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## From Cash to Accrual Accounting: The seminal case of the Sicilian Regional Public Bodies

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**Sommario** The Italian public sector has been traditionally characterised by a cash based and compliance oriented governmental accounting, principally aimed at supporting the budgetary control by the legislative body. Over the last few decades, however, a new movement has been spreading around the world, casting doubt on the potentialities and advantages of the traditional accounting system in favour of an accrual basis one. This paper traces the progressive introduction of a complete accrual accounting by the Sicilian Regional public bodies within the context of international and national public management changes pursuing the ultimate goal to improve efficiency, accountability and transparency. After a close examination of the major choices made by a Committee established for this purpose, the work investigates about the need to go beyond a simple accrual basis accounting system especially in a context where concepts like inter-institutional horizon and public value are more and more relevant.

**Keywords** NPM · accrual accounting · chart of accounts · Sicilian Regional public bodies · public value.

**Riassunto** *Il settore pubblico italiano è stato tradizionalmente caratterizzato da una contabilità governativa basata sul contante e sulla conformità, principalmente intesa a sostenere il controllo di bilancio da parte dell'organo legislativo. Negli ultimi decenni, tuttavia, un nuovo*

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*movimento si è diffuso in tutto il mondo, mettendo in dubbio le potenzialità e i vantaggi del sistema contabile tradizionale in favore di una base di competenza. Questo lavoro traccia la progressiva introduzione di una contabilità per competenza completa da parte degli enti pubblici regionali siciliani - nel contesto dei cambiamenti di gestione pubblica internazionali e nazionali - perseguendo l'obiettivo finale di migliorare l'efficienza, la responsabilità e la trasparenza. Dopo un attento esame delle principali scelte fatte da un comitato istituito a tale scopo, il lavoro indaga sulla necessità di andare oltre un sistema contabile di contabilità 'semplice' per competenza, specialmente in un contesto in cui concetti come orizzonte interistituzionale e valore pubblico sono più e più rilevanti.*

*La metodologia della ricerca è di natura qualitativa. Essendo il nucleo di esso un caso di studio, sarà presentato nella sua ricostruzione storica, sottolineando i principali eventi che hanno rilevanza rispetto all'oggetto della nostra ricerca.*

*Per questo motivo, dopo una breve rassegna della letteratura e un focus sui processi italiani riguardanti il NPM, vengono presentate le prove empiriche del caso siciliano. Si basa principalmente su atti normativi, emanati dal corpo legislativo siciliano (l'Assemblea regionale) o dall'organo esecutivo siciliano (il Presidente della Regione o la Giunta regionale di Governo) e, successivamente, sul 'piano dei conti' principale emesso con il pilota esperimento sui Consorzi per la bonifica dei terreni, con il commento di uno dei suoi membri.*

*Alcune brevi osservazioni conclusive concluderanno il lavoro.*

*Qui, il caso di studio degli enti pubblici regionali siciliani sarà analizzato secondo un punto di vista critico. Infatti, sebbene l'introduzione di una contabilità per competenza abbia rappresentato un cambiamento 'epocale', oggi la necessità di un sistema più completo e integrato sta diventando sempre più pressante. In effetti, concetti come 'valore pubblico' suggerirebbero l'introduzione di un quadro contabile in grado di tenere conto di tre campi principali, detti anche 'tre pilastri della sostenibilità': quelli sociali, ambientali e finanziari, rispettivamente. Pertanto, il lavoro vuole rappresentare spunti di riflessione e basi per ulteriori ricerche in futuro.*

***Parole chiave*** NPM - contabilità per competenza completa enti pubblici regionali siciliani - valore pubblico

## 1. Introduction

Over the last decades and on the wave of the NPM-reforms, the Italian public administration has undergone relevant changes addressed to revise the intrinsic faults of the traditional bureaucratic model as do those related to the cash-based traditional accounting system.

The aim of this paper is to outline the process of modernisation of accounting with reference to the Sicilian Regional public bodies experience by sketching a cursory overview of the international as well as the national NPM theoretical background that somehow laid the foundations for its launch. Thus, a methodological approach that goes from a general to a particular perspective has been followed.

In a context characterised by heterogeneity of applications of accrual accounting, the current work intends to analyse the move from cash to accrual accounting in such bodies by trying to respond to the following questions:

- How has the introduction of an accrual basis accounting system occurred?
- What have the major novelties been?
- Can the new delineated accounting system be considered still adequate in the light of the current scenario where such bodies are required to operate?

Although the term New Public Management has developed as summary description of a way of reorganising public sector bodies to bring their management, reporting and accounting approaches closer to (a particular perception of) business methods (Dunleavy and Hood, 1994), the Sicilian case study presents a peculiar interest that would explain the reason behind the choice to study such an issue. Indeed, the introduction of a complete accrual basis system has not occurred in the way of a pure translation of principles and techniques from the business world, as the classical interpretation could suggest, but rather by thinking a system able to keep into account the features belonging to no profit organisations. Moreover, such experience becomes more and more singular if one considers that the Sicilian Regional government has not yet opted for an accrual accounting system.

The methodology of the research is of qualitative nature. The core of it being a case study, it will be presented in its historical reconstruction, underscoring the main events having relevance with respect to the object of our research.

For that reason, after a short literature review, and a focus on Italian processes concerning NPM, the empirical evidence from the Sicilian case is presented. It is based mainly on normative acts, issued by the Sicilian legislative body (the Regional Assembly) or by the Sicilian executive body (the Regional President or the Sicilian Government) and, after, on the main chart of accounts issued with the pilot experiment on the Consortia for Land Reclamation, with the comment on it by one of its members (Costa, 2009).

Some brief concluding remarks will conclude the work. Here, the Sicilian Regional public bodies case study will be analysed according to a critical viewpoint. Indeed, although the introduction of an accrual basis accounting has represented an epochal shift, nowadays the need for a more complete and integrated system is becoming more and more pressing. Indeed, concepts like public value (Moore, 1995) would suggest the introduction of an accounting framework able to keep into account three major fields, also called the three pillars of sustainability: the social, the environmental and the financial ones, respectively. Thus, the work wants to represent food for thought and ground for further research in the future.

## 1. Literature Review

### 2.1 New Public Management: a theoretical framework

Since the early 1980s, a transformative process having an Anglo-American flavour and aimed at improving public sector performance began to take the first steps, laying the foundations for remarkable changes that shortly after would have profoundly affected the way through which public administrations have been traditionally handled by engendering a new culture of performance and quality service delivery.

Before then, it seemed as if managerial matters mainly concerned the private sector and not also the public one. However, one should not come to a conclusion according to which public administrations have neglected managerial issues but instead the above statement should be opportunely framed within a broader administrative and political context that has proclaimed before of a large-scale spread of the NPM movement – the triumph of the Weberian model.

Typical of most continental European countries, Webers bureaucratic model owns the feature of being rule-oriented, meaning that the *res publica* management is based on the observance of legal norms and highly formalised procedures, a model that also had some kind of implications on the *Rechtsstaat* doctrine widespread in the German-speaking countries.

In such a context, a growing tendency to revise the role of public sector entities as well as the overall public service delivery has represented a turning point in history mainly because of the shift from the traditional model – as briefly described above – to a distinct managerial perspective featured by an output and outcome orientation which hopefully would have led to substantial improvements. Central to this shift was a belief that managing public sector organisations is not different from running private sector organisations (Allison, 1983) once it has been observed that the first ones are species of the wider genus *azienda* (Anselmi, 2001). Consequently, a wave of administrative reform processes took place in many countries leading to the recognition of neo-liberal and neo-managerial beliefs in response to the traditional state ideology now blamed for likely being the major cause of inefficiencies recorded in the public sector. Therefore, the needs of a performance-oriented culture, a better allocation and utilisation of public resources, the improvement of managerial accountability, the financial stability (in view of the European integration process and not only) as well as the need to find new market mechanisms to improve the service quality and then the citizen-customer satisfaction, could be considered the major roots, rationales or driving factors underlying what would be later known under the label of New Public Management (Hood, 1991).

Touted by some scholars as an administrative revolution, NPM has found – geographically speaking – fertile ground for diffusion in Anglo-American countries at first and even in many developing countries, although its diffusion seems perhaps slower, and more ethnically characterised, in developed countries having already their own sound public management tradition. Thus, it seems that such a spread has not occurred at the same pace and way in each involved place because of the diversities ascribable to a mixture of factors that – favourably or unfavourably – influenced the public leaders leeway (in implementing reforms) in terms of a high propensity or reluctance to those principles thought for a good and better governance. If so, it would confirm a stereotype according to which some countries have been more prone to the new managerial practices compared to other ones, demonstrating how reform processes are

inevitably path dependent on those factors themselves.

In order to better figure out such point and by dating back to the L. von Bertalanffys general systems theory one may consider that any entity (and then public sector entities, too) can be defined as a dynamic and open system. This means that any entity variously establishes relationships with the reference environmental system thus presenting the building-up and breaking-down of its inner elements and counteracting, at the same time, entropic processes typical of closed systems and self-referential autopoietic systems as argued by the German theorist N. Luhmann (1984).

Precisely, entities can be qualified as selectively open systems since not any change coming from the outside is able to have some kind of influence on themselves. The responsiveness of an organisational system to external impulses/pressures strongly depends on some factors that can encourage or hamper the relationships among systems. Thus, in the specific case of the NPM, factors like the polity features, the traditional style of governance, the public leaders educational background, the administrative apparatus and many others have played a crucial role in gradually or swiftly adopting (or rejecting) new management techniques and practices designed to fundamentally revamp the public sector. Since it is reasonable to suppose that such factors may differ across countries, it is just as reasonable to expect differences in the schemes of adoption and implementation of the NPM ideas.

Basically, the reform roads adopted could be arranged along a continuum at whose extremes national experiences that range from a lower to a higher degree of incisiveness are placed (De Laine, 1998), showing a pattern of divergence and disproving the assumption that NPM took the form of an isomorphic process around the world. By the way, Pollitt and Bouckaert distinguish among four groups of NPM reformers (2004): the maintainers, the modernisers, the marketizers and the minimal state reformers. Countries like the United Kingdom and New Zealand fit the marketizer profile while the Scandinavian countries can be labelled as modernizer reformers because of their greater scepticism towards NPM ideology.

Despite its wide-scale spread, from the very beginning NPM has met some translation problems when its managerial tenets moved from a country to another one, making the comparison a not very straightforward matter due to the presence of language barriers. Such a difficulty has not been the only one because a semantic issue has been detected since its first appearance in Hood's 1991 seminal article, as well. In fact, as Dunleavy et al. state: there is a substantial branch industry in defining how NPM should be conceptualised and how NPM has changed (2006).

Although several attempts at defining NPM have been carried out by many scholars, nowadays a tarnished vision still persists, contributing to qualify it as an umbrella term because of the large collection of definitions and the lack of unanimous consensus about the nature of the movement itself, too. For Lane, it is mainly a contractualist model (Lane, 2000), Knig dubbed it a mixture of management theories, business motivation psychology and neo-liberal economy (Knig, 1997) while Barzelay described NPM by identifying four distinct models characterised by different principles: a contractualist, a managerial, a consumerist and a reformist model,

respectively (Barzelay, 2002). Lastly, Pollitt holds how NPM would offer a kind of shopping basket of different elements to reformers of public administration (2005) not addressed towards the same direction but having the advantage to make the adoption of NPM principles easier and more flexible in systems characterised by a huge level of complexity.

Even if the wide spectrum of definitions and principles potentially embedded within NPM allows managing the administrative reforms with a greater suppleness by public leaders, it is at the same time responsible for tensions arising from its hybrid character (Aucoin, 1990) whenever the centralising tendencies inherent in contractualism collide with the typical features of the management theory.

The awareness of the absence of a generally accepted definition has aroused some doubts about the nature of the movement itself to such an extent that some assumptions began to take shape: at times NPM has been considered just a fad (Pollitt, 1995; Lynn Jr., 1998) rather than a real new paradigm followed by many reform initiatives aimed at a specific goal representing the lowest common denominator, namely to make the public sector more business-like (Ferlie et al., 1996).

Notwithstanding that, the growing literature tried to extrapolate some basic and recurrent elements underlying NPM ideology and forming its elemental pillars. According to Hood, its doctrinal components could be set out as follows:

- hands-on professional management of public organisation;
- explicit standards and measures of performance;
- greater emphasis on output controls;
- shift to disaggregation of units in the public sector;
- shift to greater competition in the public sector;
- stress on private-sector styles of management practice;
- stress on greater discipline and economy in public sector resource use.

Likewise, the journalist Osborne and the ex-city manager Gaebler, in order to conceptualise the new movement or paradigm, summarised NPM factors into the following three major key guidelines (1993):

- re-definition of the boundaries between State and market made possible thanks to the privatisation and the externalisation of many public functions and services;
- re-definition of the macro-structure of the public sector through decentralisation processes from the central to the regional and local governments;

- re-definition of operational rules of the public sector by introducing new principles and managerial practises inspired by those related to the private sector.

The overall package of NPM innovations could be synthesised into three keywords: disaggregation, competition and privatisation denoting a translation of principles, mechanisms and tools from the private sector to the public one. However, the split-side of NPM comes true whenever its implementation takes the form of a pure translation neglecting the fact that public sector entities have their own features that differ from those concerning the private ones. This matter should be taken into account every time the public sector entities aim at espousing a bundle of new tools and administrative doctrines in view of changes.

So far, plentiful amounts of systematic researches and comparative studies have dealt with NPM reforms; surprisingly a dearth of overall evaluations of its effects has been noticed (Peter and Savoie, 1998). In fact, analysing the impact of NPM on aspects such as efficiency, effectiveness and accountability is not an easy task because it is not a well-defined or coherent set of ideas (Wegrich, 2009). In addition, there is much talk about reform, without action but with hypocrisy and double-talk (Brunsson, 1989). Where studies exist, they are generally quite limited and tend to provide frameworks for evaluation, rather than doing the actual evaluation and they tend to be non-quantified (Wollmann, 2003).

Summing up, it is quite hard to unequivocally identify the effects of NPM reforms; the paradox as stated by Pollitt and Bouckaert (2004) is that these reforms do not seem to need results to fuel their forward march. Perhaps, for this issue, a sharp distinction between the deep scientific basis of this approach and the mere ideological support is still required by the scholar community.

On the strength of the theoretical picture drawn emerges how NPM has spread around the world by giving rise to multiple approaches for introducing its principles and measures to keep into account the different environmental contexts where NPM has been introduced. While some scholars support the hypothesis that NPM represents a new paradigm in the traditional Kuhns meaning (1962), other ones hold how its actual innovative feature would lie on the simultaneous consideration of some elements already known and coming from the private sector. Yet, another dispute marks a watershed between two schools of thought that contend the idea of a convergence or divergence in the way NPM has been implemented, respectively.

Lastly, whether NPM-style reforms have been successful is an arduous question that would require considering both major effects and side effects. Undoubtedly, NPM has allowed public administrations to get better results even though some criticisms have concerned matters of cohesion, trust, fragmentation, coordination, control and other ones. In the light of the limits and weaknesses of NPM and to counteract them, other approaches (e.g. the so-called Public Governance) have been gradually introduced into the public sector to meet more and more pressing needs like, for instance, accountability and transparency and implying the adoption of a holistic/systemic view to catch feedbacks and interrelationships among the involved systems.

Even though the doubt if NPM is pass or still alive could suggest a further analysis, the theoretical framework reveals the importance of NPM since it has represented the starting

point of relevant changes for public administrations although recently it has been overpassed or enriched by other new movements or set of ideas. For what concerns the boundaries of this research it is enough to consider, for the moment, that this importation from private enterprises of, generically speaking, managerial culture has had, as one of its main outcomes, the adoption of an accrual based accountability, before neglected in favour of a cash based one. Let us consider, then, how this general trend has been declined in the Italian context.

## 2.2 Italian public sector modernisation: a broader picture

In Italy, business economics studies have always had a general feature focusing their attention on the broader *genus-azienda* than only on the *species-firm*. However, since the 1970s, a set of studies aiming at being downright autonomous making thus the main difference with the past tradition began to emerge thanks to the contribution of Borgonovi school of thought that showed a renewed and stronger interest for public sector entities. From then on, the deep attention for decision-making processes, planning and control systems and other issues related to the public administrations paved the way for the modernisation process that would have begun in Italy only during the last decade of the 20th century, occurring therefore with a slower pace in comparison to the forerunner countries.

Such a trend has been also encouraged by an incontrovertible point according to which the continuity and the development of any *species of azienda* rest on the respect of three notable principles: effectiveness, efficiency and economic performance equilibrium (from now on economy, from the Italian *economicità*, namely the positive balance between income and expenses). Furthermore, competitiveness, sociality and economy make up the cornerstones for evaluating the success of any entity (Coda, 1984).

In the wake of the NPM movement, in Italy better known as *processo di aziendalizzazione*, the national public sector witnessed profound changes that initially hit the local public administrations (as it happened, e.g., in the Federal Republic of Germany). Indeed, they gradually pioneered the shift from the traditional *modus operandi* to a performance-oriented management, a shift that paradoxically occurred by having solely recourse to laws (Meneguzzo, 1997; Kuhlmann, 2010).

In most of cases, the legislator in order to impinge on all those aspects considered as inherent flaws of the bureaucratic model leaned towards recommendations that aimed at making explicit how to do rather than what to do (Borgonovi, 1993). Thus, new managerial principles and tools were introduced by acting on three different types of levers:

- the re-engineering of the public sector to achieve better delivery of the basic public services through the introduction of market and/or quasi-market mechanisms into the public field (e.g. privatisation and externalisation);
- the re-definition of rules concerning the distribution of powers among the different levels of government in favour of public sector entities closer to the end users-citizens (decentralisation);



- the re-framing of performance and accountability systems by introducing new public budgeting and accounting systems (i.e., mainly, accrual accounting).

In Italy, privatisations (law no. 474/94) have been supported by the assumption that free market competition would have led to more efficient delivery of products and services. Even though privatisation appeared as a possible tool to counteract the growing public debt or, more in general, the panacea for all those problems affecting the public sector, a heated debate followed. Any choice addressed to privatise state owned entities had to be taken if and only if it could represent an opportunity to create and spread value rather than just a simple way to recover financial resources.

As regards the second point, since the mid-1990s a considerable preference for administrative federalism has emerged the all over Italian political spectrum pushing towards the decentralisation process made possible thanks to the issuing of laws such as the legislative decree no. 59/1997 and the constitutional law no. 3/2001. In a context where two antithetical forces – a centrifugal force on one side and a centripetal force on the other – were apparently in contrast with each other, the first one seemed to prevail especially when Title V of the Italian Constitution was reformed by prescribing the devolution of functions from the central to the regional and local governments. The principle of subsidiarity was definitely affirmed and the central administration would have only residual competences. Obviously, higher degrees of autonomy by local administrations imply capability to survive without recurring to systematic financial helps coming from other entities (Giannessi, 1961; Brunetti, 1994); thus, the principles of autonomy and economy are closely interlinked, feeding one another.

Lastly, the decentralisation process involves the definition of new types of accountability<sup>1</sup> (Ongaro, 2003) that, in turn, entail new forms of responsibility besides different budgeting and accounting systems. Therefore, changes in accountability codes will be accompanied by changes in the accounting tools in order to better fulfil users information needs. This would explain why Italy launched budgeting and accounting reforms addressed to the public sector to promote the shift from a cash to an accrual basis system. Among the wide range of legislative initiatives, the decree no. 77/95 is worthy of attention since it allowed relevant innovations for Italian local governments such as the introduction of an executive management plan based on objectives, programs and resources, new managerial control systems and accrual reporting (if not yet accrual accounting).

As regards the central government, the law no. 94/97 reformed the budget structure providing a different classification for revenue and expenditure accounts, the introduction of a cost centre accounting system, the zero-based budgeting approach, the basic budget unit (as voting unit) and the responsibility centres. After ten years, a new budget structure was defined by pursuing the aim of creating a direct link between the appropriated resources and the activities that have to be carried out in line with a new culture much more interested in the way public

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<sup>1</sup> Basically, it is possible to distinguish between a political accountability – that concerns the agency relationships between politicians and citizens – and a managerial accountability regarding the agency relationships between politicians and executives (Sinclair, 1995).

resources were used. However, it is worth noting how the accounting system is a component of the measurement system of an overall control system as outlined by Flamholtz (1983). Specifically, the performance management cycle (ex-art. 4 of legislative decree no. 150/2009 addressed to all public administrations) seems to show a marked analogy with such core control system presented, by the aforesaid Author, as an integrated structure consisting of four basic processes: planning, operations, measurement and evaluation-reward. Thus, the performance management cycle was part of a far-reaching reform revolving around some key-principles like transparency, integrity and meritocracy-rewards with a view to progressively improve public service quality according to the citizens perspective of their needs and both organisational and individual performance. Shortly, the reform gave more emphasis on the concept of performance (what, how and when to measure) breaking off with a former legalistic tradition focused on input control rather than on both outputs and outcomes. Moreover, a growing interest was attached to the role of the executives who saw *inter alia* their prerogatives, autonomy from the political bodies and responsibility in relation to the achieved results reinforced. Contextually, the reform envisaged the creation of a common space between politicians and administrators referred as purple zone<sup>2</sup> in Anglo-Saxon literature which sought to promote somehow an approach where the principles of separation and strategic interaction are intertwined. Traces of such cooperation can be found in articles 5 and 6 that ordain a joint work between the two actors for goal-setting and monitoring activities.

Taken as a whole, it results how over the last years the entire Italian public administration has undergone a radical overhaul affecting its traditional *modus operandi*. However, assuming that there is a linear cause and effect relationship between the reforms on one side and the changes on the other would be quite narrow. Reforms represent the first step towards a new direction but their successful implementations depend on the adoption of a strategic learning approach in place of a trivial mechanistic one as do the adoption of a holistic view rather than an atomistic one.

In order to achieve its own institutional goals, any entity has to strive in realizing a perfect harmonisation among the three distinctive fields of the business administration regarding the organisation, management and recording, respectively (Zappa, 1927). As previously announced, the Italian modernisation process started with some delay and it was somehow due to the presence of a disharmony that, in turn, has depended on the different evolution rates recorded in each of the three fields above. In particular, the next paragraph focuses on the third field with reference to a peculiar class of Sicilian subsidiary entities, whose two main qualifying characters are: to be owned by the Sicilian Region and to be public bodies.

#### 1. The case study of the Sicilian regional public bodies

Over the last decades and on the NPM-reform wave, a wide call for moving from a cash-based to an accruals-based accounting system has been recorded in a large number of public sector

<sup>2</sup> Purple zone arises when a diagram with a circle for politics (shown as blue) intersects a circle for administrations (shown as red). The strategic conversation then takes place between the two groups giving rise to the said purple zone (Matheson, 1998).

entities across the world<sup>3</sup> as the result of several reasons (Khan and Mayes, 2009); among them one might mention the growing burden of the sovereign debt in some countries, the need to improve resource management as well as the awareness of the impossibility of getting *ad libitum* resources from the external context.

In Italy, waves of reforms addressed to introduce accounting innovations have variously involved the central, regional and local governments. In such a context, the experience of the public subsidiary entities controlled by the Sicilian Regional government represented a unique opportunity to experience new accounting systems and techniques widely discussed around the world; an experiment that has even been rounded off far in advance in comparison to what had to be launched within the Regional government itself.

In 2005, Sicily transposed the state D.P.R. no.97/2003 by the regional law no.19, hereby extending such dispositions addressed only to the state public owned bodies to all Sicilian ones. Shortly after a coordinated text followed, which had to combine the provisions of the above-mentioned decree with further modifications introduced by the decree of the President of the Sicilian government no.729/2006.

Some technical issues have been faced in 2008 when, in obedience of art.76 of the coordinated text, an *ad hoc* Committee was established to set up a chart of accounts in order to introduce an accrual basis accounting as the result of an opening towards the new without severing ties with the past tradition. The Committee was charged only for a narrow category of these public bodies: the rural Consortia for Land Reclamation. But its work represented the pilot experiment for all sort of Region owned public bodies and the main results of its work were effectively extended to other categories of Regional public bodies, with or without adaptations.

In tracing a logical path to follow, the Committee has sought to bring out changes by keeping into account, at the same time, both the regional and national context in which it was required to operate. Therefore, the Committees work programme was subdivided into some seven key points<sup>4</sup>; each of them underpinned precise fundamental choices with the ultimate end to delineate a systematic framework within which the Sicilian Regional public bodies could hopefully find a complete regulation.

First of all, the Committee interpreted its mission of drawing up the chart of accounts not in a specular way to what already performed by the central government (i.e. only flows and not also stocks and, precisely, only negative flows for the cost accounting) but in a manner that would have furthered the introduction of a complete accrual basis accounting having its own purposes. However, the introduction of such an accounting system running in parallel with the cash one has involved some problems of coordination, problems that have become much more complicated if one takes into consideration that the accounting systems to be coordinated

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<sup>3</sup> Actually, such transition has not been devoid of debates on the advantages and critical issues related to the introduction of an accrual basis accounting (Carlin, 2005; Anessi Pessina, 2007).

<sup>4</sup> These were the following: the downright chart of accounts, the surviving cash accounting system and its links with the new accrual one, the accrual accounting system, the cost centre accounting, the methods of costs allocation, the description of the items of the chart of accounts and finally some critical technical considerations (Costa, 2009).

were actually three<sup>5</sup>. Among the different methods suggested in the literature for ensuring such coordination (Tommasetti, 2008), the Committee opted for a system able to guarantee a perfect equality between the accrual and cash basis accounting while the cost accounting would have been derived from the first one being in a subordinate position. Therefore, it has been considered prudent to limit the role of the chart of accounts to the minimal goal of adding the two-accrual accounting systems without integrating them with the pre-existing cash basis accounting into a single system. Nevertheless, the Committee also contemplated the possibility to introduce more innovative and advanced methods in the future by going so far as to suppose a triple accounting system in which the cash basis accounting, the accrual financial one and the accrual cost (or management) one are tightly integrated as do the observation of both revenues and expenses within the cost (or, better, management) accounting system.

After having solved the problem of the method, the Committee had to face another important question: what kind of accounting model had to be provided for the Sicilian Regional public bodies?. Once again, it has opted for a prudent choice by keeping into account that the needs of experimentation of such entities had to be somehow subordinate to those of standardisation to avoid starting points hard to be dealt subsequently with. Thus, for each item of the chart of accounts, the Committee has advised detailed accounting and measurement principles arising from a specific accounting system the so-called *sistema del reddito e del capitale*, standing for the well-known T. DiIppolito's variant (1958) of Zappas' most famous accounting system<sup>6</sup>, based on flows and income as chief independent variables. Indeed, among the different variants, it seemed to be the most consistent and compatible with the international accounting standards as its logical foundations and features are closer to the *sistema del patrimonio*<sup>7</sup>, though without disregarding the advisability of introducing an accounting system more appropriate to the nature of such entities and able to provide information about their efficiency and economy. The Committee would have even raised a doubt about the real need to introduce an accrual basis accounting in line with a kind of minimalist approach. Such an approach would have been supported by the observation according to which the income in such entities could be considered a measure having a scant importance and that the net worth could be determined in a discontinuous way, too. By passing over this latter extreme hypothesis, one may believe that the Committee, although aware of such possible experimentations as, for instance, the introduction of an added value accounting system, fitter for no profit organisations, did not want

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<sup>5</sup> Indeed, the accrual accounting can be distinguished between the financial one, devoted to the general performance of the entity, and the management one, devoted to special or analytical objects. This last one, without stocks (assets and liabilities) and positive economic flows (income and revenues) reduces itself to a simple cost accounting. But this last Regional choice was not agreed by the Committee who suggested a full management accounting.

<sup>6</sup> Zappas' accounting system is related to the determination of net profit (independent variable) and of capital (dependent variable). It is the Italian version, for certain aspects, of the classical American Revenues and Expenses view, stressing on flows more than on stocks. Its Italian name is *Sistema del Reddito*; from now onwards it will be briefly called the Income System.

<sup>7</sup> The alternative Italian accounting system, this time founded on stocks than on flows, roughly corresponding to the classical American Assets and Liabilities view.

to deviate too much from the most widespread practice. Thus, it limited its task to a prudent adaptation of the quoted income system within the public sector field. The accrual accounting system such as conceived by the Committee was not an end in itself but also preordained to the cost centre accounting in order to determine the cost of services provided by the Sicilian Regional public bodies and to achieve evaluation about the efficiency of the entities themselves.

As regards the cost accounting matter, the Committee was induced to get some decisions by opting for a sistema duplice misto the double accounting system, thought by the same DiIppolito sharing the accounting system between a financial accounting and a management linked by specific accounts, called reference accounts, that draw value from financial accounting and reclassify them for management one, in which, however, only the expenses had to be drawn from financial accounting, reclassifying them from their nature to their function<sup>8</sup>.

The coordinated law text has envisaged a subdivision of the entities in responsibility centres which, in turn, aggregated more cost centres within them; it has even been contemplated an oversimplified alternative to consider each entity as a single responsibility centre by establishing a perfect connection between the entities on the one side and the responsibility centres on the other. Moreover, entities would have a broad autonomy in identifying the cost centres but a quite limited autonomy in choosing the criteria for allocation of indirect costs in order to keep into consideration both the specificities of each entity and the real capabilities to proceed with the necessary accounting records.

After facing some technical issues, the Committee has focused its attention on the main question: the drawing up of the chart of accounts. Since its first formulation, the chart had to fulfil three unavoidable requirements:

1. it had not to be extraneous in relation to the typical administrative events of the Sicilian Regional public bodies;
2. it had not to have gaps in relation to the recurring events of an accrual basis accounting;
3. finally, it had to be prepared in order to preordain the set of information to the most relevant users (Sicilian Regional government at the top, being the major financer of such entities).

Furthermore, the chart of accounts had to be as much as possible comparable with similar classifications prevailing in the major public sector entities, above all in the Sicilian Regional government and, before that, in the central government whose classification of costs has represented a relevant reference archetype. Thus, the major sources of the chart have been represented by the State and Regional regulations along with other public experiences in which more or less analogous technical issues have been recorded.

In order to avoid a complex structure, the chart was organised on only four levels, i.e. groups, headings, ledgers and elementary accounts; the first three of these could not be modified by

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<sup>8</sup> The reclassification had to occur once a year at first, and on a quarterly basis after the first year of experimentation.

each entity while the last level could be adapted to their needs by adding other items, internal distinctions and any other change suited to the purpose.

Finally, the entities had to observe as long as compatible the national accounting principles of the Italian Standards Board (O.I.C.) and, only secondarily, the international accounting standards laid down for companies (i.e. IFRS) or those envisaged for the public sector (i.e. IPSAS).

In conclusion, the main novelty of the work carried out by the Committee has been the introduction of an accrual basis accounting system, typical of the business world, by integrating it with the traditional cash basis one because of the advantages that this latter has continued to have in terms of authorisation control of expenditure. However, the coexistence of the two accounting systems implied some inevitable technical issues and coordination problems, the resolution of which was considered necessary to guarantee a perfect operation of the new accounting system such as delineated. Thus, the Committee adopted solutions inspired by a good pragmatism ranging between two antithetical positions, namely a faithful derivation from an accounting system or from a mandatory list of rules. At the same time, it showed an aptitude to anticipate some tendencies ongoing in the national and international context rather than transposing *ad litteram* principles already widespread in the Italian public sector world and not only.

The accounting innovation that followed has not been a mechanical imitation of an accrual basis accounting system thought for the business world instead it has had its own distinct purposes that is to introduce a system able to provide measurements regarding two important indicators namely the efficiency and the economy, respectively. Thus, in relation to both the financial and cost accounting systems (the two accrual ones in three, being the third the traditional cash accounting), the Committee provided detailed accounting, measurement and allocation criteria, close to the model of the French Plan Comptable Gnral, as the result of a mingling between general principles on the one side and typical problems of such specific class of entities on the other. Although the Committees activities and the chart of accounts as outlined by itself were addressed only to the Sicilian public entities, its work represents until now a relevant opportunity for a more generalised study. Indeed, the debt towards the Civil Code intersected with the peculiarities of the public sector entities, by inducing to re-think about the nature of stocks and flows for the *azienda lato-sensu* even before for its specific classes, thus speaking of a generality rediscovered in the specificity of the theme coped by the Committee.

Finally, it is possible to draw the conclusion according to which the Sicilian Regional public bodies have embarked on a path on the wave of the then NPM movement that pointed out the need for a more or less radical change of the traditional accounting system. In such occasion, the concerned entities experienced the introduction of an accrual basis accounting (in parallel with the traditional one) by applying a chart of accounts such as the one outlined by the Committee that saw a joint collaboration between the practitioners on the one side and the academic world on the other. Although such an experience is noteworthy especially if one considers that the Sicilian Regional government has not introduced the accrual basis accounting yet, it is necessary

to regard the matter in the light of the current modified context in which the role of the public sector entities has changed over time inducing to think over about the current accountability codes but now under a critical view.

### 1. Concluding remarks

Our case study, even with interesting features, now belongs to the history of accounting. The great reformation of all public sector Italian accounting, following the Law no. 196/2009 and the derivative decrees are overwhelming, in these years, all local or regional experimentations and traditions.

A new public accounting, rooted on the so called *sistema della competenza finanziaria potenziata* (a sort of modified cash accounting system), is moving its first steps, in parallel with an accrual accounting, now generalised in its application, for the production of financial reports, which seems very similar, perhaps too similar for being really useful, to the ones thought for private businesses. This trend now concerns all Italy, and then also our little sample.

The only part of it surviving is the one concerning cost accounting, not yet involved by the national great reformation, but this surviving one, without the other two main accountings, is a non-sense waiting for a solution. But the actual situation goes beyond the scope of our work.

The relevance of this case study lies on the witness that accrual accounting for public bodies is not only easily allowable but also that its best implementation can be reached when this kind of accounting is thought originally for public and not for private entities.

The strength of this experiment is that an underlying model of stocks and flows, typical for public bodies, was thought before the introduction of it. A model where traditional revenues are systematically substituted by active transfers, the most typical positive economic flows for public bodies. Difficulties, delays and other practical issues encountered in the Sicilian history, on the contrary, concern only history and are not of scientific interest.

The case, furthermore, improves our knowledge about NPM revolution, adding a little piece in this epochal transformation. But it confirms two acquisitions, now generally agreed upon throughout the all over scientific community.

The first one is that public bodies cannot entrust all their accountability to accrual accounting. The control on economy, that is the verifying of keeping continuously an economic equilibrium between economic resources acquired and spent or consumed ones, is allowable by means of a proper accrual accounting. The control on stewardship in spending public cash, could be kept by maintaining a traditional cash accounting besides the new accrual accounting. The control on efficiency could be pursued by building upon the financial accrual accounting a fit management accrual accounting, better than only a restricted cost accounting and control. But all that will fail on effectiveness because the goal of the public body is not that of maximising the net profit, or the overall value of the entity, but to produce intangible service to the community. The production of such services could be accounted for only by means of an integrated accounting (the three bottom lines for example), in relation to which accrual accounting is only a first step, where only financial values are measured and accounted for a compulsory first step, but not sufficient for the final end of the entity.

The second one is that public bodies always have two horizons along which variables are measured: the entity itself, or the inside objective system, and the outside social system where the entity is located, or the reference system. This double perspective is not to be misunderstood with the environment for firms. For private institutions, as firms are, environment is only the scenario where they are positioned. In public institutions, the social system belongs to the function of utility in a logic of cooperation or win-win among the entity and other entities, organisations and institutions. The environment here expresses an inter-institutional horizon, opposed to the simple institutional one. In firms the inter-institutional horizon is not fully accountable (we may measure only the flows from and to environment in a logic of CSR) where we here can and must account for it in terms of stocks and flows (Bianchi, 2012). The frontier, then, of public accounting seems a full exploiting of this cash, financial, social and environmental accounting both inside the entity's boundaries and outside, in response to entity's activities (or transactions) and external events.

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