

The Path toward Accrual Accounting in the Public Sector from the Perspective of Italian Municipalities

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[Doi: 10.60154/jaepp.2024.v25n1p40](https://doi.org/10.60154/jaepp.2024.v25n1p40)

Submitted: 23 December 2023

Accepted: 05 February 2024

Published: 15 March 2024

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Cite As:

Benfante G., Mozzoni I. & Ferretti M. (2024). *The Path toward Accrual Accounting in the Public Sector from the Perspective of Italian Municipalities*. Journal of Accounting, Ethics & Public Policy, JAEPP, 25 (1), 40. <https://doi.org/10.60154/jaepp.2024.v25n1p40>

Abstract

The goal for the coming years set by the European Union to harmonize public sector accounting is to implement a single accrual-based accounting system for all public administrations. Italy is moving towards full adoption of this accounting system for all local authorities by 2026 and can be seen as an example of a country in transition from a modified cash accounting system to a full accrual accounting one. This research makes use of semi-structured interviews with key actors in the accounting departments of municipalities in Emilia-Romagna, one of the most economically developed regions in Italy, to assess whether the current public accounting system is ready to move to full accrual accounting and whether the transition would be considered beneficial for Italian municipalities. The results show that municipalities are still far from the full implementation of accrual accounting, both in terms of the maturity of the system and the usefulness of the information. The research contributes to understanding the level of accounting maturity in the public sector and helps to identify the main critical issues for the full adoption of accrual accounting, finding new paths to be followed to make its implementation effective. At the international level, this work may be useful for all countries that are changing their accounting systems to understand what measures need to be taken to facilitate the transition to full accrual accounting in the public sector.

Keywords: Accrual; Accounting change; Modified cash accounting; Local governments; Public sector

Introduction

The goal for the coming years, set upstream by the European Union with Directive 2011/85/EU, is to move towards a single accrual basis accounting system for all public administrations (PAs). The purpose of this reformatory process is the perfect homogeneity, transparency, and comparability of financial statements as well as the enhancement of the overall quality of European public accounts. In fact, the regulatory and accounting standard-setting bodies state that their mission and function is to serve and protect the public interest through common and transparent accounting rules and standards that better regulate the interactions between public and private entities (Huber, 2015).

The use of International Public Sector Accounting Standards (IPSAS) for the public sector, which seems to be the inspiration for the European accounting standardization process (Lombrano, 2021), through the implementation of its standards (EPSAS - European Public Sector Accounting Standards), would allow the enhancement of municipal management and public assets (Aprile et al., 2018) through a homogeneous and comprehensive imputation system that focuses exclusively on the recognition and subsequent reporting of management events through the use of double-entry accounting as an essential tool for monitoring management (Quagli, 2017).

Indeed, the belief that the convergence toward unified accounting rules and a move to an accrual basis of reporting for government accounting can help reduce the problem of divergence of balances and the need for adjustments between national and European accounting systems (Lüder, 2000) is part of the broader doctrinal and inspirational current of New Public Management (NPM). It has pushed for the introduction of accounting practices that would facilitate international data comparisons (Chan, 2003; Schmidhuber et al., 2022) and adequately represent the formation of the economic balance and capital effects of government.

Italy has also moved in this direction and, like many international countries (Poljašević, 2019; Pajković, 2023; Adhikari et al., 2021), it represents a country in a state of transition toward the adoption of full accrual accounting. Specifically, although Italy has already completed the full implementation of accrual accounting in the health care, university and chamber of commerce sectors, in local governments the modified cash system prevails. Currently, behind the impulse of the Recovery Plan, Italy has set the goal of a full transition to accrual accounting by 2026 for all public administrations. The accrual accounting in the LAs is set up through gradual reforms for cognitive purposes only. Accounting reforms in the Italian system are still ongoing, and future evolutionary trends (Cavaliere et al., 2011) seem to be moving toward the full transposition of international standards for the public sector on an accrual basis for all PAs.

Despite this position, the feeling is that there is strong resistance within local governments to the introduction of full accrual accounting. These are still strongly anchored in the authorizing logic of the budget, so the current financial accounting with its schemes has not met the integrative success desired by the legislature, yet.

Therefore, in line with these evolutionary trends, the objective of the following research is to assess whether, from the point of view of the accounting directors and middle managers of the LAs accounting departments, the current Italian harmonized system, in which two accounting systems coexist, the cash and the accrual accounting, (Anessi Pessina and Steccoli, 2007) is ready for a transition to the full accrual-based accounting (Grandis and Federici, 2020) (QR1) and, more importantly, whether the transition to it can be a useful tool for improving municipality management (QR2).

This paper seeks to place itself within the current international debate concerning countries in a state of transition to full accrual accounting of local governments, highlighting the limitations that the accrual-based system may have on the informative value of the financial statement and contributing to the literature on the subject.

Literature review – “A still opened debate”

Over the past three decades, there has been a widespread notion that the public sector should follow the “corporate recipe” (Marcon, 2011), downsizing the highly bureaucratized and hierarchical logic of management in favour of new managerial forms capable of increasing its budgetary accountability and decision-making processes (Hyndman et al., 2019), as building blocks of good governance.

To play a decisive role in the reform processes has been the advent of the New Public Management (NPM) paradigm (Hood, 1991), which has found its strength in the spread of new accounting practices that are more careful about the quantitative aspect of data, the final result (Lapsley et al., 2009; Lapsley, 1999), and the transparency of information for decision-making purposes. Although decades have passed since the advent of the NPM, it continues to be the main subject of public sector reform debates (Mussari et al., 2021) as well as the theoretical framework of reference for public accounting research (Steccolini, 2019). In fact, as pointed out by various authors (Pallot, 1992; Guthrie et al., 2005), the central role of the NPM has been to introduce accrual accounting in the public sector in order to make financial statements, accounting principles, and practices homogeneous, compatible and comparable through an ongoing process of harmonization (Nobes and Parker, 2012; Caperchione, 2015).

Even if, in Italy, this system has already been implemented, albeit at different times, in universities and in the health sector, the legislator's goal is to move to full accrual accounting for all local governments by 2026.

However, at the international level, the debate on the usefulness of this accounting system is still animated and the literature on the subject is abundant. Indeed, lots of authors have ventured to demonstrate the benefits of this accounting system within a governmental context, starting with Pozzoli (Pozzoli, 2005), who has argued that economic-equity accounting is “inevitable in the medium to long term, both because of its inherent superior information capacity as third-party accounting and because of its greater rationality at the level of management accounting”. Other contributors (Pina and Torres, 2003) describe its importance in giving more accurate information about a country's solvency (see also Caperchione and Salvatori, 2012), the value of capital assets, and the cost of public services; Choi (2003) asserts that converging toward unified accounting standards improves the international comparability of financial statements and ensures satisfactory and useful information for all stakeholders; likewise, Chan (2003) stresses its instrumental importance in improving disclosure and accountability within the democratic and free-market system. Other authors (see Anessi Pessina, 2002), on the other hand, welcome its informative value, capable of overcoming the limitations of cash accounting, which does not allow the identification of costs and the use of resources, the measurement of efficiency and in general of the performance achieved. Therefore, through the introduction of accrual accounting, management would be more directed to think in terms of costs and not expenditures. By correlating costs with the results achieved, the information needed to improve planning and resource management in decision-making processes can be obtained (Christiaens et al., 2015), just as accrual accounting would do (Carlin, 2005) in companies. Moreover, recent studies have shown that the degree of usefulness of the information provided by accrual-based financial statements improves accountability, disclosure and decision-making by policy users compared to cash-based reports (Haustein et al., 2021; Ismail, 2022).

Thus, if we want to summarize, the most suggested managerial uses of accrual accounting would include financial resource allocation, improved decision-making processes, better cost evaluation, accountability, and internal and external information transparency and disclosure.

In contrast, critical and contextual scholars claim that the actual benefits of the transition to accrual accounting on comparability, accountability and decision making are elusive (Columbano et al., 2023). Difficulties concerning the introduction of this accounting emerge from international experiences, both from a purely operational and theoretical point of view. As concern assets, Mautz (Mautz, 1988), for example, noted how

many real estate assets, in local governments, are historical and not derived from market purchase transactions, therefore lacking objective economic value and replacement. Thus, an objective difficulty would be created in assigning a value to monumental assets or assets of historic character, such as the market value attributed to Milan Cathedral or the Eiffel Tower (Lapsley et al., 2009). Trying to express value in monetary terms anyway, based on accrual rules, is an activity inevitably accompanied by uncertainty and subjectivity (Mellett et al., 2009). Indeed, reported results would lack reliability and create “accounting fictions” (Carnegie and West, 2003; Potter, 2002). What is more, it has been observed that many real estate assets in the LAs’ heritage generate only financial outflows to preserve their durability (e.g., maintenance expenses) without having a return in financial terms. This mechanism does not fit with the purpose of accrual-based accounting, which aims to reduce management inefficiencies and cut costs.

Another negative factor, widely observed in the literature, is the presence of subjective judgments that accrual accounting requires (e.g., calculation of depreciation, amortization, etc.). Subjectivity can lead to the creation of confusing financial statements with a consequent lack of consistency and reliability (Jorge et al., 2007; Mellett, 2002; Pilcher, 2011) both internally, between financial statements produced by the same entity in different periods, and externally, between the financial statements of different entities; it can also generate accounting manipulations and lead to “creative” solutions (Olson et al., 2001; Vinnari and Näsi, 2008) by public managers, especially when it comes to reporting on the results achieved. Elliott et al., (2019) demonstrated that managers and politicians manipulate financial information to achieve their goals, either by increasing or decreasing it. This is supported by the equal number of positive and negative discretionary accruals. Consider, for example, discretionary accruals that can be used to deflate financial performance (Pilcher, 2010), or to hide management inefficiency by shifting the recognition of revenues and expenses to different periods, thus affecting the results of those periods (Garcia, 2014).

This phenomenon contributes to a decrease in the reliability and transparency of financial reporting as well as comparability among financial statements of public organizations, with the risk of making accrual-based reporting ineffective (Carlin, 2005; Vinnari and Näsi, 2008).

Moreover, several authors have pointed to a low level of democratic control and transparency in the adoption of accrual-based accounting. This sounds somewhat strange because one of the advantages traditionally associated with this accounting system is comprehensive information on the costs, assets, and liabilities of public organizations (Bonollo, 2022). However, the complexity of the information and lack of understanding by potential users, including policymakers, prevent this accounting from playing a crucial role as

an accountability tool. The additional information provided by accrual accounting often does not meet the information needs of policymakers (Caruana and Zammit, 2019; Christiaens and Rommel, 2008), who find it difficult to understand the amount of information being produced. As a result, the abundance of information available can create a problem known as “information overload” (Bawden et al., 1999; Bawden and Robinson, 2020; Ashton, 1993). This makes financial statement information unusable for decision-making purposes and forces decision-makers to rely on traditional cash accounting, which is more suitable for local governments (Monsen, 2002). Indeed, local governments define the spaces in which management activities can be performed based on the authorization aspect. In addition, the two accounts generate multiple and sometimes discordant perspectives (think of the case where in cash accounting a surplus is produced, while in accrual accounting a loss is generated), of representation of the same phenomenon (Olson et al., 1998; Guthrie et al., 2005), making the information produced and its effective use for decision-making purposes unreliable. Thus, accrual accounting appears to reduce democratic accountability because it undermines the ability of politicians to exercise democratic control over the use of public resources (Marty et al., 2006).

In addition, the goal of greater clarity of accounting information prepared for users has not yet been achieved. Accrual accounting and related financial reporting seem to suffer from low reliability due to a lack of representative fidelity. Many scholars express skepticism about the inclusion of all activities in the annual accounts because of measurement difficulties and the discretion inherent in accrual accounting. This lack of overall quality in reporting can lead to a lack of transparency of information, limiting the primary function of accounting in supporting the decision-making process of internal and external stakeholders (Bonolli, 2022).

On the experience of other European countries, such as Portugal, Belgium, Estonia, Cyprus, Malta, Austria, and part of Germany¹ (MEF, 2019), Italy is embarking on the process of integrating accrual accounting within its public administrations, aiming for the complete replacement of modified cash accounting in local governments. Other European countries are, however, more reluctant and anchored to their accounting systems. On the political and institutional level, considerable resistance has been observed, to relinquishing their regulatory power in favour of supranational regulation (Mussari, 2014). Luxembourg as well as the federal state of Bavaria continue to maintain and prefer their accounting system. The Bavarian government, in particular,

¹ In Germany, the accrual based accounting system is applied in two federal states (Hesse and North Rhine-Westphalia), in two city-states (Hamburg and Bremen) and in all municipalities belonging to 12 of the 16 federal states, while it is not applied at the federal state level where the pure cash system still applies.

doubts the goal of accrual accounting to improve the quality and comparability of data in order to prevent economic and financial crises. It also believes that in implementing the accrual accounting system, the benefits do not outweigh the costs (European Commission, 2017). In this respect, the German Federal Audit Office (Bundesrechnungshof, 2017) has also expressed misgivings about the mandatory introduction of an accrual basis accounting system (Eulner and Waldbauer, 2022) to prevent sovereign debt crises (Manes Rossi and Caperchione, 2018).

Nevertheless, the need for accounting information that can highlight more broadly the ability of public companies to be self-sufficient in economic terms has convinced the Italian legislature to push further toward the application of systems that can better represent their “state of health” (Bianchi et al., 2018), using common standards and principles, also with a view to greater European (Manes Rossi and Caperchione, 2018) and international integration.

However, since its introduction by Legislative Decree number 77/1995, which has provided for income statement and balance sheets in reporting, accrual accounting seems to have assumed a marginal role and mere regulatory obligation, being perceived as a mere appendix to the cash accounting and a derivative of it (Buccoliero et al., 2005).

At present, although there have been various reforms over time in the LAs aimed at enhancing accrual basis accounting, traditional cash accounting continues to maintain a central role in the information system, as the tool on which preventive, concurrent, and subsequent disclosures are based. Resources, in fact, continue to be allocated based on modified cash accounting, consequently directing recipients to base their decision-making processes on it, without paying attention to costs (Anthony, 2000; Buccoliero et al., 2005) nor to the income statement and balance sheet, the main summary schedules. The co-presence of the two accounts system would seem to be the main cause of the low use of the information provided by the financial reporting (Caccia and Steccolini, 2006). Moreover, as confirmed by empirical research, “if accounting information is poorly used, as in the case of financial accounting, its quality level tends to decrease, generating a vicious circle in which the new accounting system tends to be introduced simply as a new bureaucratic routine, emptying itself of its informational usefulness” (Padovani, 2018; Pinnuck and Potter, 2009; Pina et al., 2009).

Before the introduction of modified cash accounting, some authors had pointed out the limitations and low, if not nonexistent, informative value of economic and asset accounting in the Italian context (Buccoliero et al., 2005). This, in fact, being based on the “translation” into economic and asset accounting of the values obtained from cash accounting, through the use of automatism sanctioned by the “*reconciliation statement*”, did not bring any

reliable informational utility (Corte dei Conti, 2013) and made the purpose and actual use of the income statement and balance sheet unclear. Legislative Decree number 118/2011, together with the 2014 reform (Legislative Decree number 126/2014), introduced major corrections to the financial statements themselves, bringing them closer to accrual principles. With the modified cash, the preparation of the income statement and balance sheet is done through a “*correlation matrix*” (Anzalone, 2017), a more effective and reliable tool than the old reconciliation statement. However, accrual accounting remains a derivation of modified cash accounting with the consequence that “any error in modified cash accounting, automatically produces an error also in the accrual accounting, inevitably limiting its cognitive value” (Grandis and Federici, 2020). A little more than a decade after the “harmonized accounting”, which provided for greater “integration” for cognitive purposes only of accrual accounting, the question arises whether, in the opinion of the interviewees, the current accounting system is ready to incorporate accrual, as enshrined in the Italian Recovery Plan² reform, and whether this is useful in improving accountability.

Methodology

A qualitative approach was used to answer the research questions using semi-structured interviews. Interviews were preferred to questionnaires because the former allows for a better capture of respondents’ opinions on accounting issues and gives them the opportunity to fully justify their answers. Indeed, the discursive approach is not simply a channel through which content is disseminated but reflects “particular cognitive outcomes or representations” of the respondents (Cornelissen et al., 2015; Hyndman et al., 2019).

Interviews were conducted by telephone or via the Microsoft Teams® platform between April and May 2023. Following the methodology used by Hyndman and Connolly (2011), interviews were conducted with individuals who held the role of accounting director or a middle manager in the local government accounting department, as they could provide realistic and competent opinions on the current public accounting system.

The sample of respondents was selected from municipalities in the Emilia-Romagna region with a population of over fifteen thousand. Using the AIDA PA database, which contains data of all Italian municipalities, the municipalities of the Emilia Romagna region were isolated. This resulted in 330 municipalities. Within this population of 330 municipalities, only

² The Italian Recovery Plan, which in Italy is called “Piano di Ripresa e Resilienza” (PNRR), is the program through which Italy wants to manage the Next Generation EU Funds. Within the plan, Italy has provided for the transposition of Directive 2011/85/EU to move to accrual accounting for all PAs by 2026.

municipalities with more than 15,000 inhabitants were selected. The database gave a result of 55, which represents our sample.

Emilia Romagna is one of the 20 regions into which Italy is divided and is located in northern Italy. The choice to focus on a sample of municipalities from the Emilia-Romagna region is because, together with the Lombardia and Veneto regions, it is one of the most economically and financially prosperous regions in Italy, thanks to a careful policy of resource and investment management (Mosconi and D'Ingiullo, 2023). On the other hand, the selection of the size of the municipality depended on the constraints imposed by the Italian legislature on the adoption of accrual accounting in local authorities. According to the Italian Consolidated Text of Local Authorities, municipalities with a population of more than fifteen thousand inhabitants are subject to controls in the area of strategic control (art. 147-ter), aimed at detecting financial aspects related to the results obtained; in addition, for them the obligation is triggered to have a system of internal controls (art. 148) aimed at reducing, at the accounting level, the risk of manipulation or errors in the recording of daily transactions and to avoid that the external auditor cannot rely on the quality of the entity's financial reporting.

The design of the interview questions was the result of a focus group among researchers and business professors active in public administration research.

Before conducting the interviews with the selected sample, a pilot test was conducted on a smaller sample of respondents with similar roles to those of the interviewees. The purpose of the pilot test was to ensure the clarity and relevance of the questions to the research objectives.

The interviews were conducted in Italian and were structured around two questions aimed at investigating the opinion of the accounting directors and the middle managers of the accounting departments about the maturity of the current system in accommodating full accrual accounting and its potential informational usefulness.

The use of semi-structured interviews, lasting on average between 15 and 30 minutes, allowed the authors to gather information on predetermined and standardised questions relating to these key issues, while at the same time allowing experienced interviewees to digress and enrich their answers with broader insights. The interviews were recorded and transcribed into an interview record.

Given the potential sensitivity of the topics under discussion and the desire for participants to be as candid as possible, interviewees were informed that interviews would be reported in aggregate in order not to attribute statements to specific individuals.

The content analysis method, a technique widely used in studies concerning public accounting (Steenkamp and Northcott, 2007), was used to

analyze the responses provided. The analysis and coding of the open-ended questions were done using Dedoose® software, which provides a pattern recognition process capable of highlighting the most relevant and recurring keywords and themes for each question (Salmona et al., 2019; Ferretti et al., 2022).

Finally, the research team frequently discussed their interpretations of the transcribed data and their relevance, using an interactive and reflective approach (Della Porta, 2014; Pratici et al., 2023).

Results and discussion

Overall out of a sample of 55 municipalities, 41 key actors responded to the interview, with a sample coverage rate of 75 percent. Twenty-seven accounting directors and fourteen middle managers from the accounting departments responded, 56 percent of whom were female, with an average age of 56 and an average occupation in the public sector of 27.

The results of the two questions asked during the interview, “QR1: maturity” and “QR2: usefulness”, are presented below.

Table 1. *Maturity of the current financial accounting system in LAs, source: Our processing.*

NEGATIVE ANSWERS	ACCOUNTING DIRECTORS (Tot. 25)		MIDDLE MANAGERS (Tot. 12)	
Lack of interpretive skills and training	14	31.80%	5	31.25%
Lack of adequate guidelines and accounting standards for full accrual	12	27.30%	5	31.25%
Lack of human resources dedicated to the financial sector	5	11.40%	1	6.25%
Lack of appropriate software	5	11.40%	-	-
Modified cash not yet at full capacity	6	13.60%	1	6.25%
Accrual accounting does not fit the mission of the institution	2	4.50%	4	25.00%
TOTAL	44	100.00%	16	100.00%

Table 1 shows the results, in terms of absolute value and percentage, of the coding process for the first question, which is the one that identifies the maturity of the current public financial accounting system in Italian local governments.

The double-entry table shows how many times a topic was linked back to an item during the interview. In other words, the most recurring coded topics are represented, ranking the seven most frequently identified by respondents divided between those who consider the system mature and those who consider it, as yet, not ready.

Table 2. *Respondents who answered negatively to the first question, source: Our processing.*

NEGATIVE ANSWERS	ACCOUNTING DIRECTORS (Tot. 25)		MIDDLE MANAGERS (Tot. 12)	
Lack of interpretive skills and training	14	31.80%	5	31.25%
Lack of adequate guidelines and accounting standards for full accrual	12	27.30%	5	31.25%
Lack of human resources dedicated to the financial sector	5	11.40%	1	6.25%
Lack of appropriate software	5	11.40%	-	-
Modified cash not yet at full capacity	6	13.60%	1	6.25%
Accrual accounting does not fit the mission of the institution	2	4.50%	4	25.00%
TOTAL	44	100.00%	16	100.00%

Table 2 captures the results of “NO” respondents, broken down by position: accounting directors and middle managers.

As shown in Table 1, only 4 (9.8 percent) of the respondents out of 41 believe that the current system is ready to transition into full accrual accounting, as it appears that modified cash accounting, which introduced accrual accounting for cognitive purposes only, is already widely implemented. Those who consider the system mature identify the changes introduced by the modified cash as the main motivation. The latter being closer to accrual logic would have paved the way for a new way of interpreting accounting information, making the income statement and balance sheet a “*mirror of what emerged in the cash accounting*”, as pointed out by one respondent. It remains that those who consider the system mature present a numerosity of less than 10 percent consisting of 2 accounting directors and 2 middle managers from municipalities with inhabitants between 17,000 and 25,000. Interesting how these are not large municipalities. Probably the lower complexity of the entity favours the reading of information from the accrual accounting.

In contrast, 90.2 percent of respondents believe that the current accrual accounting system in the LAs is not mature. In particular, as widely confirmed in the literature, among the most frequently cited items considered to be the main factors for the failure of such accounting, the lack of interpretive skills and the role of training emerge crucially (see Caruana and Zammit, 2019; Christiaens and Rommel, 2008). Respondents (31.7 percent) pointed out that the political party and employees, including the accounting directors themselves, are unable to read and interpret the data emerging from accrual accounting because they do not have adequate knowledge of double-entry bookkeeping, since “*staff experience is shifted to cash accounting*”.

Respondents linked the skills issue to that of training, which is essential to overcome the “*cash accounting culture*”, the main basis for decision-making (Anthony, 2000; Buccoliero et al., 2005). A typical observation was, “*the system is not mature due to the employees because they are not trained [...] There is a cultural factor that does not allow this transition from one type of accounting to another because if the staff has been used to working in a certain way for years you cannot expect it to change completely within a year*”. Another consideration was, “*it is essential to work on the training of employees in the accounting departments, who have always worked in a cash accounting context*”; or again, according to an accounting director of a municipality with a population above 100,000, “*there is a lack of in-depth training aimed at accounting personnel on the interpretation of income statement and balance sheet item*”. There are 8 municipalities above 100,000 inhabitants, and they almost uniquely identify the problem of lack of skills as one of the reasons for the low maturity of the system.

It emerges, therefore, clearly how know-how and staff training could be the keys to investing in making the current system mature and be able to move to the accrual basis.

Still, in relation to human resources, another issue related to the role of training and skills is that inherent in the number of employees. Many entities, especially small ones (only 2 LAs above 100,000 inhabitants report this issue), complain about the shortage of staff, who are otherwise employed on bureaucratic issues and legal deadlines that do not allow them to devote attention to the analysis of accrual accounting. Ten percent of respondents feel this way. One middle manager points out that “*the problem is on the shortage of staff and the limits to be respected (e.g., fixed time); the lack of time and personnel leads to not being absolutely ready for this change*”. An accounting director laments that “*since LAs have big limits in hiring, each one of the staff deals with the most impactful mandatory fulfillments*”. The problem is, of course, most felt by directors because of their role in human resource planning and management. This issue was linked by respondents to the size and different accounting requirements for municipalities above and below 5,000 inhabitants (the latter not included in our sample). One respondent points out, “*the problem of accrual accounting also concerns the size of the local authorities themselves. Seventy-three percent of Italian municipalities turn out to have a population of less than 5,000 inhabitants, and the competencies within these are particularly limited and confined to very specific areas of daily activities*”.

Another recurring issue, which emerged from 28.3 percent of respondents, is the lack of adequate guidelines and accounting principles for the transposition of accrual accounting. As discussed earlier, respondents pointed out that double-entry entries are “derived” at year-end from modified

cash accounting, which is the main system on which decisions are made. This issue has already emerged in the literature as one of the limitations of the informational value of the accrual accounting system in LAs (see Buccoliero et al., 2005; Anzalone, 2017; Grandis and Federici, 2020)

There are still no suitable accounting standards that would allow for regular accrual accounting, even in parallel with modified cash accounting, and this *“does not allow for adequate analysis of data in conjunction with their occurrences”*. The issue of the lack of comprehensive guidelines, less than two years after the potential introduction of accrual accounting, is of concern to both large (over 100,000 inhabitants) and smaller municipalities. An accounting director of a local authority with a population over 100,000 comments, *“if we wanted to introduce full accrual from 2026, already today it would be necessary to have the principles to work on to prepare for the use of this accounting system. At this point, there will not even be time for experimentation”*. Middle managers, which are more operational and directly involved in the technical drafting of documents, appear to be the most sensitive to the issue (31.25 percent - Table 2).

Lack of adequate software is a relevant issue for 8.3 percent of the responding managers (no middle managers perceive the issue as relevant). One respondent reports, *“the main problem is the management software that works in modified cash accounting, but is not suitable for the transition to accrual accounting. It may seem like a minor problem for policy, but changing a software is not easy, training is needed, and you have to hope that the migration will not cause problems”*. It is interesting to point out how, again, the technical problem is overlaid with the skills and training problem shown earlier. One executive points out that *“there is a lack of a suitable information system, and, perhaps, before introducing a new accounting system, the Ministry could think about a common software for all local governments. So many problems would be solved, including that of staff mobility”*. Cross-cutting with the technical issue here is the issue of human resource management, which has already emerged in connection with the lack of dedicated staff.

Another issue that emerged from the interviews is the “modified cash deemed not yet at full capacity” (11.7 percent of responses). This issue is relevant only for municipalities under 100,000 inhabitants, highlighting a different accounting maturity, also in relation to the size and complexity of the interviewed entities. Many of them complain of excessive accounting and bureaucratic requirements imposed by harmonization. One interview shows how “the system (organizational and political as well as stakeholders) has to “digest” the new harmonized accounting; it has to become “familiar” with rules and new budgeting schemes, and I highly doubt that the implementation of a further accounting reform, a few years after the start of the previous one,

can explicate the expected effects; an additional training obligation of such a large scope would be very difficult to implement, if not impossible, for most accounting staff (especially those closest to retirement)". Again, the issue of training and human resources emerges as cross-cutting and permeates many responses, although it is not the main theme.

Finally, 6 respondents (10%) do not consider accrual accounting to be suitable for the mission of the institution because of the importance of modified cash accounting even today. The reason lies precisely in the different logic to which the two different accounts are geared. One respondent reports, "the system cannot be considered mature since it will never reach that point. Accrual accounting is suitable for private companies, where economic stability is a constraint. For public entities, it is better to use a modified cash accounting system that takes into account resource consumption. As for assets, they are often restricted and difficult to sell. A well-maintained inventory, updated regularly, would be more than sufficient". This position is shared mostly by middle managers and 3 municipalities with over 100,000 inhabitants. This is a very clear position that assesses not only the maturity, but the suitability of the accrual accounting system, an issue that we will find again, with very different percentages, in the answers to the next question. It remains to be highlighted how a part of the literature is in agreement with the reported statement.

Table 3. *The usefulness of full accrual accounting, source: Our processing.*

ITEM GROUPS		YES		NO		Quotes	
The Usefulness of full accrual accounting		21	51.20%	20	48.80%		
REASON	1	Calculation of total national debt	1	3.80%	-	-	Caperchione and Salvatori, 2012 Bianchi et al., 2018
	2	Enables industrial accounting implementation and management control	3	11.50%	-	-	-
	3	Accrual accounting as a single accounting system (simplification)	11	42.30%	-	-	Caccia and Steccolini, 2006 Anessi Pessina and Steccoli, 2007
	4	Accrual accounting not suitable for expenditure control	-	-	14	53.80%	Mellet et al., 2009 Olson et al., 2001 Vinnari and Näsi, 2008
	5	Accrual accounting improves the quality of information	11	42.30%	-	-	Christiaens et al., 2015 Chan, 2003 Pozzoli, 2005 Anessi Pessina, 2002 Carlin, 2005
	6	Information derived from accrual accounting is not useful to the institution	-	-	12	46.20%	Bonolli, 2022 Buccoliero et al., 2005 Carlin, 2005 Vinnari and Näsi, 2008
TOTAL		26	100.00%	26	100.00%		

Table 3 shows the results of the coding process of question 2, namely the one concerning the perception of the informational usefulness of full accrual accounting. The following results should be read as per Table 1 above.

Table 4. *Results broken down by position, source: Our processing.*

ITEM	ACCOUNTING DIRECTORS		MIDDLE MANAGERS	
	Calculation of total national debt	-	-	1
Enables industrial accounting implementation and management control	2	11,10%	1	12,50%
Accrual accounting as a single accounting system (simplification)	10	55,60%	1	12,50%
Accrual accounting improves the quality of information	6	33,30%	5	62,50%
TOTAL	18	100,00%	8	100,00%

Table 4 shows the results broken down by positions: accounting directors and middle managers.

51.2 percent of respondents perceive the shift to the full accrual accounting system as useful, but no clear polarization of results emerges. In fact, out of 41 interviews, 20 see it as not very useful. The 8 municipalities above 100,000 population, part of the sample, also split evenly (4 useful - 4 not useful).

Focusing on the YES, the most recurring items (represented by 42.3 percent of responses for both items) are simplification of the entire public accounting system and improving the quality of information. Respondents would prefer to have a single accounting system rather than having two integrated ones that entail significant management and training costs, as well as very strong difficulties in interpreting the values that emerge from the two different accounts. As previously noted (see Olson et al., 1998; Guthrie et al., 2005) multiple and sometimes discordant perspectives of representation of the same phenomenon are generated, making the information produced and its effective use for decision-making purposes of little use. As pointed out by one interviewee, it is often complex to interpret the data resulting from the two accounts *“especially with reference to the difference between the final result derived from the modified cash accounts and the profit or loss for the year that is shown by the financial accounts”*. The issue of simplification and unambiguousness of the key to interpreting business happenings is also felt more keenly by accounting directors because of their leadership role. One executive points out, *“A municipality must have a single accounting system, and one would have to choose either cash or accrual, both together are an aberration because it would mean having a huge cost for accounting management, both in terms of energy and skills. The integration of accrual and cash accounting is a failure”*. Some interviewees point out that, in light of the current dual-accounting setup of the system, the aspects that arise from accrual accounting are not considered because they are seen as a mere regulatory requirement from which no usefulness can be derived (see Buccoliero et al., 2005). For this reason, many respondents would like to see a change in the direction of a single accounting system that is able to capture both the economic and financial aspects without burdening entities with additional accounting documents. *“The harmonized system, where accrual accounting is integrated with modified cash accounting and in which adjustments are made to produce the income statement and balance sheet schedules as an appendix to the modified cash financial statements, is of limited effectiveness. It would be desirable to move in the direction of a single public accounting system [full accrual] so that we have a useful tool and do not make adjusting entries to bring the modified cash financial statement to the accrual one”*. As reported in the literature, the co-presence of the two

accounts would seem to be precisely the main cause of the poor use of the information provided by the accrual reporting (see Caccia and Steccolini, 2006; Anessi Pessina and Steccolini, 2007).

In 11.5 percent of the interviews, it emerged how full accrual *“Could have the usefulness of helping management control, strategic control for evaluating the impact of the objectives set in the planning phase”* and in general allows the full functioning of industrial accounting, which with the current integrated system does not work. This direction, although residual, is interesting because it hints at the prospect of moving beyond the *“executive plan of management”* (PEG)³ to genuine management control. In fact, the introduction of full accrual accounting, in the opinion of the research team, would allow the integration of accounting data within the *“unified planning document”* (DUP)⁴, thus allowing for a single planning document that includes strategic and operational objectives along with the associated resource and responsibility allocations.

About 54 percent of respondents consider the introduction of economic and asset accounting not useful for two reasons: it is not suitable for expenditure control and it does not guarantee useful information for the institution.

The first issue can be traced back to the authorizing function of financial accounting, which is essential for expenditure control. This function is not found in the accrual system except through authorizing budget systems. Accrual accounting is, therefore, not considered suitable for such control because it is not able to fully replace modified cash accounting, whose task is to fulfill the authorization of expenditures and their limitation. Because of the different nature of the two accounts and the purposes to which the two types of businesses, the public and the private, are oriented, one interviewee notes that *“what municipalities are interested in is only the authorizing function and thus compliance with an a priori financial balance, not the creation of income; having an authorizing accounting is essential”*, because *“if municipalities used accrual accounting they would lose ex-ante control of expenditures: the modified cash accounting places constraints on administrators and it is not possible to consider the municipality as a profit-oriented business. Only a*

³ The PEG is a mandatory document produced by the LAs administration that relates the financial resources available in the municipality to the use of those resources by individual managers in order to achieve goals.

⁴ The DUP is a mandatory document that precedes the drafting of the LA’s budget and permits it to carry out strategic and operational management activities, in a unified manner. Following the principles of budget coordination and coherence, the DUP underpins all other planning documents. The DUP has two sections: strategic and operational. The first covers the full five years of the Mayor’s term and sets out strategic objectives. The second section provides operational details of objectives for a three-year period, in line with the three-year plans for human, financial, and instrumental resources required by LA accounting guidelines.

fraction of revenue comes from commercial revenues; the remainder is income from taxes and transfers from other entities. If the accrual accounting system also succeeds in equipping itself with preventive financial control, similar to the current one, the accrual-based system can be adopted in the future as the sole accounting tool". Another respondent points out that *"Modified cash accounting is more suitable for the authorization system present in public authorities"*. Such positions are not new at the international level either, although different experiences present cases that, with different levels of effectiveness and complexity, have managed to reconcile the authorization system with accrual accounting. Remaining in Italy, the case of universities is an example of a budget that authorizes and controls expenditures, through ad hoc principles that regulate its operation.

The remaining 46.2 percent of respondents do not find accrual accounting useful because it does not allow them to give useful information to the entity. An interview with an accounting director revealed, *"the assets that are represented in the balance sheet have a different meaning than in private companies because, in the public sector, the assets are composed of items that represent an expense for the entity itself (road maintenance, castles, parks, etc.), while in the private sector, the assets allow you to grow the company through contributions or capital collections"*. It is evident how this response is consistent with findings in the literature (see Mautz, 1988; Lapsley et al., 2009) and how assets are one of the items that need more thought.

In the near future, the research team will extend the current work by increasing the sample size and, to overcome the typical limitations of qualitative research, will use quantitative methods to further validate the findings.

Conclusion

This study provides a critical review of the implementation and effectiveness of accrual accounting reforms in the Italian public sector and why they remain essentially ineffective in practice. It highlights the reasons why these reforms are not effective in practice, despite being aligned with European directives. The limited practical effectiveness of these reforms is due to the resistance encountered by previous reforms, particularly from politicians and internal management. The anticipated benefits for policymakers have not materialized, primarily due to the failure to consider context-specific factors and the prevalent cash accounting culture among public sector actors. The research highlights specific complexities that emerge from interviews and that could be useful for introducing the full accrual system in LAs, as envisaged by the Recovery Plan.

The first theme concerns skills and training. Cross-cutting from the responses is the need to introduce skills to read and use information from the

various measurement tools. The current accounting system, based on the coexistence of two accounting systems (cash accounting and accrual accounting), is still anchored in the cash accounting of the past. It lacks the keys to understanding the usefulness of the full accrual accounting system, which provides complex information, the interpretation of which certainly needs to be adapted to the public context.

Hence the need for training, picked up by the Ministry of Public Administration's "training directive", which aims to invest in skills through adequate staff training, the effects of which will, however, have to be quick. The implementation of a full accrual accounting system by 2026 would seem to date to be difficult to achieve even with powerful training interventions. On the other hand, many interviewees, more than ten years after the introduction of the Legislative Decree number 118/2011, point out that modified cash accounting is not yet fully settled. It would therefore be necessary to invest in extensive training of stakeholders, especially internal stakeholders (staff, politicians, and managers) through workshops and seminars with the aim of updating their skills and knowledge in understanding double-entry accounting, which is specific for the accrual basis, and in interpreting the information underlying accrual accounting in general. Cooperation with professional organizations can be very helpful in developing specific courses on the practical application of accrual accounting. In addition, as has been pointed out previously, the role of the modified cash accounting culture is still strongly anchored in the past. Therefore, in parallel with training strategies, it would be appropriate to implement change management strategies to address cultural and organizational resistance, including effective communication and involvement of all personnel.

The second issue concerns the management of human resources in terms of numbers, average age, and motivation. The rapid introduction of such high-impact innovations in all LAs requires flexibility and motivation. It is therefore necessary to provide for an effective turnover and a specific recruitment plan. To make public administration more appealing to young graduates, career paths and professional development opportunities should be created to attract and retain young talent within the institution. Academic institutions offering master's degrees and specialized training courses on accounting issues can help municipalities transition to accrual accounting. This ensures that the needs of municipalities struggling with the transition are met.

Moreover, there is a need for common, clear and auditable accounting standards. At present, the profit and loss statement and the balance sheet are only a derivative of modified cash accounting, which is perceived as a mere formal obligation that does not allow one to understand the informative scope of the system. The existence of guidelines is therefore essential, not only to

speed up the transition but also to make people understand the real benefits of accrual accounting. Indeed, the lack of information on how to set up the new accounting system may distort responses. It is clear that accrual accounting applied to the public sector can only have “ad hoc” principles that differ from those of the private sector, as is the case with universities.

Finally, a topic that did not emerge from the interviews is the use of pilot entities, as was done in the previous Italian reform of the transition to harmonized accounting. Pilot entities would allow a small sample of selected municipalities to start experimenting with the new accounting. These entities should be supported directly by the decision makers of the reform, through the provision of technological tools, financial resources, and human resources. Additionally, there should be forms of collaboration between the pilot entities and their direct involvement in decision-making processes. This would enable real-time feedback and an understanding of how to overcome obstacles in the implementation of the reform.

In conclusion, this study not only identifies critical gaps in the accounting practices of Italian municipalities but also provides a roadmap to overcome these challenges. The implementation of these solutions can result in a more transparent, efficient, and standardized accounting system, aligning Italian municipalities with international best practices. This progress benefits not only the municipalities themselves but also enhances the overall quality of public sector financial management, facilitating informed and strategic decision-making at the local government level.

This work can be a useful point of reflection for countries in the process of moving from a cash accounting system to full accrual accounting, to reflect on the level of maturity and the measures to be taken to facilitate the transition.

This research is the start of a wider journey that the research team has begun with the municipalities of the Emilia-Romagna region, to investigate the impact of the future IPSAS and EPSAS accounting standards and the future use of the ITAS accounting standards currently being developed by the Italian government for the Italian public sector.

Conflict of Interest: The authors reported no conflict of interest.

Data Availability: All data are included in the content of the paper.

Funding Statement: The authors did not obtain any funding for this research.

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