

# The Role of Monitoring of the Board of Statutory Auditors in the Management of the Italian Hospitals

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## SUMMARY

Italian public hospitals are healthcare companies whose actions must be informed by the principles of effectiveness and their management follows the principles of efficiency and economy. The Italian Council of Chartered Accountants and Accounting Experts defines the range of actions of the Board of Statutory Auditors to prevent inadequacies. The Board of Statutory Auditors has privileged relationships with stakeholders in the management activities of the Hospitals. The Board of Statutory Auditors is a corporate body and reports to the General Manager in a hierarchical system. The function of the Board of Statutory Auditors is to control legality. The Board of Statutory Auditors verifies compliance with Italian Statute and the public hospital statute. The BSA also verifies the adequacy of the administrative and accounting organization, and the correct administration of the company, reporting any relevant facts to the region. In the event of mistakes or improper management of the hospital, they are deemed responsible, together with the hospital directors, if the damage could have been avoided if they had supervised as required by law. The purpose of this article is to report the activity and the duties of the Board of Statutory Auditors as an inspector in the management of Hospitals in Italy.

## KEY WORDS

*Board of statutory auditors; health care; statutory auditors; public health; Italian hospital; hospital management.*

## INTRODUCTION

According to Italian civil Statute, an internal control organism for public or private entities of any nature which conduct economic activities is mandatory. Most of the specific legislation which regulates the duties, functioning, and responsibilities of the internal control organism in public entities originates from the civil legislation envisaged for capital companies. Indeed, according to the company law reform, any capital company must adopt one control system. These internal control organisms could be represented by the Board of Statutory Auditors (BSA) or other less commonly used organisms, such as the dualistic or the unitary board systems (1, 2). Italian public hospitals are healthcare companies whose actions must be informed by the principles of effectiveness and their management follows the principles

of efficiency and economy. Therefore, the statutory legislation of the BSA for capital companies applies in full to the BSA of public hospitals and constitutes their primary regulatory source. The specific regulation of the BSA of public hospitals is regulated at the national level, and the regional regulations integrate the national legislation.

## Election of the statutory auditors

The BSA is composed of 3 or 5 members called “Statutory Auditors” (3). The first members are elected by the deed of incorporation by the General Director of the hospital through a specific provision (4). The BSA nominate new members until the necessary number is restored, normally five. The State or Public institutions can in exceptional circumstances provide additional members. In the event of

revocation or resignation of a member of the BSA, a substitute will succeed, most of the time in order of seniority. The General Manager is responsible for re-establishing the BSA in the absence of members following death, resignation, forfeiture, or re-establishment. If General Manager does not reconstitute the BSA within thirty days, the region itself will provide the extraordinary reconstitution through two officials designated by the Italian Minister of Economy and Finance and an official designated by the region. The extraordinary BSA interrupts its functions when the ordinary BSA is appointed. The BSA remains in office for three years and is made up of three designated officials: one from the Region, one by the Italian Minister of Health, and one by the Minister of Economy and Finance.

Important professional skills are also required for the members to perform the functions of statutory auditors in public hospitals in Italy. The members of the BSA are chosen from those listed in the register of auditors of the Ministry of Economy and Finance or in the professional registers of chartered accountants and accounting experts, lawyers and labor consultants, or must be tenured university professors in economics or law. At least one statutory auditor and one alternate auditor must be entered in the register of auditors kept at the Ministry of Economy and Finance. Cancellation from these registers causes forfeiture of the office.

### Incompatibility

Director, spouse, relative, and/or in-laws within the fourth degree of the directors of the hospital or other individuals who have a direct relationship with the hospital or controlling agencies are incompatible to become a member of the BSA (5). Cancellation or suspension from the register of statutory auditors or loss of the professional requirements required also represent a cause of incompatibility (6). Civilian employees of the State, parliamentarians in companies which manage services on behalf of the State (7), and members of the Superior Council of the Judiciary (if elected by Parliament) are not allowed to become statutory auditors (8). Other less common causes of incompatibility are envisaged by Italian civil Statute (9).

### Term of office

The statutory auditors remain in charge until the end of their mandate which is typically established at three financial years. Once the assignment of a statutory advisor has been accepted, this should be registered in the Italian Companies Register by the administrative organism within 30 days. The BSA must assemble at least every 90 days. Minutes of the meetings are recorded in the register of meetings and resolutions of the BSA. The statutory auditors who do not participate without reason in two meetings in a

financial year are forfeited (10). The BSA can deliberate if the majority of the members are present and the resolutions are approved by the absolute majority (11). The statutory auditors must attend the meetings of the Board of Directors of the hospital (3). In case of need, if they have to report on particular facts, the statutory auditors can convene extraordinary assemblies.

### The function of the BSA

The function of the BSA is to control legality. The BSA verifies compliance with Italian law and the public hospital statute. The BSA also verifies the adequacy of the administrative and accounting organization, and the correct administration of the company, reporting any relevant facts to the region (12).

In the event of mistakes or improper management of the hospital, they are deemed responsible, together with the hospital directors, if the damage could have been avoided if they had supervised as required by law. In these cases, the hospital may also initiate liability action against the statutory auditors (13). The Italian Supreme Court has established that the violation of the duties of supervision, diligence, correctness, and good faith also exists in omissive conduct, such as the failure to detect macroscopic violations by the hospital directors, or in the failure to react to the conduct of dubious legitimacy, for example by informing the BSA.

### Inspection power of the BSA

The statutory auditors may conduct inspections and controls at any time during the company life. The BSA can demand anytime the information or explanation to the hospital directors on the progress of corporate operations or specific business covenants. The BSA exchange information with the corresponding figures of the subsidiaries regarding the administration and control systems and the general trend of the public hospital business. The Board collaborates, within the scope of its professional mandate, with any other internal and external control structure following national and regional legislation or by provisions of administrative practice. During their inspection and control operations, the statutory auditors, under their responsibility and at their own expense, may make use of their employees and auxiliaries (9). However, the administrative body may refuse access to confidential information to the auxiliaries and employees of the statutory auditors (14, 15).

### The BSA in public hospitals

The duties of the BSA in Italian public hospitals are regulated by civil law (4, 16). In Italian public hospitals, the BSA verifies the administration of the company from an economic point of view, monitoring compliance with the law, ascertain-

ing the regular keeping of the accounts and the compliance of the financial statements with the results of the accounting books and records, and conducting periodic cash audits. In this respect, the BSA reports to the region at least quarterly or on request the results of the verifications, or exceptionally in case of founded suspicion of irregularities.

To accomplish its function, the BSA of public hospitals in Italy verifies the acts of the administrative procedure, evaluates the control environment (management and internal control) and inventory management, analyses the tax, financial and treasury management, accounting and budget system, and controls the personnel, social security and welfare management.

In this respect, the BSA reunites periodically, sending their reports of each meeting to the General Manager and the other directors of the hospital, to the region, and the mayor of the city. All meetings are documented and saved into an online software (Progetto Informatico Sindaci ASL, P.I.S.A) since 2012 (17-20). In this software is also possible to verify the personal data of the Statutory Auditors, the report of each meeting and related minutes. This online software allows also access to the regions.

The BSA, with the support of the competent company structures, participates in the collaborative control of the Court of Auditors by filling in and sending to the regional Control Sections questionnaires which must show, in particular, the acknowledgement of observance of the restriction outlined in debt matters under article 119, last paragraph, of the Italian Constitution, and the evidence of any serious accounting and filing irregularity (21).

## THE REFERENCE PRINCIPLES

### Principles of conduct of the BSA recommended by the CNDCEC

In October 2016, the Italian National Council of Chartered Accountants and Accounting Experts issued the document (CNDCEC) entitled “The verification activity of the BSA in Local Health Agencies and Hospital Health Agencies (L’attività di verifica del Collegio sindacale nelle Aziende Sanitarie Locali e nelle Aziende Sanitarie Ospedaliere)”. With this document, the National Council, in support of all subjects who approach these types of companies, has mainly pursued the aim of outlining the activity of the BSA in the Italian public hospital. This document, addressed to operators in general, provides indications relating exclusively to the national legislation on the management of Italian public hospitals. The provisions contained therein are divided into seven chapters (**table I**). This document provided to the category an operational and interpretative contribution aimed at strengthening the efficiency and effectiveness of the supervisory activity of the Statutory Auditors.

### National accounting standards

To understand the importance of the national accounting standards issued by the Italian Accounting Organisation, it is essential to know the accounting excursus conducted by the Italian public hospitals to move from the financial accounting system, introduced with the creation of the National Health Service in 1978, to an economic-patrimonial accounting system. The necessary to verify whether the

**Table I.** Summary of the document “The verification activity of the BSA in Local Health Authorities and Hospital Health Authorities”.

Chapter	Title	Description
I	Purpose	The purposes of the document are identified as a tool to support professionals called to assume the role of auditors in Local Health Trusts and Hospital Health Trusts, delimiting their duties and responsibilities
II	Scope of application	The territorial scope of application of the document in question is the superordinate one at national level. In fact, at the same time, the need to decline its application in accordance with regional legislation is highlighted
III	Institutional stakeholders	According to UNI ISO 26000, those who are the institutional stakeholders with whom the BSA has privileged relations are defined. All those who have any interest in the decisions or activities of an organization are defined as such
IV	Regulatory framework	The current national legislation on the subject of the BSA in the ASL and ASO is listed
V	General aspects	Outlines the fundamental aspects that regulate and qualify the activity of the BSA in the ASL and ASO from the appointment to the most salient aspects of their activity
VI	Control of administrative and accounting regularity	Indicates the sphere of control and activity of the BSA, as well as the indications for the meetings and the methods for taking minutes of the same
VII	Opinions and reports	Indicates which opinions and reports the panel must produce by outlining the salient contents

company is achieving its objective of existing economically, *i.e.*, of remunerating the costs of the production factors through revenues and not only the objective of financial balance, has led the healthcare companies to draw up a budget for the year that was no longer just a cash flow statement. In the initial phase, both accounting systems were maintained due to the delay in approving the national guidelines for the introduction of economic and equity accounting. This financial accounting was then abolished (22) and since 2002, all healthcare companies have adopted exclusively economic-patrimonial accounting. This phase was characterized by an increasing differentiation of regional accounting rules for the health sector, which contributed to creating inter-regional heterogeneity. Before the 2011 budget reform, this heterogeneity was accentuated by the choice of the national legislator not to extend the provisions of the Civil Code on the budget to public hospitals, leaving the decision to the regions. The only elements of national uniformity were limited to consolidation purposes. The lack of homogeneity in the budgets and accounting principles of Italian regions had as a consequence the difficulty of making comparisons between the different Italian regional health organizations. Furthermore, it was also difficult to compare the regimes over time due to the continuing instability of the regional accounting regulatory framework. The accounting autonomy of the regions led to the adoption of accounting principles of limited objectivity. The need to have reliable and comparable budgets became a priority in 2004 (23). It provided that regions with significant management deficits in their health service could receive coverage only if they signed up for a recovery plan with the State with a maximum duration of three years. The reliability of the data in the balance sheets of the health authorities thus became very important since the regions were now responsible for settling the operating deficits produced by their health systems. In June 2011 the definition of homogeneous accounting principles and structured budget schemes entered uniform for all Italian regions, definitively overcoming the condition of “accounting federalism” which had characterized the Italian health sector for a long time (24). This reform, which falls within the European context of creating comparable and verifiable reporting mechanisms of public expenditure, constitutes the reference framework for the accounting system of public healthcare companies. The most relevant architrave that emerges is the new accounting model, which conveys the reference model of the financial statements of the entities of the national health service closer to those envisaged by civil law on financial enterprises.

## THE REPORT OF THE BOARD OF STATUTORY AUDITORS ON THE FINANCIAL MANAGEMENT

### Documents

The financial statements (25), once adopted by the General Manager with a specific provision, are sent to the BSA which must express, through a specific report, its opinion on whether or not to approve this document. The report of the BSA on the financial statements constitutes one of the most important acts of its activity, as this document will provide assessments and judgments on the administrative-accounting regularity of the management, and assessments regarding the results achieved by the hospital management in the year. In particular, in its report, the BSA must first give evidence that the financial statements are composed and accompanied by all the documents required (26): income statement, balance sheet, cash flow statement, explanatory note, and the management Report of General Manager for the closing year and the previous year (27).

### Essential contents of the opinion on the financial statements

#### *Management from an economic-financial point of view*

The report of the BSA must provide a detailed analysis of compliance with the requirement of stability of budget balances. In particular, if the financial statements being examined were to close with a loss for the year, the BSA will have to ascertain that the same has been contained within the limit authorized, with a specific resolution, by the region. Otherwise, if the loss should be greater than that authorized by the region, the BSA must ensure that the hospital has adopted the appropriate measures to bring corporate management back into balance. Safeguarding the financial balance requires, however, that the analysis of the BSA is not limited to the economic results of the reference year, but also extends to past losses, ascertaining that the same, although formally authorized, have been covered with a specific regional measure.

#### *Regularity and correctness of the accounting system*

The verification of the regular administration and the compliance of the financial statements with the economic and patrimonial outcomes falls in the report of the supervision of administrative and account regularity. In its report, the BSA summarize the results of the administrative and accounting activities conducted during the year, highlighting whether, during the controls, irregularities were found in the management and/or in the keeping of the records and accountants. In this regard, the BSA reports if particular critical issues have emerged within the administrative controls. The BSA verifies



the correspondence between the finances resulting from the accounting records of the hospital and those resulting from the accounts of the Treasurer Institute and the Treasury of the Bank of Italy (28, 29). Through controls on collection and payment orders, attesting or not the correct management of the cash desks, the ticket cash desks, the pharmacy warehouse, the unified warehouse (financial and technical), the correct and timely fulfilment of withholding payments and other sums due to the tax authorities and contributions due to social security institutions, and the successful presentation of all tax returns.

**Correspondence between accounting records and balance sheet data**

The BSA ascertains the correspondence of the financial reports in the statements with the accounting records. More specifically, the findings of the BSA on the financial balance records aim mainly at verifying the correspondence between the amount indicated in the financial statements for each financial asset and the corresponding balance from the inventory and warehouse entries, the correspondence between the balance of the treasurer institution and that of the liquid assets resulting from the accounting records. Moreover, the BSA controls if the credits from the Region have been subject to specific reconciliation with the competent regional offices if the main credits and debits have been duly circulated, and if the credits for capital grants

from the State, the Region, and/ or other public bodies are supported by a specific allocation provision. Concerning the income statement, the BSA verify the correspondence of the account balances contained therein with those resulting from the closure of the related accounts.

**Observance of the accounting principles and specific valuation principles for the Italian public hospitals**

In compliance with current general and hospital-specific legislation, the BSA verify that the valuation of the items was made according to prudence and to continue the business and that the recognition and presentation of the items have been conducted considering the transactions or contracts (30). Moreover, the BSA verify if fixed assets (tangible and intangible) and those purchased with operating grants have been depreciated (31), and the costs of inventories of non-fungible assets have been calculated according to the weighted average method (31). In this instance, the BSA also should control that the contributions to cover losses correspond to the regional resolutions, that the doubtful debt provisions have been quantified taking into account the risks of bad debts, and that the registration of the provisions for risks and charges and their relative use have taken place in compliance with current legislation and accounting principles, relieving any critical issues due to any title. The BSA attest also that the unused portions of tied current contributions have been set aside in the appropriate expense funds.

**Table II.** The eight financial postulates.

Postulate	Title	Description
I	Continuity	Each evaluation must take place “in the perspective of the continuation of the activity”
II	Prudence	It is not possible to enter profits not yet realized in the financial statements while, on the other hand, it is necessary to enter all losses, even if presumed, and all foreseeable risks
III	Prevalence of substance over form	The principle of making the substance of corporate operations prevail over the form assumed
IV	Jurisdiction	The entry “of the income and expenses pertaining to the year, regardless of the date of collection or payment”
V	Separate valuation of the heterogeneous elements included in the individual items	Individual operations or cycles of operations in progress at the reporting date must be considered separately on the basis of their expected future outcome. Separate valuation, by imposing separate estimates and conjectures, prevents the compensation between positive and negative gross margins accrued on heterogeneous elements
VI	Constancy of valuation criteria	Valuation criteria cannot be changed from one year to another. The provision serves to guarantee the comparability of the financial statement values from one financial year to another.
VII	Comparability	The amount of the corresponding item from the previous year must be indicated for each item in the balance sheet and income statement
VIII	Relevance	It is not necessary to comply with the recognition, measurement, presentation and disclosure obligations when compliance with them has irrelevant effects in order to give a true and fair view of the financial statements.

**Observance of drafting regulatory precepts**

Once the preliminary controls have been conducted, the BSA analyses that the contents of the financial statements have been managed in compliance with the general principles of preparation of the financial statements envisaged by Italian law (32, 33). In addition, the BSA must approve that the administration of public hospitals has followed the following eight financial postulates (**table II**).

**Presence of financial accounting regularity**

The annual report of the BSA on financial management certifies the presence of general financial accounting regularity on the following points:

1. the correspondence of data reported in the annual financial statement of the general financial accounting with the predictions and estimations of the BSA conducted during the management;
2. the existence of assets and liabilities and their correct exposure in the balance sheet and the reliability of the valuations in the financial statements;
3. the correctness of the financial, economic, and equity results of management;
4. the accuracy and clarity of the data presented in the accounting schedules and related attachments;
5. the compliance with the public finance constraints, as envisaged by the regional and national legislation on the matter.

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23. Article 311 of 2004, Italian Civil Code.
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26. Article 26, Legislative 118 of 2011.
27. Legislative 118 of 2011, Ministerial Decree March 20 2013.
28. Article 2403, Italian Civil Code.
29. Article 20, Paragraph 2, Legislative 123 of 2011.
30. Article 29, Paragraph 1, Legislative 118 of 2011.
31. Attachment 3, Legislative 118 of 2011.
32. Article 2423, Italian Civil Code.
33. Article 2423 bis, Paragraph 2, Italian Civil Code.

Concluding, the report of the BSA must be concluded with an explicit opinion according to their annual evaluation: positive without findings, positive with findings, or negative. In case of “positive with findings” or “negative” judgments, the BSA must analytically explain in the report the reasons supporting this decision. Moreover, in case of a “negative” judgment, the BSA must immediately inform the Region as supervising administration.

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**DATA AVAILABILITY**

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MF: writing - original draft, writing review & editing. MA: writing - original draft, writing review & editing, project management.

**CONFLICT OF INTERESTS**

The authors declare that they have no conflict of interests.