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Abstract

The focus of this paper is an historical perspective of the harmonization of administrative accounting practices across all levels of government. This study specifically examines accounting practice before and after the Unification of Italy (1861), shedding light on links between accounting reforms and changes in social, economic and political contexts due to diverse foreign occupations. Contrary to expectations, evidence showed that accounting harmonization was not a leading priority among government reforms. Full accounting harmonization had not been completed even 20 years after unification. Several urgent issues requiring government response, such as public debt consolidation and harmonization of the fiscal system, took precedent. In the aftermath of unification the central government endorsed uniform accounting principles primarily in support of systematic financial management across all levels of government. Some years later, when elected representatives were given greater control over the executive branch, harmonization efforts focused on making local administrations more accountable to citizens through greater transparency of their financial statements. In addition, the overall influence of government accounting traditions within and across countries is also discussed.

Keywords: Accounting History, Government Accounting Harmonization; Kingdom of Italy; Local Government

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INTRODUCTION

This paper discusses of the harmonization of local government accounting from an historical perspective. In recent years, many European and extra-European countries have implemented highly significant reforms of their accounting systems. A major trend concerns international harmonization of accounting standards for both the private and public sectors.

Government accounting practices - whether central or local - diverge among countries and within countries as well, with differences ranging from fundamental variations in bookkeeping systems to different measurement rules and reporting standards (Jones, 2007). Culture and environment are both factors that shape the context in which accounting systems operate. But, while technical solutions may be divergent, government accounting systems in every country and in every time face essentially the same functional problems, which quite often generate similar results (Jones 2007). More generally, theories influenced by culture and concepts have been developed within historical continuity, so that *"…Where we are today depends in large part on where we were yesterday*" (Hendricksen, 1965).

So, what does today's harmonization have in common with what occurred in the past? What factors explain different accounting choices? What factors influence change? Accounting systems are part of complex processes within the social, economic and political environments in which governments must operate (Watts and Zimmerman, 1979; Garrod and McLeay, 1996; Gomes, 2008). In the past, when new government organisational structures arose from upheavals or wars, the need for unification of existing accounting systems, both at central and local levels, emerged as an issue of the defeated imposed by the victors. But what happened to these accounting systems after institutional changes and why? How long did accounting harmonization take to complete? More broadly, how were accounting ideas and practices formed and spread within and across countries?

While several accounting historians have investigated government accounting theories and practices in different historical periods, the research into comparative international accounting history has been explored far less (Carnegie and Napier, 2002). Most importantly, we know very little about how accounting harmonization has been carried out across levels of government in European and extra-European countries. To make a contribution toward answering these questions this study explores the case of the Unification of Italy (1848-1870) shedding light on links between accounting reforms and changes in social, economic and political contexts. Social and institutional variety at local levels makes pre-unitary Italy an interesting case for investigating harmonization in government accounting.

The central issue of this period of Italy's history was the acquisition by the Italian people of a clearly defined national consciousness of political independence and unification. Historians have acknowledged that the theme of this period is known as the *Risorgimento* (literally the "resurrection"). The process of unification in Italy was one of the major changes in the geopolitical landscape in nineteenth-century Europe (Dincecco, 2011). Pre-unitary Italy had been split into seven independent states, each with its own administrative, fiscal and accounting systems, economic conditions, culture and national consciousness. Many of these factors were strongly connected to foreign domination.

What happened in the government accounting system after unification? The few Italian scholars who have addressed this issue, have, for the most part, focused on accounting theory and development along with accounting standardization within the central government (Anselmi, 2004; Anselmi et al. 2009; Lazzini and Ponzo, 2005; Poddighe and Coronella, 2009; Mussari et al. 2009). Research into the history of local government accounting has received much less attention (Sargiacomo and Gomes, 2011). Hence, the history of the harmonization of accounting systems in local administrations has not been thoroughly investigated. This deficiency stands in contrast with the significant historical role that cities and counties played in shaping the life of local communities in Europe.

This paper, seeking to make a contribution toward correcting this oversight through the investigation of the harmonization of municipal accounting systems subsequent to the establishment of the Kingdom of Italy in 1861, is organized as follows. The second section, following this introduction, outlines the research methodology. The third offers an overview of pre-unitary Italy's administrative systems and accounting practices. The fourth describes the accounting harmonization process following the establishment of the Kingdom. The fifth discusses accounting changes, exploring what factors played a role in accounting harmonization, whilst the final section offers a summing up with concluding remarks.

METHODOLOGY

Our investigation is based on a synthesis of original archival records from the Milan Public Records Office and indirect sources. The research method includes analyses of divergent sources such as legislation (laws, ministry circulars and instructions), the principal technical accounting texts and manuals published in that era along with some original accounting records (balance sheets and financial statements). Within the realm of available governmental accounting literature and legislation, the only sources are from legislative provisions and some historical and judicial manuals dating from the early 20th century.

It should be noted there is a dearth of specific materials regarding harmonization of municipal financial statements (Anselmi, 2004, Catturi, 2009, Mussari et al., 2009, Poddighe and Coronella, 2009, Lazzini and Ponzo, 2005), also due to impelling requirements, of a political nature, dictated by the process of Italian unification. The main documents giving evidence of a process of change in the discipline of financial disclosure may be drawn from post-unification legislative texts (from 1869 onwards) specifically dealing with government accounts along with Testera's tome titled: *Amministrazione patrimoniale e contabilità dei comuni, delle provincie e delle istituzioni pubbliche di beneficienza, [The Administration of Assets and Accounting for Municipal, Provincial and Public Welfare Institutions*] published in 1897. This monograph is a rare example of a publication that thoroughly discusses both the legislation in effect and financial statements prepared at the time.

Rather, this paper shall use the approach of a comparative analysis of the administrative organization and accounting systems of the pre-unification states and those of Italy after unification.

HISTORICAL SETTING: PRE-UNITARY ITALY

Before the Restoration (1815), the entire Italian Peninsula was part of the French Empire, under Napoleon. This particularly invasive domination weighed heavily upon the legislative and political systems as well as on internal organisation. After Napoleon's abdication in 1814, the Congress of Vienna, organised by leading European nations, initiated the historical period called the "Restoration" with the aim of restoring a pre-Napoleonic geopolitical condition.

Figure 1 – Map of Pre-Unitary Italy in 1815

Source: Shepherd, W. (1911). *Historical Atlas.* New York: Henry Holt.

Pre-unitary Italy, made up of the ten states established by the Congress of Vienna, was rearranged into seven independent states around 1830 (Figure 1), each with its own administrative, fiscal and accounting systems, economic conditions, culture and national consciousness. Many of these factors were strongly connected to the foreign domination endured in the recent past. Although dominated by the same nation in the Pre-Restoration era, the different pre-unitary states were quite disparate from one another. There were, right from their very institution, ancient states such as the Papal States (first arising in 752) and more contemporary states, such as the Kingdom of Lombardy-Venetia and the Kingdom of the Two Sicilies, which were established after the Congress of Vienna (1815).

Figure 1 - International Influences

INSTITUTION		PRINCIPAL CHANGES	INTERNATIONAL INFLUENCES AROUND 1860	CESSATION
Kingdom of Sardinia	1297	. Spain, Aragona (before 1297) . Church . Savoy (from 1813)	Savoy, France	1848
Kingdom of Lombardy-Venetia	1815	. Austrian Empire (1814)	Austria	1866
Grand Duchy of Tuscany	1350	. Austria (until 1801) . France	France	1859
Duchy of Parma and Piacenza	1545	. Farnese (before 1731) . Bourbon (from 1731) . French Empire (1808-1814)	Papacy and Spain	1860
Duchy of Modena and Reggio	1452	. Este Family . Habsburg-Este Austrian Empire	Austria	1859
Papal States	752	. Papacy (until 1798) . The French . Bourbons and the Austrian Empire (from 1799)	Papacy	1870
Kingdom of the Two Sicilies	1816	. Spain and the Bourbons	Spain	1861

Each of the seven states underwent a different domination. The Reign of Sardinia established in 1297 by Pope Boniface became a part of the dominion of the Habsburgs of Austria in 1713, after which it was ceded to Victor Amadeus II (formerly the Duke of Savoy). The Kingdom of Lombardy-Venetia arose, instead, as a dependency of the Austrian Empire. It comprised Lombardy and Veneto until 1859 (year in which Lombardy was lost), and was later annexed by the Kingdom of Italy in 1866. The Grand Duchy of Tuscany was established during the Renaissance period and continued on until the Unification of Italy. In 1801, nevertheless, Tuscany was ceded to France by Austria. The Duchy of Modena and Reggio, under the dominion of the Este Family, occupied first by Napoleon in 1796, was then returned to the Habsburg – Este Family under Austrian authority (Menziani, 2011: 231-260).

The Duchy of Parma and Piacenza lasted more than three centuries, passing from the Farnese family (ancient family whose principal possessions were located in the diocese of the Tuscania Bishopric) (Drei, 1954) to the Bourbons in 1731. The Papal States is the name of the state comprised of the group of territories upon which the Papal See exercised its temporal power. In February 1798 the "Roman Republic" was proclaimed, strictly bound to France but which fell, definitively, in September 1799, with the occupation of Rome by the Bourbon Army. Under the protection of the Kingdom of Naples and the Austrian Empire the temporal power of the Papacy was re-established there until 1870. The Kingdom of the Two Sicilies was a sovereign state in southern Europe between 1816 and 1861; its reign was established by the Bourbon King Ferdinand after the Congress of Vienna eliminated the Kingdom of Naples and the Kingdom of Sicily.

Administrative Systems

The administrative systems of the seven Pre-Unitary States were distinguished by their as yet highly centralised power structures. Many central administrative bodies worked at providing services in the state, whilst local administrations, even though existent, were of limited use, being simply bound to the areas that they served. Within the scope of these centralized administrations, different administrative bodies were founded with specific competencies, which were extended over the entire administrative territory. Very few of these states had decentralised power structures.

Indeed, in the Kingdom of Lombardy-Venetia it was the "*Consiglio di Governo*" [Governing Board] (the central governing body) that dealt with censure, administration of wealth and direct taxation, direction of the schools, public works and the appointment and supervision of the *"Congregazioni Provinciali"* [Provincial Congregations]. Whilst instead, financial and police administration was directly given over to the Imperial Government in Vienna (Poddighe e Coronella, 2009). The municipalities on the other hand, dealt only with building maintenance and employee salaries.

In the Grand Duchy of Tuscany central administrative bodies managed foreign and internal affairs, justice, war, finance, commerce, public works and public instruction. In local municipalities only local police services were provided along with the administration of markets and fairs. In the Duchy of Parma, Piacenza and Guastalla services were organized by two central government bodies, that is by the Department of the Interior, which administrated the police, worship, local administrations, public schools, commerce, agriculture and public health and the Department of Finance, which managed indirect taxation, budget preparation and accounts, public records, administration of manufacturing, water and road works, underlining the central role of government power.

Nevertheless, however, there were pre-unitary States with much more organized local administrations, such as the Kingdom of Sardinia and the Papal States. In the latter, for example, there was the delegation (equivalent to the republican province) with executive powers. Each delegation was governed by a prelate (deputy or legate) who was appointed by the Pope (Pope Pius VII, 1816) and whose duties concerned public safety, tax collection, administration of justice and defence of the assigned ward (Weber, 1994). On the other hand, the Kingdom of the Two Sicilies was characterized by a strongly centralized administration (Mussari et al., 2009:656), yet one however, in which the municipalities and the provinces comprising the kingdom, above all due to the large number of the latter (22 provinces), had administrations that were clearly distinguished and separate from the central government.

Accounting Systems

Generally, the pre-unitary states basically adopted budgetary cash accounting systems in order to show compliance with budgets and other legal limitations. The main differences refer to accounting methods and reporting systems (Table 2).

Table 2 – Accounting methods and reporting systems

STATE	BASIS OF ACCOUNTING	BOOK-KEEPING METHOD	REPORTING
Kingdom of Sardinia	Encumbrance accounting	Double Entry	Budgetary financial statements split by Department Revenue and Expenditures split by recurrent and not-recurrent (Mussari et al., 2009:649)
Kingdom Lombardy-Venetia	Cash accounting	Single Entry	Budgetary financial statements (Coronella, 2007:209, Poddighe and Coronella, 2009:87)
Grand Duchy of Tuscany	Modified accrual accounting	Double Entry	Budgetary financial statements Equity account at year end through adjustments without of general ledger (De Brun, 1911:88, Poddighe and Coronella, 2009:92)
Duchy of Parma and Piacenza	Cash accounting	Unspecified	Budgetary financial statements (since 1769) (Minister Du Tillot, Correspondence of 25/6/1756)
Duchy of Modena and Reggio	Cash accounting	Unspecified	Budgetary financial statements split by Department (1828) - (Spaggiari, 1829)
Papal States	Encumbrance accounting	Double Entry (1805)	Budgetary financial statements (1831) (Poddighe and Coronella, 2009:97)
Kingdom of the 2 Sicilies	Encumbrance accounting	Double Entry	Budgetary financial statements Revenue and Expenditures split by recurrent and not-recurrent (Poddighe and Coronella, 2009:101)

The financial statements for the State of Sardinia, based on double entry accounting, were comprised of budget and final expense account statements, both compiled by the Finance Minister (Poddighe and Coronella, 2009:83). Budget endorsement was assigned to the *"Controllore generale"* [General Controller] a centralized governmental institution. The year 1826 was significant because of the introduction of the division of expenditures into ordinary and extraordinary accounts at that time. Then, the Albertine Statute (1848) introduced the "right to account statements" and to their disclosure to whomever might be interested. In addition, in 1852 Cavour introduced the purported "*Sardinian Law*", which is discussed below and which was maintained even after Italy's unification as a fundamental law for the governance of state accounts until 1869 (year in which the Cambray-Digny Law of 22 April 1869 was enacted).

In the Kingdom of Lombardy-Venetia with the restoration and reinstatement of the Austrians, accounting and control standards, previously in force in Habsburg Lombardy of 1798, were reintroduced (Poddighe and Coronella, 2009:87). Unlike other pre-unitary states, the Kingdom of Lombardy-Venetia used the single entry bookkeeping method for its central government accounting, based on the cameralistic accounting system (Coronella, 2007: 209). Financial reporting consisted of the preparation of the Annual Budget *("Preventivo generale dello Stato")* and the Annual Report. Both statements were to be drafted based on procedures imposed by the Habsburg Empire. In addition, the kingdom's accounts were not disclosed publicly.

In the Grand Duchy of Tuscany, State account systems were not developed until the end of the seventeen hundreds. Bookkeeping, with the double entry system, was refined in the post-restoration period, thanks to the previous Napoleonic administration, with the drafting of final accounts and budgets among the annexes of the financial statements (Poddighe and Coronella, 2009:92, De Brun, 1911:88). The final accounts contained general revenues, expenditures and a third summary table with either surplus or deficit highlighted. This was followed by a summary of capital assets and liabilities with the net assets highlighted, ending with the final result of operations shown.

In the Duchy of Modena and Reggio, under Austrian rule during the post-restoration period, final accounting was compiled for each of the ministries already in 1828 (Spaggiari, 1829), specifically highlighting expenditures, as well as other types of uses (Cabinet administration office expenses – central administrative body – and other instruments). From examination of the draft articles of confederation for the Duchy of Modena and Reggio of 1848, it may also be seen that therein the preparation of final account and budget statements were provided for (Dippel, 2010).

The account books for the Duchy of Parma, Piacenza and Guastalla were not in good order due to their being moved to the Kingdom of Naples at the beginning of the 1700s. Therefore, all of the finance and economic operational work had to be performed without the aid of those files. Minister Du Tillot, appointed by the King to reorganize the Duchy, ordered and obtained, from the *"General Accounting Officer",* that annual financial statements, with cash flow, revenue and expenditures, be prepared for the State[1], pursuant to the "Constitution". These were to include audit and adjustment of the administration accounts, drafting of the list of payments and tax collection, as well as a monthly report to the Minister of what was collected and what was paid out.[2] In 1769 in addition, the preparation of budgets and final financial statements became standard practice.

The Papal States' bookkeeping system, subsequent to French domination, used the Kingdom of Sardinia's administrative and accounting systems as a model (Italian Ministry of the Treasury, 1959). Its financial statements, prepared on a budgetary basis, were comprised of two account statements, the *"Budgetary Statement"* and the *"Cash Statement"* (Poddighe and Coronella, 2009:97). During the Restoration, seeking to modernize the bookkeeping and preparation of state financial statements, the Pope issued a *motu proprio,* which imposed the drafting of a Budget Statement as an annex to the Cash Statement. However, the most effective reforms were introduced in 1831 by Pope Gregory XVI, who mandated a single bookkeeping method for all of the decentralised *"Accounting Offices"* and which was to be applied in the drafting of the *"Annual Budget"* and the *"Annual Report"* (financial statements).

Public accounts for the Kingdom of the Two Sicilies, prior to the advent of the French, were quite backward (Poddighe and Coronella, 2009:101). In 1806, at the height of the French domination, double entry bookkeeping was used in the central accounting offices. The balance sheet comprised a budget statement and a financial statement (Kuntz, 2001:53). This latter had three categories: personnel, materials and *"unforeseen events",* that is, extraordinary and unanticipated expenditures.

THE KINGDOM OF ITALY AND ACCOUNTING HARMONIZATION

The Kingdom of Italy was an outgrowth of the Kingdom of Sardinia during the Risorgimento. In 1860 the Duchy of Parma, Piacenza and Guastalla, the Duchy of Modena and Reggio and the Granduchy of Tuscany joined the Kingdom of Italy. That same year the latter was conquered by the Kingdom of Sardinia, the Kingdom of the Two Sicilies, and certain territories in the Papal States. In 1866, subsequent to the third war of independence,

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[1] Letter from Minister Du Tillot to the General Accounting Officer, Carlo Bassi, in Piacenza on 25 June 1756 from the Historical Archive of the Parma provinces: http://www.archive.org/stream/nsarchiviostoricop19depuuoft/nsarchiviostoricop19depuuoft_djvu.txt

[2] Provision of the Ducal Decree no. 141 of 13 December 1756.

territories from the Kingdom of Lombardy-Venetia were taken from the Austro-Hungarian Empire and annexed by the Kingdom of Italy, whilst in 1870 the Papal States were also annexed therein.

Administrative Structure

The administrative organisation of the new Italian State developed out of the need to rationalise its public administration. This process, already under way in Europe for centuries, was aimed at complying with the expectations of the liberal middle class. The pre-unitary form of the state was actually strongly centralized: the still Napoleonic system had mayors, directly appointed by the King, administrating its municipalities (Rattazzi Law)[3]. It was not until enactment of Law no. 5865 of 30 December 1888 that municipalities and local and provincial administrative seats, that is, those with more than 10,000 inhabitants, were given the right to choose their own mayors whilst provincial delegations were also permitted to appoint a chairman from among their members.

Accounting Systems and Harmonization

From the analysis of the process of the harmonization of accounting practices of the public administrations, it emerges that in the period immediately after the establishment of the Kingdom of Italy, the Government, not keen on the adoption of innovative systems and solutions, opted to extend the procedures in force in the former Kingdom of Sardinia throughout its territory. The years 1859-60 were a period of great institutional instability and uncertainty. Regardless of the initiation of tentative legislative and administrative unification by "provisional" governments of the ancient States, in 1861 there was still the need to resolve the problem of the organisation of the newly established nation state.

As may be drawn from the data in *"Il bilancio del Regno d'Italia"* [The Financial Statements of the Kingdom of Italy] published by *The General Accounting Office* in 1861, it was not possible to prepare consolidated financial statements for the entire Kingdom in that the process of the unification of state accounting standards had not yet been completed.[4] After the proclamation of the Kingdom of Italy on 17 March 1861, the first law of unification in regard to accounts formulated by the parliament dealt with the recognition of the debts of the states that came together to form the Kingdom of Italy through the establishment of the "*Gran Libro del debito pubblico*" [The Great Book of Public Debt].

In answer to the necessity to proceed with the reform of municipal administrative systems, in the years immediately after unification, significant effort was made to define a central reporting system for the financial situations of individual communities in the Kingdom. The process, initiated in May 1863 and guided by the Ministry of the Interior, provided for the involvement of peripheral prefectures in the gathering and transmission of municipal financial statements (Ministero dell'Interno [Ministry of the Interior], 1863). The response of the Prefectures was not always as fast and precise as might have been expected, as evinced by the delay in the transmission of the financial statements by the Milan Prefecture in 1864 (Ministry of the Interior), certainly linked to the non-compliance of municipal administrations.

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[3] This law, initially effective in the Sardinian States and Lombardy was then extended to the rest of the peninsula (except Tuscany), laid down the bases for united Italy's municipal and provincial organisation. The achievement of greater independence for local institutions had to wait for the 1903 law on the municipalization of public services, which enabled cities to produce goods and services for the community, increasing the initiative of local administrations (Di Simone, 2007:277).

[4] Il bilancio del Regno d'Italia, Ragioneria Generale dello Stato, 1914 [The Financial Statement of the Kingdom of Italy, the General Accounting Office, 1914].

Given these difficulties, one might believe that in the years immediately after unification the consolidation of the municipal financial statements of the new state was very disorganised, not at all systematic or utterly inexistent. It is sufficient to consider that statistics on income and expenditures for the municipalities over the period 1873-74 were still based on budget estimates, *"having many municipalities' account books backlogged for several years"* (Italian Ministry of Agriculture, Industry and Commerce, 1875).

The new State, being a constitutional monarchy, was from its very inception, forced to attempt to resolve much more trying problems such as the consolidation of its public debt and the creation of a single currency,[5] the standardisation of its laws, recovery of resources, in that war expenses had emptied the state's coffers, as well as lack of infrastructure.[6] However, problems of public safety such as anti-Savoy banditry in the southern regions in the period 1861–1869 and the Catholic Church's hostility toward the new state also required action. In this regard, attention toward the resolution of the most urgent issues, in 1861 and the following years did not permit any immediate administrative reforms, much less harmonization of the administration's public accounts (Pavone, 1981, Di Simone, 2007, Testera, 1897).

The problems were such that up to 1869 the basic public accounting legislation remained the Sardinian States Law no. 1483 of 23 March 1853, introduced by Count Cavour. Immediately after the Unification of Italy, Minister Pietro Bastogi began the process of the unification of the public accounting systems existent in the pre-unitary states by submitting the Kingdom's first consolidated financial statements in 1862 (Bergamin, 2009:28, Camodeca, 2001:221).

Nevertheless there was no law specifically dealing with accounting and administration in the municipalities. There were, however, instructions, drawn from laws mentioned above, which governed the state accounting system and which were extended and transformed to comply with the specific requirements of municipal and provincial administrations. To achieve a consolidated and systematic text on administration and accounting systems for municipalities it was necessary to await the Royal Decree no. 7036 of 6 July 1890 entitled: *"Amministrazione e contabilità dei Comuni e delle Provincie"* [Administration and Accounting Systems for Municipalities and Provinces] even though previous provisions continued to be applied to those issues not covered by the reform.

Financial Reporting Standardization

As mentioned above, 1890 was the year when new legislation regarding accounting systems for municipalities and provinces was able to include all of the state legislation on accounting, coherent with the new institutional structure of the municipalities. Before 1890, there not being an ad hoc law that governed accounting for municipalities for the drafting of municipal financial statements, the general principles provided for by the State accounting laws were followed.

The Content of the Standardization

On a level of the content of the standardization, whilst the laws previous to the Royal Decree of 1890 had brought no particular innovation to municipal accounting with respect

[5] Before the Unification of Italy there were six different monetary systems, with 236 different metal coins among them. On 20 August 1862 the Senate of the Kingdom of Italy passed the Pepoli Law on monetary unification. This initiated a long process of withdrawal of the old coinage for replacement. In the North the conversion ended in 1865, whilst in the South it was not concluded until after 1871.

[6] Consolidation of the pre-unitary states' public debt amounted to 2.5 billion lira. This amount was derived from the Kingdom of Sardinia (57%), the Kingdom of the Two Sicilies (29%), from Lombardy (7%) and from Tuscany (5%) (Geti, 2011).

to what was established in the law of 1853 enacted by Count Cavour during the Pre-Unitary regime, the aforementioned decree:

- Expressly extended the general accounting standards of the State to the provinces and the municipalities;
- Introduced standardization of the reporting-accounting structure for municipal and provincial financial statements based on those of the State;
- Defined common accounting standards for allocation of income and expenditures for external disclosure of the financial statements.

This decree, besides introducing certain significant modifications, incorporated all of the changes undertaken by the different regulations and instructions from the Unification of Italy onwards. Furthermore, it succeeded in giving a complete and exhaustive view of the innovations introduced into the municipal financial statement system over time.

Accounting reform, as established by Royal Decree no. 7036 of 6 July 1890 *"Amministrazione e contabilità dei Comuni e delle Provincie"* [Administration and Accounting Systems for Municipalities and Provinces] is discussed below. Annual Budgets were proposed by the Mayor and the Chairman of the *"Deputazione Provinciale",* [Provincial Crown Representative], which was the local territorial department of the Ministry of the Interior. (Testera, 1897:147). For external reporting purposes, revenue and expenditures were classified in the budget and in the accounting system in terms of operating revenues and expenditures, capital revenues and expenditures and intergovernmental revenue and services. Beginning at the highest level of classification, revenues were classified only by source. Expenditures, on the other hand, were classified by *categories* such as mandatory or discretionary, current and non-current, fixed and variable (Table 3).

Table 3 – Revenue and Expenditure structure of Italian financial statements (1890)

Revenues	Operating Revenues	Current		
		Non-current		
	Capital Revenues			
	Intergovernmental revenue			
Expenditures	Operating Expenditures	Mandatory	Current	Fixed
				Variable
			Non-current	
		Discretionary		
	Capital Expenditures			
	Intergovernmental services			

Source: Testera, 1897.

Entries generated by permanent origins or those dependent on normal administrative operations were considered ordinary, whilst all the others were deemed extraordinary. Revenues from municipalities were made up of revenues from assets, from transfers from the State and earnings generated by taxes and levies. Revenues from assets were from rentals of land, buildings and others, normal timber cutting in municipally owned woods, services derived from the use of municipal assets, charges, taxes and other entitlements, interest from receivable loans, treasury bonds, etc. Subsequent categories included taxes and tariffs, miscellaneous earnings (such as rights for burial in municipal cemeteries), surcharges, participation in direct income taxes and reimbursement of expenses.

Taxes and tariffs included municipal and state market duties, business and resale taxes, taxes on public and private vehicles, on servants, on rental value, on the family, on agricultural livestock, on draft, saddle and pack livestock, on dogs, on photographs and signs, on schools, on occupation of public areas, on butchering, public weights and measures tariffs, market and fair booth rentals, hotel and café license taxes, etc. Pursuant to the legislation, those expenditures charged by law by the municipalities and the provinces were considered mandatory (see Table 4), whilst the others were considered optional.

Table 4 - Mandatory Expenditure Classification (1890)

Objects	Items
ADMINISTRATION	• Salaries and wages • Supplies • Miscellaneous
TAX COLLECTION	• Tax collection
CAPITAL SERVICING	• Interest on debt • Taxes
PUBLIC SERVICES:	
PUBLIC SAFETY AND SANITATION	• Urban Police salaries • Refuse collection • Street Lighting • Street Cleaning • Community doctor salaries • Cemetery Services • Vaccinations
JUSTICE	• Court Services • Police salaries
PUBLIC WORKS	• Public Work Salaries • Land and Equipment Maintenance
EDUCATION	• Teacher and Caretaker salaries • Physical Education salaries • School Equipment Maintenance • Secondary Schools services
WORSHIP	• Sharing of the parish expenses
PUBLIC AID AND ASSISTANCE	• Public Aid and Assistance
MISCELLANEOUS	• Conscription • Elections • Fire Services

Source: Testera, 1897.

The amounts for expenditures from assets, which during the fiscal year were actually used, were considered ordinary, whilst extraordinary expenditures were those that were not periodic, but that went beyond the fiscal year.

Ordinary expenditures were to be covered by ordinary revenue. Extraordinary expenditures, which improved the structure of public services and which were converted into improved public safety had to be covered by extraordinary means, whilst those arising from exceptional events, had to be covered by immediate public forfeitures. (Testera, 1897:159). Fixed expenditures were those arising from systematic laws or permanent commitments with determined due dates, whilst the others were variable.

A significant innovation was the principle of the classification of the different types of expenditures into standardised categories, based on the services for which they were incurred. As may be noted, the classification level of these expenditures increased considerably. In the past, under *"Category"* (character of expenditures), expenditures were classified by their nature as referred to different and varied services. The new principle of clarity was also introduced with the aim of strengthening the City Council's budget authority and programming role thus limiting individual administrators discretionary powers (Testera, 1897:185).

In a phase previous to its decree, opinions and suggestions were gathered from the *"Collegio dei Ragionieri"* [*Counsel of Accountants*] and from the *"Accademia dei Ragionieri"* [*Academy of Accountants*] of Bologna (the accountancy bodies of the new Italian Kingdom) along with the prefectures, not last in regard to the aspects of implementation of the new financial statements. Nevertheless, strong opposition arose from local administrations, worried by the mandatory and rigid nature of the classification of the revenue and expenditure items in the new financial statements along with the loss of independence in the allocation of expenditures. The protests were such that the Ministry of Interior was forced to specify the disclosure value of the new classification in a subsequent circular (Testera, 1897:185).

DISCUSSION

The scope of accounting reforms cannot be fully understood by simply describing technical solutions in use. There is evidence that full harmonization of government accounting was only completed 20 years after Unification. In our analysis we have specifically investigated the reason why such harmonizations were undertaken at such a late date. We believe that the causes of this delay were as follows:

- Several immediate issues, such as public debt consolidation and tax system harmonization, which tended to inhibit prompt government reform and, last of all, government accounting harmonization
- Cultural and organizational difficulties surrounding the completion of a more general harmonization

Fortunately the delay created no dramatic effects owing to the presence of the Napoleonic Empire throughout the Italian Peninsula during the pre-restoration period. This circumstance accelerated both the standardization process for the rules and conventions and the decision to extend the Kingdom of Sardinia (strongly influenced by France) to the entire Kingdom of Italy. Indeed, as may be observed in Table 1, the seven pre-unitary states had experienced completely different histories, with different conquerors and international influences of every kind and over diverse epochs. Table 1 shows how the pre-unitary states submitted to the predominance of three European states: France, Spain (being also in part dominated by the French) and Austria. Imitation of the French model therefore was the most expedient solution. Certain measures enacted by Cavour as Finance Minister seemed to have been copied directly from a series of decrees enacted by King Leopold I of Belgium on 21 November 1846, which in their turn had been inspired by the Napoleonic organization of 1809 (Taradel, 1964).

The proof that the greatest influence on the pre-unitary states was the French Empire was precisely given by analysis of the administrative structure: that is, the preponderance of a territory was divided into provinces and subsequently into municipalities or, in any case into smaller divisions coordinated by the provincial administrations. Introduction of representative bodies at a level of local government as well as the possibility being given to citizens to elect their own mayor during the period 1859–1865, aligned Italy with those results of the liberal evolution of European development.

The same cultural changes occurred in Spain, which between 1812 and 1900, when a new constitution was adopted with a view toward liberal centralism, achieved outright territorial decentralization. In France, as well, where the constitution of 1814, in which the two chambers, with one being elected, having legislative power, sustained the monarchy, there was a passage to the constitution of 1830 with broadened enfranchisement. Even in 1831-32 in Belgium and England the electorate was also enlarged, not only quantitatively but also qualitatively, with representation going from the aristocracy to the middle-class (Ghisalberti, 2000).

Another important point leading us to affirm that the French Empire was a major influence on these states regards the accounting system. Analyses show that the double-entry method prevailed therein (rather than the simple-entry method utilized by the Austrians and in the Kingdom of Lombardy-Venetia) as well as the requirement to pair financial statements with a budget, augured by the practices found in the French Empire as well as those in the Kingdom of Sardinia.

The double-entry method, as has been indicated, was not used immediately in the Italian accounting system after unification. This was due to the fact that scholars and ministers of the time believed it important to also implement accounting system methods from the pre-existent Italian Kingdoms (except Kingdom of Lombardy-Venetia), making the change possible only after 1867. It is also important to see how appropriate the choice was to extend the Kingdom of Sardinia's reporting method, being the most developed and consolidated system among the pre-unitary states, to the entire Kingdom of Italy.

Surely, the King himself, whose forebears hailed from Sardinia, also influenced this choice. Even though, our research has in any case identified the failings and difficulties of the other pre-unitary states. The Kingdom of Lombardy-Venetia was not an actual kingdom in and of itself in that its accounting system was instrumental for its superordinate administration, being the Austrian Empire. Then, the Grand Duchy of Tuscany did not see great development of its finances and state accounting system as it had been subjected to absolute rule (Mussari et al., 2009:646). The same reasoning prevailed for the Duchy of Modena and Reggio and for the Duchy of Parma, Piacenza and Guastalla. In this final case, however, the accounts were hardly reputable. After French domination, the Kingdom of the Two Sicilies imitated the French government structure and accounting system whilst the Papal States tended to use the Kingdom of Sardinia's system (The Italian Treasury, 1959).

Therefore, it may be concluded that the predominant model for the entire Kingdom of Italy was already that of the Savoy States (Kingdom of Sardinia, Papal States and Kingdom of the Two Sicilies). Furthermore, the scarcity of techniques and methods among the other kingdoms further propelled the extension of this model throughout the newly unified Italian Kingdom. Another important observation concerns the type of services offered by municipalities or other local administrations. It is significant to note how the remarkable change, at mid century, towards greater decentralization of power had also influenced these aspects. Indeed, municipalities and other local administrations, from 1891 onwards in the Kingdom of Italy, provided the majority of local public services. In the pre-unitary period, instead, they had been provided by the central government of the state.

From 1861 through subsequent years, the central government recommended uniform accounting standards primarily as a support for systematic financial management. However, it was not until 20 years later, when elected representatives were given greater control over the executive, and greater services were devolved to a local level, that accounting reform focused on greater accountability for local governments through greater transparency of financial statements. It is also interesting to highlight the important role undertaken by accountancy representatives in the harmonization of local government administration accounting systems. In fact, as shown above, the process of harmonization was not ever enacted top-down but through a continuous and intense involvement of the accountancy bodies.

CONCLUDING REMARKS

The main objective of this research was the investigation of the process of harmonization during the period immediately after the Unification of Italy. Contrary to what was expected, evidence shows that accounting harmonization was not a leading priority among government reforms. Full harmonization of government accounting was not completed even 20 years after Unification. Several urgent issues required government response such as public debt consolidation and harmonization of the fiscal system. In the aftermath of Unification the central government proposed uniform accounting principles primarily in support of systematic financial management across all levels of government. Some years later, when elected representatives were allowed greater control over the executive, accounting harmonization was focused on making local government administrations more accountable to citizens through greater transparency of their financial statements and reporting standardization. As local government services increased in size and complexity, government accounting assumed greater importance as it provided a basis for democratic accountability.

On the level of content, the analyses have shown how the process of harmonization was for the most part oriented toward the necessity of aligning municipal financial statement reporting structures with those of the state, as well as defining common accounting standards. The marked influence of the "French model", strongly rooted in the Kingdom of Sardinia, on the Italian public accounting system after Unification, is also clearly indicated. From this point of view, the influence on accounting practices and the institutional structures of a specific cultural tradition seems to be directly correlated to its own permanence and establishment in a specific context.

The historical evolution of the process of harmonization of the local administrations' financial statements as outlined up to this point, underlines how the structure of the public financial statement-disclosure system is not neutral with respect to its objectives and to the historical-institutional context in which it developed. The evidence confirms that accounting systems are part of complex processes within the social, economic and political environments in which governments must operate. The expansion of services provided and of the financial independence of local administrations, just as the necessity to monitor the aggregate financial performance with greater attention, pointed to the need for a standardization of accounting standards among the different levels of government whilst laying out a uniform account disclosure system capable of rendering the comparison and consolidation of financial statements for different public administrative bodies effective. With this view, these analyses confirm how an historical perspective provides interesting insights even from a contemporary standpoint, whilst enabling interpretation of current discussion, regarding international level harmonization of public financial statements, from a broader outlook.

One limitation of this study is that it was not specifically designed to evaluate local compliance with harmonization regulations, which is a relevant variable to be considered in the conception of accounting as a social practice. Future research into this issue, without doubt, would be of great interest.

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