

*Improving Fiscal Transparency in Government Comprehensive Financial Report Reform:**

How fiscal transparency should be in China

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Abstract—As fiscal transparency in China is still waiting to be improved, the Comprehensive Financial Report (CFR) Reform started from 2014 would be one of the best opportunities for it. This paper argues about what is fiscal transparency and what we should do to improve it in the background of CFR. By distinguish the differences between the concepts of fiscal transparency and budget transparency, this paper strengthened that fiscal transparency means open not only budget information, but also fiscal policies' making process, fiscal policies' performance, etc. Then the author discussed how the CFR could help with disclosing those information to the public, and that the effort to improve fiscal transparency could make the CFR more completed. The suggestions are about what kind of information should be opened, how to make it easy to get all the information, a set of indicators and an internationally comparable fiscal transparency index should be formulated.

Keywords—Fiscal Transparency, Budget Transparency, Comprehensive Financial Report (CFR), Information Openness

I. INTRODUCTION

The Asian financial crisis in late 1990s has drawn great attention to fiscal transparency. Because lacking of transparency was cited as a partial contributor to financial crises in Asia and Mexico[1]. Since the financial crisis, many international organizations, such as IMF, the World Bank, OECD, and both developed and developing countries have tried to improve fiscal transparency. The reason why fiscal transparency has been gaining growing attention is that it is believed to be one of the most important triggers of the financial crisis, and transparency in government operations is widely regarded as an important precondition for macroeconomic fiscal sustainability, good governance, and overall fiscal rectitude[2], and being regarded as a potential solution to problems of fiscal imbalance, rising government debt, and corruption[3]. To improve fiscal transparency, the USA, EU, and lots of countries in Africa and Asia have implemented relative policies, and have reached positive results.

As most of the developing countries in the world, there is still improving space for fiscal transparency in China. There

are multiple reasons for poor fiscal transparency, such as government budget fragmentation¹, national information security management², etc. All those reason have been make it difficult for fiscal information openness for a long time. As a result, fiscal transparency of Chinese governments from central to county is not so good. One typical example is that most of provincial governments haven't opened provincial government debt information to the public, even though they have been pressed to. In the circumstances, provincial and municipal governments are evaluated about their openness of fiscal information, and the extent to which they are transparent is quite different among regions[4][5].

However, all layers of Chinese government, people and public medias have strengthened fiscal information openness in the past years, and all of them have made great effort to change the opacity reality, which have come to some positive results. One of the most important fruits is that in the Third Plenary Session of the 18th CPC Central Committee, fiscal transparent has been highlighted as one of the things the government should enhance in the future: "we must improve the legislation, transparent budget, improve efficiency, the establishment of a modern financial system".

That was only the beginning of Chinese government improve fiscal transparency. on December 31st, 2014, the State Council of China forwarded a milestone file in Chinese public finance and taxation system reform, the Reform Scheme of Government Comprehensive Financial Report on Accrual Basis (Guo Fa [2014] 63). In the reform scheme, to build government Comprehensive Financial Report system and to open fiscal information are strengthened. We believe this would be one of the best opportunities to improve fiscal

¹ Government budget are separated into several individual parts, and there are still some quasi-fiscal practices and fiscal practices are not included in the budget. Besides, government budgeting department are preparing the budget and revising the budget all through the year. All the phenomenon above are called government fragmentation.

² For a long time, most of government budget information was classified as national secrets, so the public only have access to a very limited part of it.

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transparency in China. The reasons are, A) Government budget accounting has been on the cash basis for decades, which makes it difficult to know the real financial state of government, such as the assets, liabilities, state-owned corporations, etc.. On the other hand, the actual basis accounting is better at disclose the real state of an entity, including government. For the reason, even though the cash basis accounting is easier than the actual basis, it is still replaced by the actual basis accounting in lots of countries' practice. China has been discussing about changing government accounting into actual basis for many years, it hasn't been actually executed yet. To compile the Comprehensive Financial Report on the actual basis would be a test for the whole government accounting system, which would make it much more easier for the public to get the actual government financial state, hence fiscal transparency is improved. And B) One of the extinguishing characters of Chinese governmental budget is the fragmentation, which means only a few parts of government revenue and expenditure are included in the budget, and the budget could be revised casually any time through the year. It is often said that the government budget in China is "one-year budget, and budgeting throughout the whole year". So we cannot know how the fiscal resources flow as a whole. But the accrual based government Comprehensive Financial Report should include government assets and liabilities, department financial report, auditing report, which should be opened to the public. And we could easily have access to government fiscal information, which will lead to fiscal transparency without doubt.

In the past decades, fiscal transparency has been a welcomed topic, and has reached many achievements. Internationally, there are 3 kinds of mainstream study on transparency. A) IMF released the Manual on Fiscal Transparency (MFT) and Code of Good Practices on Fiscal Transparency (CGPFT) in 1998, and the revised edition on 2007, which strengthened that fiscal transparency is the core of good governance, and defined the four codes of good fiscal transparency [6]. Since 1999, IMF estimated fiscal transparency of countries from North America, South America, Europe, Africa, and Asia [7]. The state of fiscal transparency of most of the sample countries are improving as indicated in some following research. But fiscal transparency in China has not been observed and evaluated by IMF yet. B) OECD released OECD Best Practices for Budget Transparency, in which budgeting, budget openness, as well as how to improve quality and integrity of budget report are included, to guide member and non-member countries to improve their budget transparency [8]. And C) International Budget Partnership (IBP) launched a global research, the Open Budget Initiative, and formulated the Open Budget Index (OBI) to analysis and evaluated the extent to which 102 countries' budget are opened biannually since 2006 [9]. Regretfully, China has been one of the most not-transparent countries in IBP's survey. Based on those 3 kinds of transparency research, most of foreign researchers adapted part/all of the indicators to extend the research into public policy efficiency, government credit, government debt rating, etc.

Chinese scholars have their own way of transparency research: A) Leading by Jiang Hong, a group of researchers

build a series of indicators to estimate the extent to which Chinese provincial / municipal governments are transparent. As the result shows, fiscal transparency in China is still waiting to be improved and all tiers of government should be more active in opening fiscal information. B) Some of the studies are focused on some specific details such as what kind of fiscal information should be opened, to what extent, and how to open, etc.. C) Another group is interested in what kind of legislation or institution in China has been the obstacles of fiscal information openness and therefore fiscal transparency.

All those researches are precious to this paper, but China is beginning to implement Comprehensive Financial Report now, which will make it a totally different background for improving fiscal transparency. This paper is focused on how and what we could do to improve fiscal transparency in China in this government Comprehensive Financial Report reform opportunity. The rest of this paper is organized as: Section 2 distinguishes the differences between the concepts of fiscal transparency and budget transparency. Section 3 argues about what should be included in Comprehensive Financial Report in China, so that fiscal transparency could be improved. Section 4 is concluding some suggestions about how to improve fiscal transparency in China.

II. FISCAL TRANSPARENCY AND/OR BUDGET TRANSPARENCY

For all those former researches on transparency, especially those from Chinese, they don't always distinguish the differences between the concepts of fiscal transparency and budget transparency, which are two significantly different concepts.

For the definition of fiscal transparency, the most accepted one is defined by Koptis & Craig (1998). Fiscal transparency is "Openness toward the public at large about government structure and functions, fiscal policy intentions, public sector accounts, and projections. It involves ready access to reliable, comprehensive, timely, understandable, and internationally comparable information on government activities—whether undertaken inside or outside the government sector—so that the electorate and financial markets can accurately assess the government's financial position and the true costs and benefits of government activities, including their present and future economic and social implications".

This definition forms IMF basics of code of good practice on fiscal transparency (2007), which include 4 general principals: A) clarity of roles and responsibilities, which means distinguish the government sector from other sectors, clarify public and quasi-public sector's responsibilities and fiscal management framework respectively. B) open budget process, requires that budget preparation, execution, monitoring, and reporting should be guided by well-defined rules and procedures. C) public availability of information, means timely comprehensive information about the past, current fiscal activity and fiscal risks, which should facilitates policy analysis and promotes accountability. And D) assurances of integrity, demands that fiscal data, fiscal activities and fiscal information should meet some requirements such as data quality, under internal or external oversight and scrutinize.

Increasing fiscal transparency is a way of providing voters, observers, financial markets, and sometimes politicians themselves with more information about the intentions behind fiscal policy, the actual actions taken, and the immediate and longer-term consequences of specific policies. This eases the task of forecasting future fiscal policy, and of attributing fiscal outcomes to policies, and fiscal policies to particular politicians[10].

On the other hand, budget is a significant component of fiscal policies, or we may say that it is a quantified statement of fiscal policies. OECD (2002) stressed that the budget is the single most important policy document of governments, where policy objectives are reconciled and implemented in concrete terms. Budget transparency is defined as the full disclosure of all relevant fiscal information in a timely and systematic manner [8].

According to the definition, OECD specialized what should be disclose to be budget transparency. The disclosure should include 3 parts: A) budget reports, including the budget, pre-budget report, monthly reports, mid-year report, year-end report, pro-election report, long-term report. B) specific disclosures, including economic assumptions, tax expenditures, financial liabilities and financial assets, non-financial assets, employee pension obligations, contingent liabilities. And C) integrity, control and accountability, including accounting policies, systems and responsibility, audit, public and parliamentary scrutiny.

According to those definitions of fiscal transparency and budget transparency, the connection and difference between fiscal transparency and budget transparency could be notified.

To the connection, budget transparency is an important component of fiscal transparency and is a quantified statement of fiscal policies. This connection arises from the connection of fiscal policy and budget. As defined by IMF, fiscal transparency includes open budget information, the organizations, responsibilities and accountabilities of government sectors and departments. Whereas budget information includes revenues, expenditures, performance and audit information of public funds flows, represented in the form of valid and effective cash flow statement, balance sheet, and other quantified objectives statement.

Even if the public know well about the functions and accountabilities of each signal department of government, they would still need some detailed data of how public resources are flowing, which is presented in the budget information. So the budget information openness is an important component of fiscal information openness, with both of them, the public could know better about the process of how the public policies are made, and what the public policies work out.

To the difference, fiscal transparency is a wider and richer concept than budget transparency. As budget transparency is a part of fiscal transparency, to improve the latter, government should disclose all fiscal information, which covers not only the whole budget information, but also the functions and accountabilities of government at large. As a result, public could know more about government activities from fiscal transparency than budget transparency. On the other hand, the

budget process is about how the government revenue and expenditure are made, which is based on the functions and accountabilities of each signal government department. So budget transparency implies that from the budget information given by the government, the public could know about the financial states of government, but couldn't judge if the government is running by the law. But fiscal transparency implies that from the information which government opened, the public should be able to judge if the government's activity is legal or not, if the government is functioning according to the basic principals of public finance.

Based on the connection and difference between fiscal transparency and budget transparency, to improve fiscal transparency in China, government should open not only the budget information, but more importantly all the relative fiscal information of general government, which should at least include the functions and accountabilities of each government department, the procedure of policies making, all the budget information, the audit reports, the performance reports, as well as government assets and liabilities.

III. COMPREHENSIVE FINANCIAL REPORT AND FISCAL TRANSPARENCY

To compile comprehensive financial report is a new trying in China, so a lot of details like how to do it, and what should be included in it are still to be determined. Fortunately, there are countries, like the USA and UK, have been compiling and disclosing Comprehensive Financial Report for a while, from which we could learn a lot.

In the USA, the Chief Financial Officers Act of 1990 (Public Law 101-576), or the CFO Act, and Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments (GASB Statement 34) are the two laws which specified details of federal and local government Comprehensive Financial Report. According to the CFO Act, the Director of the Office of Management and Budget shall prepare and submit to the appropriate committees of the Congress a financial management status report and a government wide 5-year financial management plan. And the financial report mentioned should include 5 parts: A) a description and analysis of the status of financial management in the executive branch. B) a summary of the most recently completed financial statements of federal agencies and government corporations. C) a summary of the most recently completed financial statement audits and reports of federal agencies and Government corporations. D) a summary of reports on internal accounting and administrative control systems submitted to the President and the Congress under the amendments made by the Federal Managers' Financial Integrity Act of 1982. E) any other information the Director considers appropriate to fully inform the Congress regarding the financial management of the Federal Government³.

And the GASB Statement 34 makes rules about how state-government Comprehensive Financial Report should be. A typical Comprehensive Financial Report would include three parts: A) Introductory section, which is from statement of the

³ See CFO Act Title III, Sec. 301.

state controller, certificate of achievement for excellence in financial reporting, principal official and organization chart of the state. B) financial section, which is the main part of the report. It usually formed with basic financial statements, required supplementary information, combining financial statements and schedules – nonmajor and other funds. And C) statistical section, which is detailed statistical numbers about financial trends for the past decade, revenue capacity, debt capacity, demographic and economic information, and operating information.

UK government produce the Whole of Government Account (WGA) every fiscal year, which is close to Comprehensive Financial Report. The Whole of Government Accounts consolidates the audited accounts of around 4,000 organizations across the public sector in order to produce a comprehensive, accounts-based picture of the financial position of the UK public sector⁴. In the WGA, there are 8 Chapters: A) foreword. B) performance report, is about government's revenue, expenditure, and financial position – assets and liabilities. C) comparison to national accounts. D) statement of accounting officer's responsibilities. E) governance statement, including statement like scope of Accounting Officer's responsibility, the WGA governance framework, HM Treasury's role in managing financial risk, etc.. F) remuneration report. G) whole of government accounts has 5 tables, which are Consolidated Statement of Revenue and Expenditure, Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Taxpayers' Equity, Consolidated Cash Flow Statement. H) certificate and report of the comptroller and auditor general. And there are also some annexes about entities consolidated in WGA, and entities not consolidated in WGA.

From what are consolidated in a Comprehensive Financial Report in the USA and UK, we could easily get most of government-wide information, which is required by the IMF, OECD, etc. for fiscal transparency. And most of all, the information are combined in one report and updated on the website handily and timely.

In China, according to the Reform Scheme Of Government Comprehensive Financial Report On Accrual Basis (Guo Fa [2014]63), the directing method for how to organize a Comprehensive Financial Report would be completed before the end of 2015, in 2016 and 2017 the text would be carried out in some pilot areas. For now, the Comprehensive Financial Report would include four part: A) the government financial statements, including balance sheet and revenue-expenditure statement. B) notes to the government financial statements, explains how the financial statements are formed, and some other important but excluded matters. C) government financial and economic state report, is to analyze the economic state, operating state and long-term sustainability of the government, by combing the government financial statements and national economic state. And D) government financial management

report, which is about the requirements, measures and achievements of government financial management.

Comparing what are included in a Comprehensive Financial Report of the USA, UK and China, government revenue, expenditure and financial state are the indispensable parts in the report. However, some parts are missed in China: firstly, relevant departments' responsibilities and accountabilities. Secondly, the internal and external supervision and oversight scheme. Thirdly, audit statement. Those three parts above, which are defined as important elements of fiscal transparency.

IV. CONCLUSION

In the past decades, Chinese governments of all levels haven't tried Comprehensive Financial Report. Even the government budget report system is still waiting to be improve to let the public get more fiscal information so as to enhance the fiscal transparency. And the opacity in fiscal information in China has caused many harmful consequences, such as waste of public resources, corruption, public's distrust in public sectors.

However, in Comprehensive Financial Report reform, we could change the reality and improve fiscal transparency by disclose more information to the public. The ideal way is to establish a mutual improving scheme of Comprehensive Financial Report and fiscal transparency: the Comprehensive Financial Report could supply more governmental information to the public hence to improve fiscal transparency, and the urgency of improving fiscal transparency could direct Comprehensive Financial Report about what should be included in the report, hence made the Comprehensive Financial Report reform more targeted and more directed.

Firstly, information should be included in the Comprehensive Financial Report. A) Basic public sectors' information, like functions, responsibilities, staffs, about public sectors and corporations engaged in semi-fiscal activities, which are basic information to judge whether the entity is running legally and properly. B) Budget report, including at least quarter-report, year-report, mid-term report from each budget department and the general government, which are statements for how the public funding is flowing throughout the country. C) Performance report, which is about the results of the public funding, whether the funding has achieve the targets planned at beginning. D) Audit report, which is done by neutral agency to enhance the reliability of all the information opened. E) Detailed numbers for the past a few years, including balance sheet, cash flow statement, public sector budget table/final table, mid-term budget table, etc.. And those are the least requirement for improving fiscal transparency.

Secondly, all those opened information should be easy to get, which means they should be opened and updated timely. And it's better to update the information from all relative sectors on one specific website and on public medias at the same time.

Thirdly, a set of indicators and furthermore an internationally comparable index should be formulated to quantify to what extent the fiscal transparency is in China, so

⁴ Quoted from UK government website:
<https://www.gov.uk/government/collections/whole-of-government-accounts>.

that we could improve fiscal transparency directed. This would also be an import research direction in the future.

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