Financial Reporting by National Governments
This Study was prepared by the Public Sector Committee of the International Federation of Accountants.

Member bodies are encouraged to publicize, reprint in appropriate local publications, or otherwise make this Study available to their individual members.
INTRODUCTION

Purpose

.001 This study identifies the objectives of the financial reports of national governments and their major units, and examines the degree to which those objectives are met by different bases of accounting and reporting models.

.002 Objectives of government financial reports define the purposes and nature of the information to be reported. They are important because they provide a basis for deciding which accounting principles are best suited for measuring and reporting the information needed, and become the basis for developing a body of accounting principles that are appropriate for governments. This study does not prescribe specific accounting "standards" for the measurement and disclosure of information in financial reports. Nevertheless, agreeing on objectives is a vital step in developing standards that will be generally accepted.

.003 Objectives are valid only to the extent that they reflect the information needs of the users of the financial reports and, so, this paper begins by reviewing those needs as a basis for identifying the objectives. It does so in the context of the government environment and in recognition of the limitations of financial reporting.

Scope

.004 The study looks at the general purpose financial reports of national governments and of their major units. Although focussed at national governments, it may also be relevant to financial reporting by state, provincial, regional and local governments. The accounting for government-owned business enterprises is addressed in International Public Sector Guideline 1.

.005 General purpose financial reports are designed to meet common information needs of users outside of government. The study does not address internal reports required by management or special reports because the information in them is designed to meet the particular needs of specific users and is too diverse to be dealt with effectively. The objectives in this study might, however, provide a useful basis for measuring the financial information in other financial reports, such as budgets and fiscal plans.

.006 Governments carry out their policies and deliver services through different forms of organization. Because users are interested in financial information about the activities of both individual government units and the government as a whole, the study applies to both levels of reporting. Government units (referred to hereafter as simply units) include a wide variety of component or subsidiary organizations, such as special funds, agencies, regulatory bodies, statutory authorities and majority-owned corporations.
Glossary of Terms

.007 The following terms are used frequently throughout this paper. Although most are familiar, different interpretations of them exist. For purposes of this study:

.008 **Basis of accounting:** refers to the body of accounting principles that determine **when** the effects of transactions or events should be recognized for financial reporting purposes. It relates to the timing of the measurements made, regardless of the nature of the measurement.

Common bases of accounting are the cash basis of accounting (i.e., effects of transactions or events are recognized when cash is paid or received) and the accrual basis of accounting (i.e., effects of transactions and events are recognized when they take place). There are many variations of both bases.

.009 **Financial reporting:** refers to the communication of financial information by an entity to interested parties. It encompasses all reports that contain financial information based on data generally found in the financial accounting and reporting system. It includes financial statements as well as financial information presented in budgets, fiscal plans and estimates of expenditure or reports on the performance of individual programs or activities.

.010 **Financial statements:** refers to the accounting statements prepared by a reporting entity to communicate information about its financial performance and position. They include those notes and schedules that are needed to clarify or further explain items in the statements.

For business-oriented enterprises, financial statements normally include a balance sheet, income statement, statement of retained earnings and statement of changes in financial position. Governments and governmental units may have a similar set of statements or may have lists of assets and liabilities, revenues and expenditures.

.011 **Financial reports:** refers to the general purpose financial reports that are designed to meet the common information needs of users outside of the entity. Those external users rely on the reports as an important source of financial information because they have limited authority, ability, or resources to obtain additional information. While financial statements comprise the core of the financial reports, other financial information, such as performance measures and budget information, might also be included.

.012 **Measurement focus:** refers to what messages and information are portrayed in the financial statements. A particular measurement focus is accomplished by considering not only when the effects of transactions and events involving those resources are recognized (i.e., the basis of accounting), but also what resources are measured.

For example, the financial statements of business enterprises are designed to measure profit or loss and changes in shareholders' equity. Government financial statements could be designed to express, for example, the flow of economic resources, the flow of total financial resources or the flow of current financial resources.

.013 **Reporting model:** refers to the configuration and presentation of financial statements, in particular, what statements are included in the set of financial statements, how they interrelate, and how key measures are displayed in them.
BACKGROUND

The Importance of Objectives for Financial Reporting

.014 The overriding objective of financial reporting is to provide useful information. To be justified, then, every objective, standard, principle and practice should be designed to meet users' needs. Indeed, the whole financial accounting and reporting process needs to rationally link objectives, standards, principles and practices to the needs of users.

.015 Establishing objectives will not, in itself, directly solve financial accounting and reporting problems. Objectives do, however, provide the basis for determining standards of financial reporting and accounting principles that are consistent with one another and appropriate for the entity. If objectives are based on user needs, standards and emerging accounting practices that follow logically from them will also meet those needs. Standards and practices that do not fulfill those objectives will not be relevant to users' needs.

.016 Agreement on objectives is important so that there is a sound basis for selecting one standard over another and for judging the relative effectiveness of alternative standards in fulfilling the goals and purposes of financial reporting. Seeking that agreement from both preparers and users should enhance user confidence in government financial reporting, and help them better understand the content and limitations of those reports.

Governmental Environment

.017 An entity's operating environment influences its financial reporting objectives. Understanding the nature of governments and the complex environment they operate in is important when determining financial reporting objectives.

.018 Governments differ from business in both their objectives and financing. The primary goal of a business enterprise is profit and its resources are used to that end. Governments, on the other hand, provide public services and redistribute wealth for a variety of social and economic purposes. The programs and services provided are diverse and, even within themselves, might be designed to meet multiple objectives and goals. While governments sometimes provide programs and services through organizations that are designed to operate as business enterprises, many, if not most, of its activities are not.

.019 With the exception of government business enterprises, the relationship between revenues and costs in any given period is not the same for governments as it is for business. For the most part, the delivery of a service does not give rise to revenue. Most governmental revenues come from taxes, and, even when fees are charged for services, those fees are often supplemented with tax revenues. Taxpayers are involuntary resource providers. They cannot choose whether or not to pay taxes and paying them does not necessarily entitle the taxpayer to any particular public service or benefit. Governments generally use resources from a variety of sources to pay for a variety of services. Thus, except for any commercial-type activities carried on by a government, there is not an "exchange" relationship between resources received and services provided.

.020 Because governments have multiple goals and objectives, some of which may conflict, measuring and assessing performance can be complex and tenuous. There are no recognized performance indicators like net income or earnings per share. Performance
needs to be assessed using a variety of indicators, some of which are difficult to measure. Even when they can be measured, assessing the significance and inter-relationships of the various measurements can be difficult.

.021 In most governments, there is a separation of executive and legislative functions. Legislatures and other elected or appointed governing bodies provide authority for the acquisition and use of financial resources and are responsible for overseeing their administration. Management of financial affairs and resources is usually the responsibility of the executive.

.022 The legislature is usually responsible for sanctioning the financial plan, or budget, and authorizing the executive: to make expenditures (within pre-determined limits); invest; borrow; and administer programs in accordance with any laws that may affect them. Legislation may provide direct authority to the government, or it may delegate powers that provide similar authority to government agencies or enterprises.

.023 The executive or management is responsible for planning, directing and controlling operations and for preparing reports that provide an accounting of their administration. Their responsibilities include directing operations and activities with due regard for economy and efficiency, maintaining adequate systems of control, ensuring compliance with applicable authorities, selecting and applying appropriate accounting policies, safeguarding assets, measuring the effectiveness of programs, and reporting on their performance to those to whom they are accountable.

.024 Because it provides financial authority and powers, the legislature has the right and responsibility to hold the government and its units accountable for the management of financial affairs and the use of financial resources entrusted to them. In simple terms, accountability is the obligation to answer for a responsibility that has been conferred. Financial reports are an important means, although not the only means, by which governments and units demonstrate their accountability. In most countries, legislatures have appointed auditors to give them independent assurances as to the credibility of financial reports prepared by management and assessments of various administrative practices.

Limits of Financial Reporting

.025 Financial reporting is limited by the nature of the information that it can provide. Users of financial reports are diverse and so their needs are also diverse. General purpose financial reports cannot hope to meet all of the needs of all users. Accordingly, the type and amount of information provided aims to meet, to the extent practicable, the common needs of external users. Most external users have limited access to information and rely heavily, if not exclusively, on those general purpose reports.

.026 General purpose financial reports may not provide all the information needed by those who have an interest in government. Indeed, users may seek other sources of economic information to satisfactorily answer their questions about the state of the government's finances. Statistical data, demographic information, narrative assessments, and reports on general economic conditions and the political environment, both nationally and internationally, also provide useful information. As government financial reporting develops, some of these other types of information may be integrated into the financial reports. Even so, certain information is better provided, or sometimes can only be provided, by other types of reports. Users may need to combine information provided in
the general purpose financial reports with other information pertinent to their specific interests.

.027 The information in financial reports is generally quantifiable, usually in terms of monetary units. There is always uncertainty inherent in financial information. Items reported may be approximate measures of past events. Sometimes, the measurement or valuation of an item is uncertain because it depends on the outcome of future events. In other cases, relevant data concerning an event that has already occurred isn't available, or is too costly to gather, before a particular financial report is completed. In extreme cases, even an estimate cannot be made because the information is simply not practicably measured within a reasonable time frame.

.028 In defining the objectives of financial reporting a cost/benefit analysis should be undertaken. Clearly, the total benefits to all users that are expected to arise from providing information must exceed the cost of providing it. Cost includes the costs of recording, summarizing, reporting and auditing the information. Benefits and costs may accrue to different parties and the evaluation of the nature and amount of benefits and costs requires judgment. In addition to costs, human resource constraints may limit the ability of the government to employ a particular basis of accounting.

.029 Accountability and cost/benefit considerations might conflict. Some may believe that accountability is almost without limits. However, too much information and excessive detail may confuse rather than clarify and information that is important to some users may not be important to others. Thus, in assessing costs and benefits, consideration should be given to:

- whether specific users can obtain the information by special request,
- the intensity of the needs of various users, and
- the risks of not having certain types of information.
USER INFORMATION NEEDS

Users

Government financial reporting helps satisfy the information needs of a variety of users. Based on a review of accounting literature and authoritative pronouncements on financial reporting by governments (see appendix A), the principal users of government financial reporting are:

i. Legislative and other governing bodies: Legislative and governing bodies grant authority to governments and to their units to administer public financial affairs and resources, and subsequently hold them accountable. They are primary users of government financial reports. They look to financial reports to provide information to help them assess the government's stewardship of resources, compliance with legislation and other authorities, state of finances and performance.

ii. The public: Legislatures and governing bodies of units are accountable to the public who provide the revenues and resources necessary for government operations, who receive government services and who are the beneficial owners of the public money and property. The public includes taxpayers, electors, voters, special interest groups and recipients of goods, services or benefits provided by the government. These various groups often rely heavily on reports in the media. The public and media seek information on how well governments have managed their financial affairs and resources, and on the overall economic impact of government activities.

iii. Investors and creditors: Investors in government securities and enterprises and other creditors provide financial resources to governments. Governments have an interest in providing investors and creditors with information that is useful in evaluating the government's or a particular unit's ability to finance its activities and to meet its liabilities and commitments. Sometimes, investors and creditors seek specific information in addition to the general purpose financial reports.

iv. Other governments, international agencies and other resource providers: Similar to investors and creditors, other governments, international agencies and other resource providers are interested in a government's or units' state of finances. In addition, they are also interested in its plans and priorities.

v. Economic and financial analysts: Economic and financial analysts, including the financial media, review, analyze and disseminate information to other users -- legislators, the public, other governments, resource providers. They use the information provided to analyze and evaluate financial and economic issues.

Internal managers, policy makers and administrators are also users and some of their needs are met through general purpose financial reports. However, managers need additional information, such as costing information on specific activities and operations, in order to carry out their management responsibilities effectively. Nevertheless, the data needed to meet external and internal financial reporting needs are not mutually exclusive and, usually, a government's financial accounting and reporting system is designed to meet the needs of both external and internal users.
User Needs

.032 In broad terms, users need information to help them make economic, social and political decisions and to evaluate a government's or unit's use of the resources. They are interested in plans as well as the results of implementing those plans, including the government's or unit's performance and the state of its finances.

.033 Users look to financial reports for information on a government's or unit's:
  • stewardship and compliance;
  • state of finances;
  • performance; and
  • economic impact.

Stewardship and compliance

.034 To assess whether resources were used in accordance with legally mandated budgets and other legislative and related authorities such as legal and contractual constraints and program mandates.

.035 The budget is one of the most important financial reports produced by a government or unit. In the budget, they formally state their priorities, goals and objectives, and forecast their proposed expenditures and financing requirements. When authorized, the budget becomes a medium for fiscal control because management is expected to operate within the budget's authority and limits.

.036 Comparisons of the budget to actual results help demonstrate accountability. Most users are interested in comparing budgets with actual results. It helps them assess whether public financial resources were managed in accordance with legislative and other legal and contractual authorities. Noncompliance with those authorities may indicate fiscal irresponsibility and may give rise to severe financial consequences. In addition, the comparisons help them assess the government's financial management and performance. Spending in excess of budgeted amounts may indicate poor financial management, weak budgetary practices or uncontrolable, unforeseen circumstances. Underspending may indicate effective cost containment or overbudgeting.

.037 Accounting systems provide a link between the budget and financial reports of actual results. So, it is important that the budget and reporting of actual results are prepared on the same basis or can be easily reconciled to allow for comparisons.

.038 To assess the government's or unit's stewardship over the custody and maintenance of resources.

.039 Users are interested in how the government or unit safeguards, uses and maintains the resources entrusted to it. They are interested in both financial assets and physical assets. For those physical assets whose lives extend beyond one year, users may be interested in their service potential and whether they are being adequately maintained.

State of finances

.040 To assess the sources and types of revenues.

.041 Users are interested in where and how a government or unit gets its revenues. Such information is useful in analyzing the impact of the government's revenue-raising
activities on the economy, in gaining an understanding of a government's or unit's revenue sources and their relative contributions, and in evaluating the revenue-producing capacity of investments. This information may help in assessing the reasonableness of taxes or fees and whether they need to be increased or might be reduced.

.042 To assess the allocation and use of resources.

.043 Users are also interested in how the government or unit used its resources. Information showing the nature, purposes and amount of government spending is important in appreciating total financial requirements and the financial resources required by individual programs.

.044 Users might be interested in seeing financial resources by each type of activity (by function or major program), by the nature of the resources acquired (by type of expenditure) or by responsibility (by governmental unit).

.045 Users are also interested in the split between operating and capital costs. The extent to which financial resources were used to acquire physical resources, such as buildings and roads, rather than annual operating costs, such as salaries and supplies, helps users in assessing future financial requirements.

.046 To assess the extent to which revenues were sufficient to cover costs of operations.

.047 Users are interested in the extent to which revenues raised in the period were sufficient to cover costs of that period. Such information allows users to assess the extent to which financial resources are either required from future revenues and borrowings to pay for current activities, or those available to finance future activities. Users look to this measure as an indicator of fiscal management because it shows whether costs have been met from revenues or by incurring liabilities.

.048 To predict the timing and volume of cash flows and future cash and borrowing requirements.

.049 Users need information to assess cash flows and cash requirements. Such information is important in assessing the government's or unit's cash management.

.050 To assess the government's or unit's ability to meet financial obligations, both short and long term.

.051 Over time, a government or unit accumulates liabilities that must be met in the future. Assets that can be used to meet those obligations and to finance future operations may also be accumulated. Users need information on them because it bears directly on the government's or unit's ability to meet its obligations and finance its operations, and on future revenue requirements.

.052 To assess the government's or unit's overall financial condition.

.053 Users need information to gain an understanding of and to assess the state of finances at a point in time. Indicators are needed to help them assess whether the government's or unit's financial condition has improved or deteriorated over time. Such information is important in assessing the government's or unit's financial viability, future tax and revenue requirements, and its ability to maintain or expand the level and quality of services.
Performance

.054 *To assess the performance of the government or unit in its use of resources.*

.055 Users need information to assess performance in terms of the economy and efficiency of operations and how well goals and objectives have been met. Thus, users seek information about service efforts, costs and accomplishments. Users need such information to assess the government's or unit's ability to maintain the level and quality of its services.

.056 The budget may provide a basis for evaluating performance because users can use it to assess whether resources were obtained and expended as planned and whether stated goals and objectives were achieved.

.057 In assessing performance, users may want to consider: management's direction, the relevance of the entity and its programs, whether the entity or program achieved its intended goals and objectives, constituent's or beneficiaries' acceptance of the entity and its programs, secondary impacts, costs and productivity, the entity's responsiveness, its financial results, its working environment, protection of assets and monitoring and reporting. Information on some or all of these attributes is needed to adequately assess performance. Financial reports cannot, however, reasonably provide information on all of them.

Economic impact

.058 *To assess the economic impact of the government on the economy.*

.059 Users need information to help understand the full nature, scope and extent of government financial activities in relation to the overall economy. For example, how significant are total government expenditures in relation to the economy's output? Is government growing? How are government activities affecting the economy? Financial reports might be able to provide information relevant to such questions.

.060 *To evaluate government spending options and priorities.*

.061 Users need information to help evaluate whether a government or unit is serving the interests of its resource providers and oversight bodies. For example, are the value of goods and services provided justifiable in relation to the goods and services withdrawn from the economy?
OBJECTIVES AND QUALITATIVE CHARACTERISTICS

Objectives

.062 As a general principle, financial reports should communicate information that is relevant to the decision-making and accountability needs of users. In fact, accountability and decision-making may be viewed as the overriding objectives from which all of the other objectives flow.

.063 Based on the user information needs identified, and taking into consideration the limitations of financial reporting and the governmental environment, the following objectives of general purpose financial reports\(^1\) of governments and units can be deduced:

Financial reporting should demonstrate the accountability of government or unit for the financial affairs and resources entrusted to it, and provide information useful for decision-making by:

a. Indicating whether resources were obtained and used in accordance with the legally adopted budget.

b. Indicating whether resources were obtained and utilized in accordance with legal and contractual requirements, including financial limits established by appropriate legislative authorities.

c. Providing information about the sources, allocation and uses of financial resources.

d. Providing information about how the government or unit financed its activities and met its cash requirements.

e. Providing information that is useful in evaluating the government's or unit's ability to finance its activities and to meet its liabilities and commitments.

f. Providing information about the financial condition of the government or unit and changes in it.

g. Providing aggregate information useful in evaluating the government's or unit's performance in terms of its service costs, efficiency and accomplishments.

.064 Depending on the characteristics, nature and objectives of a particular reporting entity and its accountability relationships, only some of the objectives might be relevant. For example, information about the sources of revenue of a unit that simply provides services based on predetermined appropriations would not be particularly relevant. However, information useful in evaluating its performance in terms of its service costs, efficiency and accomplishments would be particularly relevant.

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\(^1\) Although the objectives relate to general purpose financial reports, they might also provide a useful basis for measurement of the financial information included in budgets or other financial reports. In fact, to meet some of the objectives, it is important that financial reports include a comparison of budget to actual financial results. Using a consistent basis of measurement facilitates this comparison.
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<tr>
<th>Focus</th>
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<td>Annual financial report - summary</td>
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<td>Scope</td>
<td>Federal, provincial and territorial governments</td>
<td>Business and non-business entities (whether legal, administrative or economic entities) in the public and private sectors</td>
<td>Public sector entities including central government departments and other entities required to provide an annual financial report to Parliament or a Minister</td>
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<td>State and local governments</td>
<td>Federal Government</td>
<td>Federal governments</td>
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<td>Users Identified</td>
<td>Legislation (primary user) - i.e. elected representatives of the public.</td>
<td>Parties performing a review or oversight function - e.g. parliaments, governments and regulatory agencies</td>
<td>Legislative users: Members of Parliament</td>
<td>Legislative users and oversight bodies (those who directly represent the citizenry) - e.g. members of state legislatures, county commissions, city councils, boards of trustees, school boards, and those executive branch officials with oversight responsibilities over other levels of government</td>
<td>Legislative users - e.g. members of parliament, legislative staff and researchers assigned to members, to political parties or to committees or task forces</td>
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<td>Public</td>
<td>Taxpayers and ratepayers (resource providers), other recipients of services, media, special interest community groups**</td>
<td>Citizens - e.g. electors, taxpayers, ratepayers, recipients of the goods, services or benefits provided by public sector entities</td>
<td>Public: Citizens e.g. tax-payers, voters - Media - Labour unions - Special interest community groups</td>
<td>Public: Citizens (those to whom the Government is primarily accountable) - e.g. taxpayers, voters, service recipients, the media, advocate groups, and public finance researchers</td>
<td>Public: Citizens, the media, policy analysts (from, e.g., universities, non-profit research organizations etc.), special interest groups (representing for e.g. labour, consumer, physicians etc.) and other levels of government (e.g. provincial, state and municipal governments)</td>
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<td>Investors in Gov't securities and enterprises</td>
<td>Lenders and creditors**</td>
<td>Providers of resources</td>
<td>Investors in Gov't securities and enterprises (are included with citizens)</td>
<td>Investors and creditors (those who lend or who participate in the lending process) - e.g. individual and institutional investors and creditors, municipal security underwriters, bond rating agencies, bond insurers and financial institutions</td>
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</table>
| Users (cont'd) | Management and governing bodies interested in general purpose financial reports, however, they have additional information needs which are beyond the scope of general purpose external financial statements | Internal users:  
- Cabinet Ministers  
- Management of government departments | Internal managers (not considered primary user) | Agency Management | Government planners, managers - e.g., Cabinet Ministers, officials of departments, agencies and government-owned corporations (the perspective of demonstrating accountability)  
Corporate Users - e.g., industrial retail and service corporations and commercial government-owned corporations |

**users are grouped into resource providers, recipients of goods and services, and parties performing a review or oversight function**
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<td>Federal government</td>
<td>Federal governments</td>
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<tr>
<td>User Needs</td>
<td>Users of financial statements need information:</td>
<td>To assess control over resources and financial structure.</td>
<td>Users of financial statements need information:</td>
<td>To assess the entity's financial position and results of operations.</td>
<td>Users of financial statements need information:</td>
<td>Users of financial statements need information:</td>
<td>Users of summary financial reports need information:</td>
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<tr>
<td>Financial condition</td>
<td>To assess a government's ability to maintain the level and quality of its programs and to balance new programs.</td>
<td>To assess whether the entity is delivering the services expected of it (i.e., whether it is achieving the objectives which formed the justification for the provision of resources in the past) and is doing so economically and efficiently.</td>
<td>To evaluate the entity's effectiveness and efficiency and the continuing financial viability of the entity.</td>
<td>To assess the government's overall financial condition, including its debt structure.</td>
<td>To assess the government's financial condition and its ability to continue to provide services.</td>
<td>To assess the performance of government programs and managers (the economy and efficiency of operations and the extent to which programs are achieving objectives) and its reasonableness in relation to resources consumed, and the long-term viability of programs.</td>
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<tr>
<td>Performance</td>
<td>To assess the performance of a government in managing its financial resources.</td>
<td>To assess the entity's ability to generate favourable cash flows and to meet its financial commitments as they fall due.</td>
<td>Not applicable.</td>
<td>To assess the government's results of operations and its ability to meet its obligations as they come due, including long-term debt service.</td>
<td>To assess economy, efficiency and effectiveness of the government.</td>
<td>To assess the reasonableness of fees for products and services and to predict future borrowing requirements and taxation levels.</td>
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<tr>
<td>Solvency</td>
<td>To assess the government's ability to meet its financial obligations, both short and long term.</td>
<td>To aid in the assessment of performance, financial position, and financing and investing activities.</td>
<td>To assess the level of taxation and user charges.</td>
<td>To assess the likelihood of tax or service fee increases and the reasonableness of user charges.</td>
<td>To predict future budgets and to forecast cash flows.</td>
<td>To predict future budget and spending needs and to forecast cashflows, borrowing requirements, and future financing consequences.</td>
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<tr>
<td>Revenues</td>
<td>To predict future tax and other revenue requirements.</td>
<td>To predict the capacity of the entity to generate cash from its existing resource base and the effectiveness with which it would employ additional resources.</td>
<td>To assess the likelihood of tax or service fee increases and the reasonableness of user charges.</td>
<td>To assess funds available for appropriation in developing both capital and operating budgets and program recommendations.</td>
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<td>Cash requirements</td>
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<td>User Needs</td>
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<td>(cont'd)</td>
<td></td>
<td>To assess government spending priorities.</td>
<td>To assess whether continued support of the entity's activities is warranted. To evaluate past resource allocation decisions as input for the resource allocation decisions to be made in the future.</td>
<td>To decide about the allocation of funds and resources.</td>
<td>To decide about the allocation of funds in order to meet the political objectives of the government.</td>
<td>To assess resource allocation and to support advocacy positions.</td>
<td>To assess resource allocation and policy options.</td>
</tr>
<tr>
<td>Impact on the economy</td>
<td>To assess the impact of government financial activities on the economy.</td>
<td></td>
<td></td>
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<td></td>
<td>To predict the size and growth of government and to assess the socio-economic impact of the government on the economy.</td>
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<tr>
<td>Employment</td>
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<tr>
<td>Compliance</td>
<td>To assess whether the reporting entity is using resources as prescribed.</td>
<td>To assess compliance with statutory financial restrictions and regulations.</td>
<td>To assess whether the financial results of the government's operations are in accordance with legally mandated budgets.</td>
<td>To assess whether resources were used in accordance with legally mandated budget controls, program mandates, bond covenants, grant restrictions and taxing and debt limits.</td>
<td></td>
<td></td>
<td>To hold the government accountable by comparing the level of spending relative to statutory ceilings and budget plans.</td>
</tr>
<tr>
<td>Accountability</td>
<td>To assess whether the entity has been operating in the interests of its resource providers and its performance in using the resources under its control.</td>
<td>To evaluate accountability over the use of public resources in terms of efficient administration and also effective service delivery.</td>
<td>To evaluate accountability to legislative users to justify the use of public resources.</td>
<td>To evaluate accountability to the citizenry to justify the raising of public resources and the purposes for which they are used.</td>
<td></td>
<td></td>
<td>To evaluate accountability; whether the value of goods and services provided by the government are adequate in relation to goods and services withdrawn from the economy.</td>
</tr>
<tr>
<td>Comparisons</td>
<td></td>
<td>Intra and inter entity comparability are relevant to assessments of performance.</td>
<td>Comparisons of actual results with budgets and results for the preceding year.</td>
<td></td>
<td>To compare amounts spent on similar functions by other govt's.</td>
<td></td>
<td>To assess and control the costs of govt operations and services.</td>
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<tr>
<td>Intergenerational equity</td>
<td></td>
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<tr>
<td>Equity</td>
<td></td>
<td></td>
<td>To assess the deficit, that is the balance of expenses and revenues.</td>
<td></td>
<td></td>
<td></td>
<td>To assess the equity of tax-expenditures.</td>
</tr>
<tr>
<td>Physical assets</td>
<td></td>
<td></td>
<td>Not applicable.</td>
<td></td>
<td></td>
<td></td>
<td>To maintain, safeguard and control acquired resources (physical assets).</td>
</tr>
<tr>
<td>Gov't owned organizations</td>
<td>Encompassed by the Exposure Draft.</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td>To assess the operating performance, significance and continuing relevance of government-owned corporations.</td>
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<td>PSAAC</td>
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<tr>
<td><strong>User Information Needs</strong></td>
<td>To make these assessments, users need info about:</td>
<td>To make these assessments, users need info about:</td>
<td>To make these assessments, users need info about:</td>
<td>To make these assessments, users need info about:</td>
<td>To make these assessments, users need info about:</td>
<td>To make these assessments, users need info about:</td>
<td></td>
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<tr>
<td>Financial condition</td>
<td>The government's financial condition.</td>
<td>The entity's financial position - its assets, liabilities, net assets/ equity at the end of the period, its control over resources, its financial structure, its solvency and its capacity for adaptation.</td>
<td>The assets, liabilities and operations for which the entity is responsible. Assets should be reflected in a combination of financial and physical terms.</td>
<td>The government's commitments, expenses and revenues in order to determine the deficit and borrowing requirements.</td>
<td>The available and likely financial resources, actual and contingent liabilities and the overall debt position.</td>
<td>The financial positions and operating results of the entire government, other than funds, the operating activities and other financing activities.</td>
<td></td>
</tr>
<tr>
<td>Performance/ service costs</td>
<td></td>
<td>The cost of services (expenses) and revenues (cost recoveries), assets and liabilities, and changes thereof. Non-financial and/or semi-financial information may also be relevant.</td>
<td>The services provided and the cost of providing those services for each significant activity. Other measures of physical and qualitative performance that report achievements, if available.</td>
<td>The programs and activities provided by the government and the costs of providing those programs and activities.</td>
<td>Service efforts, costs and accomplishments of the government entity.</td>
<td>Full cost of government activities.</td>
<td></td>
</tr>
<tr>
<td>Compliance</td>
<td>Whether the public financial resources were managed in accordance with legislative authorities.</td>
<td>The entity's compliance with externally imposed financial requirements (spending mandates).</td>
<td></td>
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<tr>
<td>Restricted assets</td>
<td>Any restriction imposed on the entity regarding its use of assets.</td>
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<td></td>
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</tr>
<tr>
<td>Source and uses of resources</td>
<td>The allocation and use of financial resources and the sources and types of government revenues.</td>
<td>Sources and applications of funds and the entity's revenues and expenses incurred in generating those revenues.</td>
<td>The sources and amounts of revenues, and expenses, identifying separately loan repayments, other capital transactions and appropriations to special funds.</td>
<td>The sources and amounts of revenues as well as the allocation of financial resources.</td>
<td>Operating results and cash flow data and sources and uses of resources - including the level and types of spending.</td>
<td>Expenses and program related revenues disclosed by program and by function, including accrual of tax revenues.</td>
<td></td>
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<tr>
<td>Stewardship</td>
<td></td>
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<tr>
<td>Cash requirements</td>
<td>How the government financed its activities and how it met its cash requirements, including the extent to which revenues were sufficient to meet expenditures.</td>
<td>Financing and investing activities and the entity's availability of cash to meet financial commitments as they fall due.</td>
<td>The cash flows from all sources relating to operating, financing and investing activities.</td>
<td>Cash inflows from all resources relating to cash outflows to finance the government's programs and activities.</td>
<td>Reconciliation of accrual to cash basis to show cash inflows and outflows. Resources available compared to those consumed, total financial requirements and total borrowing requirements.</td>
<td></td>
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</tr>
<tr>
<td>User Info</td>
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<tr>
<td>Needs (cont'd) Objectives</td>
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</tr>
<tr>
<td>Grants</td>
<td>The objectives of the entity.</td>
<td>Significant free services received (provided) when such services were in substance a subsidy grant to (by) the entity.</td>
<td>The objectives of each government department.</td>
<td></td>
<td></td>
<td>Inflows from intergovernmental grants.</td>
<td></td>
</tr>
<tr>
<td>Financial commitments</td>
<td>Financial commitments not otherwise recognized in the financial statements.</td>
<td></td>
<td>Financial commitments (obligations) are included in the financial statements.</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Actual vs. budget</td>
<td>Actual results of financial activities in comparison with those originally forecast and those of past periods.</td>
<td>Comparisons of budget to actual results.</td>
<td>Comparison of legally mandated budgets to actual results.</td>
<td></td>
<td></td>
<td>Comparisons of actual results with earlier projections or budgets.</td>
<td></td>
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<tr>
<td>Physical assets</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td>Costs (acquisition) and values of available unconsumed resources, including inventories of goods held for sale or future consumption and fixed assets.</td>
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<tr>
<td>Supplementary information</td>
<td></td>
<td></td>
<td>Info on the cause of substantial differences between budget and actual results. In addition, info on the consequences of this in terms of activities and performance. Info on the progress of the govt's policy to prevent improper use of govt's subsidies. Info on participations in enterprises and international institutions. Info on current liabilities and debts (aging of balances).</td>
<td></td>
<td></td>
<td>Supplementary information on tax expenditures, common measures of performance of the economy, affects of inflation, regional breakdowns of revenues and expenses and govt employment.</td>
<td></td>
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<tr>
<td>FOFI</td>
<td></td>
<td></td>
<td>Financial obligations to forecast future cash flows.</td>
<td></td>
<td></td>
<td>Future oriented information on social programs and projected spending levels.</td>
<td></td>
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<tr>
<td>Disaggregated Information</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td>Separate consolidations of govt's type activities and of govt owned business enterprises.</td>
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<tr>
<td>Timely release</td>
<td>Information must be timely if it is to be relevant to users.</td>
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<td>Timely release of this info - within 3-4 months of year-end.</td>
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<tr>
<td><strong>Focus</strong></td>
<td>Summary financial statements</td>
<td>General purpose financial reporting (encompassing financial statements and other related financial and other info)</td>
<td>Central government financial statements</td>
<td>General purpose external financial reporting (not restricted to general purpose financial statements)</td>
<td>General purpose financial statements</td>
<td>Annual financial report - summary</td>
<td></td>
</tr>
<tr>
<td><strong>Scope</strong></td>
<td>Federal, provincial and territorial governments</td>
<td>Business and non-business entities (whether legal, administrative or economic entities) in the public and private sectors</td>
<td>Central government departments</td>
<td>State and local governments</td>
<td>Federal government</td>
<td>Federal governments</td>
<td></td>
</tr>
<tr>
<td><strong>Objectives</strong></td>
<td>See objective under qualitative of info.</td>
<td>The objective of general purpose financial reporting is to provide info to users that is useful for (1) making and evaluating decisions on the allocation of scarce resources and (2) assaying accountability.</td>
<td>To provide such info that the user is able to assess the results of the financial administration by the government.</td>
<td>Objectives are derived directly from legal &amp; regulatory requirements and the needs of intended users.</td>
<td>No objectives were articulated in the study.</td>
<td></td>
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</tr>
<tr>
<td><strong>- qualities of information</strong></td>
<td>Financial statements should communicate reliable information relevant to the needs of those for whom the statements are prepared, in a manner that maximizes its usefulness. As a minimum, this requires information that is clearly presented, understandable, timely and consistent.</td>
<td>Note: A separate document describes the qualitative characteristics of info useful for decision making and the assessment of accountability (those qualitative characteristics include relevance, reliability, comparability, understandability and timeliness).</td>
<td>Adherence to the concept of a true and fair view is an essential requirement of financial reporting. In order for financial reports to be useful the info provided should possess the following basic qualities: understandability, reliability, relevance, timeliness, consistency and comparability.</td>
<td>Reliability: timeliness, accuracy, completeness, validity</td>
<td>Financial reporting should communicate reliable info relevant to the needs of users for whom the statements are prepared. As a minimum, this requires info that is timely, relevant, reliable, cost beneficial, material, comparable and consistent.</td>
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</tr>
<tr>
<td><strong>- scope of financial reporting</strong></td>
<td>Financial statements should provide an accounting of the full nature and extent of the financial affairs and resources for which the government is responsible including those related to the activities of government agencies and enterprises.</td>
<td>Note: Addressed in documents about info disclosures for particular types of reporting entities (under preparation).</td>
<td>To provide sufficient info in order to meet the overall objective.</td>
<td>Describes the characteristics of info in financial reporting must have to communicate effectively (understandability, reliability, relevance, timeliness, consistency and comparability) but does not include them as an objective.</td>
<td>Financial reporting should provide full and complete disclosure of the results of the financial operations.</td>
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<tr>
<td><strong>- accountability</strong></td>
<td>Financial statements should demonstrate the accountability of a government for the financial affairs and resources entrusted to it.</td>
<td>Managements and governing bodies shall present general purpose financial reports in a manner which assists in discharging the accountability.</td>
<td>The objectives of external financial reporting public sector entities embody disclosure of info useful for:</td>
<td>To provide such info that the user will be able to evaluate accountability over the use of public resources.</td>
<td>Financial reporting should assist in fulfilling govt's duty to be publicly accountable and should enable users to assess that accountability.</td>
<td>Financial reporting should provide an objective evaluation of management's stewardship.</td>
<td></td>
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<tr>
<td>Objectives (cont'd)</td>
<td>PSAAC</td>
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<tr>
<td>-performance</td>
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<tr>
<td>(6) Financial statement should provide information useful in evaluating the government's performance in the management of financial affairs and resources.</td>
<td>Financial reports shall disclose information relevant to the assessment of performance.</td>
<td>To provide such info that the user is able to assess the legality, effectiveness and efficiency of the government programs and activities.</td>
<td>Financial reporting should provide information to determine whether current-year revenues were sufficient to pay for current year services.</td>
<td>Financial reporting should provide an objective evaluation of management's performance.</td>
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<tr>
<td>-compliance</td>
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<tr>
<td>(7) Financial statements should provide information useful in assessing whether financial resources were administered by the government in accordance with the limits established by the appropriate legislative authorities.</td>
<td>Financial reports shall disclose sufficient info to enable users to have confidence re: compliance issues (Discussion paper on method of reporting compliance under development).</td>
<td>Financial statements should provide info to assess the actual results in accordance with legally mandated budgets.</td>
<td>Financial reporting should provide info as to whether management's allocation decisions are proper and meet congressional intent.</td>
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<tr>
<td>-source and use of resources</td>
<td>Financial statements should account for the sources, allocation and use of the financial resources required by the govt in the period.</td>
<td>Disclosure of info about sources &amp; application of funds is relevant for making and evaluating decisions on the allocation of source resources and the discharge of accountability.</td>
<td>Financial reporting should assist users in evaluating the operating results of the governmental entity for the year.</td>
<td>Financial reporting should disclose the nature and extent of activities within programs including accomplishment of, spending for, and costs of activities.</td>
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<tr>
<td>(8) Financial statements should account for all gov't expenditures by nature and purpose, all revenues by source and type and the extent to which revenues were sufficient to meet expenditures.</td>
<td>(i) Financial statement should show how gov't financed its activities in the period and how it met its cash requirements.</td>
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<tr>
<td>Objectives (cont'd)</td>
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<td>source and use of resources (cont'd)</td>
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<tr>
<td>state of finances</td>
<td>Financial statements should present information to display the state of govt's finances.</td>
<td>Financial reports should disclose info about the liquidity and solvency of the entity.</td>
<td>Assessing financial position and results of operations.</td>
<td>Financial reporting should assist users in assessing the level of services that can be provided by the governmental entity and its ability to meet its obligations as they become due.</td>
<td></td>
<td>Financial reporting should disclose the financial viability of the federal government.</td>
<td></td>
</tr>
<tr>
<td>(i) Financial statements should present information to describe the government's financial condition at the end of the accounting period.</td>
<td>Financial reports shall disclose info relevant to the assessment of financial position.</td>
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<tr>
<td>(ii) Financial statements should provide information that is useful in evaluating the govt's ability to finance its activities and to meet its liabilities and commitments.</td>
<td>Financial reports shall disclose info relevant to the assessment of financing and investing.</td>
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<tr>
<td>physical assets</td>
<td>Indicates that accounting for physical assets is an emerging issue that requires further research but does not refer to physical assets directly in the objectives.</td>
<td>Does not distinguish between assets on the basis of their physical characteristics.</td>
<td>Not applicable.</td>
<td>b. Financial reporting should provide info about a governmental entity's physical and other non-financial resources having useful lives that extend beyond the current year, including info that can be used to assess the service potential of those resources.</td>
<td></td>
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<tr>
<td>restricted assets</td>
<td>Disclosure of info about restrictions on assets may be relevant to assessment of the entity's ability to meet its objectives.</td>
<td></td>
<td>Not applicable.</td>
<td>c. Financial reporting should disclose legal or contractual restrictions on resources and risks of potential loss of resources</td>
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<td>short-term forecasting</td>
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<tr>
<td>Objectives (cont'd)</td>
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<tr>
<td>planning and budgeting</td>
<td></td>
<td></td>
<td>b) decision-making about the allocation of funds and resources.</td>
<td>Not applicable.</td>
<td></td>
<td>Resource allocation is based on national needs as decided by the President and Congress; agencies are responsible for properly allocating funds and resources.</td>
<td></td>
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<tr>
<td>explanations</td>
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FINANCIAL REPORTING BY
NATIONAL GOVERNMENTS

A FRENCH PERSPECTIVE

1. The present study draws heavily from the experience of countries where standards applying to the private as well as the public sector are set by professional bodies comprised, for the most part, of representatives of the accounting community. The committee considered it useful to offer a different perspective based on an experience where standards are embodied into legislation. The purpose of this appendix is to set out that perspective.

2. In a country steeped in written, Roman, law with a powerful centralizing tradition, such as France, the financial accounting and reporting standards that apply to governments (national and/or local) are not set by professional bodies, but by law. This includes the Constitution of the Republic, specific laws passed by Parliament, and various administrative pronouncements that derive from the law and elaborate on it.

The law is not prepared and formulated in a vacuum, however, and the accounting profession takes part in the process in a variety of ways: specific consultative committees (such as the Conseil National de la Comptabilité), professional organizations (such as the Ordre National des Experts Comptables), academics and specialized government officials (Direction du Budget, Direction de la Comptabilité Publique within the Ministry of Finance) make their views known and influence the outcome of the debate.

3. Whatever the precise influence of the public discussion on legislators and government officers, the end product is a law. Because the law is prescriptive, rather than explanatory or demonstrative, in nature, rarely does it make explicit the needs to which it seeks to respond or the objectives of the requirements it institutes. From that point of view, it is not comparable to the statements issued by professional standard-setting bodies which, generally, go over such topics at great length, as evidenced in the foregoing appendices. For comparative purposes the paper attempts to restate, along the lines and within the conceptual framework adopted in the present study, the concepts and principles of financial reporting which are implicit in the provisions of the law and the practice of the government.

4. The focus of this appendix is on general purpose financial reporting intended for the general public. The scope is restricted to national government operations.

5. Major legal sources specifying financial accounting and reporting requirements by the national government are the following:

- the 1958 Constitution of the Republic,
- the budget law (loi organique relative aux lois de finances) dated 2 January 1959,
- the decree on government accounting (décret portant règlement général sur la comptabilité publique) dated 29 December 1962, and
6. Two general points should be made at the outset:
   
a) the objectives, users and users' needs of governmental financial reports, as recognized explicitly or by implication (e.g. by the nature of the documents circulated or the range of their circulation) in the French system, are essentially the same as those identified in the present study;
   
b) recent improvements and plans for future developments of governmental accounting and reporting are fully consistent with the main thrust of the present study (paras. .121 and .122 of this study specifically refer).
   
The following comments will be limited to outlining specific points or differences in emphasis.

Users

7. The development of legally binding requirements for governmental financial accounting and reporting closely follows the assertion of parliamentary control. The overriding principle of accountability to the citizenry in general is explicitly stated in the Declaration of Rights of 1789 (art. 14 and 15) which is incorporated into the present Constitution of the Republic. As a result, financial reports (budget, financial statements) mentioned in the present paper are intended, and may, in fact, be accessed not only by legislators, who are their primary users, but also by the general public (newspapermen, trade associations, labour unions, financial analysts, academics, ...).

8. All users are not placed on an equal footing, however. First, it must be recognized that paramount importance is given to the needs of government officials themselves (budget office, treasury). In addition, particular emphasis is placed on the needs of government agencies with specific responsibilities for the elaboration and circulation of economic and financial information. Cases in point include: the statistical agency which is responsible, among other things, for putting together the national accounts; the planning agency which, to a large extent, is an economic forum; or the economic forecasting department in the Ministry of Finance.

9. The consideration of the specific needs of such users is reflected in the very strict organization of governmental accounting practices:
   
   - comprehensive and centralized network of government accounting officers in charge of executing all transactions,
   
   - periodic centralization of operations,
   
   - standardized chart of accounts,
   
   - breaking down of accounts by categories of transactions (e.g. categories of securities issued by the government) and categories of agents (e.g. households, financial institution) identified in the national accounts system. As a result, the public administrations account (a concept larger than that of government) in the national accounts system is directly based on accounting data and not on statistical estimates.
Periodicity of financial reporting

10. Users request that financial information be relevant, which, among other things, means that is must be prompt. In addition to the usual annual information related to the financial period of the government (budgets, year-end accounts), specific reports are released within the year for the benefit of legislators, financial institutions and the general public. Such are:

- the Situation Résumée des Opérations du Trésor (SROT) which is a monthly summary statement of budgetary execution and borrowing and lending transactions;

- the quarterly statements of budgetary expenditure, by department, forwarded to the finance committees of Parliament (National Assembly and Senate).

At the end of the year following the budget year, the government submits to Parliament its annual financial statements, the Compte Général de l'Administration des Finances (general account of the finance department). This statement will be examined at greater length below.

Objectives of financial reporting

11. As mentioned earlier, accountability is a constitutional requirement. The study identifies two aspects of that overriding objective:

- governments' goals and priorities, as well as the resources necessary to meet them, should be spelled out as clearly as possible,

- governments should provide the information necessary to ascertain accountability.

The first aspect relates to the budget, the second to year-end financial statements submitted to Parliament.

12. The French budget law largely ignores goals and priorities. The budget approved by Parliament is essentially a "ways and means" budget. Obviously, the allocation of funds reflects goals and priorities, but the relation between them is not made explicit. However, the law provides that the budget itself be prefaced with an economic and financial report in which the government spells out the main parameters, past and forecasted, of the budget as well as the objectives it is intended to serve. Such objectives are generally formulated in macro economic terms, but may be fairly detailed (e.g. number of low-cost apartments to be built or mileage of freeways to be opened during the coming year).

13. Over the last ten years, departmental "programme budgets" spelling out objectives, resources and performance indicators have been developed. Such budgetary documents are provided to Parliament as background information together with the "regular" budget which is the only one to be put to the vote. Unfortunately, this experience has proved disappointing up to now, for a number of technical and political reasons which cannot be entered into in the present paper. And "programme budgets" have not become the focus of the parliamentary debate which remains centered on the traditional (ways and means) budget.

14. With regard to financial information on the actual collection of resources and allocation of funds, the French system reflects the highest priority accorded to the following two
objectives that contribute to accountability: reliability of information and compliance of transactions with legislative authority. Such objectives are met through:

a) strict internal controls which constitute a characteristic feature of the French financial system whereby the actual execution of all payments and receipts is entrusted to a corps of accounting officers (les comptables publics) who are personally responsible for their stewardship (including full compliance of all transactions carried out) and may reject transactions of their own initiative. They come under the Minister of Finance (wherever they are assigned), and their functions are strictly segregated from those of the decision makers (lesordonateurs);

b) payment of expenditures on the basis of services rendered or goods delivered;

c) audit of annual governmental financial statements by an independent external auditor which is part of the judiciary, the Cour des Comptes.

15. Additional objectives are set out in the 1962 decree on governmental accounting:

a) comprehensive description of budgetary operations as well as of all sources and application of funds,

b) comprehensive description of assets and liabilities,

c) identification of year-end results,

d) information on performance (costs, efficiency, and accomplishment),

e) integration of governmental accounts into national accounts (re. above).

All such objectives have not been reached with equal success and, as will be explained below, some are lagging behind (b and d specifically refer).

Reporting model

16. Reporting models and accounting bases for governmental financial information are prescribed in administrative instructions issued by the accounting department in the Ministry of Finance. The general direction of such instructions, as stated in the decree of 1962, is that governmental reporting and accounting policies be patterned after private sector standards whenever this is legally possible or practicable. A number of exceptions to that general rule will be noted in the following paragraphs, however.

17. The annual financial report of the government to Parliament (le Compte Général de l’Administration des Finances) takes the form of summary financial statements disclosing:

- the revenues and expenditures of the national government (including what pertains to various trust funds attached to the regular budget). This includes both a budgetary income and expenditure statement based on a modified cash basis, and a cash statement showing all sources of funds cashed and all disbursements made during the year. Additional schedules detail estimates and actuals with respect to revenues and expenditure (on a line item basis);
- the balance sheet of the government which, for all practical purposes, is limited to financial assets and liabilities;
- the financial results for the current year, and consolidated with preceding financial periods.

**Accounting basis**

18. The objective of approximating to the private sector accounting model may conflict with existing legal requirements (e.g. recording fiscal revenues on a cash basis or expending the full cost of physical assets) or create difficulties which could not be solved until now (e.g. depreciating government owned assets). As a result, the conceptual basis for governmental accounting is in a transitional stage, moving beyond a modified cash basis towards a system the concepts of which are not yet fully consistent.

19. The present situation may be summarily described as follows:

a) Fiscal revenues are recognized when cashed in the income statement, but receivables are also recorded (and reported in the balance sheet). However, not all receivables are accrued (e.g. accrued interest is not recognized).

b) Expenses are recognized when claims are certified by the accounting officer (comptable public), whatever the disbursement date. The books are kept open for a “complementary period” of one to two months at the beginning of the next calendar year to identify expenses that relate to the previous fiscal year. However, this does not ensure that all legal commitments entered into are accrued.

c) Financial assets and liabilities are fully reported on in the balance sheet (including such contingent liabilities as debt secured by the government). However, tangible assets are fully depreciated within the year when they are purchased. Therefore this is basically a memorandum account with no impact on financial results. A physical inventory of real estate owned by the government (Tableau Général des Propriétés de l’État) is maintained and updated, but such assets are not capitalized.

**Financial results**

20. The Compte Général de l’Administration des Finances presents financial results according to three different concepts;

a) results of budgetary execution (solde d’exécution de la loi de finances) disclosed on a modified cash basis;

b) results of cash transactions disclosing annual cash requirements (calendar year);

c) annual (and cumulative) balance sheet results which incorporate a fuller accrual component (although not based on full accruals as explained above).

The paradox is that only the first of these results is required to be disclosed by law; the other two which certainly reveal a more comprehensive view of government operations and their impact on the economy were added more recently for the information of legislators and other users of financial reports.
Future developments

21. Future developments of governmental accounting and reporting are directed towards:

- progressive capitalization of physical assets in order to offer a more comprehensive
description of government operations (which implies the definition of a depreciation
policy),

- fuller accrual and deferral base of accounting (in particular, fuller recognition of
payables and stricter cut-off rules),

- clarification of the presentation and meaning of financial results,

- disclosure of a summary of significant accounting policies bringing out changes in
policy.

Performance reporting

22. The ambitious goal of monitoring performance and accomplishments on the basis of the
governmental accounting system appears to be quite far away. The limited use and
impact of programme budgeting which includes non-financial performance indicators
has been mentioned above. At present, the debate in France appears to center on ways
and means to assess performance and whether or not financial reports, even
complemented with sets of multiple indicators, would be best suited for that purpose. An
evaluation programme based on specific evaluation missions resorting to financial as
well as non-financial information and impact studies is currently being initiated. At
this point, however, we are well beyond the domain of periodic information submitted in
a codified form by the reporting entity.
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