

From Consolidation to Segment Reporting in Local Government: Accountability Needs, Accounting Standards, and the Effect on Decision-Makers

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Consolidated Financial Statements (CFSs) in the public sector represent useful financial tools to improve transparency and accountability toward internal and external users. This aggregate view is only a part of the information needed in order to give politicians, managers, employees, financial institutions, rating agencies, and citizens a whole view of a local government's financial performance. It emerges the need to have segment information, covering specific policy areas for which it is appropriate to separately report financial and non-financial information. This paper, after having discussed the need for accountability and decision-making in a theoretical framework, gives account of a pilot project realized by the municipality of Reggio Emilia, which introduced CFSs and segment reporting. The empirical study is based on an action research as a methodological approach to solving practical problems. Finally, the paper also offers some practical suggestions to contribute to the applicability of the segment reporting in the public sector.

Keywords: Consolidated Financial Statements (CFSs), segment reporting, International Public Sector Accounting Standards (IPSAS), local government, action research

Introduction

Consolidated Financial Statements (CFSs) have been an area of growing interest for scholars and practitioners in the public sector during the last years. CFSs have been successfully introduced in a number of countries like the United Kingdom (UK), Canada, the United States of America (USA), Australia, New Zealand, and Sweden both at the central and local levels of government (Newberry & Pont-Newby, 2009; Heald & Georgiou, 2009; Grossi & Pepe, 2009).

In the public sector, the CFS is a useful instrument for governments that deal with a large number of

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publicly-owned companies, because it presents a clear picture of the current economic status of the public corporate group (Lande, 1998; Grossi, 2004; Wise, 2004, 2006).

This aggregate view is only a part of the information needed in order to offer the citizens and other stakeholders a clear view of a local government's impact. In particular, it does not allow to have segment information, covering specific areas and policies of intervention for which it is appropriate to separately report financial information (International Public Sector Accounting Standards (IPSAS) 18; International Public Sector Accounting Standards Board [IPSASB], 2000, § 9).

This is even more important for local governments which tend to delegate a big part of their service production to decentralized entities, such as corporations, private contractors, and public and private partnerships (Pina & Torres, 2002; Grossi & Reichard, 2008; Crediop, 2004). These entities, by managing and offering services, interact with the municipality in order to realize local policies and programs (Laughlin, 2008). As a result, it becomes quite difficult to determine the objectives and performances of a public local group and to find out effective measures and reporting instruments. All this requires a more comprehensive accounting and reporting system for financial and political accountability (Chan, 2003; Broadbent & Guthrie, 2008; Almqvist, Grossi, van Helden, & Reichard, 2013).

This paper is based on a literature review concerning information and accounting systems for decision-making in the public sector. It investigates the changes of informative needs for local authorities when decentralizing a number of public services. The research topic explores needs and expectations of managers and politicians in order to improve their ability to take decisions and gives account of a pilot project realized in a town with more than 150,000 inhabitants in Northern Italy, Reggio Emilia, which has implemented the CFS since 2009, and it is now introducing a consolidated segment reporting system.

The empirical study is based on an action research as a methodological approach to solving real problems (Reason & Bradbury, 2001; Coghlan, 2003). This approach has been chosen, because it allows a greater level of flexibility and an active involvement of both academics and decision-makers. The researchers worked within organizations as consultants. The decisions about the direction of the research have been collective and have been concerned with the identification of decision-makers' needs and expectations and the deployment and subsequent stabilization of a segment reporting system.

Theoretical Framework

Accountability and the Decision-Making Approach in the Public Sector

Scholars have highlighted the importance of accounting and financial reforms to new public management (NPM) change in order to increase both performance measurement and evaluation and performance accountability about the efficiency and the effectiveness by which politicians and managers use public resources (Mack & Ryan, 2006; Olson, Guthrie, & Humphrey, 1998; Broadbent & Laughlin, 2002).

In recent years, there has been a great deal of accounting innovation in the public sector depending on the historical and geographical localization of various lines of force (Miller & Napier, 1993). These changes are an integral part of the new public financial management (NPFM) and represent an improvement for the decision-making and the management of public institutions (Guthrie, Humphrey, & Olson, 1999). In particular, there is a large consensus on the implementation of accrual accounting as a means for making institutions more cost- and value-conscious and for leading significant improvements in their performance and accountability (Jarrar & Schiuma, 2007; Mack & Ryan, 2006).

The international literature (Schedler, 2006; Pallot, 1994; Chan, 2003) observed that accrual accounting is often seen as a prerequisite for the most important performance indicators (Bergmann, 2012) and provides more useful information for long-term assessment of public policies' financial sustainability (Grossi & Soverchia, 2011). It provides useful information in terms of decision-making, transparency, accountability, and public policy financial sustainability, both for internal and external use (Caperchione, 2006). Accrual-based financial statements provide also better measures of organizational efficiency and effectiveness (Athukorala & Reid, 2003).

Public sector provides services that are not generally offered in a market, and there is an emerging consensus that public organizations should be financially accountable and satisfy a number of different stakeholders. It appears the linkage between accounting systems and accountability and the consequent necessity to identify users' information needs (Lapsley, 1999). For example, Laughlin (2008) remarked the distinction between "entity accountability" and "decision usefulness" information. "Entity accountability" is interpreted as the reporting about the activities of the entity to inform all users, while "decision usefulness" is concerned with the reporting for particular decision purposes to particular stakeholders. He also stated that the two terms can represent the basis of a unified conceptual framework to fulfill the decision usefulness and decision needs of the different stakeholders involved.

Day and Klein (1987) identified political accountability as "the delegated authority and their actions to people" (p. 26); on the contrary, managerial accountability is about "making authority answerable for tasks according to defined performance criteria" (p. 27).

Stewart (1984) thought that public entity accountability can be developed in more levels, and one of these involves raising more detailed information and exposing policies and programs, in relation to time. For this reason, when implementing an accounting system, it is important to clarify purposes (internal and external) and expectations of managers and politicians and take into account their information needs.

The shift from financial accounting to public accountability and from traditional financial control to a more "value for money auditing" is registered, even if with different scopes and speed, in many OECD (Organization for Economic Cooperation and Development) countries (Pollitt, Girre, Lonsdale, Mul, Summa, & Waerness, 1999).

CFS: Benefits and Limits

The growing development of municipal corporations has led to the fact that the traditional annual reports of local governments disclose only a partial view of their economic and financial activities, because the financial consequences of subsidiaries, joint ventures, and associates are not necessarily considered (Tagesson, 2009). Thus, the corporatization and decentralization process has led to a great lack of information (Walsh, 1995). Hence, the annual accounts of local governments do not give a true and fair view of the whole of local government (Rhodes, 2000; Osborne & Brown, 2005; Bundred, 2006).

Thus, CFS is recognized and promoted as essential to support decision-making processes and to ensure public accountability (IPSASB, 2011). As a result, accountability and decision usefulness are not guaranteed by the traditional annual reports of local governments anymore. Internal (e.g., politicians, managers, auditors, and employees) and external users (e.g., citizens, voters, taxpayers, suppliers, other public administrations, banks, and rating companies) of financial information are not able to base their decisions on reliable and relevant information about the financial position, financial performance, and cash flows of the whole of local government

(Grossi, 2009). The use of CFS in public sector has actually also been accompanied by some critiques about:

(1) The private sector accounting standards are often translated into public sector without due attention to the public sector peculiarities in terms of objective (provision of goods and services), organization (politicians and managers), finance (grants, taxes, etc.), the importance of the budget, responsibility for heritage assets, and longevity of public sector entities and programs (Heald & Georgiou, 2000; Grossi & Steccolini, 2008; Grossi & Newberry, 2009; IPSASB, 2010);

(2) Lack sufficient details about controlled entities that operate across several services, and the aggregation of dissimilar data makes complex the consolidation process especially in the public sector where governments and related government entities (such as agencies, boards, commissions, and state-owned enterprises) use different accounting standards;

(3) Governments and its controlled entities, indeed, according to Clarke and Dean (1993), are a fictitious structure, without legal power to exercise rights or incur physical or financial damage. Finally, Clarke and Dean (1993) claimed that it is curious that aggregated data are considered, with consolidation, more informative than disaggregated data, which virtually everywhere are deemed to enlighten complex situations.

Advantages of Segment Reporting in Public Sector Organizations

On the wave of private sector accounting standards, in 2000, the International Public Sector Accounting Board issued the IPSAS 18 *Segment Reporting*. As defined in the IPSAS 18, a segment is represented by:

A distinguishable activity or group of activities of an entity for which it's appropriate to separately report financial information for the purpose of evaluating the entity's past performance in achieving its objectives and for making decisions about the future allocation of resources. (IPSASB, 2000, pp. 452-453)

Segment is identified as a strategically relevant sub-system disclosing issues that are similar to central administration ones, characterized by organizational management (Lombardi Stocchetti, 2007).

Information provided by segment reports can be seen as an alternative indicator of the total group performance, but they also provide details about the performance of each segment of activity of the group (Emmanuel & Garrod, 2002). The need to adequately reply to growing citizens' needs, in terms of policies and services quality, having scarce resources available, forces governments to deeply understand financial and organizational performances and to find ways to measure the degree of accomplishment of strategic and political objectives, assuring both services quality and effectiveness. Because of that, more transparency in using public resources and in reaching results is required toward decision-makers, citizens, and other stakeholders. Segment reporting allows politicians and public managers involved in the planning process to use aggregated data in a different way and to easily obtain accessible information in order to take decisions and allocate resources, improve internal communication, and perform accounting duties (Rolando, 2004).

Secondly, segment reporting is relevant also for external stakeholders who are differently interested in an entity's activities (for example, citizens who are users of public services and tax payers, financial institutions, subsidiaries, creditors, donors, and also financial analysts and rating companies who have to certificate government "credibility").

Segment reporting presents external advantages for public administration, since it allows demonstrating and documenting an entity's activity to citizen users and other stakeholders, by underlining resources allocation, not only in terms of accounting regularity, but especially in terms of management efficiency, effectiveness, and economy (Staderini, 2002). It permits to have a global view of the allocative method and of revenues distribution, which allows better supporting and justifying responsible choices, by rationalizing and

coordinating each action toward shared objectives and by avoiding revenues wastes or allocative inefficiencies.

Segmentation mainly answers to political-economic objectives, rather than financial ones, and there is no universally acceptable prescriptive means of identifying reportable segments (Emmanuel & Garrod, 2002). That is the reason why activities' attribution to different segments of activity should reflect logical operations (such as economic classifications, the areas of responsibility, the main political and social areas of activity, or other particular segmentations required by administrators) (IPSASB, 2000). However, there are some limits in terms of relevance and comparability of segments depending on the method by which they are identified (Emmanuel & Garrod, 2002) and by the degree of political and managerial discretion (Accounting Standards Committee, 1990).

Case Method

Reggio Emilia Network and Whole of Government Strategy

The municipality of Reggio Emilia is one of the capital cities located in the Emilia Romagna region. It counts 167,000 inhabitants, 1,091 employees in core administration, and a budget volume of around €174 millions (year 2010). By the end of 2010, the municipality of Reggio Emilia has shares in 26 corporations which have different legal forms (public or private) and different ownership structures (totally public or mixed public-private) and are responsible for providing different public services, such as pharmacies, schools and nurseries, water, gas, waste, and housing. The municipality of Reggio Emilia has also established contractual relationships with several entities mainly in charge of social services delivery.

The municipality of Reggio Emilia, in the role of owner, defines the group strategies, coordinates the activities of the owned corporations, and controls their performance. The group strategies are defined within the strategic plan of the municipality, which is useful to steer the activities to be performed in the medium to long term (five years).

In the strategic plan, programmes and strategic objectives, to be realized by the internal unit of the municipality and its corporations, related to the 5-year electoral mandate, are defined in line with political guidelines. For the year 2011, seven programmes were defined, and for each programme, 24 strategic objectives and a system of indicators to measure their achievement were also defined.

The corporations' interim reports allow the municipality to monitor business risks and to timely and effectively control the achievement of individual corporate targets defined by the municipality. For this purpose, the municipality of Reggio Emilia requires each corporation to compile the following reports which are helpful to monitor the economic and financial equilibrium:

(1) Quarterly reports concerning the corporate activities, with an income statement divided by cost centers and performance indicators of effectiveness and efficiency;

(2) Annual reporting of the overall financial results of each service provider and all financial intra-group relations between the municipality and its corporations.

In 2008, in order to have a better control of its corporations, the municipality of Reggio Emilia compiled and published its first CFS according to IPSAS 6, 7, and 8. The area of consolidation was made up of several decentralized entities (12 controlled entities, 13 associated entities, and five joint ventures), with private organizational forms and public organizational forms. In order to control the non-financial performance of municipal corporations and other external service providers, tied to the municipality of Reggio Emilia only by

contractual relationships, the following tools are used: customer satisfaction analysis, service contracts, and citizens' charter of public service providers. Considering the 2010 financial year, the municipality of Reggio Emilia implemented a consolidated and segment reporting system. This experimental reporting system is based on the identification of 10 segments and a plurality of sub-segments.

The Action-Based Research: Methodology and Interviews

The present paper draws on the application of IPSAS 18 (IPSASB, 2000) in order to integrate traditional annual reporting with segment information about the policies and activities pursued by the city, by municipal corporations, and also by external providers. The aim of the researchers has not only been to build and implement an integrated segment reporting system for the municipality of Reggio Emilia, but also to test a model that could be extended to other public organizations. The study is based on an action-oriented based approach, traditionally defined as an approach to research based on a collaborative problem-solving relationship between researchers and practitioners, aimed at solving a problem and generating new knowledge (Coughlan, 2003).

Action research combines theory with researcher intervention to solve immediate problems or realize experimental studies, linking theory with practice and studying with doing (Baburoglu & Ravn, 1992; Baskerville & Wood-Harper, 1998; Susman, 1983). In this way, research informs practice and practice informs research synergistically (Avison, Lau, Myers, & Nielsen, 1999). The dual purpose (and the subsequent dual outcome) of action-based research is to contribute both to the practical concerns of an organization and to the research (Coughlan & Coughlan, 2002).

It involves a cyclical process of diagnosing a changed situation or a problem, planning, gathering data, taking action, and then fact-finding about the results of that action in order to plan and take further actions (Lewin, 1946; Baskerville & Wood-Harper, 1996). Referring to the present research, action research used a scientific approach to study managerial and accounting issues together with public managers who experience these issues directly. We have covered several roles: We have worked as trainer, observer, consultant, collaborator, and designer of the project (O'Brien, 2001).

As recommended also by IPSAS 18 (IPSASB, 2000), in the first step of the research, we had an exploratory meeting and made some non-structured and informal face-to-face interviews to consider the "expectations of politicians and management regarding the key activities of the entity and qualitative characteristics of financial reporting" when defining segments. By selecting managers and politicians to interact with, we wished to identify subjects that are actively involved in the design and use of segment information. We interacted with the Head of the Planning and Controlling Office (HP&CO), and we made interviews with the Councilor for Finance (CF) and the Head of the Welfare Office (HWO).

Then, we worked jointly with the HP&CO and its staff to realize the segment report. The whole project has been developed throughout the year 2011 and considers 2010 financial statements of the municipal corporate group.

The Approach to Consolidation

The municipality of Reggio Emilia has opted for the implementation of integrated information and accounting system based on both cash and accrual accounts. In fact, as stated by the HP&CO:

Since 2008, the planning and controlling system has been conceived to drive decisions over single projects and policies. Budgeting and reporting documents of the local authority are structured according to policies. Moreover, regarding some specific policies, an observatory has been instituted together with a methodology of analysis about related context, demand, delivered services, and costs.

At the same time, the municipality implemented cost accounting and management control over its activities and municipal corporations. Concerning this, the HP&CO stated that:

Up today to controlled entities are assigned targets as well as to the Local Authority Services. A series of performance indicators (about efficiency, effectiveness, and quality of services) have also been set up and entities must periodically monitor and account for them. In fact, Reggio Emilia's controlled entities send their budgets and financial statements to the municipality together with financial quarterly reports and quarterly reports concerning the corporate activities to support the decision process of the municipality.

This has also permitted the municipality to compile its CFS.

In 2010, according to IPSAS 6, 7, and 8, the area of consolidation has been determined and was made up of:

(1) Sixteen controlled entities (mostly foundations, limited companies, special undertakings, consortiums, and institutions);

(2) Ten associates (not only joint stock companies but also limited companies and foundations).

Data have been standardized by adjusting and reclassifying them, gathering the conditions for individual financial statements from the various entities to be compared. Standardization concerned time-span standardization and value standardization. The latter has been particularly significant so that all statements are classified according to the same valuation criteria as the controlling entity. To date, an ongoing review of the area and the principles of consolidation has been undertaken in order to adapt the CFS to recent national accounting standards, issued as a result of Italian accounting reforms in 2011.

In order to examine these critical aspects and to understand usefulness and limits of the CFS for decision-making, we interviewed the HP&CO, the CF, and the HWO of the municipality.

The HP&CO revealed that:

CFS and all other accounting instruments have the aim to support the decision-making process, and this is also the reason why CFS is compiled by the Office for Planning and Control instead of the Office for Financial Reporting. Consolidated information are considered useful, because they refer to the municipal corporate group as a whole, considering it as a unitary system. In fact, CFS offers an aggregate overview about the financial and economic situation, amount of assets and solidity of the group, cost and management of human resources. It is also very useful, for example, for the control and the choice of debt level. However, CFS does not highlight possible inefficiencies or diseconomies that may occur in specific corporate areas, as the consolidation process tends to balance out results into a synthetic one. The consequence of a lack of information about specific areas of activity is that an activity could be continued without knowing its contribution to the increase of spending and to the value creation for the community.

The overall impression from the interviews is that the General Manager (GM) and the HP&CO have taken on a leading role in improving an extended performance measurement and control systems, but the above mentioned kind of financial reporting appeared not to be enough to have a complete picture.

Regarding the kind of information, both the HP&CO and the CF agreed that, "First of all, the municipality needs to improve the governance of the group and effectively monitor and control activities of the controlled entities, taking consideration of the autonomy of each entity involved in the network".

The CF also stated that:

Starting from the demand of a service, the local authority intends to be able to make consideration on policies adopted or to renew and modify them. The innovation of accounting techniques must be driven by the need to report costs at different levels. Detailed costing of procedures, especially functional costs, is all required.

The CF added that:

In detail, managers and politicians mostly look for information about services, activities, and their costs. This is even necessary for the big part of jointly delivered or externalized services. It is therefore necessary to oversee the overall amount of what is allocated and spent by controlled entities.

According to the HP&CO, information about specific segments of activity could be useful to “make managerial choices (for example externalization, creation of synergies like centralized storages), to assign budgets and allocating contributions, to control investments per area of activity and save costs and connect expenses to the rate of response to collective needs”.

Regarding the previous issues, both the HP&CO and the CF stressed that, “Top managers and politicians need a new reporting system based on policies. It is also important that these segments are stable and comparable over time”.

A segment has been suggested for a pilot implementation: the “welfare policies”. According to the CF:

This choice is due to the strategic relevance of the segment in light of the economic crisis and the scarcity of available resources during this period of time, but also to the fact that the Observatory of Welfare Policies represents the main area of analysis for the Municipal Observatory.

In order to understand the complexity of the policy, the delivered services, and the information available, we interviewed the HWO who stated that:

The municipality provides services to elderly people, minors, disabled people, and other services to people with different frailties. Most of them are delivered through some of the municipal subsidiaries. If we want to consider all welfare costs and investments that the municipality does, we must include the financial statements of subsidiaries operating in that sector.

The HWO argued that:

The Observatory of Welfare Policies collects and analyses a large amount of qualitative and quantitative data, performance indicators, and accounting reports about controlled entities. Therefore, a segment reporting based on accounting information would make possible the connection between data about context, demand, and delivered services with the whole cost (and other accounting information) of the sector. In fact, accounting and non-accounting information need to be put in relationship to take the right decisions.

The HWO also suggested that, “Consciousness about costs of a segment would be useful in order to assign budgets to different welfare districts and improve governance among entities, as well as to the monitoring of activities”.

Considering what have been exposed above, we asked interviewees about the potential usefulness of segment reporting. The HP&CO emphasized that:

Segment reporting must answer primarily to internal decision-making. It would permit the disaggregation of consolidated financial and economic performance per sector of activity and the connection, for example, with information about the demand of a service, to address policies and analyze cost of interventions.

According to the CF, segment reporting could also be used to external communication:

... external needs for accountability often coincide with the internal ones, because the organizational structure and the strategic documents are structured according to policies addressed to the community. At the same way, programs realized by managers must be previously approved by institutional bodies of the municipality, so information that politician and managers seek for are closer.

Accordingly, there were suggestions that a consolidated segment reporting could also improve disclosure of existing external document (of which CFS is already an essential part) and the transparency of the local authority toward its stakeholders. The CF stated that, “From the communication point of view, the segment reporting can represent a turning point of accountability, if strategic documents are structured according to policies”.

The Approach to Segment Reporting

Starting from the CFS, a series of segments have been identified and the pilot segment “welfare policies” have been chosen to draw up a segment report with consolidated data.

The concept of segment that has been considered in this case refers to “service segment” instead of “geographical segment”. Segments identified for the Reggio Emilia’s local public group refer to “distinguishable components of the group that is engaged in providing related outputs or achieving particular operating objectives consistent with the overall mission of each entity” (IPSAS 18; IPSASB, 2000, par. 17, p. 455).

Starting points for the identification of segments have been the programs, the strategic objectives, and the actions specified in the strategic documents of the municipality.

Ten segments have been identified, according to the strategic policies prescribed into the planning documents of the city: welfare, culture, sport, education, mobility, social security and integration, urban regeneration of the landscape, local economy, care of the city, and public organization. The identification of segments has been done by re-allocating strategic objectives and actions on the basis of (IPSAS 18; IPSASB, 2000, par. 19):

- (1) Primary operating objectives of the entity and the goods, services, and activities that relate to the achievement of each of those objectives;
- (2) Nature of the services provided or activities undertaken;
- (3) Nature of the production processes;
- (4) Type or class of customer for their services;
- (5) Way in which the entity is managed and financial information is planned and reported to senior management and the governing board.

Figure 1 shows an example of the attribution of programs, strategic objectives, and actions to segments.

Consistent with IPSAS 18 (IPSASB, 2000), the approach that has been followed is based on the way managers organize the segments within the public entity in order to make operational decisions and assess performance. The implementation of the welfare policy segment report required the identification of five sub-segments so as to make information more useful for decision-making and to monitor specific areas of activity: elderly people, disabled people, minors in difficulty, home care, and people with frailties.

The portfolio of entities involved in the provision of welfare services has been identified:

- (1) “Azienda di Servizi alla Persona (ASP) Rete” and the municipal pharmacy “Farmacie Comunali Riunite (FCR)”, which are two public undertakings providing services and assistance to elderly people (sub-segment “elderly people”);
- (2) “Azienda di Servizi alla Persona (ASP) Osea”, which is a public undertaking offering services and assistance to minors (sub-segment “minors in difficulty”);
- (3) “Azienda di Servizi alla Persona (ASP) SS. Pietro e Matteo”, which is a public undertaking offering services and assistance to disabled people (sub-segment “disabled people”);
- (4) “Azienda per la Casa Emilia Romagna (ACER)”, which is a public undertaking active in the management of social housing (sub-segment “home care”).

On the opposite, the sub-segment “people with frailties” included only direct activities of the municipality. The identification of the report’s contents consisted of the selection of centers of cost allocated to segments, sub-segments, and those that had to be excluded. Figure 2 shows an example of attribution of centers of cost to segments and to sub-segments.

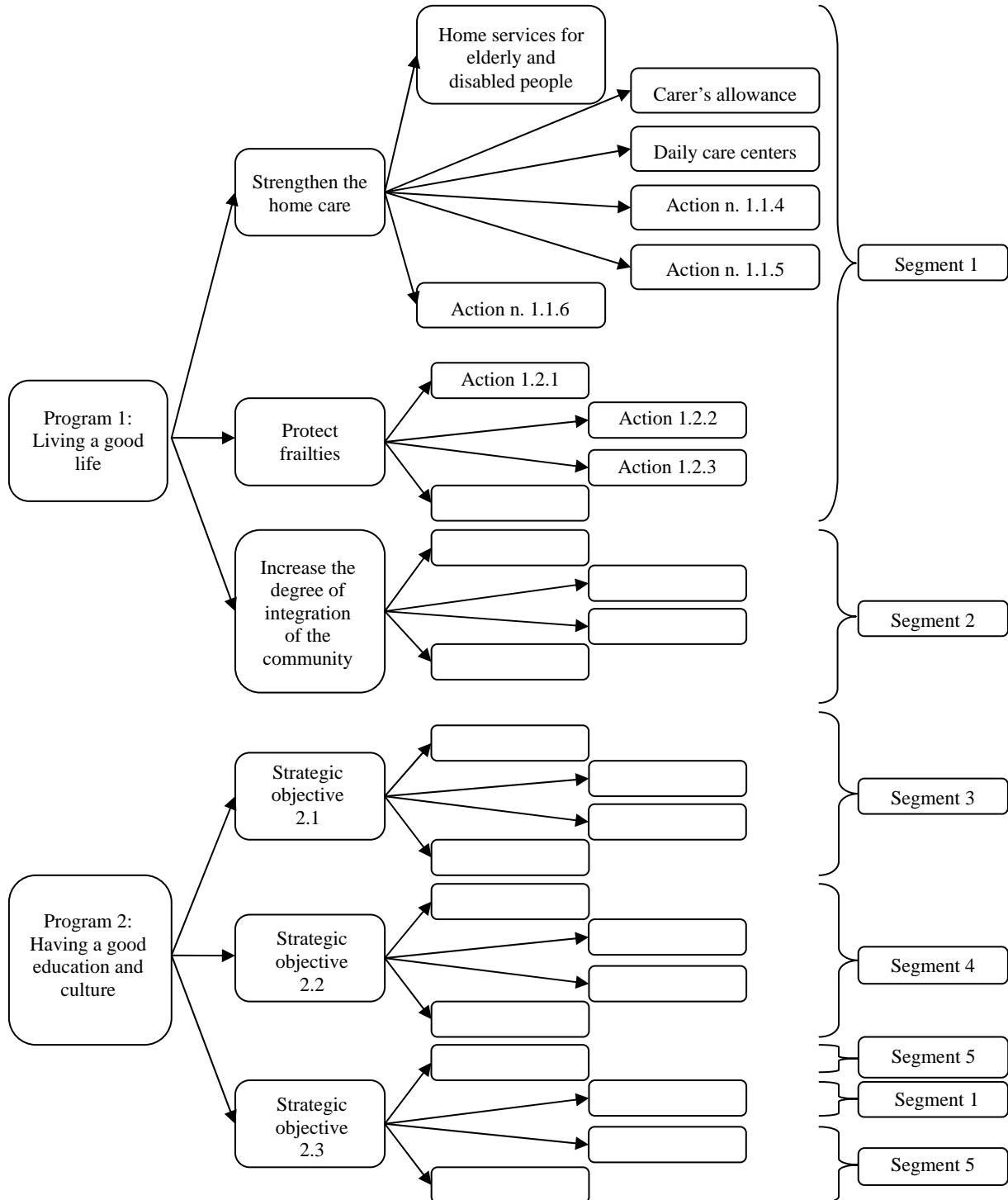


Figure 1. Example of attribution of programs, strategic objectives, and actions to segments.

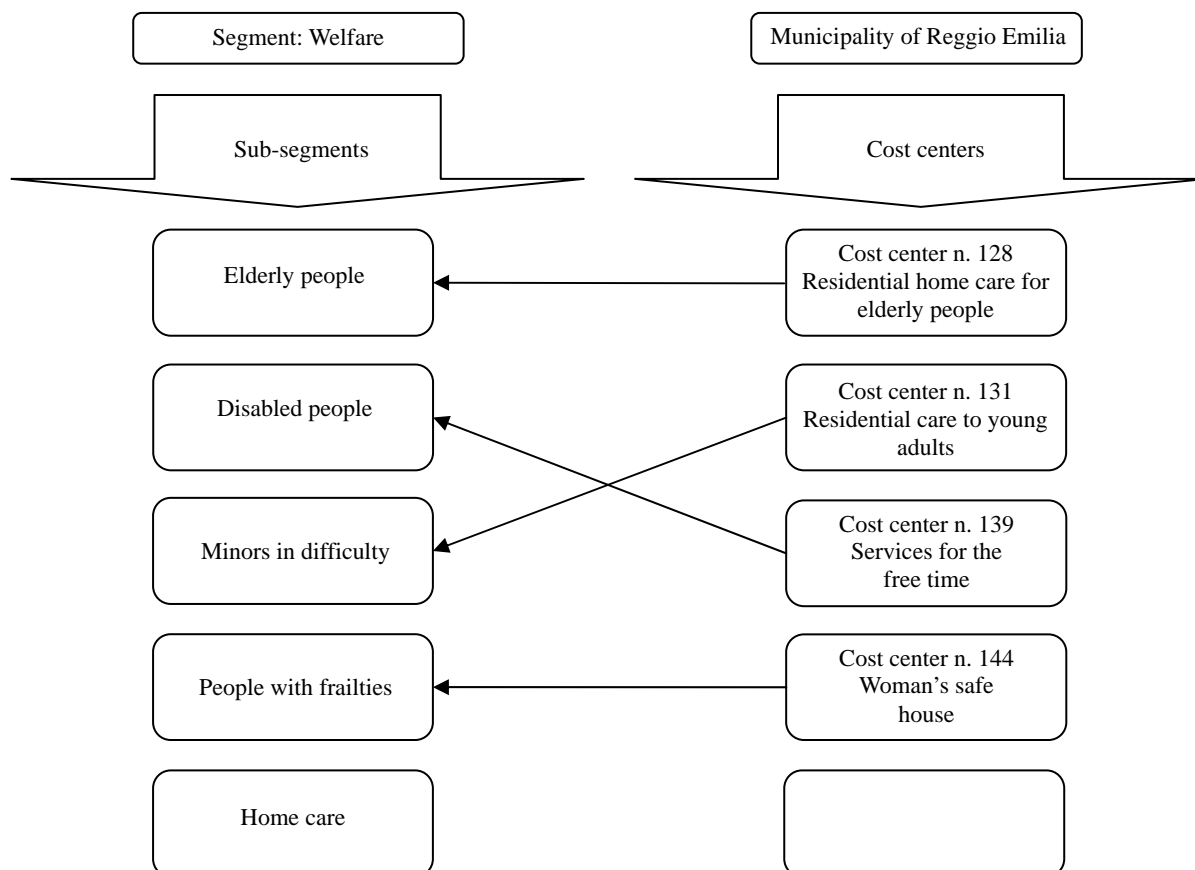


Figure 2. Exemplification of attribution of centers of cost to sub-segments for the municipality of Reggio Emilia.

Data are consistent with the accounting policies adopted for preparing and presenting the CFS. As stated in IPSAS 18 (IPSASB, 2000), for each segment, we allocated revenues, expenses, operating assets, and liabilities that are directly attributable to a segment and the relevant portion that can be allocated on a reasonable basis to the segment (IPSAS 18; IPSASB, 2000, par. 27).

According to IPSAS 18 (IPSASB, 2000), transversal centers of cost to more than one activity, as well as centers of cost for general and administrative expenses (referring to the whole organization) have been excluded from the pilot segment report and will be reported apart when realizing the whole segment report. On the contrary, extraordinary items, interest, gains or losses, and other indirect revenues or expenses primarily attributed to the centers of cost included here have been considered in the segmentation process.

Segment revenue, segment expense, segment assets, and segment liabilities are determined by eliminating balances and transactions among entities comprised into a single segment. Also, the carrying amount of the controlling entity's investment in each controlled entity (and the controlling entity's portion of net assets/equity of each controlled entity) has been eliminated, together with the net surplus or deficit attributable to the owners of the controlling entity. The report for each sub-segment is composed by a Statement of Financial Position, a Statement of Financial Activities, Guideline, and Explanatory Notes to a consolidated segment.

Discussion and Conclusions

The importance for politicians and managers to monitor the correct allocation of resources and consider

the costing of services when deciding policies (and how to realize them) has been underlined. However, the accounting and reporting system of Italian municipalities usually does not provide public managers with the information needed for outsourcing choices or for financial and strategic control over subsidiaries. In addition, the accounts of municipalities do not allow managers and citizens to see the overall amount of public expenditures for the provision of public services considering that the big part of services has been externalized.

The adoption of the consolidated and segment reporting can overcome these limits. These instruments allow one to have both an overall view of the financial and economic performance of a public group seen as a whole, and an analytical view in order to make appropriate strategic and operational decisions. In particular, segment reporting disaggregates consolidated information over economic sub-units, called segments, which are transversal to services and give a complete picture of the functions of the local authority. Disaggregated information could help the determination of factors influencing performance and the evaluation of the sustainability of the group in the medium-long term. As derived both by IPSAS 18 (IPSASB, 2000), the identification of segments to report for requires judgment, in accordance with the way in which management reports for internal use. The consolidated segment reporting would allow providing internal and external users with better information about the group's performance and allocating resources, increasing transparency of financial reporting and accountability, and evaluating the nature and financial effects of the business activities.

This pilot implementation does not lack some critical aspect and limitation, for example, the impossibility to disaggregate data of the municipality's financial position but also communication and governance problems. Possible developments of the project are also connected with the development of a segment budgetary system making it possible to consider the relationship between programs funding and expected results.

Public accounting schemes and tools adopted by Italian municipalities for internal and external reporting activities show a lack of information for public management in order to exercise strategic control over subsidiaries. The introduction of CFSs, characterized by heterogeneous activities but with low interdependence among sectors, may not be so significant, because they tend to compensate surpluses and deficits of different areas of activity, so segment information are essential.

The segment reporting offers an alternative approach of consolidated reporting which, instead of focusing on accounting information as a whole, focuses on accounting information useful to the decision-making purposes.

Some of the advantages of segmentation could be identified in: (1) an enhancement of comparability between similar-sized municipal bodies on a national basis (benchmarking); and (2) the enablement for users of financial statements to make more accurate assessments of risks and added value of different areas of activity. It also offers new accounting information tools to answer to the changed roles and responsibilities of managers by managing services.

In preparing segment reporting, new accounting methods and performance measurement systems need to be introduced into public management also by fulfilling politicians' expectations. Furthermore, we can state that accrual accounting on its own does not lead to useful information, but needs further identification of key performance indicators and relies on the use of accounting-based techniques like open-book accounting, integrated information systems, target costing, and inter-organizational cost management (Behn, 2005; Kraus & Lind, 2007). Technical procedures also depend both by values and by policies. Considering external communication, both CFS and segment reporting allow the community to see the amount of resources spent by the municipality to provide services directly and indirectly.

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