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Improving Public Financial Management in Italy: Can XBRL Give a Good Help?

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The background of our research

- The **eXensible Business Reporting Language (XBRL)** is the worldwide “de facto” standard for the electronic financial reporting in the private sector, with the promise to improve its *transparency* and *efficiency*.
- The **Public Sector** is also interested by innovations in order to recover transparency, efficiency and accountability (think about the E-government phenomenon, exploded since the early 2000s).
- But, at the moment, in the public sector XBRL doesn't seem to have a great success, at least not as much as for business reporting (in Italy, for example, 1 million of companies have to file their financial statements via XBRL to the business register).

Our aim is to explore and deepen the role that XBRL can play within the Public Sector



this research topic seems to be important, considering ...

a) the good results achieved through the use of XBRL in terms of transparency and efficiency related to business reporting;

b) the strong need for transparency and accountability of public financial management, furtherly increased by the financial crisis.

literature on this issue is quite poor

We used a case-study analysis:

The case of Italy



the *Court of Auditors (CA)* and the *State General Accounting Department (SGAD)* have recently implemented two projects about the use of XBRL with reference to Regions and Local Governments' budgets and financial statements.



We conducted a documental analysis – based on institutional websites and informational materials provided by the CA – and interviews with some key-actors involved in the projects.

thanks to XBRL, we can use the incredible computing power of today's devices to collect, share and process huge amount of business data in (near) real time ... so XBRL is particularly useful when:

- we need to re-use data, in different ways, for different purposes and according to the various user-needs;
- different entities have to provide and share the same data to numerous other entities;
- we need to apply the new accounting and auditing technologies (e.g. business analytics, artificial intelligence ...).



but this is the case of **Public Entities**: they have reporting obligations with different subjects (other public entities) and the objects (accounting information) are sometimes the same, but they have to be provided in different times, ways, formats ...

Some notes about the Italian Public Sector accounting system

- In recent years (since 2009) an important accounting and financial reporting reform has been implemented to **harmonize public sector financial reporting** (State, Local Governments, universities, healthcare institutions), to simplify a really inhomogeneous situation.
- One of the most important changes is the implementation of an **accrual accounting system**, in addition to the traditional cash accounting system (dual integrated system);
- An **integrated common chart of accounts** has been introduced: it identifies all the items of cash accounts and financial statements and all their possible links, so when a transaction is entered it can be recorded both on the cash system and on the accrual one.

The SMART project of the Italian Court of Auditors

- In 2015 the Italian CA launched an ambitious project concerning the use of XBRL to collect **financial statements** and relative **detailed accounting data** produced by more than 8,000 Italian public entities (20 Regions, 110 Provinces and about 8,000 Municipalities).
- It is not a new requirement for LGs, as they already had to submit to the CA their accounts, the **novelty is the use of the XBRL language**.
- On December 2015 two taxonomies (based on XBRL specification 2.1) had been released, one for financial statements and one for detailed accounting data. LGs upload XBRL instances via Internet.

The BDAP (Public Administration Data Base - Harmonized Budgets and Accounts) of the Italian State General Accounting Department (1)

- In 2016 the SMART project has been merged with a broader project stemming from the collaboration between the CA and the Italian SGAD, called **Public Administration Data Base – Harmonized Budgets and Accounts**.
- It was pushed by LGs, that expressed the **need of integrating and centralizing financial data collection** (the idea “one-stop shop”).
- A Decree to define the procedure for the submission of **financial statements and consolidated financial statements** of **LGs and their operating entities** was issued on May 2016. This submission is requested by 30 days from the official approval of the documents.

If this does not happen, penalties for non-compliance are imposed, such as the impossibility to hire new staff!

- The new system, set to acquire also analytical accounting data at the level of the integrated chart of accounts, continues to operate with the taxonomies based on the specification 2.1 without extensions (it has been planned to provide a gradual adoption of the technical possibilities offered by the standard language).
- The financial documents submission are made using different taxonomies for LGs and other entities owned by LGs (such as public utilities companies).
- XBRL instances sent to BDAP undergo a series of checks (blocking and non-blocking controls) to verify the quality and the consistency of the reported data.

Which taxonomy to choose?

**Entities with dual
integrated system (LGs)**



3 Taxonomies



- **Budget**
- **Financial statements**
- **Consolidated financial statements**

**Entities with business-
like accounting system**



2 Taxonomies



- **ITA GAAP Taxonomy (the same used for filing to the Italian Business Register)**
- **IFRS Taxonomy**

- The use of XBRL to file the “harmonized” public sector accounts to BDAP has become **mandatory for more than 8,000 Italian public entities**: it is the first large-scale XBRL application to the Public Sector in Italy and one of the first of this size at the international level.
- In the Italian case, XBRL has not been used (and perceived) as an additional bureaucratic tool, because its use is related to already existing reporting obligations.
- The project is just started, so **we have not yet data related to the first year of transmission**: we have to wait to assess the XBRL effective contribution.

- By the way, we think that XBRL will be useful for the CA and the SGAD in supporting their auditing and controlling activities, allowing quicker comparison of homogeneous and reliable data coming from thousands of entities.
- This is a “first step”: the use of XBRL could be expanded to push the public sector data usage by citizens and civil society, increasing their awareness (and control) on public financial management.
- In Italy the XBRL adoption came later the accounting harmonization of public sector (at national level). Also the EU is working on the public sector accounting harmonization (at a supranational level), talking about EPSAS – European Public Sector Accounting Standards. Considering its features, XBRL could be a tool to support such important goal.

We would like to continue

- Studying the Italian case, realizing quantitative analysis on the “numbers” of BDAP (instances filed, number and type of errors, ...), in order to assess the effective contribution of XBRL to improve public financial management;
- Selecting best practices out of Italy to realize a comparative study, trying to identify differences and critical success factors.

Thank you for your attention.

Any questions?

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