

# **International Proposals for Aligning Government Budgets, Accounts and Finance Statistics: Implications for Chinese Practices**

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*Government responses to recent financial crises have imposed heavy burdens on the public finances of many countries, and exposed the weak links among the sources of fiscal information: budgets, accounts and finance statistics. In order to better understand the causes and effects of financial crises – as well as to predict them early and manage them effectively – the International Monetary Fund (IMF) recently proposed a standard on fiscal forecasting and endorsed the development of common standards for these three types of public fiscal reporting in its comprehensive effort to further improve fiscal transparency around the world. The paper describes and assesses the IMF initiative, and makes some conjectures about its implications on China.*

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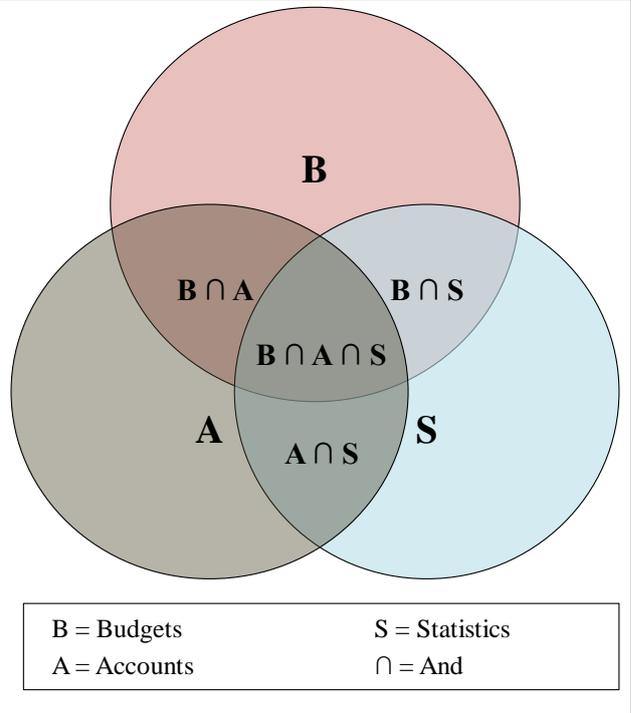
**Keywords: government budgets, government accounts, government finance statistics, IMF alignment proposal, implications for China**

Modern governments require three fiscal information systems: budgeting, accounting and statistics. These systems tend to be maintained by separate government offices, staffed by professionals trained in different disciplines, and guided by separate standards at national and international levels. While much progress had been made to improve the quality of these reporting systems, recent financial crises, mainly in the U.S. and Europe, exposed their fault lines. In order to better understand the causes and effects of these crises in terms of the underlying fiscal condition, the International Monetary Fund (IMF) recently called for common standards for retrospective and prospective public fiscal reporting in the context of

revitalizing fiscal transparency monitoring and enforcement.<sup>1</sup> What makes this IMF proposal new – and even bold – is that budgets, accounts and statistics would all be aligned or harmonized. The implementation of the proposal would be tantamount to a grand convergence of the main fiscal information systems of a government. Like all syntheses, this one will also likely be different to agree and achieve.

We describe the IMF’s alignment proposal as the culmination of past and current efforts to improve government budgets, accounts and statistics, which have proceeded separately and in pairs, as depicted schematically in Figure 1.<sup>2</sup> After describing key elements of the IMF proposal in the context of other reform measures, we offer our assessment and make some conjectures of its implications for Chinese practices.

**Figure 1: Budgets-accounts-statistics convergence**  
**Source: The authors**



**Separate developments in recent decades**

Due to their unique disciplinary foundations, practicing professions and sponsoring organizations, budgeting (B), accounting (A) and statistics (S) have developed separately (see Figure 1).

<sup>1</sup> The proposal was made in an August 7, 2012 paper entitled “*Fiscal Transparency, Accountability, and Risk*” (hereafter called the FTAR paper) prepared by the IMF’s Fiscal Affairs Department in collaboration with the Statistics Department, and released in November 2012.

<sup>2</sup> The areas of overlaps do not necessarily correspond to the extent of alignment, harmony or convergence. We leave the exploration of the subtle differences among these terms to another paper. In this paper, accounting includes financial measurement and retrospective financial reporting; financial statements correspond to accounts. Budgeting includes fiscal forecasting and plans for resource allocation. Statistics refer to government finance statistics and includes statistical reporting.

The ideas of performance and sustainability have driven government budget reform in recent decades. Instead of viewing the budget only as a means of financial control, performance budgets incorporate output and outcome measures to provide incentives to produce results. The planning horizon is lengthened in medium-term fiscal frameworks and long-term fiscal sustainability to take into account the future cost of contingent liabilities and policy commitments.

With the advent of International Public Sector Accounting Standards (IPSASs), government accounting standards have become internationalized, emphasizing external accountability with consolidated financial reports on the accrual basis. However, traditional budgetary accounting remains strong (Heiling and Chan 2012), and the suitability of this kind of new accounting for government is not universally accepted<sup>3</sup>.

Since 2001 the IMF's Government Finance Statistics Manual (GFSM) has adopted the accrual basis. A new edition of the manual, while keeping this fundamental principle, will require two new statements: (1) a statement of total changes in net worth, and (2) a statement of explicit contingent liabilities and implicit obligations for social security benefits (International Monetary Fund 2012c).

However, given their common monetary measurement and purpose in support of fiscal policy, management and evaluation, the past decade has also seen efforts to relate these fiscal functions to each other.

### **Partial convergence in the past decade**

By partial convergence, we mean incomplete and partly successful efforts to bring budgeting, accounting and finance statistics in line with each other. These are denoted by the double overlaps – A and B, A and S, B and S – in Figure 1.

Accounting has gained influence on the budget, but only in a few countries. Instead of passively obeying budget laws and concepts, accounting has begun to be more independent, hoping to add value to information in the budget. Heiling and Chan (2012) identify five stages in the evolution of this relationship: (1) Budgeting is not influenced by *ex post* accounting information. (2) Accounting provides information on budget execution. (3) Financial reporting uses the budgetary basis to measure and communicate actual performance relative to budgetary targets. (4) Accounting criticizes but does not seek to change budget concepts and methods. Finally, (5) agreeing with the long-term perspective of accounting, the budget also adopts the accrual basis. In most countries, budgeting remains more powerful than accounting. Stage (3) is now endorsed by international standards. Stage (4) is common among

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<sup>3</sup> For example, the report of the European Commission on the suitability of IPSAS for the EU Member States concludes that IPSASs in their current state are not appropriate for implementation in EU Member States (European Commission 2013). But on the other side, the report acknowledges that “the IPSAS standards represent an indisputable reference for potential EU harmonised public sector accounts” (European Commission 2013).

economically advanced English-speaking countries, but stage (5) is attained only by Australia, New Zealand and the U.K., to our knowledge.<sup>4</sup>

The adoption of the accrual basis in the 2001 GFSM was a giant step that brought the GFS and accounting standards closer together. In 2003 a multi-institutional task force was formed to harmonize IPSASs and statistical reporting. Based in part on its deliberations, IPSAS 22 was issued in 2006 to provide disclosure requirements for presenting information about the general government sector (GGS), a GFS concept, in consolidated financial statements. In early 2013, the IPSAS Board is soliciting public comments on a consultation paper which recommends that governments use integrated financial information systems to efficiently produce financial statements and statistical reports (International Public Sector Accounting Standards Board 2012).

The use of the accrual basis and GGS coverage make it difficult to align most government budgets with the GFS. The same situation has happened to the alignment between budgeting and accounting: accrual budgeting is realized only at Stage 5. However, state-of-the-art fiscal forecasting, necessary for sound budgeting, has already adopted the long-term perspective and accepted the necessity of anticipating the cost of funding liabilities and policy commitments. Most countries nevertheless continue to express their annual budgets in terms of cash and/or legal obligations. The exceptions, to our knowledge, are very few and include Australia and the United Kingdom, which have made significant advances in aligning budgetary and statistical reporting. Australia decided in 1991 to adopt the GFS-based uniform presentation framework (UPF) for its budgets. Initially, the UPF was adopted on a cash-basis, and in 1997, all federal state and territory jurisdictions, though not local governments, agreed to adopt the accrual UPF for their 2002-2003 budgets. While these budgets are accrual-based, they also contain cash-based information in accordance with GFS requirements.

In the U.K., there has been a long standing close relationship between budgets and statistics (see, for example, Jones 2000). By the time the first *Economic and Fiscal Strategy Report* was published in June 1998, the European System of Accounts (ESA) 95 was endorsed as the basis for measuring the UK public finances (HM Treasury 1998). Since March 1999 the *Financial Statement and Budget Reports* are based on ESA95 (HM Treasury 1999).

In 2007, the HM Treasury set up the “Clear Line of Sight Project” to align national accounts based on ESA95, budgets, estimates and accounts, in response to concerns that differing fiscal reporting systems made it too complex for users to understand, manage and scrutinize public spending (HM Treasury 2010). Accountability was seen as impaired when one quarter of the UK Government’s spending was not voted by Parliament based on the estimates figures. The project therefore aimed to have “a comprehensible and coherent system of planning, authorizing and reporting of government expenditure” in place (House of Commons, Liaison Committee 2008, paragraph 40). Consequently, U.K. budgets have largely aligned with ESA95

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<sup>4</sup> In the absence of a standard definition of accrual budgeting, it is difficult to be definitive about the extent it is practised. The U.S. Government looked to Australia, Iceland, The Netherland, New Zealand and the U.K. for relevant experience (United States General Accounting Office 2000).

In summary, Australia and the U.K. have demonstrated that it is possible to achieve a high degree of convergence among budgets, accounts and finance statistics. Globally, the most progress took place between accounts and statistics, thanks to their common acceptance of accrual measurement and reporting on a consolidated level. The long-term perspective and broad coverage underlying the GFS and IPSASs are practiced in fiscal forecasting but rarely in annual budgeting. Even so, the IMF has initiated a global advancement toward the full alignment of standards for all three systems of fiscal information.

### **Toward Grand convergence**

We use the term “grand convergence” to describe a situation in which standards for budgets, accounts *and* finance statistics are consistent, denoted by the triple overlap area in Figure 1. Building on previous convergence efforts, the IMF recently released a paper, entitled “*Fiscal Transparency, Accountability, and Risk*”, which endorses efforts to align reporting standards across budgets, accounts and statistics. In our view, this in effect is proposing a grand convergence of standards as a strategy to enhance fiscal transparency. The FTAR paper renews the IMF’s call for improvement of fiscal transparency, which the IMF regards as “a critical element of effective fiscal policymaking and risk management” (IMF 2012a). The alignment is seen as a precondition for fiscal transparency, and stronger institutions at national, regional and international levels are necessary monitoring compliance.

Despite progress in the past decade, the FTAR paper found considerable shortcomings in governments’ compliance with fiscal reporting standards, the standards themselves, and the monitoring of governments’ compliance with those standards. The IMF’s paper therefore proposes to strengthen fiscal transparency by means of:

- Improvements in fiscal reporting standards;
- Enhanced international monitoring of country compliance with those standards; and
- A concerted effort to promote implementation of those standards.

We will focus on the improvement of public fiscal reporting by means of common standards for budgets, accounts, and finance statistics, which are collectively called “accountability documents” in the FTAR paper. Specifically, the FTAR paper calls for

- More complete coverage of public sector institutions;
- More comprehensive reporting of direct and contingent assets and liabilities;
- Recognition of a broader range of transactions and other economic flows;
- More frequent and timely fiscal reporting;
- More rigorous approach to fiscal forecasting and risk analysis; and
- Presenting forecast and actual fiscal data on a consistent basis.

To achieve a more complete coverage of public sector institutions, the IMF urges all fiscal reports to capture the activities of public entities outside the general government sector (GGS). These include public non-financial corporations and public financial corporations, including central banks, as they can have significant fiscal implications for the GGS.

Governments are also urged to provide a more comprehensive picture of overall sovereign net worth by reporting of direct and contingent assets and liabilities. During the global financial crisis, governments have expanded and diversified their government assets and liabilities, especially in advanced economies. Even so, relatively few governments can fully account for their overall financial position. The current methods of reporting contingent liabilities need to change because governments may be tempted to classify their liabilities as just on the unlikely side of “probable”.

The IMF paper also calls for the recognition of a broader range of transactions and other economic flows, to prevent governments from designing specific transactions that artificially reduce their publicly reported deficits or debt. The IMF is currently developing practical guidance on the sequencing of the adoption and implementation of accrual-based reporting standards. The IMF paper also urges governments to consider publishing reports on a monthly basis (instead of quarterly reporting as required by statistical reporting).

Significantly the IMF paper calls for a new standard for fiscal forecasting and risk disclosure, which helps to improve the quality and consistency of prospective fiscal reporting. With the IPSAS and GFS in place, there are international standards for retrospective fiscal reporting. In contrast, there are currently no internationally accepted standards for the content and presentation of the budget and related documents. As a consequence, the methodology, construction, and time horizon of fiscal forecasts and budgets vary greatly across countries. As a start, the FTAR paper proposes guidelines for the standard on fiscal forecasting and related risk disclosure and analysis (Box 1).

### **Box 1: An international standard for fiscal forecasting**

Source: IMF 2012b, p. 28.

**A new standard for fiscal forecasting could help improve the quality of consistency of prospective fiscal reporting.**

The standard would require fiscal forecasts to:

- cover a minimum time horizon and set of institutions;
- state the economic, demographic, and other assumptions...;
- separately identify the impact of new policy measures and ... all announced government policies in the “post-measures” forecasts,...;
- provide a breakdown of revenue by main revenue heading and expenditure by economic category, ministry, and program where relevant;
- provide a reconciliation of material changes since the last fiscal forecast;
- analyze the distributional impact of government policies on households; and
- regularly include long-term fiscal forecasts based on a plausible range of forecast assumptions.

**The standard would also require disclosure and analysis of fiscal risks through:**

- provision of fiscal scenarios on the basis of various macroeconomic assumption;
- a statement of discrete fiscal risks... providing their maximum value, probability, and expected value wherever possible and an account of the mitigating actions being taken; and
- an account of how these risks have been taken into consideration in setting the overall fiscal stance.

The IMF urges international standard-setting bodies to work together to harmonize (“align”) reporting standards for budgets, accounts, and statistics. There are many technical issues for them to resolve. For example, should the standard for fiscal forecasting cover both cash and accrual budget forecasts, including forecast balance sheets? Should the new statements on contingent liabilities and social security obligations be included in budgets and accounts?

The IMF also calls for greater coordination of national, regional and international institutions to strengthen the monitoring of fiscal transparency and to provide incentives for improvement. Capacity building of national institutions is seen as most critical. On its part, the IMF is soliciting public comments on how it can best revise its Fiscal Transparency Manual and Code, and change the way it evaluates the observance of fiscal transparency standards and codes.

### **An assessment of the B-A-S alignment proposal**

An international standard on fiscal forecasting, with the requirement for disclosure and analysis of fiscal risk, is an innovative contribution in the IMF’s comprehensive proposal for reinvigorating fiscal transparency efforts. Such a standard for prospective fiscal reporting would require much intellectual rigor and institutional backing in its implementation. The IMF paper provides a preliminary outline and some basic elements. Much remains to be done.

The IMF’s proposal to align the reporting standards for budgets, accounts and statistics is visionary and far-reaching. The *triple* alignment between budgets, accounts and statistics represents the “holy grail” of harmonizing international standards and integrating fiscal information systems. It seeks to extend the reach of international standards to the GGS and eventually the whole public sector. The FTAR paper seems to optimistically view as manageable the obstacles in implementation and divisions among professions and organizations. The paper directs attention to the most difficult area of contingent assets and liabilities. It focuses attention to the gaps and inconsistencies that exposes the vulnerability of the current standards on fiscal transparency. Finally, the proposal offers an expansive vision for “fiscal reporting” by defining it as “the production of summary information about the past, present, and future state of the public finances for both internal (management) and external (accountability) uses” (p. 5) – to prevent, or at least slow, the proliferation of systems that do not communicate effectively with each other.

The FTAR paper properly includes budgeting in the alignment proposal; however it may have over-estimated the willingness of the national budget authorities to participate in the triple alignment. The FTAR paper is silent on whether alignment would extend from fiscal forecasts to annual budgets, which usually require legislative approval. Government budgets are subject to the fiscal laws and regulations of a jurisdiction – the prerogatives of politicians and officials, who are obliged to be accountable to their constituents. Faced with urgent issues of the here and now, these public officials may not have the incentive to even consider accrual-based fiscal reports which pressure them to address fiscal sustainability issues. We are therefore not sanguine about the prospects of subjecting budget documents to a set of common international reporting standards.

The proposals by the IMF for alignment are largely based on normative arguments as there is very limited practical experience available. The IMF paper (Box 7) cites Australia, New Zealand and the UK as countries that have attempted to harmonize all three reporting frameworks. When that is the case, clearly triple alignment is practiced only in a very small group of countries sharing a common political tradition. One is led to ask: Why do most countries *not* do this? Only when their reservations are overcome would it be possible to disseminate this practice on a global basis.

In summary, the IMF's FTAR paper identifies two key principles – broad coverage and accrual basis – to align budgets, accounts and finance statistics. We find the goal worthy and the logic persuasive. Others may argue, however, that, despite some common elements, each of these fiscal information systems has its own users, concepts and methodology. The paper will likely provoke debates that will shape its impacts.

### **Conjectures about likely international implications**

The IMF's package of reform measures, with the budget-accounts-statistics proposal as a capstone, is likely to produce short-term impacts on the harmonization of international standards and longer-term impact on national practices in the direction of greater convergence.

The IMF, subjecting itself to the impact of the proposals, is already taking several simultaneous steps to ensure the consistency of its own standards or guidance for member states. The IMF is revising the 2001 GFS Manual and the existing *Fiscal Transparency Code and Manual* (International Monetary Fund 2012c). It is also working on a new improved edition of its guidance on the transition to accrual accounting. Both these activities take into account the development at the IPSAS Board.

At the international level, the IMF's alignment proposal would likely accelerate the harmonization of accounting and statistical guidance, and would stimulate a lively debate on accrual budgeting. The alignment proposal built on separate and joint activities on the GFS and IPSAS. Unfortunately, compared with IPSAS and GFS, accrual budgeting is not a mature practice and lacks a strong conceptual foundation. Furthermore, there does not exist a global institutional framework to further develop international standards on accrual budgeting beyond the standard on fiscal forecasting proposed by the IMF.

The normative arguments in the FTAR paper are persuasive and the IMF has institutional levers for implementing the reforms. As a co-sponsor of the Public Expenditure and Fiscal Accountability (PEFA) network, the IMF's new thinking and guidance would likely affect the criteria used by PEFA partners to evaluate the practices of countries that receive international financial assistance (PEFA Secretariat 2011). Thus the impact of the IMF proposals would be institutionalized, if they are incorporated into the qualitative judgment and quantitative PEFA performance scores.

Consequently, two groups of countries are more likely to be directly impacted by the IMF's FTAR proposals: developing countries that receive international lending and aid, and

developed nations in financial distress. Understandably international lending institutions wish to hold their debtors accountable, as do public and private donors with respect to recipients of their assistance. Accountability requirements are part and parcel of loan and aid agreements, and are enforced as a matter of contractual obligation. Developed nations in financial crises, such as some European Union members, are susceptible to international requirements if these requirements are part of the conditionality of external rescue packages. IMF's prestige and mandate to conduct surveillance ensure that its ideas would be taken seriously around the world.

The costs and benefits of implementing the IMF's FTAR proposals would be distributed unevenly in the world; nevertheless, all countries could benefit from the alignment of fiscal information systems of budgeting, accounting and statistics. Few voices argue against fiscal transparency, fiscal accountability and fiscal sustainability, which have, at least in principle, become international norms of good fiscal conduct. The pace of implementation of these ideals in a particular country would crucially depend on its willingness and ability. Willingness is predicated on political culture and institutions, while ability depends on resources, both human and others. It takes both to translate the FTAR proposals into fruitful actions.

In summary, the benefits of implementing the IMF's alignment proposal accrue to international and national accountability institutions, but the costs of implementation are borne primarily by national governments. We foresee a long period of deliberation, education and debates before the proposal is universally adopted.

While we are not aware of the reactions of the Chinese authorities to the IMF initiative, we believe that Chinese participation would depend on the authorities' assessment of the costs and benefits, which would in turn depend on the size of the gap between China's actual practice and the IMF expectations. Thus, in the absence of official information, we have tentatively made an estimate of the gap and will offer some conjectures about possible implications for China.

### **China's Observance of Code and Standards**

**Good Practices of Fiscal Transparency.** Based on our best knowledge, Chinese observance of the Code of Good Practices on Fiscal Transparency is generally low. Using the number of stars to indicate the extent of compliance (with five being the maximum), Table 1 reports our estimated ratings of China's current observance of the major provisions of the Code. Specifically, the roles and responsibilities of government are still not clear enough in China, as indicated by two stars. The government sector is not clearly distinguished from the rest of the public sector and from the rest of the economy. The policy and management roles within the public sector were not clearly and publicly disclosed. The legal, regulatory and administrative framework for fiscal management is still not very clear or open.

**Table 1 Unofficial Tentative Assessment of China’s Observance of the Code of Good Practices on Fiscal Transparency**

<b>Criterion</b>	<b>Tentative Rating</b>
• <b>I . Clarity of [Government’s] Roles and Responsibilities</b>	<b>**</b>
1.1 The government sector should be distinguished from the rest of the public sector and from the rest of the economy, and policy and management role within the public sector should be clear and publicly disclosed.	<b>**</b>
1.2 There should be a clear and open legal, regulatory, and administrative framework for fiscal management.	<b>**</b>
• <b>II . Open Budget Processes</b>	<b>**</b>
2.1 Budget preparation should follow an established timetable and be guided by well-defined macroeconomic and fiscal policy objectives.	<b>**</b>
2.2 There should be clear procedures for budget execution, monitoring, and reporting.	<b>**</b>
• <b>III. Public Availability of Information</b>	<b>**</b>
3.1 The public should be provided with comprehensive information on past, current, and projected fiscal activity and on major fiscal risks.	<b>*</b>
3.2 Fiscal information should be presented in a way that facilitates policy analysis and promotes accountability.	<b>**</b>
3.3 A commitment should be made to the timely publication of fiscal information.	<b>***</b>
• <b>IV. Assurances of Integrity</b>	<b>*</b>
4.1 Fiscal data should meet accepted data quality standards.	<b>*</b>
4.2 Fiscal activities should be subject to effective internal oversight and safeguards.	<b>*</b>
4.3 Fiscal information should be externally scrutinized.	<b>**</b>

Source: The tentative ratings are the authors’ personal assessment for discussion purposes.

Note: The number of stars (\*) indicates perceived extent of observance, with five being the maximum.

The budget process is still not open enough, as indicated by the two stars. Apparently, Budget preparation follows an established timetable, but the amount of time allowed for the draft budget to be considered by the legislature is very limited. Only one month is set for the preview of the budget draft before the Chinese National People's Congress (CNPC) begin annually according the Budget Law. The time for the delegates to review the budget draft is short before it is approved by the CNPC: only half a day in practice was set for the delegated to review it.<sup>5</sup> The annual budget is often not realistic and fiscal targets and fiscal rules are not clearly stated and explained. Furthermore, the budget is often modified in the process of execution. Even though there is a great improvement in the process of including extra-budgetary funds into the budget, there are still a considerable amount of funds out of the sight of the government. Consequently, the coordination and management of budgetary and extra-budgetary activities are still not fully practiced. The procedures for budget execution, monitoring and reporting are not fully specified, and are often not fully practiced in reality. The cash basis is still in use for the accounting system to track revenues, and the reports of commitments, payments, arrears, liabilities and assets on accrual basis are still not available. A brief timely mid-year report on budget implementation is presented to the legislature; but more frequent updates, such as comprehensive quarter reports, are still not published and open to the people. Only tax revenues are disclosed to the public monthly.

Fiscal information available to the public is still very limited and fragmented. The information on past and current financial condition is inadequate. Information on projected fiscal activity and on major fiscal risks is difficult to obtain from the government. Due to the lack of an accrual accounting system, the statements describing the nature and fiscal significance of central government tax expenditures, contingent liabilities, and quasi-fiscal activities cannot be prepared, and therefore not available in the budget documentation, let alone the assessment of all other major fiscal risks.

The fragmentary nature of fiscal information made it undermines systematic policy analysis. After the revision of fiscal revenue and expenditure classification in 2007, expenditures are classified by functional and administrative category; the economic classification is still not available, which made it difficult to analyze government cost and results relative to the objectives of major budget programs.

Information disclosure has improved but there is still much room for further progress. The Chinese government promised to make the budget documentation open to the public in 2009.<sup>6</sup> Ninety first-tier budget units disclosed their budget and 90 of them revealed the results of the budget enforcement in 2011.<sup>7</sup> In fact, this practice is inconsistent with current requirement of confidentiality in the current Budget Law.

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<sup>5</sup> GuoZhiqiang, Reflections on how to strengthen and improve the review and supervision of the budget draft by the CNPC(加强和改进人大预算审查监督的思考), from the website of CNPC.[http://www.npc.gov.cn/npc/xinwen/rdlt/rdjs/2011-03/16/content\\_1647726.htm](http://www.npc.gov.cn/npc/xinwen/rdlt/rdjs/2011-03/16/content_1647726.htm)

<sup>6</sup> Wen Jiabao, Central Government Work Report (2009), from the website of Chinese Central Government, [http://www.gov.cn/test/2009-03/16/content\\_1260221\\_3.htm](http://www.gov.cn/test/2009-03/16/content_1260221_3.htm).

<sup>7</sup>温家宝. "让权力在阳光下运行,"求是, 2012(8). Wen Jiabao, "Let Power Operate in the Sunshine," Qiushi,

Assurance of integrity of fiscal data in China is very weak. Government finance statistics are compiled by the ministry of finance. The National Statistical Bureau accepts those data without independently verifying them or reconciling them with relevant data from other sources.<sup>8</sup>

The internal oversight and safeguards to the fiscal activities are still very weak despite recent progress. The ethical standards of behavior for public servants are vague. Procurement regulations are not fully observed in practice, and legal disputes have increased in recent years. Taxpayers' rights are violated easily and the defense of the right is difficult.

Fiscal information is not effectively externally scrutinized in China, despite the greater role the National Audit Office (NAO) played in recent years. The position of the NAO in the executive constrains its independence. Independent experts are seldom to be invited to assess fiscal forecasts and no national statistical body is provided with the institutional independence to verify the quality of fiscal data.

**Table 2 Reported GFS Data about China (2007, 2008, 2009)**

<b>Tables</b>	<b>Budgetary Central Govt.</b>	<b>Central Govt.</b>	<b>Local Govt.</b>	<b>General Govt.</b>
Statement of govt. operations				
Statement of other economic flows				
Balance sheet				
Statement of sources and uses of cash	**	**	**	**
Table 1 Revenue	****	****	****	****
Table 2 Expense by economic type				
Table 3 Transactions in assets and liabilities				
Table 4 Holding gains in assets and liabilities				
Table 5 Other changes in the volume of assets and liabilities				
Table 6 Balance sheet				
Table 7 Outlays by functions of govt.	****	****	****	****
Table 8 Transactions in financial assets and liabilities by sector				
Table 9 Total other economic flows				

2012(8).

<sup>8</sup>郑春荣、朱海平, "GFS收支核算理论的中国财政收支统计制度研究", 求索, 2008年第1期, 第22页。

Source: IMF GFS Yearbook 2011, pp. 132-133

Note: The number of stars (\*) indicates perceived extent of observance; \*\*\*\*\* is maximum.

**Reported GFS Data.** Another way of assessing China's performance in producing fiscal information is to see what data are made available for inclusion in the IMF GFS Yearbook. Due to the very slow progress in implementing accrual accounting, the Chinese authorities could not provide data for many of the tables, namely, the balance sheet, statement of government operations, and the statement of other economic flows, as well more detailed tables about expense by economic type, transactions in assets and liabilities, holding gains in assets and liabilities.

Table 1 on revenues is almost all filled except the cell for taxes on payroll and workforce. Social contributions are still collected as a fund but not a tax at the provincial government level but not at the central government level. Table 7 on outlays by functions of government is almost all populated because the Ministry of Finance conducted revenue and expenditure category reform in 2007 according to IMF's GFS Manual (1986).

In summary, China is making an effort to follow the steps of the IMF's GFS even though at a very slow pace.

**Proposals in the FTAR paper.** The IMF policy paper "Fiscal Transparency, Accountability, and Risk" (FTAR) made the following proposals:

- More complete coverage of public sector institutions;
- More comprehensive reporting of assets and liabilities;
- Recognition of a broader range of transactions and other economic flows;
- More frequent and timely fiscal reporting;
- More rigorous approach to fiscal forecasting and risk analysis;
- Alignment of standards for budgets, statistics, and accounts.

At the present time, Chinese authorities has not made public any statement for fiscal forecast or and risk analysis; of course it is possible that they might have been prepared for internal use. We doubt that even if fiscal forecasts and risk analysis are produced, they would meet the above recommendations due to lack of accrual accounting information. Obviously, there is an urgent need to align the standards for budgets, statistics, and accounts in China.

### **Conclusion: Conjectures about Possible Implications for China**

The above assessment indicates that there are some fairly wide gaps to be closed between China's current practices and the IMF's fiscal transparency code and standards.

The IMF's call for alignment of budgeting, accounting and statistics would require a change of approach in the way the Chinese authorities has approached fiscal systems. For understandable reasons, such as division of labor and institutional fragmentation, fiscal reforms in recent years have taken place separately in budgeting, accounting and statistics. There would have to be much more coordination between the budgeting, accounting and statistics offices in the Chinese government.

IMF has available a full package – a code, a manual, and a survey instrument – that is publicly and ready available for ready adoption. In effect, this package provides a complete work program for improving all the public accountability documents – budget, accounts and statistics. Specifically, if the Chinese authorities accept the goals of enhancing fiscal transparency, promoting fiscal accountability and reducing fiscal risk, it could consider taking the following actions.

### **An official self-assessment**

Chinese authorities might consider the possibility of conducting an official self-assessment of its observance of IMF’s code of good practices on fiscal transparency, completing the IMF’s Fiscal Institution Survey, and then invite an IMF mission to perform an independent assessment.

We suggest that survey and self-assessment should focus on the current situation of each field of government accounting, government statistics and budgeting, and how they overlap each other – accounting and Budgeting, Accounting and Statistics, budgeting and statistics. Second, the political and social factors that restrict the improvement in each field the roadmap to remove the obstacles should be made clear.

### **Accelerated implementation of accrual accounting**

Our assessment revealed the fact that accounting, which is the most fundamental source of accrual data, is unfortunately the weakest link in the B-A-S chain. Therefore there is an urgent need to accelerate the reform of government accounting to replace the cash basis with accrual basis.

### **Fiscal forecast and risk assessment**

Accrual accounting could provide additional information to improve fiscal forecast and risk assessment. Information about changes in financial assets and liabilities, including contingent liabilities, could increase the accuracy of fiscal forecast and risk assessment. Furthermore, general information about social and economic factors, such as aging population, would be complemented by social safety net expenditures. These steps would lead to a more effective medium- and long-term budget framework.

### **Compatibility of China’s institutional structure with the coverage of the GFS**

The relatively narrow coverage of Chinese GFS is inconsistent with the principle of broad coverage of the IMF GFS Manual. It would be necessary for the Chinese authorities to justify the current practice or to consider expanding the coverage in order to more accurately assess the financial condition of the general government sector and gauge fiscal risk. Either approach would require a thorough re-examination of the types of institutions, such as *shiyè danwei*, that are or should be included in “government.”

## **The institutional relationship between producers of Chinese GFS**

GFS, being a component of national statistics, inevitably brings out the institutional relationships between their producers. As far we understand, the Chinese GFS are compiled by a unit in the Ministry of Finance, which transmits GFS data to the National Statistical Bureau (NSB). The NSB does not verify or adjust the data; it publishes the GFS along with a note that disclaims responsibility for them. We are concerned that such an institutional arrangement makes it vulnerable to charges of lack of independence. We therefore suggest that this issue be examined.

In summary, the IMF proposal provides a good opportunity for improving a government's statistical system (actually sub-systems of an overall B-A-S integrated system). Coordinating improvements to budget, accounting and statistics, is likely to result in greater efficiency and effectiveness. However, great challenges remain in terms of resolving conceptual issues, data collection, verification, and the functioning of an integrated information and communication system. As a member state of the IMF, and as a global leader in economic and financial affairs, non-participation in the re-invigoration of fiscal transparency is increasingly tenuous for China.

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