

CONSOLIDATED FINANCIAL STATEMENTS OF MUNICIPAL CORPORATION: LOCAL GAAP VERSUS INTERNATIONAL ACCOUNTING STANDARDS.

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Abstract

The study aims to analyse and find the motivations behind the choice to adopt the National Accounting Standard *ad hoc* for the Consolidated Financial Statement of the Italian local Public authorities. The Italian Legislator provided the Annex 4/4 as the accounting standard different to the International Public Sector Accounting Standard (IPSAS), provided internationally. That kind of choice could be due to political pressures exerted by organizations and companies influencing the Italian legislator in making choices.

Key words

Consolidated financial statements, public local group, accounting

Introduction

The consolidated financial statements for the local public groups, recently introduced at an experimental stage by the Italian legislator, has the potential to provide useful information to verify the level of achievement of the goals inherent in the entire aggregate, especially in reference to the composition of the sources of resources that the composition of their uses. In that context, it allows to know the financial structure of the group, its degree of financial independence and the level of debt, the structure of ownership of the group, its overall cost, the structural composition of costs, in particular those that are the most significant items of part output.

The recipients of consolidated information are, in general, the stakeholders and the users of the financial statements. It is necessary to distinguish the subjects of the so-called "External

communication" from those of the so-called "Internal communication." The former are: community, other government agencies, lenders, suppliers, third parties; while the latter are: management, political and administrative bodies, employees (Puddu, 2010).

Consolidated information must satisfy two types of informative needs, internal and external, enabling to know the size assumed by the Group, the characteristics of the activity, the results achieved, the overall reliability of the public company and its subsidiaries (Grossi, Steccolini, 2008).

The consolidated information of the local public groups also allows knowing the different composition of income components as well as the analysis of relations between the revenue from the taxing capacity of the parent company and the income from exchange relationships created by the subsidiaries with consequential possibility of predicting consolidated forecasts by business branches as well as formulating optimization programs for the finding and the use of resources.

The national accounting standards for preparing consolidated financial statements of local public groups differ in substance from international standards (IPSAS); in particular, they differ as far as the concept of control, the identification of the consolidation and the adoption of the consolidation method for the affiliates are concerned.

This research aims to analyse and compare the application of national and international accounting principles and then to understand, through interviews to the Italian legislator, the differences that led to understand what are the criteria adopted by decision makers

Furthermore, the research plays a role in the debate on what standards can be considered suitable to represent, as clearly and correctly as possible, the budget of local public groups in order that the stakeholders can read it easily.

Theoretical Framework

Consolidated Financial Statement represents several business entities that are grouped in an economic entity. One entity is the holding, namely the parent company; the other entities are subsidiary to the parent and are known as subsidiaries. If the parent company has a full control over its subsidiaries, these are fully represented in the consolidated financial statement. On the

contrary, if there were non-controlling interests in subsidiaries, the holding has to determine how to represent these interests within the consolidated statements of the group. Reference is made to the consolidated financial theories identified by the international theory:

- Entity theory;
- The parent company theory;
- The proprietary theory.

In the first case, it is considered the single economic entity as an individual enterprises that makes it up; in the second case, the group is an economic unit that can be interpreted as an "extension" of the parent company; in the third case, the core of the group is only identified in the property or in the interests represented by the reference shareholders of the holding. The theory of the parent company, as well as in its pure definition, is also analyzed as the Parent entity extension concept. (IFRS 10 § 6.4)

The entity theory is based on the existence of the group as a single economic entity, and this is the approach adopted in this research and in the Consolidated Financial Statements simulations. The focus is on resources controlled by the entity, while the shareholders rights (controlling or minority interest in the group companies) has a lesser importance. This kind of representation does not distinguish the treatment offered to different classes of shareholders, both majority and minority; every transactions between shareholders are considered to be internal to the group. According to this theory, the group is seen as a whole and the representation in the consolidated financial statements shall include all the parent company's assets and liabilities, as well as all assets and liabilities of the subsidiaries. The "non-controlling interests" are considered items classified in the consolidated shareholders' equity. (IFRS 10 § 6.4.1)

Therefore, the consolidation methods are decided according to the definition of the group and the theoretical perspectives. As far as the entity perspective is concerned, there are no distinctions between the controlling entities and the other entities, which is why the non-controlling interest are included in the consolidated financial statement and treated as equity. According to the parent company approach, the non-controlling interests are included in the consolidated financial statement but separated from the controlling interests and treated as debt. Depending on the proprietary approach, the investors' activities are proportionally included in accordance with the

investors' shares, then the non-controlling interests are excluded from the consolidated financial statement. Instead of proportional method, it could be used the equity method, whereas the consolidated financial statement only includes owned share of the subsidiary net assets and share of net income. In accordance with Ipsas, companies are included in the consolidated financial statements when the controlling entity has the power to decide the economic and financing strategies (power principle) and can take advantages from the activities of other companies. (Grossi G., Tagesson T., 2012)

Other authors state that the entity view considers the group as a whole, reporting a balance sheet with all activities and liabilities, so that the accounting equation is “assets = liabilities”. The proprietary theory, instead, lead to an organization in terms of the owners, and in this case the equation is “assets – liabilities = shareholders' equity”. (Jones R., Pendlebury M., 2000)

The preparation of CFR is based on four different perspectives: the proprietary theory, the parent company theory, the parent company extension theory and the entity theory. The IAS and FASB claim that the CFR should be represented by the entity theory perspective. The remained entity perspective that combine elements of the entity theory and the parent company extension theory in some studies has a large relevance compared to the other perspectives. The entity theory represents assets, liabilities, and transactions in the CFR of the group as a whole; the parent company theory represents the same activities by the shareholders and parent company perspectives. (Muller Victor-Octavian, 2012)

Performances and results of the group also depend on the subsidiaries that execute the strategies and policies carried out by the controlling entity. Many authors outline that changing in rules does not always produce the expected results and that private rules do not always suite for the public sector. Ipsas has been defined with reference to the private sector standards Ias/Ifirs. Other authors highlight that consolidated financial reporting using Ipsas do not lead to the expected results. Consolidated Financial Reporting was created in private sector in order to inform about the financial activities of the group. In public sector, CFR increases the provision of public services by the controlled entities and the role of the controlling government (Grossi G., Soverchia M., 2011)

For this paper we take inspiration from the positive accounting theory whose most important representatives were Ross L. Watts and Jerold L. Zimmerman.

The positive accounting theory originates from the concept which claims that there are many purpose of the financial statements and no one prevailing on the others. Financial statement involves investors, customers, government agencies because its contents can allow them to achieve their goals. For instance, banks are interested in the data of the company financial statement because those data can increase the bank earnings. Companies provides information about the financial statements if its management considers that those data can allow the company to get lower risk of loss on the loan and reduce the interest costs. Therefore, users and suppliers have different purposes that can be different if not opposite. There are many stakeholders in the financial statement: investors, creditors, customers, employees and regulatory agencies. Many accounting theorists have discovered a lot of interests that influence the content of the financial statements but they have not looked for their interactions. Since the contents of the financial statements are influenced by different actors who pursue different objectives, it may have important effects for any governmental agency regulating financial statements. (Watts, 1974)

Accounting practices are changed by politicians' influences to maximize the benefits of voters. Voters who are also landholder have more incentives in controlling the politicians (Ingram R.W., 1984).

The lack of positive theory it is due to the absence of normative accounting research in professional practice. The positive accounting theory will motivate what is accounting, what the accountants do and the implications of these situations on people and companies. Accounting practices and their changes are the results of a complicated system where different interests of different parties are balanced. The parties are: corporate management, internal accounting staff, stakeholders, regulators, security analysts and other user of financial statements and auditors. Many researchers as Jensen think that large corporations are being forced by law and by social responsibility to produce all sort of social reforms because they are visible and vulnerable of expropriation by many groups and by politicians. Bureaucrats, politicians and many other groups use the political power to determine the wealth transfers from companies, creditors, corporate owners to other groups. Political sector is destroying private rules and changing it in private contracting rules transferring these regulations to the public sector. The power of politicians,

bureaucrats and others in increasing their own well-being against others is the first contradiction between a political democracy and the market system. (Jensen M.C., 1976)

In recent years each country has introduced public accounting standards as its necessities and conveniences and there is no will of harmonization between them. IPSAS (International Public Sector Accounting Standards) are independent standards and their rules can be essential in the harmonization of governmental accounting. Ipsas can be relevant for national accounting standard settings and the approach of different public sector accounting standards to Ipsas can lead to a public sector accounting harmonization. Today, many countries, as the UK, use public accounting standards similar to Ipsas while others need to change a lot their accounting systems. In conclusion, in the future all countries will tend to Ipsas because of international comparability and homogeneity. The process will take a long time because changing national accounting standard is a long process. (Benito B., Brusca I., Montesinos V., 2007).

Ronald and Sridhar (2008) observe and construct a model to analyse the firms' and investors' preferences for flexible or rigid standards. They develop a theory of accounting standards when accounting differ in flexibility. Their paper is related to the large literature of "economic consequences of accounting standards". Changing in accounting standards will not be uniformly preferred by all the participants in the economy. The results showed that when transactions are homogeneous, the value-maximizing firms prefer rigid standards over the flexible one; instead, when transactions are heterogeneous, the value-maximizing firms prefer flexible standards over the rigid one. The participants obtain information about firms through the accounting report that they produce under prevailing accounting standards. (Ronald A. D., Sridhar S.S., 2008)

Over the last ten years, municipalities have increased their public and private participations. Hence, municipalities and its subsidiaries formed a local public group involving different kind of companies. Many authors like Walsh (1995) think that the decentralization process caused an insufficient information. The Municipality's Reporting does not inform on the group as a whole. Therefore, the Consolidated Financial Reporting (CFR) has considered fundamental to inform about the activities and performances of the group. The CFR is a new document for the public sector introduced by a few countries. The consolidated document requires a set of accounting standards to inform stakeholders. Internationally there are IPSAS (International Accounting Standards for the Public Sector) and national accounting standards for the public sector introduced

by a few countries. For example Sweden is one of the few countries; there are several differences between the Swedish standards for the public sectors and Ipsas. For Ipsas, it is also important to include the subsidiaries that are not directly managed by the municipalities. In this consolidation process there is space for politicians' expedience and voters influences to determine favorable accounting rules. (Grossi G., Tagesson T., 2012)

Accounting standards are the result of the influences of numerous parties. For example, managers play an important role in the determination of standards. Managements' actions are based on its self-interests and one of the functions of the financial statement is forcing managers to act in the shareholders' interests. The factors that can increase management wealth are increases in share prices and increases in incentives cash bonuses. Accounting standards can influence these factors indirectly through taxes, regulatory procedures, political costs, etc. However politicians and bureaucrats often do not take advantage from monitoring accounting standards, therefore, they don't adjust to changes the accounting standards in force. In this context, industries and managements try to influence the standard setting bodies. Larger firms have also more to lose in comparison to the smallest one, because of theirs interactions with the government. Firms that interact with governments have the possibility of discouraging changes in accounting standards that could lead to lower net income. (Watts L.R., Zimmerman J.L., 2001)

Methods

The research has adopted the *Case Study Method*. This method covers all the procedures required to complete a search of the type case study, namely: planning, collection and analysis of data, presentation and discussion of results. And this was the procedure followed and expressed in the present study: starting from a software/database, the data are obtained for 116 Italian municipalities and their 919 subsidiaries. These data were carried out of the processing such as the consolidation of the analysis obtained through the application of various national and international standards in order to develop a theory on the differences between the two principles and by the answers of the legislature, on why he opted for the adoption of a standard *ad hoc*.

The creation of a theory through case studies, which in this case is the ability to identify the differences between the two principles and motivations that underlie their implementation, has been one of the most common uses of the case study. (K.M. Eisenhardt, 1989)

The research methods used are a qualitative and quantitative method. In the first stage the qualitative method was preferred for the collection and analysis of data. Qualitative research focuses on trying to explain events through emerging and existing concepts but also allows developing new concepts. The qualitative method seeks to collect, integrate and present data in the form of a variety of evidence as part of a study. (Yin R.K., 2011)

It is only suitable to highlight how in the first part of this study the use of qualitative method has been preferred because, from a basis of collected data from a database, we both questioned about the discrepancies between the two accounting standards. The researcher in this case has played an active "role" in data that has not been made through the statistical and mathematical analysis, but through the application of concepts such as the concept of "control" for the PCEL Annex. 4/4 and IPSAS. In addition, in the determination of the consolidation through the IPSAS have been applied, in this case, the theoretical principles, to data collected on the basis of the conditions of power / benefit provided by the same principles. For these reasons, the methodology used was not to analyse statistically the variables, but to analyse and process the paying attention to wealth and wholeness.

In the second stage of the analysis, however, it has been the favoured the quantitative method. Thanks to the amount of research design, approach is very structured and closed. With quantitative research, there are concerns for the representativeness of the case studied. (P. Corbetta, 2003)

Among the quantitative techniques of data, collection include the sample survey and questionnaire. Using this technique the preparation of open questions allows greater freedom in the formulation of the answer with the only fault that the answer will then be difficult to classify in planned schedules. In this case the questionnaire was submitted to the Legislator who formulated the answers that are not serviced by a reclassification in planned schedules, but to meet the demand of research and understand the reasons behind the decision to adopt the NAS Annex 4/4. (Corbetta, 1999)

The approach used was deductive and inductive. After formulating the theories, the theoretical propositions have been used in order to formulate a research question and then organize and direct their own data to the analysis. (Yin R.K., 2003)

Deductive approach used the knowledge related to accounting standards, the accounting, the Budget and best companies theories to collect useful data, organize them and study them.

The deductive analysis is also related to the science of accounting for which it is necessary the use of the deductive method, influenced by the theories of Descartes philosophy which dealt with this method, just mathematics. (Doni F., 2007)

In the second stage of the research, however, it has introduced an inductive approach with which it was possible deductions of models and theories on the basis of empirical observations. (K. Popper, 2000)

The combination of deductive and inductive method is typical of a theory defined as Grounded Theory. With the deductive process tests, the theory from the empirical point of view while the inductive emerge the feedback and data analysis. (Glaser B.G. - A.L. Strauss, 2012)

The Grounded Theory is the opportunity to discover and get to the definition of a theory through the elaboration of data collected with a search of theoretical application.

The desing of the Research

- A. It has been questioned Database AIDA PA Bureau Van Dijk in order to obtain the values for the 116 provincial municipalities and the AIDA database to obtain the values of the municipalities' subsidiaries.
- B. Provincial municipalities were contacted by phone in order to obtain, if possible, specific information on their subsidiaries.
- C. It has carried out a scientific simulation of Consolidated Financial Statements applying the National Accounting Standard, the combination of data obtained.

- D. It has been carried out a scientific simulation of Consolidated Financial Statements by applying the International Accounting Standards for the public sector, IPSAS, the combination of data obtained.
- E. Overall level were summed to the values obtained in the simulations and compared with each other.
- F. It was presented a questionnaire to the Legislature in order to identify the reasons underlying the decision to apply a National Accounting Standard ad hoc and not IPSAS.
- G. Analysing the results and the answers to the questionnaire, we tried to identify whether the legislator decision making are somehow linked to political pressure exerted by the institutions and companies operating in the market.

Results

The starting sample consists of 116 Municipalities and their subsidiaries (919 in 2013 and 850 in 2014).

The list of 116 Municipalities is showed below and grouped according to the number of municipalities for each municipality.

The table highlights municipalities with the large number of subsidiaries up to those with only one subsidiary.

Subsidiaries per Municipalities(*Source:own elaboration*)

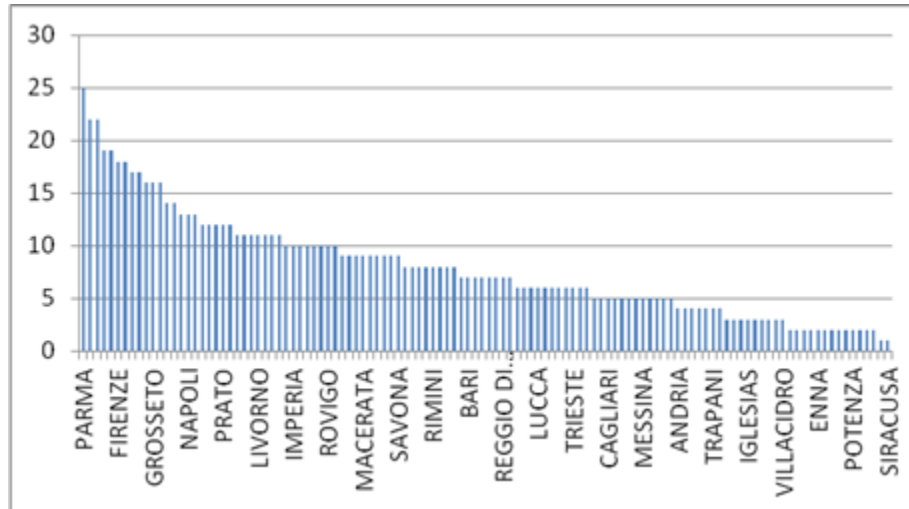
Municipality	Subsidiaries
PARMA	25
GENOVA – VENEZIA	22

PISA - TORINO	19
FIRENZE – ROMA	18
BOLOGNA – BRESCIA	17
BOLZANO - BOZEN - GROSSETO - MILANO	16
FERRARA – TRENTO	14
AREZZO - NAPOLI - REGGIO NELL'EMILIA	13
ALESSANDRIA - BERGAMO LA SPEZIA - PRATO – SALERNO	12
ANCONA - CATANIA - CUNEO - LIVORNO - MODENA - TERNI – UDINE	11
BIELLA - IMPERIA - NOVARA - PESCARA - PIACENZA - RAVENNA - ROVIGO – VICENZA	10
COMO - CROTONE - FERMO - MACERATA - PADOVA - PALERMO - PERUGIA - PISTOIA – SAVONA	9
BRINDISI - CREMONA - MASSA - PESARO - RIMINI - SIENA - TREVISO - VERBANIA	8
ASCOLI PICENO - BARI - FORLÌ - LODI - MANTOVA - PORDENONE - REGGIO CALABRIA – VERCELLI	7
ASTI - CHIETI - L'AQUILA - LUCCA - MONZA - SONDRIO - TARANTO - TERAMO TRIESTE - VARESE – VERONA	6
AVELLINO - BELLUNO - CAGLIARI - CATANZARO - FOGGIA - GORIZIA - LECCO- MESSINA - OLBIA - SASSARI - TRANI – VITERBO	5
ANDRIA - BENEVENTO - CALTANISSETTA - ORISTANO - PAVIA - TRAPANI - VIBO VALENTIA	4
AOSTA - BARLETTA - CARBONIA - IGLESIAS - ISERNIA - LECCE - RAGUSA - RIETI - VILLACIDRO	3
AGRIGENTO - CAMPOBASSO - CASERTA - COSENZA - ENNA - FROSINONE - LANUSEI - LATINA - NUORO - POTENZA - SANLURI - TEMPIO PAUSANIA – TORTOLÌ	2
MATERA – SIRACUSA	1

Municipalities have 919 subsidiaries which are profit and no profit. Municipalities with the large number of subsidiaries are Parma (25), Genova (22), Venezia (22), Pisa (19) and Torino (19).

The chart below, shows Italian Municipalities starting with those with the highest number of subsidiaries to the one, like Syracuse, with just one investee company.

The Italian municipalities in order for number of subsidiaries (*Source:own elaboration*)



The 919 subsidiaries of the Provincial Municipalities can be further divided into Profit and Non-Profit companies.

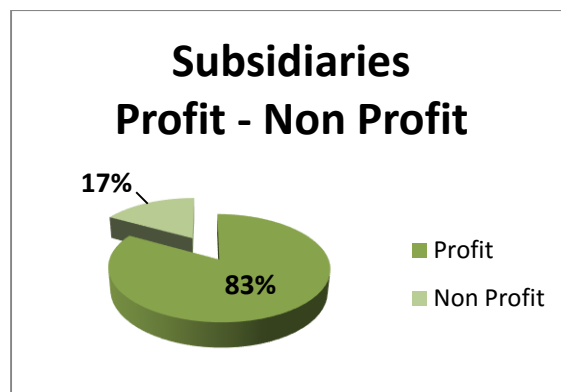
The following Table shows the further subdivision between Profit and Non-profit subsidiaries for all 116 provincial Municipalities.

Profit and Non-Profit Subsidiaries (Source:own elaboration)

Subsidiaries	Profit	Non Profit
919	764	155

It is also evident, through the following chart, the composition of the sample relative to the 919 investee companies in its division into Profit and Non-Profit.

Profit and Non-Profit Subsidiaries (Source:own elaboration)



The breakdown of the Company between Profit and Non-Profit has also been studied in the individual municipality level. It thus shows, in the following table, the list of the Company Non-Profit identified at Provincial Municipalities level.

Number of Non-Profit Subsidiaries per Municipality (*Source: own elaboration*)

Provincial Municipality	Non Profit
TORINO	6
BRESCIA –CUNEO	4
ALESSANDRIA - ASTI - BARI - BOLZANO - FORLÌ - NAPOLI PADOVA - PALERMO - PARMA - PIACENZA - RAVENNA - SAVONA - TERNI - VENEZIA - VERBANIA -	3
ANDRIA - ASCOLI PICENO - AVELLINO - BARLETTA - BIELLA - CAGLIARI - CALTANISSETTA - CATANIA - CATANZARO - COMO - CROTONE - ENNA - FOGGIA - GENOVA - GROSSETO - ISERNIA - LUCCA - PAVIA - PISA - PISTOIA - RIMINI - ROMA - ROVIGO - SALERNO - TARANTO - TERAMO - TRANI - TRENTO - VERCELLI	2
AGRIGENTO - ANCONA - AOSTA - AREZZO - BENEVENTO - BERGAMO - BRINDISI - CAMPOBASSO - CARBONIA - CASERTA CREMONA - FERMO - FERRARA - FIRENZE - GORIZIA - IGLESIAS - LODI - MACERATA - MILANO - MODENA - MONZA - NOVARA - ORISTANO - PERUGIA - PESATO - PESCARA - PRATO - RAGUSA - REGGIO CALABRIA - REGGIO EMILIA - RIETI - SARRARI - SONDRIO - TRAPANI - UDINE - VIBO VALENTIA - VILLACIDRIO – VITERBO	1

BELLUNO - BELLUNO - BOLOGNA - CHIETI - COSENZA FROSINONE - IMPERIA - LA SPEZIA - LANUSEI - L'AQUILA LATINA - LECCE - LECCO - LIVORNO - MANTOVA - MASSA MATERA - MESSINA - NUORO - OLBIA - PORDENONE - POTENZA - SANLURI - SIENA - SIRACUSA - TEMPIO PAUSANIA - TORTOLÌ - TREVISO - VARESE - VERONA VICENZA	0
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The municipality with the highest number of non-profit company is Torino, followed by Brescia and Cuneo.

It was applied the National Accounting Standard to the analysed sample by doing a selection based on the concept of control linked to the percentage of ownership.

All companies, in which the provincial municipality had a dominant influence, were considered controlled by National Accounting Standard.

It was found that out of 919 subsidiaries, 588 were "non-controlled" and the remaining 331 "controlled."

However, by applying the international accounting standards IPSAS even all those companies, in which municipalities have not a dominant influence but exert the Power / Benefit conditions, have been included in the consolidation, and considered as controlled entities.

Power / benefit conditions means "the ability to govern the financial and economic choices of another entity and to obtain benefits from it". These conditions have been identified in "essential services" provided to the public, such as: the management of the waste collection service, water services, public transport.

By the application of International Accounting Standards for the public sector, it is possible to obtain a different consolidation area.

A first scientific simulation of Consolidated Financial Statements by applying the National Accounting Standard was made following the example of 116 provincial municipalities and its subsidiaries.

The consolidation method of the National Accounting Standards counts: a) The integral method (line by line) for the controlled entities; b) the proportional method for the associates.

The items of the Financial Statement analysed are: revenues, costs, liabilities, Credits, Equity, intercompany transactions, Subsidiaries' equity, Municipalities investments in subsidiaries and subsidiaries profit.

The consolidation adjustments on which we focused were: elimination of intercompany credits / liabilities, elimination of intercompany revenues/ costs, elimination of the investment of the municipality in the subsidiaries with the related subsidiaries' equity.

Then, following the example of 116 municipalities Provincial Capital and its subsidiaries, it was carried out a second scientific simulation of Consolidated Financial Statements by applying the International Accounting Standards.

The consolidation method required by IPSAS for the controlled entities is, as for the Annex 4/4, the integral one, line by line, while for associates the method required by international accounting standards is the equity method, unlike the Annex 4/4 which requires the consolidation of associates on a proportionate basis.

The items and the consolidation adjustments of the financial statements analysed are the same as the simulation performed with the National Accounting Standard.

The final values obtained from the two different simulations are the following:

	<i>National Accounting Standard</i>	<i>IPSAS</i>	<i>Delta</i>
Scocietà Controllate	331	477	- 146
Quota P. Netto Controllate	5.924.676.709	6.588.676.992	- 664.000.282
Partecipazioni in Controllate	8.067.369.623	8.172.554.037	- 105.184.414
Crediti	32.177.114.352	38.545.427.183	- 6.368.312.832
Debiti	45.454.209.910	48.741.343.092	- 3.287.133.182
Proventi	32.463.165.584	36.909.364.460	- 4.446.198.876
Costi	30.032.008.127	33.441.704.303	- 3.409.696.182

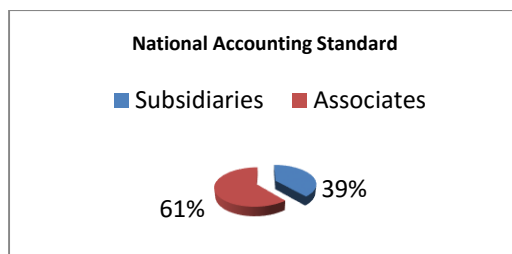
Differences:

- The consolidation area includes 146 extra controlled entities applying IPSAS compared to the National Accounting Standard;
- The value of the equity of controlled entities is higher with the IPSAS for 664 million; Also the value of the investments is higher with IPSAS of about 105 million.
- Consolidated Credit with the application of Annex 4/4 amounted to 32 billion, with the application of IPSAS 38 billion. The difference between the two methods is 6 billion and it is due solely to the fact that the international accounting standards require full consolidation (not proportional) of those companies in which to practice the conditions of power / benefit criterion which is not allowed by the National Accounting Standard (Annex 4/4).
- Consolidated Liabilities applying Ipsas are 48.7 billion, whereas applying the National Accounting Standard 45.4 billion with a 3.2 billion difference.
- The differences relating to revenues and costs are respectively 4.4 and 3.4 billion between National Accounting Standard and IPSAS where, as also occurs in other cases, IPSAS achieve higher results.

The same research has been updated at the year 2014 in order to determine whether the evidence obtained in 2013 will recur in their case also the following year.

In 2014 the overall number of subsidiaries decreased from 919 to 850, and the controlled one applying the National Accounting Standards are 330 while the non controlled one decreased from 588 to 520.

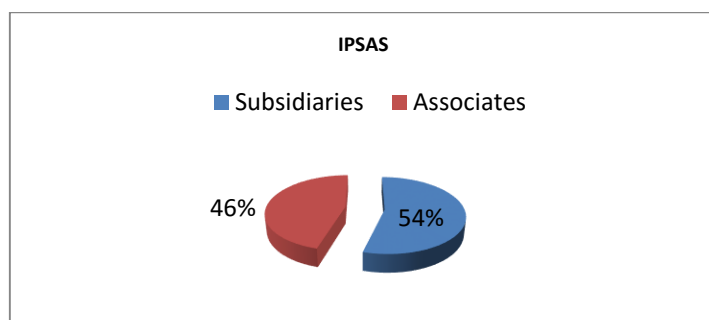
<i>National Accounting Standard</i>		
<i>Total Subsidiaries</i>	<i>Subsidiaries</i>	<i>Associates</i>
850	330	520



In the simulation obtained applying Ipsas, controlled entities have increased from 477 to 462 while non-controlled companies decreased from 442 to 388.

In 2014 for IPSAS remains the prevalence of controlled entities on the total sample of subsidiaries, which increases and moves from 52% to 54%.

IPSAS		
<i>Total Subsidiaries</i>	<i>Subsidiaries</i>	<i>Associates</i>
850	462	388



Here the comparison is shown for both the accounting standards for the year 2013 and 2014:

	National Accounting Standard		
	2013	2014	delta
Scocietà Partecipate Totali	919	850	- 69
Scocietà Controllate	331	330	- 1
Società Non controllate	588	520	- 68
Crediti	32.177.114.352	30.942.566.599	- 1.234.547.753
Debiti	45.454.209.910	44.679.836.991	- 774.372.919
Proventi	32.463.165.584	31.460.144.023	- 1.003.021.561
Costi	30.032.008.127	28.789.639.621	- 1.242.368.507

	IPSAS		
	2013	2014	delta
Società Partecipate Totali	919	850	- 69
Società Controllate	477	462	- 15
Società Non controllate	442	388	- 54
Crediti	38.545.427.183	39.236.796.511	691.369.328
Debiti	48.741.343.092	48.723.910.893	- 17.432.199
Proventi	36.909.364.460	35.354.817.576	- 1.554.546.884
Costi	33.441.704.309	32.386.945.549	- 1.054.758.761

As shown in the tables above, in 2014 there was a reduction of the companies, included in the consolidation. This reduction could be partly due to the implementation of the plan required by the authorities for transferring the investments in subsidiaries.

In any case, the values of balance, both as regards the National Accounting Principle and IPSAS, are reduced in FY 2014.

The most noticeable reductions are those relating to income and costs that are reduced for both the accounting standards applied, of about one billion.

Eventually, it is important to highlight the differences obtained between the National Accounting Standard IPSAS and updating data to the 2014.

Here are the results:

	2014		
	National Accounting Standard	IPSAS	delta
Società Partecipate Totali	850	850	
Società Controllate	330	462	-132
Società Non controllate	520	388	132
Crediti	30.942.566.599	39.236.796.511	- 8.294.229.912
Debiti	44.679.836.991	48.723.910.893	- 4.044.073.902
Proventi	31.460.144.023	35.354.817.576	- 3.894.673.553
Costi	28.789.639.621	32.386.945.549	- 3.597.305.928

Updating the search to 2014, it is revealed how companies were decreased in number, from 919 subsidiaries to 850, due to the divestiture of the investments in many subsidiaries during 2014.

But it is important to emphasize that the obtained results of the 2013 remain in differences of the application of the two accounting standards.

Applying IPSAS will include a higher number of companies (462) unlike the NAS (330). Also the obtained values of captions show higher values for IPSAS. The reasons for these differences are, as already mentioned, in the differences related to the consolidation and to the audit policy.

After obtaining the results for the 116 municipalities Capital, the Legislator was interviewed about the doubts arisen in the application of the NAS and its differences with IPSAS and about the motivation behind the adoption of decisions taken.

The interview of the Chief Inspector General in the MEF, the executive body responsible for economic, financial and budget policy. What were the methodological basis for the preparation of the accounting standard Annex 4/4 of Legislative Decree 118/2011?

1. The preparation of the accounting standard Annex 4/4 was influenced by IPSAS (International Public Sector Accounting Standards) with regard to the consolidated financial statements of the local public group?
2. The consolidation area is defined by two concepts: control and significance. What are the elements that have been considered in Their introduction and in defining them?
3. The so-called instrumental and associate entities for which kind of need is related?
4. Why the choice of the proportional method for not controlled entities?

The interview results are as follow:

1. What were the methodological introductory remarks used in the drafting of the accounting principle annex 4/4 of the Legislative Decree number 118/2011?

The drafting of the accounting principle annex 4/4 has been defined after the identification of the cognitive needs that the consolidated financial statement has to satisfy and from which depend the methods of document drafting.

The very first version of the statute number 42/2009 clearly identified the cognitive function of the consolidated financial statement. It considered the drafting of “consolidated financial statements of the regions and municipal institutions in order to guarantee the information about the outsourced services”.

On the contrary, the current text of the delegated statute according which the Legislative Decree number 118/2011 has been drafted, deferred the choice of the cognitive function to prefer to the next implementation instructions. It, together with its annexes, defined by the novel in the art. 2 par. 6 of the statute number 196/2009, only asked the adoption of a “consolidated financial statement with its business, companies or other controlled bodies, according to a shared pattern.

The cognitive function of the consolidated financial statement is clearly identified in the first par. of the annex 4/4 of the Legislative Decree number 118/2011, that:

- it starts reporting that the consolidated financial statement is not able to represent at the same time the balance sheet, the financial and economic situation of the public group and to neutralize the phenomenon of the externalization in order to represent correctly the nature and dimension of the group of actors forming part of the Civil Service;
- it takes into account the needs of preparing two different consolidated financial statement, if it is meant to represent both phenomena;
- it does not consider advisable to compel to the institutions the drafting of two different consolidated financial statements;
- it elects the cognitive function to prefer in the drafting of the consolidated financial statement: to represent fairly and correctly the balance sheet, the financial situation and the economic result of the overall activity of the institution through its organizational structures, its instrumental bodies and its investee and subsidiary companies;
- It allows the representation of the phenomenon of the externalization through the definitions of “investee company” and “dominant influence”. They provide for the introduction in the consolidated of the companies in house, including those non-subsidiaries, or they require the indication in the Explanatory Note for each member of the group the percentage used to consolidate the financial statement, and the impact of the profit due to the subsidiaries compared to the overall profits, including the profit of the externalized.

2. The drafting of the Accounting principle annex 4/4 has been influenced by IPSAS (International Public Sector Accounting Standards) as regards the consolidated financial statement of public companies?

Not, it has been defined according to the discipline of the Civil Code and the OIC 17 principle “consolidated financial statement and equity”.

3. Has been influenced the drafting of the principle by other international experiences (principles existing in other European and/or non-European countries)? Which?

The principle has been defined according to the national experiences and an innovative method “bottom up” in the normative production, through the identification of a provisional discipline at a three-year experimental stage (annex number 4 of the Prime Minister’s Decree of 2001) and the following principles on the basis of the results of the experimentation.

4. The area of consolidation has been defined by two concepts: control and significance. What are the elements that have been considered in its introduction and definition?

The experience of the Civil Code as far as private companies are concerned, confirmed by the experience of the institutions in the experimental stage. Nowadays, the Arconet Commission is verifying the definition of the limit of consolidation.

5. Why did you choose to underline instrumental institutions?

The experimental research did not discern between investee and subsidiary institutions. During the research has been found the existence of this difference, so we must regulate both phenomena. Therefore, the art. 11-ter of the Legislative Decree 118/2011 and the applied principle of the consolidated financial statement discern between investee and subsidiary instrumental bodies.

6. Why did you choose to use the proportional method for non-subsidiaries?

The choice is due to the coherence with the proportional method used for investee companies.

Conclusions

The differences between the two accounting standards in terms of numbers are the result of a basic decision about the control criterion and consolidation methods that differ.

In the analysis of the data, it took to compare the two accounting standards and their methods by applying them to the same sample analysed (116 municipalities Provincial Capital and 919 subsidiaries in 2013 to 850 in 2014).

At lasr, the adoption and application of accounting standards acquires substantial importance: the study shows that in Italy the National Accounting Standard has many differences compared to IPSAS.

These differences were actually found, and it has been defined as the consolidation area achieved through the implementation of IPSAS which provides a more controlled and fewer associates entities as opposed to what was found with the application of criteria relating to the National Accounting Standard.

In brief, IPSAS considers a larger number of members of the group.

A consolidated balance sheet that captures and includes all activities helps to provide better comparability and more understandable analysis of the economy of the local authorities.

The completeness of the information in the consolidated financial statements is essential also for the implications of the efficiency of resource allocation, and so for the central government to make decisions on the basis of available resources.

The transparency and completeness of information provided by IPSAS are adjustable to a complex budget that is able to provide complete information on stakeholders and consistent to object budgets.

The value made by this research has:

- A Scientific contribution: through a comparison between the simulation results obtained by the two different simulations;
- A contribution Professional: through a first simulation of a document which will be compulsory from next year, in which are addressed operational issues;
- A Normative contribution: results are made available to the Legislature to certain reflections about the accounting standards to be adopted for the consolidated document taking duly into account that adapting to different accounting standards at an early stage would be certainly more beneficial.

The study of Positive Accounting Theory shows how governmental and regulatory level is a reluctant attitude to change as the politics and bureaucracy are influenced by large companies and by institutions operating in the market. A change of accounting standards leads to change certain factors such as taxes, regulation of the sector etc., which in turn affect companies, institutions and their management, and can lead to reductions in revenue and to a generalized rise in costs. In this case we believe that the legislator has had to deal with the surrounding Italian reality and with a network of agencies and companies reluctant to change. It is likely that a national accounting standard has been provided *ad hoc* due to political pressures that have discouraged a change and an adjustment to international rules.

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