

# Abstract

In the last decades, on the wave on the new public management philosophy (Christensen and Lægreid, 2002; Gow and Dufour, 2000; Pollitt & Summa, 1997), a profound process of changes has involved the public sector. The increase of inter-municipal collaboration and public-private partnerships can be observed, with the main aim being to improve the quality of services and fulfil the needs of citizens. The main aspect of the decentralization (contracting-out as well as privatization) is that many activities are frequently managed through controlled entities. In this new context, consolidated financial statements (CFS) are able to ensure a complete picture of the whole group at both central and local levels (Wise, 2006 Newberry, 2007; Grossi and Newberry, 2009) overlapping the limits of the financial statements.

The aim of this research is to investigate the development of the CFS in the public sector highlighting why the importance of this tool is growing, what role CFS play in different contexts, what issues are mainly investigated and what are the future directions of the research in this field.

The first step of the research is an overview of the state of the art on the topic, consisting of a structured literature review on public sector CFS. The aim is to clarify what it has been done as well as the future research agenda. In particular, this step of the thesis concentrates on how the CFS literature is developing, pointed out its focus as well as the future of CFS research within the public sector. The main findings emphasize that previous literature has largely investigated technical issues, paying less attention on theoretical issues. Additionally, previous studies are largely based on qualitative methodology. Finally, a dichotomy between private vs. public sector accounting standards and, more generally, rules and criteria (relating to several issues, especially the definition of the consolidation area) emerge.

Focusing on this last point, the second step concentrates on a particular technical aspect: the definition of consolidation area by International Public Sector Accounting Standards Board (IPSASB). The literature has highlighted that the public sector international standards follow the private sector rules, defining similar criteria. Previous literature has largely debated this issue. More specifically, in order to understand the appropriateness of the “control approach” for the definition of consolidation area within the public sector, the different approaches have been investigated through an analysis of the comment letters submitted by the respondents of the Exposure Draft no. 49, which will replace the current IPSAS 6 in the new IPSAS 35. In fact, the IPSASB has recently published three new Exposure Drafts, among them, the ED no. 49 on *consolidated financial statements*. The focus is specifically on the assessment of control based on three key elements: “Power over the other entity”; “Exposure, or rights, to variable benefits from its involvement with the other entity”; and “The ability to use its power over the other entity to affect the nature or amount of the benefits from its involvement with the other entity”. The main findings of the research concern both the acceptance of the alignment between the proposed new standard and the IFRS 10 and the key role played by the control approach in contrast to other alternative approaches (such as the budgetary one).

The third step is based on a simple consideration: in several countries, public sector CFS are not mandatory; therefore, this tool is frequently implemented on a voluntary basis. Accordingly, this step of the thesis investigates the reasons underlined this voluntary implementation of CFS. In accordance with the legitimacy and institutional theory perspectives, this step explains the voluntary implementation of CFS in accordance with the aim of legitimating the deployment of a LG towards citizens as well as of achieving conformity with the institutional environment. The research focuses on the Italian context because, recently, local government can decide to prepare CFS adhering experimental period defined by Decree no. 118/2011. A questionnaire was sent to both

the Financial Councillor and the Chief Financial Manager, and with a principal component analyses and a regression model, the principal findings are that the choice to use the CFS is supported by both by strategic and technical reasons.