompanied by a full accrual system, an analytical and a commitment system based upon a law of 1923 (royal decree no. 2240 of 1923)

Within that framework, an integrated accounting system – which encompasses accrual, commitment and analytical features– has been tested through an IT system, while article 6, paragraph 6 of law-decree no. 95 of 2012, approved into law no. 135 of 2012, requires all State Departments to adopt such system since 1st January 2013.

Article 50 of law no. 196 of 2009 provide, the working out and the issuance of a Code of State Accounting – a bill is close to being finished for that purpose- complying with the principle of a cash basis statement, as provided for by paragraph 2, let. D) of the same article 50.

As far as Local Government are concerned, even though they are required to prepare an income/cost statement as for private sector entities, broadly speaking neither double-entry book-keeping nor accrual systems of accounting are required. In article 232 of legislative decree no. 267 of 2000 it is stated the Local Government use the accounting system that may be thought to be the most convenient to their needs and to their operating circumstances in order to report on a financial year.

Instead, the National Health Care bodies are required to use accrual accounting systems, according to article 5, paragraph 5, of legislative decree no. 502 of 1992 – to be applied with Regions' provisions of law. Chambers of commerce are as well required to use such systems (according to law no. 580 of 1993 and to article 1 of decree of the President of Italian Republic no. 254 of 2005) and for Universities (according to article no. 1, paragraph 1, of legislative decree no. 18 of 2012).

Beyond that, public sector entities frequently adopt accrual accounting systems due to regulations or secondary provisions, as allowed by a statute on the public sector accounting of decree of the President of the Italian Republic no. 97 of 2003 and, in particular, by its article 74, paragraph 4, or anyway provided for in the statute regarding certain kind of entities.

For public research institutions, accounting regulations – that should be updated soon, as required by legislative decree no. 91 of 2011 – reflect the statute of the above decree no. 97 of 2003 to a large extent. It should be noted that a part (title II) of legislative decree no. 118 of 2011 includes special provisions concerning accounting harmonization of National Health Care system.