

Inter-American Center of Tax Administrations – CIAT

43rd CIAT GENERAL ASSEMBLY



“A MODERN VISION OF THE TAX ADMINISTRATION”

Case Study 3.3

**THE TECHNOLOGICAL TOOLS IN FINANCIAL AND BUDGETARY MANAGEMENT
FOR TIMELY AND EFFECTIVE ACCOUNTABILITY**

**Ministry of Economy and Finance
Department of Finance – International Relations
Italy**

**Santo Domingo, Dominican Republic
April 20 – 23, 2009**

Case Study 3.3: THE TECHNOLOGICAL TOOLS IN FINANCIAL AND BUDGETARY MANAGEMENT FOR TIMELY AND EFFECTIVE ACCOUNTABILITY

Abstract

This paper describes the technological and organizational decisions made by the Italian tax agencies regarding financial and budgetary management aimed at ensuring, among other objectives, the accountability and transparency of the tax administration vis-à-vis the taxpayers in the use of the allocated resources.

The paper starts with the regulation that reformed the Tax Administration and established four agencies as public entities with wide self-management powers. In particular, it points out how these rules contemplated the adoption of financial and budgetary management procedures typical of private companies.

The technological tools adopted to adjust the financial management procedures to the new organization provided by the regulation allow the Tax Agencies to control the use of the resources assigned to each activity and verify their efficient allocation for the achievement of the objectives.

For the purposes of transparency and accountability to the citizens, the tax Administration informs the taxpayers on the purpose of resource allocation and related outcomes by means of diverse forms of publicity. Reference is made to the surveys conducted to measure taxpayer's degree of satisfaction in order to verify how fiscal services provided by the Agencies through available resources are perceived. Finally, the paper briefly introduces the design and implementation of new accountability tools in the Italian public administration.

The organizational framework of the economic and financial management put forward herein indicates that a greater control of resources allowed by the technological tools and the publicity of the activities and the results achieved by the Agencies enable the public to perceive the effort to improve and enhance the use of resources, while showing the financial Administration's progressive commitment to the citizens.

Introduction

The transparency in the use of financial resources by the Public Administration, that is, the possibility of knowing how public resources are utilized, constitutes one of the claims made by the citizens over the last years. As regards the financial administration specifically, it is considered important that the Administration should act not only effectively in guaranteeing the State's revenues, but also that the results be attained by best utilizing the available resources generated from the taxes paid by taxpayers. And ultimately, it is expected to allow the possibility of checking on the efficiency of the administrative management and the rational allocation of resources.

Such was the spirit behind the innovations introduced by the Italian Tax Administration in the last years from a legal and organizational perspective. More precisely, the creation of Agencies as public entities with wide self-management powers is targeted at delivering services efficiently and effectively, promoting "game rules" similar to those adopted by the companies competing in the market and methods and tools for managing transferred resources (human, financial and technological) similar to those used by companies.

To manage human and financial resources, the Agencies have adopted and apply modern technological tools, both for planning and accounting purposes. Such tools have allowed Agencies to manage the process and the destination of the resources for each of the activities and verify the efficient allocation thereof, also facilitating the adoption of actions that allowed informing citizens on tax collection, other fiscal policy objectives and the resources allocated to achieve such results.

This paper presents the organizational and technological decisions that had to be made to adapt the financial management procedures to a type of management apt to assure an efficient use of resources and the transparency and accountability to the taxpayers.

To this aim, the presentation has been articulated around three main points. Firstly, it presents the rules that created the tax Agencies, assigning them an entrepreneurial-type financial and budgetary management, managerial autonomy and responsibility in the performance of fiscal policy objectives. Then, it describes the technological tools chosen by Agencies to manage the economic and financial aspects, underlining the election criteria and the areas of operation and development. Finally, the greater control of resources brought about by such tools resulted in some ways of publicity adopted by the Tax Administration to inform citizens on the purposes and the results of the use of the public resources. Also, reference is made to taxpayer's satisfaction surveys conducted to understand and interpret the perception of citizens and companies of fiscal service quality. Finally, reference will be made to the dissemination in the Italian public administration of the implementation of new accountability instruments that are easier to use by the citizens. Some final considerations regarding the achieved results follow.

The paper is intended to present the organizational frame of the economic and financial management introduced by the reform, underlining its critical transitions and the results attained, also in terms of providing more effective information to taxpayers and a greater consideration of their expectations.

1. Rules related to Agencies' financial and accounting management

The reform carried out by the Italian Financial Administration under the “agency administration” model brought about an important change in the organization, particularly in the procedures for managing financial resources, both as a result of incorporating an accounting similar to that used by private companies, subject to economic accounting principles, and the fact that the economic and financial management constitutes the core of the management autonomy conferred upon the Agencies.

1.1 Obligation to adopt the economic accounting

The new organizational structure incorporated by the reform of the Italian financial Administration (Act N° 300 of July 30 of 1999, Sections 57-70) marked the transition from an organization based on expense and accounting processes typical of public accounting, to a self-governed and flexible structure based on accounting principles regulated by economic accounting rules.

To such aim new procedural tools are contemplated to pass from a financial administration based on Public Budget's sections - which in practice complicated the control of the destination of financial resources- to a system of resources defined by the rule and administered through an entrepreneurial-type accounting¹. In addition, under their recognized self-management, Tax Agencies can obtain other resources from the provision of services to public and/or private entities in addition to their institutional activities, by offering their own professional and technological competencies.

In furtherance of the cited rules, an innovative set of provisions has been introduced relative to the recording of accountable and management facts contained in the accounting regulations adopted by the Agencies. Such provisions allowed the passage from an accounting system used by the whole State Administration to a system taken from the private sector.

The accounting regulation, mainly inspired by entrepreneurial accounting, constitutes the benchmark instrument of the Agencies' administrative and sourcing activities, and regulates, among others:

¹ Section 70 of Act 300/99 provides that the resources of Tax Agencies should be composed of:

- the funding allocated in the State's Budget;
- the payments for services provided to public or private entities, including the State administration of deliverables that are not part of institutional services;
- other property and management gains.

- the budget (or program document), an instrument used for planning and authorizing expenses and monitoring results, which represents a highly innovative element that allows tying the demands of expense planning to the requirements of management flexibility, effectiveness and efficiency;
- the accounting system, as the basic structure to record the economic, financial and property aspects of the Body's actions;
- the year's balance sheet, drafted in conformity with the economic principles;
- the articulation of the year's balance sheet with the State accounting, which must be obligatorily explained in the supplementary note (document that integrates the year's balance sheet).

The articulation of the year's balance sheet with the State accounting constitutes the mechanism that, given the public function executed by the Agencies, allows keeping at sight the transferred financial resources and following up their utilization. In effect, the Agencies' accounting management, despite adopting the rules provided for private companies, respects the "*general provisions related to public accounting, which include the drafting of specific notes of entrepreneurial accounting*" (section 70, paragraph 5 of Act 300/99). Furthermore, the executed Balance Sheet that documents the economic management *ex post facto* is subject to the Minister's approval.

Essentially, the rules require that the relation between the transferred public resources and the Agencies' financial management be maintained and documented, and that this situation be verified from time to time.

1.2 Agencies' self-management and responsibility

The new regulation is completed by the great self-management powers conferred upon the agencies. In effect, section 61 of Act 300/99 defines tax Agencies as "*public bodies provided with regulatory, administrative, property, organizational, accountable and financial autonomy*".

This provision allowed Agencies to independently chose, once the achievable objectives were agreed within the limits of the allocated resources under the Convention², the manner in which the operating objectives (production budget) and the amount of necessary resources (economic budget) would be allocated to their organizational structures.

² Section 59 of Act 300/99 provides that the Ministry of Economy and Finance can independently fix the objectives of fiscal policy and tax management. Based on the political guidelines, the Ministry and the Agency establish a triennial Convention, revised annually, which sets the corresponding services and achievable objectives, the available resources, the indicators and metrics to measure management results and evolution.

As a result of the self-management, Agencies are responsible for the achievement of the fiscal policy objectives set by the Ministry of Economy and Finance³, which has verification and control faculties over them.

Specifically, the Ministry exercises a surveillance function over the acts of the Agencies, and a control function over the resolutions concerning bylaws, regulations and overall acts identified in the Convention, which regulate their functions.

The management and control role exercised by the Ministry over the Agencies constitutes a first guaranty to the citizens regarding the efficient use of the resources allocated to the financial Administration, and is intended to assess the deliverables and services provided to taxpayers and the global functioning of Agencies with relation to the transferred resources.

2 Agencies' financial management

The implementation of the financial economic management described in the preceding paragraph required the start-up of new operating procedures intended to:

- quantify the necessary resources with relation to the activities;
- control their use, enhancing the relation between resources and results;
- intervene timely to correct possible deviations from pre-established cost goals;
- simulate the effects of future decisions;
- control the progress status of assigned objectives.

Essentially, the implantation of a planning and control system of financial and budgetary resources was required, supported by adequate IT tools intended to collect and process the necessary information for management purposes, as well as to extrapolate useful elements for making managerial decisions.

The obligation of Agencies to carry the economic accounting and maintain the management autonomy required the development of IT systems allowing collection of all the necessary information to write up executed Balance Sheets and the documents that would be subjected to the Ministry's control. Such instruments, in turn, would allow the Agencies to control and assess the management's economic evolution to verify its accuracy and efficiency.

2.1 Supporting technological tools

The above described IT requirements called for supporting systems apt to meet different needs.

³ The reform of the Financial Administration separated the political management function maintained by the Ministry of Economy and Finance from the technical-operating management of tax collection and relationship with taxpayers carried out by tax agencies. The relationship with Agencies is maintained through the Finance Department of the Ministry which, based on the Minister's instructions, controls the planning of Agencies' objectives and the ulterior verification of achieved results.

Firstly, the systems had to administer the information relating to accounting (staff, purchases, treasury), should be integrated to manage cost-related data uniformly. Such systems should allow the processing and conservation of all accounting documents required by the law, as well as the drafting of the year's balance sheet. Lastly, they should allow the preparation of the documents for articulation with the State's accounting.

Secondly, such systems should be inserted in the architecture suite of management systems, integrated to them and allowed the control of all corporate processes. Especially, they should produce the necessary documentation to:

- formulate the integral budget (assignment of production and cost objectives);
- have available an economic and production information system apt for the requirements of information from the diverse levels of responsibility, in order to verify the degree of progress of activities and the allocation of resources for the accomplishment of preset objectives.

In addition to having the above described features, the tools to be adopted should allow the rapid implementation of all management systems.

The decision went towards an application already known in the market, apt to monitor the operating environments of small and medium-sized companies, which would meet the requirements of integrality and flexibility and the supplier of which would guarantee ongoing enhancement and renewal thereof.

The solution adopted was an evolved integral system called *Enterprise Resource Planning* that runs over ORACLE platform. It consists of a set of modular applications dedicated to providing support to the different aspects of management: from overall accounting to purchases, sales, human resource management, control of the progress status of objectives, etc. Each module allows generating its own report on the data managed by it.

The set of applications used by the Agencies is part of a suite called "*e-Business Suite*"⁴, version 1.1.i. An "accounting engine" is used for the overall accounting, which obtains and integrates the information from the modules that manage the accounting of suppliers, purchases, assets and clients. The attainment of accounting data through these systems allows drafting the year's Balance Sheet and all related documents that must be subject to the Minister's approval.

Specifically, the operating environments are:

- the purchase cycle: for purchase management, it is intended to control and manage all aspects of expense and draws on the reality of private companies;

⁴ The "E-business suite" is Oracle's application package for automated management of the entire corporate processes.

- the accounting system: based on the rules of the Civil Code regarding corporate accounting, it allows the identification of administrative facts and is intended to prepare the year's balance sheet and, therefore, assess the economic and net worth results. In the IT system adopted by the Agency, the accounting module represents the core of management system's architecture.
- the treasury system: it allows mainly to manage payments and collection from the phase of provision/registration, to the reconciliation between internal accounting entries and the depositary bank's entries. It is also composed of the "decentralized cash fund" tool which, through the fund allocations (of small amounts) requested by local offices, allows a more agile management of minor expenses.
- the asset module: it is fed through the purchase cycle and is intended for the accounting management of the company's property, allowing for an interphase with the accounting system.
- the active cycle: for the issue of invoices for services other than institutional ones, which the Agency may offer to public and private entities.

Finally, the HR module allows managing staff with respect both to staff condition (years of service, branch, etc.) and attendance/absenteeism.

The above described applications also guarantee the integral coherence and the security of the information. In fact, operators access with a personal password and each modification made to the existing information in the files is subject to a strict system of authorizations and validations. The visualization of data is customized as per the body and the person accessing the system.

Currently, the activated modules for management control are pending delivery, which are structured as per each Agency and have modalities that correspond to the respective organizations and allow analyzing, integrating and processing accountable and production information. Especially, the system allows:

- the preparation of the economic and production budget, both for its execution and the partial revisions during the year;
- the information on economic and production data for the purposes of internal control and monitoring;
- the analytical Accounting management, in order to know the costs incurred in a certain period, broken down by Responsibility Center, activity, Product and Project;
- for the Customs Agency (and especially for the sector of Chemical Laboratories)⁵ industrial Accounting is being developed for the cost analysis of fee-paying activities, in order to allow managing them separately from institutional activities.

The functioning of the system described above will be able to manage all corporate needs of the Agency.

⁵The "Chemical Laboratories" are part of the Agency's structure, which, in addition to the institutional activities of merchandise analysis for traffic control, conduct analyses upon request of third parties, for a fee.

2.2 Start-up of procedures and systems

The decision to adopt this product required adapting the functions of a system conceived to operate in the private environment to the particularities of large public offices, such as tax agencies.

However, customization interventions were limited, keeping the original features of applications, the modifications of which are the responsibility of ORACLE, so as to assure the system's integrity.

Alternatively, the opportunity offered by the new accounting obligations established by the rule was taken advantage of, proceeding with the reengineering of financial management processes. The organizational procedures have been adapted to the new instruments, so as to avoid the common error committed in automating the Public Administration: introducing advanced IT solutions in obsolete and inefficient operating modalities.

The new operating modalities and the requirement to respect the terms provided by the rule required the rapid training of the staff, which had accounting experience in the public sector. The implementation of the accounting systems was accompanied by training, so that the entire system would function coordinately and the year's first balance sheet could be presented to the Minister for approval within the established terms.

The courses were targeted at managers, who would use the information available through these tools for management-related decision making. Special emphasis was given to the advantages and responsibilities deriving from the possibility to administer the allocated resources autonomously.

The operating staff that would use the systems were specially trained in the new accounting procedures, focusing on the differences between the new economic-type management, based on the competency of the expenses incurred, and the previous system based on financial flows.

3. Publicity and transparency of the financial management

The financial management whose modalities and tools have been previously described is part, as we saw in the first point, of the Agencies' self-management frame. These can value and optimize adequately the available resources by achieving the objectives agreed with the Ministry. The evaluation of the Agencies' actions will be based on the obtained results and not on the formal verification of each management action. Therefore, Agencies implement the decisions they deem more convenient basing them on rationalization and flexibility criteria of the utilized resources. The ultimate goal, as it has been restated several times here, is to achieve an efficient provision of services with a view to meeting the citizens' demands.

However, the responsibility before taxpayers requires that the application of this self-management should be visible as to the objectives and the allocated resources for their accomplishment. It is necessary, then, that the use of resources should be possible and that there should be assurance that they are targeted at the performance of public aims, not only from the point of view of the compliance with the rule but also in terms of the effectiveness of the administrative action, that is, the accomplishment of results.

Over the last years, the financial Administration adopted some initiatives based on the improvement of the set of relationships with citizens, both in terms of transparency and information on the management of administrative activities, and the survey of taxpayers' expectations.

3.1 Publication of Conventions and result verification documents

A first form of transparency before the citizens is the publication of the Conventions held with the Agencies on the Tax Administration's webpage. These documents indicate what activities will be developed and what results should be achieved from the transfer of financial resources; as well as the modalities for defining and transferring the financial resources allocated in the public budget, allowing to know the "cost" of the services provided by the Agencies. Finally, the Conventions also contain the plans for innovation projects intended to improve the Agency's set of deliverables, also financed with the cited resources.

The possibility of knowing the relationship between the transferred resources and the achievable objectives is even more evident in the document that regulates the relations between the Ministry and the State Property Agency, which manages the State's real property. Considering the Agency's particular juridical nature⁶, the relationships, the services provided and the corresponding payments are regulated through a "services agreement" that indicates the Ministry's financial consideration provided to each of the rendered services.

Also, the result verification reports have been published recently, which document the degree of compliance with the goals established for each year within the three-year term contemplated in the Convention. Specifically, the summary documents contain the economic and financial data of each Agency in graphical and comprehensible fashion, with regard to the achieved results, and also show the management's historical evolution.

The data required to draft such reports derive from the management reports of Agencies which, in order to process such information, use the management systems that have just been described.

⁶ The Act 173/03 modified the Act 300/99 and transformed the Agency of State Property in an Economic Public Body: a self-managed juridical entity of the Public Administration that applies organizational modalities and operating tools typical of the private sector, to achieve its objectives.

The citizen is then able to know and analyze the evolution of the Agencies' total performance and check the results achieved in terms of efficiency and effectiveness of the administrative acts.

3.2 Publication of the year's balance sheet

Over the last years, the Revenue and State Property Agencies also published on their website the years' balance sheet, the report on management and the activities and the supplementary note, the drafting of which is possible thanks to the accounting management applications used by the Agencies, as explained in the second point.

The publication is made after the approval of the final document by the Minister. Such approval represents the verification of the agency's financial and economic management established by the law to assess the agency's lawfulness, transparency and truthfulness. The publicity is a form of control exercised by the citizens over the Agency's acts.

The Balance Sheets contains detailed information on the activities conducted during the year; it allows, through the analysis of economic data, having a specific knowledge of the Agency's financial and economic position and, therefore, the use of financial resources allocated to its functioning; especially if they are related to the performed activities and obtained results. The year's Balance Sheet also documents the efficiency of the financial management on checking whether the Agency is optimizing the use of the available resources without incurring debt, as it is set forth in the regulation.

3.3 Customer satisfaction surveys

Accountability is also supported by the periodical verification of the agreement between the services provided by the Administration and the citizens' expectations.

To such end, several years ago the Department of Finance of the Ministry of Economy and Finance, which holds coordination functions in cooperation with the Tax Agencies, started up different actions intended to listen to taxpayers and thus improve the relationships between the citizens and the Tax Administration.

The objective is to understand and interpret the way citizens and companies perceive tax services. Paying attention to the opinion of one's own "clients" is a way of communication that helps bring the administrative action closer to the requirements of citizens and companies in terms of work efficiency and quality.

The surveys were conducted with regard to each of the services offered by the financial departments and the fiscal system as a whole. Particularly, the Department of Finance has carried out surveys to learn how taxpayers and tax sector professionals perceive the tax system. The results of the surveys were published in the section devoted to the quality of fiscal services on the Financial Administration's website.

On the other hand, the surveys conducted by the tax Agencies focused on some of their services and the categories at which such services were targeted. Also in this case the surveys as well as the utilized criteria and the achieved results were published in the respective websites.

The result of the surveys allowed to obtain useful information to start up programs intended to improve the work and the organization.

3.4 Design of new accountability tools

As part of the modernization underway in the Italian public administration, initiatives were also undertaken for increasing transparency and informing citizens about the actions carried out and achievements resulting from the public resources used. In particular, the design and test of some accountability tools and techniques are being disseminated. They allow the citizens to easily become aware of the objectives, action strategies and results achieved.

In fact, citizens might be unable to fully determine the efficiency and effectiveness of the administrative action merely through the regular means of institutional communications such as, for example, the published documents which we briefly illustrated in the preceding paragraphs. Therefore, many administrations have developed communication tools that clearly describe the mission of public administration, the objectives pursued, the resources available and achievements made.

Only recently have efforts being devoted in this regard, by issuing guidelines for standardizing the different tools being designed. In particular, one tool has been developed which renders accessible, transparent and assessable the performance of public administrations by the citizens; namely: the "Social balance". It is a document that is periodically drafted and allows for translating the figures of the traditional accounting balances into illustrations to public and private stakeholders of the decisions made by the administration, the activities, the services rendered, indicating which and how many resources have been used and which were the decision-making processes.

Likewise, the tax Administration has taken measures for developing an appropriate "Social balance". The document should provide the global framework for the tax system's social accountability, by integrating the information obtained from the Administration's management systems (Department of Finance and Agencies). The purpose is to specifically and easily make the taxpayers aware of the activities carried out and the resources used.

The document is still in the planning stage and up till now there have been no practical applications. Nevertheless, it may be considered an evidence of the tax Administration's awareness of the need to establish an open relationship with the taxpayer, well beyond communications for the sole purpose of ensuring compliance with tax obligations.

Conclusions

We have analyzed, both from the regulation and the organizational perspectives, the innovations introduced by the reform made by the Tax Administration to the financial and budgetary management. The management flexibility and autonomy allowed the Agencies to contribute to the process of modernization of the fiscal system, gaining an increasing proficiency on the efficient use of the available resources.

As it has been seen, the transition from a structure that functioned under formal rules and bureaucratic procedures to another that operates according to corporate values and instruments has not been without difficulty, either in terms of the organization of the new procedures or the implementation of the supporting technological tools.

Nevertheless, after several years of self-management, the documents produced by the Agencies for the verification of results and management evolution seem to indicate that the new management culture is consolidated. This is shown by the ongoing development and evolution process that characterizes the management supporting systems documented in the result verification reports, even from an economic point of view.

This is most true of the systems that analyze and process the information required for making corporate decisions. The search for ever sophisticated solutions and the adoption of state-of-the-art tools demonstrate that Agencies are aware that the knowledge of the management facts is an indispensable condition to recover efficiency, and that it can be key to obtaining the results expected by taxpayers in exchange for paid taxes, and which the Administration tries to capture by studying the service quality from the point of view of taxpayers' perception and expectations.

This is the objective pursued in the publicity of the activities and the results accomplished by the Agencies in the current trend towards a transparent internal management, and which lies behind the objectives sought. The research and development of new communication tools attest to the interest of making citizens aware of the activities carried out by the Administration. Most of all, this objective assures the visibility of the efforts to improve the management and optimize resources, while showing the Tax Administration's progressive commitment to the citizens.