



**Asia-Pacific
Economic Cooperation**

Advancing Free Trade
for Asia-Pacific **Prosperity**

APEC Economic Policy Report 2013



Promoting Fiscal Transparency
and Public Accountability

October 2013



**Asia-Pacific
Economic Cooperation**

2013 APEC ECONOMIC POLICY REPORT

Promoting Fiscal Transparency and Public Accountability

APEC Economic Committee

October 2013

NOTE:

The terms “national”, “nation” used in the text are for purposes of this report and do not imply the “political status” of any APEC member economy.

Printed by
APEC Secretariat
35 Heng Mui Keng Terrace Singapore 119616
Tel: (65) 6891 9600 Fax: (65) 6891 9690
Email: info@apec.org Website: www.apec.org

© 2013 APEC Secretariat

Printed October 2013

ISSN 0218-9763 APEC#213-EC-01.2

Preface

Structural reform is an integral part of Asia-Pacific Economic Cooperation's (APEC) efforts to promote higher quality growth in the Asia-Pacific region. The momentum towards structural reform in APEC started in 2004 with the adoption of the Leaders' Agenda to Implement Structural Reform (LAISR), which identified five priority areas including public sector governance. Building on the work in these priority areas, APEC's structural reform agenda was expanded beyond the LAISR's priority areas through the APEC New Strategy for Structural Reform (ANSSR) initiative launched in 2010.

Public sector governance has been a key element in a wide range of structural reform work undertaken by APEC over the last 10 years. It is widely recognized that good public sector governance enhances public service performance as well as long-term economic competitiveness and the economic environment.

Against this backdrop, this year's *APEC Economic Policy Report* (AEPR), the annual publication by the APEC Economic Committee (EC), focuses on a key aspect of good public sector governance—*Promoting Fiscal Transparency and Public Accountability*. Greater fiscal transparency helps to improve fiscal performance as well as public accountability and credibility, which can, in turn, create greater public support and foster more favorable access to domestic and international capital markets. The recent global financial crisis has, among other things, served to reinforce the importance of fiscal transparency and the contribution that it can make to good governance and ultimately to sustainable economic growth.

Following the tradition of previous years' AEPRs, the 2013 publication contains three chapters. The first chapter outlines the rationales for enhancing fiscal transparency and highlights the development of fiscal transparency performance in APEC economies as well as future challenges in promoting fiscal transparency and accountability. The second chapter describes the scope of fiscal transparency as well as the four principles established by the International Monetary Fund to ensure fiscal transparency: clarity of roles and responsibilities; open budget processes; public availability of fiscal information; and assurance of integrity. The third chapter reviews individual economies' fiscal institutions as well as their key initiatives and challenges in promoting fiscal transparency and accountability.

In light of the increase in fiscal deficits and public debt in the wake of the recent financial crisis, this comprehensive assessment of fiscal transparency and accountability can be used as an important resource for APEC economies as they look to further reform in areas that will promote fiscal sustainability and good public sector governance.

This AEPR has been a collaborative effort of all member economies, the APEC Secretariat, and the EC Chair's Office. I would like to extend special thanks to Chinese Taipei for contributing the first and third chapters, Indonesia for drafting the second chapter, and Member Economies for submitting individual reports on their experience on fiscal transparency and accountability.

Raymond F. Greene



Chair, APEC Economic Committee

**Document is designed for double-sided printing.
Blank pages have been deliberately included to allow correct pagination.**

CONTENTS

CHAPTER 1 FISCAL TRANSPARENCY AS A KEY TO PUBLIC ACCOUNTABILITY	1
I. Background.....	1
II. Why Is It Necessary to Enhance Fiscal Transparency?	5
III. Promoting Fiscal Transparency in APEC Economies.....	13
IV. Future Challenges in Promoting Fiscal Transparency and Accountability	19
CHAPTER 2 KEY ELEMENTS OF FISCAL TRANSPARENCY AND PUBLIC ACCOUNTABILITY	22
I. An Overview of the Scope of Fiscal Transparency	22
II. Clarity of Roles and Responsibilities	24
III. Open Budget Processes.....	30
IV. Public Availability of Fiscal Information	32
V. Assurance of Integrity.....	35
CHAPTER 3 SUMMARY OF INDIVIDUAL ECONOMY REPORTS.....	39
I. Fiscal Institutions of the Central Government.....	39
II. Assessing Fiscal Transparency and Accountability.....	40
III. Common Achievements and Challenges	44
IV. Priorities for Future Reform.....	45

NOTE:

The terms “national”, “nation” used in the text are for purposes of this report and do not imply the “political status” of any APEC member economy.

Annex 3-1: Individual Economy Reports

AUSTRALIA	49
BRUNEI DARUSSALAM	57
CANADA	64
CHILE	74
HONG KONG, CHINA	84
INDONESIA	90
JAPAN	99
REPUBLIC OF KOREA	107
MALAYSIA	115
MEXICO	122
NEW ZEALAND	137
PERU	145
THE PHILIPPINES	151
RUSSIA	163
SINGAPORE	166
CHINESE TAIPEI	173
THAILAND	184
UNITED STATES	192
VIET NAM	202

Chapter 1

Fiscal Transparency as a Key to Public Accountability

I. Background

In 2011, as the progress of the Asia-Pacific Economic Cooperation (APEC) structural reform efforts entered the new 2011-2015 phase, the Public Sector Governance “Friends of the Chair” (PSG FotC) group of the Economic Committee (EC) was mandated to conduct activities in five priority areas¹ to help implement the growth strategy of APEC Leaders and the APEC New Strategy for Structural Reform (ANSSR) initiative. Among these priority areas, enhancing fiscal transparency and public accountability has received considerable attention by Member Economies. Therefore, the PSG FotC group has focused intensively on fiscal transparency and accountability and engaged in numerous related activities.

This report provides a summary of the key insights and innovative practices that economies shared in the related activities implemented by the PSG FotC group in EC to promote the importance of fiscal transparency and accountability in good governance and structural reform. Chapter 1 is divided into four sections, beginning with a discussion on the definition of fiscal transparency. It then outlines rationales for enhancing fiscal transparency, and highlights the development of fiscal transparency performance in APEC economies. The chapter concludes with a brief description of future challenges in promoting fiscal transparency and accountability.

1. Definition of Fiscal Transparency

“Broadly defined, government transparency is the overall degree to which citizens, the media, and financial markets can observe the government’s strategies, its actions, and the resulting outcomes...one important aspect of transparency [is] fiscal (or budget) transparency.”²

Government transparency refers to the disclosure of all governmental activities, records, and policy intentions in an easily understandable and freely accessible manner. From a micro perspective, it uncovers corruptions within the governmental system. From a macro perspective, transparency improves administrative performance, increases public trust, and enhances the legitimacy of public policies.

¹ The Public Sector Governance FotC group focuses on five priority areas, including: (1) strengthening public administration for the future; (2) improving public service quality; (3) leveraging information and communications technology to strengthen public sector governance; (4) enhancing fiscal transparency and public accountability; and (5) strengthening trust, integrity, and ethics.

² J. E. Alt, D. D. Lassen, & S. Rose, 2005. *The Causes of Fiscal Transparency: Evidence from the American States*. Washington, DC, International Monetary Fund (IMF), p.1.

Government transparency involves various dimensions. Among them, fiscal transparency is highly valued by taxpayers because budgetary and fiscal policies not only address decisions on how much revenue to raise but also how to organize public expenditure, which affects the national economy and public life, in addition to fiscal sustainability for future generations.

Considering the importance of fiscal transparency, both academia and international organizations have devoted great efforts to its study. Several definitions of fiscal transparency can be found in the literature, but they mostly differ only in minor aspects.

A working definition that is popular among scholars states that fiscal transparency is *“...the openness towards 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 ... 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.”*³

According to the aforementioned academic definition, fiscal transparency is a state of governance that entails the full disclosure of budgetary and fiscal activities. However, budgetary and fiscal activities are usually too complex for the public to understand. Most people possess little knowledge or insufficient time to fully understand the impacts of fiscal decisions, or to discern correct information from incorrect information. Therefore, to achieve true transparency, the government is obliged to build mechanisms and institutions that help citizens reduce the transaction costs of staying informed, including the costs of acquiring and understanding timely and reliable information.

Another popular definition provided by international organizations is that of the International Monetary Fund (IMF) website, which defines fiscal transparency as follows—*“Fiscal transparency entails being open to the public about the government’s past, present, and future fiscal activities, and about the structure and functions of government that determine fiscal policies and outcomes. Such transparency fosters better-informed public debate, as well as greater government accountability and credibility.”*⁴

The IMF definition implies that the objective of fiscal transparency is to foster a better-informed public such that society can trust public officials or governments who form fiscal policies and implement budgetary programs, or hold them accountable for the outcome of their actions.

Fiscal transparency has recently drawn considerable attention because of the growing problems associated with government failure, primarily related to the lack of public accountability. A government that aims to achieve transparency must disclose complex and technical fiscal documents and data to facilitate informing the public, and ensure that the public has the power and means to reward or punish public officials, to motivate or enforce officials and organizations to adopt policy measures that meet citizen needs.

³ G. Kopits & J. Craig, 1998. *Transparency in Government Operations*, Washington DC: IMF, p.1.

⁴ IMF, 2013. Available at: <http://www.imf.org/external/np/exr/facts/pdf/fiscal.pdf> [Accessed May 9, 2013].

The next section of this chapter presents a discussion on the relationship between fiscal transparency and accountability.

The conceptual definition of fiscal transparency from the IMF is largely qualitative and makes the measurement or quantification of the level of fiscal transparency a challenging task. Researchers have frequently proposed indices to measure the degree of fiscal transparency, which typically aim at capturing various dimensions of fiscal transparency identified in previous studies or international guiding principles. A common dimension involves the timely provision of comprehensive information on government policy intentions and operations, such as regularly published fiscal reports and medium-term budgeting and analyses that contain information on the general government and quasi-fiscal activities. Another popular dimension addresses institutional arrangements that encompass an open process for managing fiscal activities and an auditing mechanism for assuring the integrity of fiscal information. Chapter 2 of this report presents a detailed discussion of the various dimensions of fiscal transparency.

2. Linkages between Fiscal Transparency and Public Accountability

Since the concept of New Public Management gained prominence in the 1990s, governments worldwide have come to believe that public accountability leads to good governance.

In exploring the notion of public accountability, it is common to employ “agency theory” to illustrate the accountability relationship between a government and its citizens. Under this theory, a democratic society is built upon the agency relationship between citizens and the government, meaning that the government serves as an agent and citizens are the principal. Citizens choose the government through an election process, and the government acts as an agent to allocate public resources created by tax collection from citizens. Therefore, the government that serves as an agent is expected to appropriately allocate budgetary resources and implement policies to meet citizen needs. Citizens review the outcomes of resource allocation and the performance of fiscal management and decide whether to extend or lift the principal-agency relationship through the next election. Under the described public accountability, elections are the most powerful tool to achieve accountability in a democratic society.

However, using an election successfully to achieve public accountability requires informing voters of government policies and activities. Effective accountability is built on the assumption that both citizens and the government have equal access to information. Under the conventional principal-agent relationship, citizens and the government do not necessarily share the same goals, and the government has abundant incentives to conceal information from the public.

Government officials may aim at maximizing the discretionary budgets of their agencies, or try to earn votes by engaging in fiscally irresponsible logrolling politics, whereas the goal of citizens is to implement policies that achieve efficient and equitable allocations of public resources. Under these circumstances, public officials tend to focus on pursuing their own interests and pay little attention to the needs of the electorate. Because of information asymmetry between the principal and the agent, the public (principal) has insufficient information to judge whether to give vote of no confidence to the

government. However, by deception or hiding vital information, the government can avoid losing support or being punished.

Such moral hazard typically occurs in principal-agent relationships. If the government does not require or strictly enforce fiscal transparency, government officials may deliberately deceive the public and sacrifice public interests in exchange for private benefits by leveraging information asymmetry. Interest groups may have no choice but to bribe officials to gain more privileges or public resources. Without information accessibility to the public and transparency, corrupt practices cannot be disclosed or ended.

In order to enhance public interests and to hold the government more accountable, numerous studies have focused on this issue and concluded that fiscal transparency strengthens fiscal disciplines, lowers government debts, and generates fiscal sustainability.⁵ Greater fiscal transparency is expected to effectively reduce government malpractice, particularly in the area of fighting corruption. If the government is obligated to fully disclose fiscal information, government misconduct such as corruption and bribery can be prevented or reduced. This is the exact definition of public accountability; public officials and organizations are answerable for their actions and an opportunity exists for redress when public duties and commitments are not met.

Public accountability cannot be achieved if citizens lack free access and good understanding of relevant information. The World Bank once warned of the consequences of such information asymmetry and indicated that transparency is the key to overcoming public accountability crises and to ensure congruency of the government and citizens.

The right to fiscal information allows citizens to clearly examine policy outcomes, accurately assess the ability of elected officials, and avoid problems resulting from adverse selection. Consequently, citizens motivate elected officials and their subordinates to be more attentive to balancing public needs and overall fiscal discipline.

Fiscal transparency is full disclosure of all relevant processes and organizations concerning government budget information and fiscal policies, to give the “right to know” of fiscal information back to citizens. Free access to fiscal information eliminates malpractice and generates preferable outcomes in making and implementing budgetary and fiscal policies.

In summary, by helping voters stay informed, fiscal transparency pushes the government to share the same goal with citizens, because only elected officials who respond to citizen needs can win the next election. Therefore, fiscal transparency and public accountability are mutually reinforcing in that fiscal transparency is a necessary condition for achieving public accountability. Without fiscal transparency, holding the government and public officials accountable for budgetary and fiscal activities is unlikely.

⁵ Please see J. E. Alt & D. D. Lassen, 2006. *Fiscal Transparency, Political Parties, and Debt in OECD Countries*, *European Economic Review*, 8, 50(6), pp. 1403-1439; M. Marcel & M. Tokman, 2002. *Building a Consensus for Fiscal Reform: The Chilean Case*. *OECD Journal on Budgeting*; and J. M. Poterba & J. V. Hagen, 1999. *Fiscal Institutions and Fiscal Performance*. Chicago, The University of Chicago Press.

Although fiscal transparency is a prerequisite for public accountability, it does not always generate accountability. The empirical evidence of the effect of transparency on accountability is not as strong as expected⁶ because answerability without consequences falls short of accountability.⁷ If there is full disclosure of fiscal information and taxpayers know the exact level of government performance but have no power or tools to punish or reward the government, the impact of fiscal transparency will be limited. It means fiscal transparency is a necessary but not sufficient condition for public accountability. To ensure the realization of accountability, institutional arrangements which ensure answerability with consequences are required to support fiscal transparency.

Effective accountability institutions include free elections, governing regimes with appropriate checks and balances, independent social media, and a strong civic society. Only with these institutional arrangements in place can the linkage between fiscal transparency and accountability be sufficiently strong to empower citizens to change the behavior of public officials by holding them answerable and accountable in the glare of the public eye.

II. Why Is It Necessary to Enhance Fiscal Transparency?

Fiscal transparency is not a new concept, but it has received increasing attention in the aftermath of the global financial crisis of the 1990s. The fiscal deficits and public debt in numerous nations have increased considerably in the wake of the financial crisis, leaving a risky and unsustainable fiscal environment. In this context, numerous governments have been forced to rebuild a sound financial management system that includes greater transparency in the various phases of budget preparation, execution, monitoring, and auditing. International organizations, such as the IMF, the Organization for Economic Co-operation and Development (OECD), have devoted themselves to promoting fiscal transparency. For instance, the IMF published the “Codes of Good Practices on Fiscal Transparency” in 1998, and the OECD developed the “Best Practices for Budget Transparency” in 2000. These well-received documents were published in the aftermath of the Latin American and Asian crises.

The following section presents a discussion of three major factors contributing to the recent global movement in fiscal transparency, including the global financial crises since the 1990s, the need to establish a sound fiscal management system, and international initiatives taken by influential organizations.

1. Worldwide Financial Crises since the 1990s

The financial crises that occurred in the 1990s, including the Latin American Crisis in 1994 and the Asian Financial Crisis beginning in 1997, significantly impacted the global market and highlighted the concept of fiscal transparency to a certain extent. A low degree of fiscal transparency is believed to be one of the causes of financial turmoil in these economies.

⁶ J. A. Fox, 2007. The Uncertain Relationship between Transparency and Accountability. *Development in Practice*, 1 August, pp. 664.

⁷ J. A. Fox, 2007. op. cit., p. 668.

Financial crises refer to a government debt crisis and national economic instability and insecurity caused by a banking system crisis. A high probability of financial crisis exists when citizens' right to information is unprotected.

Taking public debt crisis as an example, fiscal illusion theory suggests that a public that does not correctly perceive the overall fiscal condition of the government is unable to monitor, reward, or punish officials in a timely manner through the voting mechanism. Consequently, long-term fiscal imbalances or credit bankruptcy may occur.

Similarly, a low degree of information transparency within the banking sector can cause insecurity and trigger a crisis. Lack of transparency within the banking system implies information asymmetry between financial regulators and the banks that they supervise; therefore, government supervision of the banking system is weak, which may result in a failure to maintain a healthy banking sector. Furthermore, when financial difficulty occurs in the banking system, the government is often expected to provide loans or bailouts; consequently, moral hazard emerges gradually in the banking sector, increasing the difficulty of resolving public accountability issues.

The financial crises in recent decades have been a driving force for APEC Member Economies and other nations to actively promote fiscal transparency. In this section, we provide insight into the major financial crises occurred since the 1990s from the fiscal transparency viewpoint.

(1) Latin American Currency Crises in the 1990s

Beginning in the 1970s, currency crises frequently occurred in Mexico and Argentina. In the 1990s, financial and currency problems continued to surface, resulting from unstable economic and political systems in Central and South America.

Mexico witnessed high economic growth and experienced the so-called "Mexican miracle" during the 1990 to 1994 period because of the Brady Plan⁸ articulated in 1989, the North American Free Trade Agreement (NAFTA) initiated in 1993, and a fixed exchange rate system. However, the fixed exchange rate system eventually caused peso overvaluation, and the trade deficit widened and foreign reserves fell sharply.

In December 1994, the Mexican government decided to devalue the peso, which was later referred to as the "December Mistake" or the "Tequila Effect." The sudden devaluation of the peso cost foreign investors great loss and triggered fears of default. Mexico also experienced a large-scale account deficit, lax banking or corrupt practices, and unstable political disturbances. Consequently, the Mexican peso crisis quickly became a financial crisis which spread to other Latin American economies. Argentina and Brazil were affected heavily, with a sharp decline in investment spending and a loss of confidence in the banking sector.

The United States quickly intervened by buying pesos in the open market and granting loan guarantees. By 1996, the currency crisis in the region had ended.

⁸ The Brady Plan, the principles of which were first articulated by U.S. Treasury Secretary Nicholas F. Brady in March 1989, was designed to address Latin America's debt crisis of the 1980s.

(2) *Asian Financial Crisis of 1997*

Prior to 1997, Asian economies, particularly those in Southeast Asia, had attracted considerable foreign investments because of cheap labor, high savings rates, and substantial economic development. American and European economies thus referred to these economies as “Asian Tigers.” These Asian nations were notable for maintaining exceptionally high economic growth.

However, an Asian financial crisis that affected much of Asia occurred in July 1997. The crisis started in Thailand with the financial collapse of the Thai baht. Facing a large long-term trade deficit and drops in its foreign reserves, the Thailand government was forced to float the currency. However, the devaluation of the Thai baht quickly turned into a financial crisis, which posed a severe impact to Hong Kong, China; Indonesia; Korea; and Malaysia, and raised fears of a global economic recession caused by financial contagion.

Many factors played a role in the occurrence of the Asian financial crisis. The moral hazard problem in international lending is certainly a serious one that cannot be properly addressed without greater fiscal transparency.

Transparency, which was often lacking in Asian economies, is a functional requirement of a successful market. Compared with the principles of fiscal transparency in the Anglo-Saxon model of capitalism, the so-called “Asian capitalism” is more relational, based on expansive family and ethnic networks, and regional ties. This absence of transparency represents a fundamental flaw in Asian capitalism and is one of the major reasons for the Asian financial crisis of 1997.⁹

The term “crony capitalism” has been used to describe Asian capitalism following the Asian financial crisis of 1997. Crony capitalism in this context refers to the model in which business success relies on the close relationship with government officials. Prior to the outbreak of the 1997 Asian financial crisis, opaque practices such as favoritism in granting governmental subsidies and legal permits, implicit government guarantees that helped to underwrite highly risky and unpromising investments, and dubious transactions such as direct loans from foreign banks to companies controlled by powerful politicians, were common in certain Asian economies.¹⁰ Crony capitalism practices and lack of fiscal transparency in some economies, combined with other factors, eventually resulted in a financial-system collapse in the region.

(3) *United States Subprime Mortgage Crisis of 2008-2009*

Numerous economists have considered the United States’ subprime mortgage crisis that occurred in 2008 to be the worst financial crisis since the Great Depression of the 1930s. Wall Street bankers sold bundled derivative financial instruments, originally aimed at reducing risks. The crisis erupted primarily because these financial instruments became too complex, opaque, and risky. For example, collateralized debt obligations (CDOs) were used to collect corporate bonds to lower default risk. However, derivative

⁹ G. Rodan, 2010. Asian Crisis, Transparency and the International Media in Singapore. *The Pacific Review*, 26 November, p. 218.

¹⁰ P. Krugman, 2009. *The Return of Depression Economics and the Crisis of 2008*. New York: W. W. Norton & Company, Inc., pp.120-121.

financial instruments became so complex that even government financial regulators could not clarify how these instruments worked. Such a phenomenon eventually triggered a disastrous financial crisis.¹¹

According to official documents reviewing the United States subprime mortgage crisis released by the Central Bank of Chinese Taipei, most derivative financial instruments sold in the financial market were traded through agreements signed privately between buyers and sellers. Although these products were highly customizable and flexible, a low degree of transparency made it difficult to see total exposure, exposure concentration, and the true values of contracts. Hence, when a substantial shock hit the financial market, a lack of transparency regarding the underlying exposure of financial institutes led to psychological self-defensive reactions and distrust among counterparts, which consequently triggered systemic risk, collapsing the entire financial system.¹²

The United States' subprime mortgage crisis has shown that a lack of information transparency in financial institutions prevents the market from knowing the actual financial conditions of these institutions. When information is not fully disclosed, investors are unable to correctly perceive financial risks, or have the opportunity to take precautionary measures or adjustments. Hence, to prevent financial crisis recurrence, bridging the information gap and reducing information asymmetry between financial regulators and financial institutes is necessary.

(4) *European Sovereign Debt Crisis Since 2010*

Beginning in early 2010, the Eurozone has faced a severe sovereign debt crisis, which poses enormous threats to global economic stability. Several Eurozone nations, including Greece, Ireland, and Portugal, have accumulated unsustainable levels of government debt. Among them, the opaque accounting practices of the Greek government have been a major cause of this debt crisis.¹³

According to the Maastricht Treaty, to enter the third stage of the Economic and Monetary Union (EMU) and adopt the Euro as their currencies, member states of the European Union (EU) are required to comply with the "deficit criterion" and "debt criterion" specified in the Treaty. Because the Greek government has experienced severe long-term public debt, to join the EMU successfully, the government resorted to creative accounting practices. Specifically, Wall Street bankers devised a type of cross-currency swap to help the Greek government hide the true extent of their loans and to mask the facts concerning their national debt, to successfully enter the Eurozone.¹⁴

However, the global financial tsunami caused by the United States' subprime mortgage crisis in 2008 had begun to weaken investor confidence worldwide. When it was later

¹¹ A. Greenspan, 2008. *The Age of Turbulence: Adventures in a New World*. Reprint edition. New York: The Penguin Group, p. 524.

¹² Central Bank of China, 2009. *The Report on Global Financial Crisis*. Taipei: CBC, pp. 192-193.

¹³ The International Federation of Accountants has attributed the escalating sovereign debt crisis in the Eurozone, particularly in Greece, to opaque government accounting and has called for greater transparency in financial management. Please see ET Bureau, 2010. *The Economic Times*. Available at: http://articles.economicstimes.indiatimes.com/2010-05-12/news/28384932_1_transparency-greece-eurozone [Accessed May 9, 2013].

¹⁴ D. Case, 2011. Greece's Debt Crisis: Not Over Yet. *Global Post: American World News Site*. Available at: <http://www.globalpost.com/dispatch/news/regions/europe/110629/greece-debt-crisis-Goldman-Sachs-US-Europe-banks?page=0,1>, [Accessed April 10, 2013].

revealed that Greece had falsified financial data to hide its debt, this opaque accounting practice further increased Greek borrowing costs. By 2010, Greece faced a debt default risk which consequently created a snowball debt effect in the Eurozone.

The Greek government's default risk was not the only cause of the European sovereign debt crisis; demographic factors and social changes also played critical roles. European economies are known for their munificent social welfare programs. Baby boomers, born between 1946 and 1964, have begun to reach retirement age after 2010 and are beginning to claim lucrative pensions, exerting a direct influence on the fiscal condition of each European economy, and sharply increasing government debt.

Sluggish economic growth is another contributing factor in the European debt crisis. In a globalized world, as capital and labor forces are able to move freely, factories tend to migrate to regions with relatively low labor costs. Because labor costs in Eurozone nations are typically higher than in other regions, Eurozone nations have recently witnessed soaring unemployment rates. High unemployment rates have lowered tax revenues and raised public expenditure on unemployment benefits. Debt burden and the future fiscal outlook in European economies have worsened considerably, and the Eurozone debt crisis has not been fully resolved.

The European sovereign debt crisis has demonstrated that a low degree of fiscal transparency can cause financial crises and economic downturns. Governments facing ever-growing demand from citizens and a continually worsening fiscal outlook have no choice but to establish information transparency to prevent further financial crises generated by asymmetric information and fiscal opacity.

2. The Need for a Sound Fiscal Management System

A sound fiscal management system is characterized by fiscal transparency. Fiscal transparency generates positive effects on fiscal performance such as improving efficiency and the equity of budgetary resource allocation, controlling the annual budget deficit, reducing government debt, and creating a sustainable fiscal environment.

In contrast, a lack of transparency is detrimental to sound financial management and creates a haven for corruption in tax administration and public procurement. The corruption of tax officials is a severe problem in many less developed economies. Corrupt tax officials collude with those who try to evade taxes. Tax officials who fail to report such illegal practices in return for bribes severely erode the tax base and destroy the principle of fairness and justice in tax administration.

Public procurement, which is estimated to account for a minimum of 15 percent of GDP in many nations¹⁵ is another hotbed for corruption. Numerous businessmen have admitted that in certain markets, bribery is simply "a normal way" of doing business.¹⁶ However, left unchecked, corrupt practices in public procurement distort free markets and undermine public trust in the government and institutions, thus harming national competitiveness and economic development.

¹⁵ OECD, 2007. *Bribery in Public Procurement: Methods, Actors and Counter-Measures*. Paris: OECD Publishing., p. 9.

¹⁶ OECD, 2007. op. cit., p. 12.

Publicity and openness are crucial for combating corruption in tax collection, public procurement, and other fiscal management practices. Publicized and transparent procedures in the financial management system allow stakeholders to scrutinize the decisions and behaviors of public officials and force them to refrain from illegal activities.

Non-transparency breeds corruption and damages fiscal sustainability. Fiscal illusion theory suggests that when taxpayers cannot fully perceive the transparency or cost of a government program, the cost of the program is often seen to be less expensive than it actually is, such that taxpayers' demand for public spending increases. Non-transparency deteriorates fiscal sustainability by reinforcing the fiscal illusion of taxpayers. Citizens are accustomed to government spending and expect the government to continue to increase expenditures on public infrastructure and social welfare, with little consideration for fiscal sustainability. Elected officials who are only focused on winning the next election are likely to promote policies to satisfy electorate needs. Unless the government is legally forced to disclose readable and reliable fiscal information, the fiscal illusion and the endless desires of citizens cannot be effectively curbed.

3. International Initiatives

Fiscal transparency principles established by international organizations often serve as standards or benchmarks for economies to review and examine their own degree of fiscal transparency. In this section, we present a brief summary of the recent endeavors of the IMF, the OECD, the International Budget Partnership (IBP), and other international organizations in promoting transparency. The efforts by APEC members are discussed in the next section.

(1) International Monetary Fund

The IMF was one of the first international organizations to publish objective fiscal transparency standards. Following the Mexican and Asian financial crises of the 1990s, economies worldwide began to focus attention on fiscal transparency. "The Code of Good Practices on Fiscal Transparency: Declaration and Principles" (hereinafter referred to as "the Code") released by the IMF in 1998 attempted to promote the fiscal transparency assessment of individual economies, draw up improvement plans, and establish a solid fiscal environment. The Code was revised twice, in 2001 and 2007, to better reflect new developments in public sector accounting and auditing standards and other emerging issues in public financial management. The "Manual on Fiscal Transparency" was also released with the Code to serve as a detailed guideline for economies to follow.

The Code is based on four general principles (or four pillars), briefly stated as follows. Chapter 2 of this Report will give a more detailed description of each principle.

a. Clarity of roles and responsibility

The first pillar identifies those entities that conduct government functions, and discusses best practices related to government structure and functions, the role of executive, legislative, and judicial branches, the responsibilities of various levels of

government, the relationship between government and state-owned businesses, and governmental involvement in the private sector.

b. Open budget processes

The second pillar of the Code covers practices on transparent budget preparation, execution, and monitoring. The Code suggests that budget preparation be guided by well-defined macroeconomic and fiscal-policy objectives, and emphasizes the importance of establishing clear procedures for budget execution, monitoring, and reporting.

c. Public availability of fiscal information

The third pillar suggests that governments provide the public with timely and comprehensive information on past, current, and projected fiscal activities and on major fiscal risks. The information should be presented in a manner that facilitates policy analysis and promotes accountability.

d. Assurances of integrity and public accountability

The Code requires that fiscal information meet acceptable quality standards. Its fourth pillar addresses ensuring fiscal data integrity and the need for an effective internal auditing and external oversight.

(2) Organization for Economic Co-operation and Development

Similarly to the Code, the “OECD Best Practices for Budget Transparency” (hereinafter referred to as “Best Practices”) released by the OECD in 2001, has also aroused considerable worldwide attention. The Best Practices consist of three parts: (a) Budget report: Part 1 lists all the primary fiscal reports that the government should publish and their general content; (b) Specific disclosures: Part 2 describes specific fiscal information that must supplement the general content of fiscal reports, including economic assumptions, tax expenditures, financial liabilities and financial assets, employee pension obligations, and contingent liabilities; (c) Integrity, control, and accountability: Part 3 highlights best practices for ensuring the quality and integrity of fiscal information, including accounting systems, parliamentary monitoring, institution auditing, and public scrutiny.

(3) International Budget Partnership¹⁷

In addition to the IMF and the OECD, the IBP also emphasizes promoting budget transparency. Collaborating with the worldwide civil society, the IBP aims to influence budget systems and fiscal policies to ensure that public budgets are more responsive to society, and to accordingly make budget systems more open, transparent, and accountable to the people to reduce poverty, fight corruption, and achieve good governance.

¹⁷ IBP, 2010. *International Budget Partnership*. Available at: <http://internationalbudget.org/what-we-do/major-ibp-initiatives/open-budget-initiative/> [Accessed April 28, 2013].

The IBP has conducted the Open Budget Survey biennially since 2006, and has completed its fourth round of the Survey in 2012. The survey assesses what occurs in practice in 100 partner economies, rather than what the law or regulation requires. The survey evaluates the contents and timely release of eight key budget documents in each nation, including the pre-budget statement, executive budget proposal (EBP), supporting documents for the EBP, enacted budget, citizens' budget, in-year reports, mid-year review, year-end report, and audit report. The IBP believes it is necessary to issue key budget documents at various phases of the budget process, regardless of their budget systems and national income levels.

The results of the 2012 Open Budget Survey are based on a 125-item questionnaire. The questionnaire is composed of five sections and is built primarily on criteria drawn from the IMF "Code of Good Practices on Fiscal Transparency," the OECD "Best Practices for Fiscal Transparency," and the International Organization of Supreme Audit Institutions' (INTOSAI's) "Lima Declaration of Guidelines on Auditing Precepts."¹⁸ The first three sections of the Survey assess the public availability and comprehensiveness of key budget reports throughout the budget process. Sections 4 and 5, which were newly added to the 2012 survey, measure the strength of legislature and supreme audit institutions in the nation, and civic engagement in the budget process.

(4) Other International Organizations

In addition to the fiscal transparency initiatives that are adopted and introduced globally, other international organizations strive to promote fiscal transparency by other means than creating a set of fiscal transparency-focused standards or principles. For example, Oxford Analytica, as commissioned by the IMF, releases fiscal transparency reports of each economy based on IMF standards. These reports serve as a major database to evaluate the degree of fiscal transparency of an economy and a platform for economies to share and learn from each other.

INTOSAI is an independent, non-governmental organization aimed to enhance government audit capabilities and promote experience-sharing among Member Economies to assist governments in improving audit efficiency. Through launching the Project on Transparency and Accountability and exchanges among Member Economies, INTOSAI has established a set of principles—the Principles of Transparency and Accountability—to guide supreme audit institutions in each economy to promote individual government transparency and accountability through external audits.

The Extractive Industries Transparency Initiative (EITI) is another international non-profit organization that actively promotes fiscal transparency. The organization was founded to prevent corruption and conflicts during the natural resource extraction process and to ensure that natural resource extraction brings beneficial results to help local communities achieve sustainable development and reduced poverty. Members of the EITI include governments and corporations (such as the mining industry and oil companies), and civic groups. The EITI focuses on information disclosure and

¹⁸ INTOSAI was founded in 1953 and currently has a membership of 180 supreme auditing institutions. It adopted the "Lima Declaration of Guidelines on Auditing Precepts" in 1977, which provided the conceptual, philosophical and practical framework for INTOSAI's work. Additional information is available at: <http://www.10iacc.org/content-ns.phtml?documents=102&art=176> [Accessed May 1, 2013].

transparency over resource extraction by governments or related companies. The organization believes that the public has the right to know and should be aware of the revenues and expenditures of such resource extraction activities.

Transparency International is a global, non-official organization focused on fighting government corruption and actively pursuing fiscal transparency. A similar non-governmental organization is the Corruption Perceptions Index (CPI) of the United States. The CPI has played a critical role in enhancing fiscal transparency by conducting numerous surveys on United States government institutions, which assess fiscal information disclosure.

The International Federation of Accountants (IFAC) is an international organization providing accounting and auditing standards. Because government accounting policies, such as formats and standards of fiscal reports and the classification and index of fiscal projects, serve as prerequisites to fiscal transparency and have considerable influence on fiscal information reliability, the activities that the IFAC promotes are closely linked with fiscal transparency.

The World Bank Group (WBG) focuses on fostering economic development in less developed economies; however, gaining a comprehensive understanding of the fiscal environment and the fiscal soundness of an economy necessitates information on government transparency, investment transparency, and anti-corruption. Such information is collected and presented on the WBG website, which also aims to facilitate experience-sharing.

A primary objective of the Asian Development Bank is to enhance fiscal and economic development in the Asian region. Therefore, the organization encourages public sectors in individual economies to enhance revenue information disclosure and transparency to fight corruption and build a sound fiscal environment.

III. Promoting Fiscal Transparency in APEC Economies

Similar to other international organizations, APEC endeavors to promote fiscal transparency and foster accountability in both emerging markets and advanced economies. In the following section, we briefly summarize its endeavors and accomplishments.

1. Historical Review on Dialogues and Efforts to Promote Fiscal

Transparency

The 1994 APEC Economic Leaders' Meeting was held in Bogor, Indonesia. In the "Bogor Goals" issued at the end of the meeting, Leaders pledged to achieve free and open trade and investment in the Asia-Pacific region by 2010 for developed members and by 2020 for developing economies. The APEC Economic Leaders met in Osaka, Japan, in 1995 for the third time since the organization was created. The primary agenda was to initiate the mid- and long-term action agenda of the Bogor Goals, called the Osaka Action Agenda. In the agenda, the Leaders endorsed enhanced transparency as one of the crucial indicators of realizing the Bogor Goals.

In 1999, the Government Procurement Experts Group (GPEG) launched the “Non-Binding Principles on Government Procurement (NBPs)”. The NBPs stated that individual Member Economies should allow public access to government policy contexts, procurement schedules, procurement requirements, and criteria of tender to facilitate cross-economy procurement or enable Member Economies to learn from one another.

In the Shanghai Accord released in 2001, Leaders reaffirmed the determination of Member Economies to promote transparency. The Shanghai Accord was drafted based on the previously released APEC Trade Facilitation Principles, and primarily promoted trade-related policies to reduce trade costs and enhance cooperation efficiency among APEC economies.

General transparency principles were announced in the 2002 APEC ministerial meeting held in Mexico, and the Leaders’ Declaration of the meeting observed that transparency:¹⁹

- is a vital element in promoting economic growth and financial stability at the domestic and international levels;
- is conducive to fairer and more effective governance and improves public confidence in government;
- is a general principle in the Osaka Action Agenda, which requires its application to the entire APEC liberalization and facilitation process;
- is a basic principle underlying trade liberalization and facilitation;
- in monetary, financial, and fiscal policies, and in the dissemination of macroeconomic policy data, it ensures the accountability and integrity of central banks and financial agencies, and provides the public with needed economic, financial, and capital market data;
- is enhanced through well-targeted, demand-driven capacity building to assist developing economies to progress towards greater openness.

In 2003 and 2004, the general transparency principles were categorized into nine “Area-Specific Transparency Standards” according to various levels of trade policies. Furthermore, the general transparency principles have been included in annual reports of the Individual Action Plan since 2005. APEC initiated the “Trade Facilitation Action Plan” to lower trade costs among Member Economies, and in 2007, Member Economies began to promote transparency. However, during this period, Member Economies placed more value on trade policy-related transparency, including accessibility to tariff, export, and import data.

¹⁹ APEC, 2002. *Asia-Pacific Economic Cooperation Leaders’ Declarations*. Available at: http://www.apec.org/Meeting-Papers/Leaders-Declarations/2002/2002_aelm/statement_to_implement1.aspx [Accessed December 26, 2012].

The 19th APEC ministerial meeting held in Sydney, Australia promoted transparency as a key APEC principle fostering fiscal sustainability. APEC also encouraged Member Economies to adopt fiscal transparency standards launched by international organizations, such as IMF standards, and begin self-assessment. One of the most crucial and in-depth discussions on government transparency was the "Roundtable Discussion on Improving Public Sector Transparency: Good Practices and Reform Experience" held during the second APEC Economic Committee meeting, which took place in San Francisco in September 2011. The roundtable discussion was largely initiated because economies worldwide have acknowledged government transparency as a crucial factor to achieving good governance in the public sector. The event was organized by the "Friends of the Chair" group on public sector governance, hosted by Chinese Taipei. It is also the first policy discussion focusing on government transparency in EC since the establishment of APEC. The roundtable discussion was built on the outcomes generated by three previous workshops: Improving Public Consultations in the Rulemaking Process held in October 2009, Using Regulatory Impact Analysis (RIA) to Improve Transparency and Effectiveness in the Rulemaking Process, and Good Regulatory Practice, both held in March 2011. The aim of the discussion was to provide a platform for economies to exchange practices and experiences related to their improvements in public sector transparency. Canada, Indonesia, Japan, New Zealand, Russia, Chinese Taipei, Thailand, and the United States volunteered to present their experiences in the roundtable discussion. Each presentation centred on the following three parts: (a) brief presentations on current conditions concerning government transparency; (b) promoting government transparency, challenges, and experiences; and (c) future plans to persistently promote government transparency.

In the roundtable discussion, Hong Kong, China; Mexico; the Philippines; and Singapore, and the APEC Business Advisory Council also shared their practical experiences and provided innovative viewpoints. The roundtable discussion has generated fruitful results and raised economies' awareness of the importance of transparency and accountability of the public sector. Hence, fiscal transparency and public accountability were chosen after the discussion as the major theme for the *2013 APEC Economic Policy Report*.

The following table shows major APEC progress in promoting fiscal transparency. Table 1 and the previous progress review indicate that in the early stage, the transparency concept primarily focused on the disclosure of information involving trade policies, export and import data, and other free-trade related information. The current focus has shifted to disclosing public sector information, particularly fiscal and monetary-related information.

Table 1: APEC Progresses to Promote Fiscal Transparency

Year	Major Progresses
2004	<p>Leaders' statement to implement APEC transparency standards:</p> <ul style="list-style-type: none"> ▪ Transparency in monetary, financial, and fiscal policies and the dissemination of macroeconomic policy data. ▪ Three key standards focus on transparency: code of good practices on transparency in monetary and financial policies, code of good practices on fiscal policy, and general and special data dissemination standards.
2007	<p>Report on the assessment of APEC economies' implementation of APEC transparency standards:</p> <ul style="list-style-type: none"> ▪ APEC agreed to a set of templates to assess implementation of transparency standards in each economy. ▪ A total of 14 economies have submitted complete assessment reports, while six economies provided partial assessment reports.
2010	<p>Finance Ministers' Process (FMP):</p> <ul style="list-style-type: none"> ▪ One strategic goal of FMP: prudent public finance management. ▪ FMP also introduces project on promoting effective strategies to enhance fiscal sustainability and economic recovery, and the project has helped APEC economies to maintain mid- to long-term fiscal sustainability policies. <p>Finance Ministers' Meeting:</p> <ul style="list-style-type: none"> ▪ Ensure stable fiscal management and formulation of reliable and growth-oriented fiscal plans. ▪ Improve efficiency of public fiscal management through mid- and long-term budgetary plans. ▪ Ensure increasing social welfare expenditures on senior citizens will pose merely minor impacts on mid- and long-term fiscal sustainability.
May 2011	<p>"Key Trends and Developments Relating to Trade and Investment Measures and Their Impact on the APEC" released by APEC Policy Support Unit:</p> <ul style="list-style-type: none"> ▪ According to the IMF's Fiscal Monitor (FM), fiscal sustainability risks remain elevated in most advanced economies; while the fiscal outlook for emerging economies is more favorable. ▪ The FM asserts that advanced economies should start now to bring debt ratios to prudent levels. ▪ For emerging economies, the IMF's FM recommends that they use revenues to rebuild fiscal space rather than to increase spending. ▪ All economies should strengthen fiscal institutions and transparency.
September 2011	<p>Roundtable discussion on "Improving Public Sector Transparency: Good Practices and Reform Experiences" during the 2011 EC2 plenary meeting.</p>

Year	Major Progresses
November 2011	<p>APEC High Level Policy Dialogue on Open Governance and Economic Growth:</p> <ul style="list-style-type: none"> ▪ Re-affirm the importance to enhance public trust by combating corruption and by committing to transparent, fair, and accountable governance. ▪ Anti-Corruption and Transparency Experts' Working Group (ACTWG) aimed to uphold public integrity by developing principles related to financial asset disclosure. ACTWG was projected to report to Ministers on progress on these initiatives in 2012.
December 2011	<p>"Sovereign Debt Challenges in the Euro Area: Implications for APEC" released by APEC Policy Support Unit:</p> <ul style="list-style-type: none"> ▪ Legislating fiscal rules to reduce future budget uncertainty; ▪ Introducing multi-year budgeting frameworks; ▪ Adopting or strengthening an objective and independent fiscal assessment body to monitor the adherence to fiscal rules and promote the transparency of fiscal policy.
2013	<p>Selecting "Fiscal Transparency and Public Accountability" as the topic for 2013 AEPR.</p>

Source: APEC released data, compiled by Chinese Taipei.

2. Key Trends in Fiscal Transparency Development

In the roundtable discussion on improving public transparency held in San Francisco in September 2011, APEC members reported on efforts made to promote government transparency and shared their experiences on recent achievements. In the following paragraphs, we briefly summarize their efforts and the outcomes shared in the roundtable discussion.

The Canadian government is devoted to improving national fiscal sustainability. In addition to improving accountability and enacting laws to promote transparency and prevent political lobbying, the Canadian government has constructed a unified web platform characterized by Web 2.0 features to facilitate easy public access to government information.

The government of Indonesia began to promote information disclosure-related regulation, Keterbukaan Informasi Publik (KIP), in 2008. However, by September 2011, the promotion of government transparency received responses from only a few areas ruled by relatively open local governments. Several local governments founded the Transparency and Participation Commission, which helps local governments increase information transparency, and among them, the Lebak District has recorded the most substantial advances. However, the establishment of major institutions promoting transparency in other areas, such as the special region of Yogyakarta, has been based merely on announcements and executive orders issued by chief executives, and the operations of these institutions could be terminated by political turmoil. Therefore, one of the main obstacles in promoting government transparency in Indonesia is the absence of a unified law.

The Japanese government launched the Public Project Review in 2010 to allow the public to gain enhanced understanding of government resource allocation and work flows. The project is aimed to increase accountability and efficiency in the public sector.

The government of New Zealand has invested considerable efforts in enhancing government transparency. Since 2010, the government has released the Investment Statement of the Government of New Zealand, which shows all government assets, debts, and performance in detail. The Declaration on Open and Transparent Government published in 2011 requires government agencies to actively disclose high-quality information.

The Russian government has claimed that it would begin conducting a related modification of federal law to include government service disclosure (No 8-FZ and 210-FZ). Since 2010, the government has forced any government-related service information to be made public on the Internet. Additionally, local governments are required to establish a one-stop open information platform and release public service information on the Internet. According to statistics released by the government, the public now spends 65 percent less time on accessing public service because of the one-stop platform. What the government promotes is easy access to public services, rather than achieving information transparency. However, the government's move is a crucial milestone in the pursuit of government transparency.

The Freedom of Government Information Law enacted in 2005 in Chinese Taipei, elevates government transparency to the legislation level. In accordance with the law, government information should actively be made available to the public (i.e., active disclosure) or provided as requested by any person (i.e., passive disclosure). Active disclosure refers to the official release of information regarding administrative measures directly related to people's rights and interests, including administrative plans, budgets and audits, procurement documents, subsidies that are paid or accepted. Detailed information that the public is interested in and open information that is accessible to the public through application are categorized as passively disclosed information. The amount of information made accessible to the public by public agencies has exceeded the items prescribed in the Freedom of Government Information Law, and the disclosed information is frequently updated. Academic research groups commissioned by the government also conduct frequent reviews of government transparency. The government of Chinese Taipei readily acknowledges the importance of transparency.

The government of Thailand has been devoted to reducing corruption and has recently listed anti-corruption as a major objective of the economy. Private sector institutions, such as the Thai Bankers' Association (TBA) and the Stock Exchange of Thailand (SET) have also aggressively assisted the government in promoting anti-corruption. Anti-corruption in the Public Procurement Initiative is expected to be signed between the government and the private sector and all government agencies are expected to voluntarily sign and abide by the rules regulated in the Initiative.

Open government became a major policy objective of the United States government after President Barack Obama took office. President Obama announced his first executive action, a Presidential Memorandum on "Transparency and Open Government," in January 2009. Following the announcement, the Obama administration

began actively promoting the open government concept. The Open Government Partnership (OGP) was formally launched by eight founding governments—including Indonesia, Mexico, the Philippines, and the United States—on September 20, 2011 to bring international attention to government transparency. A total of eight APEC Member Economies have joined the OGP initiative as of April 24, 2013, and annual improvement plans have been launched to gradually enhance transparency within individual governments. The United States has been promoting the open government concept from a domestic level to an international level, and firmly believes that transparency will not be achieved without exchanges, monitoring, and experience-sharing with other economies.

IV. Future Challenges in Promoting Fiscal Transparency and Accountability

In this section, we analyze two primary challenges that have confronted APEC economies in striving to promote fiscal transparency and public accountability. The first challenge is how to shrink the existing gap between international standards and real practices of fiscal transparency in the APEC region. The other is to emphasize the importance of linking fiscal transparency to accountability and to effectively strengthen their linkage.

1. Bridging the Gap between Standards and Achievements

APEC Member Economies are at the forefront of fiscal transparency practices. However, if judged against the currently well-accepted international standards or best practices of fiscal transparency, a gap exists in numerous APEC economies between international standards and real achievements. For instance, even a fully developed economy may encounter difficulties in establishing and implementing a midterm budgetary framework as suggested in the international standards of fiscal transparency, let alone those who may not have a well-functioning annual budgeting process to begin with.

Although most international standards or best practices are universal and apply to enhancing fiscal transparency in any type and size of economy, certain standards are relevant to only certain types of fiscal environments. Because each society has its own unique political and economic system, certain Member Economies may not possess the required human resources or skills to maintain a fiscally transparent environment, and adopting best practices can be viewed as a continuous journey rather than a destination. Therefore, each Member Economy is encouraged to first assess its resource availability and skill level, identify the gap between where a government is and where it needs to be, and then develop its own priorities for adopting international standards of fiscal transparency. By assessing national strengths and weaknesses and focusing on the gap, economies can set priorities for improving fiscal transparency in a more efficient manner.

2. Strengthening the Linkage between Transparency and Accountability

Fiscal transparency alone is insufficient for holding governments accountable. Rather than an ultimate goal, fiscal transparency is a means to facilitate public accountability. The pursuit of fiscal transparency loses its legitimacy and support given the inability to move from fiscal transparency to public accountability. When government officials or agencies disclose the outcome of budgetary policies and fiscal activities, citizens should have the right and power to change the policy or activity if it fails to meet public demand. In the meantime, public officials or agencies should be rewarded or punished based on their actions and performances. Otherwise, they will lack the incentive to re-adjust their fiscal behavior in response to citizen demand, despite routinely disclosing all required fiscal information.

Fiscal transparency is a necessary condition for promoting public accountability, but is an insufficient condition. Therefore, urging more fiscal information and more openness is useless without simultaneously strengthening the monitoring and enforcement mechanism of public accountability, or the linkage between fiscal transparency and accountability.

Securing a strong linkage between fiscal transparency and public accountability requires well-established institutional arrangements. In addition to a check-and-balance mechanism that includes oversights, rewards, and punishments by legislative and judicial branches, institutional arrangements also refer to a well-functioning electoral system, an independent mass media, and a mature civil society.

On the premise of full information disclosure, elections are the most powerful accountability mechanism. The electorate can decide whether to vote for the ruling party or incumbents as a means to punish or reward candidates after reviewing the disclosed fiscal information. However, electoral fraud that interferes with election independence frequently occurs in less developed APEC economies, consequently damaging the effectiveness of the electoral system as an accountability mechanism.

Mass media is another powerful external accountability mechanism. In a modern society, people are accustomed to receiving summarized and disseminated information from the mass media. Hence, media can be regarded as a bridge between governments and civilians. Mass media transmits government information to the public to reduce information asymmetry. The media can interpret and disseminate complex and incomprehensible information, such as fiscal policies and budgeting data, to the public to compensate for its opaqueness. Hence, the media has a huge impact on society in shaping public opinion on fiscal and budgetary policies.

The public trusts the mass media to provide unbiased fiscal information. Consequently, governments are forced to focus more attention on what mass media report and respond quickly to their criticisms or suggestions on fiscal activities. Given the substantial impact of mass media on shaping public opinion and holding government accountable, the challenge lies in how to maintain a healthy competitive environment for the media to better foster independence and professionalism.

The market pressure for mass media in a globalized society has grown rapidly. In coping with fierce competitive pressure, certain media have displayed a tendency to

mistakenly interpret or filter information to provide the public with eye-catching headlines, or they may yield to certain political or partisan ideologies if doing so is more profitable. In addition to market pressure that could interfere with the independent press, certain mass media in authoritarian regimes are particularly vulnerable to state control and fall short of their potential contribution to fiscal transparency. This situation could worsen if the electorate are misled and cast their votes based on biased or misinterpreted fiscal information disseminated by the media, causing a decoupled linkage between transparency and accountability and an ineffective accountability.

A mature civil society plays a vital role in reinforcing the effectiveness of election and mass media as a powerful accountability institution. Civil society refers to the wide array of non-governmental and non-profit organizations that have a presence in public life, which express the interests and values of their members or others, based on ethical, cultural, political, or philanthropic considerations.²⁰ Civil society contributes to the electoral process through its active involvement in civic and voter education, and election oversight. Civil society organizations, particularly those that aggressively defend freedom of the press, also contribute to mass media independence and professionalism by performing their duty as a mass media watchdog.

Although the civil society sector spreads over both developed and less developed economies in the APEC region, the development and maturity of civil society varies in different economies. To better serve societies and to facilitate a strong linkage between fiscal transparency and public accountability, the less mature civil society must be empowered by building expertise in election observation and oversight, foster dialogues between civil society organizations and mass media, and promote citizen capacity to participate in various civil society organizations.

²⁰ Please see the definition offered by The World Bank available at: <http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/CSO/0,,contentMDK:20101499~menuPK:244752~pagePK:220503~piPK:220476~theSitePK:228717,00.html> [Accessed May 15, 2013].

Chapter 2

Key Elements of Fiscal Transparency and Public Accountability

I. An Overview of the Scope of Fiscal Transparency

Fiscal transparency is highly valued by international organizations such as the IMF and OECD, which in recent years have published Codes of Good Practices on Fiscal Transparency (IMF, 1998) and Best Practices for Budget Transparency (OECD, 2000). The guidelines have been applied in the aftermath of the Mexican and Asian crises. It is believed that lack of transparency was among the causes of these crises and greater fiscal transparency has been advocated by multilateral institutions, including to transition economies, as a precondition for fiscal sustainability and good governance.

There are several interpretations of fiscal transparency. Kopits and Craig (1998) defined it as “openness towards 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.”

The IMF defines fiscal transparency as being open to the public about the government’s past, present, and future fiscal activities, and about the structure and functions of government that determine fiscal policies and outcomes. Such transparency fosters better-informed public debate, as well as greater government accountability and credibility.

Focusing on non-transparent practices, Alesina and Perotti (1996) identified several practices that can reduce transparency, e.g., overly optimistic macroeconomic and fiscal assumptions; off-budget activities; and shifting of expenditures to future years in multi-year budgets. Other non-transparent activities may include not reporting government guarantees, ineffective audit, or delaying release of “bad” news.

On the other hand, there is also consensus that good governance is of central importance to achieving and sustaining macroeconomic stability and high-quality growth; and that sound fiscal management—including fiscal transparency—is a key aspect of good governance. Fiscal transparency facilitates better-informed debate, by both policymakers and the public, about the design and results of fiscal policy, and establishes accountability for its implementation. In strengthening credibility and public understanding of macroeconomic policies and choices, fiscal transparency fosters more favorable access to domestic and international capital markets. Furthermore, it highlights potential risks to the fiscal outlook, resulting in an earlier and smoother fiscal

policy response to changing economic conditions, thereby reducing the incidence and severity of crises.

A high degree of fiscal transparency tends to provide benefits in terms of fiscal discipline and accountability. Lack of transparency is widely recognized in the literature in relation to the impact of budget institutions on fiscal performance as a key reason for procedural difficulties (Alesina et al., 1999). This is also confirmed in studies by Alesina, Mare and Perotti (1996) on Italy and by Tanzi (1995) on OECD economies. If governments are more transparent with respect to their fiscal accounts and intentions, their access to the international capital markets will be easier and, in turn, costs related to debt servicing lower (Petrie, 2003).

It was only recently, that development literature started to focus on so-called good governance. Bad governance, the antithesis of good governance, is now widely regarded as a root cause of macroeconomic instability and underperforming economies. Major donors and international financial institutions increasingly link aid and financial assistance to the condition that reforms to ensure good governance are undertaken.

The concept of “governance” is as old as human civilization. According to UNESCAP, governance means: the process of decision-making and the process by which decisions are implemented (or not implemented). Governance can be used in several contexts such as corporate governance, international governance, national governance as well as local governance. Given the fact that governance is the process that involves decision-making, and the implementation of those decisions, any analysis concerning governance should focus on the actors, both formal and informal, who are participants in the process.

The importance on fiscal transparency is reflected in The Code of Good Practices on Fiscal Transparency (the Code), as set out by the IMF. The Code describes the important principles widely acknowledged to ensure government effectiveness.

The Code is based on four general principles:

Clarity of roles and responsibilities. There should be a clear distinction between government and commercial activities, and there should be a clear legal and institutional framework governing fiscal administration and relations with the private sector. Policy and management roles within the public sector should be clear and publicly disclosed.

Open budget processes. Budget information should be presented in a way that facilitates policy analysis and promotes accountability. Budget documentation should specify fiscal policy objectives, the macroeconomic assumptions used in formulating the budget, and major fiscal risks—including those arising from government guarantees and contingent liabilities. Procedures for collecting revenue and for monitoring approved expenditures should be clearly specified.

Public availability of information. The public should be provided with complete information on the past, current, and projected fiscal activity of government and its major fiscal risks. This should be readily accessible. Economies should commit to the timely publication of fiscal information.

Assurances of integrity. Fiscal data and practices should meet accepted quality standards and should be subjected to independent scrutiny.

The implementation of these principles will greatly enhance the chance of achieving the long-term fiscal sustainability that is widely recognized as a precondition for economic development, stability, and resilience. In addition, sustainable fiscal policy enhances economies' resilience to external shocks, which in turn enables governments to appropriately focus policy development on broader economic and social priorities.

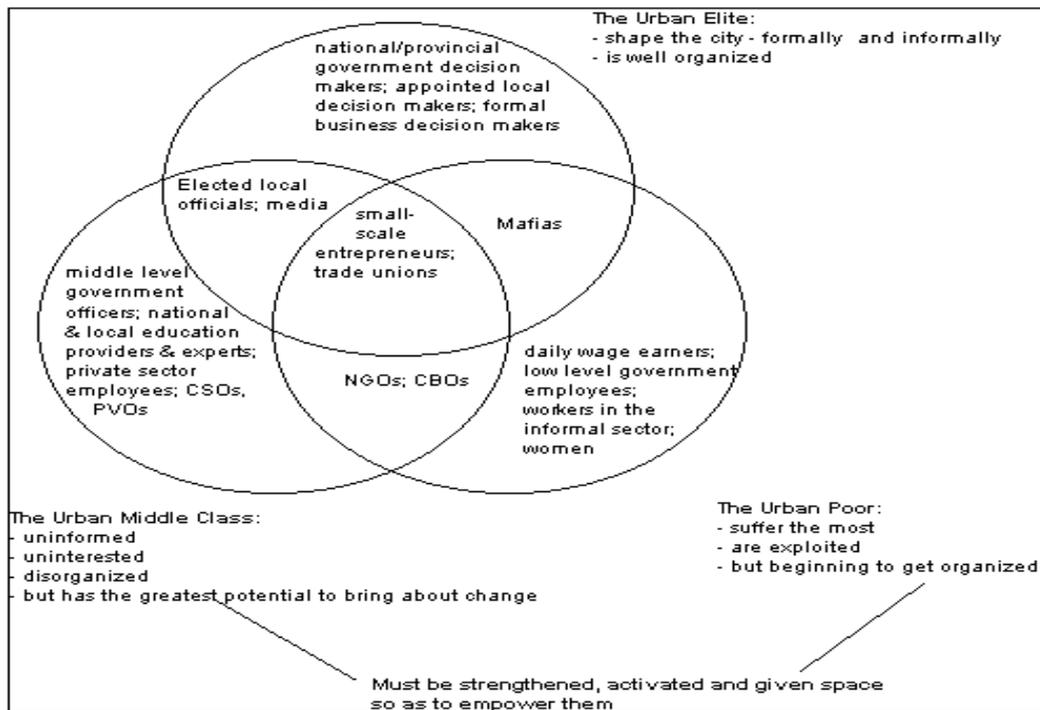
The IMF's Code of Good Practices on Fiscal Transparency was developed in response to a broad consensus that good governance is of central importance in achieving macroeconomic stability and high-quality growth, and that fiscal transparency is a key aspect of good governance. Greater transparency can improve the credibility of fiscal policy (in so doing garnering greater public support), provide more favorable access to domestic and international capital markets and reduce the incidence and severity of crises. Measures to improve transparency recognize that effective economic management depends on the relationship between the government and its stakeholders. For example, transparency can foster confidence and credibility in the eyes of financial markets by generating greater investment and lower borrowing costs for the government.

Improved fiscal transparency is a pressing imperative for many economies. Domestic and foreign investors will face greater risks in markets characterized by inadequate disclosure of accurate information and/or a limited history of such disclosure (Polackova 1998, p 10). The absence of credible information exposes the credibility of a government's fiscal position to the rumor-mill. Doubt and uncertainty will inevitably cause investors and creditors to question the robustness of government operations (Dornbusch 2002). These weaknesses can increase the risk of capital flight.

II. Clarity of Roles and Responsibilities

Government is the key player when putting the concept of good fiscal governance into practice. Other players may also be involved depending on the level of government that is under discussion. In rural areas, for example, other actors may also include influential landlords, associations of peasant farmers, cooperatives, NGOs, research institutes, religious leaders, finance institutions, political parties, the military, etc. The situation in urban areas is even more complex (see Figure 1, United Nations Economic and Social Commission for Asia and the Pacific, UN ESCAP), with multiple interconnections between actors involved in urban governance. At the national level, beside those actors, there are also other influencers, including the media, lobbyists, international donors, and multinational corporations, all of which can play a role in decision-making or influencing the decision-making process.

Figure 1. Actors in Urban Governance

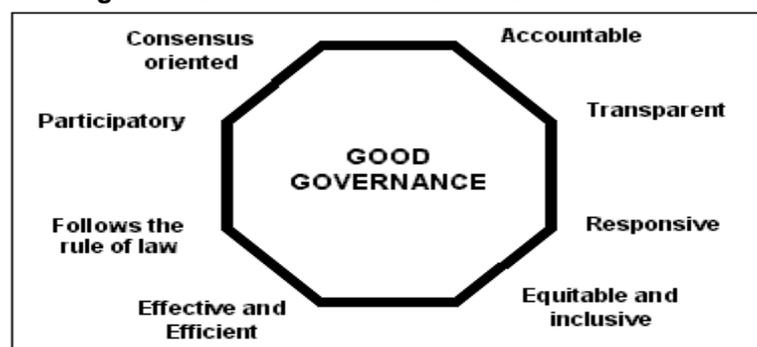


Source: UN ESCAP

All the relevant parties, other than government, comprise the component parts of “civil society.” At the national level, although decisions are delivered and implemented by formal government structures, informal decision-making structures, such as “kitchen cabinets” or informal advisors may exist. Corrupt practices can be influential determinants of the more informal aspects of the decision-making process.

According to ESCAP good governance has eight determining characteristics (see Figure 2). Good governance is participatory, consensus oriented, accountable, transparent, responsive, effective and efficient, equitable and inclusive and follows the rule of law. Good governance assures that corruption is minimized, the views of minorities are taken into account and that the voices of the most vulnerable in society are heard in decision-making. It is also responsive to the present and future needs of society. These characteristics are elaborated as follows.

Figure 2: Characteristics of Good Governance



Source: UN ESCAP

Participation

Equal participation by both men and women is a solid foundation to good governance. Participation could be achieved either directly or through legitimate intermediary institutions or representatives. It is important to note that participation does not necessarily imply the need for all the stakeholders to be included in decision-making processes.

Rule of law

To instill good governance, the rule of law is essential in addressing the needs of the relevant stakeholders. It also requires holistic law enforcement, independent judiciary and a clean police force.

Transparency

Transparency means that decisions are taken as well as enforced in a manner that follows established rules and regulations and that these are accessible to a well-informed public.

Responsiveness

Responsiveness has an explicit meaning: that institutions react rapidly and in a meaningful manner to the needs of stakeholders within a reasonable timeframe.

Consensus oriented

Consensus is a particularly Asian form of resolving differing interests in society, to reach common ground on what is in the best interests of the whole community, and how this can be achieved. It requires a broad and long-term perspective on what is needed for sustainable human development. Consensus generally requires a shared understanding of the historical, cultural, and social contexts of a given society or community.

Equity and inclusiveness

Equity and inclusiveness depends on ensuring that all members feel that they have a stake in, and do not feel excluded from, the mainstream of society. This requires that all groups, particularly the most vulnerable, have opportunities to improve or maintain their wellbeing.

Effectiveness and efficiency

To achieve effectiveness institutions must meet the needs of society; while at the same time ensure the best use of the resources at their disposal. The concept of efficiency also includes the sustainable use of natural resources and the protection of the environment.

Accountability

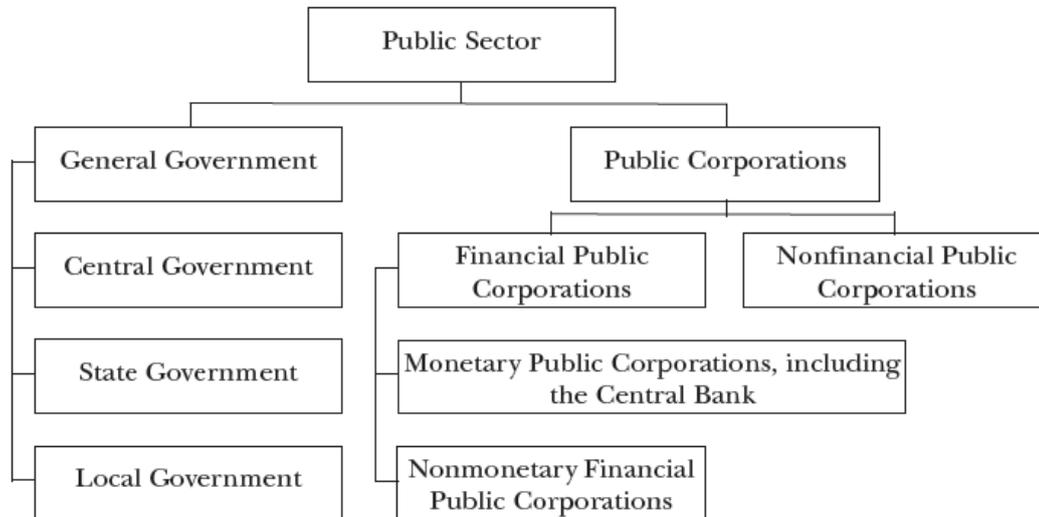
Accountability is a key requirement of good governance. Governmental institutions as well as private sector and civil society organizations must be accountable to the public

and institutional stakeholders. Who is accountable to whom may vary depend on whether decisions or actions taken are internal or external to the organization. In general, an organization or an institution is accountable to those who will be affected by its decisions or actions. Accountability cannot be enforced without transparency and the rule of law.

The IMF categorizes the public sector into various constituents, as described in Figure 3 below. The public sector can be divided into general government and public corporations. The two main types of public corporations are nonfinancial public corporations and financial public corporations. The latter include the monetary authority (central bank) as well as nonmonetary financial corporations. The separation of government functions into commercial and monetary activities on the one hand helps to establish clear accountability for the conduct of these very different organizations and, on another hand, facilitates assessment of the macroeconomic impact of fiscal activities.

In order to develop fiscal transparency, a first and fundamental step is to identify those entities that carry out government functions. In this regard, government functions are defined as activities related to the implementation of public policies through the provision of nonmarket services and the redistribution of income and wealth, financed primarily by taxes and other compulsory levies on nongovernment sectors. However, defining the boundaries of government and of the public sector is a complex task, and a challenging issue for economies undergoing rapid change. Government units also encompass all national and subnational institutions that perform functions of government as their primary activity. This would include any entities that receive the majority of governmental funds through transfers, earmarked revenues, or other sources to carry out government functions, as well as any spending of public money for fiscal purposes, even if not covered by institutional arrangements.

Good governance dictates that government operations and decisions should be made openly, and with the active participation of the people influenced by them. The Budget is the primary economic policy document of governments, and transparency and participation are particularly important. Indeed, it can be argued that in a democracy the public has the basic right to information about the budget and to have its views considered in budget decisions, making it an end in itself. In other words, transparency is a prerequisite for democracy.

Figure 3: Public Sector Constituents

Source: IMF

A clear demarcation of roles within government is arguably essential for transparency. At the broadest level, it is necessary to clearly define the allocation of tax powers, powers to borrow or incur debt, and expenditure responsibilities between different levels of government. The intergovernmental structure varies widely among economies, ranging from unitary forms of government to federations in which individual states or provinces have considerable powers. At the local level, the inclusion of many informal as well as formal government structures may further complicate the picture. Even within governmental structures that look similar, the precise allocation of revenue and financing powers as well as expenditure responsibilities varies widely and substantially over time.

Fiscal transparency also requires that the allocation of powers and responsibilities are formulated and shared based on clear principles, stated within the law or constitution. The powers and responsibilities at each level of government should be exercised in an open and consistent way. Where they exist, shared revenues and intergovernmental transfers should be clearly specified, preferably based on stable criteria or formulas rather than discretionary criteria or negotiations. Unfortunately, it is common for transfers to be negotiated annually, an approach which is neither stable nor transparent. A formula with well-defined parameters provides the most transparent option for distributing intergovernmental fiscal transfers. Distribution, mostly based on “need” should be defined so as to ensure that subjectivity can be avoided. Project grants, for example, are more subjective in nature, but transparency can be enhanced if the criteria and basis for decisions are made public.

Fiscal transparency in subnational levels of government and the relationships between levels of government is especially important where economies have devolved fiscal responsibilities. Decentralization is an increasingly popular policy based on the premise that lower-level government units can better respond to local demands and needs, and at lower cost. Many economies have recently implemented legislation that assigns or reassigns the responsibilities of the different levels of government. Under these circumstances, there are opportunities for duplication of responsibilities and unclear

assignment of revenue or expenditures. Furthermore, because of inequality across regions, most economies that pursue decentralization have introduced new legislation regarding tax sharing and intergovernmental transfers to address such inequalities. In turn, the effectiveness of this strategy critically depends on the ability of citizens to hold local government officials accountable. Numerous factors may impact local government accountability, but one critical factor is the quality and public availability of fiscal data at the local level. The more decentralized the revenue and spending decisions, the more important it becomes to ensure that lower levels of government also follow good practices of fiscal transparency.

Central governments need adequate information on the fiscal activities of lower levels of government in order to have a full picture of general government activities. This is particularly important where subnational governments have access to borrowing, including from international lenders. In many economies, central governments carry an implicit contingent liability on subnational government debt, and in these cases monitoring of subnational governments is accordingly important.

One of the fundamentals of fiscal transparency is the need to have rigorous tracking of the implementation of fiscal policies. This can be achieved through clarity of purpose and a comprehensive framework for fiscal management, including legislation, regulations, and administration. Fiscal transparency requires that the legal framework for fiscal activity avoids excessive complexity and opportunities for official discretion. There are at least three fundamental factors that can support optimal discretion for the government:

- (i) **Explicit legal basis for revenue collection.** The constitutional framework of almost all economies embodies the principle that no tax may be levied unless it has a clear legal basis. It is fundamental to fiscal transparency that taxation be under the authority of law and that the administrative application of tax laws be subject to procedural safeguards. Tax laws should clearly establish the powers and limitations of the tax administration to search the premises of taxpayers, demand information from taxpayers and third parties (including banks), apply indirect methods to determine income and sales, and enforce the collection of tax arrears. Taxpayers should have the right to challenge property or wealth assessments or any other tax ruling. As with budget laws, however, the legal framework for taxation needs to be developed in a way that reflects administrative capacity;
- (ii) **Fiscal regime for resource sectors.** According to the Guide on Resource Revenue Transparency, fiscal transparency requires that the government's policy framework and legal basis for taxation or production-sharing agreements with resource companies be clearly and comprehensively presented to the public. The more complex and discretionary the system, the more difficult to achieve fiscal transparency; and
- (iii) **Use of public funds and resources.** The effectiveness of the budget depends on its being well grounded in law, with supporting regulations and administrative practices. Explicitly, spending should be approved by the legislature through an appropriation; the budget should be comprehensive, covering all central government transactions (albeit possibly through different funds); budget transactions should be shown in gross terms; a minister or other responsible

authority for government finance should be given effective power of budget management; individual agencies should be held accountable for funds they collect and/or use; contingency or reserve provisions should specify clear and stringent conditions for use of such funds; and independently audited reports showing clearly how public funds have been used should be prepared for the legislature and the public.

III. Open Budget Processes

The principles of open budget processes are credibility, flexibility, and political legitimacy. Rule of law creates credibility if the rule is widely known and well understood by the public. With credibility, it is easier to address any economic turbulence associated with the policy instrument controlled by the economic authority. Credibility is more effective when there is a transparent and accountable framework, which in turn strengthens political legitimacy. Effective policy is enhanced if policymakers have the ability to react promptly to every unprecedented shock. Credible policymakers are those who make the policy with respect for transparency. With the high level transparency, any economic shock is easily diminished. In contrast, without transparency, every policy with regards to economic target and fiscal rule becomes obsolete since the public could not compare between the target and the realization. Moreover, political legitimacy becomes important since the policies being made should reflect national consensus. This, in turn, creates balance of power and also general responsibilities which could reduce the negative effect from any uncoordinated policy.

Fiscal discipline is a basic condition for achieving national budget sustainability. While the national budget is the government's most powerful discretionary tool, at the ministerial level, departments do not always follow the notion that funding should reflect needs. The motivation to raise budget allocations is not always because of the perceived need, but rather the desire to have a bigger budget than the previous one. Unchecked, this may cause budgetary planning to become imprudent and more vulnerable to external shocks. In this context, fiscal discipline requires that public expenditure is focused on sectors that can facilitate more equitable distribution of income: public infrastructure, healthcare and primary education. To ensure budget proposals are realistic, it is crucially important that the underlying macroeconomic framework is reflected in a set of mutually consistent assumptions that have a reasonable prospect of occurring, and are not prone to bias. This will provide a solid basis for projecting the budgetary cost of statutory obligations such as unemployment and other social benefits. Revenue projections should be in line with recent trends, and the assessment of the marginal contribution of any new policies or measures should be credible. The implications of both existing and new policies and programs should be fully reflected, as well as those of any extra budgetary funds, significant tax expenditures, and quasi-fiscal activities. Revenue and expenditure that are not included in the annual budget appropriations are referred to as "extra budgetary funds." However, the use of extra budgetary funds is prone to corruption and should therefore only be implemented if there are no other options. In general, governments should have explicit plans covering short-, medium-, and long-term time horizons.

A team of researchers at the World Bank (Kaufmann et al., 2005) devised six indicators of the quality of institutions by comparing good governance across economies. These indicators cover basic elements of the open budget process. According to their classification, governance can be broadly defined as the set of traditions and institutions by which authority in an economy is exercised. These include: (1) the process by which governments are selected, monitored and replaced (as represented by two indicators, Voice and Accountability and Political Stability); (2) the capacity of the government to effectively formulate and implement sound policies (as represented by the indicators Government Effectiveness and Regulatory Quality); and (3) the respect of citizens and the state for the institutions that govern economic and social interactions among them (as represented by the indicators Rule of Law and Control of Corruption). Hence, the indicators describe informal and formal public institutional quality and address different dimensions of the overall government performance. The World Bank's six dimensions of governance can be described as follows:

- Voice and Accountability, representing different aspects of political rights and civil liberties, such as free and fair elections, the influence of the military in politics and the independence of the media.
- Political Stability, describing perceptions of the likelihood that the government in power will be destabilized or even overthrown by unconstitutional and/or violent means, due to, for example, ethnic tensions.
- Government Effectiveness, measuring perceptions of "inputs" that are required for the government to be able to produce and implement good policies, including the quality of government, bureaucracy and public administration, the competence of civil servants, the management time spent with bureaucrats, and the independence of the civil service from political pressure.
- Regulatory Quality, combining measures of the incidence of government intervention in the economy, such as wage or price controls, regulations on foreign trade, and legal restrictions on business ownership or equity by non-residents.
- Rule of Law, representing the extent to which agents have confidence in and follow the rules of society, that is, the enforceability of contracts, the prevalence of black market activities and the effectiveness and predictability of the judiciary.
- Control of Corruption, describing the exercise of public power for private gain, ranging from the incidence of improper practices, through effects of corruption on the attractiveness of the economy as a place to do business, to the likelihood that additional payments are required to "get things done."

The trend towards focusing on fiscal sustainability has been leading some governments to publish longer-term projections of their capacity to finance programs and service debt obligations (OECD 2006). Long-run projections generally focus on the possible fiscal consequences of key pressures to illustrate the need for changes in policy. The projections are not considered to be forecasts or targets, since the projections are made under explicit assumptions that are designed to exclude the impact of any remedial actions by government (Irwin 2006b). A good example is the New Zealand Treasury's projections which highlighted the need to either raise taxes or change policies and spending patterns to meet the sustainability challenges raised by population ageing. However, an important conclusion of this analysis is that only very small changes in the short term are needed to generate a very large improvement in the long-term fiscal position (New Zealand Treasury, 2007).

There is an important relationship between participation and the focus on transparency. Transparency is not only an end in itself. Transparency is desired as a means of achieving desired outcomes such as enabling participation. Meaningful transparency is not only about the availability of information, but its use. Meaningful transparency is inextricably linked to meaningful participation in the budgetary process by various interests. Therefore, the provision of sufficient opportunity for legislature and civil society input on budgetary processes is important, and for several reasons:

- Information may allow legislatures to monitor executive decisions and performance, but without sufficient opportunity to act using information they get, their oversight will remain ineffective. Similarly, governments will only be accountable if their constituencies are able and prepared to make use of the available information and hold them to account.
- While transparency itself engenders consensus to policy and allocation decisions, this consensus will be deepened if both the legislature and civil society are allowed significant inputs into the debate. The need for such participation opportunities is strengthened by the legislatures' and civil society's closer contact with communities and interest groups.
- Over and above the commitment-building role, involvement of these actors can improve policy and allocate decisions by bringing different perspectives and creativity to budget debates.

If governments want to reap the benefits of being transparent, governance systems must ensure that the incentives for making use of available information outweigh any obstacles to participation.

IV. Public Availability of Fiscal Information

In 1998, a range of Asian economies, some of which had performed exceptionally well for more than a decade and attracted vast amounts of international capital, saw their financial markets unravel and their economies spiral downward. Few observers predicted the dramatic downturns in these economies as few understood the underlying structural weaknesses, including problems with their financial markets. This lack of understanding reflected the fact that fundamental information about these economies had not been readily available. In other words, these economies were not transparent. Many believe that the economic reversals would not have been so sharp if more complete information about the economies' financial markets and fiscal positions had been available. Economic risks would have been easier to assess and resources would have been better allocated. This would have meant smaller and more diversified market reactions, ones that could have triggered prompter policy adjustments. The belief that greater transparency would have helped prevent the Asian economic crisis contributed to the development of the IMF Code.

A fundamental requirement of fiscal transparency is the availability of comprehensive budget information. It should be provided in a timely way and in accessible formats. The basis for data calculation and aggregation should be well explained, as well as its coverage. The information should be reliable and based on credible information systems. This section briefly elaborates the key elements of fiscal transparency and

public accountability with respect to the availability of fiscal information and to what extent it plays a role in accountability. Referring to Manual of Code of Good Practices on Fiscal Transparency (2007)²¹ the explanations of the key elements are as follows:

1. Adequate and relevant fiscal information to the public: information on the past, current, and future fiscal activities, and on critical fiscal risk

The process of supplying information to the public is an essential feature of fiscal transparency. The principles and practices in this regard concern the provision of comprehensive information on fiscal activity and government objectives. Furthermore, the presentation of such information should facilitate policy analysis and promote accountability. Practically, this can be exemplified by publicly available and web-based fiscal information.

Seven principles underpin the first element:

- 1) The budget documentation, including the final accounts, and other published fiscal reports should cover all budgetary and extra-budgetary activities of the central government.
- 2) Comparable information should be provided for the outturns of at least the two preceding fiscal years, together with forecasts and sensitivity analysis for the main budget aggregates for at least two years following the budget.
- 3) Statements describing the nature and fiscal significance of central government tax expenditures, contingent liabilities, and quasi-fiscal activities should be part of the budget documentation, together with an assessment of all other major fiscal risks.
- 4) Receipts from all major revenue sources, including resource-related activities and foreign assistance, should be separately identified in the annual budget presentation.
- 5) The central government should publish information on the level and composition of its debt and financial assets, significant non-debt liabilities (including pension rights, guarantee exposure, and other contractual obligations), and natural resource assets.
- 6) The budget documentation should report the fiscal position of subnational governments and the finances of public corporations.
- 7) The government should publish a periodic report on long-term public finances.

2. Fiscal Information as a means to the ends of accountability

The second element of the Code includes good practices related to (1) citizens' guides; (2) reporting criteria; (3) fiscal indicators; and (4) reporting of the budget program. The objective of these four principles and basic requirements is ensuring that: *First*, the main proposals and economic background to the budget are explained clearly to the general public. *Second*, revenue, expenditure, and financing are reported on a gross basis and expenditure is classified by economic, functional, and administrative category. *Third*, results of central government programs are presented to the legislature.

The following are the four principles of the second element.

²¹ International Monetary Fund (2007), Manual on Fiscal Transparency.

Citizens' guides

- 1) A clear and simple summary guide to the budget should be widely distributed at the time of the annual budget.

Reporting criteria

- 2) Fiscal data should be reported on a gross basis, distinguishing revenue, expenditure, and financing, with expenditure classified by economic, functional, and administrative category.

Fiscal indicators

- 3) The overall balance and gross debt of the general government, or their accrual equivalents, should be standard summary indicators of the government's fiscal position. They should be supplemented, where appropriate, by other fiscal indicators, such as the primary balance, the public sector balance, and net debt.

Reporting of budget program

- 4) Results achieved relative to the objectives of major budget programs should be presented to the legislature annually.

The provision of comprehensive, accurate, timely and frequent information on a nation's economic conditions and its budget policies is desirable because:

- Transparency is a prerequisite for public debate. If budget information is not available, it is difficult to discuss it. Transparency also means that government budget policies can be assessed and analyzed, thus leading to improved programs and the more efficient use of resources. Transparency facilitates the identification of governmental weaknesses, thus facilitating the adoption of needed reforms.
- Transparent governments can be held accountable: legislatures and civil society will be able to hold governments accountable if they have information on government budget policies, practices, and expenditures. Elected office holders will also be more likely to make governance decisions in accordance with their mandate if those decisions are open to public scrutiny. Similarly, members of civil services will be more likely to act in a responsible manner if their actions are transparent. Holding governments accountable can provide a check on corruption.
- An adherence to transparency can increase faith in governments. This support can come from the public who can better understand what their governments are doing, and thus have more confidence in government. In this respect, transparency can contribute to building consensus and commitment to social trade-offs. This increased faith in and, therefore, support of a transparent government can appear from the international community and investors. With a clear understanding of a government's policies, they may be more likely to invest in an economy.
- Transparency contributes to macroeconomic and fiscal stability as it prevents the build-up of a crisis in secret, bringing about smaller adjustments sooner.

V. Assurance of Integrity

A critical requirement of fiscal transparency in the context of democracy is the opportunity for the legislatures and civil society to assess the budget and its realization. This section elaborates the fourth code: it is essential for fiscal transparency that fiscal data reported to the government meet basic criteria that attest to their quality. Also, those mechanisms should be in place to provide assurances to the legislature and the public about data integrity. According to the Code, it states that internal oversight mechanisms are necessary for the conduct of public officials, public service employment, internal audit, procurement, purchases and sales of public assets, and national revenue administration. In addition, external oversight mechanisms provide assurances through an independent national audit body, a national statistical body, and engagement with external independent experts. The following describes the principles of the Code.

1. **Control and data quality**

Fiscal data should always meet accepted data quality standards. The Code includes good practices relating to (1) realism of budget data, (2) accounting standards, and (3) data consistency and reconciliation. Basic requirements under this principle are to ensure that: (a) accounting policies meet generally accepted accounting standards; (b) final accounts are fully reconciled with budget appropriations, and fiscal aggregate outcomes are compared with previous forecasts; (c) economies subscribe to the GDDS (General Data Dissemination System) if they are not able to adhere to the SDDS (Special Data Dissemination Standard). To ensure control and data quality:

- 1) Budget forecasts and updates should reflect recent revenue and expenditure trends, underlying macroeconomic developments, and well-defined policy commitments;
- 2) The annual budget and final accounts should indicate the accounting basis used in the compilation and presentation of fiscal data (generally accepted accounting standards should be followed); and,
- 3) Data in fiscal reports should be internally consistent and reconciled with relevant data from other sources. Major revisions to historical fiscal data and any changes to data classification should be explained.

2. **Internal control and Risk Management**

The Code includes good practices relating to (1) ethical standards, (2) employment procedures, (3) procurement regulations, (4) purchases and sales of assets, (5) internal audit systems, and (6) national revenue administration. Basic requirements under this principle are to ensure that (a) standards for procurement, financial transactions involving the public sector, and the ethical behavior of public servants are clear, publicly accessible, and observed; and (b) internal audit procedures are clear and observed. The six principles of the internal oversight:

- 1) Ethical standards of behavior for public servants should be clear and well publicized;

- 2) Public sector employment procedures and conditions should be documented and accessible to interested parties;
- 3) Procurement regulations, meeting international standards, should be accessible and observed in practice;
- 4) Purchases and sales of public assets should be undertaken in an open manner, and major transactions should be separately identified;
- 5) Government activities and finances should be internally audited, and audit procedures should be open to review; and,
- 6) The national revenue administration should be legally protected from political direction, ensure taxpayers' rights, and report regularly to the public on its activities.

3. ***External scrutiny***

To promote external scrutiny, the Code advocates good practices in relation to (1) a national audit body, (2) audit reports and follow-up mechanisms, (3) independent assessments of forecasts and assumptions, and (4) independence of data verification.

Basic requirements under this principle are to ensure that a national audit body, which is independent of the executive, provides timely reports for the legislature and public on the financial integrity of government accounts. The four principles of external scrutiny:

- 1) Public finances and policies should be subject to scrutiny by a national audit body or an equivalent organization that is independent of the executive;
- 2) The national audit body or equivalent organization should submit all reports, including its annual report, to the legislature and publish them. Mechanisms should be in place to monitor follow-up actions;
- 3) Independent experts should be invited to assess fiscal forecasts, the macroeconomic forecasts on which they are based, and their underlying assumptions; and,
- 4) A national statistical body should be provided with the institutional independence to verify the quality of fiscal data.

APPENDIX

Selected Economies' Experience in Fiscal Transparency and Sustainability

Box 1 Chile's contingent liabilities

Chile's Ministry of Finance and Budget Office recognizes that the main difficulties presented by contingent liabilities to accounting, statistical and, particularly, to the tax authorities are the uncertainties in the amount and timing of payments related to them. These difficulties first became present when the government gradually changed from direct financing and provision of services to private provision with guarantees in some contracts. Since such liabilities are not adequately accounted for in the budget and balance sheet under traditional accounting standards (i.e., cash-basis accounting), measures have been introduced to increase transparency and reduce the uncertainty of their impact on public finances in the medium and long-term.

Since 2000, the budget report to Congress has included a section on contingent liabilities and Chile's budget office (DIPRES) has developed criteria to determine and quantify contingent liabilities. The Fiscal Responsibility Law of 2006 represents a major milestone regarding the conduct of fiscal policy and management of fiscal finances in Chile. Under this law, the Budget Office must provide information annually on the commitments it has taken through the granting of fiscal guarantees, including an estimate of the legal and contractual financial commitments that lead to contingent liabilities.

The law also provides for the management of the minimum pension guarantee (a guarantee to cover private pensions that fall below a guaranteed minimum amount) and the payment of assistance pensions. Specifically, the law creates the Pension Reserve Fund, in which the effective fiscal surplus of the previous year must be deposited but without exceeding the equivalent of 0.5 per cent of GDP and a floor of 0.2 per cent. During the first 10 years, the fund only accumulates resources, and there are no withdrawals. The funds can be accumulated in domestic or foreign currency and can be invested domestically or abroad. The management of the portfolio will be allocated on the basis of public bidding.

Source: Dickson and Lim (2007) in Chilean Ministry of Finance, 2007.

Box 2 China's long-term projections for pensions

China's long-term projections show that its ageing population is creating fiscal pressure in the form of higher pension expenditure. Government spending on pensions is forecast to increase from approximately 24 billion yuan in 2007 to over 40 billion yuan in 2030. While these projections highlight the potential consequences of maintaining current policies, the projections also demonstrate the benefits of potential solutions. For example, increasing the retirement age could reduce total estimated pension expenditure by over 24 billion yuan between 2007 and 2030. The key findings of China's analysis can be applied to other longer-term fiscal risks and include the importance of: addressing long-term fiscal risks, such as pension liabilities; identifying risks to financial stability early in order to investigate and implement appropriate solutions before any problems emerge; and ensuring sufficient funds are available to meet significant liabilities.

Source: Dickson and Lim (2007) in Chinese Ministry of Finance, 2007.

Box 3 Fiscal transparency and sustainability in the Russian Federation

The Russian Federation adopted a number of measures to improve fiscal sustainability following the 1998 financial crisis. These include the introduction of controls on new government borrowing in foreign capital markets. The Russian Federation also adopted a number of budget rules which were incorporated into the Russian Budget Code. These rules regulated the preparation and execution of budgets at all levels of government, established controls for budget deficits and borrowing, and provided contingency plans in case budget revenues were lower or higher than planned. More recently, the Russian Federation is transitioning towards medium-term budget planning.

Russia also recently introduced a Register of Expenditure Commitments to enhance transparency and improve reporting. This register reflects budget obligations approved by laws and regulatory and legislative Acts, and may be used in the future to include the full value of obligations related to approved long-term programs and investment projects. These measures, including favorable oil prices have helped reduce public debt from over 100 per cent of GDP in 1999 to around 9 per cent of GDP at the end of 2006.

Source: Dickson and Lim (2007) Russian Ministry of Finance, 2007.

Chapter 3

Summary of Individual Economy Reports

This chapter summarizes APEC economies' key initiatives and challenges in promoting fiscal transparency and accountability, as noted in responding economies' Individual Economy Reports (IERs). A complete set of IERs can be found in Annex 3-1.

I. Fiscal Institutions of the Central Government

A budget cycle consists of four major phases: budget preparation, budget review and approval, budget execution, and final account reporting. Although the length of a complete budget cycle varies among responding APEC economies, they all complete the budget cycle in accordance with a comprehensive legal framework. The legal framework typically encompasses the constitution, the basic law, the finance act, the budget law, the audit law, and several others. The legal framework not only establishes key fiscal rules for government officials to make budgetary and fiscal decisions, it also helps promote fiscal transparency and accountability. For instance, Chile enacted the Transparency Act in 2008, which created the Council for Transparency to promote transparency in the public sector. Similarly, Peru passed the Law on Fiscal Responsibility and Transparency to enhance the timely disclosure of relevant information.

In most APEC economies, the Ministry of Finance (MOF) or the treasury is the principal budget authority in charge of coordinating and preparing the budget of the central government. The MOF oversees the preparation of the annual budget proposal and submits it to parliament for deliberation. However, some economies, including the United States and Chinese Taipei, have a budget authority other than the MOF (or the Treasury) leading the process of budget preparation. In the United States, the Office of Management and Budget (OMB) is the hub of the federal budget process, whereas the Department of the Treasury assists with the preparation of revenue estimates. OMB assists the President by overseeing the preparation of the entire budget, and maintains liaison with the congress during the consideration of budgetary legislation. In Chinese Taipei, the MOF is responsible for tabling the available revenue, and the Directorate-General of Budget, Accounting, and Statistics (DGBAS) plays a greater role in the preparation and implementation of the annual budget. The DGBAS helps the cabinet prepare the annual budget by setting funding ceilings and assessing competing funding demands among agencies.

The annual budget has to gain approval from the legislature before it is implemented. The length of budget deliberation and approval phase varies among economies, in part because of the difference in the system of government. The United States, which is governed by a presidential system, appears to have the longest period of budget deliberation in the congress. The President typically transmits budget proposals to the congress between the first Monday in January and the first Monday in February, and the congress passes the appropriation acts by 1 October. Hence, the legislative review

process spans from February to September in the United States. Conversely, for those who adopt a parliamentary system of government, legislative approval of budget is equivalent to a confidence vote for the government in power. Therefore, major amendments to budget proposals are not typically expected, and the time for legislative deliberation is shorter. For instance, New Zealand presents its budget to the House of Representatives after mid-May to take effect from 1 July. The time for legislative deliberation is less than two months, and in practice, no amendments to the budget proposal have been passed in recent years. Canada, which also adopts a parliamentary system, typically submits its budget to the House of Commons between the end of February and March and parliamentarians vote on the budget only a few days after its tabling.

After the budget gains approval from the legislature, APEC economies follow similar legal frameworks and procedures in the budget execution stage. Budget laws and internal control regulations associated with the government's fiscal activities and public procurement are well-established. For example, Hong Kong, China stipulates a system of fiscal control and financial management in the Public Finance Ordinance (PFO) to guarantee the budget to be implemented within a legal framework. Indonesia established the Corruption Eradication Commission (KPK) in 2002. The duties of the independent commission included investigating and prosecuting corruption cases and monitoring the governance of the state.

All responding economies report the results of the budget execution to the legislature after the end of the fiscal year. In most economies, this final report is externally audited by an independent auditing authority. In many APEC economies, including Australia²², Canada, New Zealand, Thailand, and the United States, the auditing authority is an office of the legislative branch and independent of the government. The Board of Audit of Japan and the National Audit Office of Chinese Taipei enjoy the status of "the fourth power" and belong to neither the legislative, nor the judicial branches. The Audit Commission of Hong Kong is accountable to the Chief Executive of the Hong Kong Special Administrative Region only. Nevertheless, as indicated by responding APEC economies, the audit office is independent when performing duties and exercising audit powers and is not subject to the direction or control of any other person or authority.

II. Assessing Fiscal Transparency and Accountability

1. Open Budget Processes

Fiscal transparency requires budget processes to be undertaken in an open manner. The processes refer not only to the four phases in a typical budget cycle, but also to the adopted fiscal framework, fiscal policy, and projected fiscal conditions open to the public.

Responding APEC economies report that the budget processes in general follow a clear schedule. The budget authority typically submits the budget proposal to the legislature

²² The Auditor-General of Australia is an independent officer of the legislative branch (the Parliament), however the Auditor-General's staff are employed under the *Public Service Act 1999* and part of the Executive Government.

at least two months before the new fiscal year, allowing for legislative deliberations on the proposal. Budget implementation is internally controlled and most APEC economies have their final accounts externally audited within a few months after the end of the fiscal year.

Several APEC economies, such as Japan, Korea, Peru, and Chinese Taipei, adopt a top-down approach in the budget formulation stage to ensure the proposed budget is sufficiently funded by available revenue. Because the level of delegation and the method of determining the expenditure ceilings vary across economies, the Ministry of Finance or the authority in charge of budget allocation typically sets the overall expenditure ceiling and sub-ceilings in the early stage of budget preparation and delegates detailed resource allocation decisions to line ministries.

The responding economies place a high level of importance on ensuring that budget preparation are aligned with fiscal and other strategic objectives. Canada, for example, holds a retreat in the summer where members of cabinet discuss a broad strategy for the budget, based on the strategic objectives of the government. In accordance with the outcome of the cabinet retreat, central agencies and departments are provided with broad directions to guide them with budget preparations.

Most economies' annual budget is prepared in tandem with a medium-term framework. Reporting APEC economies state that the annual budget plans must not depart from the medium-term fiscal objectives. Since 2001, fiscal policy making in Chile has been guided by a pre-established goal of structural balance as a percentage of the GDP. Singapore's block budget framework also allocates projected expenditure allowances to each ministry in a medium-term framework. The ministry's budget is allowed to grow annually, at a rate pegged to a smoothed GDP growth rate. Additionally, in Singapore, unless the President's consent is obtained to draw on past reserves, each administration is required to balance its budget during its term of office, which typically lasts for five years.

APEC economies' have varied experiences in producing the economic forecasts that underlie fiscal projections. Numerous economies prepare economic forecasts in consultation with external experts or scholars. Certain economies establish a task force for this purpose; for instance, in the United States, the troika is responsible for forming economic forecasts. The troika is an interagency group led by the OMB Director, the Secretary of the Treasury, and the Chairman of the Council of Economic Advisers. A unique case is that of Canada; the economic forecast underlying Canada's fiscal projections is based on an average of the survey of private sector economic forecasts. More than a dozen forecasters provide their views on a number of key economic variables, which serve as the basis for the government's fiscal planning.

According to the IERs provided by certain economies, citizens are encouraged to participate in the budget process in person. In Malaysia, for instance, annual consultations are held with captains of industry, trade and industry groups, professional organizations and civil society to elicit their suggestions and concerns at the start of the annual budget preparation. In Australia and Hong Kong, China the governments invite families, individual citizens, businesses, and community groups to submit their feedback on the pre-budget. The Canadian government holds a series of regional pre-budget

roundtables, directed by various ministers, and citizens are able to send their feedback through online pre-budget consultations every year. In the United States, congressional meetings regarding the budget are open to the public. In Brunei Darussalam, engagement in the budget process is directed through citizen's respective Legislative Council representatives.

2. Public Availability of Fiscal Information

Many APEC economies have embarked on efforts to improve the accessibility of information to the public. They publish their quarterly, semi-annual, and annual budget information, as well as annual final accounts on a regular basis. Most economies have their fiscal data updated at least on a quarterly basis. However, whereas certain economies disclose those budget-related documents in great detail, others may simply release expenditure and revenue tables. In economies where the government releases detailed budget documents, performance information is a non-separable aspect of the budget information, and the key performance indicators and measurements are attached to spending programs. Australia's reform agenda "Operation Sunlight," introduced in 2009, increased the focus on public sector budgetary and financial management and good governance practices, by requiring the publication of information about agencies' programs, including their planned financial and non-financial performance.

Information on public debt attracts widespread attention, and is reported to the public regularly in most responding APEC economies. Chinese Taipei, for instance, has set up a "National Debt Clock" to report the central government's long-term and short-term outstanding debts, and the per capita debt burden. Pension liabilities and tax expenditures are also published annually in many economies—either included in the annual budget reports or stated in single documents.

Certain economies have released vital fiscal information that can greatly increase public accountability. For instance, Australia releases a pre-election economic and fiscal outlook in election years and intergenerational reports every five years. Pre-election fiscal reports are considered a powerful accountability mechanism, it is released not by the government, but by the secretaries of the Departments of Treasury and Finance, and presents an updated and independent report on the fiscal position and economic outlook at the time of a general election being called, providing a common baseline that enables the public to assess each electoral candidate's fiscal plan. The intergenerational reports inform people about fiscal sustainability under demographic change. Another example is the United States, which has introduced the recovery.gov website to provide easily accessible information on how Recovery Act funds are being spent by the recipients of contracts, grants, and loans. The website also offers the public the ability to report suspected fraud, waste, or abuse related to recovery funding.

3. Assurance of Integrity and Accountability

To assure the integrity of fiscal data, the government accounting system should provide a reliable basis for tracking revenues, commitments, payments, liabilities, and assets. The IERs typically show that economies have established their accounting system either based on Generally Accepted Accounting Practice (GAAP), which is aligned with the

International Financial Reporting Standards (IFRS), or based on the International Public Sector Accounting Standards (IPSAS).

Additionally, APEC economies prepare their financial statements with accounting policies that are adapted to their specific needs. Economies such as Brunei Darussalam, Malaysia and Singapore apply cash basis accounting, and Canada, Australia, New Zealand and Chinese Taipei adopt accrual accounting. Most economies follow a modified accrual basis system or a mixed system to prepare their financial statements, including Chile; Hong Kong, China; Japan; Korea; Peru; Thailand; and the United States.

In addition to complying with accepted accounting standards, fiscal activities should also be subject to effective internal oversight and external scrutiny. Although nearly all responding APEC economies report that internal auditing is implemented within each agency to control and monitor governmental fiscal activities, priority has been assigned by certain economies to the task of external auditing. For instance, in Japan, the Board of Audit's authority was broadened and its relationship with the Diet was strengthened, whereas in Mexico and Chinese Taipei, the supreme auditing office has followed the international trend of actively promoting performance audits to provide enhanced performance information of expenditure programs, with the objective of correcting information asymmetry between the government and the public.

To strengthen the link between fiscal transparency and public accountability, the finance ministry should actively promote an understanding of the budget process by individual citizens and non-governmental organizations. Some APEC economies have developed innovative measures to fulfill this goal.

Canada; Hong Kong, China; Korea; New Zealand; Peru; Singapore; Chinese Taipei; and Thailand all indicate in the IERs that they have developed user-friendly layouts for budget documents. Certain of these also provide enhanced search functions and optimized navigation for traditional and mobile browsing on smart phones and tablets. Additionally, brief videos summarizing key elements of the budget are provided, and information flyers with illustrative graphics or cartoons are sent to the general public to help improve their understanding of the impacts and relevance of the budget measures.

Hong Kong, China has recently improved its budget website to ensure that the content disseminated is accessible to people with disabilities, particularly the visually impaired. Russia government has committed to publish the "budget to the public" report annually on a regular basis since fiscal year 2014.

For social media users, fiscal information and public opinions are collected through Facebook, Twitter and other websites in economies including Canada, Korea, New Zealand, and Singapore. The Parliament of Chinese Taipei has set up a "video on demand multimedia system," allowing citizens to view the progress of plenary sessions and committee meetings held in Parliament, by using the Internet.

Certain economies indicate that the government has implemented numerous citizen participation measures. For example, Korea holds a local finance conference and open forums to discuss policy issues, and the results of these discussions are published as press releases to the general public. In Singapore and Malaysia, where the populace

are racially diverse, the key budget measures are communicated and discussed in various languages on television and radio forums by political office holders and senior civil servants to enhance public understanding of fiscal activities.

III. Common Achievements and Challenges

Over the past two decades, APEC economies have made substantial improvements to the presentation and accessibility of fiscal information to the public. Although various economies may approach fiscal transparency differently, because of variations in resources and technology, common achievements are met by most APEC economies.

First, the institutional design for governmental budgeting is well established in APEC economies. In general, an effective legal framework is in place to guide each economy's budget process. Independent auditing is implemented to ensure the quality of reported data and to monitor governmental fiscal activities. Overall, the current budget process is open and transparent.

Second, major budget and fiscal documents are available to the public in most APEC economies. Many economies' budget websites allow for free browsing and downloading. Certain economies create interactive websites or mobile applications to collect feedback. A substantial development towards improved transparency and accountability is the use of information and communication technology. Most economies provide the public with improved access to government information through the enhanced web-presence of governmental agencies.

Two primary challenges are addressed by responding economies. The first is to provide fiscal reports that are easily understood by the general public. Certain economies have issued a budget or fiscal report, written in plain language without specialized terminology, to help people understand public budgets, such as Thailand's "Citizens' Budgets", or Peru's "Orientative Guide on the Public Budget." Nevertheless, it remains difficult to ensure that legislators and citizens read and understand the various kinds of fiscal information. Hence, improving the readability and comprehension of released information is a challenging task faced by many economies.

The second challenge raised by economies concerns effectively enhancing public engagement in budget processes. Although there remain debates over the exact forms of citizen participation, citizen input and feedback are crucial to the linking of transparency and accountability. Inviting public opinion on the budget proposal is popular in responding APEC economies, either through direct communication in the public meetings or by using social networking sites such as Facebook and Twitter.

Most APEC economies have made great progress on the level of fiscal transparency in recent decades, but it is uncertain whether the improvement in transparency leads to a more accountable public sector in practice. As mentioned in Chapter One of this report, fiscal transparency alone is insufficient for holding governments accountable. Unless we strengthen the link between the two, greater transparency will not necessarily generate greater accountability.

Securing a strong link between fiscal transparency and public accountability requires well-established institutional arrangements. The accountability institutions include a check-and-balance mechanism that monitors, rewards, or punishes public officials' fiscal activities through legislative and judicial branches. In addition, institutional arrangements refer to an effectively functioning electoral system, an independent mass media, and a mature civil society. However, not all APEC economies currently perform satisfactorily in establishing and maintaining these accountability institutions. Therefore, although not raised in the economies' IERs, improvement in the effectiveness of accountability institutions is considered to be APEC economies' third challenge.

IV. Priorities for Future Reform

This section enumerates responding economies' priorities for future reform with respect to open budget processes, public availability of fiscal information, and assurance of integrity and accountability.

- Australia: The *Public Governance, Performance and Accountability Act 2013* (PGPA Act) was passed by Parliament on 28 June 2013 and will provide Commonwealth entities and companies with a single piece of governing financial legislation from 1 July 2014. The legislation was the product of more than two years of consultation as part of a broad-ranging review of the Commonwealth's financial framework from first principles. The guiding principles underpinning this reform effort are about a modernized public sector, responsive to the changing needs of society, with an increased focus on performance and the management of risk in the delivery of services to the people of Australia.
- Brunei Darussalam: Brunei Darussalam is currently in the progress of implementing public finance management reform. Its top priorities include: (1) to achieve a functioning medium-term fiscal framework, (2) to introduce an audit based on the Financial Management Accountability Index, and (3) to implement risk-based auditing in the fiscal year 2014/2015.
- Canada: One of the key challenges remaining is to ensure that Parliamentarians and citizens are able to understand various fiscal reports. The Treasury Board Secretariat has recently launched a searchable expenditure database, which assists users to obtain and compare fiscal data more easily.
- Chile: A proposal has been submitted to the senate to modify the transparency law in aspects such as active transparency, access, and reporting rights of third parties, reserve and secrecy periods, and claims and remedies.
- Hong Kong, China: To enhance public accessibility of fiscal data, and to ensure that the disseminated content is accessible to people with disabilities, particularly the visually impaired, Hong Kong has recently improved its budget website.
- Indonesia: The proposed priorities include: (1) to strengthen the organization and presentation of fiscal policy formulation; (2) to strengthen the capacity of parliament to address the technical basis for the annual budget; (3) to improve the standard of fund management and accounts reconciliation; and (4) to strengthen both internal and external audits.

- Japan: Japan will continue: (1) implementing the “Program Review of Entire Public Activities” and further improving the methods for implementation; (2) promoting increased efforts for the information disclosure of budget execution.
- Korea: Korea will continue its efforts to further increase information accessibility and public understanding of the budget, including the use of broadcast media, establishing an online budget system, publishing information pamphlets, using interactive videos and cartoons, and using info-graphics.
- Malaysia: To further strengthen public finances to ensure long term fiscal sustainability, a Fiscal Policy Committee was set-up. The committee comprises key members of the Cabinet and heads of Central Agencies. Other major fiscal reforms currently underway which are expected to be realized at the federal level by end-2015 include: implementing outcome-based budgeting and accrual accounting; and in public finance, migrating from the current modified cash-based accounting system (GFSM 1986) to the accruals-based GFSM 2001.
- Mexico: Reform priorities are oriented towards the strengthening and consolidation of the “System of Performance Evaluation”, the PbR, and its natural evolution, to results-oriented management. The 2013-2018 National Development Plan includes a series of reforms to strengthen regulatory and operational aspects of the public audit, which is expected to result in developmental steps in the consolidation of accountability.
- New Zealand: New Zealand is currently implementing changes to its Public Finance Act (as well as the State Sector Act and the Crown Entities Act). The first half of these reforms focus on government fiscal management and strategy in its entirety. The second half of the PFA reforms focus on the financial governance of state sector agencies.
- Peru: One of the highest priorities is to expand the Integrated Public Sector Financial Management Information System (SIAF-SP) to include information on all public entities that are not covered in the budget.
- Philippines: The government should continue to sustain the pace of governance and public expenditure reforms, and make these irreversible—deeply embed good governance measures in the policies, institutions and processes in the entire bureaucracy.
- Singapore: The MOF will improve the historical coverage and usability of fiscal data available online, and promote even greater awareness and enhanced understanding among the public of how the government’s finances have evolved.
- Chinese Taipei: The continuing effort to render fiscal information more comprehensive, more reliable, and more readable remains the top priority of future reform, which includes: (1) introducing a “Transparency 2.0” website for all public records of the central government; (2) improving methodologies and techniques in the calculation and projection of contingent liabilities, potential debt, and tax expenditure; and (3) promoting performance audits, and enhancing audit methodologies and skills, to perform outstanding audit services.
- Thailand: The government will (1) continue increasing the availability of fiscal information to the public, including reports of budget performance; (2) enhance the

oversight and reporting of the extra-budgetary funds; and (3) assure integrity and accountability in Thailand.

- United States: The Chief Financial Officer (CFO) Council and the Council of the Inspectors General on Integrity and Efficiency advocate a continued focus on: (1) enhancing the role of CFOs to direct the entire budget process; (2) evolving the financial reporting model for increased accountability; (3) strengthening internal control and risk management activities; and (4) continuing to improve financial management systems.

**Document is designed for double-sided printing.
Blank pages have been deliberately included to allow correct pagination.**

Annex 3-1

Individual Economy Reports

AUSTRALIA.....	49
BRUNEI DARUSSALAM	57
CANADA	64
CHILE	74
HONG KONG, CHINA.....	84
INDONESIA.....	90
JAPAN	99
REPUBLIC OF KOREA.....	107
MALAYSIA	115
MEXICO	122
NEW ZEALAND	137
PERU	145
THE PHILIPPINES	151
RUSSIA.....	163
SINGAPORE	166
CHINESE TAIPEI.....	173
THAILAND	184
UNITED STATES.....	192
VIET NAM	202

**Document is designed for double-sided printing.
Blank pages have been deliberately included to allow correct pagination.**

Australia

Developments in Promoting Fiscal Transparency and Public Accountability

1. Fiscal Institutions of the Central Government

1.1 Budget Law and Regulations

The Australian government budget (the budget) sets out the fiscal and economic outlook for Australia, and includes expenditure and revenue estimates for the current financial year, the budget year, and three forward financial years. It shows the government's social, economic and political priorities, and how the government intends to achieve these.

The budget is prepared in accordance with the *Charter of Budget Honesty Act 1998* (the Charter), which provides a framework for the conduct of government fiscal policy with the purpose of improving fiscal policy outcomes. The Charter provides for this by requiring fiscal strategy to be based on principles of sound fiscal management and by facilitating public scrutiny of fiscal policy and performance. It requires the government to disclose its fiscal strategy in each budget.

Further to the Charter, the financial framework provides sound fiscal management, accountability and audit obligations for departments and agencies under the *Financial Management and Accountability Act 1997* (FMA Act) and for Commonwealth controlled statutory authorities and companies under the *Commonwealth Authorities and Companies Act 1997* (CAC Act). Both of these Acts are supported by regulations, delegations, orders, procurement rules and guidelines. These same principles of sound fiscal management and accountability are reflected in the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), which will replace the FMA and CAC Acts from 1 July 2014 and provide for a single piece of governing financial legislation for all Commonwealth entities and companies.

The Australian government is required under the Charter to prepare financial statements that comply with external reporting standards. The government produces financial statements that comply with both Australian Bureau of Statistics' (ABS) Government Finance Statistics (GFS) and Australian Accounting Standards (AAS) and discloses departures from these standards.

The Australian Constitution requires the appropriation of monies to be made by law. These are subject to public scrutiny and are legislated in three main Appropriation Acts. These deal with the funding of government activities that are sourced from annual and special appropriations, special accounts and certain receipts. In addition, section 5 of the *Commonwealth Inscribed Stock Act 1911* caps the face value of Commonwealth Government Securities on issue.

1.2 Competent Ministries and Agencies

Main ministries, agencies and institutions responsible for budget matters

The primary decision making body in the budget process is the Expenditure Review Committee of Cabinet (ERC), discussed below.

The key departments involved in supporting the decision making processes of the ERC are the Department of the Prime Minister and Cabinet (PM&C), the Department of the Treasury (Treasury), and the Department of Finance (Finance). These departments are known collectively as the central agencies. Specific areas of responsibility for each of the central agencies include:

- Treasury: Responsible for preparing costings and briefings for consideration by ERC on all tax revenue policy proposals. Maintaining the government budget revenue estimates and producing the budget documentation for the government.
- Finance: Responsible for preparing costings and briefings for consideration by ERC on all expense and non-tax revenue policy proposals. Maintaining the government budget expense estimates and producing the budget documentation for the government.
- PM&C: Preparation of policy advice for the Prime Minister, the Cabinet and ERC. Cabinet record keeping.

Line agencies are responsible for supporting portfolio ministers through the development of new and revised policies for consideration by the executive government. It is these new policy proposals that are submitted to Finance and Treasury for costing and, if agreed, form the basis for any change to the existing budget conditions.

In addition to the agencies responsible for contributing to the preparation of the budget, the *Australian National Audit Office (ANAO)* contributes to the budget process through the provision of external audit services to public sector agencies. The ANAO oversees government financial reporting and provides assurance that the financial statements provided by central agencies and the broader public sector accurately represent the financial arrangements of the general government sector.

2. Assessing Fiscal Transparency and Accountability

2.1 Open Budget Processes

Australia's budget process involves the following steps in the lead up to the presentation of the budget to Parliament:

- *Pre-budget Submissions* (November – January): The Treasurer issues a press release calling for pre-budget submissions from interested parties.
- *Pre-budget Expenditure Review Committee (ERC)* (November/December): At Pre-budget ERC, portfolio ministers' new proposals and expected major pressures on agency budgets are considered, and priorities for the coming budget are established.
- *Portfolio Budget Submissions* (February): To seek funding for new policy proposals, agencies prepare Portfolio Budget Submissions based on the outcome of Pre-budget ERC. The submissions outline all major proposals that agencies wish to have funded and potential savings.
- *Expenditure Review Committee (ERC)* (March): This sub-committee of Cabinet is primarily responsible for developing the budget against the background of the government's political, social and economic priorities. It decides which of the agencies' proposals will be funded and by how much.
- *Budget Cabinet* (April): This is the final stage in the decision-making process. Decisions from the ERC are endorsed and the Budget Cabinet agrees to present the budget to Parliament.
- *Budget Night* (usually the second Tuesday in May): On Budget Night, the government presents the Budget Papers and budget-related documents. The Treasurer summarises the budget in his Budget Speech, which is traditionally presented at 7.30pm on Budget Night.

The primary budget documentation includes: Budget Paper No. 1 – Budget Strategy and Outlook, Budget Paper No. 2 – Budget Measures, Budget Paper No. 3 – Australia's Federal Relations, Budget Paper No. 4 – Agency Resourcing, the Budget Overview and the Budget Speech.

The Budget Papers, tabled in Parliament on Budget Night, provide details of the anticipated budget for the following financial year, which in Australia commences on 1 July. This provides time for the legislature to review the draft budget prior to the new financial year.

Further details of the procedures and frameworks that guide all aspects of the budget process including budget execution, monitoring and reporting are provided in other sections of this document.

Macroeconomic and fiscal policy framework

The Charter provides a framework for the conduct of Australian government fiscal policy with the express purpose of maintaining the ongoing economic prosperity and welfare of the people of Australia, set in a sustainable medium-term framework. To meet this fiscal policy objective, the government's fiscal strategy is to be based on the principles of sound fiscal management as defined in the Charter.

Under the Charter, the Treasurer is required to release a fiscal strategy statement at, or before, a government's first budget.

The government's fiscal forecasts are underpinned by economic assumptions that are developed based on quarterly economic forecasts. The Treasury prepares the economic forecasts in consultation with the Joint Economic Forecasting Group (JIEFG). The JIEFG Committee consists of the Treasury, the Reserve Bank of Australia (RBA), PM&C, Finance and the ABS. The Treasury prepares the JIEFG report in consultation with committee members following the quarterly release of *Australian National Accounts* (ANA) data. JIEFG processes are discussed further below.

The government's revenue estimates are underpinned by the same economic assumptions, as well as tax collections information from the Australian Taxation Office and the Australian Customs and Border Protection Service.

Estimates of both expenses and revenue are regularly revised and updated by the relevant body in the general government sector.

2.2 Public Availability of Fiscal Information

Access to fiscal reports

Australian budget documentation plays a key role in maintaining the transparency and accountability of the budget process. The Australian government publicly releases fiscal reports in accordance with the Charter, including the following reports released by the Treasurer and the Minister for Finance (Finance Minister):

- *Budget Economic and Fiscal Outlook* (the budget) – The budget is usually released on the second Tuesday in May. The Charter requires a budget, economic and fiscal outlook report to be released with each budget;
- *Mid-Year Economic and Fiscal Outlook* (MYEFO) – The MYEFO is released by the end of January each year, or six months after the budget is handed down, whichever is later. The MYEFO updates the economic and fiscal outlook from the previous budget; and
- *Final Budget Outcome* (FBO) – The FBO is to be released no later than three months after the end of the relevant financial year. The financial statements in the FBO are similar to those in the budget but provide actual outcomes rather than estimates.

The Charter also requires a *Pre-election Economic and Fiscal Outlook* (PEFO) to be released by the Secretaries of Treasury and Finance in election years, to provide an update on the economic and fiscal outlook before an election. The government may also publish an *Economic Statement* (ES) or an *Updated Economic and Fiscal Outlook* (UEFO) if they consider that changes in economic conditions and/or its fiscal strategy warrant an update of its economic forecasts and key budget aggregates.

All of these fiscal reports outline the budget aggregates, including the underlying cash balance and the fiscal balance, and include the expenditure and revenue information underpinning the aggregates. The reports include the government's fiscal forecasts, for both expenditure and revenue, for the budget year and forward estimates period (three years following the budget year). The budget also includes the current year.

In addition to these fiscal reports, the government releases further financial and non-financial information reports in accordance with the FMA Act including:

- *Consolidated Financial Statements* – A set of whole-of-government financial statements for each sector of the Australian government is produced using both cash and accrual methods complying with the AAS, with reports by function and sub-function also produced. These include an operating statement, balance sheet and cash flow statement for the general government sector, the public non-financial corporations sector and the total non-financial public sector. The consolidated financial statements are usually released in December each year, with monthly financial statements released as soon as practicable after the end of each month.
- *Portfolio Budget Statements (PBSs)* – Each of the Australian government's portfolios and the four parliamentary departments prepare a PBS which is an explanatory document to the Appropriation Bills. PBSs provide further financial and non-financial information at the portfolio and agency level about the ongoing policy and program delivery initiatives of the government, and the appropriations sought in the budget. PBSs disclose both departmental and administrative expenses.
- *Annual Reports* – Each department and agency produces an individual annual report which includes their financial statements and the accompanying report by the Auditor-General.

All of the above mentioned reports are downloadable from the respective agencies' websites free of charge, with hardcopies available for purchase from the publisher.

Expenditures

Expenditure information from a whole-of-government level through to an agency-level is included in the government's fiscal reports and associated documentation including in the relevant PBS. Appropriation Bills are prepared alongside the fiscal reports and, once they receive Parliamentary approval, establish the legal authority to draw government funds.

The Operation Sunlight requirement for agencies to report at the program level was announced in 2008. This has enabled a greater focus on performance information, with the government mandating agencies to report key performance indicators at the program level in their PBS. With actual performance results reported in each agency's Annual Report, the ability to compare forecast information to what is actually achieved forms an essential part of the accountability system.

The Commonwealth Financial Accountability Review (CFAR) was announced in December 2010 with the aim of improving performance, accountability and risk management across government through a framework that is simple, easy to use and valued by stakeholders. The review involved considerable consultation within and outside government over the course of 2011 and 2012 in developing options for public sector reform. A key outcome was the passing of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) by Parliament on 28 June 2013, with the operative provisions coming into effect from 1 July 2014. The PGPA Act provides Commonwealth entities and companies with a single piece of governing financial legislation.

Revenue

Revenue information, by source, is included in the government's budget documentation. Major revenue sources are separately identified in the fiscal reports. Some minor revenue sources are not separately identified, but are included in 'other taxes' and 'other non-tax revenue'. Prior to 1 July 2013, Australian law restricted the disclosure of revenue information when doing so would

directly, or indirectly, reveal individual tax-payer information. From 1 July 2013 new legislation allows for greater disclosure of revenue by source.

Net debt, assets and liabilities

The Australian government's general government sector balance sheet, net worth, net financial worth, net financial liabilities, net debt, assets (including financial assets) and liabilities (including employee pension liabilities, known as the superannuation liability) are made publicly available with each fiscal update. Information on the composition of Australian government debt and debt financing is included in the budget, while the Australian Office of Financial Management provides regular updates on its website. Information on the net debt of States and Territories, and overall consolidated general government data, is also included in each fiscal update.

Further information is made publicly available, in accordance with the Charter, including:

- *Tax Expenditures Statement* – The Tax Expenditures Statement comprehensively details the Australian government's tax expenditures and is published annually by 31 January. An overview of tax expenditures is also included with each fiscal update.
- *Statement of Risks* – The Australian government's fiscal risks and contingent liabilities and assets are detailed in the Statement of Risks in each budget and MYEFO.
- *Intergenerational Report* – An Intergenerational Report (IGR) is published at least once every five years and includes an assessment of the long-term sustainability of current government policies over the 40 years following the release of the report, including by taking account of the financial implications of demographic change. In addition, the medium-term fiscal outlook, including projections of the underlying cash balance and net debt over the next 10 years, has been provided in previous budgets and MYEFO.

Quasi-fiscal activities are also disclosed in the financial statements in the operating statement, balance sheet and cash flow statement, aggregated at the public non-financial corporations sector and total non-financial public sector level. Disaggregated data at the entity level is available in the annual reports of each of the public sector (state-owned) entities.

Sub-federal governments

The Australian government provides a brief perspective on the financial position of all levels of government in Australia, including sub-federal governments (State and local governments in the Australian context), in each fiscal update. Information is provided on the trends in key fiscal indicators including net operating balance, fiscal balance, cash balance, net debt and net interest payments, at the Commonwealth, state, local and consolidated levels. These trends incorporate the position of the non-financial public sector, which comprises the general government sector and the public non-financial corporations (PNFC) sector. The GGS is an institutional sector that provides non-market goods and services that are funded mainly through taxes such as policing, health and education. The PNFC sector (which could otherwise be described as non-financial state-owned Enterprises) comprises government-owned corporations engaged in providing market goods such as electricity and public transport, but not financial services.

The Australian, state and territory governments each provide a core set of financial information based on a 'uniform presentation framework' that provides a consistent approach to the presentation of financial data. This framework helps provide for more meaningful comparisons of each government's financial results and projections. In addition to setting out the framework by which financial information is presented throughout the budget year, the framework also provides a summary of the key financial statements used, and measures available to assess the fiscal position of governments.

2.3 Assurance of Integrity and Accountability

Participation in the budget process

The government encourages all Australians to participate in the budget process and actively promotes an understanding of the budget process and budget outcomes through a number of avenues, including:

- *Pre-budget submissions* – In November/December each year the Treasurer issues a press release inviting Australian families, individuals, businesses and community groups to submit their ideas and priorities for the upcoming budget;
- *The Budget website* – All budget documentation is made publicly available on the budget website – <http://www.budget.gov.au>. The website includes a ‘Frequently Asked Questions’ section with further information on what the budget is, what is involved in the budget process and where further information can be found;
- *Budget documentation* – As part of the budget documentation, the government provides overviews of the key budget aggregates and the government’s budget priorities including the *Budget Overview* and *Budget at a Glance*; and
- *Senate Estimates* – Estimates of government expenditure are referred to Senate committees as part of the annual budget cycle. This opportunity to examine the operations of government plays a key role in the parliamentary scrutiny of the executive.

Fiscal data

The Australian government’s fiscal data is subject to Parliamentary scrutiny through a number of processes including the passing of the Appropriation Bills, the tabling of the budget documentation and Senate Estimates. Further to Parliamentary scrutiny, the fiscal data is also subject to a number of rigorous internal oversight processes, primarily involving Treasury and Finance, including the JEFEG process and the role of the Auditor-General.

As part of the JEFEG processes, the economic forecasts and assumptions used to develop the fiscal forecasts are subject to rigorous analysis and scrutiny from all JEFEG members (the RBA, PM&C, Finance and the ABS). The JEFEG processes also benefit from extensive input and consultation with other economic agencies, including the Bureau of Resources and Energy Economics, through two JEFEG sub-committees meetings. The JEFEG reports are released publicly by the Treasury after a period of 2½ years, starting with the March quarter 2008 Report. The release of these reports aims to inform public discussion and debate as well as increase the level of transparency and accountability of the economic assumptions underpinning the government’s fiscal forecasts.

Accounting standards

The Australian government is required under the Charter to prepare budget financial statements that comply with external reporting standards and, to achieve this, the government produces financial statements that comply with both ABS Government Finance Statistics (GFS) and Australian Accounting Standards (AAS). AAS are compliant with International Financial Reporting Standards and include additional requirements appropriate to the Australian context. AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (an AAS) provides a basis for convergence between ABS GFS (used for budget) and AAS. In short, AASB 1049 provides that where there is an option under AAS, then the government must select that option which most closely matches what would be the treatment under ABS GFS.

The Australian, state and territory governments have an agreed framework (the Uniform Presentation Framework (UPF)) for the presentation of government financial information that complies with both ABS GFS and AAS.

Australia has not adopted International Public Sector Accounting Standards (IPSASs). Australia is involved in IPSAS consultations and monitoring their continued development.

The historical Australian government data produced at each fiscal update includes an explanation of all major revisions to historical fiscal data, and changes to data classifications made at the time of the relevant update. Revisions to historical fiscal data are regularly made to reflect up-to-date data from the ABS and the latest FBO. Making revisions to historical cash and accrual data, and back-casting adjustments as far back as 1970-71, (although not required under the AAS) ensures consistency across the years and improves the comparability, relevance and reliability of the data. Where back-casting cannot eliminate inconsistencies as a result of data limitations, the factors causing structural breaks are explained noting the affected time period. These generally relate to changes in accounting classifications or the structure of the budget. Major accounting policy changes are also explained in the relevant publication when the revision occurs.

Auditing

The Commonwealth has an Auditor-General who is responsible for providing auditing services to the Parliament and public sector entities under the *Auditor-General Act 1997*. The Auditor-General is an independent officer of the Parliament and is appointed by and reports directly to Parliament, and is supported by the ANAO.

The Auditor-General provides Parliament with an independent assessment of selected areas of public administration, and assurance about public sector financial reporting, administration, and accountability. This is done primarily by conducting performance audits, financial statement audits, and assurance reviews. The Auditor-General does not exercise management functions or have an executive role. These are the responsibility of entity management.

The Commonwealth framework provides that all Commonwealth entities are to prepare Consolidated Financial Statements that comply with AAS. The framework also provides that Commonwealth entities are to be audited by the Auditor-General.

The Auditor-General is required to follow Australian Auditing Standards (these comply with International Auditing Standards). It is a requirement of AAS that the financial statements of each entity include an opinion by the auditor on the financial statements. In addition, the Auditor-General prepares and tables before Parliament a separate report in relation to findings across the Commonwealth for that year.

Outside of very particular audits commissioned by Parliament, the reports and findings of the Auditor-General are publicly available.

Entities are required under the FMA Act or the CAC Act to establish an audit committee to support the entity in meeting its obligations under the relevant Act above (this requirement is much broader than just financial statements).

Particular mechanisms for follow-up actions exist in the context of a chief executive and the relevant minister being answerable to Parliament either directly or through various committees. An adverse audit finding in the Australian context is likely to attract public attention and media scrutiny.

3. Challenges and Priorities for Future Reform

The most recent step to improve the transparency of Australia's already strong fiscal and budgetary frameworks has been the establishment of the Parliamentary Budget Office (PBO), which commenced operations as the Federal Parliament's fourth Parliamentary department on 23 July 2012 – <http://www.pbo.gov.au/>.

The PBO provides independent analysis of the budget cycle, fiscal policy and the financial implications of proposals.

For the first time, all Members and Senators in the Federal Parliament have access to an independent and confidential costing service outside of a general election period, and are able to use a fully transparent policy costing service during an election period.

The PBO will also prepare submissions to inquiries of Parliamentary Committees; and at its own initiative, conduct and publish research on the budget and fiscal policy settings.

On 20 June 2013, the Parliament passed the *Parliamentary Service Amendment (Parliamentary Budget Officer) Act 2013*, which requires the PBO to publish a report on the cost of designated political parties' election commitments within 30 days after a government forms following a general election.

Australia held a general election in September 2013. Priorities for future reform are subject to consideration by the new government following the election.

4. Resource Bibliography

AUSTRALIAN GOVERNMENT WEB RESOURCES	
Resource	Website
Australian Bureau of Statistics	http://www.abs.gov.au/
Australian Government Budget	http://www.budget.gov.au/
Australian Government legislation	http://www.comlaw.gov.au
Australian Office of Financial Management	http://www.aofm.gov.au
<i>Charter of Budget Honesty Act 1998</i>	http://www.comlaw.gov.au/Details/C2012C00230
<i>Commonwealth Authorities and Companies Act 1997</i>	http://www.comlaw.gov.au/Series/C2004A05250
Financial Framework	http://www.finance.gov.au/financial-framework/
<i>Financial Management and Accountability Act 1997</i>	http://www.comlaw.gov.au/Series/C2004A05251
Financial statements	http://www.finance.gov.au/publications/index.html
Joint Economic Forecasting Group reports	http://www.treasury.gov.au/PublicationsAndMedia/Publications
Parliamentary Budget Office	http://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office
<i>Public Governance, Performance and Accountability Act 2013</i>	http://www.comlaw.gov.au/Details/C2013A00123
Reserve Bank of Australia	http://www.rba.gov.au/
The Australian National Audit Office	http://www.anao.gov.au/
The Department of Finance	http://www.finance.gov.au
The Department of the Prime Minister and Cabinet	http://www.dpmmc.gov.au/
The Department of the Treasury	http://www.treasury.gov.au/
Uniform Presentation Framework	http://archive.treasury.gov.au/contentitem.asp?ContentID=1371

Brunei Darussalam

Developments in Promoting Fiscal Transparency and Public Accountability

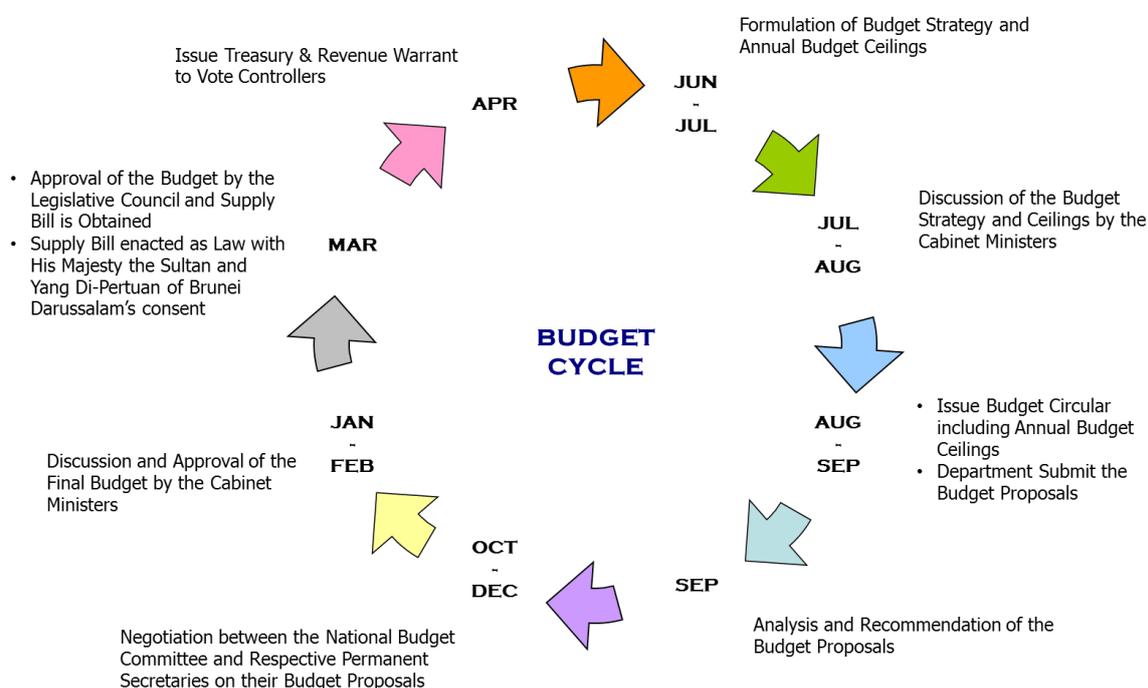
1. Fiscal Institutions of the Central Government

1.1 Annual Budget Process

The Ministry of Finance is the lead government agency for fiscal policy and administration in Brunei Darussalam.

The budget cycle for the fiscal year begins in June with the preparation of the initial Budget Paper which, among others, sets the estimated revenue, budget priorities and strategy, theme and ceilings for each ministry. Around July, this Budget Paper is submitted to the Council of Cabinet Ministers for deliberation and approval. Upon approval, a Ministry of Finance Circular is issued to line ministries outlining, as per the initial Budget Paper, the basis for their preparation of medium-term budget requests. Ministries are required to submit their budget proposals to the Ministry of Finance by mid-September. In October, the budget proposal from each line ministry is presented to the National Budget Committee for discussion and deliberation with the respective permanent secretaries. Permanent secretaries are required to present to the National Budget Committee the basis of their budget proposals and how it is aligned to the budget priorities and ministry's strategic goals. Based on the outcome of the discussion and deliberation of the National Budget Committee, a final Budget Proposal Paper is submitted to the Council of Cabinet Ministers for deliberation and approval. Members of the Legislative Council are required to vote to approve the budget proposal for the following financial year and finally the approval of the Supply Bill. The fiscal year begins on 1 April and ends on 31 March, the following year.

A graphical overview of the budget process is provided below:



1.2 Competent Ministries and Agencies

Brunei Darussalam's fiscal management is governed by several laws and regulations including Constitutional Matters I; Constitutional Matters III; Financial Regulation 1983; and circulars issued by the Prime Minister's Office and the Ministry of Finance.

The budget process is overseen by the National Budget Committee, Cabinet Ministers and the Legislative Council. Day-to-day budgetary decisions and operations are processed by the Expenditure Division at the Ministry of Finance which also acts as the secretariat to the National Budget Committee.

The Audit Department is required to prepare and submit its own departmental budget proposal to Prime Minister's Office before submitting it to the Ministry of Finance for approval.

2. Assessing Fiscal Transparency and Accountability

2.1 Open Budget Processes

To hold government accountable to the public, budget preparation, execution, and reporting should be undertaken in an open manner. Please describe the budget process in your IER and focus on addressing, but not limited, to the following points:

- *Does the budget preparation follow an established timetable? How much time does the Legislature have to review the draft budget?*

The budget preparation process follows an established timetable and is also set out in the budget circular.

Once the budget is approved by the Council of Cabinet Ministers in February, the Legislative Council members are able to review the final budget prior to discussion and approval at the Legislative Council Meeting which is normally held in early March.

- *What procedures are in place for budget execution, monitoring, and reporting?*

Budget execution is conducted based on laws and regulations which include Constitutional Matters I; Constitutional Matters III; Financial Regulation 1983; and circulars issued by the Prime Minister's Office and the Ministry of Finance.

As for monitoring and reporting, the Treasury Department and the Expenditure Division of the Ministry of Finance will be enforcing a budget monitoring and reporting system to make it mandatory for all ministries to submit their quarterly expenditure report as input for discussion in the National Budget Committee quarterly meetings.

- *How is budget preparation aligned with fiscal and other strategic objectives? Is the annual budget based on a longer-term (more than one year) macroeconomic and fiscal policy framework?*

Budget preparation is aligned with the following:

- Long-term national objectives stated in the Brunei Vision 2035 (Wawasan Brunei 2035) covering the period 2007-35: producing educated, highly skilled, and accomplished people; a high quality of life; and creating a dynamic and sustainable economy.
- In the medium term, development spending is prepared according to the theme set out in the five-year National Development Plan (NDP). The current five-year NDP was launched in April 2012. It is based on the objectives of the Brunei Vision and the theme "Knowledge and Innovation, Increasing Productivity, Accelerating Economic Growth."

- iii. National Priorities as set out in the initial Budget Paper and line ministries' strategic plans and targets.

These objectives are taken into account during the formulation of the budget strategy and theme outlined in the Budget Ceiling paper. Budget proposals from the line ministries are then centered on those strategies and theme.

The Expenditure Division is currently in the process of implementing a Public Finance Management (PFM) Reform initiative, which aims to introduce a multi-year budgetary framework.

- *Which agencies are responsible for the economic assumptions underlying the budget and the fiscal estimates respectively? Are all key economic assumptions disclosed explicitly?*

The economic assumptions used are prepared by the Department of Economic Planning and Development (DEPD) under the Prime Minister's Office which serves as the national statistics body in Brunei Darussalam. Macroeconomic projections such as gross domestic product (GDP) and CPI as well as other macroeconomic indicators generated by this agency are used in the budget document alongside projections made by international financial institutions such as the International Monetary Fund (IMF) and the Asian Development Bank (ADB). Some economic assumptions are also made within the Ministry of Finance itself.

Key economic assumptions that are used are available through the websites of the DEPDP and the relevant international financial institutions.

With the establishment of the Fiscal Forecasting Unit within the Ministry of Finance, as part of the initiative under the PFM Reform, in-house modeling, forecasting, and risk assessment analysis will be undertaken in order to support the budget planning process.

2.2 Public Availability of Fiscal Information

Please describe the public accessibility to comprehensive fiscal information in your economy. You may want to include the following information in your description:

- *What kinds of fiscal reports are published on a regular basis and at what frequency? Are they free of charge and downloadable from the web?*

The Ministry of Finance publishes fiscal reports on a quarterly basis in the Fiscal Review which are made available to government agencies, financial institutions, international financial institutions, and the private sector.

- *Is the fiscal data reported on a gross basis, distinguishing revenue, expenditure, and financing? Is expenditure classified by economic, functional, or administrative category?*

Fiscal data is reported on a gross basis, distinguishing revenue and expenditure.

Budget revenues and expenditures are presented according to administrative and quasi economic classifications. The administrative classification has two levels: ministry and departmental. The input (quasi-economic) classification of expenditures applies to Personal Emoluments and Other Charges Annual Recurring.

- *Are government receipts from all revenue sources, including resource-related activities and foreign assistance, separately identified in the annual budget presentation?*

All revenue sources are separately identified in the annual budget presentation.

- *What information on the financial position of the government do you publish? Is the information on the level and composition of public debt and financial assets published?*

The financial position of the government is shown in a balance sheet included in the annual budget presentation.

Brunei Darussalam has been able to maintain spending without the need for debt financing. Financial assets are also included in the annual budget presentation.

DEPD, through its *Annual Brunei Darussalam Statistical Yearbook*, also publishes statistics on government finance.

- *What entities are included in the budget documentation? Do you report the fiscal position of local governments and the finances of state-owned enterprises in the budget documentation?*

Fiscal operation in Brunei Darussalam is administered centrally. The annual budget presentation includes information on the 12 government line ministries, charged expenditure (which includes civil list and pension & gratuity) and the annual requirement for the National Development Plan.

- *Do you publish information about significant tax expenditures,¹ contingent liabilities,² employee pension liabilities, and quasi-fiscal activities? Do you include an assessment of primary fiscal risks or fiscal sustainability in the budget documents?*

Among significant tax expenditures, contingent liabilities, employee pension liabilities, and quasi-fiscal activities, only the employee pension liability applies. This information can be found in the annual budget presentation.

Risk assessment is assessed and included in the budget documents.

- *Do you include performance information of major expenditure programs in the fiscal reports? Are they submitted to the Legislature?*

Under the Public Finance Management Reform currently being implemented, the Ministry of Finance has introduced Program and Performance Budgeting (PPB) in three pilot ministries, namely the Ministry of Finance, the Ministry of Health, and the Ministry of Education. PPB will be introduced to the other line ministries in stages.

2.3 Assurance of Integrity and Accountability

Government fiscal activities and information should be subjected to independent assurances of integrity, including internal oversights and external scrutiny. Besides, civil society organizations, media and the wider public should be empowered to actively participate in the budget process if the linkage between fiscal transparency and public accountability is to be enhanced.

Please describe the institutional arrangements and practices relating the credibility and integrity of fiscal information in your economy. A succinct description of the following guidelines is recommended.

- *Are the government's financial statements prepared on an accrual or cash basis?*

Currently, the government's financial statements are prepared on cash basis.

- *What accounting standards are used to govern the preparation of the government's financial statements?*

The Brunei government adopts generally accepted accounting principles (GAAP).

- *Has your economy adopted International Public Sector Accounting Standards (IPSAS)?*

- *If so, have IPSAS been adopted in part or in full? How long have you used these*

¹ Tax expenditure refers to revenue foregone as a result of selective provisions of tax code. Common examples include: 1) deduction, exclusion, or exemption from the taxpayers' taxable expenditure, income, or investment; 2) deferral of tax liabilities; and, 3) preferential tax rate.

² Contingent liabilities are liabilities that may or may not occur, depending on development of future events. Common examples consist of government loan guarantees, government insurance programs, and legal claims against government.

standards? What have the advantages and/or challenges?

In recent years, IPSAS has been adopted to a certain extent. This has resulted in improved consistency and comparability of financial statements. There still remains room for improvement, particularly in increasing the number of staff with IPSAS competency within the relevant organizations.

- *Are major revisions to historical fiscal data and changes to data classification explained in the budget documentation?*

All major changes are explained in the budget documentation.

- *Are government's activities and finances internally audited? If yes, is it audited by an independent audit commission?*

Brunei Darussalam, through a Prime Minister Office's Circular in 2003, endorsed the establishment of internal audit in each ministry to ensure adequate financial management and prevent and control incidents concerning breach of trust, abuse, and inefficiency. The internal audit unit in each ministry reports directly to the relevant permanent secretary in the respective ministry and a copy is given to Auditor General and Accountant General.

- *Are public finances and policies subject to scrutiny by an audit body, i.e., Supreme Auditing Institution (SAI)/an independent audit commission? Is this institution independent of the executive branch? Is it required to submit all auditing reports to the legislature for review? Do you have mechanisms ensuring follow-up actions being taken by agencies?*

The functions described above are carried out by the Auditor General whose status and activities are ensured by the Audit Act of 1960. The Auditor General reports his findings to His Majesty the Sultan on a quarterly basis, focused on issues of budget execution, revenue collection and other compliance issues. The final accounts report compiled by the Treasury is also subject to the review of Auditor General. Audited final accounts are submitted to the Legislative Council.

The government, government-linked companies and statutory bodies' financial statements are subject to audit by the Audit Department as an independent national audit body. Types of audit performed are financial audit, compliance audit, and others. In terms of independence, the Audit Department is free to determine the audit scope and has access to all records and documents including any electronic data and information, person and properties (Act 152, Section 7 (1) (c) and (d)).

Based on Section 68 of Brunei Constitution 1959, "The Auditor General shall submit his reports to His Majesty the Sultan and Yang Di-Pertuan who may cause the reports to be laid before the Legislative Council."

As stated in the audit report covering memorandum, audit requires the auditee to respond to the audit report, which is issued within two months from the date of the report. If there is no response or only partial response, audit will issue a reminder letter to the auditee on any outstanding matters until all audit issues are settled. If there is still no response, the Audit Department would refer the matter to National Audit Committee.

- *Is there any independent expert or institution involved in the assessment of economic forecasts that underlie the budget?*

Economic forecasts are based on assessments of macroeconomic indicators provided by relevant agencies including DEPD and the Energy Department as well as projections by international financial institutions such as the IMF and the ADB.

- *Does the government actively promote public understanding of the budget process and budget outcomes? How are citizens engaged during the budget process?*

Information on the budget process is available on the Ministry of Finance website and

through roadshows organized by the Expenditure Division. Information on the budget strategy, themes, and key budget allocations discussed at the Legislative Council are disseminated through the press as well as through brochures.

Wide and in-depth media coverage of the Legislative Council meeting keeps citizens updated on the discussions. Detailed information on the budget deliberation at the Legislative Council is available on the Legislative Council website.

Citizen engagement in the budget process is directed through their respective Legislative Council representative.

3. Challenges and Priorities for Future Reform

As mentioned earlier, Brunei Darussalam is currently in the progress of implementing public finance management reforms. The reforms include expanding macro-fiscal forecasting capabilities, developing a new fiscal outlook document, considerably expanding the coverage of the budget, moving towards joint preparation of supply and development budget, implementing the new GFS-based input classification, expanding capacities in budget analysis and review, decentralizing additional budget preparation and execution authorities to line ministries, and strengthening the penalty regime for budget execution.

Looking forward, Brunei Darussalam aims to achieve a functioning medium-term fiscal framework (MTFF), a programmatic budget structure, and a performance management information process.

The introduction and implementation of *Financial Management Audit Based on Accountability Index* that focus on the six financial control elements aims to improve the financial management of the government ministries and departments.

Risk-based auditing will be implemented in the financial year 2014/2015 to enhance the Brunei government's audit process by focusing on relevant audit areas, maximizing the use of audit resources and providing better audit recommendations to the auditee, ones which will promote good governance and public accountability.

4. Resource Bibliography

Resource	Website
Ministry of Finance Information on the budget process can be found here.	www.mof.gov.bn
Prime Minister's Office Among others, circulars are published here.	www.pmo.gov.bn
Legislative Council Further information on the Legislative Council as well as handsards.	www.majlis-mesyuarat.gov.bn
Attorney General's Chambers Reference for laws and regulations.	www.agc.gov.bn
The Audit Act Chapter 152 Brunei Constitution 1959	

Canada

Developments in Promoting Fiscal Transparency and Public Accountability

1. Fiscal Institutions of the Central Government

1.1 Annual Budget Process

It is important to note that there is no fixed date for the release of the budget, although it is typically tabled in late-February or March.

A) Priority Setting

The budget process begins early in the fiscal year, which runs from 1 April to 31 March, with the government reviewing existing priorities from election commitments, the Speech from the Throne³, and emerging pressures. The Minister of Finance also reviews economic and fiscal developments that have occurred since the previous Budget was released.

A Cabinet retreat is held in the summer where members of Cabinet discuss a broad strategy for the budget based on the economic and political climate. Based on the outcome of the Cabinet retreat, central agencies⁴ and departments are provided with broad directions to guide them with budget preparations.

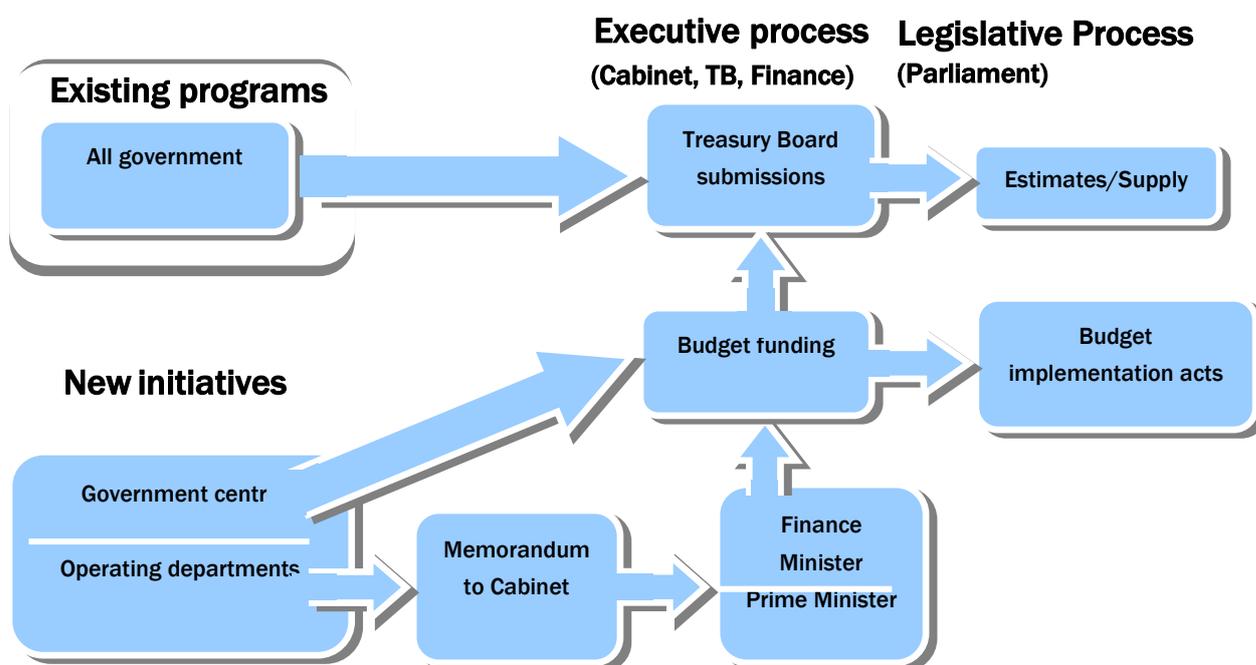
B) Budget Preparations

The government releases the Update of Economic and Fiscal Projections in the fall, which includes forecasts of the fiscal outlook and economic growth, as well as potential risks to the economy's finances.

The release of the Update typically marks the starting point of the broader pre-budget consultation process. The Minister of Finance begins consultations with the public, the provinces, territories and other stakeholders (e.g. non-governmental organizations (NGOs), financial institutions, private economists). The House of Commons Standing Committee on Finance submits a report on its consultations with Canadians, which includes a list of recommendations. The Minister of Finance draws on this material and recommendations from public consultations, provincial finance ministers and the Cabinet committees to develop a budget strategy.

³ The Speech from the Throne officially opens every new session of Parliament and sets out the broad goals and directions of the government and the initiatives it will undertake to accomplish those goals (<http://www.speech.gc.ca/eng/index.asp>).

⁴ Central agencies include the Department of Finance, the Privy Council Office, and the Treasury Board Secretariat (see (3) for roles and responsibilities of each in the budget process).



C) Budget Development

The most intensive time in the budget process is January through budget day. The Department of Finance updates the fiscal projections presented in the Fall Update, incorporating the latest economic and fiscal developments. These projections determine the amount of fiscal resources available for discretionary fiscal measures in the budget. During this period, the Minister of Finance and the Prime Minister (PM) meet regularly to discuss the themes, structure, and timing of the Budget. The PM and Minister of Finance also discuss individual budget measures. To facilitate decisions, Department of Finance and Privy Council Office officials prepare briefings on each individual budget proposal.

Once budget decisions are made, the Department of Finance drafts the budget text and the budget is tabled in the House of Commons by the Minister of Finance, usually between the end of February and March. Parliamentarians are asked to vote on the budget a few days following its tabling. This is a confidence vote for the government in power.

D) Post-Budget

The government uses the *Budget Implementation Act* (BIA) to enact the tax and non-tax initiatives of the budget that require legislative implementation. The BIA must be approved by both houses of Parliament (the House of Commons and the Senate). The budget presents the government's spending intentions for the coming years, but does not provide the authority to spend public funds. Authority must be obtained through the Estimates process, which includes the Main Estimates and Supplementary Estimates. Estimates must also be approved by Parliament. During the spring and summer, each department prepares a Report on Plans and Priorities (RPP) which outlines expected results for the resources allocated in the budget, and a Departmental Performance Report (DPR), which evaluates results achieved against targets set out in the department's RPP from the previous year.

The Expenditure Management System is the framework for developing and implementing the government's spending plans and priorities within the limits established by the budget. The system is designed to ensure that all programs are focused on results, provide value for taxpayers' money, and are aligned with the government's priorities and responsibilities.

<http://tbs-sct.gc.ca/ems-sgd/index-eng.asp>

Following the Federal Budget, organizations prepare submissions to the Treasury Board of Canada for review and challenge by the Secretariat and approval by the Board. Treasury Board

approves these detailed resource allocation plans for initiatives previously approved by Cabinet or included in the federal budget.

http://www.tbs-sct.gc.ca/pubs_pol/oepubs/TBM_162/gptbs-gppct01-eng.asp

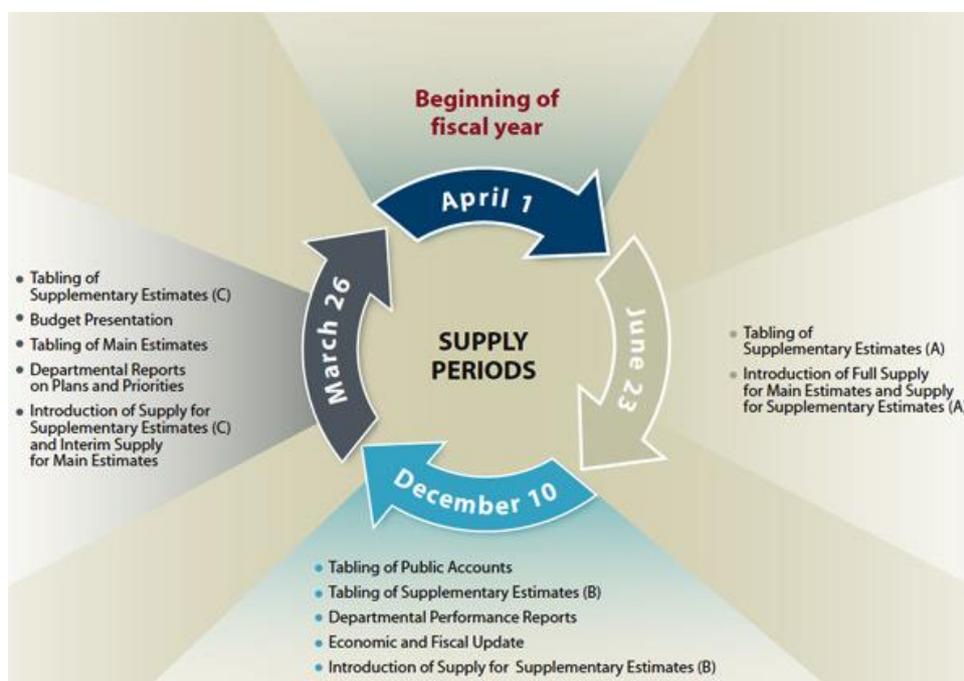
Once Treasury Board approval is granted, information on planned expenditures is presented to Parliament through tabling of Estimates publications and the introduction of supply bills (which, once passed into legislation, become appropriation acts) in accordance with the reporting cycle for government expenditures.

Reports on Plans and Priorities (RPPs) are forward-looking documents that provide plans for each department and agency (excluding Crown corporations). They describe departmental priorities, expected results and associated resource requirements covering three fiscal years. The first year of this document supplements information contained in the Main Estimates. The RPPs are tabled in Parliament and are used by parliamentarians in their consideration of the Main Estimates.

<http://www.tbs-sct.gc.ca/ems-sgd/esp-pbc/rpp-eng.asp>

The reporting cycle for government expenditures

<http://www.tbs-sct.gc.ca/ems-sgd/rc-cr-eng.asp>



1.2 Budget Law and Regulations

The government uses the “omnibus” legislative vehicle of the BIA to enact any statutory authority needed to implement budget measures. The BIA contains both tax and non-tax legislative items. There are usually two BIAs per year. The first is tabled by the Minister of Finance shortly after the tabling of the budget plan. The second usually follows later in the fall, following consultations or further policy development.

The government’s budget forecast is prepared on an accrual basis of accounting, in accordance with the same accounting policies used in the preparation of the government’s annual audited financial statements. The government’s accrual accounting policies are based on accounting standards set by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants, an independent body with the authority to set accounting standards for the Canadian public sector.

1.3 Competent Ministries and Agencies

Departments Responsible for the Budget

The federal government's three central agencies are responsible for budgetary decisions and budget operations.

The Department of Finance provides advice and analysis of economic and fiscal issues as well as policies such as taxation and transfer payments to provinces and individual Canadians. It also exercises a challenge function on the budget proposals of other departments and is responsible for the coordination of the budget process and the preparation of the budget document.

The Privy Council Office provides advice to the Prime Minister and Cabinet and manages the Cabinet agenda. The Prime Minister, along with the Minister of Finance, has the final say over measures included in the budget.

The Treasury Board Secretariat supports the Treasury Board, a committee of Cabinet works with departments to translate the policies and programs detailed in the budget into operational reality. Treasury Board Ministers review and approve detailed program submissions and provide expenditure authority (subject to Parliamentary approval) to implement budget measures. The Secretariat provides guidance so that resources are soundly managed across government with a focus on results and value for money. The Secretariat is also responsible for the comptrollership function of government.

Note: The Treasury Board is a statutory committee of Cabinet established under the Financial Administration Act. It consists of six ministers, including the President of the Treasury Board (Chairperson) and the Minister of Finance, who meet regularly to consider submissions sponsored by federal organizations. As expenditure manager, the Treasury Board is responsible for preparing the government expenditure plan tabled annually in Parliament (Estimates) and for monitoring program spending in government departments and agencies. As management board, the Treasury Board provides policy direction in areas such as access to information, accounting, audit and evaluation, contracting, financial management, information technology, and real property, as well as on the management of the government's assets, privacy, security, and personnel. The Treasury Board's administrative body is the Treasury Board of Canada Secretariat.

Institutions that Perform Budget Oversight

There are two arms-length institutions that report directly to Parliament that perform budget oversight.

The Auditor General of Canada is an Officer of Parliament who audits federal government operations and provides Parliament with independent information, advice, and assurance regarding the federal government's stewardship of public funds.

The Parliamentary Budget Officer provides independent analysis to Parliament on the state of the nation's finances, the government's Estimates and trends in the Canadian economy.

1.4 Role of Competent Agencies in Managing Fiscal Pressures and Budget Processes

The Department of Finance is the key actor responsible for the management of fiscal pressures and the whole budget process. Throughout the year, officials in the Department of Finance, along with their colleagues in Treasury Board Secretariat and the Privy Council Office, work with other ministries/agencies (e.g. Environment, Industry, Human Resources and Skills Development, etc.) to identify and manage departmental financial pressures. This includes tracking pressures related to situations where departments assert they are having difficulty delivering current mandated programming with their existing resources as well as identifying pressures related to items with expiring policy and funding authorities. In both cases, central agencies work together to provide advice to the department and to identify the appropriate sources of funds for these pressures.

The diagram/picture below demonstrates the roles that each central agency plays in the budget process.



2. Assessing Fiscal Transparency and Accountability

2.1 Open Budget Processes

To hold government accountable to the public, budget preparation, execution and reporting should be undertaken in an open manner. Please describe the budget process in your IER and focus on addressing, but not limited, to the following points:

- *Does the budget preparation follow an established timetable? How much time does the Legislature have to review the draft budget?*

Because the budget date is not fixed, there is no established timeline for budget preparation. Rather, the timing of the process varies from year to year, depending on the Budget date.

There is, however, a generally established timetable once the budget is tabled. The House of Commons has four days to debate the budget motion itself. The budget implementation law and the Main Estimates are subject to debate of variable length. The Main Estimates are usually introduced before 1st March and passed before 23rd June. Supplementary Estimates also follow a timeline established by the parliamentary calendar.

- *What procedures are in place for budget execution, monitoring, and reporting?*

The *Budget Implementation Act* and Estimates process, which have been discussed above, are the tools used for budget execution. The Department of Finance monitors the progress of budget measures in conjunction with the Treasury Board Secretariat. Each department must formally report on its activities through a Report on Plans and Priorities and Departmental Performance Report, which are tabled annually in Parliament. Actual expenditures are reported in Quarterly Financial Reports and Public Accounts (<http://www.tpsgc-pwgsc.gc.ca/recgen/cpc-pac/index-eng.html>). In addition, departments and agencies are occasionally subject to audits by independent agencies, such as the Auditor General.

During the recent period of stimulus spending, the government introduced a temporary budget reporting mechanism in an effort to be transparent with Canadians on the use of the stimulus funds. Between Budget 2009 and 2012, the government released eight reports to Canadians on the progress of its stimulus package, known as Canada's Economic Action Plan.

- *How is budget preparation aligned with fiscal and other strategic objectives? Is the annual budget based on a longer-term (more than one year) macroeconomic and fiscal policy framework?*

Early in the budget process the government reviews its existing priorities from election commitments, the Speech from the Throne, and emerging pressures. A retreat is held in the summer for Cabinet to discuss a broad strategy for the budget based on the strategic objectives of the government. The government's strategic objectives are outlined in Speeches from the Throne. The budget is normally done on a five-year planning horizon. On certain issues, longer term plans are developed (for instance, the 10-year infrastructure plan announced as part of the recent 2013 budget). Expenditure authority through the Estimates process is granted on an annual basis.

- *Which agencies are responsible for the economic assumptions underlying the budget and the fiscal estimates respectively? Are all key economic assumptions disclosed explicitly?*

To ensure objectivity and transparency in forecasting, the economic forecast underlying the fiscal projections is based on an average of the survey of private sector economic forecasters. This process has been followed for almost two decades. More than a dozen forecasters provide their views on a number of key economic variables (e.g. nominal GDP, unemployment rate, and short- and long-term interest rates) which serve as the basis for the Department of Finance's fiscal planning.

2.2 Public Availability of Fiscal Information

Please describe the public accessibility to comprehensive fiscal information in your economy. You may want to include the following information in your description:

- *What kinds of fiscal reports are published on a regular basis and at what frequency? Are they free of charge and downloadable from the web?*

In addition to the annual budget and *Update of Economic and Fiscal Projections*, some of the government's key fiscal reports include:

- The Fiscal Monitor, a monthly publication that highlights the most recent financial results of the government (<http://www.fin.gc.ca/pub/fm-rf-index-eng.asp>);
- The Annual Financial Report, which provides overall financial data on federal revenues and spending on a full accrual accounting basis for the most recent complete fiscal year (<http://www.fin.gc.ca/purl/afr-eng.asp>);
- The Fiscal Reference Tables, which provide summary historical financial data for the federal government and the provinces and territories (<http://www.fin.gc.ca/pub/frt-trf/index-eng.asp>);
- The Public Accounts of Canada, which contain the government's audited financial statements for the most recent fiscal year, and details of financial operations by each ministry (<http://www.tpsgc-pwgsc.gc.ca/recgen/cpc-pac/index-eng.html>); and,
- The annual Debt Management Report, which covers key elements of the federal debt strategy, and strategic and operational aspects of the government's debt program and cash management activities over the past year (<http://www.fin.gc.ca/pub/dmr-rgd/index-eng.asp>).

Each of these documents is downloadable from the web, free of charge.

- *Is the fiscal data reported on a gross basis, distinguishing revenue, expenditure, and financing? Is expenditure classified by economic, functional, or administrative category?*

Fiscal data is published on a gross basis, distinguishing revenue, expense and interest charges on the public debt. Expenses are classified by function and by ministry in the Public Accounts.

- *Are government receipts from all revenue sources, including resource-related activities and foreign assistance, separately identified in the annual budget presentation?*

Details on tax revenues and non-tax revenues are presented separately in the budget, with information on tax revenues being provided by type of tax (e.g., personal income tax) and non-tax revenues being separated into employment insurance premiums and other revenues.

- *What information on the financial position of the government do you publish? Is the information on the level and composition of public debt and financial assets published?*

The government includes a Statement of Financial Position at the end of each fiscal year as part of its annual audited financial statements, published in the Public Accounts of Canada. Details on the level and composition of public debt and financial assets are included in Volume I of the Public Accounts, available on the Public Works and Government Services website at <http://www.tpsgc-pwgsc.gc.ca/recgen/cpc-pac/index-eng.html>.

The government also includes a condensed statement of assets and liabilities in its monthly Fiscal Monitor publication.

- *What entities are included in the budget documentation? Do you report the fiscal position of local governments and the finances of state-owned enterprises in the budget documentation?*

The reporting entity of the government of Canada is based on the notion of control. For financial reporting purposes, control is defined as the power to govern the financial and operating policies of an organization with benefits from the organization's activities being expected, or the risk of loss being assumed by the government.

For purposes of the budget and the annual audited financial statements, the federal government reporting entity includes departments and agencies which comprise the legal entity of the government as well as other government organizations, including state-owned enterprises, which are separate legal entities but are controlled by the government. The Canada Pension Plan is excluded from the government reporting entity because changes to the Plan require the agreement of two-thirds of participating provinces and it is therefore not controlled by the government. The fiscal position of provincial and local governments is not included in the federal government reporting entity.

Provincial and local governments have similar processes for determining their respective reporting entities.

Statistics Canada collects and publishes data that includes all levels of government.

- *Do you publish information about significant tax expenditures⁵, contingent liabilities⁶, employee pension liabilities, and quasi-fiscal activities? Do you include an assessment of primary fiscal risks or fiscal sustainability in the budget documents?*

Tax expenditures are reported, annually, by the Department of Finance. Details of the government's contingent liabilities and employee pension liabilities are published annually in

⁵ Tax expenditure refers to revenue forgone as a result of selective provisions of tax code. Common examples include 1) deduction, exclusion, or exemption from the taxpayers' taxable expenditure, income, or investment; 2) deferral of tax liabilities; and, 3) preferential tax rate.

⁶ Contingent liabilities are liabilities that may or may not occur, depending on development of future events. Common examples consist of government loan guarantees, government insurance programs, and legal claims against government.

the Public Accounts. There is no general roll-up of quasi-fiscal activities (although the practice is not common in Canada and this terminology is not used in Canada).

- *Do you include performance information of major expenditure programs in the fiscal reports? Are they submitted to the Legislature?*

Performance information is included in Departmental Performance Reports. The Auditor General also periodically reviews the performance of major expenditure programs.

2.3 Assurance of Integrity and Accountability

Government fiscal activities and information should be subjected to independent assurances of integrity, including internal oversights and external scrutiny. Besides, civil society organizations, media and the wider public should be empowered to actively participate in the budget process if the linkage between fiscal transparency and public accountability is to be enhanced.

Please describe the institutional arrangements and practices relating the credibility and integrity of fiscal information in your economy. A succinct description of the following guidelines is recommended.

- *Are the government's financial statements prepared on an accrual or cash basis?*

Government's financial statements are prepared on an accrual basis.

- *What accounting standards are used to govern the preparation of the government's financial statements?*

The Treasury Board sets government accounting policies, based on standards set by Public Sector Accounting Board of the Canadian Institute of Chartered Accountants.

- *Has your economy adopted International Public Sector Accounting Standards (IPSAS)?*

One of the Public Sector Accounting Board's (PSAB) goals is to promote goal congruence with other standard setters in establishing generally accepted accounting standards. To that end, PSAB provides in-depth technical support to Canada's members of the International Federation of Accountants' (IFAC) International Public Sector Accounting Standards Board (IPSASB).

As a founding member, Canada is very supportive of IPSASB's work, and continues to provide advice in fulfilling its work program. PSAB staff is currently responsible for development of the "elements of financial statements" component of the IPSASB Conceptual Framework. As public sector-specific issues are identified by IPSASB, they are noted for inclusion in PSAB's work program.

- *Are major revisions to historical fiscal data and changes to data classification explained in the budget documentation?*

Major revisions to historical fiscal data and changes to data classification are explained in the budget documentation or in other related documentation/reports.

- *Are government's activities and finances internally audited? If yes, is it audited by an independent audit commission?*

Government activities and finances are internally audited by government auditors and by the Auditor General of Canada. Crown corporations are generally audited jointly by the Office of the Auditor General and private sector auditors.

- *Are public finances and policies subject to scrutiny by an audit body, i.e. Supreme Auditing Institution (SAI) / an independent audit commission? Is this institution independent of the executive branch? Is it required to submit all auditing reports to the legislature for review?*

Do you have mechanisms ensuring follow-up actions being taken by agencies?

The government's annual financial statements are audited by Auditor General of Canada.

The Auditor General of Canada is an Officer of Parliament who audits federal government departments and agencies, most Crown corporations, and many other federal organizations, and reports publicly to the House of Commons on matters that the Auditor General believes should be brought to its attention. The Auditor General of Canada is also the auditor for the governments of Nunavut, the Yukon, and the Northwest Territories, and reports directly to their legislative assemblies. The Auditor General's powers and responsibilities are set forth in legislation passed by Parliament.

All reports of the Auditor General are referred to the Public Accounts Committee (of the House of Commons), Parliament's standing audit committee, for review. The Committee selects the chapters of the report it wants to study and calls the Auditor General and senior public servants from the audited organizations to appear before it to respond to the Office of the Auditor General's findings. The Public Accounts Committee also reviews the federal government's consolidated financial statements – the Public Accounts of Canada – and examines financial and/or accounting shortcomings raised by the Auditor General. At the conclusion of a study, the Committee may present a report to the House that includes recommendations to the government for improvements in administrative and financial practices and controls of federal departments and agencies.

- *Is there any independent expert or institution involved in the assessment of economic forecasts that underlie the budget?*

To ensure objectivity and transparency in forecasting, the economic forecast underlying the fiscal projections is based on an average of the survey of private sector economic forecasters. This process has been followed for almost two decades. More than a dozen forecasters provide their views on a number of key economic variables (e.g. nominal GDP, unemployment rate, and short- and long-term interest rates) which serve as the basis for the Department of Finance's fiscal planning. Because of the uncertainty in the global economic outlook, the Department of Finance has included a downward adjustment of C\$3.0 billion to the private sector forecast for nominal GDP in the most recent budget outlook (Economic Action Plan 2013).

- *Does the government actively promote public understanding of the budget process and budget outcomes? How are citizens engaged during the budget process?*

The government of Canada informs Canadians about the budget in numerous ways, both before and after it is tabled. The government consults Canadians across the economy through a series of regional pre-budget roundtables by various Ministers. The government also asks Canadians to send in their views through online pre-budget consultations held every year.

The government promotes public understanding of the budget by providing information on the federal budget in both traditional and innovative ways. Recent developments include a user-friendly layout of the budget plan, featuring an enhanced search function and optimized navigation for traditional and mobile browsing on smartphones and tablets. In addition, brief videos were prepared that summarized key elements of the budget of most interest to Canadians, such as skills training and infrastructure. Social media users also received budget tweets in both the run-up to budget tabling and during the Budget speech itself, providing both background information on the budget-making process and the main budget themes, putting the Economic Action Plan into greater context and in a format designed to share. In addition, the government runs an awareness campaign to inform Canadians about the Economic Action Plan. In 2013, this campaign included TV, radio and web ads to inform Canadians of the programs and services available to them.

3. Challenges and Priorities for Future Reform

The government of Canada is committed to fiscal transparency and, each year the government publishes a number of comprehensive financial reports.

Of note, the core financial information presented in federal budget documents has not changed in over a decade, which facilitates comparison between years. Further, the fiscal outlook presented in the federal Budget has become increasingly accurate, as recently shown by a report from the C.D Howe Institute in Canada.

Moreover, since 1994, the fiscal outlook provided in the federal budget is based on an economic outlook provided by private sector economists. The International Monetary Fund considers this to be a “best practice” internationally with respect to budget transparency.

One of the key challenges remaining is to ensure that Parliamentarians and Canadians are able to understand the different government financial reports. To facilitate the reconciliation of various types of information, TBS has recently launched a searchable expenditure database. The database allows the public to search for spending information in three categories: by authorities and expenditures, which compare the amount of funding that was authorized to what was actually spent, by standard object, which details itemized government spending, and by program. By clicking on any value presented in the database, users can obtain government-wide totals and make comparisons of the data.

4. Resource Bibliography

Resource	Website
General overview of how parliament works from the parliament website.	http://www.parl.gc.ca/AboutHowParlWorks.aspx?Language=E
Department of Finance Reports and Publications	http://www.fin.gc.ca/pub/index-eng.asp
Official Budget Website	http://www.budget.gc.ca/
Treasury Board Secretariat – Estimates Publications	http://www.tbs-sct.gc.ca/ems-sgd/esp-pbc/esp-pbc-eng.asp
Auditor General Reports and Publications	http://www.oag-bvg.gc.ca/internet/english/rp_fs_e_44.html
OECD Publication on budgeting in Canada	http://www.oecd.org/gov/budgeting/40140423.pdf
Parliamentary Budget Officer Reports and Publications	http://www.pbo-dpb.gc.ca/en/OUR+PUBLICATIONS
Statistics Canada	http://www.statcan.gc.ca/start-debut-eng.html

Chile

Developments in Promoting Fiscal Transparency and Public Accountability

1. Fiscal Institutions of the Central Government

1.1 Annual Budget Process

Chile is governed by a presidential system, which gives the President the sole initiative of proposing the draft laws that are related to the Financial Administration and State Budget. In addition to the Constitution, other laws regulate the budget process, such as the *Organic Law No. 1,263 on Financial Administration of the State*, which establishes the main functions of the entities involved (Ministry of Finance, Budget Office, Comptroller General of the Republic and Treasury of the Republic), the *Organic Law No. 18,575 on the Constitutional General Bases of the State Administration*, the *Law on the Organization and Powers of the Comptroller General of the Republic (Decree No. 2421)* and *Decree-Law No. 106 of the Ministry of Finance*, which defines the specific duties of the Budget Office (DIPRES). DIPRES is an agency under the Ministry of Finance and coordinates the development, direction, and implementation of the state budget policy.

The annual law of most importance is the Budget Law, which includes the central government institutions that can be classified into three types of entities as follows:

- Centralized institutions: organizations that work directly with the President of the Republic in the state administration and those acting with legal personality and Treasury assets and resources. These include ministries, municipalities, governors and centralized services, under the President through the respective ministry.
- Autonomous state institutions or those governed by special rules: branches of the state and the Administration have special constitutional norms. These include: Congress, the Judiciary, Comptroller General of the Republic, the Constitutional Court, the Electoral Court, Regional Electoral Courts, Armed Forces and police, and prosecutors.
- Decentralized Institutions: services or public agencies organized as public law institutions with their own legal personality and assets, which relate to the President through a Ministry.

The budget process is described below according to the four main stages (proposal, discussion/approval, execution and evaluation) and the actors involved, followed by a snapshot of the budget calendar that highlights the main events of the fiscal cycle.

The annual budget process is divided into four stages: (1) proposal, (2) discussion/approval, (3) execution and (4) evaluation.

1. *Proposal*

In the first stage, the draft law for the budget for the following fiscal year is elaborated based on estimates on revenue and expenditure of the corresponding budgetary programs of all the institutions that comprise the central government.

Participants: The President, the Ministry of Finance, DIPRES, the ministries and agencies.

Time periods and procedures: Generally in July, the Ministry of Finance sends official memos to the ministries with instructions on the budget allocations. In August, the internal discussions within

the Ministry of Finance begin and are held in two phases. In the first phase, the technical commissions of DIPRES and representatives of the ministries and government services make presentations on the different sectors and make an overall institutional and global analysis. In the second phase, reports are presented to the Director of DIPRES, who then presents the reports to the Minister of Finance. During the first two weeks of September, the budget proposal is sent to the presidency for approval and the decision is then communicated by the Ministry of Finance to the rest of the ministries. During the last week of September, DIPRES makes the final revisions and prepares all the complementary documents, such as the Public Finance Report (*Informe de las Finanzas Públicas*); the latter is presented to Congress by the DIPRES Director during the first days of October (after the draft submission) and it is published online and in hardcopy. The Ministry of Finance creates the official document and gathers background information for the message of the draft budget law. Furthermore, the Ministry of Finance is responsible for sending the draft law to the General Secretariat of the Presidency. The draft law for the upcoming year's budget is sent to Congress by 30 September at the latest.

2. Discussion/Approval

This second stage involves the analysis and discussion of the draft law on the budget, which takes place in Congress.

Participants: The President, DIPRES, Congress (Special Budget Commission) and Public Institutions.

Time Periods: Article 67 of the Constitution establishes a minimum period for the presentation of the draft budget law, at least three months prior to the date in which the budget should enter into force in the coming year. The same article sets a maximum period for its processing, so that if Congress does not approve the budget within 60 days, the proposed budget presented by the president will take effect. Article 14 of the Organic Decree Law No. 1.263 of the Financial Administration of the State states that "the budget should be completely processed by the latest on 1 December of the year prior to its enforcement."

Discussion: In this second stage, the draft budget law proposed by the president must be presented to Congress. Article 19 of the Organic Law of the Constitution states that "the draft law on the budget will be advised by a special commission composed by an equal number of deputies and senators." The commission is chaired by a Senator elected by the commission members and the commission remains in place until the budget is approved. This Special Budget Commission sets out rules of procedure and creates the subcommittees required to study the different parts of the budget proposal. The Special Budget Commission must inform the Chamber of Deputies after 15 days, or submit the records within that period, in their current status, unless the Chamber of Deputies prolongs this period.

Approval: According to Article 67 of the Constitution, Congress shall neither increase nor decrease the revenue estimates; only the expenditures can be reduced, except those established permanently by law. The estimates of the return on public resources or other initiatives of the draft budget law are an exclusive faculty of the President, upon receiving the reports prepared by the technical agencies. The Budget Law is approved through simple majority. Once the draft budget law is approved, it is sent to the President, who then signs it into law (according to Article 72 of the Constitution).

3. Execution

Participants: DIPRES, budget offices of the ministries, Treasury, the President and Congress.

This third phase consists of the monthly disbursement of the budget funds to the institutions and the maintenance of the up-to-date details of the original budget (by means of decrees for budget modifications) and logging of cash and accrual expenses. On a monthly basis, agencies report their execution progress (expenses accrual) to the Budget Office, which in turn reports the aggregate monthly and quarterly execution by the agencies on its website.

4. Evaluation

Participants of internal control: DIPRES, budget offices of ministries, internal audit teams, hierarchical controls, audit council of the government and Ministry of the General Secretariat of the Presidency (SEGPRES).

Participants of external control: Comptroller General of the Republic, Congress (Chamber of Deputies and Senate).

The final phase requires the analysis of the previous term’s budget execution by the ministries and agencies, which incorporates information on budget management and spending. The image below provides a brief overview of the budget evaluation and management process:

Figure: Brief overview of the budget evaluation and management process in Chile

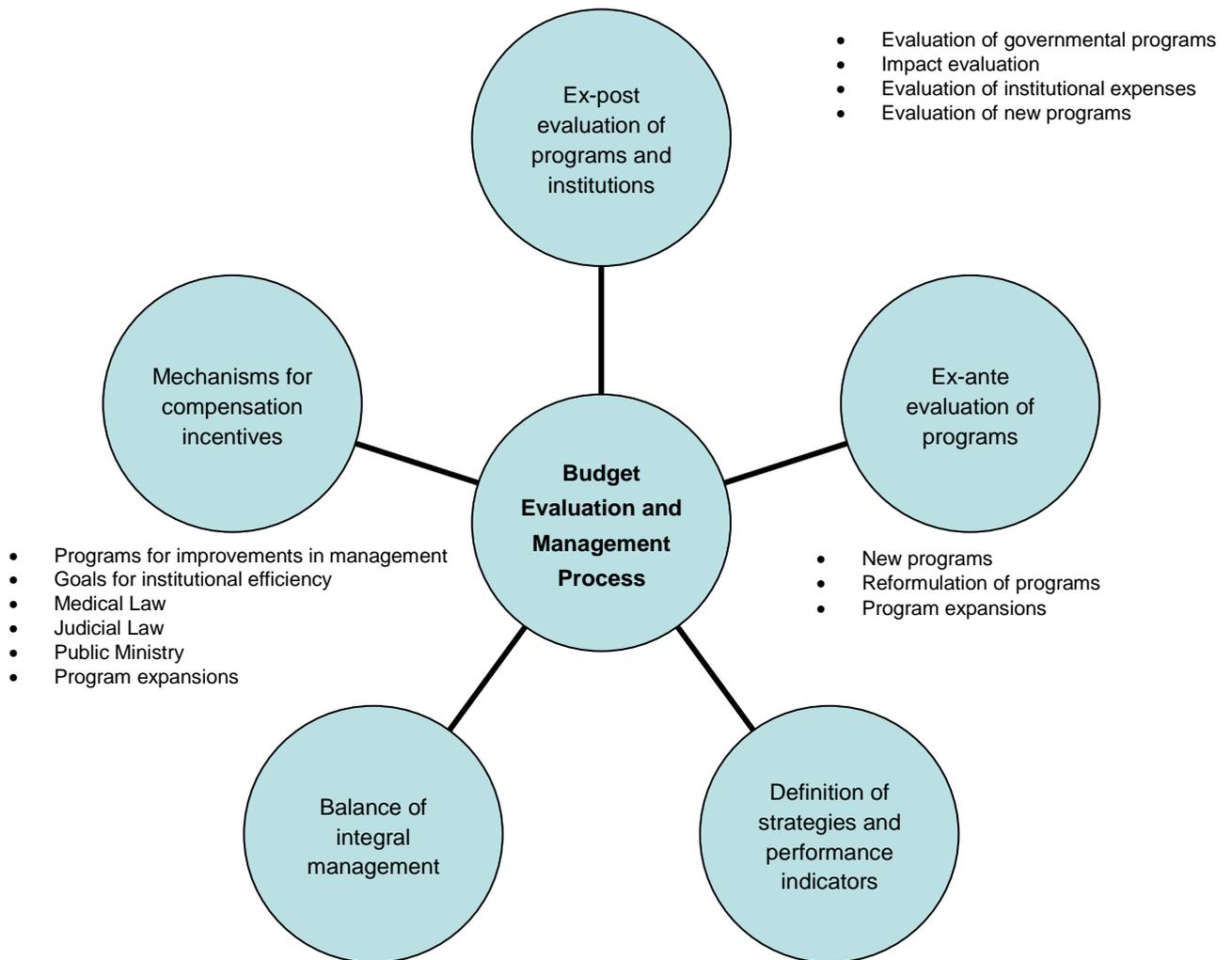


Table: Fiscal Calendar in Chile

Month	Activity
January	End of collection of budget execution information year t-1
February	Presentation of budget execution statistics year t-1
March	Preparation of performance evaluation of financial year t-1
April	Management Assessment financial year t-1
May	Evaluation of inertial spending
June	Delivery of report to Congress assessing the management of financial year t-1 and updating the projection of year t
July	<ul style="list-style-type: none"> - Instructions on budget formulation and framework are delivered to the Ministries - Ministries respond with budget requests, including the presentation of new initiatives or expansion of existing programs using a Standard / Logical Framework format
August	<ul style="list-style-type: none"> - Technical Commissions between DIPRES and Ministries - Establishment of macroeconomic assumptions based on information from independent experts - Determination of available resources on inertial spending
September	<ul style="list-style-type: none"> - Distribution of resources available (above inertial spending) to new initiatives or expansion of existing programs - Bilateral meetings with Ministers, agreements on Reassignments - Submission of Budget to Congress
October	<ul style="list-style-type: none"> - Presentation of the State of the Treasury by the Minister of Finance, reporting on macroeconomic policy - Presentation of Public Finance Report to Congress - Budget analysis by Sub-Committees - Draft Memorandum of Understanding (<i>Protocolo de Acuerdo</i>)
November	<ul style="list-style-type: none"> - Vote on Draft Law on Budget by Budget Committee, Chamber of Deputies and Senate - Signing of Memorandum of Understanding
December	<ul style="list-style-type: none"> - Enactment of new Budget Law - Fiscal year end

1.2 Budget Law and Regulations

Since 2001, fiscal policy has been guided by a rule based on the achievement of a pre-established goal of structural balance, measured as a percentage of GDP. The Public Sector Structural Balance is defined as the balance that would exist if economic activity and the price of copper followed a medium-term trajectory. To obtain the structural balance, tax revenues (excluding those relating to the big mining companies) are corrected by the estimated gap between actual and trend GDP, while copper revenues are adjusted for the gap between the actual copper price and its long-term estimate.

The calculation of the public sector structural balance is based on a cyclically adjusted balance method using the criteria that the International Monetary Fund applies to developed countries. In

light of experience in applying the rule, and as part of the modernization of fiscal statistics, since the 2011 budget a revised methodology for estimating the structural balance has been used. The new methodology follows suggestions made by an expert committee convened in 2010, known as the “Corbo Commission”. Other noteworthy amendments include the adaptation of the principles of accounting to an accrual basis (the reclassification of certain headings that determine the fiscal surplus or deficit and the inclusion of extra-budgetary operations from the Reserved Copper Law) as well as the introduction of methodological fine-tuning to the form, production function parameters, capital stock utilization measurements, depreciation and quantity and quality of labour, among others.

The methodology and data used in the calculation of the structural balance are public and contained in various documents issued regularly by the Budget Office. To promote transparency, a commission of external experts is consulted on long-term copper prices and on the economy’s potential production level. These factors are included in government estimates and allow it to determine the compatibility of expenditures with the structural balance rule.

2. Assessing Fiscal Transparency and Accountability

2.1 Open Budget Processes

In Chile the budget preparation follows an established timetable which is made public. As stated in Article 67 of the Constitution, the draft law by the executive must be submitted to Congress at least three months before the start of the budget period (calendar year). If Congress does not approve it within 60 days, the draft submitted to Congress by the President will rule.

Regarding budget execution, monitoring and reporting, on a monthly basis, spending agencies must submit to the Budget Office quantitative information about their level of progress in the implementation of their budgets through detailed reports. These must be delivered during the ensuing month following the monthly budgetary execution.

Chile has taken a set of measures to ensure that the budget is properly aligned with the government’s strategic objectives. Each budget is designed according to the projected macroeconomic framework and strategic fiscal objectives, in alignment with the presidential programs. In this context, Chile guides its fiscal policy by a cyclically adjusted structural balance rule, one which establishes an estimated level of structural revenues, which, together with a structural balance target (as a percentage of GDP) allows a maximum level of spending consistent with that goal. In addition, in this current presidential term (2010-2014), it has been established that, on average, spending should not grow faster than GDP. Meanwhile, the draft budget is prepared in tandem with a medium-term framework (three years beyond the budget year), which considers the structural balance target and an estimate of the costs involved.

The agency responsible for establishing the relevant economic assumptions that underpin the budget is the Ministry of Finance, through its under secretariat. A macroeconomic scenario for the budget year and following three years (medium-term framework) is defined. With this information, the Budget Office estimates effective and structural revenues, which determine the level of spending consistent with the cyclically adjusted balance target (structural balance). This determines the overall spending for the next year’s budget, ensuring consistency with the medium-term framework goal.

All assumptions about the relevant macroeconomic variables are published in the Public Finance Report that accompanies each budget draft law. These variables include GDP growth, domestic demand, inflation, the exchange rate and copper and molybdenum prices.

2.2 Public Availability of Fiscal Information

Regarding fiscal and budget information, the main published reports are the Public Finance Report, which accompanies each budget draft law and the Public Sector Financial Management Evaluation Report at midyear (previous year assessment) and the current year’s Projections Update.

Other annual publications include: Public Finance Statistics, the Nation's General Revenue Calculation, the Contingent Liabilities Report and the Public Sector Human Resources Statistics.

Monthly and quarterly information regarding consolidated assets and liabilities of the Treasury is published, as well as other documents that account for the Public Administration.

In terms of accounting, statistical information on budget execution is published on a monthly and quarterly basis, containing information on the execution of revenues, expenditures (above the line) and financing (below the line) of the central government, including budgetary and extra-budgetary. Information is delivered in levels, in real percentage changes over the previous year and, in the case of the central government budget, the percentage of progress over the budget law approved each year.

All this information is available online (www.dipres.cl), free of charge to users. In addition, some of these reports are periodically presented to Congress.

The statistical information of the State of Central Government Operations is classified as established by the International Monetary Fund Manual (2001) and presents disaggregated information on revenues, expenditures and financing.

Expenditure is classified by economic sector (level of subtitles in the budget) and by institutional sector (administrative) and in the Public Finance Statistics a classification of the spending is presented annually in functional terms.

Separate identification online revenue sources within the annual budget (www.dipres.cl), for example Central Government Operations Status (http://www.dipres.gob.cl/594/articles-87153_doc_pdf_cuadro_n1a.pdf) and internal and external debt. These are included in the presentation of the budget law and implementation reports.

Regarding the incorporation of external source resources, each heading that has a project financed by multilateral or bilateral organizations includes these resources in its estimation of income and expenditures and the debt service corresponding to the credits or loans disbursed. To this end, in Heading No. 50, Treasury, Chapter 1, program 4, fiscal support transfers needed to service these debts are included.

The Budget Office produces various publications, which are quite extensive, detailed and deemed official:

- i. Tax expenditures: All tax information is published in the General Revenue Estimation of the Nation: (<http://www.dipres.gob.cl/594/w3-propertyvalue-15890.html>).
- ii. Contingent liabilities and employee pension liabilities: Commitments are published in the Contingent Liabilities Report (<http://www.dipres.gob.cl/594/w3-propertyvalue-16136.html>).
- iii. Fiscal and quasi-fiscal activities: Published in the Government Finance Statistics (<http://www.dipres.gob.cl/594/w3-propertyvalue-15407.html>).
- iv. Fiscal sustainability: Fiscal sustainability information (structural balance and financial programs) is published in the Public Finance Report. (<http://www.dipres.gob.cl/594/w3-propertyvalue-15889.html>)

The entities reported are those that correspond to the central government. The budget does not include the local government or public enterprises directly. However, the document on Public Finance Statistics, which is issued once a year, contains that information.

Performance Evaluation

The Budget Office has developed and introduced in the budget process different instruments for monitoring and evaluation in order to improve the analysis, evaluation and formulation of the budget, which allows the targeting of resources towards the achievement of government policies and objectives. To this end, Chile has progressively implemented the Evaluation and Management

Control System, which aims to promote efficiency and effectiveness in the allocation and use of public resources through the application of evaluation techniques and instruments, as well as management control in the budget process. This system provides a budget management performance evaluation and monitoring model, providing feedback to the decision-making process.

Thus, the Evaluation and Management Control System includes various instruments synergistically integrated into the budget cycle, associated with the four stages of budget management, namely: a) proposal, b) discussion / approval, c) execution, and d) evaluation. Progress in the development and consolidation of each instrument has promoted the improvement of management in public institutions and programs.

Ex-Post Evaluation

Launched in 1997, the Government Programs Assessment Program included the evaluation of 20 public programs and responded to a set of commitments established in the context of the previous year's budget law approval, aiming for further assessment and governance transparency. Beginning in 2003, under the provisions of Article 52 of Decree Law No. 1,263 of 1975, Organic Financial Administration of the State, as well as its rules, the Budget Office is given the power to make assessments of social, production development and institutional development programs included in the budgets of public agencies that are determined by one or more decrees of the Ministry of Finance.

Each year, as part of the draft Budget Law processing, the public programs and institutions to be assessed are agreed with Congress. Such commitment is embodied in a Memorandum of Understanding between the Ministry of Finance and the Congress.

To ensure quality, transparency and the use of evaluations, the requirements for the entity conducting the evaluation include independence from the institution undergoing the evaluation and transparency in the publication of results. To fulfil the independence requirement, evaluations may be conducted by either an expert panel or through a public bidding process.

Gradually, the system has developed different courses of ex-post evaluation, which address different areas and focal points:

- i. Government Programs Evaluation. The consistency between objectives and program design, aspects of its organization and management and product-level results (coverage, targeting, among others) are evaluated.
- ii. Institutional Expenditure Review. The review aims to assess the institutional design and governance, as well as the results and use of resources in the provision of each institution's strategic output.
- iii. Programs Impact Evaluation. The evaluation aims to assess intermediate and final results. Quasi-experimental methodologies and information gathered through surveys, focus groups and interviews, among other methods, are used.
- iv. New Programs Evaluation. The evaluation, from the planning stage of new public programs, preferably incorporating the use of a control group.

Ex-Ante Evaluation

In 2001, for the first time, ex ante reviews of new initiatives, reformulations and substantive program extensions through a Government Priorities Central Resources Fund or a Competitive Fund were incorporated in the preparation of the budget in order to be able to analyse the need and relevance of their financing. This mechanism was perfected through the years and in 2007 the mandatory use of a standard format for the submission of new programs, reformulations and existing programs expansion requests was established.

Performance Indicators

Performance indicators are developed each year as part of the budget formulation process. These

indicators address the performance of institutions in order to promote the effective use of public resources in improving social and economic conditions. To this end, the Budget Office requests performance indicator information in a standard format, based on the strategic definitions submitted by the institutions. This enables the institutions to align their planning with the available resources. For 2013, the development of indicators considered not only the institutional mission of each agency, but also the mission of the ministry, allowing the indicators to be consistent with the definitions developed by each ministry in collaboration with the General Secretariat of the Presidency.

The incorporation of this tool in the process of preparing the Draft Budget Law has fostered the alignment of the institutional mission and strategic objectives with the government program and the available resources. This has enabled the government to have at its disposal more and better indicators, which has enriched the performance evaluation of institutions while contributing to increased transparency and the quality of spending.

In 2013, 154 institutions formulated performance indicators, an increase of 114 percent compared to 2001 (72 institutions).

Management Improvement Programs, 1998-2010

The Management Improvement Program (MIP) in public services was originated in Law No. 19,553 of 1998. The program links the fulfilment of management goals to a monetary incentive for public officials. In 2013, the MIP will cover a total of 195 institutions and over 84.000 employees as part of one of the most important institutional remuneration incentive mechanisms applied in public administration in Chile.

2.3 Assurance of Integrity and Accountability

Government accounting is regulated by the Comptroller General of the Republic (CGR), whose rules are based on Generally Accepted Accounting Standards. Government Finance Statistics (GFS) use the budget execution as a data source, which since 2005 is recorded on an accruals basis. For prior periods, an adjusted cash basis is used to bring them closer to an accruals basis. However, tax revenues are exempted from the accrual basis and continue to be recorded on a cash basis, in the same way that they are reported in GFS.

As of today, Chile has not adopted the International Public Sector Accounting Standards (IPSAS). However, efforts are being deployed to adopt IPSAS by 2015; first by the central government and subsequently the municipal sector. During 2012, as part of the Convergence Plan of the new regulations of the General Accounting System of the Nation to IPSAS, the Comptroller prepared the draft regulation.

Municipalities are part of a pilot group working with the comptroller on a financial statement Instructive to be applied to all municipal institutions by 2014, for the preparation and presentation of financial statements corresponding to fiscal year 2013.

In practice, in October 2011 the comptroller released instructions about the notes that must be disclosed in the financial statements. Thereby, public services began reporting their financial information in a format similar to IPSAS, in anticipation of the upcoming regulatory change. In 2012, 98 percent of public services submitted the first financial statements using this new framework.

The government's activities and finances are audited by the Comptroller General of the Republic and the Council of Internal Auditing of Government. The former is an independent government body responsible for auditing the entire public sector in Chile and the results of that process are posted on the institution's website. The issued reports are not reviewed by any other entity of the state. Follow-up revisions are also conducted by the comptroller.

The Council of Internal Auditing of Government is an advisory body to the President on matters of internal audit, internal control and administrative probity, created in 1997 by Supreme Decree No. 12, and subsequently amended by Supreme Decree No. 147 of 2005, promulgated by the General Secretariat of the Presidency and currently under the Ministry of Finance. Its role is to develop

technical coordination of the activity of the internal audit units of the dependent public services or those related to the Executive, support the generation and maintenance of adequate control systems, prepare technical documentation, provide overall guidance and advice on matters of internal audit, internal control and administrative probity and conduct on-going monitoring of the control objectives defined at each level of government, ultimately fostering the proper use of resources.

Regarding the assessment of economic forecasts, there are two committees of independent experts that estimate the long-term copper price and the GDP growth trend. Both variables are crucial for the estimation of structural revenues, which in turn facilitates the estimation of expenditure levels consistent with the annual goal of Cyclically Adjusted Balance.

Information regarding the budget cycle and public finances are regularly published online.

3. Challenges and Priorities for Future Reform

In 2008, the transparency law has provided broad access to all information generated in the Treasury (Central Government). More specifically, this law applies to all information related to the public budget or public funds held by government bodies such as:

- Ministries;
- Governors;
- Regional governments;
- Municipalities;
- Armed forces;
- Police;
- Research; and
- Government bodies and services that perform administrative functions.

The Comptroller General of the Republic and the Central Bank conform to the provisions that the Transparency Law expressly states as well as to their respective organic laws related to transparency. State-owned enterprises are also subject to this law.

The law requires all branches of government to publish up-to-date information on expenditures, salaries and subsidies. The transparency law also requires public institutions to develop active transparency. Active transparency, an obligation under the Transparency Act, requires public bodies to provide, publish and disseminate information about its main activities, budgets and policies so that the general public may know what they are doing and keep track of the authorities' actions. The public institutions must also publish information on the organization, staff, operation and services they provide.

The transparency law also created the Council for Transparency, which is responsible for promoting transparency in the public sector, monitoring compliance with the rules on transparency and guaranteeing the right of access to public information.

Article 7 of the Transparency Act establishes the list of the information that public bodies should publish on their websites. This information must be updated every month and covers the following matters: the organizational structure; the powers, duties and functions of units; the regulatory framework; staff and contract personnel and fees, salaries; procurement of property, services and advice, indicating the partners and major shareholders of companies or service providers; transfers of public funds; the acts and decisions that have effects on third parties; the procedures and requirements to be met by the applicant for access to services; the design, criteria, and amounts granted to subsidized programs, in addition to the payroll of beneficiaries of social programs currently running; citizen participation mechanisms; information about the budget and reports on its implementation and the results of audits of the financial year; and all entities that have participation, representation or involvement with the respective agency.

Compliance with the Transparency Act can be achieved in three ways:

- private initiative (class action), i.e. the claim or claims that anyone can make to the Council for Transparency for any breach;
- internal control; and
- the prosecutorial functions that this law gives the Council for Transparency and the Comptroller General of the Republic.

The transparency rules include budgetary matters and DIPRES maintains a comprehensive website with universal access to information that is permanently updated. Finally, the transparency law does reserve the right for certain information to remain undisclosed.

Recently, a proposal was sent to the Senate to modify the transparency law in aspects such as active transparency, access and reporting rights of third parties, reserve and secrecy periods, and claims and remedies, among others.

4. Resource Bibliography

Resource	Website
Government of Chile	www.gobiernodechile.cl
Library of the National Congress (<i>Biblioteca del Congreso Nacional</i>)	www.bcn.cl
Ministry of Finance	www.hacienda.gov.cl
Budget Office (DIPRES)	www.dipres.gob.cl

Hong Kong, China

Developments in Promoting Fiscal Transparency and Public Accountability

1. Fiscal Institutions of the Central Government

1.1 Budget Law and Regulations

The “Basic Law of the Hong Kong Special Administrative Region (HKSAR) of the People’s Republic of China” stipulates that:

- Hong Kong shall have independent finances, and shall use its revenues exclusively for its own purposes.
- Hong Kong shall practice an independent taxation system, taking the low tax policy previously pursued in Hong Kong as reference.
- Hong Kong shall follow the principle of keeping expenditure within the limits of revenues in drawing up the budget, and strive to achieve a fiscal balance, avoid deficits and keep the budget commensurate with the growth rate of the Gross Domestic Product.
- The Legislative Council (LegCo) of HKSAR shall exercise the power to approve taxation and public expenditure.

These constitutional provisions are embodied in our policies that strive to maintain a low and simple tax regime and that emphasize fiscal prudence.

Further to the constitutional provisions, the Public Finance Ordinance (PFO) stipulates a system for the control and management of public finances of Hong Kong, defining the respective powers and functions of the legislature and the executive. Some of the key provisions stipulate requirements that ensure the legislature’s control over the collection of public moneys and the use of public moneys. These include the requirements:

- that all moneys received by the government should go to a central account; and
- that any expenditure from this central account requires approval by the legislature in accordance with the procedures specified in the PFO.

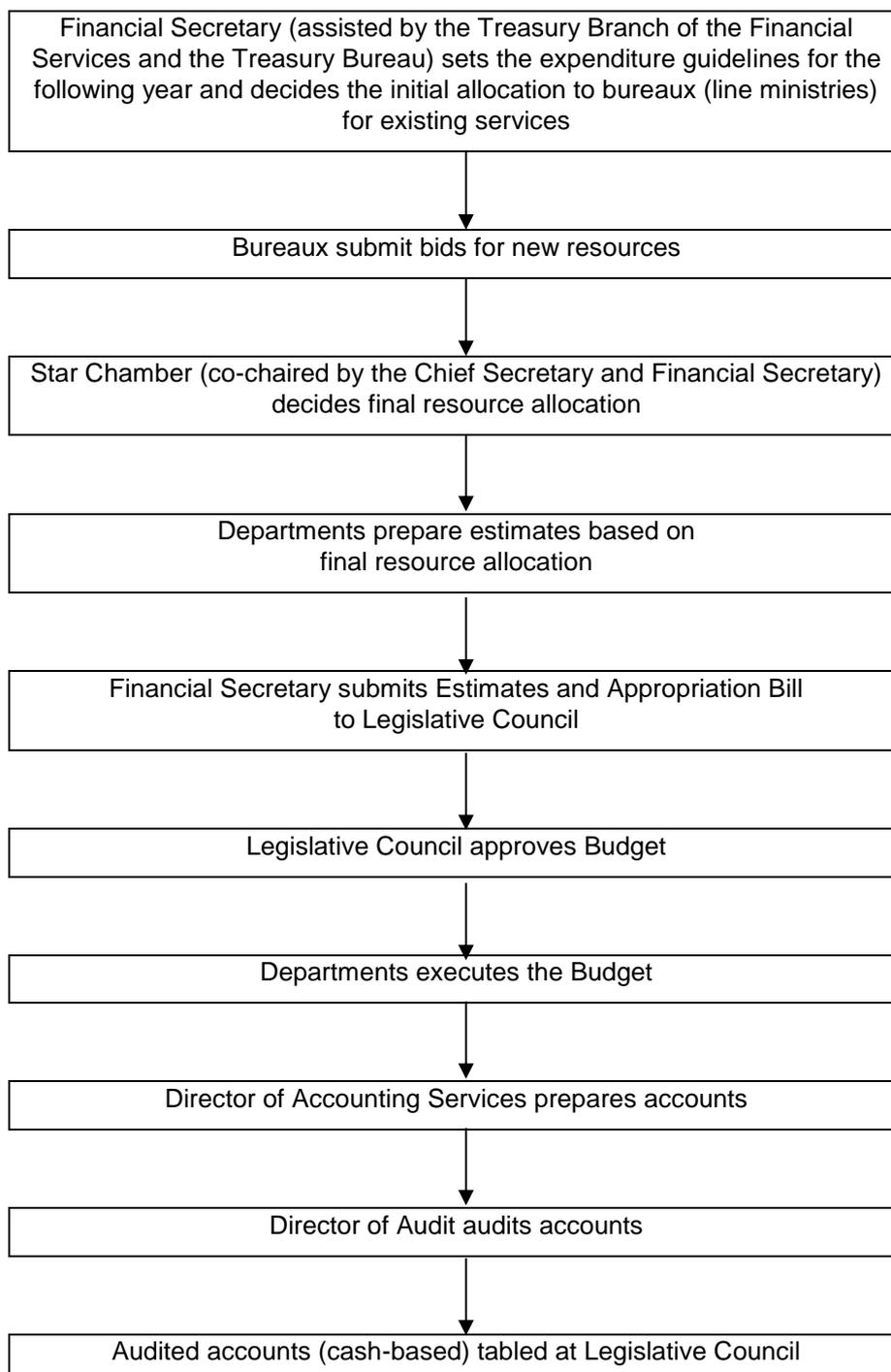
Pursuant to the PFO, the Financial Secretary submits to the legislature an annual set of estimates of revenue and expenditure together with the Appropriation Bill. Upon the enactment of the Appropriation Ordinance, the estimates of expenditure are deemed to be approved. Changes to the estimates during the financial year require the prior approval of the legislature.

The government of the HKSAR currently publishes two sets of annual accounts, cash-based and accrual-based.

The cash-based accounts, audited as per the requirements laid down in the Audit Ordinance (Cap. 122), serve mainly to demonstrate that public money has been paid within the limits and ambits approved by the legislature.

The accrual-based accounts are prepared in accordance with the Accrual Accounting Policies and Guidelines issued by the Treasury of the HKSAR government. The accounts aim to present more information on the financial performance and position of the government.

The budget process is summarized in the chart below.



2. Assessing Fiscal Transparency and Accountability

2.1 Open Budget Processes

The dates when the Budget will be tabled at the LegCo and when the LegCo would examine the budget are announced in advance.

In preparing the budget every year, the Financial Secretary will consult Members of the LegCo, representatives from various sectors and the people of Hong Kong on the budget of the coming year. The consultation may take the form of meetings, briefing sessions or open forums. Members of the public can also provide their views by phone, email or letter.

The budget process normally starts in May with reviews on the expenditure guidelines having regard to the economic forecast and government's overall financial position. Taking into account the initiatives to be included in the Chief Executive's Policy Address, resources would be allocated for implementing existing and new initiatives. The Estimates and Appropriation Bill are usually laid before the LegCo around February for examination and approval.

The President of the LegCo may refer the Estimates of Expenditure to the Finance Committee of the LegCo for detailed examination before consideration of the Appropriation Bill in the LegCo. The Finance Committee holds special meetings to examine the Estimates of Expenditure to ensure that the provision sought is no more than is necessary for the execution of approved policies. After the special meetings and upon the resumption of the debate of the Appropriation Bill, members of the LegCo may speak on the financial and economic state of Hong Kong and the general principles of government policies and administration as indicated by the Appropriation Bill and the Estimates. All these meetings are held in public. For reference, the 2013-14 Budget was submitted to the LegCo on 27 February 2013. Examination of the Appropriation Bill was completed and the Appropriation Ordinance 2013 was passed by the LegCo on 21 May 2013 and gazetted on 28 May 2013.

Upon enactment of the Appropriation Ordinance, the estimates of expenditure are deemed to be approved. Changes to the estimates during the financial year require the prior approval of the legislature.

Under the Public Finance Ordinance, Controlling Officers shall be responsible and accountable for all expenditure in respect of the department or service for which he is responsible. A Controlling Officer may incur expenditure and authorize expenditure to be incurred only against the provision shown in any head or subhead for which he is the controlling officer.

Pursuant to the Audit Ordinance, the Director of Accounting Services has a duty to submit to the Director of Audit statements of government accounts within a period of five months after the close of each financial year. The Director of Audit will table the audited accounts to the LegCo for consideration.

The treasury system for HKSAR government is called the Government Financial Management Information System (GFMIS). It is a centralised web-based Enterprise Resource Planning system for revenue recording, payment processing, budget execution and monitoring as well as financial reporting used by all government bureaux/departments. It also provides information to support budget preparation.

GFMIS has built-in safeguards to ensure compliance with the statutory requirements on budgetary control of the estimates approved by the legislature. It provides online up-to-date financial information of the position of the government and individual bureaux and departments. GFMIS produces monthly, quarterly and yearly financial statements on a cash basis. The design of the system also enables the compilation of annual accrual-based accounts with the aim to present the overall financial performance and position of the government. In addition, GFMIS produces management reports to facilitate financial management and decision-making. Audit trails are fully available in the system.

A Medium Range Forecast (MRF) is prepared and published as an annex to the budget speech. The MRF covers a forecast period of five years, beginning in the current financial year. From the data produced in the MRF, the government is able to ensure that its plans are consistent with its budgetary guidelines, e.g. the growth of government expenditure over a period will not exceed the trend growth of economy.

The Government Economist provides the economic assumptions and analyses underlying the budget. The Financial Services and Treasury Bureau is responsible for the fiscal estimates. All the key economic assumptions adopted in the budget and the MRF estimates are disclosed in the budget documents.

2.2 Public Availability of Fiscal Information

The HKSAR budget covers the estimated revenue and expenditure of the General Revenue Account and the nine purpose-specific funds established under section 29 of the Public Finance Ordinance, i.e. the budgetary accounts. The budget documents are available in public libraries and on the budget website (www.budget.gov.hk).

Apart from limited 'netting-offs' specifically set out in law regarding revenue, reporting of revenue and expenditure is done on gross basis. Revenue is analyzed by major sources.

The estimates of expenditure are classified by individual administrative agency in the Estimates, i.e. head of expenditure. For each head of expenditure, a Controlling Officer's Report is produced which sets out the following information for each program area under the Controlling Officer's purview:

- Aim of the program;
- Brief description of the program;
- Key performance measures in terms of targets and indicators; and
- Matters requiring special attention in previous financial year.

Department's performance is reported and monitored through targets and indicators in the Controlling Officers' Reports contained in the Estimates. The Director of Audit also produces twice yearly reports on value for money audits.

The budget documents also provide the following additional information:

- The estimated financial impacts of additional tax incentive/deduction measures are included in the Budget Speech of the year when those measures are first introduced.
- The accumulated expenditure and cash flow requirements of major expenditure programs, such as capital works projects.
- Information on pension liabilities and contingent liabilities.
- Historical perspective on expenditure by policy area group.

Hong Kong complies with the requirements of the International Monetary Fund (IMF) regarding public finance and fiscal data disclosure, namely –

- disclosure of fiscal results according to the IMF's Special Data Dissemination Standards (<http://www.hkma.gov.hk/eng/market-data-and-statistics/economic-and-financial-data-for-hong-kong.shtml>);
- participation in the annual exercise of Article IV Consultation; and
- disclosure of the Government Finance Statistics according to IMF's requirements (starting from late 2003).

In addition, HKSAR government publishes quarterly and annual accounts. The monthly, quarterly and annual results are available on the Treasury's website (http://www.try.gov.hk/internet/ehpubl_accounts.html).

Any person can request information from the government under the Code on Access to Information. The government must make available to public any requested information, subject to certain clearly specified exceptions such as national security.

2.3 Assurance of Integrity and Accountability

The government of the HKSAR currently publishes two sets of annual accounts, cash-based and accrual-based.

The HKSAR government periodically reviews the accounting policies and introduces improvements on a progressive basis for the preparation of both cash-based and accrual-based accounts with regard to the international accounting standards (including International Public Sector Accounting Standards (IPSAS)) and the appropriateness and applicability of these standards vis-à-vis the local situation.

The Basic Law stipulates that a Commission of Audit shall be established in the HKSAR and it shall function independently and be accountable to the Chief Executive. The Audit Commission, however, is not a Supreme Auditing Institution. The statutory functions of the Director of Audit are governed by the provisions of the Audit Ordinance. In essence, the Ordinance requires him to fulfill what is generally known as a financial auditing role as the auditor of the accounts of the HKSAR government. He has wide powers of access to the records of departments and he can require any public officer to give an explanation and to furnish such information as he thinks fit to enable him to discharge his duties. In the performance of his duties and the exercise of his powers under the Ordinance, the Director of Audit is not subject to the direction or control of any other person or authority.

The Director of Audit submits two reports each year to the President of the LegCo. The first, a statutory requirement under the Audit Ordinance, is submitted in October/November each year and is a report on his examination and audit of the financial statements of the government of the previous financial year. This report also includes the Director of Audit's findings on value for money audits that have been completed by that date. The second report, submitted in April/May each year, consists entirely of value for money audits.

The Director's reports are considered by the Public Accounts Committee of the LegCo in accordance with the Audit Ordinance and the Standing Order of the LegCo and are accessible on the website (<http://www.aud.gov.hk>). In discharging its duties, the committee may summon any public officer to give evidence. The administration must respond to the committee's findings and must indicate what action the government proposes to take to rectify any irregularities or to explain why it does not intend to take action. In addition, the administration must also provide the committee with an annual progress report on matters outstanding from previous responses.

The Director of Audit keeps in view the development of subjects included in his reports. For subjects selected for investigation by the Public Accounts Committee, the Director of Audit conducts an annual clearance exercise to inform the committee of the latest developments of issues raised in the committee's reports. For subjects not selected for investigation by the committee, the Director of Audit calls for separate progress reports from the auditees concerned directly on a half-yearly basis, and reviews the latest developments.

Members of the LegCo also monitor the work of the government through various Panels under the LegCo. In addition, they may raise questions and demand for explanation and answers from the government during the LegCo meetings.

Citizens are engaged in the budget preparation process. In preparing the budget every year, the Financial Secretary will consult members of the LegCo, representatives from various sectors and the people of Hong Kong on the budget of the coming year. The consultation may take the form of meetings, briefing sessions or open forums. Members of the public can also provide their views by phone, email or letter. Budget documents are publicly released and are available from government websites. To facilitate understanding, a pamphlet on budget highlights is also distributed to citizens.

3. Challenges and Priorities for Future Reform

HKSAR government's fiscal and budgetary activities and documents are highly transparent. Fiscal data are published regularly on government websites to enable ready access by the public. To enhance public accessibility of fiscal data, we have recently improved the budget website to ensure that the content disseminated is accessible to persons with disabilities, particularly the visually impaired.

The budget process allows for citizen participation through various meetings, briefing sessions or open forums during the consultation process. The medium range forecast which is based on a longer-term macroeconomic and fiscal policy framework, enables the government to align the budget with fiscal and other strategic objectives. The independent checking of the cash-based accounts of the government by the Audit Commission and consideration by the Public Accounts Committee of the LegCo under the constitutional framework further assures integrity and accountability of the budget execution, monitoring and reporting.

4. Resource Bibliography

Resource	Website
The budget web page provides information and data relevant to the Budget	http://www.budget.gov.hk
The Financial Services and Treasury Bureau provides support on matters of fiscal policy and on the annual budget.	http://www.fstb.gov.hk
The Treasury compiles and maintains the account of the government	http://www.try.gov.hk
The Census and Statistics Department provides statistics covering various social and economic aspects of Hong Kong.	http://www.censtatd.gov.hk
The Audit Commission provides independent audit services to the HKSAR government.	http://www.aud.gov.hk
The Hong Kong Monetary Authority provides economic and financial data on Hong Kong correspond to the data described on the International Monetary Fund's Data Dissemination Standards Bulletin Board.	http://www.hkma.gov.hk/eng/market-data-and-statistics/economic-and-financial-data-for-hong-kong.shtml

Indonesia

Developments in Promoting Fiscal Transparency and Public Accountability

1. Fiscal Institutions of the Central Government

1.1 Budget Law and Regulations

Prior to the Asian Financial Crisis, there was no effective legal framework for budgeting in Indonesia. In fact, the process was essentially a continuation of the Dutch colonial budgeting system where the preparation of the budget was conducted internally by the Governor-General. The process was characterized by a lack of transparency and accountability. After independence, this executive-driven legal framework was embraced. Following the crisis and the transition to democracy, a strong emphasis was placed on reforming the legal framework for budgeting. A series of successive laws were adopted in the early 2000s following extensive consultations involving a multitude of stakeholders.

The major laws are:

- The State Finances Law 17/2003.
- The State Treasury Law 1/2004.
- The State Planning Law 25/2004.
- The Regional Governance Law 32/2004 (to replace earlier law from 1999).
- The Fiscal Balance Law 33/2004 (to replace earlier law from 1999).
- The State Audit Law 15/2004.

The State Finances Law 17/2003 details the constitutional provisions for the budget process, mandates specific milestones and dates for the preparation and adoption of the budget, specifies general principles and authorities for the management and accountability of state finances, and establishes the financial relationship between the central government and other institutions.

The State Treasury Law 1/2004 outlines the responsibilities of the Treasury and articulates the creation of treasurers in government ministries and agencies, together with general principles on the management and accountability of public funds. Whereas The State Planning Law 25/2004 outlines the Indonesian development planning process, the preparation and approval of plans, and the role of the Indonesian Development Planning Agency (BAPPENAS).

The Regional Governance Law 32/2004 outlines the responsibility of regional governments for a range of public services, including education, health, public infrastructure, agriculture, industry and trade, investment, the environment, land, labor, and transport. It replaced an earlier law from 1999.

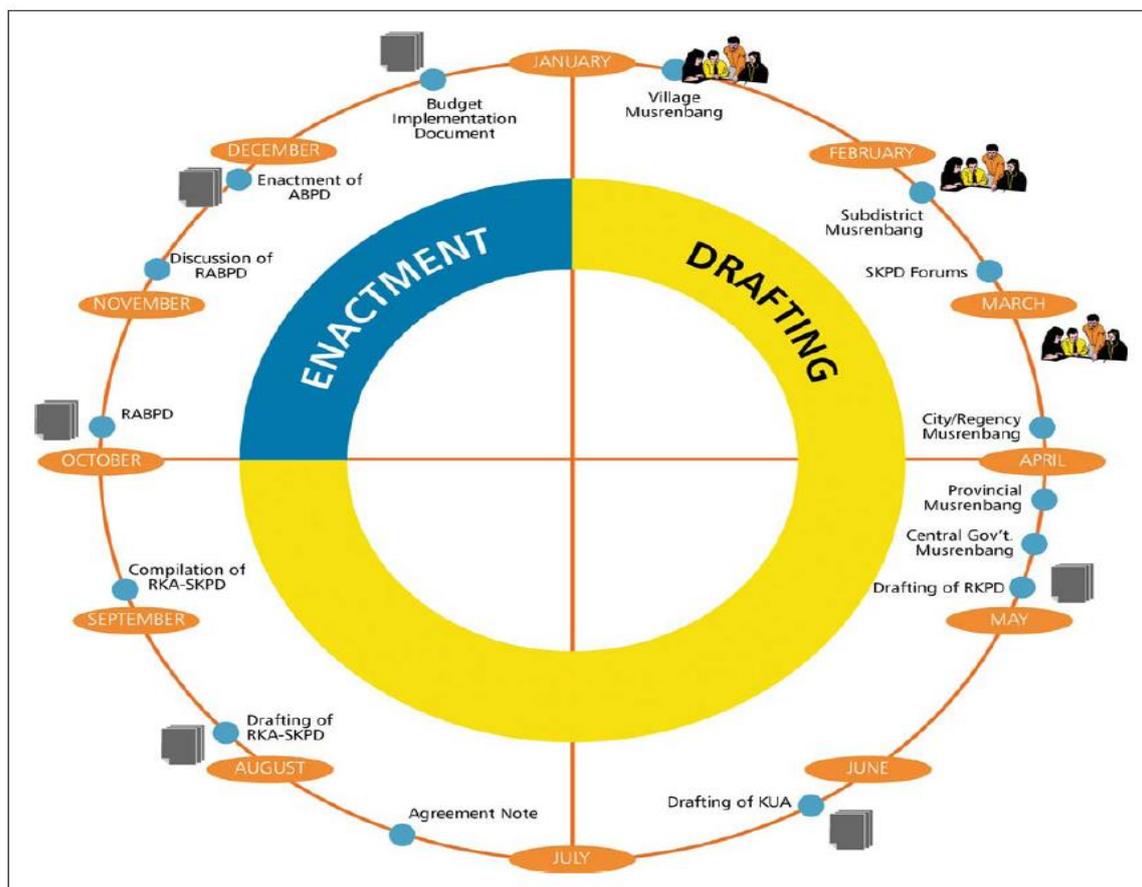
The Fiscal Balance Law 33/2004 outlines the responsibility of regional governments for managing their own public finances, their revenue-raising authority and the system of transfers from the national government. It replaced an earlier law from 1999. Meanwhile The State Audit Law 15/2004 outlines the operational framework of the Supreme Audit Institution of the Republic of Indonesia (BPK), and mandates it as a professional and independent institution required to submit its reports to parliament.

1.2 Annual Budget Process

Indonesia's fiscal year runs from 1 January to 31 December. Budget formulation has two components: a bottom-up project planning process called *Musrenbang* (a Planning and Development Forum), and a top-down budget preparation process executed through the local government departments. These processes are laid out in Laws 17/2003 and 25/2004. Both processes are intended to complement strategic plans developed by the local governments, which have replaced the five-year plans that were practiced under the New Order.

The budget preparation process within the executive branch of government begins when technical departments prepare their draft project proposals. The department heads attend the subdistrict *Musrenbang* meetings and the district meetings to present their project proposals for the year and to listen to the ideas of the community. Theoretically, it allows the technical departments to include public feedback. All projects coming from all departments are coordinated and documented by the Planning Department in the form of a paper called the Local Government Work Plan (*Rencana Kerja Pemerintah Daerah-RKPD*). Based on this document, the general policy on the annual budget is formulated, including priorities and budget ceilings for each technical department. Each technical department then prepares a budget estimate for their work program (*RASK/RKA-SKPD*) and submits this to the Planning and Finance Departments. The Budget Committee then prepares the draft budget for the coming year (*RAPBD*). This is discussed with the Budget Committee of the local parliament. *RAPBD* is formally submitted by the mayor to DPRD in October in a general meeting where each political party is invited to comment on the budget. In theory, DPRD has one month to assess the budget and provide comments before the budget is enacted. The mayor issues a decree enacting the Budget Implementation Document by the end of the year. In practice, delays in preparing the budget are common, reducing DPRD's ability to give proper consideration to the budget before passage. Figure 1 illustrates the annual preparation cycle, including the *Musrenbang* process.

Figure 1 Annual Budget Preparation Cycle, Indonesia



Source: Ahmad and Weisser (2006)

APBD = annual budget; KUA = (kebijakan umum anggaran) General Budget Policy; RAPBD = draft annual budget; RKA = work and budget plan; RKPD = (Rencana Kerja Pemerintah Daerah) Local Government Work Plan; SKPD = (satuan kerja perangkat daerah) Local Government Technical Department; and Musrenbang = bottom-up planning process.

The annual budget formulation cycle can be divided into five stages:

1. Establishing the level of resources available for the next budget

The first step in the annual budget formulation process is establishing the level of financial resources available. This activity typically starts in February to guide the budget formulation process, but is continually refined until the budget proposal is finalised. This activity is the responsibility of the Ministry of Finance, namely the Fiscal Policy Office and the Directorate-General for the Budget.

2. Establishing priorities for new programs

Once the Ministry of Finance has established the ceiling for resources available for new, “discretionary” programs, BAPPENAS takes the lead responsibility, in co-operation with the Ministry of Finance, for allocating those funds.

3. Pre-budget discussions with the Parliament

Immediately following the issue of the government-wide work plan, the government submits a “fiscal policy and budget priorities” document to parliament. This document is essentially a pre-

budget report that includes a description of the macroeconomic framework, fiscal policies and priorities, deficit target, revenue projections and proposed expenditure ceilings for the upcoming budget year. The government also submits the government-wide work plan and ministry-specific work plans for information. The discussions take place in two parallel venues. The Ministry of Finance and BAPPENAS have discussions with the Budget Committee and with Commission XI. The Budget Committee is a “committee of committees” that is composed of selected members of the 11 sectoral commissions. Commission XI itself is a sectoral commission in the Parliament dealing with economic and financial affairs.

4. Finalization of the budget proposal

After agreement with parliament on budget policies and priorities in mid-June, the Ministry of Finance issues a revised budget circular including a preliminary budget ceiling for ministries’ programs. Again, the overall budget ceiling rarely changes but its composition does. Ministries and agencies revise and finalize their ministry-specific work plans in line with the preliminary ceiling issued by the Ministry of Finance. It is noteworthy that spending ministries will often have informal contact with their respective parliamentary commissions during this phase.

5. Preparing detailed budget implementation guidance

The budget is approved by Parliament a full two months prior to the fiscal year in order to prepare the detailed budget implementation guidance which can in fact be viewed as the last stage of the budget formulation process. Following the final approval of Parliament’s sectoral commissions, the Directorate General for the Budget prepares disbursement warrants that are issued at the level of “budget user” (satker). There are over 20,000 such budget users. Each warrant is very detailed, providing breakdowns by organization, function, sub-function, activities, and two levels of economic classification of expenditure respectively. Each breakdown must be respected, and reallocations are very difficult, even within Satkers. The use of carry-overs is possible for certain transactions, but in practice is not used to any significant extent. Spending ministries then prepare budget implementation guidance (DIPAs) for their budget users.

2. Assessing Fiscal Transparency and Accountability

2.1 Clarity of Roles and Responsibilities

Fiscal Policy, State Owned Enterprises

Progress has been made in building a stronger technical base for fiscal policy management at the central government level. The Fiscal Policy Office (FPO) is now a fully functioning and well-established office within the Ministry of Finance (MoF) with a robust role in macroeconomic and fiscal analysis. This includes analyzing major fiscal risks that could affect the central government budget, i.e. starting in 2008, the FPO prepares a fiscal risk statement that is included in the annual budget documents making Indonesia one of the pioneers in fiscal risk analysis among emerging market economies. The disclosures of fiscal risks comprise of macroeconomic risks, central government’s debt risks, central government’s contingent liabilities and mandatory spending risks respectively.

Despite its operational management of several fiscal issues which are undertaken by related ministries and governmental institutions, it is now becoming widely understood that the disclosures are valuable for any stakeholders to formulate their policy and keep their action on track. In terms of state-owned enterprises (SOE), Indonesia has a different approach. Although financial statements on state-owned enterprise performance have been reported to the Ministry of State Owned Enterprise (MSOE) as the appropriate ministry to which its activities belong, the information is routinely distributed or used by the Ministry of Finance (MoF) in fiscal analysis. The MoF has already developed an analytical overview of performance of the sector, especially by doing a macro stress test as well as sensitivity analysis of the impact of changes in macroeconomic indicators. This approach is needed because SOEs contribute to the revenue side of the budget as well as influence the expenditure side.

The decentralization laws

Under Law 33/2004, the minister of finance establishes the cumulative limit on regional government loans in August of each year. Regional governments are allowed to borrow externally, although they must seek central government approval before any loan contract is signed. The law limits domestic borrowing: the total stock of debt must not exceed 70 percent of a region's revenue and projected debt service to revenue ratio must be limited to 40 percent. The law also states that borrowing can only be done for projects that generate a financial return. The central government can withhold the general grant (DAU) if a province fails to meet its debt obligations. However, borrowing limits do not apply to all sources of debt, such as local government guarantees or local enterprise borrowing. The central government has not yet established an appropriate reporting system for local government debt and guarantee provisions.

The role of the legislature and parliament's technical capacity for fiscal policy analysis

Parliament's (DPR) budget committee still plays an important role in the budget approval process. In addition, specialized parliamentary commissions with technical support staff (e.g., the economic commission) also play an increasing role in technical budgetary discussions. Progress has been achieved in increasing the number of qualified staff at the DPR to provide analytical and technical support to members of parliament, though the DPR's effectiveness in budget scrutiny and oversight is still inadequate. Intense involvement of the DPR at the pre-budget presentation stages remains, along with a limited focus by the DPR on medium-term budget issues and on the results of policies embedded in the annual budget. The State Finances Act 17/2003 calls for approval by parliament of the annual budget law two months prior to the beginning of the new fiscal year; nonetheless, DPR committees continue to be involved in budget approval after the annual budget law has been adopted in plenary session. The DPR's follow-up on the external audits of the Supreme Audit Institution (BPK) remains weak.

Transfers and revenue sharing

Considerable decentralization to the 33 provinces, and especially the 434 districts, took place from 2001 onwards. The two legal pillars of regional autonomy are: (i) Law 32/2004 on Regional Governance, which focuses on administrative and political decentralization and includes the guiding references to the devolution of expenditure responsibilities; and (ii) Law 33/2004 on Fiscal Balance governing the distribution of resources across regions. Provincial/district governments' budget revenues depend mostly on government transfers through revenue-sharing arrangements, block grants or specific allocation grants—as well as specific grants for autonomous regions and adjustment. These arrangements are clearly defined but fluctuations in international oil prices give a degree of uncertainty to the level of transfers and revenue shares going to the regions. With the laws drafted by different ministries (Ministry of Home Affairs (MoHA) and MoF), a clear definition of the roles and functions of different levels of government has not yet been established, and coordination between central and regional governments (e.g., conflicting sectoral laws, authority over civil service and rules on financial management) has been weak. Regulations that clearly delineate expenditure responsibilities have not been issued.

Tax Legislation

The "General Provisions and Tax Procedures" (KUP) law adopted in July 2007—and effective since January 2008—improved the balance between taxpayers' rights and the efficiency of the tax powers of DG Tax (DGT). Existing regulations already allowed banks to provide the DGT with information on taxpayers' banking transactions in the context of a bona fide audit and gave DGT the authority to freeze and seize a tax debt. The revised law enhances the implementation of existing regulations. Furthermore, improvements in taxpayers' rights include the possibility for taxpayers to defer "full payment" of a disputed tax while the case is under objection or appeal. Finally, two new laws—the law on Value-Added Tax on Goods and Services and Sales Tax on Luxury Goods (UU No. 42/2009) and the Income Tax law (UU No. 36/2008)—have recently been approved by the parliament.

Anti-Corruption Commission

The Anti-Corruption Commission or KPK (<http://www.kpk.go.id>) was established by law in 2002 as a state agency that performs its duties and authority independently, free from any and all interference. It coordinates with other entities combating corruption, conducts investigations and prosecutions against corrupt acts, performs preventative actions against corruption, and monitors state governance. It has initiated and signed memoranda of understanding with some provincial and local governments to establish and support good governance at the province/district level. More than 9,600 public complaints (not all relating to corruption) have been received by KPK, indicating a high level of expectation from the public. Annual reports summarize KPK's activities, which are published within three months after the end of each year. Its capacity to carry out prosecutions is limited to a few cases per year and its focus is on high-level, large-scale corruption. To prevent abuse of KPK's extraordinary powers, KPK has adopted two codes of ethics—one for its commissioners and another for its staff.

Civil service personnel reform

Civil service personnel reform is based on the concept of “management based on competency” and aims at providing staff training, building an Assessment Center, supporting staff rotation, improving recruitment procedures, and fostering staff integrity. The initiative will introduce a new integrated management information system for human resources (SIMPEG). The reform aims at introducing a performance-related pay component based on key performance indicators. So far, the reforms have resulted in better merit-based remuneration systems, higher staff rotation, the establishment of the Assessment Center System, changes in recruitment procedures, the adoption of a code of conduct for government staff, and the use of balanced score cards (BSC) to measure performance.

2.2 Open Budget Process

Annual Budget Process

The State Finances Law 17/2003 and its accompanying regulations clearly outline the steps of the budget formulation and adoption processes. Budget preparation begins 11 months before the new year begins and the DPR is involved twice: first, to agree on budget policies, priorities and expenditure ceilings (six to seven months before the new fiscal year); and second, to examine the draft budget and approve it two months before the beginning of the new fiscal year. At both stages, a detailed draft budget is provided to parliament. No explicit limits are imposed on parliament's power to amend the draft budget. As discussed below under budget execution, prior to implementation, the budget approved by the DPR is developed in greater detail, down to individual spending units' work plans.

Indonesian development plans

Indonesian development planning is a well-ingrained practice, centered on the preparation of the Indonesian development plans. Following a review of the planning function, the Indonesian Development Planning Law 25/2004 took account of the greater authority given to regional and district governments under the 1999 decentralization laws. Law 25/2004 requires the Indonesian Development Planning Agency (BAPPENAS) to participate actively in the drawing up of macroeconomic targets and the targets for the annual state budget, as well as to prepare five-year development plans and long-term (20-year) plans.

Medium-term expenditure framework (MTEF)

The preparation of a full-fledged MTEF, synchronized with the medium-term development plan, and regularly updated for changes in the macroeconomic framework and fiscal policy objectives, has been undertaken since 2008 for all ministries.

Basic internal control procedures

Spending units' DIPAs are the key documents required to authorize government spending and form the basis for expenditure control. Budget execution can begin once the detailed budget is

formally approved by a presidential regulation. MoF regulations cover various aspects of budget execution, including allotment documents (DIPAs), payment claims to treasury offices (KPPNs), and transaction level accounting. The Treasury records expenditure transactions at the payment stage. The expenditure control system does not provide for central recording of commitments. Operational control over expenditure stages such as commitment and verification of delivery of goods and services are undertaken by budget users.

2.3 Public Availability of Information

The budget documents

Three main budget documents are presented to the DPR in August of each year: the draft budget law, the individual work plans, and budgets (RKA-KLs) of central government ministries/institutions, and the financial notes. The draft budget law includes the main categories of projected revenues, the various spending programs of each ministry, and spending by function and sub-function. The summary tables of the budget law are supported by detailed tables that disaggregate ministries' projections by internal divisional structures (echelon I units); these details are made available to the DPR on CDs. The RKA-KLs show for each spending ministry/institution, five broad economic categories of spending. The financial notes provide background information on economic developments, the macroeconomic framework, its underlying assumptions, and a description of fiscal policies and budget priorities. Once the budget is adopted, all main budget documents are placed on the MoF's website.

Data on central government debt

Timely information on domestic debt, classified by instrument and maturity, is published on the website of the Directorate of Government Securities Management (<http://www.dmo.or.id>). Aggregate information on foreign debt is published by Bank Indonesia (BI) in the context of SDSS on a quarterly basis. A quarterly summary of government debt data is published within three months after the end of the quarter by BI (see <http://www.bi.go.id/sdds>). The DG Treasury prepares a comprehensive quarterly report on both domestic and external debt of central government. This report, which is usually published with a nine-month delay, provides data on the composition of debt by term, type of creditor, and instrument, as well as new debt issues and a forecast of maturities for the next five years. The report excludes information on local governments' debt. Local government debt reports are available locally only in the districts that publish balance sheets. Data on government guaranteed debt and SOE debt are not made available to the public.

Formal commitments for regular publication of fiscal data

Law 2003/17 requires the president to submit annual financial reports, including a budget realization statement, a balance sheet, and a cash flow statement to the DPR, and hence the public, within six months of year-end (applicable for the 2006 fiscal year accounts). There are no legal requirements to publish in-year fiscal data. However, Indonesia has subscribed to the IMF's Special Data Dissemination Standards (SDDS), which commits the authorities to adhering to an advance release data calendar. A summary of monthly central government outcomes for cash transactions is published by BI within four weeks after the end of the reporting period.

The disclosure of fiscal information

This has been supported by amendments to ministerial decrees. In particular, Ministerial Decree No.91/PMK.05/2007 on the chart of accounts requires that the budget, in year fiscal reports, and annual financial statements use the same terminology. Furthermore, Ministerial Decree No.86/PMK.05/2008 on the accounting system of government debts, Ministerial Decree No.40/PMK.05/2009 on the accounting system of grants, and Ministerial Decree No.120/PMK.05/2009 on the accounting and reporting system of transfers to local government were issued to improve the quality of government financial statements and simplify budget monitoring. Ministerial Decree No. 171/PMK.05/2007 clarified the powers of the Minister of Finance and should improve central government accounting and financial reporting systems. The publication of a comprehensive fiscal risk statement accompanying the annual budget document significantly improves the transparency of fiscal policies and associated risks. FPO's risk

management unit now assesses risks of selected (risk-based) SOEs thanks to improved reporting of information from SOEs to the Ministry of SOEs and the MoF. The improved understanding of fiscal risks from SOEs was disclosed in the fiscal risk statement accompanying the annual budget. The reporting of information on central government debt is now comprehensive and timely, and key contingent liabilities are disclosed in the annual fiscal risk statement, including those related to public-private partnerships.

2.4 Assurances of Integrity

The supreme audit institution (BPK)

The 1945 Constitution (as amended) establishes an independent supreme audit board that investigates the management and accountability of state finances, and submits its investigations to the DPR. The Constitution also outlines BPK's governance structure, namely that the members of the BPK are chosen by the DPR and formally appointed by the president. The leadership of the BPK is elected by its members (Article 23). BPK is currently governed by two laws: Law 5/1973 concerning the BPK and Law 15/2004 on Audit of State Finance Management and Responsibility, which specifies the scope of BPK's activities. In June 2006, the 1973 law was revised with a view to bringing the law in line with the constitutional amendments of 2002 (which strengthened the operational, managerial, and financial independence of BPK) and other recent laws that impact on the external audit function, including the State Finances Law and new decentralization laws. The BPK mandate has been strengthened by adoption of law 15/2006. BPK staff headcount has been significantly increased (currently 6,000 staff covering 33 provinces) and training has been ongoing while needs remain significant.

However, it should be acknowledged that the MoF's Inspectorate General and the BPK are still experiencing difficulties in accessing taxpayers data due to taxpayer privacy concerns. It has been stated by the law that MoF's Inspectorate General and the BPK have access, albeit indirectly, as permission of the Minister of Finance on a case-by-case basis is required. Memoranda of Understanding between the MoF and the internal and external auditors to address this issue are still on process. The role of the Internal Audit Agency (BPKP) as an internal audit body has not been reviewed. Whereas recently, the Corruption Eradication Commission (KPK) has become more vigorous in its investigations and prosecutions of corruption cases, including those dealing with senior government officials. In line with its efforts to combat corruption, the number of public complaints against corruption received by KPK has increased noticeably since 2004. The KPK is currently reviewing about 36,000 complaints of official corruption received from the public.

The involvement of non-governmental Institutions

Independent macroeconomic projections are prepared by non-government economic institutes and universities and discussions are held with these, as well as with international agencies. No systematic mechanism has been established for external scrutiny of the government's budgetary projections by such bodies.

Independent statistics office

BPS, the Central Statistics Bureau, is a non-departmental government institution directly responsible to the president. As noted in the Data ROSC for Indonesia published in July 2005, there are 79 safeguards of the independence of statistical compilers which are provided in the Statistics Law 16/1997.

3. Challenges and Priorities for Future Reform

The organization and presentation of fiscal policy formulation should be strengthened

There is a strong case for streamlining and strengthening the organization of fiscal policy formulation within the executive branch of government. In line with its overall fiscal management responsibilities under the Law on State Finances, the MoF should progressively strengthen its role in this area. It is important for the development of a strong fiscal policy function that the MoF

should have a clear mandate and a technical capacity to address all relevant aspects of macro-fiscal policy making.

Moves to establish a FPO in the MoF are thus welcome. Coordination with the other agencies involved in the process of macroeconomic policy formulation (such as BAPPENAS, BI, and BPS) should continue, but the roles of these agencies should be reviewed to limit overlapping functions. In this context, the possible long-term development of BAPPENAS as an independent technical body with the capacity to analyze government fiscal policies objectively might be examined.

A parallel effort should be made to strengthen the capacity of parliament to address the technical basis for the annual budget

Parliament plays an important role in the Indonesian budget process, but it has limited access to support in addressing technical issues. The imbalance of power and technical capacity has led to changes being introduced in technical assumptions by the parliament without an adequate basis. The budget process could be greatly strengthened by establishing a strong and independent office to provide technical support to the parliament and avoid confusion between technical forecasts and politically determined targets.

The standard of fund management and accounts reconciliation should be improved

Implementing the new accounting system, including the formal recognition of asset and liability accounts, provides an opportunity to consolidate reforms of a number of extra budgetary operations, and at the same time, to improve the formal process of reconciliation of the fiscal and monetary accounts.

Both internal and external audit require strengthening

The most effective strategy to strengthen the internal and external audit would be to: (i) strengthen ministerial Inspectorate Generals as the key internal audit bodies for central government; (ii) improve the effectiveness of Bawasda as the existing internal audit entities for provinces and districts; (iii) strengthen the abilities of BPK to perform its external audit functions for all levels of government; and (iv) undertake intensive training for Inspectorate Generals, Bawasdas and BPK staff, particularly in investigative and risk-based audits.

Japan

Developments in Promoting Fiscal Transparency and Public Accountability

1. Fiscal Institutions of the Central Government

1.1 Budget Law and Regulations

Japan has a comprehensive legal framework for the budget system. The underpinnings of the legal framework governing budget processes are the Constitution 1946, the Public Finance Act 1947 (PFA) and the Diet (Parliament) Act 1947.

Main budget system laws

- The Constitution 1946 (http://www.kantei.go.jp/foreign/constitution_and_government/frame_01.html)
- The Public Finance Act 1947, as amended
- The Diet Act 1947, as amended (<http://www.sangiin.go.jp/eng/law/diet/index.htm>)
- The Public Accounts Act 1947, as amended
- The Board of Audit Act 1947, as amended (<http://www.jbaudit.go.jp/english/jbaudit/law.html>)
- The Local Autonomy Act 1947, as amended; the Local Finance Act 1948, as amended; the Local Tax Act 1950, as amended; the Local Allocation Transfer Act 1950, as amended; and various Transfer Tax Acts (including the Local Road Transfer Tax Act 1955, as amended).

1.2 Annual Budget Process

The Constitution only requires Cabinet to prepare and submit a draft budget to the Diet. The PFA specifies that the draft budget is normally to be submitted to the Diet by the Cabinet during January of the current fiscal year. Most of the provisions for the timetable for the budget process are set out in the PFA, guidelines or regulations. The prime minister and other ministers submit the initial estimates of revenues and expenditures (so-called “budget requests”) to the Minister of Finance. The government Ordinance for Budget, Settlement and Accounting requires budget requests to be submitted by the end of August (seven months before the next fiscal year beginning on 1 April). Prior to this, the Council on Economic and Fiscal Policy (CEFP) prepares the *Budget Overview*, which describes the economic and fiscal prospects and the outline of the budget for the following fiscal year and then the *Guidelines for Budgetary Requests* is formulated. The PFA requires the Minister of Finance to coordinate budget requests by line ministries, and to prepare the budget proposal to be approved by the Cabinet, usually in December. Thereafter, budget documents are prepared by the Minister of Finance and submitted to the Diet by the Cabinet in January based on a Cabinet decision.

The timetable for the budget process (example)

- 1st April: a new fiscal year starts.
- April to August: preparation of budget requests by line ministries.
- July to August: examination of the guidelines for budget requests by the CEFP and issuance of them by the Cabinet.
- End of August: submission of budget requests by line ministries to the Ministry of Finance.
- September to December: scrutiny of line ministries' budget requests and bilateral discussions with the Ministry of Finance, in order to prepare the draft budget proposal for Cabinet approval.
- Beginning of December: decision of the "Basic Principles of the Budget Formulation" by the Cabinet.
- Mid-December: Final negotiations between Finance Minister and each line minister to settle remaining disputes, usually on politically important matters.
- Late December: approval of the budget proposal by the Cabinet.
- January: submission of the budget proposal to the Diet.
- March: approval of the budget by the Diet.

1.3 Competent Ministries and Agencies

Ministry of Finance

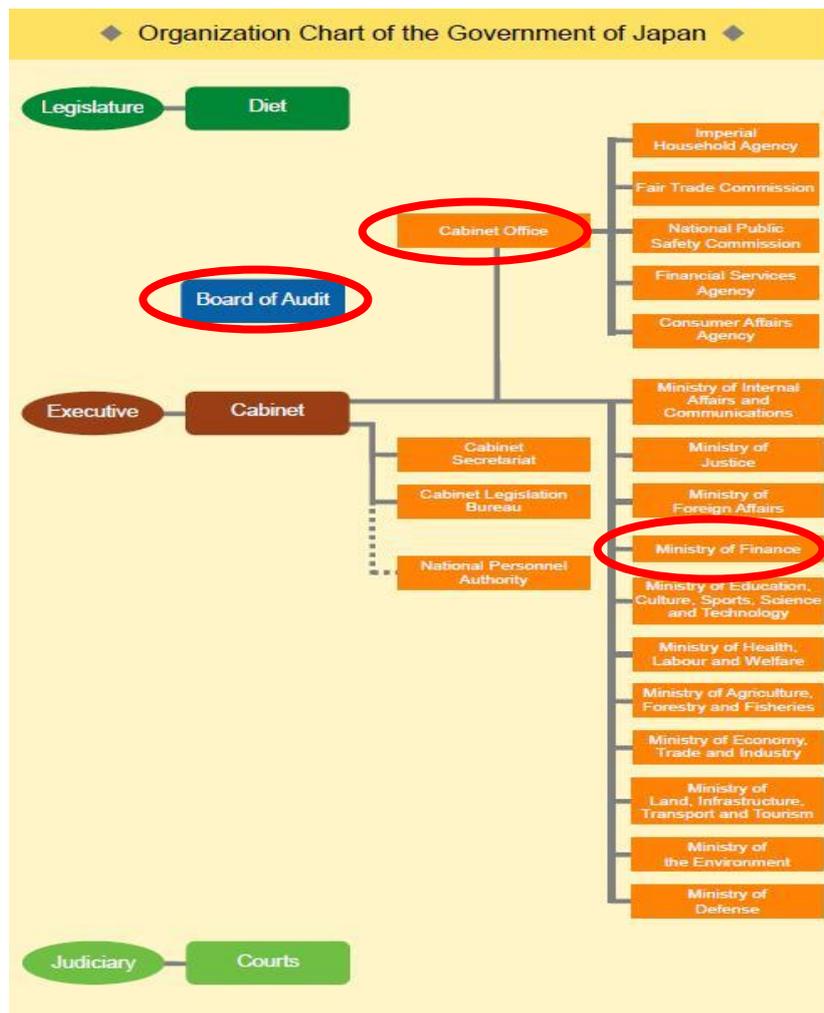
The Ministry of Finance (MOF), having a budget bureau and a tax bureau respectively, is responsible for fiscal management of the central government. The Ministry of Finance prepares the national budget, submits it to the Cabinet for approval, and oversees the execution of the budget by line ministries.

Cabinet Office

The Council on Economic and Fiscal Policy (CEFP) was created in 2001 under the Cabinet Office. Even though it is an advisory board to the Cabinet, it deliberates on some key issues including policies on economic and fiscal management and guidelines for budget formulation. One of the most striking events in the budget process is that the first draft on guidelines for formulation of the budget is prepared by the CEFP. The Minister of State for Economic and Fiscal Policy is one of the members of the CEFP and contributes to policy making for economic and fiscal management.

Board of Audit

The Board of Audit (BOA) is an independent organization established in the Constitution, which requires the State's final accounts of the expenditures and revenues to be audited annually by the BOA. The BOA is composed of the Audit Commission consisting of three Commissioners and the General Executive Bureau in order to ensure discreet decision-making and fair judgement. Commissioners are appointed by the Cabinet with the consent of both Houses of the Diet. The president of the BOA is appointed by the Cabinet in accordance with the decision of the Commissioners.



2. Assessing Fiscal Transparency and Accountability

2.1 Open Budget Processes

- *Does the budget preparation follow an established timetable? How much time does the Legislature have to review the draft budget?*

Japan's fiscal year starts on 1 April and ends on 31 March of the following year. Each ministry submits the budget request to the MOF in accordance to the guidelines for budget request approved by the Cabinet. The deadline of the budget request is normally 31 August of the previous year. After necessary assessment and arrangement by MOF, the outline of the budget draft is decided by the Cabinet, normally in the second half of December of the previous year. The budget documentation which is prepared on the basis of the outline is submitted to the Diet after being decided by the Cabinet, normally in the second half of January. Additionally, there is a rule in the Public Finance Act which states, "It is usual practice that the Cabinet submits the budget draft of each fiscal year to the Diet in January of previous fiscal year." The budget draft submitted to the Diet is tabled for one time each in the House of Councillors (Upper House) and the House of Representatives (Lower House).

- *What procedures are in place for budget execution, monitoring, and reporting?*

[Internal procedures in the government bodies]

Before executing the budget approved by the Diet, each ministry needs to prepare the execution plan for obligation authorities of public investments, and the payment plan for all expenses. These plans have to be approved by the Minister of Finance. According to those plans, the budget is executed. The fiscal authority and its branches indicate any problem areas in budget execution. The Cabinet submits the financial statements which have been examined by the BOA and the financial statements are tabled in the Diet.

[Audits and reports by the Board of Audit]

The BOA, as a constitutional institution, audits the final accounts of the expenditures and revenues of the state and also such accounts as are provided for by law, is responsible for supervising the public accounts, and audits from an independent, fair and unbiased standpoint. Based on the results of all audits, the Board of Audit prepares an Audit Report and sends it to the Cabinet with the audited final accounts. The Cabinet then submits both of them to the Diet. The BOA also reports, at any time, to the Diet and the Cabinet on matters on which it presented its opinions or demanded measures, or other matters which it deems particularly necessary to report. Furthermore, if the Board of Audit conducts an audit on specific matters requested by the Diet, it reports the results of that audit back to the Diet.

- *How is budget preparation aligned with fiscal and other strategic objectives? Is the annual budget based on a longer-term (more than one year) macroeconomic and fiscal policy framework?*

The new government of Shinzo Abe formulated the FY 2013 budget based on the Basic Principles of the FY2013 Budget Formulation, which refers to the medium-term fiscal consolidation goals of primary balance of the national and local governments. The goals were described as the “Basic Policies for Economic and Fiscal Management and Reform (decided by the Cabinet in June 2013)” and the “Basic Framework for Fiscal Consolidation: Medium-term Fiscal Plan (approved by the Cabinet in August 2013).” These were discussed at the CEFP; the summary of the minutes of the Council was promptly made public.

- *Which agencies are responsible for the economic assumptions underlying the budget and the fiscal estimates respectively? Are all key economic assumptions disclosed explicitly?*

Cabinet Office is in charge of the economic outlook, “Economic Outlook and Basic Stance for Economic and Fiscal Management,” which shows the economic assumptions underlying budget and fiscal estimates. “Economic Outlook and Basic Stance for Economic and Fiscal Management” is disclosed in the following document (<http://www5.cao.go.jp/keizai1/2013/0228mitoshi-e.pdf>).

2.2 Public Availability of Fiscal Information

- *What kinds of fiscal reports are published on a regular basis and at what frequency? Are they free of charge and downloadable from the web?*

Fiscal reports of MOF, such as the Budget Documentation, the financial statements, the Japanese Government Balance Sheet, are published periodically (once a year or more) and can be downloaded from the web for free (<http://www.mof.go.jp/english/budget/budget/index.html>). In addition, “Economic and Fiscal Projections for Medium- to Long-Term Analysis” considers interactions among macroeconomic variables, public finance, and social security. The projections by the Cabinet Office are usually published twice a year and are also free and downloadable from the web.

- *Is the fiscal data reported on a gross basis, distinguishing revenue, expenditure, and financing? Is expenditure classified by economic, functional, or administrative category?*

The fiscal data of general government and central government, on a gross basis, is published on the web (<http://www.stat.go.jp/english/19.htm>). The fiscal data of revenue and expenditure is published in the Budget Documentation and that of financing is published in the Japanese Government Balance Sheet every year. The data of expenditure is published in the budget documentation by category.

- *Are government receipts from all revenue sources, including resource-related activities and foreign assistance, separately identified in the annual budget presentation?*

All revenues that are accounted for in the budget are explained in the Budget Documentation by category.

- *What information on the financial position of the government do you publish? Is the information on the level and composition of public debt and financial assets published?*

The information about the government's fiscal situation, including the level and composition of national debt and financial assets, is published in the Japanese Government Balance Sheet each year. The government also publishes the data on financial assets/liabilities classified by three governmental sectors and individual financial instruments, which is based on the 1993 SNA.

- *What entities are included in the budget documentation? Do you report the fiscal position of local governments and the finances of state-owned enterprises in the budget documentation?*

The Budget Documentation explains the information about not only the national budget but also the budgets of government-affiliated agencies.

- *Do you publish information about significant tax expenditures contingent liabilities employee pension liabilities, and quasi-fiscal activities? Do you include an assessment of primary fiscal risks or fiscal sustainability in the budget documents?*

With regard to tax expenditures due to FY 2013 tax reform, the related information is published on the web of MOF. Information about contingent liabilities is published in the Japanese Government Balance Sheet and information about employee pension liabilities, which are addressed in the special account, is also published. Information about contract authorization is published in the Budget Documentation. The assessment of primary fiscal risks or fiscal sustainability is not published in the Budget Documentation but relevant documentation is published on the MOF website.

- *Do you include performance information of major expenditure programs in the fiscal reports? Are they submitted to the Legislature?*

The Budget Explanation Book submitted to the Diet with budget draft explains the policies that are related to that FY budget.

2.3 Assurance of Integrity and Accountability

- *Are the government's financial statements prepared on an accrual or cash basis?*

The government of Japan uses accrual-basis accounting in government financial statements, which are supplementary to the statutory cash-basis final accounts.

- *What accounting standards are used to govern the preparation of the government's financial statements?*

The financial statements are prepared on the National Public Accounting Standards, which were formulated by Fiscal System Council, an advisory body for Minister for Finance. National Public Accounting Standards are based on the Japanese corporate accounting

standards, not on IFRS. The Japanese standards and IFRS are, however, becoming more similar.

- *Has your economy adopted International Public Sector Accounting Standards (IPSAS)?*

The Japanese government has not adopted IPSAS. However, IPSAS was referred to when the public accounting standards were formulated and subsequently revised.

- *Are major revisions to historical fiscal data and changes to data classification explained in the budget documentation?*

The Japanese government publishes past Budget Documentation, published every year to meet the needs of major revisions to historical fiscal data and changes to data classification.

- *Are government's activities and finances internally audited? If yes, is it audited by an independent audit commission?*

The Japanese government bodies have their own internal auditing offices according to their organization and regulations. The independency of these offices varies. While some bodies have a functionally independent internal auditing office, in many cases staff in their accounting division concurrently serve as internal auditing officers.

The fiscal authority and its branches identify problems, and investigate budget execution, in order to streamline the process. Similarly, the Ministry of Internal Affairs and Communications (MIC) also conducts its own nationwide investigation on policies spanning more than one ministry and how the affairs of each ministry are conducted in terms of necessity, effectiveness, efficiency, and other factors, acting as a third-party establishment specializing in evaluation within the government of Japan. These investigations also monitor and analyze the issues and problems facing each ministry in a demonstrative and comprehensive manner, and present corrective actions.

- *Are public finances and policies subject to scrutiny by an audit body, i.e. Supreme Auditing Institution (SAI) / an independent audit commission? Is this institution independent of the executive branch? Is it required to submit all auditing reports to the legislature for review? Do you have mechanisms ensuring follow-up actions being taken by agencies?*

In Japan, final accounts of the expenditures and revenues of the state are audited annually by the BOA under the provision of the Constitution. As a constitutional organization that is independent of the Cabinet and belongs neither to the Diet nor to the courts, the Board of Audit audits the final accounts of the state, accounts of government affiliated institutions and independent administrative agencies, and those bodies which receive financial assistance, including subsidies, from the state.

The BOA prepares an Audit Report showing the results of all audits conducted each year and sends it to the Cabinet with the audited final accounts of the expenditures and revenues of the state. The Cabinet then submits both reports to the Diet. The Audit Report is used for deliberation of the state's final accounts in the Diet session, budgetary planning, and future administration by the financial authorities.

In addition, the BOA follows up the audit findings of Improprieties, Presented Opinions and Demanded Measures reported in the Audit Report, by collecting reports from the auditees as to whether the damages incurred to the state or the organization were recovered, how the officials in charge were disciplined, or what measures have been taken to prevent a recurrence.

- *Is there any independent expert or institution involved in the assessment of economic forecasts that underlie the budget?*

There is no independent expert or institution involved in the assessment of the economic forecasts.

- *Does the government actively promote public understanding of the budget process and budget outcomes? How are citizens engaged during the budget process?*

When appropriate in the budget process, the Japanese government publishes the relative documents on the web and communicates with the media to promote public understanding of the budget. In addition, with regard to the Basic Principles of the Budget Formulation, the government makes not only the guidelines but also the summary of the minutes of the CEFPP (a forum for the discussion about the principles) public on the website.

3. Challenges and Priorities for Future Reform

Open Budget Processes

Under the previous administration the “Government Revitalisation Unit”, with the Prime Minister as the chairman, was established by a Cabinet decision in September 2009. The “Programme Review”, by the Government Revitalisation Unit, has examined the budgetary processes and promoted administrative transparency through open discussion, the use of external experts and assessment from the viewpoint of budget execution. The Programme Review has contributed to reducing expenditure and ensuring revenue through scrutinizing the activities of government-affiliated corporations and so on. Moreover, in order to introduce the Programme Review to all ministries, the “Programme Review of Entire Public Activities (PREPA)” has been promoted so that all ministries can understand their budget expenditure and reflect the results of those reviews into their budget requirements. Although the “Government Revitalisation Unit” was abolished in January 2013, in April of the same year the new government decided to continuously implement the “Programme Review of Entire Public Activities (PREPA)”, while further improving the methods for implementation.

Public Availability of Fiscal Information

Based on the Cabinet decision concerning Budget Formulation Reform in October 2009, the National Policy Unit published guidelines on the substantiality of information disclosure about budget execution and that for budget monitoring/promotion of efficiency teams (published in March 2010), followed by the establishment of budget monitoring/promotion of efficiency teams in each agency. Although the National Policy Unit was abolished in January 2013, further efforts for information disclosure about budget execution will be continuously promoted by government authorities.

Assurance of Integrity and Accountability

As part of the efforts to secure financial transparency under the current severe economic and fiscal situation in Japan, the BOA's authorities were broadened and its relationship with the Diet has been strengthened. Specifically, in November 2005, the BOA Act was revised, broadening the BOA's selective audit subjects, those which the BOA may audit when the BOA deems it necessary, stipulating obligations of auditees and those who are requested to submit materials to be subject to audits, and enabling the BOA to report at any time on the Presented Opinions, Demanded Measures and matters which the BOA deems particularly necessary to report. Moreover, to strengthen the relationship with the Diet, the Diet Act and the BOA Act were revised in January 1998, enabling the BOA, upon requests from the Diet, to conduct audits and report the results to the Diet.

4. Resource Bibliography

Resource	Website
Board of Audit <ul style="list-style-type: none"> Information such as its organization, mandate and activities (English) 	http://www.jbaudit.go.jp/english/index.html
Cabinet Office <ul style="list-style-type: none"> Economic and Fiscal Policy, Cabinet Office (English) 	http://www5.cao.go.jp/keizai/index-e.html
<ul style="list-style-type: none"> “Economic Outlook and Basic Stance for Economic and Fiscal Management” 	http://www5.cao.go.jp/keizai1/2013/0228mitoshi-e.pdf
Ministry of Internal Affairs and Communications <ul style="list-style-type: none"> Economic and Financial data for Japan (English) 	http://www.stat.go.jp/english/19.htm
Ministry of Finance <ul style="list-style-type: none"> Fiscal reports (English) 	http://www.mof.go.jp/english/budget/budget/index.html

Republic of Korea

Developments in Promoting Fiscal Transparency and Public Accountability

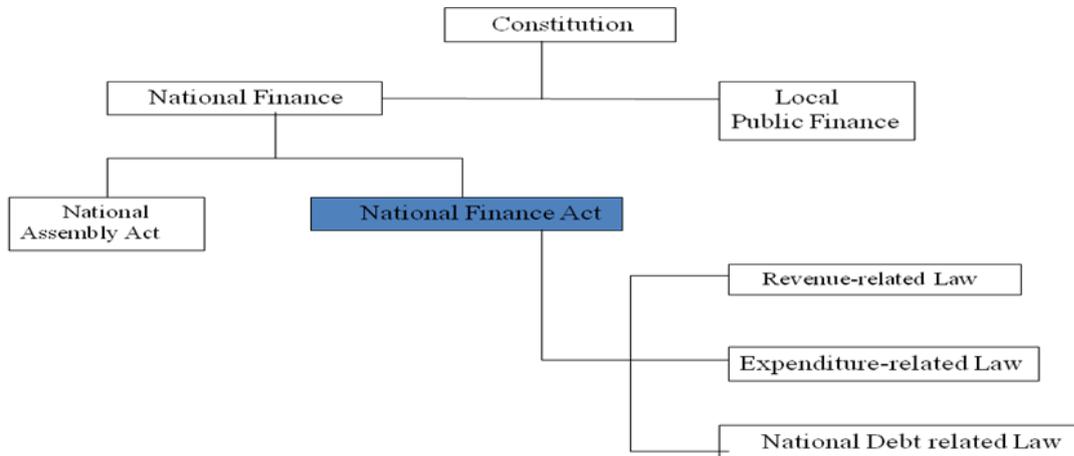
1. Fiscal Institutions of the Central Government

1.1 Annual Budget Process

Date	Tasks
End of January	<ul style="list-style-type: none"> Line ministries submit their mid-term fiscal plans to the Ministry of Strategy and Finance (MOSF)
February - March	<ul style="list-style-type: none"> National Fiscal Management Plan Sub-committee held to determine the direction of sectoral policies
End of April	<ul style="list-style-type: none"> MOSF prepares the national fiscal management plan proposal Cabinet holds financial strategy council chaired by the President (April) MOSF notifies line ministries of their sectoral budget ceilings and budgeting guidelines
End of June	<ul style="list-style-type: none"> Line ministries formalize budget requests to MOSF
July – September	<ul style="list-style-type: none"> Discuss and supplement the budget request (MOSF, departments) <ul style="list-style-type: none"> Cabinet meeting, Advisory Council on Fiscal Policy, etc.
End of September	<ul style="list-style-type: none"> Approval by the Cabinet Council and the President
October – November	<ul style="list-style-type: none"> Line ministries submit their budget proposals to the National Assembly (October 2nd) Deliberation of the budget proposal by the National Assembly (standing committees → Special Committee on Budget and Accounts)
December 2nd	<ul style="list-style-type: none"> Budget is approved by the National Assembly (Date set by the Constitution)
January 1st	<ul style="list-style-type: none"> Fiscal year begins

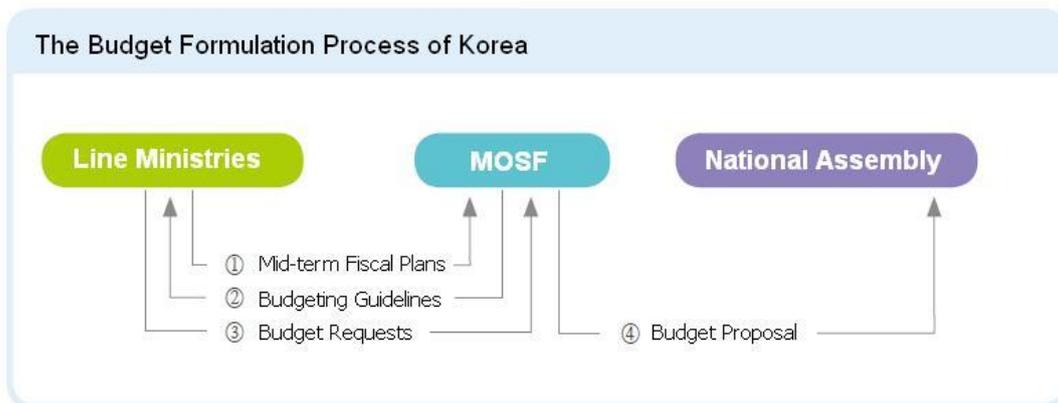
1.2 Budget law and regulations: Laws related to the system of National Finance

The Constitution is at the top of the budget-related legal system. Under the Constitution are the “National Finance Act,” which administers the formulation, execution and settlement of the budget, and the “National Assembly Act,” which administers the review process of the budget and the settlement. Other laws related to the revenue, expenditure and national debt also oversee federal fiscal activities.



1.3 Competent Ministries and Agencies

The **Ministry of Strategy and Finance** is in charge of budget formulation. The National Finance Act indicates that “the Minister of Strategy and Finance shall formulate the budget Bill...and obtain approval by the President after the State Council deliberates.”

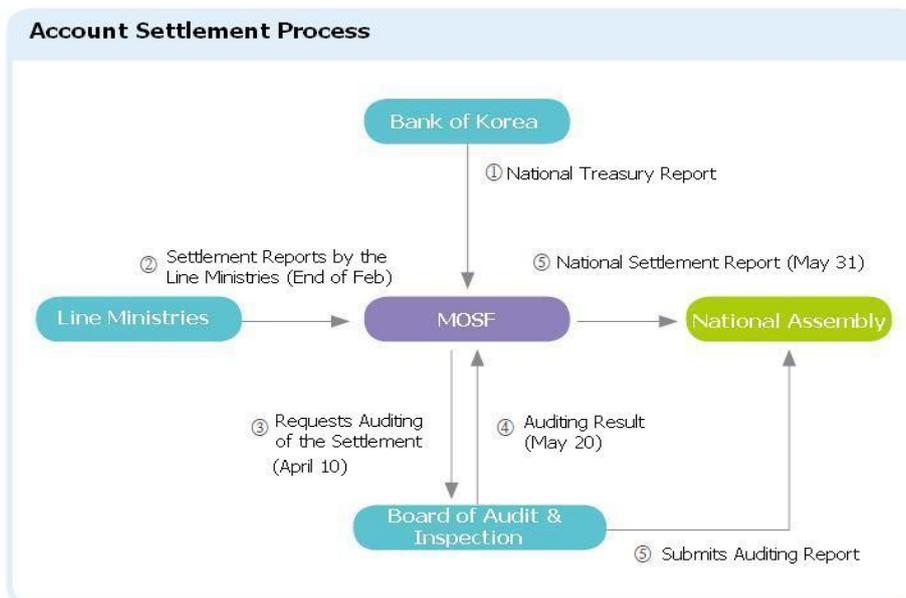


The **National Assembly** is in charge of (1) budget deliberation and approval, and (2) the settlement review process.



The Constitution of the Republic of Korea states: “The National Assembly shall deliberate and decide upon the national budget bill,” (National Assembly Act) and “The budget bill and the settlement of accounts shall be referred to the competent Standing Committee and it shall devise a pre-examination thereof, and report the results to the Speaker.” Further, the National Assembly Act indicates “The Speaker shall refer the budget bill and the settlement of accounts to the Special Committee on Budget and Accounts with the report as referred to in paragraph (1), and after its examination is completed, he/she shall refer them to the plenary session. If there exist any illegal or unjustifiable matters as a result of the examination of settlement of accounts, the National Assembly shall request, after a resolution of the plenary session, the government or the relevant agencies to make corrections of the matters, such as an indemnification of disciplinary measures, and the government or the relevant agencies shall promptly deal with the request for corrections of the matters and file a report with the National Assembly on their results.”

The **Board of Audit and Inspection** is in charge of inspection and examination of revenue and expenditure settlements.



According to Chapter 97 of the Constitution of the Republic of Korea, “the Board of Audit and Inspection shall be established under the direct jurisdiction of the president to inspect and examine the settlement of the revenues and expenditures of the state, the accounts of the state and other organizations specified by the Act and the job performances of the executive agencies and public officials.” Chapter 99 of the Constitution indicates that “the Board of Audit and Inspection shall inspect the closing of revenue and expenditure accounts each year, and report the results to the president and the National Assembly in the following year.”

2. Assessing Fiscal Transparency and Accountability

2.1 Open Budget Processes

The budget is prepared following the timeline outlined in the National Finance Act. Line Ministers submit their budget proposals to the National Assembly, due 90 days* before the fiscal year, on 2nd October. Deliberation of the budget proposal by the National Assembly (standing committees → Special Committee on Budget and Accounts) takes place during October and November. The Constitution requires the National Assembly to pass the Budget at least 30 days before the beginning of the next fiscal year (2nd December).

*The National Finance Act, as amended by the National Assembly in April 2013, requires the budget proposals to be due 90 days before the fiscal year in 2013; 100 days in 2014; 110 days in 2015; and 120 days from 2016.

At the end of each year, each line ministry establishes and submits an annual budget execution plan for the following year to the Ministry of Strategy and Finance (MOSF). MOSF convenes the monthly Review Meeting on Public Financial Management and monitors how those plans proceed. As stipulated in the National Finance Act, the Review Meeting on Public Financial Management is attended by the Deputy Ministers for Planning and Coordination from each ministry under the chairmanship of the vice-minister of MOSF and they report any progress in their execution process and discuss corrective measures, if needed.

Management of the federal finances requires a resource allocation that reflects yearly priorities and mid-term national policy goals. However, an annual plan proved insufficient to support the mid-term resource allocation and national development strategy. In order to overcome the limitations of a single year budget and to better manage federal finances and resource allocation, the Korean government submits to the National Assembly the National Fiscal Management Plan, a mid- to long-term strategy. This five-year plan provides the basis for the yearly budget and is updated annually to reflect the changing economic conditions and fiscal goals. During the National Fiscal Management Plan formulation process, sectoral workshops, open forums and sectoral discussions are held to gather opinions on fiscal management directions.

2.2 Public Availability of Fiscal Information

‘Narasalim (literal translation: nation housekeeping): Summary of the Budget,’ is an annually published booklet that contains information on the size of the budget, direction of fiscal management and the sectoral investment plan. Once published, the Budget is available at government offices, including the National Assembly and online, free of charge.

Fiscal information, categorized separately by revenue and expenditure, is made public. In addition to the display of gross numbers, the budget is submitted and published in classification of the general account, special account, national treasury liabilities, etc. Revenue and expenditure are also made public. Expenditure is categorized according to jurisdiction, function and characteristics.

The annual Budget includes all revenues including the national tax and non-tax receipts. Revenue budget by jurisdiction, and non-tax receipts by characteristics are both included in the budget.

The fiscal position of sub-national governments is not included in the budget documentation, but is published separately by the sub-national governments as is required by the Local Finance Act:

“The head of every local government shall develop a medium-term local finance plan annually in order to operate its finances as planned and report the plan to the local council and submit the plan to the Minister of Public Administration and Security...Local governments shall calculate expenses based on reasonable standards within the scope prescribed by Acts and subordinate statutes and their municipal ordinances and earmark them in their respective budgets.”

The finances of state-owned enterprises are also excluded from the national Budget documentation, and are instead published online: “All Public Information in One (ALIO).” Their balance sheets, profit and loss statements, and other financial information are made public through ALIO (www.alio.go.kr), which essentially serves as a monitoring system for citizens.

The Korean government verifies the results of fiscal activity each year and draws up the National Financial Report. Pursuant to the National Finance Act, each central government agency submits its financial report to MOSF by the end of February. Then the ministry prepares the National Financial Report by consolidating agency financial statements and eliminating intra-governmental transactions. After deliberation by the Cabinet and approval by the president, the National Financial Report is submitted to the Board of Audit and Inspection (BAI). The consolidated National Financial Report is submitted to the National Assembly by 31 May after being audited by the BAI. Financial reporting documents submitted to the National Assembly include the cash-based Revenue and Expenditure Report, accrual-based Financial Statements and the Annex. Other accompanying documents such as the Statement of National Debt Management, Statement of Receivables, Statement of Commodity Management, and Statement of National Property are also submitted to the National Assembly with the National Financial Report. The National Financial Report and fiscal statistics on national bonds and debts, fiscal surplus/deficit, taxes and charges, etc. are released on the Ministry of Strategy and Finance website for public access.

Each line ministry manages the performance goals of every budgetary program and project. The Performance Goal Management System was adopted as one of the Four Major Fiscal Reforms undertaken in 2003. More specifically, the Performance Plan sets out performance goals, indicators and targets in year t-1 for the target year (t) and based on the actual performance, the result of performance goals and the reasons for unsatisfactory outcomes are reported in the Performance Report in year t+1. In addition, budgetary projects’ planning, management and performance are evaluated performance-wise and the results are reflected in budget preparation. The National Finance Act requires the Performance Plan and Performance Report to be submitted to the National Assembly along with the budget request and the national report on final accounts.

2.3 Assurance of Integrity and Accountability

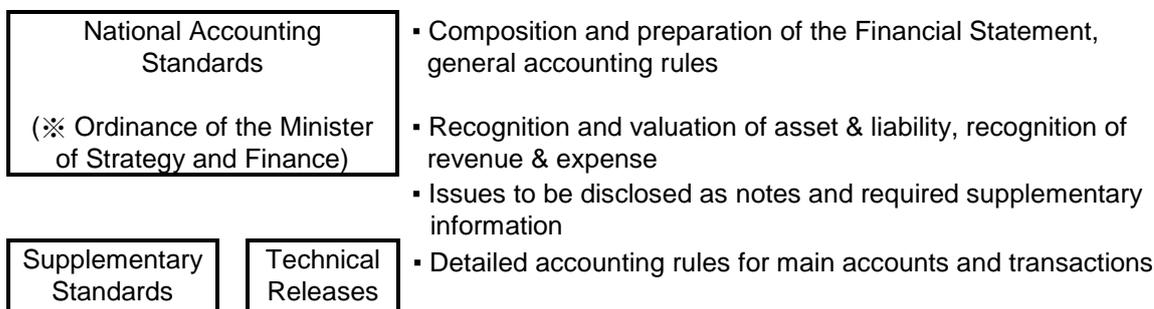
The Korean government has prepared the cash-based Revenue and Expenditure Report for an efficient budget control and a clear presentation of budget information and financial position. The National Accounting Act, effective from 2009, adopted accrual-based/double-entry accounting in financial reporting in addition to the existing cash-based Revenue and Expenditure Report.

The National Financial Statements, based on accrual accounting, manage national property, commodity, the national bond and national fund in the Statement of Financial Position. The National Financial Statements extended the scope of asset recognition, thereby identifying construction in progress, advanced payments, and infrastructure including roads, ports, and railroads that had not been recorded under cash-based accounting. Potential liabilities that may incur financial expenditures, including estimated pension liabilities and BTL, are recognized as liabilities. As a result, the adoption of accrual-based accounting serves as a solid foundation for an advanced management of financial risks.

Fiscal indicators, including national liabilities by the 2001 Government Financial Statistics Manual (GFSM), are also produced from the accrual-based Financial Statements.

The National Accounting Act, which introduces adoption of accrual-based/double-entry accounting, prescribes the framework and components of the national financial report which consists of MD&A, Revenue and expenditure Report, National Financial Statement, Performance Report, etc., as well as its preparation and submission method. The Act also includes the foundation for the new accounting system such as the establishment of the Chief Accountant Officer position and the National Accounting System Deliberation Committee. The Enforcement Decree of the Act

prescribes preparation and submission of the Revenue and Expenditure Report and the Annex. The National Accounting Standards, an Ordinance of the Minister of Strategy and Finance established under the National Accounting Act, provide rules for preparing the national financial statements. The National Accounting System Deliberation Committee discusses accounting treatment and other issues regarding the establishment, revision, and repeal of accounting regulations. As of December 2012, the National Accounting Standards, five supplementary standards including the Supplementary Standard on Loan Accounting, and 19 Technical Releases are in place.



Supplementary Standards

Supplementary Standard on Cost Accounting	Detailed regulations on cost accounting
Supplementary Standard on Cost Accounting	Detailed regulations on valuation and cost measurement of loans with low interest rates
Supplementary Standard on Pension Accounting	Detailed regulations on valuation and accounting of pension liabilities
Supplementary Standard on Guarantee Accounting	Detailed regulations on valuation and accounting of provisions for guarantees
Supplementary Standard on Insurance Accounting	Detailed regulations on valuation and accounting of provisions for insurance

Technical Releases: 19 Releases in place as of December, 2012

1	TR on Accounts of the Statement of Financial Position	• Explanation and case study on detailed accounts in the Statement of Financial Position
2	TR on Accounts of the Statement of Financial Operations	• Explanation and case study on detailed accounts in the Statement of Financial Operations and classification criteria of revenue and expense
3	TR on Accounts of the Statement of Changes in Net Assets and Report of National Tax Collection	• Elements of the Statement of Changes in Net Assets • Objective and preparation of Report of National Tax Collection
4	TR on National Funds	• Characteristics of and accounting for national funds
5	TR on National Bonds, Borrowings, and Commitments Resulting in Treasury Obligation	• Issuance and repayment of national bonds, amortization by interest expense
6	TR on Financial and Operating Leases	• Classification of and detailed accounting for leases
7	TR on Funds	• Accounting for contributions and charges that finance funds • Rules for setting reserves under a fund and their accounting
8	TR on Off-Budget Transactions	• Definition and presentation of off-budget transactions in F/S
9	TR on Depreciation and Amortization of Assets	• Definition of and accounting for depreciation
10	TR on Present Value of Bonds and Debts	• Definition and assessment of present value
11	TR on Public Private Partnership(PPP)	• Definition of PPP and their accounting by project type
12	TR on Contingent Assets and Liabilities	• Accounting for and note disclosure of contingent assets and liabilities
13	TR on the Compilation of Consolidated F/S	• Preparation of agency and consolidated national financial statements
14	TR on Valuation and Disclosure of Pension Liabilities	• Details on valuation and disclosure of pension liabilities
15	TR on Asset Revaluation	• Detailed accounting rules for revaluation of PP&E and infrastructure
16	TR on Infrastructure	• Systematic rules for infrastructure accounting
17	TR on Loan Accounting	• Evaluation of and accounting for provision for subsidized loan
18	TR on Consigned National Property	• Accounting for and disclosure of general property under national property category
19	TR on Cost Measurement	• Details on measuring cost

In establishing the National Accounting Standards, the Korean government used IFRS, IPSAS and the Statements of Federal Financial Accounting Standards of the US for reference.

The government adopted the concept of accrual accounting in IPSAS such as the recognition of revenue and expenditure, and the definition of asset and liability in establishing the Korean National Accounting Standards. The Korean National Accounting Standards and other regulations are broadly consistent with IPSAS, with some differences: for example, the Korean Standards have different rules for the equity method and recognition of fines and penalties.

For professional and systematic research on national accounting, the MOSF entrusted the establishment and operation of the National Accounting Standards Center (NASC) to the Korean Institute of Certified Public Accountant (KICPA). As an affiliate to the KICPA, NASC which was established in July 2010, conducts continuous research on accounting standards at home and abroad and uses a fiscal analysis technique as well as case studies of other countries adopting accrual-based accounting systems, etc.

Reflecting the research of NASC, the MOSF makes great effort to enact/revise standards to enhance the consistency between the Korean National Accounting Act and international standards thereby building an advanced public finance system consistent with international standards.

The Korean government actively promotes public understanding of and engagement in the budget process. The budget is made public through a digital budget and accounting system (www.digitalbrain.go.kr). The budget, major fiscal index, and other budget-related documents are currently made public and arranged in different categories for easy understanding. A system to collect public and local opinions, the Local Finance Conference and open forums, are in operation, and the results of these discussions are published as press releases. Public opinions are also collected through social networking services such as Facebook and Twitter, and other online websites.

3. Challenges and Priorities for Future Reform

Korea was ranked 8th out of 100 countries in the 2012 Open Budget Index (OBI), a survey conducted by the International Budget Partnership (IBP). Korea's OBI values were consistent with those of other major OECD countries such as the United Kingdom (3rd), France (6th), the United States (7th) and Germany (13th). Korea was the country with the highest 'public participation in the budget process'.

The Korean government will continue its efforts to increase public understanding of the budget, using broadcast media such as television and radio, and establishing an online budget system and publishing information pamphlets to allow the public to easily access the budget. For instance, free newspapers containing fiscal information are readily available, and interactive videos and cartoons about the budget and other related contents will be available online. The use of infographics will further increase the accessibility of the budget.

4. Resource Bibliography

Website	Description
http://www.mosf.go.kr	<p>Ministry of Strategy and Finance</p> <p>Information about the Budget, press releases, statistics and other up-to-date information related to Korean economy are available. Also available in English.</p>
http://www.nabo.go.kr	<p>National Assembly Budget Office</p> <p>News, press release and other publications by the National Assembly Budget Office are available here. Also available in English.</p>
http://www.bai.go.kr	<p>Board of Audit and Inspection</p> <p>This publication provides ways to keep up with latest BAI activities and different ways for citizens to participate in their operations. Also available in English.</p>
http://www.law.go.kr/main.html	<p>National Legal Information Center</p> <p>In addition to actual legal texts, this site contains simplified versions and explanations that are easy-to-understand.</p>
http://www.digitalbrain.go.kr	<p>Digital Budget and Accounting System</p> <p>Fiscal statistics and other information, including Korea budget and settlement data, are available here, including in English.</p>
http://www.alio.go.kr	<p>All Public Information in One (ALIO)</p> <p>This publication provides thorough financial information about public entities.</p>

Malaysia

Developments in Promoting Fiscal Transparency and Public Accountability⁷

1. Fiscal Institutions of the Government

1.1 Fiscal Framework and Regulations

Malaysia abides by the principles of transparency, good governance and accountability in public financial management. A Report on the Observance of Standards and Codes on fiscal transparency (or Fiscal ROSC) was undertaken with the assistance of the International Monetary Fund (IMF) between May and June 2011. One of the objectives of the exercise was to review fiscal transparency practices and assess the effectiveness of fiscal policy formulation in Malaysia based on international best practices. Having never undertaken such a review, the Fiscal ROSC proved to be an insightful exercise. It enhanced understanding of the conduct of public finance in Malaysia as well as strengths and weaknesses in fiscal policy formulation.

The main findings of the Fiscal ROSC indicate that Malaysia meets the requirements of the fiscal transparency code in many respects:

- There is a comprehensive legal framework governing public finances and the budget process;
- The main state-owned enterprises (SOEs) conform to sound principles of good governance;
- Regulation of the private sector is clear, and contractual arrangements are accessible;
- The legislative basis for taxation is well understood, and tax administration procedures and taxpayers' rights are clearly defined and relatively well implemented;
- The budget process is governed by a clear legal framework and the budget timetable is well defined and followed;
- A coherent medium-term fiscal framework provides a clear context for budget decisions. Budget execution is controlled and monitored according to clear regulations and standards;
- A well-defined framework for medium-term fiscal planning allows a clear vision on the main strategic objectives of the government;
- Fiscal data are comprehensive and prepared broadly in line with (cash) IPSAS standards;
- Rules on ethical behavior of civil servants are clear and generally well observed;
- The anticorruption framework is in line with best international practice;
- Internal audit is effective and comprehensively applied across all government departments; and
- The National Audit Department (NAD) has a sound legal basis and highly professional staff, and its annual audit report of government financial statements is submitted to Parliament and made publicly available.

1.2 Fiscal Institutions of the Government

The general government in Malaysia comprises the federal government, 13 states, three federal territories and 154 local government authorities. The Federal Constitution and the Financial Procedure Act 1957 clearly stipulate the fiscal roles and responsibilities of the three branches of government: the executive, legislature, and judiciary. There are also specific provisions in the Federal Constitution on taxation, budget approval, and deposit of all public moneys in the consolidated fund, public debt, contingent funds, external audit, and transfers to the states.

⁷ This policy report draws on the findings of IMF's Fiscal ROSC Report on Malaysia, dated 16 February 2012.

Parliament has the authority to approve the federal government budget, with or without amendments.

Similarly, the relationship between the different levels of government is well defined. The exclusive and shared responsibilities between the federal and state governments are reflected in Article 74 of the Federal Constitution. All states are members of the National Finance Council which is chaired by the prime minister. The federal government consults the National Finance Council in matters relating to provision of grants, assignment of federal taxes or fees, and loans.

States are entitled to various grants from the federal government such as:

- capitation grant (based on population of a state)
- state road maintenance grant;
- grants to meet shortfall in the operating account;
- grants based on the level of economic development, infrastructure and well-being; and
- grants for service charge.

While many of the grants are based on a formula, the federal government also meets revenue shortfall in states and provides discretionary financial assistance to local authorities. Fiscal discipline is strictly observed in matters relating to borrowing. State governments can borrow only from the federal government, or for a period not exceeding five years, from a financial institution according to rules set by the federal government. Statutory bodies require prior approval of the minister from the relevant ministry and the Ministry of Finance (MOF) to access funds from the capital market. The states of Sabah and Sarawak in East Malaysia, however, enjoy special privileges when they joined the Federation in 1963.⁸ They are allowed to borrow under their respective state laws but with prior approval of the Central Bank of Malaysia (Bank Negara Malaysia).

The federal government also fully or partially owns about 1,600 corporations which come under the purview of the Companies Act 1965. Though some public corporations are subject to the Government's broad policy guidelines and strategies, they generally remain independent in their day-to-day operations, and comply with professional and commercial practices. Dividends from public corporations are included in the federal budget as non-tax revenue. Financial statements of public corporations are audited by external private auditors and lodged with the Companies Commission of Malaysia. For greater transparency, financial statements are also regularly published.

2. Assessing Fiscal Transparency and Accountability

2.1 Open Budget Process/ Management of Public Finances

Laws, regulations and procedures on prudent management of public finances are clearly defined in various Articles of the Constitution, Financial Procedure Act 1957, Development Funds Act 1966, and Treasury Circulars and Instructions. Budget allocation and management; management of government bank accounts; asset management; public debt; rules and regulations on the issuance of government guarantees; use of contingency funds; and requirements for preparation of independent audit reports are under the purview of the Ministry of Finance. Federal laws on public finance are also applicable to the states and local governments.

The annual budget formulated by the federal government sets out policies and priorities for the next fiscal year reflected in terms of strategies, budget allocations, expenditure pattern, and

⁸ Malaya gained independence from the British in 1957.

expected revenue stream. The budget is well-publicised and discussed at length in the mass media by senior civil servants, analysts and economists to further enhance understanding of the key budget measures as well as the rationale for them. Though not a legal requirement, annual budget consultations are held with captains of industry, trade and industry groups, professional organisations and civil society to elicit their suggestions and concerns at the start of the annual budget preparation. The annual budget consultation is chaired by the Minister of Finance (may also be the prime minister). Memoranda forwarded by various stakeholders are scrutinised and pertinent issues, deliberated in smaller focus group meetings. If feasible and doable, the issues are addressed in the budget speech as policy measures.

The budget calendar, though not specified in law, is well publicised through circulars sent out to ministries and agencies early in the year. In addition, an internal calendar complete with timelines serves as a guide to divisions within MOF. The fiscal year follows the calendar year and the federal budget must be approved by December, before the beginning of the next fiscal year. The draft budget is usually submitted in October, giving Parliament two to three months for debate. Documents submitted to Parliament on Budget Day are as follows:

- The Budget Speech – captures the current macroeconomic developments; sets out the macro-fiscal framework and outlines policy priorities, strategies and budget measures for the coming year;
- Revenue Estimates – contains details of all revenue items for the new fiscal year; comparisons against the previous year's outcome as well as original and revised estimates for the current fiscal year. Notes are also provided on revisions of the current year's revenue and coming year's estimates;
- Expenditure Estimates – budget transactions are reflected in gross terms;
- Audited final accounts – prepared based on modified cash basis and consolidated at the federal level. It also includes information on financial assets of the federal government. The financial statement includes comparison of budget outturn against the original and revised budget for the year, at the program level for each ministry; and
- Economic Report – a comprehensive document that discusses current economic developments, performance of the economy, policies and growth strategies for the coming year as well as detailed information on public finance.

The budget process in Malaysia is dual in nature. While the budget for operating expenditure is discussed between MOF and line ministries, development expenditure proposals are coordinated and vetted by the Economic Planning Unit (EPU) in the Prime Minister's Department. Line ministries are given an annual ceiling for operating expenditure within which they enjoy some flexibility. In contrast, development expenditure is determined within a five-year plan period with an overall ceiling. Annual allocations are determined on a two-year rolling plan basis. The budget process is guided by key fiscal strategies which are intended to strengthen federal government finances:

- Current account must be in surplus and borrowing is limited to fund development expenditure;
- Fiscal consolidation – budget deficit to be gradually reduced to around 3 percent by 2015 and to a near balance by 2020;
- Observe a debt limit of within 55 percent of GDP; and
- Debt service charges to be within 15 percent of federal government operating expenditure

With regard to medium-term fiscal planning, Malaysia is guided by the five-year development plans prepared by EPU in close consultation with line ministries and other government agencies. The current 10th national development plan spans from 2011-15. The five-year plan sets out an overall target for development expenditure which is annualised in the budget process. The MOF sets the ceiling for the annual operating budget guided by the macro-fiscal framework, budget strategies and key planning principles to ensure fiscal sustainability and macro-economic stability.

2.2 Public Availability of Fiscal Information

Budget documents, the federal government financial statement, the Auditor-General's report and financial statements of individual public corporations are published annually and can be downloaded from their respective websites. The federal government's audited annual financial statement details revenue collection, expenditure by programs, projects or activities, borrowings and repayments, debts, guaranteed debt, recoverable loans, investment and cash balance. In addition, fiscal information is available in the annual reports/publications of MOF, the Central Bank, the Accountant-General's Department, the Department of Statistics and their respective websites. Further, Malaysia subscribes to IMF's Special Data Dissemination Standards (SDDS), which requires financial and fiscal data to be published in a timely manner on the IMF website.

Federal government revenue, expenditure, financing, and debt are classified in accordance with the Government Financial Statistics Manual (GFSM 1986). In terms of coverage, the budget documents cover the central government's annual fiscal activities, including defence expenditures and transfers from the federal government to the other levels of government and public corporations. Resource revenues, royalties, and dividends are included in the Consolidated Fund and published in the Revenue Estimates. Similarly, fiscal incentives (tax expenditures) provided under the new budget are reflected in the Revenue Estimates.

All allocations to federal ministries, agencies and other levels of government are appropriated from the Consolidated Fund and included in the Budget Estimates in accordance with requirements of the Federal Constitution and the Financial Procedure Act 1957. Budget expenditure is classified according to organisational structure, ministries, programmes, and activities in a hierarchical structure, besides an economic classification in line with international standards. Functional expenditure classification (COFOG) is published annually by the Department of Statistics. While budget documents are centered on the federal government's fiscal activities, MOF's annual economic report discusses the fiscal position of the other layers of government, including public non-financial corporations.

States have their own budgets which are tabled in their respective state assemblies. State governments, local authorities and statutory bodies are also required to publish their respective audited annual financial statements while public corporations comply with disclosure requirements of the Companies Act 1965 and listing requirements of Bursa Malaysia (Stock Exchange).

Information on federal government gross domestic and external debt, guaranteed debt, financial assets, and recoverable loans is reflected in the federal government financial statement. MOF's annual economic report also discusses federal government debt and external debt. Information on federal government debt is by foreign and domestic holders, maturity, type of instrument, lender, and currency. Data on external debt includes the debt of public corporations and the private sector. Such information is also published on a quarterly basis on the Central Bank's website. Debt service charges incurred by the federal government are included in operating expenditure and published every quarter on the MOF and Central Bank's websites.

The EPU formulates long-term development plans for the economy. Information on public finances of the federal government over the medium term is captured in EPU's five-year development plans where headline targets have been set for the consolidation of the fiscal deficit, debt-to-GDP ratio and overall ceiling for development expenditure. The five-year development plans are tabled in Parliament and published on EPU's website. The fiscal targets are annualised through the budget process and reviewed regularly.

2.3 Assurances of Integrity

Federal and state government accounts are prepared based on the international accounting standard (IPSAS) for cash-based accounts. Other levels of government are accrual-based. Deviations between budget estimates and outturn are presented in the Accountant-General's annual financial statement which is subject to audit. There have been no major revisions to historical data due to changes in accounting policies, standards or previous year adjustments.

Revisions on fiscal data, if any, are reflected in MOF's annual economic report and the Central Bank's monthly statistical bulletin.

All ministries and major departments (e.g. Inland Revenue Board) have internal audit units/ teams which scrutinise government accounts and report directly to the heads of department/ ministry. Staff of Internal Audit is sourced from the National Audit Department and their annual work plan and audit reports are lodged with MOF. An Inspectorate in MOF also carries out checks and physical inspections at government departments. In general, procedures on financial management in the public sector are incorporated in Treasury instructions and circulars. Internal controls are embedded within procedures, processes and work flow systems. The secretary-general of the ministry or head of department is responsible for sound financial management of resources.

The integrity, transparency and accountability in the conduct of government finances are also reflected in the provisions of the Federal Constitution and the Audit Act 1957 which provide for independent scrutiny of government expenditure through the National Audit Department, which was set up in 1957. The National Audit Department is headed by an Auditor-General who is appointed by the King, on the advice of the Prime Minister, and after consultation with the Conference of Rulers. The Auditor-General enjoys constitutional protection from political interference and his salary is charged directly to the Consolidated Fund. His mandate includes auditing financial statements of the federal government, states and local authorities while government-linked companies or state-owned enterprises are audited by private audit firms. The National Audit Department complies with international audit standards (INTOSAI) and has been accredited ISO 9001.

The Auditor-General's report is tabled in Parliament and published. The report highlights strengths as well as weaknesses and overall shortcomings in public financial management. Apart from the MOF, the Auditor-General's Office also monitors its own recommendations and reports on the outcomes. The Auditor-General also conducts various kinds of audits, including financial attestation of accounts, compliance, performance and management audits.

The Auditor-General's Report comes under the purview of the Public Accounts Committee in the House of Representatives. The Public Accounts Committee, comprising members of Parliament, including members of the opposition parties, deliberates on the findings of the Auditor-General's Report. It is empowered to conduct hearings and obtain explanations from heads of government departments, ministries and agencies on issues raised in the Report. The Public Accounts Committee reports its findings to Parliament. To ensure independence, integrity and effectiveness, no minister or deputy minister is a member of the Public Accounts Committee.

The Department of Statistics is the national data compiler and draws its mandate from the Statistics Act 1965. The Department of Statistics, an independent body, publishes a wide range of trade/industry, socio-economic and fiscal data and information in accordance with its annual calendar. The Department of Statistics also provides information to IMF's special data dissemination standard (SDDS).

3. Challenges and Priorities for Future Reform

Malaysia has embarked on concerted efforts to further strengthen fiscal transparency, accountability and governance as it recognises its importance in facilitating government policy and business decisions and access to capital markets while enhancing regional economic integration. Major fiscal reforms concurrently underway include the following:

Fiscal Policy Committee

- To strengthen fiscal policy formulation, the federal government announced the setting-up of a Fiscal Policy Committee (FPC) which will be headed by the Prime Minister. The FPC comprises key members of the cabinet and heads of central agencies. The FPC is designed to provide leadership in ensuring public finances remain sound and sustainable over the longer term. The secretariat to the FPC will be the Fiscal Policy Office which is

currently being expanded and up-skilled to meet the strategic challenges of the new national mandate.

Implementation of Outcome-Based budgeting (OBB)

- Currently implemented in phases, OBB will be fully operational by 2015. Operating and Development Expenditure will be linked directly to national priorities and outcomes to ensure targeted spending to eliminate wastage, overlaps and redundancies in projects and programs across government agencies as well as encourage greater accountability and transparency. With the implementation of outcome-based budgeting, evidence-based decision-making will be the norm with emphasis on outcomes and effectiveness of projects and programs, compared with the expenditure and output approach.

Accrual Accounting

- Accrual Accounting will be implemented at the Federal level by end-2015 to ensure more efficient and effective use of resources as well as sound financial management. Other levels of government - statutory bodies, local governments and state-owned enterprises are accrual-based. The move to accrual accounting will enable the federal government to manage its assets and liabilities as well as future commitments more effectively to generate cost savings, enhance revenue collection and improve service delivery. The 13 states are expected to adopt accrual accounting when the system is more stable.

Migration to Government Finance Statistics Manual 2001 (GFSM 2001)

- Malaysia is part of a three-year regional effort funded by the IMF and the federal government of Japan to assist economies to migrate from the present modified cash-based accounting system (GFSM 1986) to the accruals-based GFSM 2001. The migration exercise, which is most timely, is in line with the Accountant-General's initiative to implement accrual accounting by end-2015. Through this tie-up, the Accountant-General's IT system will auto-generate GFSM 2001 economic reports to facilitate detailed economic analysis; meet reporting obligations to the International Finance Statistics (IFS) Quarterly and GFS annual yearbook; and finally extend reporting coverage to the general government. Currently, compilation of IFS and GFS data is at the federal government level and from secondary sources.

The above reform initiatives will promote informed decision-making; encourage healthy public debate on pertinent issues, strengthen government finances; foster sustainable economic growth; and help enhance the overall competitiveness of the Malaysian economy.

4. Resource Bibliography

Website	Description
http://www.treasury.gov.my	Ministry of Finance, Malaysia (MOF) Budget Speech, Annual Economic Report, Quarterly Update – various years Revenue and Expenditure Estimates – various years.
http://www.bnm.gov.my	Central Bank of Malaysia (Bank Negara Malaysia / BNM) Bank Negara Malaysia Annual Report – various years Monthly Statistical Bulletin – various months
http://www.epu.gov.my	Economic Planning Unit (EPU) Tenth Malaysia Plan 2011 – 2015, planning documents, economic statistics - various years
http://www.ilkap.gov.my http://www.digitalibrary.my http://www.agc.gov.my	Attorney-General's Chamber Federal Constitution of Malaysia Financial Procedure Act 1957 (Act 61) revised January 1997 Audit Act 1957 (Act 62) revised January 2006
http://www.audit.gov.my	Auditor-General's Office Audit Reports – various years Public Accounts Statements – various years
http://www.anm.gov.my	Accountant-General's Department Federal Government Financial Statements – various years Annual Report – various years
http://www.hasil.org.my	Inland Revenue Board
http://www.parliamen.gov.my	Parliament Malaysia Hansard,, archives – various years
http://www.statistics.gov.my	Department of Statistics

Mexico

Developments in Promoting Fiscal Transparency and Public Accountability

1. Fiscal Institutions of the Central Government

1.1.1 Annual Budget Process

The “Ley Federal de Presupuesto y Responsabilidad Hacendaria” (LFPRH, Budget and Fiscal Responsibility Federal Law), states that the Executive’s proposed budget must be submitted to Congress by 8 September (except every sixth year when the government is in transition). The Executive’s proposed budget consists of two separate documents, the “Ley de Ingresos de la Federación” and “Presupuesto de Egresos de la Federación” (Revenue Budget Decree and Expenditure Budget Decree, respectively), along with supplementary documentation regarding the macroeconomic outlook. After the formal submission of the Executive budget draft, the revenue budget is received, discussed and voted on by the Finance Committee of the House of Representatives before being submitted to a plenary vote. Afterwards, the Senate follows the same procedure of committee vote followed by plenary vote to confirm or reject the decision of the Lower House. The Revenue Law must be approved by both Houses to become effective; the Lower House must approve it before 20 October, the Senate before 31 October. The Expenditure Budget Decree need only be approved by the House of Representatives, before 15 November.

Congressional Budget Timetable

Date	Event
April 1 st	The Executive submits preliminary macroeconomic projections for the next fiscal year.
June 30 th	The Executive submits the programmatic structure of the budget, including proposed new programs.
September 8 th	The Executive submits the draft expenditure and revenue budgets to Congress and the senior official responsible must explain these documents.
	The Budget Committee of the House of Representatives starts hearings on the expenditure budget.
October 20 th	The House of Representatives approves the revenue budget.
October 31 st	The Senate approves the revenue budget.
	The Budget Committee receives comments from the sectoral committees of the House of Representatives, votes on proposed amendments to the budget, and submits the budget to a full vote of the Chamber.
November 15 th	The House of Representatives approves the expenditure budget.
	The Revenue Law and the Budget will be published in the Official Gazette 20 days after.
January 1 st	The fiscal year begins.

The formal budget calendar opens with the submission to the Legislature of the first macroeconomic estimates by the Ministry of Finance and Public Credit (Ministry of Finance), no

later than 1 April. The submission of this first report is mandated by the LFPRH and is done according to the “OECD Best Practices for Budget Transparency”. The purpose of this report is to generate more informed debates among the Executive and Legislative branches when negotiating the budget.

By 30 June, the Executive must submit to Congress the programmatic structure and a proposed Expenditure Budget for the next year. A mid-year review of the progress of programs in current budget is also included, but does it not provide detailed estimates for the next fiscal year.

The budget formulation stage ends with the submission of the budget to the House of Representatives no later than 8 September. These and several other steps in the process are defined in the LFPRH. The deadline for approving the Federal Expenditure Budget is set for 15 November at the latest.

Every six years, when a new Administration is elected, the deadline for the Executive to submit the budget to the House of Representatives is delayed until 15 December. The timeline for approving the federal budget in that year is 31 December. This provision was enacted to ensure that the newly elected Administration is responsible for submitting, negotiating and overseeing its own budget. The change of Administration takes place on 1 December.

The legislative budget calendar somewhat understates the degree of interaction between the House of Representatives and the Executive immediately before and after the submission of the budget. Officials from the Ministry of Finance and from the Office of the Presidency are in constant contact with the leaders of all political parties. Responsibility for leading the negotiation lies with the Minister of Finance and the Deputy Minister of Expenditure.

The first stage of budget preparation occurs largely within the Cabinet, with the relevant ministries drafting the plans based on the past years’ information and using reasonable assumptions of inflation and revenue growth. The proportion of legally binding non-discretionary expenditure – mainly entitlements and constitutionally mandated federal transfers and interest payments – varies by ministry but is about 25 percent of the total budget. The percentage of what officials at the Ministry of Finance call mandatory spending – personnel expenditures and entitled social programs – can reach up to 90 percent according to OECD. In practice, the margin for new expenditures or earmarking in Congress is probably much smaller still, and in a normal year would usually not exceeds two to three percent of a ministry budget.

During spring, ministries begin to put together their proposals, but the formal drafting process only starts in the summer. In May and June, the Ministry of Finance and the spending ministries take part in a series of extensive high-level meetings at the Under Minister level. This official exchange sets the stage for the formal budget formulation process of the following two months. By the end of June, the Ministry of Finance submits the Budget’s Programmatic Structure to the House of Representatives. Once submitted, the document cannot be altered by either branch of government for the rest of the cycle.

Ministries must submit new or modified multi-annual investment projects by 15 July. On that date, the Ministry of Finance publishes the budget memorandum – the handbook of programming and budgeting – and updates for the most important programs in the “Matriz de Indicadores de Resultados” (MIR or Performance Indicators Matrix) included in the budget. The memorandum defines the precise formats and methods to be used in the development of the budget draft.

In early August, the final budget ceilings are communicated to the ministries, which then submit their budget information using an integrated programming and budgeting IT-System (called PIPP, “Proceso Integral de Programación y Presupuesto”). The budget draft with all supplementary volumes of information is assembled by the Deputy Minister of Expenditure to prepare the budget for submission to the House of Representatives.

By the time the expenditure ceilings are given to the competent ministries, most of the possible disagreements between spending ministries and the Ministry of Finance will have been pre-emptively resolved. The final stage of revision on the Executive side, before legislators can have a chance to amend the proposed budget, is for unresolved conflicts and for final touches in light of policy priorities, to be settled by the Office of the Presidency and the Ministry of Finance usually in

the final days before the budget is presented to Congress.

After the formal submission of the Executive budget draft, the revenue budget is received, discussed and voted on by the Finance Committee of the House of Representatives before being submitted to a vote by its members (500 representatives). Afterwards, the Senate follows the same procedure of committee vote followed by a vote to confirm or amend the decision of the Lower House. The Revenues Law must be approved by both Houses of Congress before 31 October.

After the Revenue Law is approved, the Expenditure Budget is discussed and voted on by the Budgeting Committee of the House of Representatives and submitted for its discussion and amendment and for approval by the members of the Lower House.

Budget Formulation Calendar

Date	Event
April 1 st	The Executive submits the macroeconomic projections for the next fiscal year to Congress.
June and July	Ministries start drafting their budget proposals.
July	Ministries must submit their multi-annual investment projects to the Ministry of Finance.
July	The Ministry of Finance sets the aggregate ceiling for the budget.
July	The Ministry of Finance circulates the handbook of programming and budgeting (i.e. the annual budget circular).
August 1 st – 4 th	The Ministry of Finance communicates the sector ceilings to ministries.
August 11 th -22 nd	Ministries submit their budgets electronically to the Ministry of Finance.
August 25 th	The Ministry of Finance integrates the draft budget.
August 25 th –September 8 th	Final revisions before the budget is submitted to the House of Representatives.
November 15 th	The House of Representatives approves the expenditure budget.
	The Expenditure Budget Decree will be published in the Official Gazette 20 days after.

1.2 Budget Law and Regulations

The LFPRH includes a balanced budget rule; establishes formulas for calculating estimates of oil prices, institutionalized stabilization funds (mainly for surplus oil revenues), and sets deadlines for the congressional budget approval procedure.

Also, the LFPRH establishes the Executive’s obligation to submit quarterly reports on the situation of public finances and sovereign debt. This report is compiled in the Ministry of Finance and submitted to Congress.

The “Ley General de Contabilidad Gubernamental” (LCG or Government Accountability General Law), promulgated in 2008, seeks to establish accrual accounting and harmonization of the accounting and budgeting regulations across all levels of government. One of the main purposes of this law is to establish criteria that will guide government accountability and make comparable the results for every public entity. Accounting reports will be required to include information on the results of programs.

When the LCG came into effect, “Consejo Nacional de Armonización Contable” (CONAC stands for Accounting Harmonization National Council) was created to oversee the implementation of this new legislation, including representatives of the federal government, the states, and the

municipalities. CONAC is the regulatory and overseeing council responsible for coordinating the harmonization of government accountability. The members of CONAC are officials of the three levels of government, ensuring the representativeness and legitimacy of the Council. Likewise, CONAC issues – and will continue to issue – accounting standards. For that reason, all three levels of government are required to use standard accounting structures and procedures. Each entity must establish registries of goods and real estate.

In 2012, the decree that reformed the LCG was published. The amendment's objective was to: *i*) promote the transparency and harmonization of the financial information concerning the application of public resources at three levels of government; and, *ii*) generate and make public financial information in accordance with the rules, structure, format and content set by CONAC.

In May 2008, a constitutional reform was enacted regarding public expenditure to implement the “Presupuesto Basado en Resultados” (Performance Based Budgeting (PbR)) to allocate resources in accordance with measurable objectives to be achieved by ministries. The 2008 constitutional reform established that information obtained from external evaluations must be used in program designs and allocation of funds. It also states that performance reports must be submitted quarterly to Congress for review and that this information must be made public at all times. The “Consejo Nacional de Evaluación de la Política de Desarrollo Social” (CONEVAL or National Council for the Evaluation of Social Development Policy) is the technical agency in charge of monitoring and evaluating the performance of the social programs. In practice, CONEVAL has been an important source of technical expertise for performance evaluation.

Another important tool associated with the LFPRH and its regulations is the “Evaluación Anual de Desempeño” (Annual Evaluation Program) which is submitted at the beginning of each fiscal year to select the programs that will be externally evaluated. All the evaluations are disseminated to the general public and submitted to Congress so that they are considered by representatives as part of the budget-approval process.

1.3 Competent Ministries and Agencies

The Office of the Presidency is responsible for overall political direction and seeks to ensure that the annual budget is in line with the government's priorities for the president's six-year term in office, as established in the “Plan Nacional de Desarrollo” (National Development Plan (PND)). The Ministry of Finance is in charge of defining the estimated revenues for the coming fiscal years and is responsible for enforcing the balanced budget rule. In the Executive's budget formulation process, the presidency, the Ministry of Finance and the competent ministries are all relevant institutions. During the budget formulation process, the Ministry of Finance takes the lead in the formulation of the Executive's budget.

Within the Ministry of Finance, the Deputy Minister of Expenditure is the central budget authority (the “Budget Office”) and has broad and comprehensive responsibility for public expenditures. The Budget Office subdivisions cover budget policy, programming and budgeting, accounting, evaluation, and investment spending. Also, the Budget Office includes a legal directorate that is heavily involved in the drafting of reforms. During budget formulation, annual budget ceilings are only set for the overall budget of each ministry, and the most important spending categories at the aggregate level for each ministry. The Ministry of Finance controls spending at the level of aggregate categories for each sector, but budget analysts still keep track of key budget figures several layers below.

Responsibility for the macroeconomic forecasts and government statistics lies with the Economic Planning Unit, appointed to the Deputy Minister of Finance and Public Credit.

The main counterparts of the Ministry of Finance during budget formulation are the other ministries. Each ministry, irrespective of its size, has a central administrative unit called “Oficialía Mayor (OM)”, where the budgeting, planning, spending, financial control and back office functions are located. This office reports directly to the respective Minister and is at the heart of all administrative tasks. The office is divided into different directorates-general, typically including IT, budget and organization, human resources, material resources, procurement, and general services. In the OM's budget office, information is compiled for reporting to central ministries and other bodies in charge of the various monitoring systems across the Mexican government. This

ministerial budget office has as its counterpart a team of budget analysts in the Ministry of Finance. These two sides are in close and regular contact throughout the fiscal year.

The “Auditoria Superior de la Federación (Federal Supreme Audit Office (ASF)) is the supreme audit institution of the federal government and is part of the House of Representatives. The ASF has the legal prerogative to access data, books, and documents related to federal public revenue or expenses, as well as any other information that might be helpful, with the sole restriction that it must explain the purposes and uses the information may serve. All internal control offices in public organizations aid the ASF in the review of public accounts. The ASF undertakes approximately 800 audits per year and produces a single report that consists of 40 volumes and over 25,000 pages which is submitted to the House of Representatives. The most important part of this report is the central government’s final accounts audits.

The House of Representatives has a specific audit committee where the ASF report is presented and discussed. Findings and recommendations, once they are presented to Congress, are publicly available. The ASF presents biannual follow up reports to Congress. Ministries and other relevant bodies are constitutionally required to respond to audit recommendations. The procedure is as follows: 10 days after the public account reviews are submitted to the House of Representatives, the ASF sends its recommendations to the competent ministries, which have 30 days to respond. In turn, the ASF has 120 working days to reply to the ministries’ explanations. Twice a year, the ASF submits a report to the Lower House on the status of the agencies’ compliance with the recommendations.

1.4 Role of Government Agencies in Managing Fiscal Pressures and Budget Processes

Ministries require authorization from the Ministry of Finance to exceed their chapter budget ceilings; in addition, there are rules that allow the Ministry of Finance to authorize overspending only if there are resources available from different aggregate categories or windfall revenues generated by them. In addition, the Ministry of Finance must include in the quarterly reports every authorization for overspending that equals or exceeds 5 percent of a given chapter.

Since 1998, Mexico has established measures to handle unexpected shortfalls in the revenue estimates of the fiscal year. The Oil Revenues Stabilization Fund was created for compensating some income shortfalls up to the limit allowed by its operating rules. When there is an income shortfall, the first action is to compensate for the decrease of a revenue item established in the Revenues Law of any given fiscal year with the increase of another revenue item. For instance, if the “Impuesto al Valor Agregado (IVA)” (Value Added Tax) revenue rate decreases, it could be offset by an increase in the “Impuesto Sobre la Renta (ISR)” Income Tax. Another scenario is a decrease in the price of a barrel of Mexican oil, which could be compensated by the Oil Revenues Stabilization Fund.

If revenue items or stabilization funds are insufficient, offsets will be found from: *i)* expenses on social communication; *ii)* administrative expenses not directly connected to population needs; *iii)* expenses on wages and salaries, without affecting the priority extraordinary benefits; and *iv)* budgetary savings and economies established in accordance with the authorized calendars of ministries and agencies. If still not sufficient, other adjustments can be made while still trying not to affect social programs.

2. Assessing Fiscal Transparency and Accountability

2.1 Open Budget Processes

To hold government accountable to the public, budget preparation, execution and reporting should be undertaken in an open manner. Please describe the budget process in your IER and focus on addressing, but not limited, to the following points:

- *Does the budget preparation follow an established timetable? How much time does the Legislature have to review the draft budget?*

As discussed in earlier paragraphs, the established timeline that the Congress has to review the draft budget is as described in the Congressional Budget Timetable (see 1.1 Annual Budget Process)

- *What procedures are in place for budget execution, monitoring, and reporting?*

Within 10 days of approval of the budget by the legislature, the Ministry of Finance issues guidance for the expenditures of each ministry. The agencies have 15 days after notification to complete their review of the guidance. The budget is then uploaded to an IT-System called “Sistema de Administración Financiera Federal” (Federal Integrated Financial Management System (SIAFF)). Each spending ministry appoints personnel to access the system and operate the budget.

Income and expenditures are scheduled by month and published in the Official Gazette (Diario Oficial de la Federación). The budget becomes available through the system according to the published calendar. Spending ministries can access segments of their budget every month with the possibility of advancing expenditures for future months as long as they compensate the advances with resources from other items, these operations must be approved by the Ministry of Finance.

A complementary IT-System called “Portal Aplicativo de la Secretaría de Hacienda” (Applicative Portal of the Ministry of Finance (PASH)) allows ministries to make internal reallocations of the budget, to request external reallocations from the Ministry of Finance, and to order payments. This system is updated with each year’s budget information, and becomes active on the first working day of January.

Although the rules on payments do not expressly provide a mechanism of preventive control, the LFPRH states that no payment can be made without its respective documentation. In other words, for a payment to be ordered, an obligation for a payment has to arise either from a contract, a law, or a supply request, and the invoice has to be submitted by the supplier.

The Ministry of Finance does not apply any preventive control over the payment procedure because it is the responsibility of each competent ministry according to LFPRH. Failure to comply with the terms of the law may result in the application of administrative and criminal penalties for the government employees.

The Executive, through the Ministry of Finance, sends information to Congress on a monthly and quarterly basis. The quarterly reports must be sent within 30 days after each quarter ends. This report contains information on the macroeconomic evolution, public finances, and public debt. On the other hand, quarterly reports are disaggregated by month and include information on performance evaluations, goals and objectives through the Performance Indicators Matrices.

The final accounts are presented by the Executive to the House of Representatives no later than 30 April of the year that follows the reported year – namely four months after the end of the reported fiscal year.

The ASF submits its report on the final accounts review to the House of Representatives no later than 20 February of the year that follows the year in which the accounts were presented.

The House of Representatives completes its review of the final accounts no later than 30 September of the year that follows the year in which the accounts were presented.

The Executive, Legislative and Judicial branches present the “Informe de Avance de Gestión Financiera” (Report of Financial Management Progress) to ASF no later than 31 August of the fiscal year in progress. The final accounts include financial information from federal public entities and are intended to demonstrate that federal income and expenses were properly used in accordance with applicable rules and for the specific goals contained in federal programs.

- *How is budget preparation aligned with fiscal and other strategic objectives? Is the annual*

budget based on a longer-term (more than one year) macroeconomic and fiscal policy framework?

The overall direction of year-on-year changes to the budget is set by the priorities of the PND, which coincides with the presidential office term (six years). Most ministries usually formulate their own plan to explain in more detail their policy priorities for each sector.

The Annual Budget Decree indicates that the amount of the Net Total Expenditure is equal to the income approved in the Federal Revenue Law in line with the balanced budget rule set in LFRPH. The rule requires that the budget must be balanced according to the government's narrow measure of fiscal balance, which is the financial balance that includes interest payments but excludes the cost of the banking sector rescue package, of public-private investment schemes and Long-Term Infrastructure Projects (APPs and PIDIREGAS for its acronym in Spanish, respectively). Currently, the law excludes the long-term National Oil Company "Petróleos Mexicanos (PEMEX)" investment schemes.

- *Which agencies are responsible for the economic assumptions underlying the budget and the fiscal estimates respectively? Are all key economic assumptions disclosed explicitly?*

Responsibility for macroeconomic forecasts and government statistics lies within the Economic Planning Unit, appointed to the Deputy Minister of Finance and Public Credit. Apart from the usual key figures – namely GDP growth, the rate of inflation, and the exchange rate – calculating the assumed oil price for the coming budget is a key part of the planning unit's work. The expected price of oil is calculated according to a formula codified in the LFPRH. All the main budget responsibilities are concentrated in the Deputy Minister of Expenditure, and budget officials exercise considerable formal and informal influence over spending decisions across the public sector.

2.2 Public Availability of Fiscal Information

Please describe the public accessibility to comprehensive fiscal information in your economy. You may want to include the following information in your description:

- *What kinds of fiscal reports are published on a regular basis and at what frequency? Are they free of charge and downloadable from the web?*

The following reports are free downloadable from www.shcp.gob.mx

- Annual Budgets
 - Final Accounts of the federal government (annual).
 - Quarterly report on the economic situation, public finances and debt.
 - Monthly report on public finances and debt.
 - Annual Citizen's Budget
 - Annual Citizen's Final Account
 - Annual "Tu Peso" (Your Money) Brochure
- *Is the fiscal data reported on a gross basis, distinguishing revenue, expenditure, and financing? Is expenditure classified by economic, functional, or administrative category?*

The executive branch prepares a set of draft laws and other economic documents called the Economic Package that consists of a macroeconomic framework, a federal revenues law draft, a budget draft and supporting documents. According to the LFPRH, the budget should be presented with economic, functional, administrative, geographic and gender categories.

The macroeconomic framework provides the context for the budget. It provides background for the economic policy, the Federal Revenues Law, and the Expenditure Budget Draft. It also includes a prospective analysis of the Mexican economy and of related international economies.

The draft of the Federal Revenues Law is presented in three documents to the president of the House of Representatives:

- 1) the rationale for the tax revenue policy of the Executive, the tax revenue amounts for the last five years, and the estimations for the next five years, and the proposed legislation to provide all the tax-raising authority contained in the budget;
- 2) explanation of all the fees and other non-tax revenues included in the budget; and,
- 3) a constitutional requirement to review the legislative history of revenue proposals included in the budget.

The spending provisions of the budget are presented according to the categories previously mentioned. The rationale for the spending proposals is presented and distributed by organization. Also, there are separate chapters for the ministries, other large agencies, for constitutional autonomous entities, and for the State's major controlled public enterprises (PEMEX – national oil company, CFE – public energy utility, IMSS – national social security institute and largest health provider, and ISSSTE – social security institute for public employees.)

- *Are government receipts from all revenue sources, including resource-related activities and foreign assistance, separately identified in the annual budget presentation?*

Government receipts are separately identified in the annual budget presentation and are mainly identified by:

- **Oil tax receipts** - For oil revenues, depending on the Mexican oil price. On an accounting basis these revenues come from the federal government and PEMEX.
- **Non-Oil tax receipts** - Includes tax collection, non-tax collection, income from state-owned companies and organizations.

As part of the economic package that the executive branch submits every year, a Federal Revenues Law is included in order for the Congress to approve it. This document is accompanied by the macroeconomic forecast denominated "Criterios Generales de Política Económica" (Economic Policy Guidelines) elaborated by the Economic Planning Unit of the Ministry of Finance. The revenues should be approved by both chambers of the Congress no later than 31 October each year.

- *What information on the financial position of the government do you publish? Is the information on the level and composition of public debt and financial assets published?*

Each report issued by the Ministry of Finance has a reach, frequency, timing and content according to its purpose, which is determined legally. In this way the public finance documents that are delivered to Congress, and are available to all citizens, are:

- The document that includes the first macroeconomic estimates by the Ministry of Finance which should be sent no later than April 1st.
- The programmatic structure and a main proposal for the next year that must be sent no later than June 30th.
- The Economic Policy Guidelines, which accompany the Federal Revenue Law and the Budget draft that the Executive presents to Congress, and contain the outlines of economic policy, the annual objectives, strategies and goals as well as the explanation of the measures to achieve them, the actions corresponding to other policies that impact

directly on the performance of the economy and the significant risks for public finance, accompanied by proposals for action to address them. The results of the public finance of the last five years and the current fiscal year are reported, including the public sector borrowing requirement (broader deficit measure).

- The initiative of the Federal Revenue Law establishes, among other things, the income policy, the amount of revenue for the past five years and projections of revenue and indebtedness, including the public sector borrowing requirements for the next five years, and the evaluation of public debt policy of previous fiscal years, and ongoing.
 - Reports on Economic Situation, Public Finances, Public Debt and monthly information on public finances and debt, are made with the purpose of tracking throughout the year not only the main budget and financial indicators, but also, to track a large number of indicators as stipulated in the Mexican Constitution, the Federal Revenue Law, the Federal Budget Decree, the Tax Administration Service Law (Ley del Servicio de Administracion Tributaria), the Credit Institutions Law (Ley de Instituciones de Crédito and the Fiscal Coordination Law (Ley de Coordinación Fiscal).
 - The document “Fiscal Balance in Mexico, Definition and Methodology”, published in April by the Ministry of Finance, as established in the Federal Revenue Law, defines and calculates the economic balance and the public sector borrowing requirements for each fiscal year. The purpose of this document is to indicate the amount and composition of government liabilities.
 - The Public Account draft, according to the Mexican Constitution, the LCG, and the LFPRH, is made once the fiscal year is over and aims to present budgetary spending.
 - “Estadísticas de Finanzas Públicas” (Public Finance Statistics) is a document that covers a period of 10 years and presents information regarding the balance of the budget, income, spending, and public debt. The information is based on the Annual Public Accountability and has eight chapters: *i)* general results; *ii)* revenues; *iii)* spending; *iv)* public investment; *v)* grants and transfers; *vi)* public debt; *vii)* spending report based on functions; and *viii)* additional information.
- *What entities are included in the budget documentation? Do you report the fiscal position of local governments and the finances of state-owned enterprises in the budget documentation?*

There are separate chapters for the ministries and other large agencies, for the autonomous entities, and also for state’s public enterprises. At the federal level, the resources that the federal government transfers to local governments must be reported.

Local governments have their own public accounts, in which they publish information about their fiscal position to their local Congress.

- *Do you publish information about significant tax expenditures⁹, contingent liabilities¹⁰, employee pension liabilities, and quasi-fiscal activities? Do you include an assessment of primary fiscal risks or fiscal sustainability in the budget documents?*

The information about significant tax expenditures and the primary fiscal risk (defined as the possibility of deviations of fiscal outcomes from what was expected at the time of the budget or other forecast) are published in the Tax Expenditure Budget. Information about contingent liabilities and employee pension liabilities are published in the Quarterly Reports of the Economic Situation, Public Finances and Debt; information about employee pension liabilities is also published in the “Instituto Nacional de Estadística Geografía” (the National Institute of Statistics and Geography (INEGI)) and social care institutions webpages. Quasi Fiscal activities are reported in the annual reports and financial statements of PEMEX (the Mexican

⁹ Tax expenditure refers to revenue forgone as a result of selective provisions of tax code. Common examples include 1) deduction, exclusion, or exemption from the taxpayers’ taxable expenditure, income, or investment; 2) deferral of tax liabilities; and, 3) preferential tax rate.

¹⁰ Contingent liabilities are liabilities that may or may not occur, depending on the development of future events. Common examples consist of government loan guarantees, government insurance programs, and legal claims against government.

State Oil Company) and CFE (the Federal Electricity Commission).

- *Do you include performance information of major expenditure programs in the fiscal reports? Are they submitted to the Legislature?*

All three levels of government (federal, state and municipal) must evaluate the results obtained with public funds through independent technical expertise. Reports such as the Annual Evaluation Program aim to ensure that programs included in the budget accomplish their goals. There is a follow up process that allows continuing improvements in programs and communications.

In an effort to provide the general public with information on investments, expenditure and performance indicators, the Ministry of Finance launched a website called "Budget Transparency" (www.transparenciapresupuestaria.gob.mx), which provides such budget information. This site also provides information on budget performance monitoring and program evaluation, as well as the citizen budget which explains in non-technical language the budget process, revenue collection, priority spending and allocations, sector specific information and targeted programs, and economic assumptions.

Public reports concerning the budget are submitted for review in Congress each trimester. These reports provide a status update on the expenditures versus goals and indicators concerning public expenditure.

2.3 Assurance of Integrity and Accountability

Government fiscal activities and information should be subjected to independent assurances of integrity, including internal oversights and external scrutiny. Besides, non-government organizations, media and the public in general should be empowered to actively participate in the budget process if the linkage between fiscal transparency and public accountability is to be enhanced.

- *Are the government's financial statements prepared on an accrual or cash basis?*

Accounting in Mexico is on a cash basis with a capital account. Nevertheless, since 2006, some modifications have been introduced to shift into accrual accounting. In December 2008, Congress enacted the LCG to harmonize the accounting systems of the federation, the states and municipalities. Accounting reports are required to include information on the results of programs. To oversee the implementation of this law, a national council was created, with representatives of the federal government, the states, and the municipalities. All three levels of government are required to use standard accounting structures and procedures. Each entity must establish registries of goods and real estate.

In 2012, the decree which reformed the LCG was published. Its main objective is to promote the transparency and harmonization of the financial information concerning public resources application in the various levels of government. As provided in Article 56, the generation and publication of public institutions financial information shall be conducted pursuant to the rules, structure, format and content of information, which must be generated by the CONAC.

The main objective of the LCG is to establish the criteria that will guide government accountability. In its sixth article, the law defines CONAC as responsible for coordinating the harmonization of government accountability. CONAC's objective is to issue accounting standards and guidelines for the generation of financial information that should be applied by public entities. In CONAC, officials of the three branches of government are involved, ensuring the representativeness and legitimacy of the generated agreements.

- *What accounting standards are used to govern the preparation of the government's financial statements?*

Budgetary operations are executed through a computer system that enables the Ministry of Finance to keep track of the development of the expenditure by spending ministries. The Ministry of Finance often requires information from the spending ministries to comply with the

quarterly reports that the Executive sends to the Congress. Authorized personnel from every ministry can log into the SIAFF system to request payments. Each request travels through the system to the Federal Treasury (a branch of the Ministry of Finance) which reviews the requests and orders the Central Bank to pay. There are other situations where there are no direct payments from the Central Bank. Instead, the Central Bank transfers resources to the accounts that spending ministries hold with commercial banks. The authorized personnel from the given spending ministry ask commercial banks to make the payments.

Having a single treasury account is a common practice within OECD countries and this helps to generate efficiencies and savings. The 2007 modifications to the budget law stipulated the creation of a Single Treasury Account (STA) as of 2008. Use of the STA is mandatory for the central government and its agencies.

- *Has your economy adopted International Public Sector Accounting Standards (IPSAS)?*
 - *If so, have IPSAS been adopted in part or in full? How long have you used these standards? What have the advantages and/or challenges?*

The main objective of the LCG is to establish criteria that will guide government accountability. As it was explained earlier, CONAC is the regulatory body in charge of issuing accounting guidelines and coordinating the harmonization of government accountability. Up to date, 15 documents have been approved; these documents establish guidelines for public institutions to accomplish the obligations of such reform¹¹. In addition, CONAC released 25 accountability standards¹².

Accounting technical documents are based on general premises of accounting, and include, as appropriate, some standards issued by international and national accounting institutions, such as IPSAS and the Financial Reporting Standards issued by the "Consejo Mexicano de Normas de Información Financiera" (the Mexican Council of Financial Information Standard (CINIF)), among others.

- *Are major revisions to historical fiscal data and changes to data classification explained in the budget documentation?*

According to the LFPRH, it is an obligation to present historical information when the budget project is delivered to the House of Representatives, specifically the last five years, making equivalent the methodologies for all the historical series. Additionally, the President's State of the Union contains historical statistics related to fiscal, revenues and expenditure.

- *Are government's activities and finances internally audited? If yes, is it audited by an independent audit commission?*

Government's activities and finances are internally audited by an independent commission, the "Auditoria Superior de la Federación" (ASF). Additionally there is the Ministry of Public Administration (SFP), which has the main responsibility to monitor the use of public resources; the performance of the public institutions and their workers; and in general, the observance of laws, norms and procedures established. Moreover every ministry or public entity has its own internal control office, responsible for conducting audits periodically.

Likewise, the financial activities are audited first by the Internal Control bodies within each institution and the SFP. They are not totally independent since the first ones depend financially on the institutions that they audit and the SFP is inside the Executive Federal Branch.

Furthermore, the activities of the government, and parastatals are audited by external or independent auditors. The Secretary of Public Administration (SFP) is responsible, specifically the General Direction of External Audits, for appointing the abovementioned

¹¹ See Annex 1 at the end of this section.

¹² Idem.

auditors. Additionally, the Unit of Control and Audit to Public Works, as part of the SFP, audits the activities of the agencies and entities of the federal government which make use of federal resources on public works and related matters.

It is worth indicating that decentralized bodies, the main non-parastatal public trusts as well as all the funding that the federal government receives from international financial organizations are included in this program of external audit.

Not all the entities of the public federal administration use independent auditors designated by SHCP, only the parastatal sector as mandated by law, and some decentralized bodies and non parastatal public trusts, according to their importance. On the other hand, the Unit of Control and Audit to Public Work of SFP, as an entity of the federal government under on the executive branch, audits activities of the agencies and entities of the federal government which make use of federal resources on public works and related services.

- *Are public finances and policies subject to scrutiny by an audit body, i.e. Supreme Auditing Institution (SAI) / an independent audit commission? Is this institution independent of the executive branch? Is it required to submit all auditing reports to the legislature for review? Do you have mechanisms ensuring follow-up actions being taken by agencies?*

The ASF is the House of Representatives' supreme audit institution, whose main function is to audit income and expenses, managing the custody and application of funds and resources of the Powers of the Union, the ministries, entities and also the states and municipalities that handle public funds.

The process begins when the ASF, based the "Ley de Fiscalización y Rendición de Cuentas de la Federación" (the Law on Control and Accountability of the Federation (LFRCF)), officially requests from the audited entity information regarding the previous fiscal year public accounts. The ASF analyzes the information and communicates to the audited entity that an audit will be conducted.

The ASF during meetings that take place in January, at the latest, discloses final results and preliminary observations arising from the review to the controlled entities in order that the audited entities can submit justifications and clarifications as they deem relevant. The ASF gives them seven working days to submit additional arguments and supporting documentation.

The ASF definitively elaborates the results of the Review and Audit of the Public Accounts (Revisión y Fiscalización de la Cuenta Pública), in a report which it delivers to the House of Representatives no later than February 20th of the year following their presentation.

The head of the ASF sends the audited entities, no later than 10 working days after it is delivered to the House of Representatives, the results report, the recommendations and the corresponding actions in order for them to submit the information and make the considerations they deem relevant in a period of up to 30 working days. The ASF must act within 120 working days on the answers provided by the audited entities.

The ASF's main activities are listed below:

- i. Analysis of specific actions performed by audited entities according to normative frame;
- ii. Diagnosis of performance;
- iii. Communication to audited entities of results, observations and future actions;
- iv. Audited entities' response;
- v. Definitive results;
- vi. Official report for the House of Representatives.

The reports generated by independent external auditors (referred to earlier) are provided to the ASF within the frame of collaboration between the relevant institution and the SFP.

- *Is there any independent expert or institution involved in the assessment of economic forecasts that underlie the budget?*

Reports concerning economic conditions and expectations made by the Central Bank and private banking are taken into consideration. However, the responsibility for macroeconomic forecasts and government statistics lies with the Economic Planning Unit, appointed to the Deputy Minister of Finance and Public Credit.

- *Does the government actively promote public understanding of the budget process and budget outcomes? How are citizens engaged during the budget process?*

The Performance Evaluation Unit of the Ministry of Finance actively promotes public understanding of the budget by elaborating and distributing the citizens' budget throughout the budgetary process, explaining its formulation process and outcomes. Citizens are encouraged to participate during the elaboration of the National Development Plan, which establishes priorities during the administration; the budget preparation is aligned to accomplish these priorities. A specific website was designed to receive citizen's proposals (www.pnd.gob.mx). A total number of 228,949 documents were submitted by the public for the 2013-2018 National Development Plan.

- *How are citizens engaged during the budget process?*

The Performance Evaluation Unit of the Ministry of Finance actively promotes public understanding of the budget. In an effort to provide the general public with information on expenditure programs, the Ministry of Finance launched a website called "Budget Transparency" (www.transparenciapresupuestaria.gob.mx), which provides information on the essential aspects of the budget in non-technical language, including the distribution of resources by line ministries, the programs where money is allocated and the budget formulation process and outcomes. A more simplified brochure called "Tu Peso" (Your Money) provides more information.

Reports such as the Annual Evaluation Program and the monitoring of performance indicators ensure that programs included in the budget accomplish their goals. This information is also made public on the same website, empowering citizens to demand accountability.

3. Challenges and Priorities for Future Reform

To increase the availability of useful and up-to-date budgetary information, several initiatives have been launched. One example is the Budgetary Transparency webpage and the strategy to proactively release the results of the budgetary programs of the Federal Public Administration, including the budgetary outlays, external assessments and the Performance Indicators Matrices.

Likewise, with the aim of strengthening transparency and accountability, special attention has been given to fostering an accountability culture focused on results. To this end, the reports on public finance and public debt are fully disclosed by the Ministry of Finance. Included among these reports are the Federal Public Treasury Account, the Advance Report on Financial Management, the Statistical Public Finance Series and the Mexican government.

Priorities for reform in the coming years with respect to open budgetary processes, public availability of fiscal information, assurance of integrity and accountability are not short-term considerations. Instead, priorities are oriented towards the strengthening and consolidation of the "Sistema de Evaluación del Desempeño" (System of Performance Evaluation (SED)), the PbR, and the natural evolution to results-oriented management. At the same time, from the beginning of the 2006-2012 administration, the federal government has directed its efforts to strengthen the

scrutiny of the agencies and entities of the Public Federal Administration with a preventive approach by auditing performance.

Alongside this audit approach, in 2010 a new focus on high impact direct audits at the central level and in internal control bodies, was adopted. These audits aimed to detect and sanction corrupt practices, and verify that the objectives and goals of the departments and agencies of the Public Federal Administration were being met in an efficient and effective manner.

As a result of its new preventive approach, in June 2012, during the celebrations for the United Nations Public Service Day, the Mexican government was awarded first place in the category "Preventing and Combating Corruption in the Public Service" for the Latin America and the Caribbean region. The winning initiative, a "New model of control and audit public works", reflected the preventative efforts of the Ministry of Public Administration (SFP) to create a new Unit of Control and Audit to Public Work in respect of the planning to completion of public works using monitoring tools. And this was achieved without the Ministry abandoning its responsibilities as an independent body with audit activities.

To additionally reinforce the effectiveness and efficiency of audit practice, the Agreement that establishes the General Dispositions for the Accomplishment of Audits, Reviews and Inspection visits to the agencies and entities of the Public Federal Administration was published in the Official Gazette of 12 July 2010. These were the first normative instruments issued by the SFP stipulating the minimal requirements that must be fulfilled.

The SFP also published the General Public Audit Handbook in August 2011 as a tool to facilitate and standardize the activities of the work of public audit in the Public Federal Administration.

VISION 2013-2018

The Decree which supersedes various provisions of the Organic Law of the Public Administration (published in the Official Gazette of 2 January 2013) strengthens accountability in relation to the Secretary of Finance and Public Credit in several aspects:

- Normative aspects to consider in the functioning of the Units of Preventive Audit units and in the accomplishment of internal and cross cutting audits.
- Coordination and supervision of the governmental control system.
- Normative aspects to consider in the organization, functioning and supervision of the preventive audit.
- Incorporation of the Preventive Audit Units to the National Control System.
- Development of the audits and characteristics of the reports that must present the Units of Preventive Audit, including its review and evaluation.
- Control and monitoring of the information of the Preventive Audit Units and of the recommendations formulated by the agencies and entities.

In drafting the 2013-2018 National Development Plan, including the scope and priorities of the current federal government, the issue of transparency and accountability produced a number of diverse proposals from the "Public Audit" panel:

- International procedures of audit and codes of ethics are put in practice for Units of Preventive Audit to the National System of Control.
- A Preventive Audit should not focus on changing regulations, but instead on adapting procedures, taking care not to interfere in operations.
- The evaluation of reports generated by the Units of Preventive Audit requires added qualitative and quantitative expertise.

These proposals will benefit the development of the 2013-2018 National Development Plan and strengthen regulatory and operational aspects of public auditing, which will in turn improve national accountability.

4. Resource Bibliography

Website	Description
www.shcp.gob.mx/english	Ministry of Finance and Public Credit website containing information on the federal government's economic policy (financial, fiscal, spending, income and debt issues).
www.transparenciapresupuestaria.gob.mx	The Budget Transparency Portal of the Ministry of Finance makes government spending more accessible and transparent, answering the following questions: How is it spent?; What is it spent on? Where is it spent?
http://www.transparenciapresupuestaria.gob.mx/ptp/contenidos/?id=13 http://www.transparenciapresupuestaria.gob.mx/ptp/pc2013/index.html http://www.apartados.hacienda.gob.mx/ptp/cpc/2012/ http://www.transparenciapresupuestaria.gob.mx/ptp/ServletImagen?tipo=pdf&idDoc=346	Citizen Budgets (General) Enactment Execution Budget Formulation
http://www.presidencia.gob.mx/	Office of the Presidency website.
http://www.oecd.org/mexico/48168243.pdf	"OECD Review of Budgeting in Mexico" which provides a comprehensive overview of the budget process in Mexico.
http://www.un.org/en/events/publicservice/day/award.shtml	"United Nations Public Service Award 2012" which provides the list of winners and fact sheet about "Preventing and combating corruption in the public service".

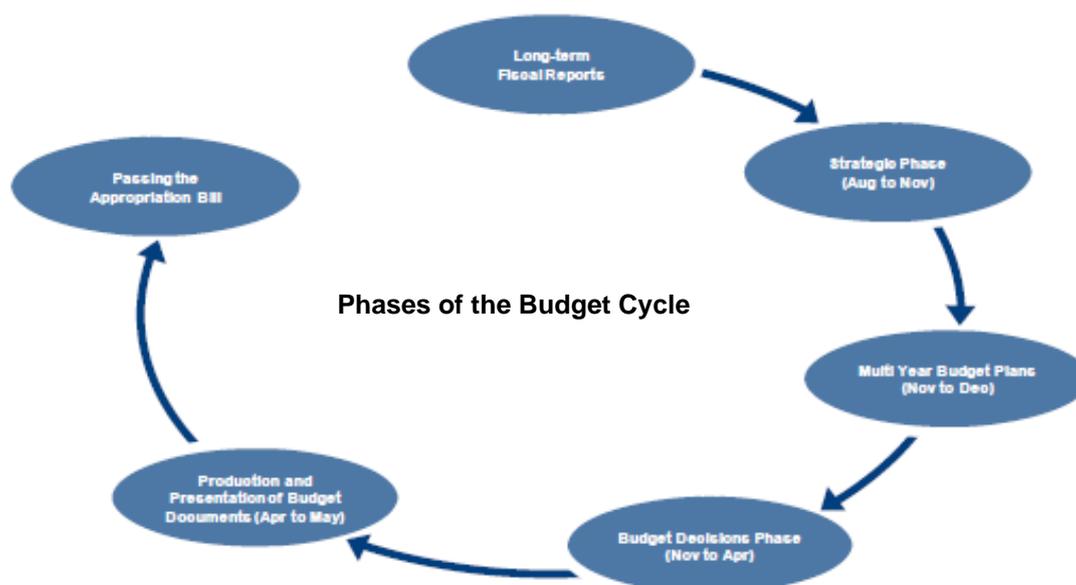
New Zealand

Developments in Promoting Fiscal Transparency and Public Accountability

1. Fiscal Institutions of the Central Government

1.1 Annual Budget Process

New Zealand's fiscal year runs from 1 July to 30 June. The annual budget is presented in May to take effect from 1 July following the presentation of the Budget documents in May. The following diagram¹³ provides a snapshot of the phases in preparation for each:



Information provided on budget day includes an economic and fiscal update covering the budget year and the three subsequent years, as well as documents with information to support the appropriation requests. Collectively these documents cover the full range of fiscal information, from the government's strategic context down to details of specific spending proposals. This also provides trend information across classes of appropriation, e.g. total output expenses, total (social welfare) benefit expenses, and total capital expenditure. At a more detailed level, this information is shown for new policy initiatives presented in the budget.

1.2 Budget Law and Regulations

The Constitution Act 1986 and Public Finance Act 1989 prevent expenditure of public money without the prior approval of Parliament. The requirement for appropriation ensures that Parliament, on behalf of taxpayers, scrutinizes how public resources are to be used and ensures that the government is held accountable. Appropriation limits what ministers can spend on, limits how much can be spent, and is supported by information on the performance expected in return for the resources appropriated.

¹³ Putting It Together: An Explanatory Guide to New Zealand's State Sector Financial Management System, p 23, <http://purl.oclc.org/nzt/g-pit2011>

The legislature's oversight of the budget process happens in practice through scrutiny of the Estimates. Estimates must state¹⁴, for each appropriation in an Appropriation Act, the Vote to which the appropriation relates, the Minister responsible for the appropriation, and the department responsible for administering the appropriation. This legal framework therefore gives the legislature oversight over the budget process.

New Zealand uses accrual accounting, and 'generally accepted accounting practice' (GAAP) in the set of rules and assumptions used for public accounting. These requirements are aligned with IFRS.

1.3 Competent Ministries and Agencies

The two primary government agencies responsible for budgetary operations are the Office of the Controller and Auditor-General, and the Treasury.¹⁵ The Office of the Controller and Auditor-General is an Office of Parliament that carries out its functions under the authority of, and for the benefit and support of, Parliament. It provides Parliament with independent assurance that state sector agencies are operating and accounting for their performance in line with Parliament's intentions. Key functions include:

- examination of government spending to ensure it is lawful and has been properly authorised;
- mandatory audits of the financial reports of state sector agencies; and
- discretionary performance audits and inquiries.

The Treasury is the principal economic and financial advisor to the government. It prepares budget documents for scrutiny by Parliament and provides consolidated reports and forecasts on the government's finances, including the independently audited Financial Statements of the government of New Zealand. It also provides the government with advice about fiscal policy.

1.4 Role of Competent Agencies in Managing Fiscal Pressures and Budget Processes

All government departments are expected to manage their activities within their own appropriations. Outputs supplied by agencies must be clearly specified with a description of the goods and services to be produced, including information about quality, quantity, cost, and time and place of delivery. Agencies are required to prepare a multi-year budget plan (see diagram above) as a key planning document, which is then used as the basis for budget decisions.

2. Assessing Fiscal Transparency and Accountability

New Zealand ranked first among the 100 countries surveyed in the 2012 Open Budget Survey (OBS) conducted by the International Budget Partnership, with an index of 93 out of a possible 100. The OBS is the only independent, comparative, and regular measure of budget transparency and accountability in the world. This high score is therefore a significant endorsement for New Zealand's budgetary institutions – that they are generally perceived to be very transparent and to provide accountability.

2.1 Open Budget Processes

A. Budget preparation

Preceding the budget, the Minister of Finance is required by law to present a Budget Policy Statement to Parliament that sets out the government's over-arching policy goals, which will guide

¹⁴ This requirement is in section 14 of the Public Finance Act 1989 – the core piece of legislation dealing with fiscal transparency

¹⁵ A full list of New Zealand's government agencies is available here: http://www.ssc.govt.nz/state_sector_organisations

the government's budget decisions and the government's priorities for the forthcoming budget, by no later than 31 March of each year. In practice, the BPS is usually tabled in December, which is more than six months prior to the start of the budget year. This is discussed in the Finance and Expenditure Committee (FEC), a Parliamentary committee that contains representatives from a number of political parties. The Minister of Finance appears before the FEC to answer questions on the BPS, and the FEC's report to Parliament on its deliberations is publicly available. Comments on the BPS are taken into consideration by the government in finalizing the subsequent budget proposal. In addition, extensive consultations will be held with the government's coalition members in the process of determining budget priorities.

While there is no permanent release date in law, the Public Finance Act 1989 does require that the first Appropriation Bill, and therefore the budget, must be introduced to Parliament before the end of July. In practice the budget follows an established timetable. For each of at least the last 20 years, the budget has been introduced in either the third or fourth Thursday in May. The tradition is for the Minister of Finance to announce the release date of the budget at the Finance and Expenditure Select Committee hearing of Evidence on the Half Year Fiscal Update and the Budget Policy Statement. In 2013, the hearing was held on 13 February and Budget Day was 16 May.

There is some scope for amendments to be made to the budget presented in May, but it is limited. An individual member of parliament or a select committee may propose amendments to the budget, but the government may veto any amendments that, in its view, would have more than a minor impact on the fiscal aggregates or on the composition of a vote. In practice, no amendments to the government's budget proposal have been approved in recent years.

B. Budget execution and reporting

Financial execution of the budget during the fiscal year is reported on in the unaudited Financial Statements of the government, which report actual expenditure by economic classification and by function, and compare actual year-to-date expenditures with the original estimate for that period (based on the enacted budget). These are released on a monthly basis, except for the first two months of the year (July and August). There is similar reporting on government revenue.

There is a half-year economic and fiscal update that provides a revised set of macroeconomic forecasts. This is generally delivered in December – the most recent update was delivered on 18 December 2012. The Office of the Auditor General performs mandatory audits of the financial reports of state sector agencies.

Whole-of-government financial reporting is published at year-end in the audited government year-end financial statements. The most recent of these were released on 10 October 2012 – three months and 10 days after the end of the fiscal year. State sector agencies are also required to complete year-end financial reporting in their annual report, and it is mandatory for these to be audited by the Office of the Auditor General.

Non-financial performance measures are also presented in the budget process – they are legally required for output appropriations, which are types of appropriation where government expenditure is being used to purchase a specified good or service. Departments are then required to report at year-end on their actual performance against these measures in their annual report.

C. Alignment of Budget and other reporting

Fiscal policy in New Zealand is required to comply with the principles of responsible fiscal management as defined within the Public Finance Act. While governments are allowed to temporarily depart from these principles, they must publicly state their reasons for departure, how they expect to return to the principles, and when they expect to do so. The principles of responsible fiscal management are supported by regular fiscal reporting obligations on the government and the Treasury.¹⁶

¹⁶ These are detailed in the "Public Availability of Fiscal Information" section below

The Treasury is responsible for the economic assumptions that underpin the budget and the fiscal estimates. By law¹⁷ economic forecasts must be presented with the budget, with those forecasts containing forecast movements in New Zealand's gross domestic product, consumer prices, unemployment and employment, and current account position of the balance of payments.

2.2 Public Availability of Fiscal Information

Unless otherwise stated, all of the reports discussed in this section are available for free download, as well as being published in hard copy and accessible through the budget mobile application. The Treasury's practice is to make all of the reports discussed below available on its website, although strictly speaking there is no legal requirement to do so.

A. Expenditure reports

The following forward-looking fiscal and economic reports are made publicly available either as a direct part of the budget, or in alignment with it:

- the Budget Policy Statement, released ahead of the budget, is a statement of the government's intended funding priorities
- a biannual economic and fiscal update produced by the Treasury provides fiscal forecasts across the current fiscal year and the four subsequent years.¹⁸
- the government's Fiscal Strategy Report sets out its fiscal strategy and measures how the government is doing against its overall goals in areas such as the balance between operating revenues and expenses, and achieving debt objectives. Disclosure of contingent liabilities and fiscal risks is required under the Public Finance Act.
- a long-term fiscal statement reports the long-term fiscal position of the government. It is a legal requirement that Treasury produce such a statement at least once every four years, and it must cover a period of at least 40 years.

As mentioned, all of these economic and fiscal reports are available free of charge online, and budget documents are available via a mobile application.

In terms of budget monitoring and implementation, audited financial statements of the government are provided annually within four months of the end of the financial year. The unaudited financial, including actual expenditure organized by economic classification, and function, are released on a monthly basis throughout the year, except for the first two months of the year (July and August). In-Year Reports cover all expenditures and report on the same entities as the financial forecasts and the actual financial statements.

New Zealand's Financial Statements are very comprehensive by international standards. They cover the government as a reporting entity, comprising ministers and departments, crown entities, the NZ Superannuation Fund, the Government Superannuation Fund, the Reserve Bank of NZ (the central bank), state-owned enterprises, and Air NZ. Segment reporting breaks down the Crown into its main constituent components (e.g. core crown, crown entities, state-owned enterprises). The financial statements classify expenses by function, and by input type. Local government is not consolidated.

B. Revenue and financial position reports

The Forecast Financial Statements presented in the budget for the year ahead present a detailed breakdown of forecast total tax revenues (accrued tax owed to the government) and total tax receipts (cash collected by government) by different tax type. A breakdown of non-tax revenue is also provided by main source type, and this in turn is disaggregated by the forecast financial statements of each department.

¹⁷ Section 26O and 26P of the Public Finance Act

¹⁸ In fact, the legislative requirement is for economic and fiscal forecasts to cover only the current fiscal year and the subsequent two years. But established practice is to cover a further two years.

The government's regular monthly fiscal reporting, based on IFRS, includes a Statement of Financial Position for the Government. In addition, the biannual economic and fiscal update includes financial statement forecasts that are prepared on an accrual basis.

The Forecast Financial Statements in the Budget Economic and Fiscal Update contain a Forecast Statement of Borrowings, which shows a detailed breakdown of borrowing by instrument type, and also splits government debt into government-guaranteed and non-guaranteed debt. Supplementary information about maturity and interest rates is available on the New Zealand Debt Management Office website for Government stock (though this is not part of the core budget documentation).

C. Other expenditure and risk reports

By international standards, there are few tax expenditures in NZ, with the tax system in general not used to provide industry assistance. Social assistance to lower-income families delivered through the tax system is appropriated and reported as government expenditure. As a result of a 2004 policy change requiring disclosure, information is presented on all new material tax policy changes introduced in the annual budget that result either in increased or reduced revenues.

The accrual basis of reporting means that information about contingent liabilities; pension liabilities, etc. are systematically incorporated into the budget. For example, the Forecast Statement of Financial Position presents a valuation of the unfunded liabilities of the civil service pension scheme (the Government Superannuation Fund), and of insurance liabilities (chiefly the Accident Compensation Scheme).

D. Performance information

Performance information is provided to the legislature for output appropriations presented as part of the Estimates documents. Reforms currently proposed will, if implemented, require performance information for all appropriations, unless an exemption is granted (for example, the grounds for granting an exemption will be specified in the amended legislation).

2.2 Assurance of Integrity and Accountability

A. Accounting standards

New Zealand uses accrual accounting, and the government is legally required to comply with and report using generally accepted accounting practice (GAAP). GAAP requirements are aligned with the International Financial Reporting Standards (IFRS).

New Zealand applies IPSAS to all entities in the public sector other than Government Business Enterprises. Those enterprises are required to apply International Financial Reporting Standards.

Changes to data classification are explained in the budget documentation. The most recent significant example of this occurred with New Zealand's adoption of IFRS in 2008.

B. Audit systems

New Zealand's public sector audits are the responsibility of, and primarily undertaken by, Audit New Zealand and the Office of the Auditor-General (OAG) – the two business units of the Auditor-General. Both are within the Office of the Controller and Auditor-General, which is an Office of Parliament and independent of the government. Audit New Zealand carries out annual audits and assurance work. The OAG sets policy and standards, and manages the organization's relationship with Parliament.

As part of the financial accountability procedures of Parliament, select committees are required to conduct financial reviews of the performance in the previous financial year and the current operations of each department, Crown entity, state enterprise, public organization, and Office of Parliament. All reports of the Auditor General are automatically referred to a select committee in order to facilitate parliamentary scrutiny and promote implementation of recommendations in the reports. Given the unusually large number of central government agencies subject to annual audit

in NZ (around 3,000, including many small entities such as schools), not all of these agencies are individually scrutinized each year, a number being subject to pro forma review at the committee's discretion. However, all the large agencies are subject to annual review. The Auditor-General provides advice to select committees for their financial reviews.

The Auditor-General also has broad discretion to report to Parliament at any time on any matter. Section 9 of the Public Audit Act provides the Auditor-General with freedom to determine his or her own auditing approach, and freedom from political direction as to work program priorities.

Follow-up actions from the government to adverse audit findings or recommendations are done in a decentralized way, and through further public reporting. As part of the annual financial review, the Auditor General briefs the select committees on issues that arose in its audit of each entity, and suggests questions for written response by the entity. It is standard practice for the Auditor General to include in the briefing all recommendations that are outstanding, and where recommendations relate to previous years this is noted. The select committee generally includes these questions in its list of questions to the entity for written response. The entity is required to respond in writing, and the questions and responses are on the public record. Separately, a minister will at times issue a press statement in response to a significant adverse Audit Office report.

C. Economic forecast assessment

As part of the internal process to finalize the Treasury's budget forecasts, they are considered by an independent panel, though final decisions about the forecasts remain with the Treasury. The Treasury carries out regular analysis of its economic forecasting performance, most recently in July 2011¹⁹, and has released reports on the results.

D. Public engagement

There are three non-technical explanations of what is in the budget released annually, intended for use by the media in reporting to the general public or by the public directly. They are the Minister's Executive Summary, the Key Facts for Taxpayers card—which is a summary of tax, expenditure, and income data from the Budget—and the Tax Ready-reckoner, a guide showing the estimated revenue changes likely to occur from small changes to existing tax rates and thresholds. There is wide dissemination of this information: through the internet; detailed briefing of journalists during a “budget lock-up,” just prior to the presentation of the budget; printing of hard copies of the “Key Facts for Taxpayers” leaflet for distribution to journalists and available on request to the general public; press releases by ministers on new budget initiatives and their likely impacts; and distribution to public libraries of hard copies of budget documents, including the Executive Summary.

Public engagement mechanisms over policy changes often take place over a longer cycle than the annual budget cycle, as major policies may be subject to more than a year of policy consultation and development (e.g., through publication of Green and White public consultation papers) prior to decisions being made and included in a budget. Individual government departments and agencies also often seek public input on various aspects of implementation and service delivery (e.g., client satisfaction with quality of services, views on effectiveness of services, awareness of policies or services). This is often related to ex ante nonfinancial performance indicators published in the annual budget documents, which may specify a level or range of, for example, client satisfaction, as a minimum performance standard.

The main systematic public engagement mechanism specifically related to the annual budget is the consultation over the Budget Policy Statement. There is no procedural obligation for the government or the legislature to invite public submissions. There is, however, a long-standing convention that select committees will hear evidence on things they consider. The Finance and Expenditure Committee therefore hears oral evidence from public submitters who wished to be heard, and directly following this, hears evidence from the Minister of Finance. It reports to the House within the following two weeks (to meet a 40 working day report deadline). All evidence heard on the BPS is recorded and transcribed, and appended to the final committee report.

¹⁹ Regular Reviews - Treasury's Forecasting Performance Information.
<http://www.treasury.govt.nz/publications/informationreleases/forecastingperformance/reviews>

A more recent development is the launch of the NZ Budget app for android, iPhone and iPad in May 2012, which has been updated for Budget 2013 to include a new user interface and with new interactive features. This app provides easy access to all of the public information released with the budget, but in addition provides interactive pie charts covering government expenditure and revenue, and an interactive tax calculator.

3. Challenges and Priorities for Future Reform

A. Current performance

New Zealand has improved on its performance in OBI – from a rating of 86 in 2006 and 2008, rising to 90 in 2010 and rising again to 93 in 2012.

B. Intended reform

New Zealand is currently implementing changes to its Public Finance Act (as well as State Sector Act and Crown Entities Act), which is the core piece of legislation for fiscal transparency and public finances.

The first half of these reforms focuses on whole-of-government fiscal management and strategy. The reforms include three new principles of responsible fiscal management:²⁰

- that governments should formulate fiscal strategy with regard to its interaction with monetary policy. The Reserve Bank of New Zealand takes changes in fiscal policy into account when setting the official cash rate. This new principle will require the government to be explicit about the interactions between monetary and fiscal policy at different stages of the economic cycle, including a discussion of cyclical indicators;
- that governments should ensure that resources are managed effectively and efficiently. This principle is accompanied by a reporting requirement for governments to set out their priorities for resource allocation and explain how those priorities have influenced and will influence their decisions. The idea behind this principle and reporting requirement is that it is not just aggregate amounts that matter—total spending, total assets, total debt, total tax revenue—but also the allocation of resources within those aggregate amounts;
- that governments should formulate fiscal policy with regard to its likely impact on present and future generations. New Zealand's fiscal responsibility provisions currently have a focus of around 15 years. Yet decisions can have longer-term effects. This new principle will require governments to be explicit about any inter-generational trade-offs their fiscal policies have.

The reforms also create four new reporting requirements:

- a requirement for the fiscal strategy report to contain an assessment of the extent to which the fiscal performance of the government is consistent with its fiscal strategy;
- a requirement for the fiscal strategy report to set out the government's priorities for allocating the Crown's resources and explain how those priorities have affected and will affect decisions;
- a requirement for the fiscal strategy report to contain details of the government's revenue strategy;
- a requirement for the Treasury to produce an Investment Statement relating to the Crown's significant assets and liabilities at least every four years.

²⁰ As set out in the Public Finance (Fiscal Responsibility) Amendment Bill, 1-1. The Bill is currently going through the parliamentary process, so if the Bill is enacted the specific wording of particular changes may change.

The latter two reporting requirements reflect existing practice.

The second half of the PFA reforms focus on the financial governance of state sector agencies. They are intended to:

- improve financial flexibility to facilitate innovation and different ways of working within the executive branch of government; and
- require the provision of more meaningful information to Parliament about what the State services are spending and achieving (while reducing the compliance costs involved in producing that information); and
- clarify departmental chief executives' responsibilities for strategic financial management and in respect of non-departmental financial matters.

4. Resource Bibliography

Resource	Website
Putting It Together: An Explanatory Guide to New Zealand's State Sector Financial Management System	http://purl.oclc.org/nzt/g-pit2011
New Zealand 2012 Open Budget Survey Questionnaire.	http://internationalbudget.org/wp-content/uploads/New-Zealand_Questionnaire_OBS2012.pdf
New Zealand Office of the Auditor General	http://www.oag.govt.nz/
New Zealand Treasury – Home page for Budget 2013	http://www.treasury.govt.nz/budget/2013

Peru

Developments in Promoting Fiscal Transparency and Public Accountability

1. Fiscal Institutions of the Central Government

1.1 Budget Law and Regulations

The budget process encompasses five stages: programming, elaboration, approval, execution and evaluation. This process is regulated in the Peruvian Constitution, the Financial Management Law (Law 28112), the General Law on the National Budget System (Law 28411) and each year's Annual Public Sector Budget Law (approved by the Congress).

The main entities in the budgetary process are the Ministry of Economy and Finance (MEF) through its General Directorate of the Public Budget, public entities through their own budget offices and the Republic's Congress.

The different public entities covered by the budget, program their individual budgets. These are then centralized by the MEF to elaborate the final budget, constraining expenditures to the resources available. The first proposal on the budget is presented by the MEF to the Congress, for its approval.

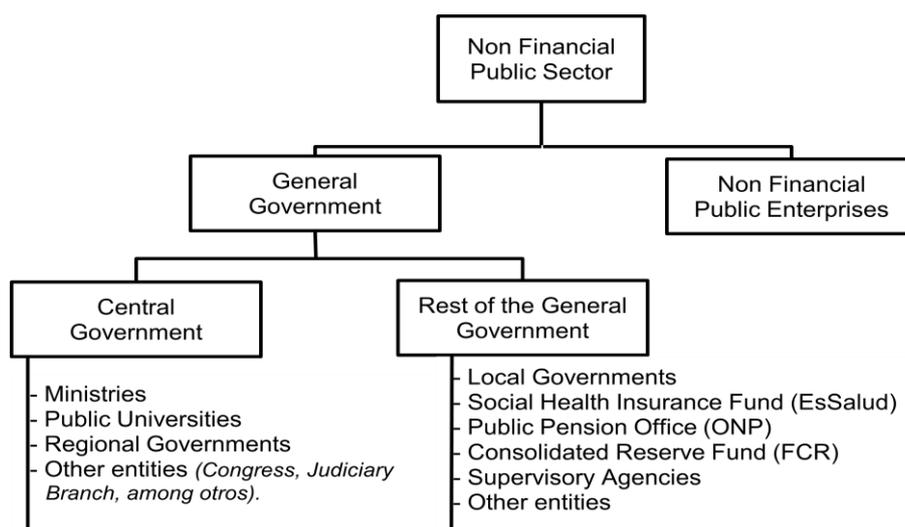
One of the main regulations concerning the government's fiscal activities is the Law on Fiscal Responsibility and Transparency (LFRT). This law establishes guidelines for the better management of public finances, with fiscal prudence and transparency as cornerstones. The main principle of the law states that the government must ensure fiscal surplus or equilibrium in the medium term, accumulating fiscal surpluses in favorable periods and allowing only moderate and non-recurring fiscal deficits in periods of slower growth. In that way, it seeks to contribute to economic stability, which is essential to achieve sustainable economic growth and social welfare.

The main mandates of the law are:

1. To follow three fiscal rules: (i) The Fiscal Deficit of the Non-Financial Public Sector cannot be higher than one percent of GDP, (ii) The annual growth of Central Government Consumption Expenditure cannot exceed four percent in real terms, and (iii) Public Debt as percentage of GDP cannot grow in one year more than the fiscal deficit of that year.
2. To create the Fiscal Stabilization Fund, this fund is endowed with any fiscal surpluses generated by the Treasury. Those resources can be used when revenues decrease or when there is an emergency or economic crisis.
3. To publish every year a Multiannual Macroeconomic Framework (MMF). This document contains the projections for the current year and the following three years on key macroeconomic and fiscal indicators. Also it contains a Fiscal Policy Declaration in which the government establishes the main guidelines and goals of fiscal policy for the period of the projections. MMF projections are the base for the annual public sector budget elaboration. It is published in the second quarter of each year. If changes in the economic environment justify it, the government has the option to review the MMF in the third quarter, before the Public Sector Budget Project is sent to the Parliament.

For economic statistics, the relevant fiscal coverage of the government is the non-financial public sector (NFPS) which is the biggest level of aggregation of public finances in Peru. It excludes the Central Bank and the financial public enterprises. The NFPS can be divided into the general government and non-financial public enterprises. At the same time, general government is divided into central government and rest of the general government.

Coverage of the Law on Fiscal Responsibility and Transparency



Source: Ministry of Economy and Finance

This coverage is used for the public finances reports. It is consistent with international standards included in the IMF's Manual on Government Finance Statistics of 1986. The Central Bank uses the same coverage for presenting their reports on public finances. However the coverage of the public sector budget is different. It excludes non-financial public enterprises and other institutions whose revenues are independent of Treasury transfers (such as the Social Health Insurance Fund – EsSalud, or the Superintendence of Banking and Insurance – SBS).

As mentioned above, the projections and goals of the MMM are used to establish the ceiling for expenditures approved in the annual Public Sector Budget. In that way, Peru uses a top-down budget formulation process that consists of two steps: (1) establishing ceilings (aggregate numbers) and total spending and deficit levels (aggregate ceiling), and (2) allocating the resources among all public entities under budget coverage.

2. Assessing Fiscal Transparency and Accountability

2.1 Open Budget Processes

The budget's stages follow an established schedule. Programming starts in April. The different budget entities deliver their budget claims until May (some flexibility is possible). Then, the elaboration phase continues until August, when the first draft is delivered to Congress. From September to November, the ministers and other accountable authorities can substantiate their budget claims before Congress's "Republic's Budget and General Account Commission". Finally, the Plenary discusses the budget, having a deadline to approve it up to 30 November.

Budget execution starts from 1 January, until 31 December (the fiscal year). Within this period, income is collected and obligations attended to according to the budget credits authorized for each public entity within the budget.

The General Law on the National Budget System (Law 28411) sets the limitations for the use of budget's resources. These are supervised by the "Contraloría General de la República" (similar to the Government Accountability Office in the USA). This institution is independent from the executive branch and the comptroller is chosen by Congress.

For budget evaluation, the MEF, through its General Directorate of the Public Budget, prepares financial reports on the advance and financial results obtained through the fiscal year. These are reported to both Congress and the “Contraloría”.

As previously stated, the Republic’s budget is bounded by the macroeconomic estimates, fiscal limits and policy objectives included in the Multiannual Macroeconomic Framework. This document explicitly contains the core macroeconomic assumptions upon which the total budget is estimated.

Within the MEF, the General Directorate of Macroeconomic Policy is responsible for the preparation of the Multiannual Macroeconomic Framework. Also, to justify the economic assumptions and fiscal estimates upon which the budget is based.

2.2 Public Availability of Fiscal information

Availability of Fiscal Information

Peru has a legal framework that promotes fiscal transparency through the disclosure of timely and relevant information about government revenues, expenditures and its financial position. The main laws that underpin that framework are the Law on Fiscal Responsibility and Transparency (LFRT) and the Law on Transparency and Access to Public Information (LTAPI). This legal framework puts the obligation on the Ministry of Economy and Finance to disclose fiscal reports on a regular basis. These reports must inform citizens, not only about the past execution of fiscal aggregates (revenues and expenditures), but also about short- and medium-term perspectives and goals of fiscal policy. It sets the obligations of individual entities, to maintain on their web pages information about the budgetary execution. In addition, the Central Bank has a legal responsibility to inform periodically about the situation of the national accounts and to publish the main macroeconomic statistics, including the fiscal aggregates.

The most important document published by the Ministry of Economy and Finance is the Multiannual Macroeconomic Framework. It contains a brief description of recent developments in the economy and a statement on macroeconomic indicators and the goals of fiscal policy for the current and following three years. The Multiannual Macroeconomic Framework is the base for annual public sector budget formulation. Other important reports are the Annual Declaration of Fiscal Responsibility, the Annual Fiscal Stabilization Fund Report and the Monthly Fiscal Report. The following table summarizes the reports’ frequency, content and where they are published.

Peru: Fiscal Reports published by the Ministry of Economy of Finances

Report Name	Periodicity	Content of the Report	Published on:	Legal framework
Multiannual Macroeconomic Framework	Annual (May)	Three year projections on main macroeconomic and fiscal indicators	- MEF web page - Official Diary	Law on Fiscal Responsibility and Transparency (LFRT)
Fiscal Policy Principles Declaration	Annual (May)	Main fiscal policy guidelines and targets	- MEF web page	LFRT
Pre-Electoral Report	Every five years (Before General Elections)	Report on the evolution of economy in the last five years and projections for next five years	- MEF web page - Official Diary	Law on Transparency and Access to Public Information
Fiscal Stabilization Fund Report	Annual (March)	Report on annual inflows, outflows and accumulated amount on the Fiscal Stabilization Fund.	- MEF web page	LFRT
MMM Monitoring Report	Biannual (February / August)	Main macroeconomic indicators developments compared with the MMM projections of the previous year	- MEF web page - Official Diary	LFRT
Compliance Statement of Fiscal Responsibility	Annual (May)	Annual report on Public Finances, includes and statement about the compliance of fiscal rules in the LRTF	-MEF web page - Sent to the Parliament	LFRT
Monthly Fiscal Report	Monthly	Report on tax revenues of Central Government and General Government Spending	- MEF web page	None

Source: MEF

The Monthly Fiscal Report includes detailed monthly data on tax revenues, budget execution (expenditure) for the general government, with emphasis on public investment, and the primary result of the non-financial public enterprises. This report is not mandated by law. All the documents included in the previous table are on MEF's web page, and are free of charge.

Since 1998, Peru has subscribed to the Special Data Dissemination Standards (SDDS). Peruvian authorities publish information on operations of the non-financial public sector and on the central government's debt, within the time limits established. However, there is a longer lag (five weeks) for publishing data on monthly operations of the non-financial public sector.

Other important sources of information on fiscal aggregates are the web pages of the National Superintendence of Customs and Tax Administration (SUNAT), the Ministry of Economy and Finance and the Central Bank. SUNAT's web page contains detailed information about Tax Revenues and Social Contributions (to social security and the public pensions' scheme). The information is updated on a monthly basis. Beside the abovementioned reports, MEF's web page also contains detailed information on revenues directly collected by each entity (direct services, for instance) and expenditures made by the entities under the Annual Budget Law. The information is classified by level of government, sector, entities, functions, geographical incidence, finance source and type of expenditure. MEF's web page also provides information about medium- and long-term public debt (debt service and debt stocks). Finally the Central Bank's web page provides quarterly information on non-financial public sector operations, and general government operation. That institution also reports monthly information on revenues and expenditures of the central government. In its Inflation Report, the Central Bank reports its main perspectives over the future development of public finances.

Presentation of the Data

Fiscal Data reported by the MEF and the Central Bank follows most of the guidelines included in the IMF's Manual on Government Finance Statistics of 1986, and some contained in the 2001 Manual. Revenue classification includes current and capital revenues, and tax and non-tax revenues. In addition, tax revenues are classified according to the nature of the base upon which the tax is levied (i.e. income, sales). Social contributions and other nontax revenues are presented separately.

Expenditures are separated into non-financial expenditure and interest payments. Debt repayments are presented as "under the line" operations and they are also presented as a group in the "Lending Minus Repayments" category. Non-financial expenditures are also categorized in current expenditures, which include wages, expenditures in goods and services and transfers; and capital expenditures (gross capital formation and other capital expenditures). Expenditures of entities under the annual budget law can be classified by function, geographical use and level of government (national, regional, or local).

Information on the financial position of the government

Information about the stock of gross public debt is published in the Multiannual Macroeconomic Framework and in special reports from the MEF. In addition, the Central Bank provides information on the stock of public debt and makes some calculations about the net public debt. It also publishes data regarding public sector deposits.

Information on tax expenditures, contingent liabilities, and pension liabilities

Information on tax expenditures is included in the Multiannual Macroeconomic Framework (published annually). In addition, a complete report is sent to the parliament in the Annual Public Budget Law file. There is no statutory obligation to publish information on contingent liabilities; however the ministry does publish on a regular basis. Pension liabilities are also reported by the Public Pensions Normalization Office (ONP) and the Ministry of Economy and Finance on a yearly basis.

2.3 Assurance of Integrity and Accountability

In Peru, statistics on non-financial expenditure are presented on an accrual basis. However, revenue statistics and public debt information are presented on a cash basis. In this way, Peru uses some standards included in the IMF Manual on Government Finance Statistics of 1986, and some included in the 2001 manual.

For accounting purposes, Peru follows the International Public Sector Accounting Standards (IPSAS). The National Accounting Office defines, enforces and evaluates the accounting systems. The Executive Branch is responsible for submitting to the Congress the General Account of the Republic, together with the audit report prepared by the “Contraloría General de la República” (CGR²¹ or Republic’s Office of the Comptroller General).

By law, the Central Bank (a constitutionally independent institution) has the responsibility to review and audit some fiscal reports issued by the MEF. For instance, the Multiannual Macroeconomic Framework must be submitted to the Congress including a letter from the Central Bank containing technical opinion on the main projections and goals included in the document and its opinion on the compatibility with monetary policy. On the other hand, the Central Bank is required to send to the Congress an evaluation on the Fiscal Rules compliance.

In Peru, budgetary documentation is sent to the parliament and then published in the official diary, before the Congress starts the debate. That information is also available on MEF’s web page.

With regard to the promotion of citizen’s understanding of the budget process, this is an actively pursued objective. From 2012, the Ministry has published a “Guía de Orientación del Presupuesto Público” (Orientative Guide on the Public Budget). This guide’s purpose is to bring the information contained in the 2013 Budget to citizens, in a brief, direct manner. It includes the main aspects of the Budget, as they reflect the State’s policy objectives.

3. Challenges and Priorities for Future Reform

The main challenge in Fiscal Transparency is to provide reports that are easier to understand, even for people with little professional involvement in Public Finances. In addition, it is important to articulate Fiscal Transparency efforts with the “Budget for Results” scheme that is intended to make the budgetary process less discretionary.

It will be important to expand the Integrated Public Sector Financial Management Information System (SIAF – SP) to include information on all public entities not included in the budgetary coverage.

Finally, it will be important to provide more information about the number of civil servants working in public entities’ and the level of wages paid.

²¹ The CGR is a technical and independent agency responsible for the National Control System, endowed with administrative, functional, economic and financial autonomy in supervising, overseeing and verifying the activities and results of public management, and assessing administrative, management and internal control systems

4. Resource Bibliography

Peru: Fiscal information on web resources	
Website	Description
http://www.bcrp.gob.pe/estadisticas.html	<u>Central Bank</u> Stats reported by the Central Bank on multiple macroeconomic indicators, including fiscal information.
http://mef.gob.pe/index.php?option=com_content&view=article&id=1116&Itemid=100233&lang=es	<u>Ministry of Economy and Finance of Peru</u> Multiannual Macroeconomic Framework Gives access to the Multiannual Macroeconomic Framework and other related documents
http://www.mef.gob.pe/index.php?option=com_content&view=article&id=2525&Itemid=101720&lang=es	Pre-electoral report Gives access to the Pre-Electoral reports released by the MEF
http://mef.gob.pe/index.php?option=com_content&view=article&id=2780&Itemid=101891&lang=es	Fiscal report Gives access to the monthly Fiscal Report
http://www.mef.gob.pe/index.php?option=com_content&view=section&id=37&Itemid=100143&lang=es	Fiscal transparency website Information on budgetary information: Revenues, expenditures, Central Government's Transfers and Public Debt
http://www.mef.gob.pe/index.php?option=com_content&view=article&id=2290%3Afondo-de-estabilizacion-fiscal-fef&catid=223&Itemid=100237&lang=es	Fiscal Stabilization Fund report: Annual information on inflows, outflows and resource stock of the Fiscal Stabilization Fund
http://www.sunat.gob.pe/estadisticasestudios/index.html	<u>Superintendencia of Taxation and Customs Administration – SUNAT</u> Statistics reported by SUNAT on the revenues collected by that institution

The Philippines

Development in Promoting Fiscal Transparency and Public Accountability

Introduction - by Secretary Florencio B. Abad²²

In keeping with his *Social Contract with the Filipino People*, President Benigno S. Aquino III has been pursuing a bold agenda for poverty reduction and inclusive economic growth through good governance since the day he assumed office in 2010. His administration has considered Public Expenditure Management (PEM) as an important area for reform towards strengthening transparency, accountability, and participation in governance, particularly in the budget process.

The Aquino Administration is well aware the PEM reform is not only a policy and technical reform process, but also a fundamentally political one. The political dimension of budget reform not only pertains to dynamics between formal institutions involved in Philippine PEM but also the informal arrangements that are rooted in the political economic structure of the country, which scholars (Hutchcroft, 1998; Johnston, 2005 and 2010; among others) regard as highly inequitable and characterized by the prevalence of traditional and oligarchic elites. In such a socio-economic scenario, public institutions—including the budget process—had been susceptible to the manoeuvrings of these elites, leading to a chronic state of underdevelopment and poverty of the many.

Thus, in order to truly establish aggregate fiscal discipline, allocative efficiency, and operational efficiency—spending within means, on the right priorities and with maximum impact—the government under President Aquino took cognizance of the political dimension of reform. The PEM reform process under the Aquino Administration has focused on restoring public trust in the budget process; reshaping the budget to focus on priority social and economic development programs; and by strengthening citizens' "voice and vote."

Strengthening fiscal transparency, accountability, and participation is thus a crucial element of the Philippine PEM reform process. In the following sections, I wish to describe not only the Philippine PEM system but also how our government is pursuing reforms.

1. Fiscal Institutions of the Central Government

1.1 Legal basis for the national budget

The Philippine budget process and the institutions involved are clearly established by law. The Philippine Constitution of 1987 mandates that "*the President shall submit to the Congress within thirty days from the opening of every regular session, as the basis of the general appropriations bill, a budget of expenditures and sources of financing, including receipts from existing and proposed revenue measures.*"

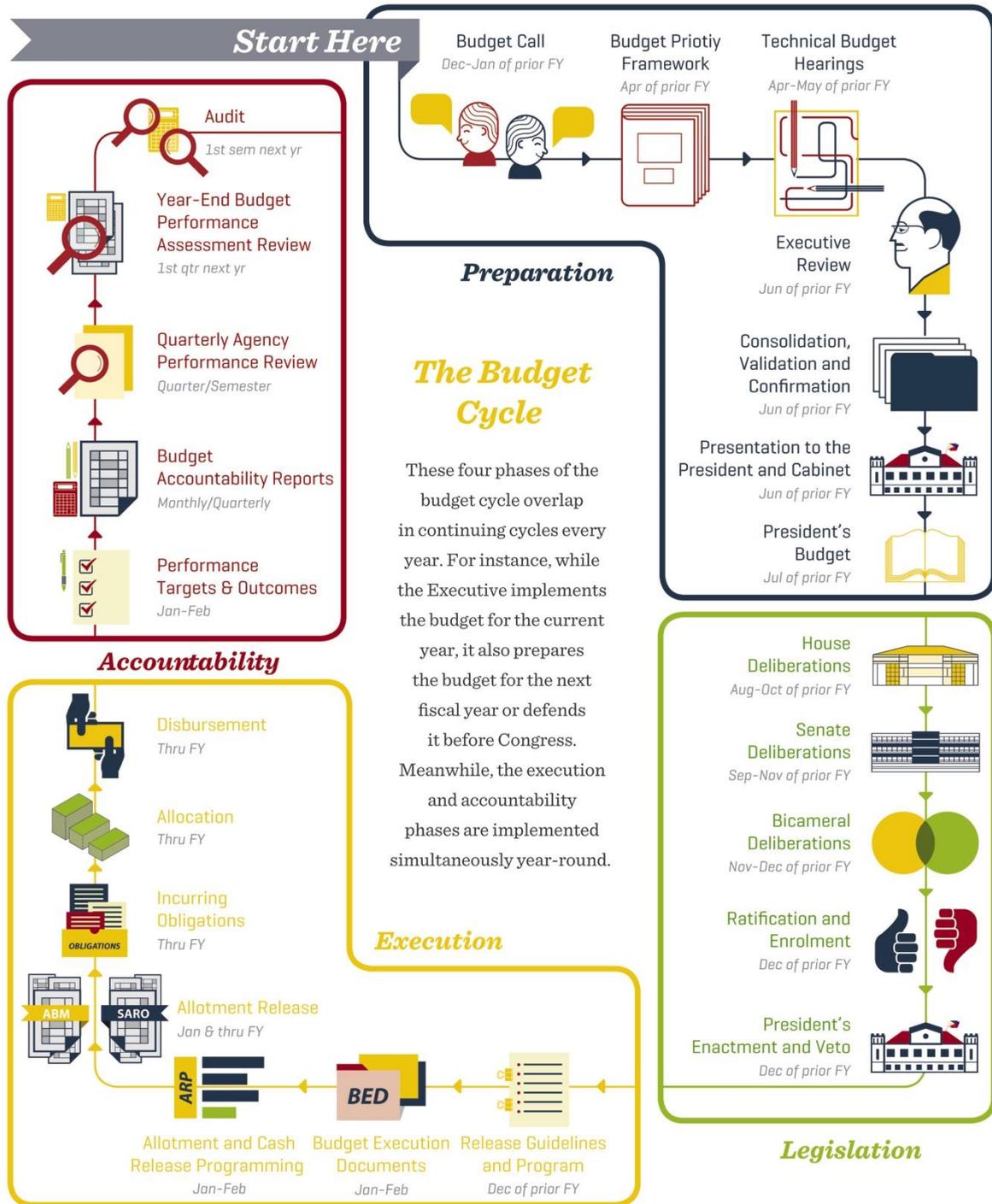
Executive Order No. 292, commonly known as the Administrative Code of 1987, further fleshes out the government legal framework for national budgeting. It states that "*The national budget shall be formulated and implemented as an instrument of national development, reflective of national objectives and plans; supportive of and consistent with the socio-economic development plans and oriented towards the achievement of explicit objectives and expected results, to ensure that the utilization of funds and operations of government entities are conducted effectively; formulated within the context of a regionalized governmental structure and within the totality of revenues and other receipts, expenditures, and borrowings of all levels of government and of government-owned or controlled corporations; and prepared within the context of the national long-term plans and budget programs of the Government.*"

²² Secretary of Budget and Management of the Republic of the Philippines (2010-present)

1.2 The budget cycle and the annual budget process

The Administrative Code of 1987 defines four phases of the budget cycle: *Budget Preparation*, where the Executive prepares the proposed budget to be submitted to Congress; *Budget Authorization*, where the legislature reviews, amends and approves the budget, to be submitted to the President for his enactment of the General Appropriations Act, if necessary, line-item vetoes; *Budget Execution*, where government implements the approved budget; and finally, *budget accountability*, where the government takes stock of agency expenditures and performance, and where these are subjected to annual audit by an independent commission. An illustration (Figure 1) below shows these phases of the budget cycle.

Figure 1: The Philippine Budget Cycle



Also refer to <http://BudgetNgBayan.com/The-Budget-Cycle/> for a description of all steps of the budget process.

The actual process in the preparation of the annual budget involves a series of steps that begins with the determination of the overall economic targets, expenditure levels, revenue projection, and the financing plan by the Development Budget Coordinating Committee (DBCC). The DBCC is an inter-agency body composed of the Department of Budget and Management (DBM) Secretary as Chairman and the *Bangko Sentral* Governor, the Secretary of the Department of Finance, the Director General of the National Economic and Development Authority and a representative of the Office of the President as members. The major activities involved in the preparation of the annual national budget include the following:

- a) Determination of overall economic targets, expenditure levels, and budget framework by the DBCC;
- b) Issuance by the DBM of the Budget Call which defines the budget framework; sets economic and fiscal targets; prescribes the priority thrusts and budget levels; and spells out the guidelines and procedures, technical instructions and the timetable for budget preparation;
- c) Preparation by various government agencies of their detailed budget estimates ranking programs, projects and activities using the capital budgeting approach and submission of the same to DBM;
- d) Budget hearings where agencies are called to justify their proposed budgets before DBM technical panels;
- e) Submission of the proposed expenditure program of departments/agencies/special purpose funds for confirmation by department/agency heads;
- f) Presentation of the proposed budget levels of department/agencies/special purpose funds to the DBCC for approval;
- g) Review and approval of the proposed budget by the President and the Cabinet;
- h) Submission by the President of the proposed budget to Congress.

To meet the constitutional requirement for the submission of the President's budget within 30 days from the opening of each regular session of Congress, the budget preparation phase is guided by a budget calendar.

Budget Preparation. At the beginning of the budget preparation year and in accordance with the approved budget calendar, the Department of Budget and Management (DBM) issues the National Budget Call to all agencies. The Budget Call contains the budget requirements including macroeconomic and fiscal targets and agency budget ceilings which were set by the DBCC for the medium-term. After the DBM consolidates and scrutinizes the budget proposals submitted by agencies, the DBCC presents it for approval by the President and the Cabinet.

Once approved, and in accordance with the requirements of the Constitution, the President, through the DBM, submits the proposed annual budget in the form of Budget of Expenditure and Sources of Financing (BESF) supported by details of proposed expenditures in the form of a National Expenditure Program (NEP) and the President's Budget Message which summarizes the budget policy thrusts and priorities for the year.

Budget Authorization. In Congress, the proposed budget goes first to the House of Representatives as required by the Constitution, which assigns the task of initial budget review to its Appropriations Committee. The Appropriations Committee together with the other House Sub-Committee conduct a series of public hearings on the budgets of departments/agencies and scrutinize their respective programs/projects. Consequently, the amended budget proposal is presented to the House as the General Appropriations Bill (GAB). While budget hearings are ongoing in the House of Representatives, the Senate Finance Committee, through its different sub-committees, also starts to conduct its own review and scrutiny of the proposed budget and proposes amendments to the House Budget Bill to the Senate body for approval.

To thrash out differences and arrive at a single version of the General Appropriations Bill, the House and the Senate create a Bicameral Conference Committee that finalizes the GAB. The GAB is then presented to the President, who signs it into law. The General Appropriations Act (GAA) is the legislative authorization that contains the new appropriations in terms of specific amounts for salaries, wages, and other personnel benefits; maintenance and other operating expenses; and

capital outlays authorized to be spent for the implementation of various programs/projects and activities of all departments, bureaus, and offices of the government for a given year.

Budget Execution. To implement the general appropriations act to inject funds into the programmed priority development initiatives of the government, the DBM prepares an allotment release program (ARP) which sets the limit for allotments issued to agencies. This disbursement is made chargeable against the treasury through government servicing banks. Upon receipt of the approved budget through the release of the General Appropriations Act, the Agency Budget Matrix and Special Allotment Release Orders, agencies obligate and disburse in accordance with their approved budgets for programs, activities, and projects. Transactions are recorded in accordance with the PFRS and the NGAS standards and policies, and presented in the financial statements in accordance with the relevant financial reporting framework. All transactions and accounts together with the financial statements are required to be submitted to the Commission on Audit (COA) for audit purposes, in accordance with its constitutional mandate.

Budget Accountability. After the budget execution stage, the DBM reviews the utilization and the efficiency of agencies in using funds. In this stage, the agencies are required to submit performance and target outcomes and budget accountability reports. Moreover, the Commission on Audit (COA) which is the independent auditing body of the government, acts as the reviewer of the financial statements and budget disbursements and implementation of the government projects in the Philippines. All of this information, covering every step of the budget process, is disclosed to the public, including the underlying macroeconomic assumptions, budget estimates, and national targets.

1.3 Fiscal institutions of the Philippine government

The Constitution rests the “*power of the purse*” in the hands of Legislative branch of government, represented by the two Houses of Congress, the Senate and the House of Representatives. The Constitution provides that “*no money shall be paid out of the treasury except in pursuance of an appropriation made by law.*” However, it is the executive branch—the President assisted by his Cabinet—which is responsible for developing the budget that Congress will consider and ultimately pass as the general appropriations law. Congress is also barred from increasing the aggregate amount of appropriations that the President recommends.

The two primary agencies of the executive branch assisting the President on public resource management, fiscal, and budgetary matters are the Department of Budget and Management (DBM), which manages resource allocation and public expenditures, and the Department of Finance (DOF), which ensures revenue generation and debt management.

Department of Budget and Management (DBM). The Department of Budget and Management (DBM) is mandated to promote the sound, efficient, and effective management and use of government resources (i.e., technological, manpower, physical, and financial) as instrumental in the achievement of national socioeconomic and political development goals. The Administrative Code states that it “*shall be responsible for the formulation and implementation of the National Budget with the goal of attaining our national socio-economic plans and objectives,*” and “*shall be responsible for the efficient and sound utilization of government funds and revenues to effectively achieve our country’s development objectives.*”

The DBM prescribes the form and manner by which agencies should submit their respective budget proposals, effects the release of budgetary allotments to agencies and the requirements needed for such, as well as the form and manner by which implementing agencies should prepare and submit financial and physical accountability reports. The DBM also heads the Development Budget Coordination Committee (DBCC), an inter-agency body composed of the Department of Finance (DoF), the National Economic and Development Authority, the *Bangko Sentral ng Pilipinas* (central bank) as resource institution, and the Office of the President as oversight, which determines the macroeconomic and fiscal parameters of the budget.

Department of Finance (DOF). The DOF is the government’s steward of sound fiscal policy. It formulates revenue policies that will ensure funding of critical government programs that promote people’s welfare and accelerate economic growth and stability. The Department envisions that the effective and efficient pursuit of the critical tasks under its wings: revenue generation, resource mobilization, debt management, and financial market development shall provide the solid foundation for a Philippine economy that is one of the most active and dynamic in the world.

Commission on Audit (CoA). The Commission on Audit (CoA) has the constitutional mandate to promulgate accounting and auditing rules and regulations, including those for the prevention and disallowance of irregular, unnecessary, excessive, extravagant, or unconscionable expenditures or uses of government funds and properties. By virtue of this mandate, government agencies are required to report their transactions monthly to the Commission on Audit (COA), which examines whether government expenditures were incurred in compliance with applicable laws, rules, and regulations and within the agencies' approved budgets. The COA in the exercise of its quasi-judicial function disallows transactions, which are not in compliance with laws, rules, and regulations and not in conformity with the budget (e.g., overdraft). It determines persons liable for these transactions and issues a Notice of Disallowance to recover the amounts disallowed. The COA issues an audit report annually on the accounts and operations of government agencies and submits to the Office of the President, Congress and other oversight bodies. These audit reports are used by the Legislature in reviewing the budgets of government agencies for the subsequent year.

2. Assessing Fiscal Transparency and Accountability

The 2010 World Bank and AusAid Public Expenditure and Financial Accountability (PEFA) report identified key gaps and weaknesses in the Philippine Public Financial Management (PFM) system, notably in the budget execution phase.

Summary of Gaps and Weaknesses in Philippine PFM (PEFA Assessment, 2010)

	Description	Affected Budget Phase
Lack of Credibility of the Budget	<ul style="list-style-type: none"> Budget ceilings not effectively linked to development plans Abuse in the use of savings Frequent re-enactment of the budget Proliferation of lump sum funds General weakness in reporting on budget execution 	All Phases
Budget not yet Results-Based	<ul style="list-style-type: none"> Agency performance indicators not well specified Inadequate costing information Absence of periodic evaluation of major programs 	All Phases
Lack of Funding Predictability	<ul style="list-style-type: none"> Untimely receipt by agencies of allotment and cash allocation releases 	Execution
Weak Oversight of Congress and Public	<ul style="list-style-type: none"> Limited role of Congress in reviewing and authorizing in-year amendments to the budget Limited transparency and mechanisms for participation 	Authorization Execution Accountability
Lack of Efficient Cash Management	<ul style="list-style-type: none"> Weak monitoring of revenue collections and agency disbursements 	Execution
Messy Traffic of Documents	<ul style="list-style-type: none"> Duplicative reporting formats from oversight agencies Differences in budgeting and accounting classification Inability to validate reports Lack of an integrated information system capable of capturing resource flows 	Execution Accountability

	Description	Affected Budget Phase
Weak Monitoring of Contingent Liabilities	<ul style="list-style-type: none"> • Lack of accurate database on contingent liabilities • Absence of regular monitoring and established system of measuring contingent liabilities 	Preparation Authorization

To address these gaps and weaknesses, the government—through the DBM, COA, and DoF—developed a PFM Reform Roadmap, which seeks to establish greater transparency, accountability and efficiency in PFM. This roadmap spells out short-term, medium-term, and long-term reforms along the following major outputs: 1) strengthen *Results-Based Budgeting* to ensure efficiency and effectiveness in public spending measured against results; 2) develop a *Treasury Single Account* to greatly improve cash management; 3) develop a *Government Integrated Financial Management Information System* that will provide real-time financial information to government and the public; and 4) *Better Management of Contingent Liabilities* to minimize government's financial exposure.

2.1 Open Budget Process

The Aquino Administration has sought to infuse greater transparency, openness, and predictability in the Philippine budget process, in line with its intention to restore public trust in the process, ensure the direct, immediate, and substantial delivery of public services, and to empower citizens.

The first PFM reform that the administration adopted was the *Zero-Based Budgeting* (ZBB) approach, which enabled the government to review the relevance of programs and projects, to terminate or redesign those which have been inefficient or ineffective, and to create fiscal space for much needed social programs. ZBB was not merely a technical tool: it was also a clear signal that the administration was intent on displacing incremental and inefficient budgeting by more deliberate, disciplined and results-focused budgeting.

Among the early reforms that the Philippine government introduced was in its budget preparation and legislation calendar. In the past, budget preparation began in April of the preceding fiscal year with the issuance of the Budget Call, and ended with the submission of the proposed budget by end-August, just in time for the constitutionally-set deadline. With limited time to scrutinize the budget, Congress in the decade to 2010 consistently failed to pass the General Appropriations Bill in time for the start of the fiscal year leading to partial re-enactment, and in three instances the budget was re-enacted in full.

The Aquino Administration sought to move away from this un-transparent and anomaly-prone tradition of frequent budget re-enactment. Thus, in cooperation with the new Congress, the Executive sought to ensure the early enactment of the national budget. On its side, the Executive has revised its budget preparation calendar so that the Budget Call is issued in December of the second preceding fiscal year. This enabled the submission of the proposed budget to Congress on the fourth Tuesday of July, a day after the opening of the regular session of Congress and the President's State of the Nation Address. Meanwhile, Congress has been able to meet its commitment of approving the national budget before the start of the fiscal year.

The early budget preparation calendar has also allowed the Aquino Administration to introduce further reforms in budget preparation. For one, in 2012, the government introduced the Program Budgeting Approach in order to align the budget proposals of agencies with the key result areas and program priorities of President Aquino's Social Contract with the Filipino People. The Program Budgeting process ensured that agencies build collaborative arrangements with each other towards the success of these program priorities.

The government also leveraged other tools to align the annual budget with priority development outcomes at the same time as ensuring fiscal discipline. For one, the Aquino Administration has sustained the implementation of the Medium-Term Expenditure Framework and constantly improved its forward estimation process. This has enabled the government to keep on track with its target of reducing the fiscal deficit to a sustainable level of two percent of gross domestic product (GDP). The government's commitment to fiscal consolidation has also been a critical factor for its achievement of an investment grade credit rating.

To introduce greater efficiency in fund management, the government will move to a Budget-as-Release-Document regime with the 2014 budget. This eliminates the duplicative process of requesting, processing and releasing budgetary allotments. Under this regime, the budgets of agencies—except for those which need prior clearance, to be contained in a negative list—are considered released as soon as the budget is enacted. This is enabled by earlier reforms, most notably the disaggregation of lump-sum funds in the budget, and the one-year validity of all appropriations starting 2013.

In line with this, the government will begin the implementation of the Treasury Single Account, which will inject more transparency and predictability in treasury cash management. After the ongoing inventory of agency bank accounts, all of these will be consolidated into one account by 2014. Eventually, this will eliminate another duplicative request-and-release process: the Notice of Cash Allocation.

On performance management, the government has revisited the Organizational Performance Indicator Framework (OPIF) through a review and improvement of the outcomes, major final outputs, and performance indicators. Alongside this, the government has sought to harmonize all disparate performance management systems in government into the Results-Based Performance Management System. The government also introduced the Performance-Based Incentive System to reward public servants who meet their targets.

Building on this initiative, the government has embarked on a bold move to change the way that the budget is presented, starting with the 2014 proposal, by adopting a Performance-Informed Budget structure. This means that the budget being enacted by Congress will now present outcomes, outputs, and performance information alongside the financial information. This is government's way of redefining transparency and accountability as a deep commitment to perform and deliver to citizens.

The government has also leveraged information and communications technologies to improve transparency and efficiency in budget execution. For instance, in procurement, the government is in the process of expanding its Electronic Procurement System (PhilGEPS). Recently, the electronic payment facility for the virtual store of PhilGEPS has been launched. PhilGEPS is also about to pilot an online bidding system. Moreover, the DBM, together with the CoA and the Department of Finance-Bureau of Treasury (DoF-BTr), is in the process of developing a Government Integrated Financial Management Information System (GIFMIS). This system, envisioned for completion by 2016, will automate and streamline the processing and flow of funds and information among the PFM oversight agencies and, eventually, among the implementing agencies.

The administration also introduced a provision in the budget requiring agencies to disclose their approved budgets and other budget information in their respective websites. As of this year, all government line departments have complied with this Transparency Seal requirement. The Philippines has also developed a system for the automated public online disclosure of releases from the Priority Development Assistance Fund (PDAF) of legislators, and these could now be seen on the DBM website.

The budget process will only be truly open if citizens are able to participate in it in a meaningful manner, directly or through reform constituencies such as civil society organizations (CSOs), grassroots communities, the private sector, and other non-government stakeholders. Partnerships between government and civil society organizations (CSOs) facilitate the promotion of good governance and public accountability. At the start of the administration, the DBM engaged CSOs and crafted with them principles for constructive engagement in the budget process. On 20 November 2010, the "Declaration of Constructive Engagement for Open Budget Partnership" was signed and witnessed by government officials, members of CSOs, businessmen, members of academe, and members of international organizations. This agreement makes the government more open and it allows the public to be engaged in future budget preparations, eventually leading to the introduction of Budget Partnership Agreements (BPAs) between government agencies and CSOs. This was piloted in the crafting of the 2012 budget with six departments and government corporations being covered by BPAs. In crafting the 2014 budget, the number of departments entering into BPAs with CSOs has increased to 18 departments and government corporations. The BPA concept has also been recently introduced in the budget execution phase.

The administration also sought to create means for citizens and communities on the ground to have a say in the budget process, directly and through their local government units (LGUs). The objective is to create a direct “voice and vote” for citizens in the budget process.

This was the motivation behind the ambitious process of Bottom-Up Budgeting (BUB) that was piloted by the administration through its Cabinet Cluster on Human Development and Poverty Reduction. In piloting this process in crafting the 2013 budget, 593 poorest municipalities crafted local poverty reduction plans in consultation with civil society organizations and grassroots communities in their localities.

Because of the government’s innovations in participatory budgeting, the 2012 Open Budget Index (OBI) of the International Budget Partnership has placed the Philippines among the top 17 of the world in terms of the level and quality of public participation in the budget. But as the OBI rating for participation is still “moderate,” the government is committed to further improve and institutionalize budget participation mechanisms.

2.2 Public Availability of Fiscal Information

With a score of 47 in the 2012 OBI, the Philippines remains in the bracket of countries that publish and disclose “some” information to the public. While the Philippines remains in the top 50 percent of the world at 47th among 102 countries in the OBI report, the Aquino Administration is determined to further improve budget transparency through the public disclosure of fiscal information and timely publication of budget reports.

According to the 2012 OBI, the Philippine government publishes four of the eight Basic Budget Documents. The following is a description of such publications currently being published as well as ongoing efforts to meet the publication of missing budget documents and information.

Pre-Budget Statement. The Philippine government publishes and makes available online key documents that contain the information required in a Pre-Budget Statement.²³ For one, the DBM publishes annual National Budget Calls that set the macroeconomic and fiscal parameters of the budget to be proposed, as well as guidelines on the form and content of agency budget proposals. Starting 2011, the government has also published an annual Fiscal Risks Statement that presents key fiscal risks and government efforts to mitigate these. Moreover, in crafting the proposed budget for 2014, the government through DBM published a Budget Priorities Framework that defined priority programs and geographical focus areas where agencies should align their resources and establish points of collaboration.

Executive Budget Proposal. The Philippine government produces the Budget of Expenditures and Sources of Financing (BESF) that it is mandated by law to submit to Congress, the National Expenditure Plan (NEP) which is the proposed budget in the form of the budget to be enacted, the President’s Budget Message to Congress, and other supporting documents. Among these is the Book of Outputs, which contains the outcomes, major final outputs, and performance indicators of each agency. These documents are published physically for distribution to government and non-government stakeholders, and are uploaded online in the DBM website.

In crafting the proposed 2014 budget, the Philippine government adopted the Performance-Informed Budget structure. This means that the budget to be enacted (the NEP) for 2014 now presents performance information alongside the financial information. In essence, the Book of Outputs has been merged and integrated with the NEP. Other improvements to the BESF for 2014 have been effected in order to reflect future fiscal projections as well as sensitivity analysis.

Enacted Budget. After the General Appropriations Act (GAA) is ratified by Congress and signed by the President into law, the government through the DBM publishes it physically and online through its website. Aside from the approved appropriations, the government also publishes the President’s line-item vetoes and other observations on the Congress-approved budget.

Citizen’s Budget. In 2011, the Aquino government through the DBM began publishing the People’s Budget: a booklet that summarizes and translates the GAA into a language that ordinary citizens will be able to grasp. Aside from presenting the annual budget, this document also illustrates the

²³ These documents cannot yet be considered as the Philippines’ PBS in the OBI until these are consolidated into a single document, and until more details on macroeconomic and fiscal projections are provided.

budget process as well as PEM reforms that reshaped it. To do these, the government used plain language as well as information graphics.

The government built on the concept of the People's Budget by developing an online version through the *BudgetNgBayan.com* advocacy website, which also enables citizen feedback and interaction through the social media. The People's Budget is being expanded into a series of citizen-focused publications, starting with a summary of the executive's budget proposal (the Proposed Budget in Brief booklet) and advocacy materials to promote PEM reforms. Other publications as well as the translation of the People's Budget to other media are currently in the pipeline.

In-Year Reports. The Philippines publishes regular in-year reports on public expenditures, revenues and debt. The DoF and its attached bureaus publish monthly reports on cash operations, tax, and non-tax revenue collections, debt indicators, among others. The DBM meanwhile publishes monthly status of budget releases and assessments of disbursement performance, as well as quarterly statements of allotments, obligations, and balances. All of these are published online and distributed to the media for reporting. Further improvements are being made to ensure the comprehensiveness as well as timeliness of publication.

Mid-Year Review and In-Year Report. According to the 2012 OBI, the Philippines has not published such reports. Currently the government, through the DBCC and its member departments, are preparing for the publication of the 2012 Year-End Report as well as the 2013 Mid-Year Review. The government is also planning for a People's Budget publication that translates the Year-End Report for ordinary citizens.

Audit Report. The CoA publishes Annual Financial Reports and Annual Audit Reports on the financial operations of government departments and agencies. These are generally published on the website of CoA 12 months or less after the end of the fiscal year. In general, two years after the end of a fiscal year, all expenditures have been audited and included in these audit reports.

At present, most financial transactions made by the national government are being published as part of the transparency agenda, increasingly through public access websites. Fiscal statistics available include detailed government income, revenues, expenditures, loans, taxes, loans, foreign grants, spending, procurements, agency budgets, salaries, subsidies, pension liabilities, and tax expenditures, among others. All of these are published regularly, some of which are monthly, quarterly, and yearly for the national and local governments. Specifically, the following fiscal statistics are published in the Philippines:

Fiscal Statistics	Publishing Agency	Frequency	Remarks
Consolidated Public Sector Debt and Position	Department of Finance	Quarterly	Includes Social Security Institutions, Government Financial Institutions, and Local Governments.
National Government Spending	Department of Budget and Management	Quarterly	Spending by sectors, by function and by agency
National Government Cash Operations Report (COR), Loans	Bureau of Treasury	Monthly	Cash Flow Statement
Local Government Units' (LGUs) Statement of Receipts and Expenditures	Bureau of Local Government Finance	Quarterly	Cash basis
Internal Tax Revenues	Bureau of Internal Revenue	Monthly	By type of tax
Customs Tax Collections	Bureau of Customs	Monthly	By type of tax
Non-Tax Revenues, Loans and Grants	Bureau of Treasury	Quarterly	Part of the COR
National Government and Agencies' Income and	Commission on Audit	Yearly	Audited Financial Statements

Fiscal Statistics	Publishing Agency	Frequency	Remarks
Expenditures			
Local Government Units (LGUs) Income and Expense	Commission on Audit	Yearly	Audited Financial Statement
Agencies' Financial Statement	All National Government Agencies	Yearly	Audited Financial Statement

2.3 Assurance of Integrity and Accountability

The Philippines, under the Aquino Administration, gives equally high priority to ensuring the integrity of its fiscal and budget process and outputs. As the government's bulwark of fiscal integrity and accountability, the Commission on Audit is constitutionally mandated to promulgate accounting and auditing rules and regulations, including those for the prevention and disallowance of irregular, unnecessary, excessive, extravagant, or unconscionable expenditures or uses of government funds and properties.

To ensure integrity in the government's public finances and fiscal activities and to reduce waste and corruption, the internal control system of government entities is continuously and systematically being strengthened. The DBM, in partnership with the Office of the President-Internal Audit Office, has issued National Guidelines on Internal Control System (NGICS)—a comprehensive guide to departments/agencies in redesigning, installing, implementing, and monitoring their respective internal control systems, taking into consideration the requirements of their organization and operations. A government Internal Audit Manual (PGIAM), consistent with the NGICS, will soon be finalized in order to assist the government in establishing fully functioning internal audit offices in the public sector. The DBM, COA, and DOF are also in the process of finalizing the proposed Government Integrated Financial Management Information System (GIFMIS). Upon implementation, the GIFMIS will provide reliable, automated, and accurate information on government finances, budgeting and revenues, cash management, financial accountability, etc. By 2016, the GIFMIS will make available real-time financial information captured at the source, making the data timely, accurate, and visible to oversight agencies. All information on disbursement will also be integrated allowing for a more effective national government expenditure program.

Financial statements of the Philippine government. Financial statements of both the national and local governments are prepared on a modified accrual basis. Accounting for income and revenues is following the modified accrual basis where tax revenues, permits and licenses, grants and donations, among others are on cash basis and some income like rents are recognized when earned (accrual basis). All expenses are recognized when incurred and reported in the financial statements in the period to which they relate. For GOCCs, financial statements are prepared on accrual basis.

Applicable accounting standards. The accounting policies and financial statements (FS) prescribed by the COA in accordance with the New Government Accounting System Manual and the Philippine Government Accounting Standards (PGAS) are used in the preparation of the government's financial statements. Some GOCCs adopt the state accounting principles using historical cost basis and the PFRS/PAS for those whose operations require compliance with the latter.

Implementation of International Public Sector Accounting Standards (IPSAS). The Philippine Commission on Audit has harmonized the Philippine Government Accounting Standards (PGAS) with International Public Sector Accounting Standards (IPSAS). To date, 25 Philippine Public Sector Accounting Standards (PPSAS) are completed and ready for exposure to different government agencies, and COA plans to adopt these in 2014.

Historical fiscal data and changes to data classification. Starting calendar year 2014, the Unified Account Code Structure (UACS), which was developed through the joint efforts of the COA and the DBM, shall be used. It harmonizes budgetary and accounting classifications and structures to simplify the consolidation of reports. In the Budget of Expenditures and Sources of Financing (BESF) prepared by the Department of Budget and Management (DBM), data are presented by year.

Internal audit of government finances and an independent national audit body. Public finances and policies are subject to scrutiny by the Commission on Audit (COA), which acts as the external auditor and the country's supreme audit institution, independent of the executive branch. The COA is required to submit Annual Audit Reports both to the Office of the President and Congress for legislation purposes. The annual General Appropriations Act requires all departments, bureaus, and offices, including state universities and colleges, GOCCs and LGUs to submit to the COA within 60 days upon receipt of the COA Annual Audit Report, either in printed form or by way of electronic document, a status report on the actions taken on the audit findings and recommendations, with a copy furnished to the DBM, the House Committee on Appropriations and the Senate Committee on Finance. All heads of departments and agencies of the executive branch, including GOCCs/GFIs, SUCs, and LGUs are directed to strengthen their Internal Control Systems (ICS) and establish the Internal Auditing Service (IAS). The DBM is tasked to promulgate the necessary rules and regulations for ICS strengthening. The offshoot of this is the publication of the Philippine Government Internal Audit Manual (PGIAM). The COA and the DBM train the IAS personnel of audited agencies on the PGIAM.

Assessment of economic forecasts underlying the budget. The National Economic and Development Authority (NEDA) is the country's premier social and economic development planning and policy coordinating body. Assisting the NEDA Board in the performance of its functions are seven cabinet-level interagency committees covering trade policy, investment and infrastructure, and social development, among others. The NEDA is primarily in charge of coordinating and consolidating the Philippine Development Plan which outlines the priority development policies and activities to be implemented by the President for his entire six-year term of office. The Philippine Development Plan is the basic development framework that underlies the yearly General Appropriations Act. All government initiatives, projects, laws, and activities are based on the Philippine Development Plan, the funding of which is made through the General Appropriations Act. All economic assumptions are explicitly disclosed under the Philippine Development Plan.

3. Challenges and Priorities for Future Reform

In the first half of the Aquino Administration, the Philippines' real GDP grew at an expectation-breaking rate (6.6 percent in 2012). The Philippines also made great strides in the fight for good governance. For instance, the Philippines' ranking in the Corruption Perceptions Index has drastically improved, up by 24 places from 2011 to 2012. Moreover, buoyed by improvements in the state of governance, the Philippines' ranking in the Global Competitiveness Index has also improved by 20 places between 2010 and 2012.

All these achievements in the first half of the administration in the governance and economic fronts together brought forth renewed confidence in the Philippines, giving it the momentum it needs to address two key challenges in the second half of its term.

The first challenge is about sustaining the pace of governance and public expenditure reforms, and making these irreversible. Irreversibility requires the government to deeply embed good governance measures in the policies, institutions, and processes in the entire bureaucracy, as well as to effectively leverage technology in embedding these reforms. Moreover, there is a need to create widespread support and demands for these reforms from the people, particularly our reform stakeholders in civil society, private sector, and the academe, among others, such that the reversal of these reforms will become politically and economically costly for the succeeding administration. Ultimately, the sustainability and irreversibility of reform depends on how these are able to bring real, direct, immediate, and substantial benefits to our people by way of adequate social and economic services, and by way of adequate employment and livelihood opportunities for them.

With this, the second and more fundamental challenge that the government faces from now to 2016 is to confront the country's inequitable socio-economic set-up and to lay the foundations for inclusive development. The framework of inclusive development goes beyond mere sustained economic growth and job creation. The objective is to ensure that all Filipino citizens have ownership of this growth and have equal opportunities, regardless of their life circumstances. With this framework, government's obligation is to eliminate inequitable circumstances and to put our people on an equal footing to take advantage of socio-economic opportunities. Increased economic productivity should be able to create greater opportunities for our large unskilled and

under-educated workers, as well as for small entrepreneurs for them to contribute to the creation of value. At the core of inclusive development are public institutions built on stable foundations of good governance. The unprecedented growth the Philippines has achieved in the last three years was by and large enabled by the public trust that was rebuilt through President Aquino's reform agenda. Thus, it is necessary to ensure the sustainability and irreversibility of the governance reforms that were nurtured during the first half of President Aquino's term.

In addressing this challenge, the budget is a potent starting point.

4. Resource Bibliography

Website	Rationale
http://budgetngbayan.com/	Mainly for public literacy on the budget cycle, preparation and annual government budget
http://www.transparencyreporting.net/	Promotes public transparency, accountability in public spending and public participation
http://www.dbm.gov.ph/	Website of the Department of Budget and Management
http://www.dof.gov.ph/	Website of the Department of Finance
http://www.coa.gov.ph/	Website of the Commission on Audit
http://www.neda.gov.ph/	Website of the National Economic and Development Authority

Russia

Developments in Promoting Fiscal Transparency and Public Accountability

Open Budget Processes

- *Does the budget preparation follow an established timetable? How much time does the Legislature have to review the draft budget?*

The draft budget is drawn up according to a timetable established by the government of the Russian Federation in accordance with the provisions of the Budget Code of the Russian Federation. The Budget Code contains the detailed procedures for the preparation, review, and approval of the federal budget.

The preparation of the federal budget is strictly observed by corresponding federal authorities.

In accordance with the Budget Code of the Russian Federation, the government of the Russian Federation submits a draft law on the federal budget to the State Duma (the Lower House of the Russian Parliament) for review and approval for the next fiscal year and planning period no later than 1 October of the current year.

The State Duma considers the draft law on the federal budget for the next fiscal year and planning period, over 60 days in three readings.

The Federation Council considers a federal law on the federal budget for the next fiscal year and planning period, over 14 days from the date of submission by the State Duma.

- *How is budget preparation aligned with fiscal and other strategic objectives? Is the annual budget based on a longer-term (more than one year) macroeconomic and fiscal policy framework?*

Russian Federation recently introduced the principles of the short-term, medium-term, and long-term budget planning.

As a result of budget reforms, the Russian Federation has amended the legal framework. From 2014 the formation and implementation of budgets will be fulfilled on the basis of state and municipal programs (“software” budget).

The draft federal budget and the funding budgets for state extra-budgetary projects of the Russian Federation shall be developed and approved for a period of three years, covering the next financial year and planning period.

To ensure the linkages between targets of socio-economic and budget planning, the procedure for the preparation of the federal budget is based on the following documents:

- Budget Message of the President of the Russian Federation;
- The forecast of socio-economic development of the Russian Federation;
- Main areas of fiscal and tax policy;
- Government programs of the Russian Federation.

The forecast of revenues of the federal budget for the three-year period is based on the scenario for the development of the economy and socio-economic parameters of the Russian Federation for the next fiscal year and planning period, which is approved by the government of the Russian Federation.

In order to consolidate the macroeconomic stability and to ensure fiscal sustainability, in 2013 special fiscal rules were adopted. They aim to minimize the vulnerability of the budget system to the volatility of world energy prices. New rules improve the accuracy of long-term financial projections of revenue and expenditure of the budget system and guarantee a sufficient level of sovereign funds for the Russian Federation. In particular, new budgetary rules stipulate the following:

- Maximum federal spending should not exceed the amount of revenue at a base price of more than one percent of gross domestic product;
- The total planned spending for the next fiscal year must not be less than the total expenditure excluding conditionally approved expenditure approved for the financial year by the federal law on the federal budget for the current year and the planning period;
- The total planned spending for the first year of the planning period, excluding conditionally approved expenditure of 2.5 percent of the total cost must not be less than the total expenditure excluding conditionally approved expenditure approved for the financial year by the federal law on the federal budget for the current and the planned period.

The framework of fiscal policy in 2014 and the planned period of 2015 and 2016 is based on the country's strategic development goals as derived from the following documents:

- The decrees of the President of the Russian Federation adopted on 7 May 2012;
- The Concept of Long-Term Socio-Economic Development of the Russian Federation for the period up to 2020;
- The main activities of the government of the Russian Federation for the period up to 2018; and
- The summary of the Budget Message of the President of the Russian Federation on budget policy in 2014-2016.

To develop approaches for ensuring fiscal stability over the longer-term, the Ministry of Finance of the Russian Federation has drafted a Budget Strategy of the Russian Federation for the period up to 2030. This document is underpinned by the objectives and parameters of the socio-economic development of the Russian Federation over the long-term, conditions for formation and implementation of the fiscal policy and the basic parameters of the budgets, and the budget system for the period to 2030, as well as volumes of financing of state programs for the period to 2020.

- *Which agencies are responsible for the economic assumptions underlying the budget and the fiscal estimates respectively? Are all key economic assumptions disclosed explicitly?*

In accordance with the Budget Code, the Ministry of Finance of Russia drafts the federal budget for a three-year period, and derives forecasts for the basic parameters of the budgetary system of the Russian Federation, including the forecast for the consolidated budget of the Russian Federation.

In accordance with the regulation of the establishment of the federal budget and the draft budgets of state extra-budgetary funds of the Russian Federation for the next fiscal year and planning period, the Ministry of Economic Development of the Russian Federation is responsible for working up scenarios for the economic development of the Russian Federation for the next fiscal year and planning period, including the basic parameters and forecasts of socio-economic development for the next fiscal year and planning period.

- *Does the government actively promote public understanding of the budget process and budget outcomes? How are citizens engaged during the budget process?*

As a result of fulfilling the mid-term programs of the budget reforms, Russia's average rating in the Open Budget Index, calculated by the International Budget Partnership for the Russian Federation since 2006, has increased from 47 percent in 2006 (28th place among 59 countries) to 74 percent in 2012 (10th place among 100 countries). In accordance with this ranking, the Russian Federation

has joined the group of countries that provide “a significant amount of information about the budget process to the public.”

A strategic target of the state authorities of the Russian Federation is to achieve the Open Budget percentage rating of 85 percent by 2020, which would elevate the Russian Federation to the group of countries that “offers a wealth of information to citizens about the budget.”

To achieve this target it will be important to make public budget information to all citizens through the publication of a “budget to the public” report, as well as to facilitate the transition of the Russian Federation to the formation of the federal budget on a program basis.

The regular publication of “budget for the citizens” will be implemented in order to ensure full and easy accessibility to citizens the information on the federal budget, the budgets of subjects of the Russian Federation, and municipalities, the reports on their performance, and enhance the openness and transparency of information on the management of public finances.

In the Budget Message of the President of the Russian Federation on budget policy for the years 2014-2016, the president stated the intention to publish an annual “budget to the public” report at the federal level. This initiative will include the advice and participation of experts and the recommendations from the International Budget Partnership.

In order to develop a “budget for the citizens” at the federal level, a working group has been established on “the budget for 2014 and the planning period of 2015 and 2016 for the citizens” which gathers relevant Russian executive agencies and representatives of the expert community.

In order to implement the principle of transparency (openness) and to ensure full and accessible information to citizens (interested users), executive bodies of the Russian Federation (municipalities) will publish, on a regular basis, the “budget to the public” which will contain the information on local budgets.

To this end, the Ministry of Finance has developed guidelines on providing the information on budgets of the Russian Federation and local budgets, and performance reports, to citizens in an efficient and accessible manner.

To increase the transparency of the budgetary system of the Russian Federation the website <http://www.budget.gov.ru/> has been launched.

Singapore

Developments in Promoting Fiscal Transparency and Public Accountability

1. Fiscal Institutions of the Central Government

Singapore's fiscal framework is undergirded by the Financial Provisions in the Constitution of the Republic of Singapore.

The Constitution forms the basis for Singapore's budgetary processes and sets out the key fiscal rules and limits that apply to the government. The Constitution also outlines the roles of the key institutions which are responsible for safeguarding fiscal sustainability and ensuring good financial stewardship – namely, the President, Parliament, the Cabinet (and in particular the Minister for Finance), the Accountant-General and the Auditor-General. Both the Accountant-General and the Auditor-General are appointed by the President.

There are important fiscal rules that apply to the Singapore government. Under the Constitution, the President is designated to act as a guardian for past reserves, which are the nation's reserves that were accumulated during previous terms of government. The current government may not draw on past reserves, give any guarantee or raise any loan, unless it has obtained the consent of the President to do so. The Constitution also tasks the Auditor-General and the Accountant-General with the duty to inform the President of any proposed transaction by the government that to their knowledge is likely to draw on past reserves.

Hence, unless the President's consent is obtained to draw on past reserves, each government is required to balance its budget during its term of office, which typically lasts for five years. This means that deficits in any year must be balanced by surpluses accumulated in earlier years during the government's term of office.

The Constitution also establishes a limit on the amount of investment returns, earned from investing past reserves, which the current government may take into its annual budget as revenue. Specifically, the government may take in only up to 50 percent of the expected long-term real return on the net assets managed by the government of Singapore Investment Corporation Pte Ltd (GIC) and the Monetary Authority of Singapore (MAS), and up to 50 percent of other net investment income (such as dividend income from Temasek Holdings Pte Ltd).

The Financial Procedure Act (Cap. 109) and its subsidiary regulations set out rules for the proper control and management of public finances across the government, as well as the penalties on public officers for the failure to perform the necessary financial duties. Under the Financial Regulations, the permanent secretary of each ministry is designated as the accounting officer of the ministry and is held responsible for ensuring the ministry's compliance with the provisions of the Financial Procedure Act and Regulations, and the proper accounting and management of the budgetary allocations voted to the ministry under the Supply Act. Under the Financial Procedure Act, a surcharge may be brought against any civil servant for any public money not collected, or wrongfully paid, deficiency, or loss or for the destruction of public property.

The government's financial statements are prepared after the close of each Financial Year (FY) for submission to the Auditor-General, who conducts independent audits of public finances and reports to the President and Parliament on the proper accounting of public moneys.

Upon the Auditor-General's endorsement, the government's financial statements are submitted to the President for his presentation to Parliament. In addition to the audited financial statements, the Minister for Finance also presents to the President a declaration statement stating whether the audited financial statements show any drawing on or likelihood of drawing on past reserves.

There are two standing parliamentary committees comprising of elected members of Parliament, which keep watch on budgetary and financial matters. The Estimates Committee examines the government's budget and reports what economies, improvements in organization, efficiency or administrative reforms consistent with the policy underlying the estimates, can be made and suggests the form in which the estimates shall be presented to Parliament. The other is the Public Accounts Committee which performs an audit role. After each FY, the committee will review the audit observations in the Auditor-General's report. The committee is empowered to call on the relevant ministries and government agencies to account for their actions or to take corrective action to rectify any irregularities identified. The reports of both committees are made publicly available.

2. Assessing Fiscal Transparency and Accountability

2.1 Open Budget Processes

The government's FY begins on 1 April of every calendar year and ends on 31 March of the following calendar year. Before the end of every FY, the Ministry for Finance is required to prepare the revenue and expenditure estimates of the government budget for the succeeding FY.

The preparation of the annual budget begins in August each year. The Ministry of Finance (MOF) will issue a circular to all ministries to set out the timelines and procedures for ministries to submit to MOF: (i) their revenue and expenditure proposals and other budgetary information for the next FY, as well as (ii) the revised revenue and expenditure estimates for the current FY.

The budget planning parameters are aligned with the economic forecasts published by Ministry of Trade and Industry (MTI) and inflation forecasts made by Monetary Authority of Singapore (MAS). These inflation forecasts are published on MTI's and MAS's respective websites and are also communicated to the ministries for the preparation of budgetary forecasts.

After the ministries have submitted their budgetary forecasts, the Minister for Finance then presents the budget estimates to Parliament, after they are approved by the Cabinet. The Budget Statement is delivered in Parliament around January to February, before the start of the new FY. The budget's key proposals and strategies are subsequently debated by members of Parliament, about a week after the presentation of the budget proposal to Parliament. The debate on the Budget Statement usually takes about two to three days.

The budgetary requirements of individual ministries and organs of state (excluding those which are already statutorily provided for) are set out in a Supply Bill, which is also tabled in Parliament during this period. These budgetary requirements are in accordance with the budget estimates presented to Parliament. After the debate on the Budget Statement, the Supply Bill enters the committee stage in Parliament, where budgetary allocations for individual ministries are debated. This process, called the Committee of Supply, usually lasts for around a week.

Once Parliament agrees with the proposed budget, it will give its approval by passing the Supply Bill. The President's assent to the Supply Bill will then be sought in order to allow the bill to come into effect as the Supply Act, which controls the government's spending in the succeeding FY.

After the Supply Act is in place, each ministry is responsible for its own budget. Ministries are generally allowed to make reallocations within its budget as expenditure needs change over the FY (i.e., from one operating expenditure account to another, or from one development expenditure account to another), with proper documentation via the issuance of transfer warrants. Further administrative controls are put in place in the government's financial management system to prevent ministries from exceeding the overall operating and development budgets that have been allocated to them under the Supply Act. Should ministries require additional budget for the current FY, the government is required to seek fresh approval for the additional budget requirements from Parliament and the President through a Supplementary or Final Supply Bill process, similar to that for the Supply Bill. To meet urgent and unforeseen expenditure needs before a Supplementary or Final Supply Bill can be passed, the Constitution allows the government to obtain an interim advance, with the concurrence of the President. However, the amount required to replace the

advance given must be included in any subsequent Supplementary or Final Supply Bill presented to Parliament for the FY.

After the end of the each FY, the Minister for Finance is required to prepare a report, as soon as practicable, showing: (i) receipts and expenditure of the various government accounts, (ii) a statement of the assets and liabilities of Singapore at the end of the FY and (iii) a statement of outstanding guarantees and other financial liabilities of Singapore at the end of the FY.

To ensure that the budget is aligned with fiscal and other strategic objectives, the MOF adopts a budgetary framework that allows the government to divert resources to priority areas while taking a medium-term view of the budget, so that the government is able to maintain a balanced budget over the course of a term of government.

The basic foundation of the budgetary framework is the Block Budget Framework, where each ministry's budget is allocated after a rigorous evaluation of its medium-term funding requirements by the MOF. The budget is then allowed to grow annually at a rate pegged to smoothed GDP growth rate. Periodic reviews are carried out to ensure that the block budgets remain appropriately sized. Ministries take responsibility for optimizing their budgets within the allocated amounts. The Block Budget Framework helps to provide ministries with flexibility in the allocation of their funds while instilling discipline in ministries' approach to budgeting. By pegging ministries' budget growth to smoothed GDP growth, the MOF ensures that the government as a whole spends only as much as it expects to collect in revenues on a sustained basis.

The MOF also allocates additional budget to ministries on top of their block budgets through the "Reinvestment Fund" process, where a portion of the allowable growth of ministries' block budgets is set aside by the MOF each year into a central pool for re-prioritization. MOF will review and evaluate proposals submitted by ministries through a competitive bidding process, and identify projects that support strategic outcomes and prevailing priorities at the whole-of-government (WOG) level. Over time, this process enables the government to redirect financial resources towards priority areas and encourages ministries to pursue new projects that are worthy. The MOF also works with ministries to identify and track the key WOG strategic outcomes that the government seeks to achieve. Information on the progress towards these outcomes has been published in the Singapore Public Sector Performance Report (SPOR). The SPOR also provides the public with an overview on how the different ministries in the public sector work together to achieve common strategic outcomes.

MOF takes into account macroeconomic factors when planning the budget, such as the recommendations put up by the Economic Strategies Committee (ESC).²⁴ Since 2010, after ESC announced its key recommendations, the government has accepted the key directions and has incorporated the initiatives in subsequent budgets.

2.2 Public Availability of Fiscal Information

Each year, together with the delivery of the budget initiatives for the upcoming FY, the minister for Finance will also table the Budget Book (also known as the Revenue and Expenditure Estimates for the upcoming FY) to Parliament, in accordance with the Constitution. The Budget Book, which contains information on (i) actual government revenue, expenditure, and fiscal position for the preceding FY; (ii) revised government revenue, expenditure projections and fiscal position for the current FY; and (iii) estimated government revenue, expenditure projections, and fiscal position for the upcoming FY. The Budget Book is put on the budget website and can be downloaded free of charge.²⁵

The fiscal data presented in the Budget Book includes the revenue and expenditure estimates of all organs of state and ministries (including departments of the respective ministries). The revenue and expenditure of statutory boards and government-owned companies are generally not included

²⁴ The Economic Strategies Committee was established in May 2009 by the Prime Minister to develop strategies for Singapore to maximize its opportunities in the new world environment build its capabilities and make the best use of resources, so as to achieve inclusive growth.

²⁵ The online copies of the Budget Book can be found on the budget website of the respective FY. The FY2013 Budget website is http://www.singaporebudget.gov.sg/budget_2013/revenue_expenditure/toc.html

in the Budget Book as they are treated as separate accounting and legal entities, with their own disclosure requirements. As such, their accounts are presented separately, in their own financial statements. However, for statutory boards that receive grants or payments from the government, these grants and payments are recorded as part of the expenditures of the relevant ministries. The revenue collected by statutory boards on behalf of the government is also included as government revenue in the Budget Book.

The revenue data reported in the Budget Book is presented on a gross basis, in accordance with the requirements of the Financial Procedure Act and Financial Regulations. The revenue reported in the Budget Book covers receipts from all sources, including revenues that must be protected as part of past reserves and thus are not available for spending by the government of the day under the Constitution.²⁶

The expenditure data presented in the Budget Book includes detailed expenditure for each individual ministry and organ of state, broken down by the programs undertaken as well as by expenditure types under a common Chart of Accounts classification, which is set out in the introductory sections of each year's Budget Book. Key expenditure types include: (i) expenditure on manpower; (ii) grants, subventions and capital injections to organizations including statutory boards; (iii) social transfers to individuals; and (iv) development expenditure. Short write-ups of the key areas of spending and expenditure trends for each ministry for the current and upcoming FYs accompany the presentation of the detailed data.

Other than expenditure data, each ministry reports in the Budget Book a list of the number of personnel holding political appointments and in each relevant personnel category within the ministry, whose salaries are to be met from the allocations of funds for political appointments and permanent staff respectively, as required by the Financial Procedure Act.

In the Budget Book, each ministry also reports the status of key performance indicators (KPIs) that define the desired outcomes it seeks to achieve with its budget allocation. The KPIs provide additional annual information to parliament and the public on the agencies' achievement of objectives through their programs, on top of the outcomes tracked in the biennial SPOR.

The assets and liabilities of Singapore at the end of the last completed FY are also reported in the Budget Book. The Budget Book excludes existing domestic debt issued by the government, i.e., Singapore Government Securities (SGS) and Special Singapore Government Securities (SSGS) because the proceeds from these borrowings are not used to fund the government's budget and are instead wholly invested as required under the Government Securities Act.²⁷ In addition, the level and composition of public debt are reported in publications on the MOF's and MAS's websites.

Other than the Budget Book, the Budget Statement that is delivered in parliament is also made available on the budget website. The Budget Statement contains information about the new initiatives that are rolled out in the year, as well as the cost of tax measures announced in the budget. From time to time, the medium-term view of the government's expected fiscal performance is shared in the Budget Statement or in the Finance Minister's speech during the debate on the Budget Statement.

A fiscal update on the current FY and the fiscal outlook for the upcoming FY is made available in a separate document, the Budget Highlights, which is published online. The Budget Highlights include historical data on government revenue and expenditure by type, the government's overall fiscal position for the preceding five years, as well as the projected estimates for the current and

²⁶ Under the Reserves Protection Framework, the Government is not able to draw on past reserves. As proceeds derived from the sale of land converts a land asset into a financial asset, with both comprising part of Past Reserves, receipts from land sales are not available for spending by the government of the day. Also, not all of the investment income from the reserves can be taken in for spending. Under the Constitution, only up to 50 percent of the expected long-term real rate of return on the relevant assets and up to 50 percent of the Net Investment Income on the remaining assets can be taken in by the Government for spending.

²⁷ More details of Singapore Government Borrowings can be found here http://app.mof.gov.sg/sg_borrowings.aspx.

upcoming FY. It also provides information on the historical and projected fiscal impulse resulting from the government's budgetary plans.

Further data on public finances is released by the Department of Statistics Singapore (DOS) at monthly and annual frequencies, through the Monthly Digest of Statistics (MDS) and the Yearbook of Statistics (YOS) respectively. The MDS contains monthly data on actual government operating revenue and quarterly data on actual government operating expenditure and development expenditure. The YOS contains annual data on actual government operating revenue, government operating expenditure and development expenditure, and government debt by instrument and maturity on a calendar year basis.

The YOS and MDS also present a separate set of monthly and calendar year public finance data based on the IMF's Special Data Dissemination Standards (SDDS). The data reports government finances based on a broader definition of government revenues and receipts than the fiscal position presented during each year's budget in accordance with the fiscal rules in the Constitution. It includes revenues and receipts accruing to both the government's current and past reserves.

2.3 Assurance of Integrity and Accountability

The government's accounting and financial reporting practices are governed by the Constitution. The government's financial statements are prepared on a cash basis, in accordance with the requirements of the Constitution.

To ensure that there is budgetary and financial accountability, each year after the accountant general prepares the government's financial statements, the statements are independently audited by the auditor general. Under the Audit Act (Cap. 17), the auditor general is empowered to carry out any examination he thinks necessary to ascertain whether reasonable steps have been taken to safeguard public moneys, and whether the provisions of the Constitution, the Financial Procedure Act, and other laws and regulations relating to moneys or stores subject to his audit have been complied with.

The report of the auditor general on the audit of the government is submitted to the president, who will present the report and the government's financial statements to parliament. The auditor general is also responsible for informing the president of any proposed transaction by the government which to his knowledge is likely to draw on past reserves. He may also make recommendations and generally comment upon matters relating to public accounts, public moneys, and public stores. In the course of audit, if the auditor general discovers weaknesses in the system, or detects irregularities and wastage, the auditor general's office will draw the attention of the relevant ministry's senior management to these areas, so that remedial action can be taken.

The budget processes and public finances are open and transparent to the public. Each year, the initiatives announced during the budget and data on public finances are made available to the public. The changes in data classification, if any, are explained clearly in the budget documents. To illustrate, in FY2013, the expenditure of the Ministry of Manpower, which was formerly wholly reported under the Economic Development sector, was split with one part reported under the Social Development sector and the other under the Economic Development sector to better represent the nature of the respective programs of the ministry. The change in classification and the details of the split were reflected and explained in all budget documents. The revised historical sectoral expenditure data was also reported for comparability across time.

The public is able to provide suggestions and feedback on the budget through the REACH²⁸ engagement channels, which include public online forums, dialogue sessions, telephone, email, Facebook and Twitter. Pre- and post-budget dialogues and seminars with the business and social sectors are also organized to garner more detailed feedback.

The Budget Statement is broadcast on different platforms to improve the reach of budget information to the public. The public is able to watch a live telecast of the delivery of the Budget

²⁸ REACH (Reaching Everyone for Active Citizenry@ Home) is the lead Government agency responsible for engaging and connecting with citizens.

Statement in parliament, and view the recorded video stream from the budget website or from the budget mobile application. The public can download the transcript of the Budget Statement, the Budget Book, and other budget-related documents free of charge from the budget website. Key budget measures are reported in the mainstream media, released through the MOF and Gov.sg's Twitter and Facebook pages, and also communicated as well as discussed by political office-holders on television and radio forums held in different languages shortly after the delivery of the Budget Statement.

The content of the budget is presented in various forms as well, to facilitate a better understanding of the budget by different audiences. These include:

- i. the full transcript of the Budget Statement and accompanying annexes;
- ii. the Budget in Brief, which summarizes the main thrusts of the budget and the key measures under each thrust, with illustrative graphics to improve the accessibility of budget information to the public;
- iii. the Key Budget Initiatives, which present the details of each budget measure for completeness, as these may not be elaborated on in the Budget Statement;
- iv. the Budget Highlights, which provide a more in-depth analysis of budgetary estimates for the current and upcoming FY as well as historical fiscal data; and
- v. information flyers for businesses and for households to help them better understand the impact and relevance of the budget measures to them.

3. Challenges and Priorities for Future Reform

As discussed in previous sections, the financial rules and provisions set out in the Constitution have helped to ensure the overall integrity and accountability of Singapore's fiscal framework, and will continue to be an important anchor for sound fiscal governance in Singapore.

Over the past decades, the MOF has made a number of improvements to the presentation and accessibility of budget information to the public. The budget process today is thus already fairly open and transparent. The budget documents available on the budget website are also comprehensive, containing information on budget processes, budgetary data, and estimates for government entities, as well as key initiatives supported by the budget.

Moving forward, the MOF will also improve the historical coverage and usability of fiscal data available online, to promote even greater awareness and better understanding among the public of how the government's finances have evolved.

4. Resource Bibliography

Resource	Website
Ministry of Finance	http://app.mof.gov.sg/index.aspx
Auditor General's Office	http://www.ago.gov.sg/index.html
Accountant General's Department	http://www.agd.gov.sg/#&panel1-1
Financial Legislation (i.e., Constitutional Documents, Financial Procedure Act and Regulations, and Audit Act)	http://statutes.agc.gov.sg/aol/home.w3p
Budget 2013	<p><u>Main website:</u> http://app.singaporebudget.gov.sg/budget_2013/default.aspx</p> <p><u>Budget 2013 documents:</u> http://www.singaporebudget.gov.sg/budget_2013/revenue_expenditure/toc.html</p>
Past Budget Archives	http://app.mof.gov.sg/singapore_budget_archives.aspx
Department of Statistics Singapore	<p><u>Main website:</u> http://www.singstat.gov.sg/</p> <p><u>Yearbook of Statistics:</u> http://www.singstat.gov.sg/publications/publications_and_papers/reference/yearbook_of_stats_2012.html</p> <p><u>Monthly Digest of Statistics:</u> http://www.singstat.gov.sg/publications/publications_and_papers/reference/monthly_digest.html</p>
Information on Public Debt	<p>http://www.sgs.gov.sg/SGS%20Home/The%20SGS%20Market.aspx</p> <p>http://www.agd.gov.sg/pdf/Singapore%20Public%20Debt%20Report.pdf</p>
REACH	http://www.reach.gov.sg/

Chinese Taipei

Developments in Promoting Fiscal Transparency and Public Accountability

1. Fiscal Institutions of the Central Government

1.1 Annual Budget Process

A complete annual budget cycle consists of four phases: (1) preparation and requests, (2) legislative approval, (3) implementation and execution, and (4) audit and review.

1. During the preparation and requests stage, the Directorate-General of Budget, Accounting, and Statistics (DGBAS) of the cabinet reviews the budget estimates sent by agencies and compiles them into a general budget proposal of the central government. The cabinet then submits the budget proposal to parliament four months prior to the beginning of the fiscal year, which starts on 1 January.
2. In the legislative approval stage, administrative and agency officials testify in support of the budget request, and, in accordance with the law, parliament revises and passes the budget proposal for the following fiscal year before 1 December. Chinese Taipei's Leader then signs the final budget.
3. Once the budget has been approved, the cabinet must implement and execute the budget. The DGBAS approves the "distribution budget" for each agency as the first step. It then closely observes throughout the year the level and patterns of expenditures. The Ministry of Finance (MOF) focuses on the flow of revenue against its projection set forth in the enacted budget.
4. After the end of the fiscal year, the DGBAS issues a comprehensive report of the final accounts and sends it to the Control Yuan within four months of the end of the fiscal year. The Auditor General of the Control Yuan then completes the audit and submits an audit report to parliament within three months.

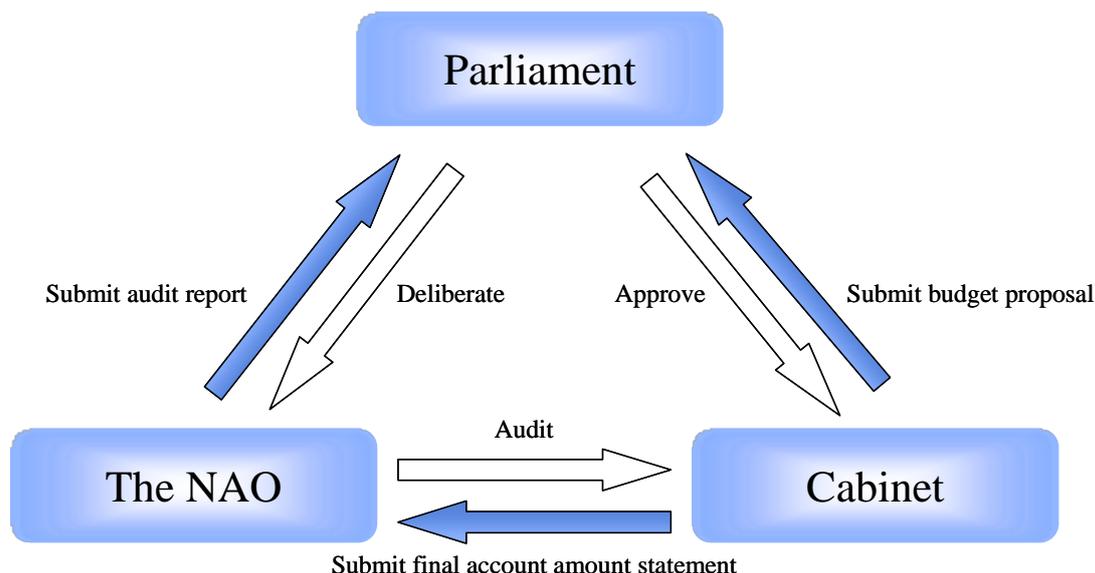
1.2 Budget Law and Regulations

The major laws and regulations associated with the preparation, review, and implementation of the government budget include the Budget Act, the Manual for Preparing Central Government's General Budget, Instructions for the Unit Budget Implementation of the Central Government Agencies, the Act Governing the Allocation of Government Revenues and Expenditures, the Local Government Act, the Public Debt Act, the Financial Statement Act, and the Accounting Act.

According to the Accounting Act, government accounting entities comprise the following five entities: General Accounting, Departmental Accounting, Sub-Accounting, Subordinate Departmental Accounting, and Sub-Accounting of Subordinate Departmental Accounting.

1.3 Competent Ministries and Agencies

According to Basic Law, the cabinet exercises the power to propose a budget; parliament has the ability to approve the budget proposal, and the National Audit Office (NAO) of the Control Yuan holds auditing power. The figure below illustrates the relationship between these fiscal authorities.



1. The DGBAS manages the budget preparation and the request process. In accordance with the Budget Act, the general budget proposal of the central government is, after a decision made by the Executive Council of the cabinet, turned over to the DGBAS for compilation and, in addition to the policy implementation plan, submitted by the cabinet to parliament for its review four months before the beginning of the fiscal year.
2. Parliament is responsible for revising and approving the budget proposal for the central government. It must reach a resolution on the general budgetary bill one month before the beginning of the fiscal year to enable the general budgetary bill to be promulgated by Chinese Taipei's Leader 15 days before the beginning of the next fiscal year. According to Basic Law, parliament may not propose any increase in expenditures in the budgetary bill proposed by the cabinet, nor can it shift amounts across different budget items in the proposal.
3. The NAO is responsible for auditing the financial matters of the government. The Auditor General, who is nominated and appointed by Chinese Taipei's Leader with the approval of parliament, should complete the audit and submit an auditing report to parliament within three months after receiving the final accounts of the revenues and expenditures from the cabinet.

1.4 Role of Competent Agencies in Managing Fiscal Pressures and Budget Processes

1. Prior to planning and compiling the budget estimates, the DGBAS, the Council for Economic Planning and Development (CEPD), the NAO, the MOF, and other relevant agencies are required by the Budget Act to provide the cabinet with suggestions to improve administrative and financial efficiencies, as well as comments and outlooks on major economic projects, which serve as a reference for the cabinet's formulation of the annual policy direction and policy implementation plan.
2. The DGBAS, in accordance with the annual policy direction, issues guidelines and instructions for budget preparation and budget compilation for the new fiscal year and conducts mid-term budget forecasting. It also establishes an expenditure quota for ministries, infrastructure programs, and national science and technology programs. The top-down approach of setting expenditure caps has had a positive impact on coping with fiscal pressures.
3. In accordance with these policy directions and expenditure quota, each agency will prepare its own budget estimates. The MOF reviews the budget estimates for annual revenues. The CEPD, the National Science Council, and the Research, Development, and Evaluation

Commission (RDEC) are responsible for reviewing the budget estimates of infrastructure programs, national science and technology programs, and social development programs, respectively, and the DGBAS reviews all remaining spending programs. After the review process, the DGBAS compiles a general budget proposal of the central government and sends it to parliament for approval.

2. Assessing Fiscal Transparency and Accountability

2.1 Open budget processes

1. Budget preparation and approval timetable

Each fiscal year begins on 1 January and ends on 31 December. According to the Budget Act, the general budget proposal of the central government, the subordinate unit budget, and its consolidated table are, after a decision is made by the Executive Council of the cabinet, turned over to the DGBAS for compilation and submitted by the cabinet to parliament for its review four months prior to the beginning of the fiscal year (i.e., before the end of August). Every year, the cabinet follows a preset schedule to conduct the tasks; for example, the Executive Council of the cabinet approved the 2013 general budget proposal of the central government on 23 August 2012, and submitted it to parliament on 31 August 2012.

The Budget Act prescribes that the general budget proposal is to be approved by parliament one month prior to the start of a new fiscal year; that is, before 1 December. Therefore, parliament has three months to review and pass the general budget proposal. (Appendix 1 provides a timetable for the budget preparation and approval.)

2. Procedures for budget execution, monitoring, and reporting

After the budget proposal undergoes the legislative process and is signed into a legal budget by Chinese Taipei's Leader, each agency is required to formulate a distribution budget, in which its annual expenditure is divided into a monthly execution plan, and forward it to the DGBAS, the MOF, and the NAO. The DGBAS thus closely monitors each agency's expenditures against its distribution budget throughout the fiscal year. During the budget execution stage, agencies are required to implement the enacted budget in accordance with the Budget Act and various internal control regulations.

At the end of each month, quarter, semi-annual, and fiscal year, each agency must prepare monthly, quarterly, and semi-annual balance statements, and an annual financial statement. The agencies are required to forward these financial statements to its supervising ministry, the DGBAS, the MOF, and the NAO, and must also release them on the agencies' websites.

After receipt of the final account of the financial statement submitted by the cabinet, the Auditor General of the Control Yuan is obligated to complete the audit of general financial statements and submit an audit report to parliament within three months.

3. Mid-term budgeting framework

To allow agencies to extend budgetary decision-making beyond the annual fiscal calendar and improve the link between national development strategies and planning and budgeting, the central government launched the Medium-Term Budget Planning System (MTBPS) in 2001 (see Appendix 2 for more details). The MTBPS requires each agency to develop the following: (1) a four-year strategic plan that includes a mission statement of the agency and sets its long-term goals and objectives; (2) annual performance plans that provide annual performance commitments towards achieving the goals and objectives presented in the strategic plan; and (3) annual performance reports that evaluate the agency's progress towards achieving performance commitments. The requirements are clearly aimed to forge links among strategic planning, budget allocation, and performance evaluation, thus enabling each agency to successfully integrate the yearly budget cycle with a longer term view of macroeconomic situations and a fiscal policy framework.

4. Agencies responsible for economic assumptions

The DGBAS is responsible for making economic assumptions that underlie the fiscal estimates. It also makes projections on government expenditures, whereas the MOF makes forecasts for public receipts. Both the DGBAS and the MOF regularly update and issue the economic predictions and fiscal estimates of public expenditure and revenue.

2.2 Public Availability of Fiscal Information

1. Fiscal reports published on a regular basis

(1) The fiscal reports that the DGBAS compiles every year are as follows: (i) the general budget proposal of the central government and the subordinate unit budget and its consolidated tables, which are published four months before the beginning of the fiscal year; (ii) the legal budget of the central government and the subordinate unit budget and its consolidated tables, which are published after the final budget is approved by parliament and is signed by Chinese Taipei's Leader; (iii) the half-year financial statements of the central government; and (iv) the final account of annual revenues and expenditures.

These fiscal reports compiled by the DGBAS are all published and provided for free on the official DGBAS website on a regular basis. In addition, every government agency compiles its own monthly and quarterly fiscal reports and sends them to the DGBAS. Certain agencies also present these reports on their websites.

(2) The public debt information regularly published on the website by the MOF is as follows:

a. Disclosures of all levels of government debt

The MOF compiles public debt tables, including the long-term and short-term self-redeeming and non-self-redeeming debts of ordinary funds and non-operating special funds of all levels of government. It also posts the preliminary accounts of these tables on the website of the National Treasury Administration in June, and later the final accounts in December, which fully disclose the compliance status of all levels of government according to the definitions set in the Public Debt Act. To provide comprehensive and updated information for the public, the MOF also releases monthly debt statistics of the central and local governments each month. These measures are used to enhance the transparency of government debt and to improve the soundness of finance at the local government level.

b. National Debt Clock

The MOF established the "National Debt Clock" in December 2010, which includes data of the central government's long-term and short-term outstanding debts and the per capita debt burden. The MOF also started a webpage entitled "the Latest National Debt Information" in June 2012, which includes 14 debt items such as the central government's outstanding debt as a percentage of GDP, the issuance of bonds and treasury bills, short-term and long-term loans, and principal and interest payments.

c. Local Debt Clock

The MOF has coordinated with special municipalities and county and city governments to release debt information on the websites of all levels of government on the 10th of each month since July 2012. The information includes the balance of short-term, long-term, and self-redeeming public debt of the previous month, as well as the debt burden of each person. The National Treasury Administration also started a webpage of the "Latest Local Debt Clock" in 2012, showing the fiscal position of local governments.

The MOF released information on the status of the local government's debt burden according to the tenure of each mayor or magistrate for 2004-2012, which may be helpful in clarifying the ascriptions of the financial responsibilities for local governments and in strengthening the link between transparency and accountability.

(3) The “Government Finance Annual Reports” and “Guide to ROC Taxes” are published yearly, which are downloadable for free from the Taxation Administration website of the MOF. The “Monthly Statistics of Finance” and the “Yearbook of Financial Statistics” are published monthly and yearly. Users may download all of the statistical data from the MOF website.

(4) According to Basic Law and the Financial Statement Act, the NAO prepares and publishes the “Annual Audit Reports” and the “Semi-annual Review Reports” every year and submits these reports to parliament. All of the audit reports are downloadable from the NAO website.

2. Presentation and classification of fiscal data

According to the Budget Act, annual revenues and expenditures, the issuance of debt, the use of the budget surplus from the previous fiscal year, and the debt repayment of the government must be compiled in the annual budget. Therefore, the fiscal data related to the compilation and implementation of the budget of the central government are reported on a gross basis, distinguishing revenue, expenditures, and financing (including debt raising, debt repayment, and use of the surplus from the previous fiscal year).

The Budget Act also requires public expenditures in the budget documentation to be classified by organizational (i.e., agency), functional, and fund categories. Public expenditures are further classified according to program nature and economies to be commensurate with the International Monetary Fund’s economic grouping and in support of the newly introduced civil accounting government ledger classification. The information is presented in an accompanying table of the general budget proposal.

3. Government revenues included in the budget

According to the Budget Act, the central government’s annual receipts are to be classified and compiled according to the revenue source. The DGBAS of the cabinet thus sets detailed guidelines for compiling the annual revenue according to the revenue source. They total 11 accounts and 35 sub-accounts of public revenues specified in the Act Governing the Allocation of Government Revenues and Expenditures. Consequently, government receipts from all revenue sources are separately identified and included in the annual budget presentation. Public revenues from resource-related activities and foreign assistance are not exempt.

4. Information on government’s financial position

Annual revenues and expenditures, debt-raising, the use of the budget surplus from the previous fiscal year, and debt repayment of the government must all be compiled in the yearly budget. At the end of the fiscal year, the government must present the final account of the annual budget, which reports information on national assets, liabilities, and the outcome of expenditure programs implemented throughout the year. The government also presents the balance sheet composed of current assets, current liabilities, and the difference between current assets and liabilities. Information on long-term investments and liabilities is disclosed in its entirety in the “Government Investments Table” and “Long-term Liabilities Table.”

In addition to information on the financial position published in the budget book and final account, the MOF and local governments also publish related debt information on their websites every month. Information such as outstanding public debt extending more than one year, short-term loans, and public debt per capita until the end of the last month is disclosed on the webpage. The public can check the information on the website of the National Treasury of the MOF, through which they can connect to the local government websites.

5. Entities included in the budget documentation

The cabinet is obligated to submit the general budget of the central government and the subsidiary agencies’ budget and summation tables to parliament for review each year. The subsidiary agencies’ budget includes state-owned enterprise funds, debt service funds, operation funds, special revenue funds, and capital project funds. Therefore, the finances of state-owned enterprises are also reported in the budget documentation.

Although the general budget of the central government does not include detailed budgetary information on local governments, the annual revenue and expenditure of governments at all levels is briefly described in the budgetary statement of the general budget.

6. Specific disclosures contained in fiscal reports

According to the definition of the “Government Finance Statistics Manual 2001” published by the International Monetary Fund, government debt does not include the liabilities of state-owned enterprises and social insurance payments. However, Chinese Taipei discloses the government debts and contingent liabilities of the previous years at all levels of government in the documentation of the general budget, based on the actuarial valuation of the social security system, to actively respond to public inquiries and considerations. In addition, the official statistics on national wealth, the Green National Income Account, and reports on tax expenditure and transfer payments are described in the budgetary statement.

The MOF posted a link to the webpage of the DGBAS and released data on the implicit contingent liabilities of all levels of government in November 2012. It discloses the overall debt status of the government to facilitate public supervision and enhance the performance of government financial operations.

7. Performance information of expenditure programs

Each agency is required to describe the results of its major policy programs and evaluate its progress towards achieving its performance commitment in the final account of annual revenues and expenditures. The final account is open to the public and submitted to parliament for review. In the meantime, the NAO of the Control Yuan conducts performance audits on the final account and prepares an audit report for parliament.

2.3 Assurance of Integrity and Accountability

1. Government accounting standards adopted

The current government accounting system, except for cashiering the activities of the treasury, uses an accrual basis according to the Accounting Act. To maintain consistency in the practice of accounting activities and financial report compilation, the DGBAS also established the “Directives for the General Government Accounting System” and the “General Accounting System for the Central Government” as guidance.

The governmental accounting system in place is in accordance with the spirit of International Public Sector Accounting Standards (IPSAS). By adopting IPSAS and using other developed countries’ practical experiences as a reference, Chinese Taipei aims to continually develop and modify government accounting standards to enhance the financial reporting quality in the near future.

2. Revisions to historical fiscal data

During the preparation and review stages of the general budget proposal, the DGBAS provides relevant historical fiscal data as reference material. If a major revision to the historical data or change to data classification occurs, explanations are specified and disclosed in the related budget documentation.

3. Internal audit

Previously, our government agencies performed internal audits according to separate functional divisions, including policy evaluation, personnel evaluation, ethics audits, procurement audits, administration management checks, information system audits, and internal financial reviews. To improve the effectiveness of internal audits, each agency has recently been strongly recommended to establish an internal audit division or task force, which should integrate these functions and dispatch core personnel or high-risk business divisions to perform the audit.

4. Supreme auditing institution

(1) According to the Audit Act, auditing is exercised by audit agencies. All central and local government audit agencies are under the jurisdiction of the NAO. The NAO is currently responsible for conducting audits to oversee the financial activities of the central government, whereas local audit agencies are responsible for auditing local governments. Each audit division and audit office, supervised by the NAO, should exercise the auditing duties in accordance with the Audit Act and related regulations.

(2) The five separate powers of the central government of Chinese Taipei are enabled by its five branches (also known as the five Yuans). According to basic law, the ability to audit, censure, and impeach are subject to the control powers. In accordance with the Control Act and the Audit Act, audit agencies exclusively conduct government audits.

(3) According to Article 105 of Basic Law, the Auditor General is to, within three months of receiving the Annual Financial Statements of the Central Government from the cabinet, complete the audits and submit the Annual Audit Reports to parliament. The auditing process of each municipal and county government is subject to the same conditions. Each local audit agency head must submit the audit report to the city or county council for review.

(4) The NAO requires the government agency to conduct follow-up actions or excise the follow-up audit to ensure that the government agency adopts the audit recommendations.

5. Independent assessment of economic forecasts

The DGBAS regularly updates economic forecasts that underlie the annual budget. The economic forecasts made in March for the cabinet's statement on administrative policies are prepared for internal use only, and are not reviewed by outside experts, whereas forecasts prepared in August are reviewed by a formal committee comprising independent experts, economists, and senior government officials before release.

6. Public understanding of the budget

To actively promote public participation in the budget process and supervision of budget outcomes, the government has released substantially more fiscal data and budget documentation on the DGBAS, MOF, and NAO websites than released previously. The public can now download and review fiscal data from the official websites for free. In addition to increasing the amount of information disclosed, the quality of the information (including reliability and readability) has improved steadily as well. Furthermore, if citizens have further questions regarding budgetary decisions or outcomes, they can always make inquiries and obtain responses through the Minister Mailbox of the DGBAS (or the MOF and the NAO) on the websites.

Parliament, which revises and approves the budget, has recently contributed considerably to the public's understanding of the budget process by establishing a "video on demand multimedia system." This multimedia system allows citizens to track the progress of plenary sessions and committee meetings held in parliament through the internet. This reduces the costs of acquiring fiscal information and is helpful in improving the public understanding of the governmental budget.

3. Challenges and Priorities for Future Reform

In recent years, the government has devoted substantial effort to enhancing fiscal transparency and accountability. The major developments are briefly summarized as follows:

First, in accordance with the Freedom of Government Information Law, information on the budget and general financial statements have been actively made available to the public, except for classified information, which is restricted from disclosure. Specifically, various forms of fiscal information are available free of charge on the DGBAS website immediately after the cabinet submits the general budget proposal and the subordinate unit budget proposal of the central government to parliament for approval, and afterward, parliament completes this review. In

addition, the budget and financial statement information of every agency is also available to the public on the agency's website.

To enable the public to gain better access to each agency's fiscal information, the DGBAS has aimed to start a new website characterized by the features of budget transparency 2.0. The new website will integrate and provide comprehensive fiscal information that allows citizens to search and compare government expenditures across different agencies. Moreover, the website is designed to be easy to use and searchable, enabling the public to obtain relevant fiscal data with a single query or browse information quickly.

Second, because the public debt issue has become a major concern for policymakers and the public, the government is working hard to improve the comprehensiveness and reliability of public debt information. For instance, the MOF presents and updates debt information (including long-term, short-term, self-redeeming, and non-self-redeeming information) on general funds and nonoperational funds for each government level on its website every June and December. The MOF also presents information regularly on whether every local government and the central government follow the debt caps stipulated in the Public Debt Act.

In addition, although governmental and nongovernmental potential debts are not included and regulated in the debt caps cited in the Public Debt Act, potential debt information has been presented separately in the general information section of the general budget proposal and financial statement of the central government to increase the comprehensiveness of fiscal data in recent years.

In the future, the MOF and the DGBAS will exert more effort to improve methodologies and techniques in the calculation and projection of contingent liabilities, potential debt, and tax expenditures, and make them more readable and understandable to the public.

Third, to provide better performance information on expenditure programs to correct information asymmetry between the government and the public, the NAO has followed the international trend of incorporating customer-oriented audit services into the development of audit works in recent years. It actively promotes performance audits and enhances audit methodologies and skills to perform outstanding audit services.

In 2012, the International Organization of Supreme Audit Institutions advocated that the value and benefits of supreme audit institutions are derived from "making a difference to the lives of citizens." The three objectives are "strengthening the accountability, integrity, and transparency of government and public entities," "demonstrating ongoing relevance to citizens and other stakeholders," and "being model organizations through leading by example." The NAO is thus determined to uphold these beliefs, adhere to its core values of "independence, integrity, professionalism, and innovation," continue its endeavor in reforming the audit system, and create the greatest audit values, with the ultimate goal of promoting the administrative performance and integrity of the government.

Lastly, in addition to the progress made by the executive branch and the NAO of the Control Yuan, parliament has also contributed substantially to fiscal transparency. It recently established a "video on demand multimedia system," which allows the public to watch the progress of plenary sessions and committee meetings in parliament online. This makes the budget deliberation process more transparent to society and also familiarizes the public with the budgetary decision-making process, thus enabling further public participation and civic engagement.

In summary, Chinese Taipei has made substantial progress in improving fiscal transparency in recent decades and regarding fiscal transparency as an inseparable feature of public accountability. The continuing effort to make fiscal information more comprehensive, more reliable, and more readable to the public will remain the top priority for future reform, to promote fiscal transparency and public accountability.

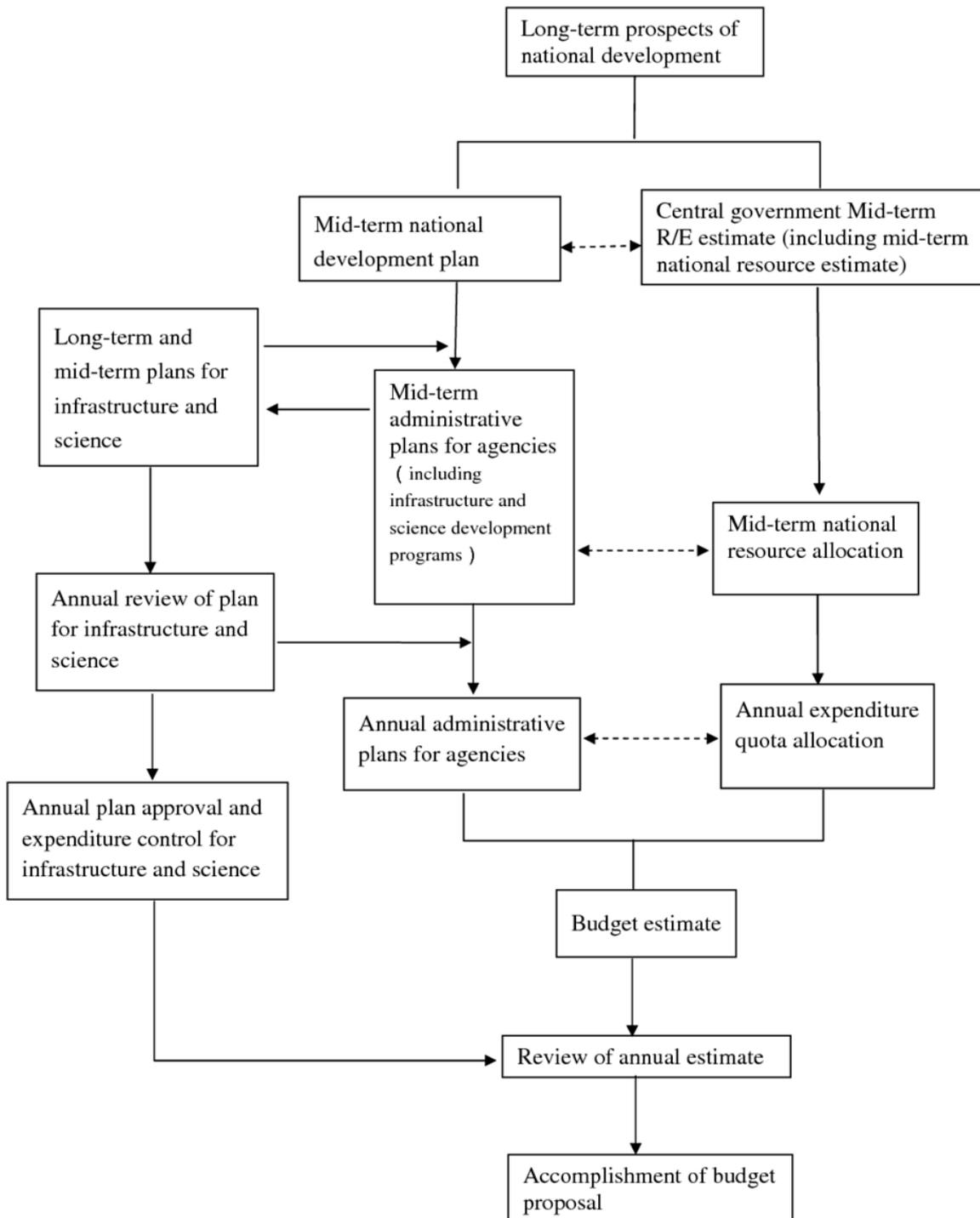
4. Resource Bibliography

Resource	Website
<p>Directorate-General of Budget, Accounting, and Statistics (DGBAS) of the cabinet</p> <p>Detailed information on public budgets, public accounting, budget execution, and final accounting, and related national statistics.</p> <p>(1) Public budgets: providing the central government's general fund and special fund budget information for 1994-2013.</p> <p>a) The central government's general fund budget information contains a summary of the general budget and major appendices, annual expenditures by agency and by function, public revenues by resource, and others.</p> <p>b) The central government's special funding budget (the subsidiary agencies budget) information covers state-owned enterprises and non-profit special funds, including debt service funds, operation funds, special revenue funds, and capital project funds. The state-owned enterprises sub-section contains a statement on budget preparation, a primary content and a comprehensive analysis of the budget. The non-profit special funds subsection presents a discussion on the fund objectives, the principles of budget preparation, and the primary content, review, and improvement of the budget system.</p> <p>(2) Public accounting: introducing the government accounting system, internal control and review, accounting bulletin, and local government accounting reports.</p> <p>(3) Budget execution and final accounting: publishing the central government's semi-annual balance statement from 2004 to 2012 and the General Financial Statements from 1994 to 2012.</p> <p>(4) National statistics: providing national statistics such as key economic and social indicators, economic growth, and the national account, fiscal indicators, and others</p>	<p>http://eng.dgbas.gov.tw/mp.asp?mp=2</p>
<p>National Treasury of the Ministry of Finance</p> <ul style="list-style-type: none"> - Financial statistics of revenues and expenditures of the central government and government debt situations at all level 	<p>http://www.nta.gov.tw/en/index.asp</p>
<p>National Treasury Administration</p> <ul style="list-style-type: none"> - Annual reports 	<p>http://www.nta.gov.tw/web/Announce/listAnnounceEng.aspx?c0=318</p>
<p>Tax Administration of the Ministry of Finance</p>	<p>http://www.dot.gov.tw/en/</p>
<p>National Audit Office's</p> <ul style="list-style-type: none"> - Information on audit reports 	<p>http://www.audit.gov.tw/bin/home.php?Lang=en.</p>
<p>Video on demand system of parliament (Chinese version only)</p>	<p>http://ivod.ly.gov.tw/</p>

Appendix 1: Preparation and Approval of General Budget for Fiscal Year t+1

Approximate Time	Main Task
Year t-1	
September to December	<ul style="list-style-type: none"> • The cabinet approves expenditure quota for agency's medium-term (i.e. four years beyond) budget estimate. • Each agency sets its mid-term administrative plan in accordance with the approved expenditure quota.
Year t	
January to April	<ul style="list-style-type: none"> • The cabinet sets annual policy priorities for fiscal year t+1. • The cabinet issues the instructions on preparation of new budget proposal.
April to May	<ul style="list-style-type: none"> • Each agency prepares its Budget Estimates for annual revenues and annual expenditures.
May to August	<ul style="list-style-type: none"> • The cabinet approves the agency's Budget Estimate for the next year. • Each agency completes its Budget Proposal for the next year in accordance with the approved Budget Estimate.
July to August	<ul style="list-style-type: none"> • Report to Chinese Taipei's Leader to confirm the total amount of annual expenditures and revenues for the new fiscal year. • DGBAS of the cabinet compiles the General Budget Proposal of the Central Government. • The cabinet submits the General Budget Proposal to the parliament by the end of August.
September to December (budget approval stage)	<ul style="list-style-type: none"> • The Premier, Head of DGBAS, and Minister of Finance report to the parliament on the preparation of General Budget Proposal. • The parliament is expected to approve the General Budget Draft by the 1 December. • Chinese Taipei's Leader signs and promulgates the General Budget.

Appendix 2: The Mid-term Budget Planning System (MTBPS)



Thailand

Developments in Promoting Fiscal Transparency and Public Accountability

1. Fiscal Institutions of the Central Government

Thailand is a Constitutional Monarchy. There are 76 provincial administrative organizations plus one special-administrative city, Bangkok, includes 7,255 Tambon administrative organizations; and 878 municipalities. Both central and local government administrations are publically financed. General government expenditure in Thailand comprises of:

1. Central Government (CG) Units: Ministries; Central Fund; Independent Public Agencies; Independent Public Bodies; Extra Budget Funds; and Grants to SOEs
2. Local Government Authorities: Bangkok; Pattaya; Provinces; Tambons; and municipalities.

1.1 Annual Budget Process

The annual Thai budget process starts with the revised budget in October-January, planning for the ceiling and circular in February-March, then the preparation of draft budget in April-May for budget adoption in June-September, and finally budget execution, all in accordance with the 1959 Budget Procedure Act. The table below shows the budget calendar with the due dates, activities, the agencies responsible, and legal basis.

Budget Calendar

Due Date	Activities	Agencies	Legal Basis
Mid-Oct	Budget Calendar Approved	Cabinet	Budget Procedure Act
Oct-Nov	Review the past year's budget execution, multi-year baseline assessment, review of multi-year commitments	The Bureau of the Budget (BoB) and agencies	
Nov-Dec	Preparation of the medium-term macro fiscal framework	Fiscal Policy Office (FPO), Bank of Thailand (BoT), National Economic and Social Development Board (NESDB) and BoB	
Oct-Jan	Four-year and annual operating plans, consistent with the four-year Government Administrative plans are submitted	Ministries and agencies	Royal Decree on Criteria and Procedure for Good Governance
End-Dec	The approval of macro-fiscal framework, strategic direction of budget, baseline expenditure and multi-year budget commitments	Cabinet	

Due Date	Activities	Agencies	Legal Basis
Early-Jan	Issuance of Budget Circular	the BoB	Budget Procedure Act
Jan to Mid-Feb	The Budget Requests with out-year projections for three years together with their estimation of their own revenue	Ministries and agencies	Budget Procedure Act
Mid-Feb to Mar	Budget preparation for the Cabinet's consideration	the BoB	Budget Procedure Act
Apr to May	Deliberation of Draft Budget to the Cabinet for approval	the BoB and Cabinet	
June to Mid-Aug	1. First reading of the Draft Budget 2. Budget scrutinized by Budget scrutiny committees	1. House of Representatives 2. Delicates of Cabinet and House of Representatives	Constitution
Mid-Aug to early Sept	1. Second and third reading of Draft Budget 2. Final review and approval of Draft Budget	1. House of Representatives Delicates of Cabinet 2. the Senate	Constitution
Mid-Sept	Enactment by the King	Thai National Assembly	Constitution

Note: The main players are the BoB, Cabinet, and agencies in the budgeting system. After mid-September, the budget execution needs the permission of the BoB then disbursement can start through the Government Financial Management Information System (GFMS), undertaken by the Comptroller General's Department (CGD). Monitoring and evaluation reports are usually undertaken alongside the budget circular. Monitoring and evaluation of budget expenditures are measured either by the BoB or self-assessment. In this way, budgeting is a continuous process.

The Budget Procedures Act 1959, the main budget law, together with several Budget Procedures Regulations are applied for all budgeting process: formulation; adoption; and execution. In addition, there is the 1992 Public Private Participation Act for large public investment projects that involve private sector.

Since 1999, the government of Thailand has undertaken wide ranging public financial management reform, including the Performance Based Budgeting System (PBB) in 2002²⁹ and then in 2003, the Good Governance Decree which specifies Thai Public Finance Transparency and Accountability. Since 2008, the Thai government requires all agencies submit a risk feasibility study on large projects with budget requests. The biggest change was ushered in by the 2007 Thai Constitution, which now specifies the allocation of budget process responsibilities to the legislature and executive. This has enhanced effective and transparent public financial management through a number of explicit requirements:³⁰

1. An overview of the macroeconomic economic situation, to be attached to the budget
2. A statement of objectives for expenditure items
3. The total amount of contingency funds

²⁹ It was adjusted to Strategic Performance Based Budgeting (SPBB) in 2006.

³⁰ IMF (2009) p. 9

4. A listing of tax exemptions and their fiscal impact in the budget
5. The financial status of SOEs
6. Budget plans to be presented for the medium term
7. Parliament is not allowed to submit amendments to the Budget Bill that increase overall expenditure
8. All expenditure to be mandated by the budget or by supplementary budgets. The only exception is urgent expenditure as defined by the new Financial Management Law. Even in such cases, any use of the Treasury Reserve needs to be specified and included in the following year's budget.

All the above regulations and principles are adopted by Thailand's four main financial institutions: the Bank of Thailand; the Ministry of Finance; National Economics and Social Development Board (NESDB); and Budget Bureau. Additionally, the Office of the Public Sector Development Commission (OPDC) requires all agencies to submit performance reports in respect of these regulations.

Thai government's financial statement has been on an accrual basis since 2005. The accounting system incorporates part of the International Public Sector Accounting Standards (IPSAS) and is in the process of full adoption applied across all government agencies and local authorities in Thailand. Major revisions to historical data and any changes to data must be reported and explained in the published budget documentation. The government always promotes public understanding of the budget process and budget outcomes. The Office of the Auditor General of Thailand, an independent commission, audits all government activities and finances.

2. Assessing Fiscal Transparency and Accountability

2.1 Open Budget Process

- *Does the budget preparation follow an established timetable? How much time does the Legislature have to review the draft budget?*

The budget process is regulated by the established timetable approved by the cabinet as shown in the Budget Calendar table (see above). The Constitution requires that the House of Representatives and the Senate review the draft budget within 105 days and 20 days, respectively.

- *What procedures are in place for budget execution, monitoring, and reporting?*

Thailand has adopted a Performance Based Budgeting System since 2002. Therein, procedures are in place to assess all aspects of the budget process on a performance basis. The key performance indicators used are always made available to the public in order to ensure the outputs and outcomes are transparent.

- *How is budget preparation aligned with fiscal and other strategic objectives? Is the annual budget based on a longer-term (more than one year) macroeconomic and fiscal policy framework?*

The budget preparation is required to be consistent with the Annual Budget Allocation Strategy approved by the cabinet. In addition, the Good Governance Decree (2003) does not permit fund allocation inconsistent with either the Medium-term Government Administration Plan or the Annual Government Action Plan. The principal economic assumptions and fiscal targets in the Enacted Budget are derived from the medium-term macroeconomic and fiscal policy framework (i.e., Fiscal Sustainability Framework and Deficit Reduction Initiatives).

- *Which agencies are responsible for the economic assumptions underlying the budget and the fiscal estimates respectively? Are all key economic assumptions disclosed explicitly?*

In preparing total budget ceiling, four agencies, namely, the National Economic and Social Development Board, the Bank of Thailand, Ministry of Finance and the Budget Bureau, must develop and agree upon the main economic assumptions and underlying trends. Subsequently, these estimates are included in the Executive's Budget Proposal and disclosed to the general public in the media.

2.2 Public Availability of Fiscal Information

- *What kinds of fiscal reports are published on a regular basis and at what frequency? Are they free of charge and downloadable from the web?*

Five relevant fiscal reports are published on regular basis (as shown in the following table). The executive's budget proposal is presented to the House of Representatives before the first reading of the draft budget. The enacted budget document is released to the public after the King enacts the draft budget as a law. Current year and the year-end reports are regularly published and presented online via the BoB website.

Available Fiscal Reports in Thailand

Document	Description of Document	Availability/Frequency
Executive's Budget Proposal	Presentation of government plans to raise revenues, through taxes and other sources, and spend these monies to support its priorities; transforming policy goals into action.	Information available from www.bb.go.th under Budget Preparation Category
Enacted Budget Document	The legal instrument authorizing the executive to make expenditures.	Information available from http://www.bb.go.th/budget_book/e-Book2556/
Citizens' budget	A nontechnical fiscal presentation: to facilitate public understanding of the government's spending plans in relation to policy goals.	Information available from www.bb.go.th under People's Watch Category
Mid-year Report	Periodic measurement of the trends in actual revenues, expenditures, and debt, which allow for comparisons with the budget figures, and adjustments.	Actual revenues, expenditures and debt are reported monthly. Information downloadable from: <ol style="list-style-type: none"> 1. http://www.mof.go.th/home/dwfoc22.html 2. http://www.pdmo.go.th/en/index.php 3. http://www.fpo.go.th/4.www.bb.go.th
Year-End Performance Report	Information comparing the actual budget execution relative to the Enacted Budget.	Information available from http://www.bb.go.th/bbhome/

- *Is the fiscal data reported on a gross basis, distinguishing revenue, expenditure, and financing? Is expenditure classified by economic, functional, or administrative category?*

The data is reported on a gross basis and is classified in many dimensions, including economic, functional, area, GFS, and other administrative categories, examples of which can be found in the Thailand's Budget In Brief Document.

- *Are government receipts from all revenue sources, including resource-related activities and foreign assistance, separately identified in the annual budget presentation?*

Government receipts from all revenue sources (resource-related activities) are presented in Budget Document No. 2. These include taxes, sales of assets and services, income from state enterprises, and miscellaneous income (i.e., stamp duties and fines). Foreign financial assistance is presented in Budget Document No. 5.

- *What information on the financial position of the government do you publish? Is the information on the level and composition of public debt and financial assets published?*

The financial position of the government is presented in Budget Document No. 5. The information includes Statements of Changes in Cash Balance, Statements of Income, Debt and Loan Guarantee, and Tax Expenditures. The document also includes financial statements (i.e., statements of cash flows and financial position) for each state-owned enterprise, revolving fund and other government subsidiary.

*Note: detailed information on public debt financial assets is published by CGD.

- *What entities are included in the budget documentation? Do you report the fiscal position of local governments and the finances of state-owned enterprises in the budget documentation?*

The budget documents mainly report on entities at the central government level. However, the fiscal positions of the state-owned enterprises are reported in Budget Document No. 5. In addition, complete and detailed information on financial subsidies provided to local government are reported in Budget Document No. 3.

- *Do you publish information about significant tax expenditures,³¹ contingent liabilities,³² employee pension liabilities, and quasi-fiscal activities? Do you include an assessment of primary fiscal risks or fiscal sustainability in the budget documents?*

Tax expenditures are published in Budget Document No. 5. Contingent liabilities, quasi-fiscal activities, and issues on fiscal risks and sustainability are presented in specific reports made by the MOF on a regular basis. For example, the Fiscal Risk Statement can be downloaded from the FPO website.³³

- *Do you include performance information of major expenditure programs in the fiscal reports? Are they submitted to the Legislature?*

Thailand has adopted a performance budgeting system since 2002. The Enacted Budget Document reports performance information of all expenditure programs. A year-end performance report is also required by law to be submitted to the Legislature.

³¹ Tax expenditure refers to revenue foregone as a result of selective provisions of tax code. Common examples include 1) deduction, exclusion, or exemption from the taxpayers' taxable expenditure, income, or investment; 2) deferral of tax liabilities; and 3) preferential tax rate.

³² Contingent liabilities are liabilities that may or may not occur, depending on development of future events. Common examples consist of government loan guarantees, government insurance programs, and legal claims against government.

³³ <http://www.fpo.go.th/FPO/modules/Content/getfile.php?contentfileID=2942>. *Note: consult FPO for more details.

2.3 Assurance of Integrity and Accountability

- *Are the government's financial statements prepared on an accrual or cash basis?*

Presently, the government prepares financial statements on a modified accrual basis. Revenues and expenses in the financial statements mainly represent revenues collected by government agencies, which are paid to the treasury account, and expenditures from budget appropriations, respectively. Moreover, the accrual based revenues and expenses arising from government debts and investments are included in the government's financial statements. The government's financial position is not presented on accrual basis. However, it does represent the major items of government's financial situation including loans, lending, investments, and land.

- *What accounting standards are used to govern the preparation of the government's financial statements?*

Thailand does not use a particular accounting standard as a basis for the preparation of the government's financial statements. The government has developed a process internally, with consent from the cabinet, for the preparation of the government's financial statements.

- *Has your economy adopted International Public Sector Accounting Standards (IPSAS)? If so, have IPSAS been adopted in part or in full? How long have you used these standards? What are the advantages and /or challenges?*

Public sector standards are moving towards the adoption of IPSAS, where appropriate. Due to the restrictions imposed by the current fiscal regulations and other circumstances, a number of IPSAS requirements present challenges and remain unresolved in practice. Generally, Thailand has adopted elements of IPSAS and necessary deviations from IPSAS are summarized at the back of the Standards. IPSAS has been used as a reference for developing public sector accounting standards in Thailand since 2011; the key advantages and challenges of using IPSAS are as follows:

Advantages

1. IPSAS is globally accepted as a source of standards for governments. The standards resemble IFRS and are customized to be appropriate for the public sector. With reference to IPSAS, Thailand can raise standards up to an international level and also speed up the lengthy process of standards development.
2. In addition to those aspects that are comparable with IFRS, IPSAS contains some standards that have been developed specifically to address accounting practice issues that do not arise in the private sector.

Challenges

1. Ensuring the practicality of IPSAS-based world-class standards, the context of the Thai situation and budgetary process.
2. Another challenge is to build up the capacity and capability of accounting staff to catch up with the continuing development of IPSAS.
3. A critical challenge is the difficulty of using IPSAS-based standards. These invariably, require much greater effort and resources vis-à-vis traditional financial management, which relies on cash-based information.

- *Are major revisions to historical fiscal data and changes to data classification explained in the budget documentation?*

Normally, only the finalized fiscal data is published at a summary level in the budget report. No major revision to historical fiscal data is presented in the budget documentation. Even though changes to data classification are made from time to time, no explanation is provided

in the budget paper where prior year's data is presented for comparative purpose. However, comparative figures are shown primarily at a summary level so revision may not affect the outcome.

- *Are government' activities and finances internally audited? If yes, is it audited by an independent audit commission?*

Government's activities and finances are internally audited. Internal auditors are employees of every government department. They are not independent staff although they report audit results directly to the head of department. Additionally, an independent audit commission, at the ministry and regional levels, exists. The commission reports its audit findings and recommendations to the Public Sector Audit and Evaluation Commission, which submits a summary report to the cabinet meeting for further consideration.

- *Are public finances and policies subject to scrutiny by an audit body, i.e., Supreme Auditing Institution (SAI)/an independent audit commission? Is this institution independent of the executive branch? Is it required to submit all auditing reports to the legislature for review? Do you have mechanism ensuring follow-up actions being taken by agencies?*

Public finances and policies are scrutinized by the Office of Auditor General (OAG). OAG is independent of the executive branch and reports directly to the parliament. OAG usually informs the permanent secretary of the ministry if audit findings from an audit of a government department warrant attention. Moreover, at the beginning of OAG's normal course of audit, the prior year's audit recommendations are reviewed for follow-up action.

- *Is there any independent expert or institution involved in the assessment of economic forecasts that underlie the budget?*

There is no independent expert or institution involved in the assessment of economic forecasts that underlie the budget. However, a panel of responsible officers from various public entities discuss the most reliable economic forecasts and to reach a consensus before the draft budget is formalized, including revenue projection and estimated budget expenditures. The panel consists of representatives from Budget Bureau, Fiscal Policy Office, Revenue Department, Bank of Thailand, and the National Economic and Social Development Board.

- *Does the government actively promote public understanding of the budget process and budget outcomes? How are citizens engaged during the budget process?*

The budget process and outcomes are viewed as government business. The government does not directly promote public understanding of them although a parliament meeting to consider a draft of the Annual Budget Bill is allowed to be broadcasted throughout the nation. Normally, Thai citizens do not take part in the budget process.

3. Challenges and Priorities for Future Reform

Thailand already meets several requirements of the IMF Manual on Fiscal Transparency (2007).³⁴ The degree of budget process transparency is evidenced by the number of published documents on budgeting: Executive's Budget Proposal; Enacted Budget Documents; In-Year Reports; and Year-end Performance Reports. Non-technical Citizens Budget documents are presented via the website: www.bb.go.th. The budgeting process has become more open and more people have learned about government budgeting from the media, official reports, and via the internet. For example, the first, second and the third readings of the Draft Budget are broadcast on the public television channel.

³⁴ <http://www.imf.org/external/np/fad/trans/manual/>

Nonetheless, some problems of credibility in budget implementation exist³⁵ reflecting budget formulation weaknesses. Inevitably, there are a significant number of budget carry-overs year after year. There are budget reallocations in almost all agencies as well. There is also a mismatch of information, e.g., revenue expectation versus the realized budget expenditure, and the budget preparation versus the actual demand, and so on.

Moreover, the macroeconomic assumptions underlying the budget adjusted quarterly—but not the budget framework. Last but not least, much budget expenditure is not reported in proper detail. For example, the disbursement of the local government and the autonomous agencies budget outturns are not published.

Acknowledging these weaknesses in the budgeting process, several initiatives are planned for the coming years:

1. With respect to the transparency of budget processes:
 - 1.1 The BoB will continue to produce a variety of reports on budget expenditure performance, to be posted on the internet. Unfortunately, rural people with the poor internet access might still be disadvantaged.
 - 1.2 Several mid-year reports are being developed by BoB in cooperation with the MoF, notably the budget figures and adjustments for comparisons with the fiscal outturns.
 - 1.3 Within a few years, the presentation of the regulatory approach in comparison with the framework will be improved, in respect of oversight and reporting of the extra-budgetary funds.
2. To make fiscal information more available to the public, all government interaction with the private sector will be conducted in a more open manner.
 - 2.1 Currently, the PPP Act of 1992 (Public Private Partnerships) is being revised to provide: clearer definition of partnerships; fiscal discipline awareness; conflict of interests among the committees; the PPP strategic plan presentation, etc.
 - 2.2 The data exchanged on GFMS is being developed between the BoB and CGD. Some reports are published via internet.
3. To assure the integrity and accountability in Thailand, this is CGD's responsibility.

4. Resources Bibliography

Resource	Website
IMF (2007) the IMF Manual on Fiscal Transparency	http:// www.imf.org/external/np/fad/trans/ manual/
Ministry of Finance	www.mof.go.th
OECD (2010) the OECD working paper on Improving Budget Implementation	http://www.oecd.org/governance/budgeting/44683588.pdf
The Budget Bureau	www.bb.go.th
IBP (2008, 2010) OBI survey reports	http://internationalbudget.org/what-we-do/open-budget-survey reports
The World Bank (2009) The Kingdom of Thailand Public Expenditure and Financial Accountability (PEFA) Poverty Reduction and Economic Management Unit East Asia and Pacific Ocean	

³⁵ <http://www.oecd.org/governance/budgeting/44683588.pdf>

United States

Developments in Promoting Fiscal Transparency and Public Accountability

1. Fiscal Institutions of the Central Government

1.1 Budget Law and Regulations

The Budget and Accounting Act of 1921 governs the US budget system. Its basic requirement is that the President prepares and submits a budget to Congress each year. The 1921 act established the Bureau of the Budget (now the Office of Management and Budget (OMB)) to assist the President in preparing and implementing the executive budget. Although it has been amended many times, this statute provides the legal basis for the President's budget, prescribes much of its content, and defines the roles of the President and the agencies in the process.

In the executive branch, OMB is the hub of the federal budget process. Its chief mission is to assist the President by overseeing the preparation of the budget and its submission to Congress, and to supervise its administration and implementation by the executive agencies. In doing so, OMB helps set funding priorities, assesses competing funding demands among agencies, and evaluates the effectiveness of agency programs. OMB seeks to ensure that the legislative proposals and congressional testimony of agencies, as well as agency reports and rules, are consistent with the President's budget recommendations and administration policies. During the consideration of budgetary legislation, OMB maintains liaison with the House and Senate, communicating the President's position on budgetary issues through devices such as Statements of Administration Policy.

OMB has five resource management offices (RMOs), organized by agency and by program area. These offices, together with OMB's Budget Review Division, help to carry out OMB's central activity of assisting the President in overseeing the preparation of the federal budget and supervising its execution by executive branch agencies. In helping to formulate the President's spending plans, the RMOs assess the effectiveness of agency programs, policies, and procedures, weigh competing funding demands within and among agencies, and help work with agencies to set funding priorities. Once the budget is enacted by Congress, RMOs are responsible for the execution of federal budgetary policies and provide ongoing policy and management guidance to federal agencies. As part of these and other responsibilities, the RMOs provide analysis and evaluation, oversee implementation of policy options, and support government-wide management initiatives.

The Budget Review Division (BRD) plays a central role in developing and implementing the President's budget. BRD provides leadership and analytic support across the agency by analyzing trends and the consequences of aggregate budget policy. It aggregates data provided by the RMOs, provides strategic and technical support for budget decision-making and negotiations, and monitors congressional action on appropriations and other spending legislation. In addition, BRD provides technical expertise in, and guidance on, budget concepts and execution. Much of this guidance is provided in OMB Circular No. A-11, "Preparation, Submission, and Execution of the Budget," which is available on the internet.

The President's budget, officially referred to as the "Budget of the United States Government", is normally submitted to Congress early in the legislative session, no later than the first Monday in February. The budget consists of estimates of spending, revenues, borrowing, and debt; policy and legislative recommendations; detailed estimates of the financial operations of federal agencies and programs; data on the actual and projected performance of the economy; and other information supporting the President's recommendations.

The President requests annual appropriations in his budget, which displays, for each account, the appropriation language for the current fiscal year, and the proposed text for the next fiscal year. In support of the President's appropriations requests, agencies submit justification materials to the House and Senate Appropriations Committees. These materials, available on the internet, provide considerably more detail than is contained in the President's budget and are used in support of agency testimony during appropriations sub-committee hearings on the President's budget.

An appropriations act is a law passed by Congress that provides federal agencies legal authority to incur obligations and the Treasury Department authority to make payments for designated purposes. Appropriations provide budget authority—that is, authority to obligate funds—to agencies. Appropriations measures are distinct from authorizing and direct spending legislation and are a principal, but not the only, means of providing budget authority.

The power of appropriation is part of Congress's constitutional "power of the purse." The Constitution states in part that "no money shall be drawn from the Treasury but in consequence of appropriations made by law." The power to appropriate is exclusively a legislative power; it functions as a limitation on the executive branch. An agency may not spend more than the amount appropriated to it, and it may use available funds only for the purposes and according to the conditions provided by Congress. In contemporary times, appropriations also have been viewed as mandates that the funds be used to carry out the activities intended by Congress.

In the federal government, an appropriation makes funds available for obligation; it does not usually require that outlays be made in any particular fiscal year. This is in contrast to the practices of most state and local governments, which have outlay-based appropriations; the amount provided is the amount to be paid out during the fiscal year. In the federal government, outlays often ensue years after the appropriations are obligated.

2. Assessing Fiscal Transparency and Accountability

2.1 Open Budget Processes

Preparation of the President's budget typically begins in the spring (or earlier) each year, at least nine months before the budget is submitted to Congress, about 17 months before the start of the fiscal year to which it pertains, and about 29 months before the close of that fiscal year (see attached chart). The early stages of budget preparation occur in federal agencies. OMB usually sends out spring planning guidance to the agencies to help guide their budget development. When they begin work on the budget for a fiscal year, agencies already are implementing the budget for the fiscal year in progress and awaiting final appropriations actions and other legislative decisions for the fiscal year after that. The long lead times and the fact that appropriations have not yet been made for the next year mean that the budget is prepared with a great deal of uncertainty about economic conditions, presidential policies, and congressional actions. Budget formulation at the agency level may include some aspects of public participation, especially for programs that directly impact the public or have an organized constituency. The decision-making process between when agency heads submit their requests and the President submits his request to Congress is fairly closed. However, as soon as the President submits his request, extensive information is made available to the public by OMB and the agencies.

The rules of the House and Senate contemplate a two-step process for establishing and funding federal agencies and programs. First, Congress enacts legislation authorizing an agency or program; then, it makes appropriations for the authorized purpose. While the rules have certain exceptions and are sometimes waived or not enforced, they delineate the basic functions of authorizing legislation and appropriations measures.

Authorizing legislation has a dual purpose: (1) it is the means by which Congress establishes policy and exercises control of federal agencies, and (2) it provides the authority under House and Senate rules for Congress to appropriate funds. Accordingly, an authorization act is legislation that establishes, continues, or modifies an agency or program, and authorizes the enactment of appropriations for that agency or program. Authorizing legislation establishes the terms and conditions under which each agency operates. This type of legislation typically sets forth the responsibilities of agency officials and often specifies the agency's organizational structure.

Authorizations represent the exercise by Congress of its legislative power. (At one time, what is now termed an “authorization” was referred to simply as “legislation.”) In the exercise of its legislative powers, Congress can place just about any type of provision (other than appropriations or revenue provisions) in authorizing legislation. It can prescribe what an agency must do or may not do in the performance of its assigned responsibilities. It can give the agency a broad grant of authority or legislate in great detail. There is no uniform structure or format for authorizing legislation. However, virtually all contemporary authorization measures contain one or more provisions authorizing funds to be appropriated for designated purposes. Congressional meetings about the budget are open to the public to attend in person and many are available through CSPAN, a television network. The public can also easily access the various iterations of legislation from the internet.

Congress bypasses the usual two-step funding process for some agencies and programs. In these cases, the legislative committees exercise jurisdiction over the legislation that controls spending. This type of spending is referred to as direct spending (also called mandatory spending); it is distinguished from discretionary spending, which is controlled through the annual appropriations process. At present, roughly two-thirds of all spending in the federal budget is direct spending and it is growing at a faster rate than discretionary spending.

Direct spending is used primarily, but not exclusively, to fund entitlement programs such as Social Security, Medicare, federal employees’ retirement and disability programs, and unemployment compensation. Most entitlement funding is provided automatically each year under permanent appropriations in substantive law. All appropriations are annual unless otherwise specified in law. Congress exercises most control with annual appropriations because the executive must go back every year for money because the authority to spend only lasts one fiscal year, after which it expires. When specified in law, multi-year appropriations are available for more than one fiscal year, after which it expires. When specified in law no-year funds are available “until expended.”

The federal government has a decentralized system of expenditure management, known as budget execution. OMB has year-round responsibility in overseeing the expenditure-of-funds process, but agencies have primary responsibility to ensure the legality and propriety of expenditure. OMB has five major budget execution responsibilities: review and approval of agency fund control regulations; overseeing the apportionment process (which includes regular appropriations, continuing resolutions, deficiency apportionments and credit programs); preparation of special and supplementary messages and monthly cumulative reports on rescission proposals and deferrals; review of agency budget execution reports (available on the internet); and review of agency reports on violations of the Anti-deficiency Act, which restricts the obligation and expenditure of funds to the amount made available by the appropriations (available on the internet).

Effects of the Economy on the Budget

The manner in which a given budget is intended to affect the economy is termed fiscal policy. More specifically, to the extent that tax cuts and/or spending increases are undertaken in order to stimulate economic growth (or counter a recession), or the opposite course of action is undertaken to restrain an overheated economic boom (and the threat of accelerating inflation), these features of the overall budget plan constitute counter-cyclical fiscal policy. In addition, the tendency of federal receipts to fall off during a recession and unemployment compensation and selected other entitlements to rise (thereby serving to increase the deficit and cushion the economic downturn) also contributes to the economic stabilization objective of fiscal policy. These features of the budget are referred to as “automatic stabilizers.” Monetary policy, through which the Federal Reserve sets interest rates and controls the growth of the money supply, is the partner of fiscal policy, set through the budget, in overall national economic stabilization policy. The central dilemma of both monetary and fiscal policy is the trade-off between the desire to maximize economic output (and minimize unemployment) on the one hand, and the desire to maintain price level stability (avoid inflation) on the other.

Economic Assumptions and the Federal Budget

The economic forecast underlying the budget is prepared by an interagency group known as the “Troika.” The Troika is led by the OMB Director, the Secretary of the Treasury, and the Chairman

of the Council of Economic Advisers (CEA). The Troika staff convenes in October to develop a budget forecast, and again in April to develop a Mid-Session Review (MSR) forecast. They use a combination of model-based and ad-hoc forecasting techniques to accomplish this. With the exception of factors such as potential output and cyclical GDP growth, many elements of the forecast are based on an expected continuation of recent trends or reversion to historical averages. The Troika forecast is approved by the Secretary of the Treasury, the Director of OMB and the CEA Chairman before the economic assumptions package is generated and released to OMB examiners and the agencies. Economic assumptions are a key ingredient in developing budget estimates, and OMB distributes a common set of assumptions to the agencies for each budget estimation cycle. This helps ensure some measure of internal consistency between estimates that are assembled from literally hundreds of locations. Key variables from the economic forecast are published at the time that the budget or MSR is released.

Scoring (also called scorekeeping) is the process of measuring the budgetary effects of pending and enacted legislation and assessing its impact relative to current law or budget targets, such as the budget resolution. In the congressional budget process, scoring serves several broad purposes. First, it informs members of Congress and the public about the budgetary consequences of their actions. When a budgetary measure is under consideration, scoring information lets members know whether adopting the amendment or passing the bill at hand would breach the budget. Further, scoring information enables members to judge what must be done in upcoming legislative action to achieve the year's budgetary goals. Finally, scoring is designed to assist Congress in enforcing its budget plans and to measure compliance with statutory limits on discretionary spending or other enforcement targets.

2.2 Public Availability of Fiscal Information

OMB budget data have been available free of charge for public download for many years. OMB has released detailed budget data on the Internet since 1994, including spreadsheet versions of many major budget tables and a detailed public budget database containing account-level expenditure data and governmental receipts going back to 1962 (and budget authority data back to 1976).

The President's budget contains a variety of data and information concerning both overall budget policy and particular programs and accounts. One useful guideline for understanding budget requests is to compare them to baseline estimates. The baseline projections prepared by OMB are referred to as current services estimates. They project budget authority, outlay, and revenue amounts without policy change. The baseline estimates are presented in both summary and more detailed fashion. Because they are based on different assumptions, the President's current services estimates often differ from the baseline projections made by the Congressional Budget Office.

Detailed information on each budget account is provided in the Budget Appendix. This document provides the text of the current appropriation for each annually appropriated account, as well as a narrative description of each account's programs and performance. Following the appropriations language and program statement, the budget presents a Program and Financing Schedule for each account. This schedule shows the account's programs and financing sources and relates annual obligations to outlays. The budget also contains a schedule of each account's objects of expenditure, as well as a summary of positions associated with each account.

The standard schedules shown in the Budget Appendix were designed for accounts which spend appropriated funds. Special schedules are used for credit transactions in which the federal government makes or guarantees loans. Special schedules also are provided for business-type operations and various non-appropriated accounts, including accounts classified as trust funds. The budget does not report the fiscal position of state and local governments.

Actual fiscal results are published each month by the Treasury Department in its Monthly Treasury Statement. This reporting allows comparison of fiscal year outcomes with data from the previous year and the full year data from the most recent President's budget or Mid-Session Review. In mid-October the Treasury Department and OMB jointly release a statement of year-end fiscal results with the September Monthly Treasury Statement.

USASpending.gov is a government website launched in December 2007 to meet the requirements of the Federal Funding Accountability and Transparency Act of 2006 (FFATA). The information presented on USASpending.gov is provided by federal agencies and prime recipients of federal grants and contracts, offering transparency in contracts, loans, grants, other financial assistance, and purchase cards, as well as contract and grants sub-awards. USASpending.gov receives and displays data pertaining to obligations (amounts awarded for federally-sponsored projects during a given budget period), not outlays or expenditures (actual cash disbursements made for each project).

Recovery.gov was created under the American Recovery and Reinvestment Act (Recovery Act) to provide free and easily assessable information on how Recovery Act funds are being spent by recipients of contracts, grants, and loans, and the distribution of Recovery entitlements and tax benefits. Required by the Recovery Act, the website was designed to foster greater accountability and transparency in the use of the Act's funds. The site also offers the public the ability to report suspected fraud, waste, or abuse related to Recovery funding.

The Government Performance and Results Act (GPRA) Modernization Act of 2010 (GPRAMA) requires federal agencies to set clear performance goals that can be accurately measured, regularly reviewed by senior leaders, and publicly reported in a more transparent way. GPRAMA established a mechanism to enhance progress in areas that need cross-government coordination by requiring OMB to establish Federal Cross-Agency Priority Goals, with the first set of interim Federal Cross-Agency Priority Goals to be included in the FY2013 Budget. Federal agencies prepare and publicly release strategic plans that identify long-term performance goals and identify corresponding annual performance goals and measures of progress. Agencies report at least annually on progress toward their goals. Twenty-four major federal agencies also set near-term Agency Priority Goals that correspond with the US budget cycle.

2.3 Assurance of Integrity and Accountability

The Chief Financial Officers (CFO) Act of 1990 consolidated financial management operations and systems under the newly formed CFO position and established guidelines to improve the quality of financial information and financial reporting. The CFO Act, as expanded by the Government Management Reform Act of 1994, mandated the federal government and executive agencies to prepare annual financial statements. The financial statements of the executive agencies are audited by private audit firms, the Government Accountability Office (GAO), and the agencies' Inspector General's Office (IG); while the government-wide financial statements are audited by the GAO. Those very provisions—annual preparation and audit of agency and government-wide financial statements—have contributed to the evolution of reliable, timely, and useful financial information in the federal government. Such advancements have provided increasing levels of credibility and confidence in government finances and improved the processes that produce financial data. In addition, the preparation of audited financial statements assists CFOs and agency leadership in assessing and mitigating enterprise risk.

The CFO Act called for complete, reliable, timely, and consistent financial information. To ensure consistent information, a federal accounting standards-setting body was created subsequent to passage of the Act. The Federal Accounting Standards Advisory Board (FASAB) develops federal accounting standards, which are essential for public accountability and consistent reporting. Agencies follow generally accepted accounting principles to provide fair representation of financial results. Similar standard-setting bodies already exist in the private sector and for state and local governments. Like these other bodies, the American Institute of Certified Public Accountants has recognized FASAB as the body that sets generally accepted accounting principles (GAAP) for the federal government. Under US GAAP, US government expenses are recognized as they accrue and most revenues are recognized on a "modified cash" basis, or when they become measurable. The US has not adopted International Public Sector Accounting Standards (IPSAS) and has no plans to converge to IPSAS.

Similarly, the approach to conduct the financial audits has been standardized and improved throughout the years. The joint GAO/Council of Inspectors General on Integrity and Efficiency (CIGIE) Financial Audit Manual lays out an approach for performing financial statement audits,

describes how the methodology relates to relevant auditing standards and OMB guidance, and outlines key issues to be considered in using the methodology.

The demand by stakeholders for financial reporting beyond the principal financial statements has also evolved. Budgetary and programmatic information is now consistently reported along with financial performance. Most agencies present their financial statements and reports in Performance and Accountability Reports or Agency Annual Financial Reports, providing readers a financial context in which they can learn about program accomplishments, budget information, and future plans.

The Department of the Treasury's Citizens Guide to the Financial Report of the United States provides an overview of the government's financial position and fiscal sustainability efforts. It has been published every year since 2007.

3. Challenges and Priorities for Future Reform

The Accountability of Tax Dollars Act of 2002, which requires federal agencies that do not have an existing legislative requirement to prepare audited financial statements to do so, expanded the requirement for audited financial statements and essentially covers the entire executive branch as do the general concepts underlying the CFO Act. Also, other government organizations voluntarily prepare audited financial statements. These organizations strive to carry out the other expectations of the CFO Act, including analyzing financial data, seeking to improve the effectiveness of internal controls, and developing powerful, integrated financial management systems, all of which have contributed to more efficient and effective government financial management.

Implementation of the CFO Act over the years has increased transparency, fostered accountability, established a government-wide financial management leadership structure and agency CFOs, promoted new accounting and reporting standards, generated auditable financial statements, strengthened internal control, improved financial management systems, and enhanced performance information. In its July 2011 Report to Congress, "The Chief Financial Officers Act of 1990—20 Years Later," the CFO Council and the Council of the Inspectors General on Integrity and Efficiency concluded that efforts must continue in a number of areas to fully optimize the impact of the CFO function. The report advocated a continued focus on (1) enhancing the CFO's role and organizational effectiveness; (2) evolving the financial reporting model for increased accountability; (3) strengthening internal control and risk management activities; and (4) continuing to improve financial management systems. The report argued that attention to these matters is a shared responsibility of many, including OMB, CFOs, agency management, the IG community, the GAO, and the private sector. The report identified two broad areas needing attention, and made two recommendations to Congress:

- Congress should consider enhancing the role of the CFO by standardizing the CFO's portfolio to include leadership responsibility for budget formulation and execution, planning and performance, risk management and internal controls, financial systems, and accounting. To provide continuity during the often lengthy period between appointments of agency CFOs, Congress should also consider providing Deputy CFOs with the same breadth of responsibilities as their respective CFOs.
- Congress should consider directing OMB, GAO, and the Federal Accounting Standards Advisory Board (FASAB), in consultation with CIGIE, to evolve the financial reporting model by examining the entire process with an eye towards how to further improve and streamline current reporting requirements and to better meet the needs of all stakeholders.

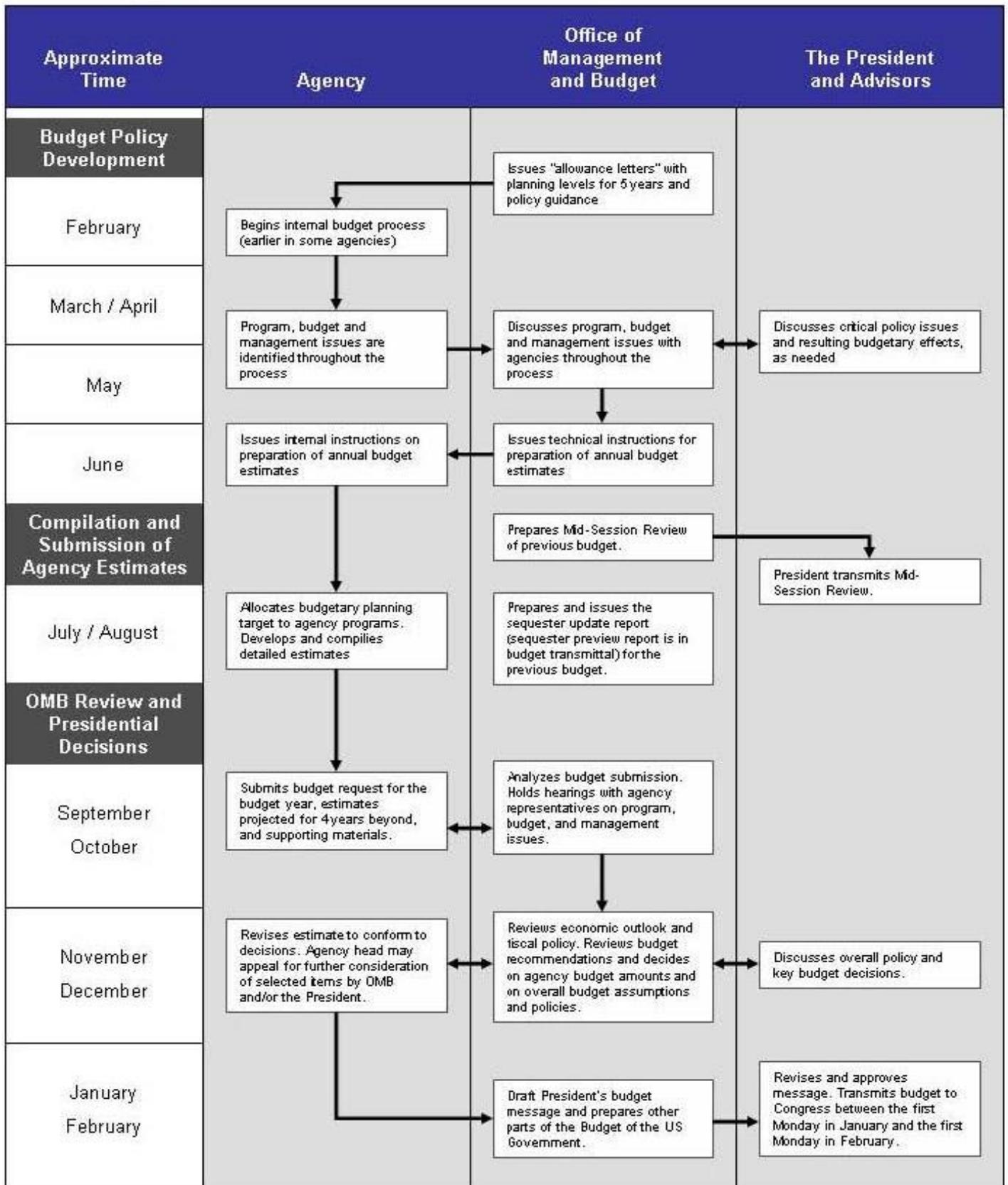
4. Resource Bibliography

Resource	Website
<p>Budget of the US Government</p> <p>This publication contains the Budget Message of the President, information on the President's priorities, budget overviews organized by agency, and summary tables</p>	<p>http://www.whitehouse.gov/omb/budget/Overview</p>
<p>The Appendix, Budget of the US Government</p> <p>This publication provides more detailed information for each of the budget accounts.</p>	<p>http://www.whitehouse.gov/omb/budget/Appendix.</p>
<p>Analytical Perspectives, Budget of the US Government</p> <p>This publication contains analyses that are designed to highlight specified subject areas or provide other significant presentations of budget data that place the budget in perspective. This volume includes economic and accounting analyses; information on federal receipts and collections; analyses of federal spending; information on federal borrowing and debt; baseline or current services estimates; and other technical presentations.</p>	<p>http://www.whitehouse.gov/omb/budget/Analytical_Perspectives</p>
<p>Historical Tables, Budget of the US Government</p> <p>This publication is a series of tables providing data on budget receipts, outlays, surpluses or deficits, federal debt, and federal employment over an extended time period, generally from 1940 or earlier, to 2014 or 2018.</p>	<p>http://www.whitehouse.gov/omb/budget/Historicals</p>
<p>Federal Credit Supplement</p> <p>This provides summary information about federal direct loan and loan guarantee programs subject to the Federal Credit Reform Act (FCRA) of 1990, as amended by the Balanced Budget Act of 1997.</p>	<p>http://www.whitehouse.gov/sites/default/files/omb/budget/fy2014/assets/cr_supp.pdf</p>
<p>Federal Grants to State and Local Governments</p> <p>The spreadsheet version of Table 17-1 from the Analytical Perspectives budget publication provides detailed information on Budget Authority and Outlays that are classified as grants to state and local governments. The data are grouped by budget function, BEA Category, Agency, Bureau and Account and include amounts for the prior year, current year, and budget year. (Account-level grant outlays are also provided in the historical Public Budget Database described below.)</p>	<p>http://www.whitehouse.gov/omb/budget/Analytical_Perspectives</p>
<p>Budget Authority and Outlays by Function Category and Program</p> <p>These tables provide a programmatic breakdown of policy and current services spending.</p>	<p>http://www.whitehouse.gov/sites/default/files/omb/budget/fy2014/assets/26_13.pdf</p>
<p>Public Budget Database</p> <p>These data files contain an extract of the OMB budget database that can be used to reproduce many of the totals published in the budget and examine unpublished details below the levels of aggregation published in the budget. Three data series are provided in both XLS and CSV format:</p> <ul style="list-style-type: none"> • Budget Authority and Offsetting Receipts, 1976 – 2018 • Outlays and Offsetting Receipts, 1962 – 2018 • Governmental Receipts, 1962 – 2018 	<p>(http://www.whitehouse.gov/omb/budget/Supplemental)</p>

Resource	Website
A guide to the Public Budget Database	http://www.whitehouse.gov/sites/default/files/omb/budget/fy2014/assets/db_guide.pdf
Federal IT Spending (all investments) via the IT Dashboard Federal IT spending data, submitted from agencies via Circular A-11 Exhibit 53, provides budget estimates for all federal agency IT investments. By completing an Exhibit 53, an agency meets the Clinger-Cohen Act of 1996 requirements to provide a full and accurate accounting of IT investments for the agency. OMB uses the Exhibit 53 to create an overall Federal IT Investment Portfolio published as part of the President's Budget.	http://www.itdashboard.gov/
History of OMB Economic Forecasts, 1976 – 2014 These data show annual economic forecasts from each budget submitted since Fiscal Year (FY) 1976. During transition years, they include both incoming and outgoing administration budgets.	http://www.whitehouse.gov/omb/budget/Supplemental .
Financial Management Service of the Treasury Department Publications on fiscal activities of the federal government	http://www.fms.treas.gov/publications.html .
OMB Circular No. A-11, "Preparation, Submission, and Execution of the Budget" OMB Circular A-11 provides guidance to agencies on preparing the annual budget and instructions on budget execution.	http://www.whitehouse.gov/omb/circulars_a11_current_year_a11_toc
"The Chief Financial Officers Act of 1990—20 Years Later," Report to the Congress and the Comptroller General This July 2011 report was prepared by the Chief Financial Officers Council and the Council of the Inspectors General on Integrity and Efficiency. It presents lessons learned from the CFO Act of 1990 and makes recommendations to improve federal agency efforts in financial reporting and internal controls	http://www.whitehouse.gov/sites/default/files/omb/financial/cfo-act-report.pdf
GAO/PCIE Financial Audit Manual The Government Accountability Office (GAO) and the President's Council on Integrity and Efficiency (PCIE) jointly issue the GAO/PCIE Financial Audit Manual, which presents a methodology to perform financial statement audits of federal entities in accordance with professional standards.	http://www.gao.gov/special/pubs/gaopcie/
The Financial Report of the United States Government Treasury's Citizen's Guide The annual report and Citizen's Guide, published since 1995 and 2007, respectively, provide an overview of the government's financial position and fiscal sustainability efforts	http://www.fms.treas.gov/fr/index.html http://www.fms.treas.gov/frsummary/index.html .
The Agencies' Financial Reports These reports provide a view of the agencies' finances and discusses important financial issues and significant conditions.	http://finance.performance.gov/initiative/increase-reliability/home
USASpending.gov USASpending.gov discloses agency information from six main source systems, covering contracts, loans, grants, other financial assistance, and purchase cards.	http://www.USASpending.gov
Performance.gov <ul style="list-style-type: none"> Performance.gov gives the public, government agencies, members of Congress, the media, and others a view of the progress underway in cutting waste, streamlining 	http://www.performance.gov

Resource	Website
<p>government, and improving performance. Specifically, Performance.gov provides information on the following areas:</p> <ul style="list-style-type: none">• Acquisition• Financial Management• Human Resources• Technology• Performance Improvement• Open Government• Sustainability• Customer Service	

Formulation of the Budget in the United States



Viet Nam

Development in Promoting Fiscal Transparency and Public Accountability

1. Fiscal Institutions of the Central Government

The current budgeting process in Vietnam is in accordance with the legal framework regulated by the State Budget Law 2002. This law classifies the state budget into central and local budget levels, which in turn include central, provincial, district, and communal state budget levels. At each local level, implementation of the budget is accountable to the upper level government as well as the corresponding People's Council. That is, the budget system sees itself designed as a vertical structure, which affects both accountability and the reporting requirement of the local budget.

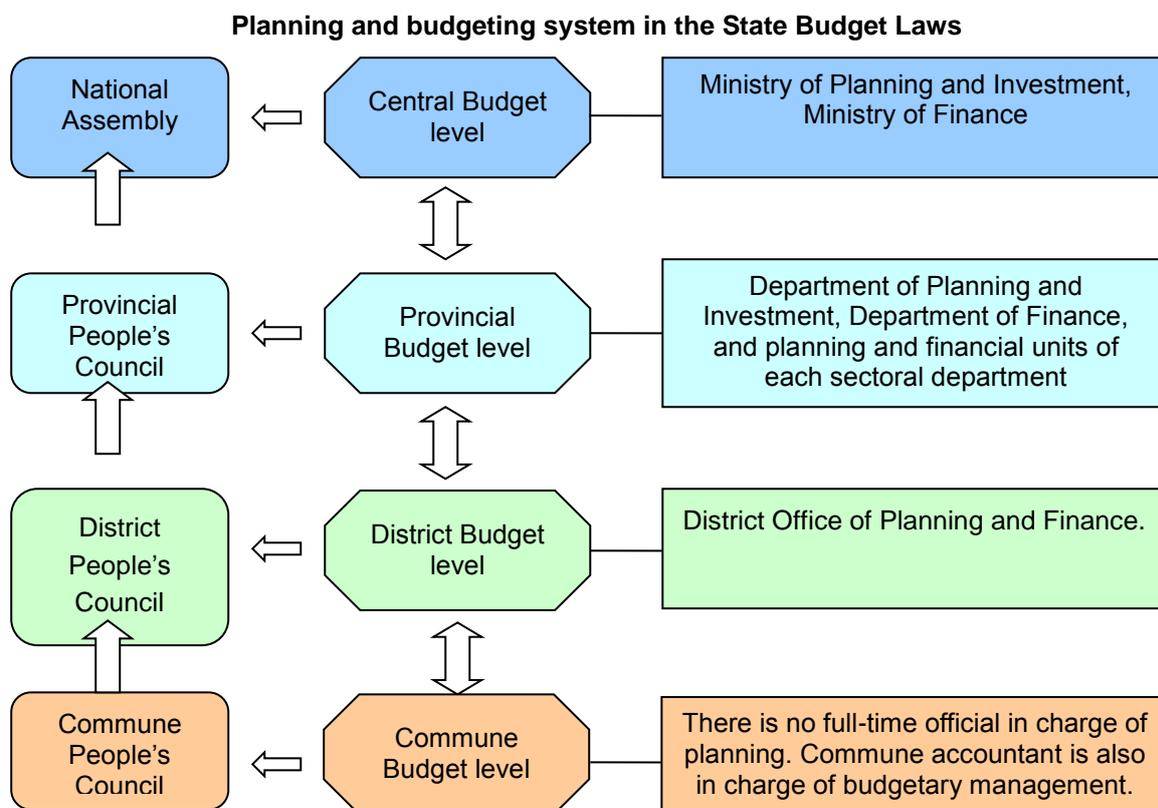
The State Budget Law 2002 is not the first Law covering state budget issues in Vietnam. In fact, this law retains the basic steps and procedures already inherent in the previous State Budget Law (1996). Only some critical changes - related to decision-making power of budget authorities such as National Assembly and People's Councils and the milestones of budgetary plan - have been made. Specifically, the State Budget Law 2002 has strengthened the autonomy and discretionary responsibilities of governments at provincial/municipal level in the budgeting process, particularly in budget planning, allocation, and implementation. Effectively, with clear identification of functions and tasks, the Law constituted a further step to make the budgeting process more transparent and accountable. The introduction of the State Budget Law 2002 also helps clarify the revenue sources and budgetary expenditure responsibilities at lower budget management levels.

Pursuant to the State Budget Law 2002, the process of budget allocation and budget plan assignment takes place as follows:

- The National Assembly decides total revenues, total expenditures, and budget deficit for each sector. It also decides on the allocation of central budget and net transfers/receipts from the central budget to the provinces and central cities.
- On the basis of allocated central budget plan, and allocation of central to provinces/cities, which is approved by the National Assembly, prime minister to ministries, provinces and cities under central direct management.
- Based on the budget plan assigned by the central government, ministries and central government, agencies assign budget estimates to the units under direct management. People's Councils at various levels allocate local budget. Based on the draft budget approved the People's Councils and People's Committees at all levels, budget is allocated to the units under their direct management.

In this process, the draft budget plan is submitted to the National Assembly for review and comment (by the Committee of Finance and Budget Affairs). Subsequently, all documents such as the report on implementing the budget plan of the current year, the draft budget plan for the coming year, and the budget allocation plan for the coming year are submitted to the National Assembly (and its members) at least 10 days before the congress begins. The National Assembly must approve the draft budget plan and budget allocation plan before 15 November of each year.

In accordance with the current State Budget Law, each year the Ministry of Planning and Investment (MPI) issues instructions on local social economic development plans and associated financial needs for the implementation of plans. The MPI also coordinates closely with the Ministry of Finance (MOF) in building central state budget estimates and in allocating the approved budget to assigned tasks (mostly development investment). Besides, the MPI has a leading role in designing the National Target Programs (NTPs) and draft budget plan, as well as allocation budget plans for NTPs.



Source: Hoang Thi Thuy Nguyet (2011).

2. Assessing Fiscal Transparency and Accountability

2.1 Open Budget Processes

Following the implementation of the State Budget Law 2002, the annual budgeting process is conducted within a clear time frame. Starting from May of each year, preparatory work and supporting documents for budget revenues and allocations for next year are conducted. Instructions and guidelines are then issued at different levels, by the prime minister, MOF, MPI and relevant authorities at both central and provincial levels. The local plans for revenues and expenditures will be subsequently consolidated at various levels to feed into the draft national budget plan. This draft will in turn be submitted to the National Assembly via the Committee of Finance and Budget Affairs for verification. When questions arise, the MPI and MOF may provide additional explanations and/or information. The National Assembly congress in November will then review, discuss and approve the draft budget plan. The local counterpart of this approved plan will then be approved by the People's Councils at various levels.

Main activities and timeline of budgeting process stipulated in the state budget law 2002

Stages of budgeting process	Main activities	By the State budget Law 2002
Preparation of budgeting process	National Assembly's Standing Committee have comments on budget allocation norms, which are basis for estimating budget plan of the first year stabilization period (the period of stable local budgets from 3 to 5 years)	by May 1 st
Preparation of budget Plan	Prime Minister (MPI) issues instruction on building state budget plan	by May 31 st
	MOF, MPI issue instructional guidelines; then ministries, central bodies and people committee instruct lower levels to build their budget plans	by June 10 th
	Provincial authorities submit budget plans to MOF	by July 20 th
	MOF works with the central and local agencies, consolidating and building national budget plan.	by the end of July
Review, approval and allocation of the state budget at National Assembly	Government submits national budget plan to National Assembly via the Committee of Finance and Budget Affairs for verification (MPI has explanations if needed)	before October 1 st
	National Assembly's congress is held where discussion, hearings and decision on the state budget plan and central budget allocation scheme are made. In this congress, there are two important documents will be approved, including drafted budget plan and budget allocation plan.	before November 15 th
	Conducting distribution of the national state budget; National Assembly Standing Committee decides to allocate the central budget to lower budget levels.	before November 20 th
Review, approval and allocation of the state budget at the localities, by the People councils	Provincial People Council decides provincial budget allocation	before December 10 th
	District and communal People Councils decide district and communal budget allocation, respectively	Within 10 days once the upper People committee decided budget allocation plan; and state budget has to be transferred to communal budget level by December 31 st

Source: Hoang Thi Thuy Nguyet (2011).

In the above budget process, the State Budget Law 2002 has created a legal framework for the budget process and clearly defines the role of legislature agencies (National Assembly and People's Councils), implementing agencies (government and ministries, branches and People's Committees at all levels). The law also provides legal procedures for monitoring the state budget of the legislature and creates a mechanism for the state audit agency to audit state budget allocations' reports. In addition, the law stipulates the role, functions and powers of the government agencies at different levels.

In addition, the law stipulates revenue resources and state budget expenditure tasks of the budgets and sharing revenues between the central and local budgets. The assigned revenues and expenditures of local budgets are stable from three to five years; it thus helps local government to have a plan to mobilize local state budgets.

The law clearly defines the resources and objectives of state budget revenues, which increases transparency as well as improves accountability at all budget levels and in all sectors. State budget revenues and expenditures at all government levels are unified. Under this new Law, the budget

must to include all revenues and expenditures in the current fiscal year, as well as voluntary contributions.

Importantly, the State Budget Law 2002 has provisions to take account of the impact of unforeseen circumstances and changes in policies, for example bonuses when exceeding revenues collected, adjusted annual drafted state budget plan, etc. It also allows some flexibility to adjust budget allocations and state budget expenses should any unexpected changes in revenues or the expenditures of state budget occur.

Finally, the State Budget Law 2002 allows local governments to mobilize budget revenues via charges, fees, surcharges, and borrowings. Local government debt does not exceed 30 percent of total annual domestic investment in the province, except for Hanoi and Ho Chi Minh cities where debt ratios can be as high as to 100 percent of total annual domestic investment. This allows localities raising funds or contributions from individuals and organizations at the local level, to raise capital for development purposes.

The budgeting process has to comply with numerous fiscal as well as strategic objectives. Most importantly, the budget deficit has to follow the golden rule: a deficit to Gross Domestic Product (GDP) ratio of below 5 percent. In recent years, following the decision to tighten macroeconomic policy with a view to stabilizing the macroeconomic environment and to reduce inflation, growth in budget expenditure (especially investment from the state budget) has been restrained. However, social expenditures such as payments to support the poor, the unemployed laid-off and other social safety nets have been retained.

In the budgeting process, a number of assumptions are used, at both national and local levels. Local budget plans are made based on the local development needs, and in light of factors that may affect local economic development in the coming year(s). At the national level, GDP growth is a key assumption since it will affect the implementation of the abovementioned golden rule. Other assumptions concerning macroeconomic factors that may have an impact on budget expenditure and budget-financed investment are also necessary. But Vietnam has yet to adopt a systematic model to the effect of these variables. Consequently, the impact of variations in these assumptions are mainly base on consultation and expert judgment.

2.2 Public Availability of Fiscal Information

In the past five years, Vietnam has made serious attempts to increase access to budget information and reports. Previously, detailed budget revenues and expenditures were only available to the relevant government bodies. Today, reports on budget revenues and expenditures are published quarterly and posted on the website of the MOF, which can be accessed by all stakeholders. In each report, the data presented include major sub-aggregate of expenditures and revenues. The list of available data now includes preliminary estimates, revised estimates, and final approved figures of budget expenditures and revenues. However, only quarterly data is available on the MOF website and to compare and contrast the data, users will need to go through all the individual reports manually.

Available items in the published reports of MOF

Revenues	Expenditures	Other items
<ul style="list-style-type: none"> - Taxes and fees; Capital revenues; Grants; Brought forward revenues; - Detailed by type of tax; detailed fee and other revenue items 	<ul style="list-style-type: none"> - Expenditure on development investment; current expenditures; - Current expenditures by area; capital construction expenditures; other development investment; contingency; carried forward expenditures 	<ul style="list-style-type: none"> - Principle payment of debt; - Budget deficit (in both international and Vietnamese standards)

However, there is some difference in the frequency of budget statistics. The quarterly reports only compile budget statistics at the national level. Final figures are published with a lag of two years for Central government and Central government bodies. The performance of state-owned enterprises, included in the Audit Report of the State Audit, also has a lag of two years.

Starting from February 2013, Vietnam has published the Report on Public Debt. To date, there has only been one issue, but more are expected in the years to come. The contents of this public debt report include scope and adopted methodology, as well as the key statistics related to public debt in Vietnam. The report is accessible on the MOF website. This marked another important step in enhancing transparency of fiscal information in Vietnam.

Finally, Vietnam also reports on major expenditure programs. For instance, the Public Expenditure Review covers the analysis of situation and issues related to public expenditure in Vietnam. However, the most recent review was published in the year 2005 with the support from the World Bank. Review of the Comprehensive Poverty Reduction and Growth Strategy (CPRGS) has also been undertaken, but not on a frequent basis. Vietnam has failed to allocate sufficient resources for the review of major expenditure programs and donor support is often sought for this purpose.

2.3 Assurance of Integrity and Accountability

Vietnam has not yet adopted the International Public Sector Accounting Standards (IPSAS), but is currently in transition to IPSAS adoption with the IPSAS is undergoing translation process for this purpose.

The financial statements of the government of Vietnam are prepared on an accrual basis. In doing so, the government sets the national accounting standards to govern the preparation of such statements.

Vietnam also has strict regulations related to the auditing of government activities and finance. There are a couple of auditing levels involved in this process. *First*, activities and finance of government agencies are audited by the government authority one level above. *Second*, activities and finances of the government as a whole, as well as of each ministry, general corporation or locality are audited by the State Audit of Vietnam. It should be noted that the State Audit is not under the government of Vietnam and is therefore somewhat independent. The final audited statements are usually released about 1-1.5 years following the year under consideration.

As described in Section 2.1, the open budget process involves close coordination between the MOF and MPI and other line ministries and localities. In this process, consideration is taken regarding various economic projections of the situation in the next year. Since the budgeting process is on an annual basis (rather than medium-term basis), the forecast error is typically smaller. The involved agencies, including MOF, MPI, line ministries and localities must assess the soundness of economic forecasts underlying the budget plan. The final draft budget plan will then be submitted to the National Assembly—with relative independence from the government—for consideration, feedbacks, and approval. Being a popularly-elected organization serving a five-year term, the National Assembly takes the final responsibility in ensuring the integrity and accountability of the budgeting process, and that the approved budget will help implement the socio-economic development plan for the corresponding year.

The government strives to improve integrity and accountability of the budget process. The classification of budget items is publicized and accessible on-line to all stakeholders. In addition, measures are taken to improve the participation of the local community in budget decisions. For instance, various programs funded by the government and/or the non-government organizations served to improve the understanding of the people of budgetary issues and the implementation of local budget plans. In another example, government agencies at all levels try to raise awareness and encourage the people and firms to pay taxes responsibly. The elected members of the National Assembly also act as a communication channel to provide feedback on budget issues to the government.

3. Challenges and Priorities for Future Reform

The State Budget Law 2002 made significant contribution to budget process during its use. After over nine years in service, however, major shortcomings in the Law have emerged, the main limitations of which can be summarized as follows:

- Budget system remains complex and overlapping. Provincial budgets include both district and commune budget levels; the central budget level covers budgets of local government; competence to decide the agency's budget is unclear; and the budget process is complex;
- Regulations on revenue sources and expenditures are unclear; several charges, fees, revenues from lotteries, and land use fees have not been brought into balance; budget deficit calculation methods are not compatible with international practice;
- Decentralization of revenue sources and spending tasks between the central and local budgets, among different levels of local budgets, do not match reality; regulations on additional budget allocations from the upper budget to lower budget levels are inappropriate;
- The annual budget plan is not appropriately constructed: using an inappropriate basis, unlinked to the medium-term budget plan and disconnected from outcomes.
- There is no regulation on operating state budgets in case of emergency, no specified time frame for adjusting budget estimates assigned; regulations on the use budget for the following year in advance to carry out the urgent tasks are insufficient;
- Some provisions on settlement, auditing, and publicizing state budgets are incomplete; spending tasks performed by changing budget sources are not specified appropriately;
- The responsibility and authority in management as well as allocation of development capital are not clearly or appropriately defined.

In the years to come, Vietnam should set out key priorities for fiscal reforms. Some of these may include:

- An improvement in publicity for, and transparency of, the budgeting process to enhance the participation of stakeholders. This should be not only at the reporting stage, but also during the preparation of plan, review of the plan and implementation of the plan.
- Improvement of accountability of budget management, with a greater role for popularly - elected monitoring agencies (under the National Assembly and People's Councils) and community monitoring.
- Increasing the linkage between fiscal policy, the budgeting process and strategic socio-economic objectives. This initiative is more urgent because the economy is enduring hardships and public resources are limited.
- Increasing the share of budget revenues from taxes, fees and other domestic sources and conversely reducing the share of revenues from crude oil and natural resources; also increasing the share of direct taxes.
- Improving the efficiency in the allocation and use of public financial resources, thereby strengthening the leading role of state investment in socio-economic development.
- Revising the State Budget Law to improve the clarity of regulations, to align budget decentralization with the current capacity, and to introduce other regulations on enhancing publicity and transparency of the budgeting process.
- Transiting to the gradual application of a medium-term expenditure framework in the budgeting process.

- Enforcing an outcome-based approach in budget management, alongside increasing the role and responsibility of leaders of government bodies and localities.

4. Resource Bibliography

Resource	Website
Ministry of Planning and Investment	http://www.mpi.gov.vn
Office of Government	http://www.chinhphu.vn
Ministry of Finance	http://www.mof.gov.vn
General Statistics Office	http://www.gso.gov.vn
Ministry of Justice	http://www.moj.gov.vn



**Asia-Pacific
Economic Cooperation**

Prepared or Printed by:

Asia-Pacific Economic Cooperation Secretariat

35 Heng Mui Keng Terrace, Singapore 119616

Telephone: (65) 6891 9600 Facsimile: (65) 6891 9690

Email: info@apec.org Website: www.apec.org