


# Chapter 3

## Reporting Entity in the Consolidated Financial Statements: Theory and Case Study

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### **ABSTRACT**

*Eurostat and EPSAS Expert Working Group are engaged to outline the suitability of International Public Sector Accounting Standards (IPSAS) in the process of the public sector accounting harmonisation. Part of the process is referred to the scope of the consolidated financial statements and the possible criteria to identify the public sector group's reporting entity, that is the boundaries of the group. This last point is of relevance as recalled by the recent EPSAS Conceptual Framework Reflection Paper, under which public sector reporting entities should provide financial report based on decision-making and accountability considerations. The chapter aims to contribute to the debate on consolidated financial statements both from the theoretical and empirical points of view.*

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## **INTRODUCTION**

Debate on local government financial statements has considerably increased over the years, also due to the various public sector accounting reforms inspired by the assumption that improving the mechanisms of public governance will result in better public sector performance (Ongaro, 2008; Hoque, 2008; Ongaro et al., 2008). Among the reporting tools implemented to measure, plan, control and communicate performance, in recent years consolidated financial statements has become increasingly important both for the practitioner and the academic debate (IFAC, 2000; IFAC, 2005; Walker, 2009; Karlsson et al., 2010; Walker, 2011; IFAC 2013).

Recently, Eurostat has launched the EPSAS Expert Working Group with the aim to outline the suitability of International Public Sector Accounting Standards (IPSAS) and to assess the member countries experiences. Part of this process is to evaluate the scope of the Consolidated Financial Statements and the possible different criteria to identify the Public Sector group's boundaries. This last point is of relevance as recalled by the recent EPSAS Conceptual Framework Reflection Paper (Epsas, 2018; PWC, 2018), under which Public Sector Reporting Entities should provide Financial Report based on decision making and accountability considerations. This point is supported by the consideration that Public Sector Entity or Group of Entities is defined as the "ability to take economic decision and engage in economic activities for which it is responsible and accountable in law or otherwise accountable to service recipients or resources providers".

In this regard, Italy offers an important experience since it was one of the first countries in the European Union to expressly provide for compulsory adoption, owing to the large number of entities controlled by local governments (Grossi et al., 2008; Teodori et al., 2009; Teodori et al., 2011). In Italy, although the provision for the consolidated financial statements has been present for several years in the legal system, voluntary drafting was abandoned only with Legislative Decree no. 118/2011, introducing the obligation for local governments with more than 5,000 inhabitants to draw up a consolidated financial statements as from 2016-2017, after an initial "trial" period.

Recent Italian public sector accounting reform aims to represent the financial performance of the local government group as a whole with particular reference to the need to manage and control public sector finance. The objective of Italian public sector consolidated financial statements is to provide information on the financial position and financial performance of the local government and its controlled institutions and companies and non-controlled entities. Consolidated financial statements should show the results of the management's stewardship of

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