



## CORTE DEI CONTI

### Parallel Audit on Medium-Term Budgetary Frameworks: Audit Questions

#### 1. Background information: the Italian medium-term budgetary framework

The Italian legal framework governing the medium-term budgetary framework can be considered overall compliant with the relevant European regulations and directives.

According to the index on the quality of medium-term budgetary frameworks, elaborated and annually updated by the European Commission, Italy ranks 6th among the 28 Member States, with a final score, in 2017, of 0.78 out of 1. With this regard, it must be considered that: in the medium-term budget targets are based on the ESA accounting system; the length of the period covered by the medium-term budgetary document and by the budget law is three years; the budgetary documents include a breakdown for sub-sectors: central government, local government and social security funds; projections for expenditure and revenues at current legislation are on nominal bases; specific disclosure on the public debt sustainability and on contingent liabilities is granted; the National Parliament is involved in the budgetary procedure, by issuing a specific opinion on the planning document; macroeconomic forecasts are validated by an independent body, the Parliamentary Budget Office (PBO).

#### 2. Areas of possible performance audits and audit questions

##### A) Expenditure targets and spending review procedure

In order to improve efficiency in the current operation, Italy has implemented, over the last decade, several spending reviews. However, they were not carried out within the budgetary process and were mostly based on “horizontal cuts” on certain budget items, imposed to central and local administrations. Therefore, they proved to be partially ineffective.

In 2016, with an amendment to the relevant legislation, the spending review approach has been revised and integrated in the annual budget process on an on-going basis. Moreover, with the aim at enhancing its effectiveness and sustainability, a spending review procedure has been put in place where reduction targets are set in specific agreements between the Ministry of Economy and Finance



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and the other Ministries. *Interim* and *ex-post* controls are provided in order to assess whether the agreed measures are implemented and produce the expected results.

The new rules have been applied in the 2018 budget process; in 2019 the Italian SAI has performed a preliminary audit on the results achieved in the first spending review cycle, which implied measures, for a total amount of 1.5 bn, consisting either in the revision/restructuring of administrative procedures, or in the defunding of existing expenditure programmes or in the modification of the parameters defining their evolution.

In this context we deem that the procedures in place to define expenditure ceilings or reductions in the annual budget could be an interesting area of audit; comparisons between national approaches could highlight the best practices to improve the effectiveness of the spending review procedures, in order to guarantee that the achieved results become structural, with stable effects over the years, rather than one-shot reductions.

#### **B) Change in the criteria for the expenditure planning and recognition in the budget law**

Starting in 2019, a new criterion for the recognition of expenditure in the annual budget and for its implementation was introduced, replacing the previous one, which was based on the legal commitments. Under the new framework, expenses should be recognised in the financial year in which they come to their expiration and they should be financially settled. This approach aims at smoothing the translation of the medium-term budgetary document into the annual budget, improving efficacy in planning expenditure, enhancing the level of implementation of the budget and reducing the extent of appropriations carry-over.

In our opinion, carrying out an audit on the criteria according to which expenditure is recognised in the annual budget would be beneficial, as it would allow for a comparison between the different approaches, adopted at national level, and for a discussion of their pros and cons.