

## **The Problems in Chinese Government Financial Information Disclosure and Relevant Proposals**

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**Abstract.** Government financial information is an important part of government information, fully reporting the operational efficiency and the place where government puts tax onto. This paper analyses the problems in Chinese government financial information disclosure and the necessity of reform in detail. It also provides several proposals for the improvement of Chinese governmental financial report and financial information disclosure system.

### **Introduction**

As the new public management mode introduced in our country, great changes have taken place in the role of the government. Government is no longer the traditional administrative center, no longer the ruler of the society, but a new type of service-oriented government. The style of the government's work shifts from intervention to public service, to meet the needs of the public. The new public management mode redefines the relationship between the government and the people.

But the transparency of our government financial management did not keep up with the demand of our people. The current government financial information disclosure in our country has certain problems, can not adapt to the changes of government functions, is not conducive to promoting the performance evaluation system, can not support the government audit and social supervision, let the stealth debts remain invisible, affects the public fiscal system, affects the configuration of macro resources.

### **The defects of our current government financial information disclosure**

#### **Fragmentary and incomplete contents**

The current financial report neither reflects the complete government's assets, liabilities, nor accounts accurately the government's balance of payments situation. Over the years, fixed assets in administration and public institutions are not depreciated, and book value is not equal to the fair value,

which cause a lot of government assets' book values artificially higher than the actual values. Government accounting, on the other hand, due to human factors, such as some higher pressure, exists some situations that accountants underestimate the value of assets or even omit to include some assets in books. Due to the fixed assets are not listed in the report, existing in the supplementary materials instead, there is no doubt that these provide conveniences for those improper behaviors.

At the same time, the form of the government investment is no longer the only free allocation in the past, government infusion has been favored by more and more local governments. However the profits accounting of state-owned assets are omissions in the current statement, and in practice our government accounting is also missing accounting. Some debts are also missing such as debt servicing the national debt in the future, social insurance and pension liabilities, contingent liabilities from government guarantees and so on. These are all important factors that will affect the consumers to make decisions. On the other hand, the current financial statements cannot accurately give the detailed information about the government financial revenues and expenditures, which undoubtedly increases resistance to promoting the performance evaluation system and accountability system.

### **Not timely financial statements**

In western countries, the publication dates of government budget report, final report and yearbook have clear rules, while our country is lack of institutional constraints, and the serious lag of government financial information disclosure in our country causes information lose timeliness and availability, which is an important reason that citizens' awareness of the government financial information is not high. The government budget report is usually disclosed 3 months after the start of the current fiscal year. The final report is disclosed six months or even longer after last fiscal year. The release cycles of financial yearbook and statistical yearbook are about 1 year. The lack of timeliness seriously affects the review and supervision of the government's financial information.

### **The limit range of users**

What is different from other countries is that our country's current financial reports are mainly provided to government departments, financial departments and internal management departments, rather citizens rarely use financial information. Therefore, since they are for internal use, it is far from the so-called disclosure, transparency and supervision. The lack of timeliness and citizens' consciousness is one cause of this phenomenon, the most essential reason is that China's fiscal revenue mainly comes from the turnover tax, no one but the relevant government department know how much times all commodity circulate across the country, then there would be no one can know that

how much is the tax revenue of our country. On the other hand, the accuracy of the government expenditure disclosure is questionable, some spending Outside the Systems is not incorporated into the accounting system. The molecule and the denominator are not clear, which let citizens who want to supervise the financial efficiency of the government do not know how to start. As time passes, they lose their interests.

### **Lack of unified standard for accounting report and disclosure form**

In our country, different government departments have their own kind of financial reports, not like enterprises to comply with the unified report format, but none of the varied reports can completely reflect government's financial situation. Disclosure form is varied as well, which in general can be divided into two categories: one is budget report submitted to People's congresses at various levels, the other is the way through certain channels to report directly to the society. Our government's financial information is scattered in the budget report, final report, yearbook, the government work report, the plan for national economic and social development and the report on its implementation, etc. For each user, reading so many different reports at the same time is a very complicated but meaningless job. In many western countries, the government develops governmental financial reporting system, the government's financial report, just like the annual reports of listed companies, has legal format and content, including a large amount of financial information and non-financial information.

### **Lack of accounting standards and advanced accounting methods**

Unlike enterprise accounting, our government accounting is not guided by the corresponding accounting standards, and there is no government institutions responsible for publishing accounting standards in our country. The ministry of finance, as the highest leader of government accounting, always takes "regulations" rather than "standards" to guide the government accounting work. Compared with standards, regulations lack adaptability and flexibility. The short of the standards has led to that our government accounting system still uses cash accounting rather than accrual accounting, which to some extent affects the accuracy of our government accounting system. At present, many countries' government accountants have gradually adopted accrual accounting, in order to adapt to the changes of time and the challenges in the future. China should start to enable accrual accounting as soon as possible. Finally, the lack of standards has also led to some problems about unscientific list of accounting items in our country's financial report.

### **Internal and external supervision are not enough**

In western countries, the government financial report, just like the report of listed companies, is also need to pass the external audit to become an effective report. The first part of the financial report in western countries is often the audit report. Under law, only after the verification of government auditors, the report was able to release to the outside. However in our country, a lot of people even did not believe external auditing government financial report, and lazy internal audit did not play the role of supervision at all. In our country, government budget report should submit to the National People's Congress standing committee for first trial usually a month before the National People's Congress meeting. The review time is obviously not enough for strict supervision and examination of the government financial information. Abroad, the time for the legislature to review a budget report is at least 2 months. As India's legislative budget review time can generally reach 75 days, Germany's may last for 4 months, and the longest time in America can be up to 8 months.

### **The necessity to reform our existing financial information disclosure system**

#### **The transformation of the government's role is pressing**

40 years after reform and opening-up in our country, the image of our government has undergone several changes. Now under the leadership of President Xi, the government puts forward higher requirements to establish a more transparent and efficient government. People are the owners of the country. If the government wants to transform to a service-oriented government, it should be deeply realized that the government is the servant of the people. All of the country belong to the people. The government has an obligation to expose information to the people in addition to those which relate to national defense and personal privacy. Financial information is an important part of government information system, is also a part that the people are most concerned about, and is the most important section to realize the transparency of the government. The government financial report can reflect the government's financial situation, operating results and cash flow in detail, can satisfy the needs of stakeholders and information users. Therefore, transformation of government functions call for improvement in the government financial information disclosure.

#### **The changes of social contradictions is pressing**

Since 1990s, most areas in China have basically solved the problems of food and clothing, and the eastern developed area has entered the well-off society ahead. Eastern public's demand is no longer satisfied with food and clothing. It is more to pursuit self-actualization and self-worth. The new grown-up elite of the society, has higher levels of literacy and knowledge than the one in the past, and the new elite has been influenced by the thought of western liberal democracy, therefore a deeper

degree of political participation and putting forward the idea of themselves become the new demand. During the process of developing socialism with Chinese characteristics and socialist democratic politics, people more and more eager to understand the government's financial information and supervise government through the budget report and final report. They want to know whether government has efficiently and reasonably operated taxpayers' taxes and whether government has completed the mission given by the people very well.

### **The construction of government informatization is requiring**

Our government has been committed to informatization construction since 1980s. The informatization construction includes three aspects: construction of a unified network platform, construction of a unified data environment, and construction of key business systems. The most difficult and most complex task is the construction of unified data environment[1]. Once the information platform is settled, the government's service mode would undergo great changes. Time and space will be greatly reduced. You can talk directly to the prime minister through the Internet. All the policy information can be touched in the related websites. The distance between society and government is shorter. Under close observation, the society is more strict with the government. Network supervision has become a new way of supervision. This new way of supervision ask the government information to be more open, more transparent and more easily to get.

### **The performance evaluation system is needing**

New public management mode requires that the Chinese government should further implement the accountability system. The new public financial system also requires our government to track cash flow in detail. All government departments begin to gradually establish a performance evaluation system to better evaluate and encourage civil servants. For a good performance evaluation system, the design of the evaluation standard is important, collecting accurate and complete performance information is more important. It is inseparable from all levels governments' precise and complete disclosure of financial information. For example, if you want to measure returns from government investment, you need project costs and benefits. If you want to evaluate the work performance of a government or a department, you need lots of information about income, expenses, assets, liabilities from balance sheet and income statement[2].

### **Suggestions on improvement of our government financial information disclosure**

#### **To further enrich the content of the report**

The government financial report should state the government's financial condition and operating results systematically and comprehensively.

In terms of assets, the government should regulate records of fixed assets, accrue depreciation of fixed assets regularly, disclose government's other equity assets. Government revenue should include all income of all government departments, such as tax, charges with the nature of tax, revenue from providing goods or services, donations, transfer income and borrowed debts. All of these should be clearly listed out in the report[3].

In terms of debts, all expenditure should be covered in the financial report, such as cost, capital expenditure, transfer expenditure, debt-service payment, debt servicing the national debt in the future, social insurance and pension liabilities, contingent liabilities from government guarantees and so on.

Only report all government detailed income and expenses, report users can really understand the government's revenue and expenditure as a whole, can supervise the information to comply with government budget plan and related laws.

### **To improve the structure of the report**

The government's target of financial information disclosure should be various. In order to improve the financial information disclosure system in China, first we should set up a goal to establish a multilevel government financial information disclosure process. Considering the advanced experience of all countries, the process has three stages: the first stage is to reflect the compliance of the use of budget funds; the second stage is to meet the needs of financial management; the third stage is to explain the government's fiduciary duty[4]. Therefore, when setting the target of Chinese government financial information disclosure, the compliance of the use of budget funds and financial management should take into account, then we should gradually create conditions to explain the fiduciary duty.

Only layered, it would be convenient to manage, to trace the root of problems, to punish those responsible and to provide summary information. It would improve the condition greatly that the form of information disclosure in our country is not unified. Different level of the users can get a general financial report, which undoubtedly enhance the usefulness and supervision of our government financial report.

### **To reform cash accounting gradually**

Accounting basis is the basis of government financial information disclosure. Nowadays our government uses cash accounting, so that some important financial items cannot be accounted such as long-term liabilities and long-term assets. That's why the content of our country's financial report is so limited. In western countries, the extent of using accrual accounting is also different from each other. Some countries represented by New Zealand and Australia implement accrual accounting in all departments across the country, while others use accrual accounting in a certain range according to their actual situation and the need of their financial management.

The use of accrual accounting indeed should consider the special situations of different countries and different departments. Government has a lot of special assets such as cultural heritage, military assets, infrastructure assets and so on. Some of these assets obtained free of charge. Some lost the record of the historical cost. Some historical cost value is far away from the fair value. Some are hard to value because the market does not exist similar transaction. These all show that accrual accounting is not applicable in these units. Overall the government should be careful to choose[5].

### **To establish a sound system of financial information disclosure**

Looking around the practices of other countries' financial information disclosure, we find that they all establish a comprehensive standardized regular mechanism for government information disclosure according to their own national conditions. Our country should draw lessons from the foreign countries' experience, then establish a government financial reporting system suitable to China's national conditions. We can consider use the current budget and final report system, then gradually enrich the government financial statements system. We can also analyze the users of government financial information, and divide the financial reports into two parts according to the demands of users, general purpose report and special purpose report respectively. General purpose report is a compound of all the departments' reports. Citizens compared with other groups are not easy to get detailed government financial information which related to decisions, and they may not possess professional knowledge so that they don't want to spend too much time to study complex report. In consequence, disclosure should use general purpose report, answering all their questions concisely and providing the information all they want[6].

### **To strengthen the verification of the government financial report**

Government financial reporting should use two verification methods, one is financial verification, namely the verification focusing on the government business operations and the rationality of the public financial revenue and expenditure; the other is management verification, namely the

verification focusing on the government public accountability in the financial report and government performance[7].

In our country, the current government financial reporting system has not been independently audited yet. The government only asked all finance authorities to audit the total budget statements. It generally includes two aspects, policy review and technical review. The policy review is about whether the budgetary revenues and expenditures conform national policy, decrees and relevant financial regulations. The technical review is about if there are any digital mistakes and technical errors in the report[8]. Though, auditing the financial reports does a little work to guarantee the quality of government financial information, but it only focuses on the legal compliance of the government financial information and ignores fair which is more important. It seems that in order to maintain the normal operation of our government financial reporting system, the mechanism of government financial report verification is imperative.

## **Conclusion**

Nowadays people complain that our government financial information disclosure in our country is not sufficient. It is necessary for us to establish and perfect a financial information disclosure system. Definitely it will be a long and arduous process. We need to study and innovate continuously and put theory into practice. Then we will find the problems in practice in return and solve the problems. No matter how twists and turns the road is, the future is always bright.

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