

Research on the Improvement of Government Financial Reports under New Public Management System

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Abstract

In the movement of new public management, government accounting reform is increasingly becoming a topic of concern. The focus point of new public management in China is to build a high-efficiency, democratic and open government, which puts forward new challenges to government financial information disclosure. Although the budget accounting system in China has been reformed for several times, and has achieved remarkable success, we have not yet established a mature government accounting. It still focuses on budget management, and does not fully reflect the situation that our government manages public resources, so it can not help government free its public accountability and win public trust. The aim of establishing and perfecting government accounting according to new public management is to integrate with international accounting practices. Based on China's unique political and economic system and sociocultural environment, this paper explores the improvement of our government's new financial reporting system from different angles. We points out the requirements for government financial reporting of new public management, and analyzes existing problems of our government financial reporting. Finally, we put forward some countermeasures.

Keywords: Government, Financial Report, Improvement

1. Introduction

In recent years, drawing on the experiences of new public management campaign in western countries, Chinese scholars began to explore its significances to the public administration reform in China. New public management requires a high-efficiency, democratic and open government, which requires us to disclose our government financial information truly and fully, and to increase the transparency of disclosure. In order to make the government financial reporting provide more sufficient and related financial information, we should unify the types of government financial reports, reform its foundation and expand its capacity of information. In the new public management campaign, government fiduciary responsibility should be defined, measured, recorded and reported effectively. Reflecting government fiduciary responsibility is an important element of government financial reports under new public management system. Therefore, we need to further improve the system of our government financial reports, so as to adapt the requirements of public administration reform.

2. Requirements of Government Financial Reports Under New Public Management System

Management methods and mechanisms of the modern market economy were applied to government management in new public management system, which is bound to have a profound impact on the entire government mechanism. From a financial point of view, these changes bound to present new requirements for government financial reports.

2.1 Emphasis on Fiduciary Duties of the Reporting Subject

Government financial reports stress providing enough information for the users to help them achieve their goals. Compared with corporate accounting, users of government financial reports are more extensive and diverse, and their purposes of obtaining and using government financial information are different. There are two basic purposes: First, to assess how the public sectors fulfill fiduciary duties, which are usually concerned about by legislature and audit departments and the public; Second, to improve decision-making. Most people believe that the

focus of government financial reports is to help users assess the fiduciary duties of reporting subject. In the theories and practices of western public governance, public management and government accounting, the fiduciary responsibility has been regarded as a classic principle, and became the basic principle for guiding the government accounting reform and the government's financial reporting system construction. The concept of fiduciary responsibility came from the principal-agent relationship, which requires the agent to be responsible for the principal. As a result, the agent should give feedback to the principal about the fulfillment of fiduciary responsibility, and the principal should evaluate it. Therefore, for both the principal and the agent, obtaining relevant information is the basic premise to assess the fiduciary duties, which further requires the government accounting system to be able to provide accurate, comprehensive and timely information for assessing fiduciary responsibility.

2.2 Introduction of Accrual Accounting Foundation

To enhance financial transparency and performance-oriented public administration, More than half the members of the Organization for Economic Cooperation and Development (OECD) adopted a certain form of accrual accounting foundation in government accounting, financial reporting and even government budget. In the performance-oriented management model, managers concern about two central problems: First, the meaningful results produced by public organizations using public resources; Second, the cost to get these results. To answer these two basic questions, one needs to have the appropriate cost and performance information. However, traditional accounting based on cash cannot provide these two types of critical information. Changing to accrual accounting is necessary in this context. It is an extremely important and crucial reform in government financial management. Adopting accrual accounting is not just a technical change of accounting practices applied to the public sector, but to make the managers to be responsible for the results or outputs and corresponding costs in the case of losing investment control. Therefore, introduction of accrual accounting foundation is also an urgent need for the government accounting, so as to effectively track the cost of output, and to support managers make better decisions.

2.3 Enhance Transparency of Government Financial Information

On behalf of the public, the government engages in the public financial activities, and manages public properties. The public has property rights and interests, and has the right to know financial information, so government financial reports must establish an open and transparent financial information disclosure system. To enhance the transparency of government financial information, we should consider from two aspects: First is the openness of the financial information. Government should disclose timely and reliable information to the public, so as to help information users evaluate financial condition, results of operations activities, and financial risk of the government. Another aspect is the clarity. Public disclosure itself does not necessarily lead to transparent, so government financial information should also be clear and easy to understand.

3. Problems of Our Current Government Financial Reporting System

At present, China has not yet formed government financial reports in the true sense, current government financial reports are actually reporting systems taking the budget accounting reports as the core, which has a big gap with the proper government financial reports.

3.1 The Government's Overall Financial Reporting System has not been Established

From the perspective of information users, almost all of the information users including core departments, the legislature, the media and the public need to use government's consolidated financial reports to get the government's overall budget and financial information. However, our current budget accounting system does not provide such reports, including the major contingent liability report which is of great significance to manage financial risk, the tax expenditure report, as well as quasi-fiscal activities report. In addition, although the general budget accounting, the accounting of administrative units and public institution each has an accounting statement, and provides consolidated accounting statements, each of the accounting statements creates a system of its own, compiled respectively, so they cannot be aggregated into the government's overall consolidated balance sheet. Although the current budget accounting system provides a report on the government's overall budget, it does not

include many categories of financial transactions, so these reports are not overall government budget reports in a complete sense.

3.2 The Assets and Liabilities Reports are Incomplete

Records and disclosure about government assets and liabilities in our budget accounting are incomplete. Parts of the national assets don't have corresponding accounting records and reports; Confirmation and records about liabilities are also not complete. According to regulations, administrative and public institutions should conduct accounting for their fixed assets, but the government overall fiscal budget and actual budget do not provide relevant information about government fixed assets. The fixed assets accounting information from the administrative institutions are just provided to national statistical offices as reference materials. This means once financial funds for fixed assets were expended, they could not be effectively tracked and supervised no longer. In fact, the annual budget expenditure is only the incremental part of government fixed assets, and a complete accounting of the accumulated stock of fixed assets has not been carried out, so we are unable to carry out effective supervision and management.

3.3 There are no Reports Reflecting the Performance and Cost Information of the Public Sectors

The main objective of a public sector's financial report is to reflect the management performance of reporting entity, this means financial report should provide reliable, relevant and timely information to help users assess "how much resources were consumed by the reporting entities and where they were spent", and "how much effective goods or services were provided". These are information about management performance. However, the report under current budget accounting system cannot provide such complete information, especially information on outputs and outcomes.

In addition, current budget accounting and reporting system cannot provide the information needed in assessing financial performance, especially the service cost information. Institutions of public spending cannot understand the expenditure costs, and thus cannot strive to minimize the cost. In this case, it is very important to set up and use evaluation indicators of expenditure performance. In addition, there are still some problems in current budget accounting reporting system, for example, the definition of the range of report

users is too narrow, and the system specification mode lacks of flexibility and adaptability.

4. Specific Measures to Improve Our Government Financial Reporting System

4.1 Establishing a New Kind of Government Financial Reporting System

i. Setting a new target for government financial report

Under the guidance of government accounting goals, we should establish a rational target for government financial report from the needs of the users. The objective of government financial report should fully reflect the government's economic behaviors and their present and future impact on resources, so as to help the government as an internal user understand its current situation and evaluate its behaviors, which will provide the basis for future resource allocation decisions and government actions, and also to help external users understand the government's performance of fiduciary duties.

To sum up, the goals of government financial report can be divided into: reflecting budget implementation, reflecting the performance of government, reflecting the government's financial situation, and reflecting internal controlling and financial management system of the government.

ii. Building new subject of government financial report

Government financial reporting entity is the key factor to define the scope of government financial report. For existing administrative units, in principle, they can be classified as government agencies. For institutions, units with strong public function and involving large government financial funds can be classified as government units, and brought in the government's financial reporting entities. Non-profit organizations and state-owned enterprises in the field of competition are temporarily not included in the scope of government financial reporting entities, and the relevant information will be reflected by attached sheets or other ways. Based on this, Chinese government financial reports include at least two levels: first, various departments of the government, and second, the whole government. Each government department is responsible for the preparation of its annual financial report. For the governments at all levels, their financial reports are drawn up by corresponding financial departments. The Ministry of Finance is

responsible for summarizing consolidated financial reports of local governments.

iii. Accounting basis of government financial reports

From a practical point of view, introducing accrual basis roundly is bound to face many difficulties at present, so we can try to consider adopting a dual-mode: introducing the accrual basis locally while retaining cash basis, and reporting assets and liabilities that are not difficult and quite conspicuous in practice. So we can form dual mode that makes two basic accounting coexisted and takes cash basis as the main mode.

iv. Requirements for quality of the information of the government financial reports

The quality of our government financial information should take the fiduciary responsibilities as the main line, taking decision correlation into account, and should include the following core quality characteristics: The first is the reliability, which requires single financial accounting data to be reliable; The second is relativity, which requires the information provided by the government accounting entity must be relevant to government fiduciary responsibilities, especially the government financial fiduciary duties, and related to the needs and decision-making of internal and external information users. The third is comprehensibility, this means accounting records and information must be clear, concise, easy to understand and convenient for accounting information users.

v. System design for new government financial reports

In the new public management system, improved government financial reports shall be constituted by financial statements, notes and other supplemental information. (a) Reflecting the budget implementation. This will be achieved through the comparison table of budget and actuality. (b) Reflecting government operational performance. This will be measured mainly by flow statements and performance indicators. (c) Reflecting the financial position of the government. This will be achieved mainly through the balance sheet, statements or added information. (d) Reflecting internal controlling and financial management system of the government. This will be embodied by other supplemental information.

4.2 Establishing Appropriate Government Financial Reporting Standards System

Developed countries have been able to establish a relatively perfect government financial reporting system, because they developed a complete set of guidelines to standardize

financial reports previously. For a long time, China has been using "system specification" mode in the field of budget accounting, which means that we established budget accounting systems of different branches relying on the organizational categories. It is proved that, compared with "standards specification" mode, "system specification" mode has many weaknesses difficult to overcome, and cannot adapt to environmental changes. Therefore, in order to compile effective performance type government financial report, it is necessary to change the current status of establishing different budget accounting systems by organizational categories. We should formulate unified government financial reporting standards for accounting matters, and take this as a framework to guide the government financial reporting system to transit smoothly.

4.3 Auditing and Certifying Government

Financial Reports

The positions of those who provide financial reports are often inconsistent with that of the users. Only auditing organs or other forensic agencies with impartiality and neutrality status can audit government financial reports and provide objective, fair certification reports, and make government financial reports gain the trust of users and discharge its fiduciary duties. Auditing and certifying of government financial reports is conducive to improve the efficiency and effectiveness of the use of public finances, urge government officials and government management authorities to work efficiently, ensure the government to fulfill its fiduciary responsibilities, and get universal trust from social public and the legislative body by raising the achievements. Therefore, the certification of government financial reports is an integral part of the government financial reporting system. At present, China has not yet established a standard government auditing system. If we conduct government accounting reform in China without a matching government auditing specification, the proper role of government accounting after reforming will be difficult to play. Therefore, while strengthening the construction of government accounting, we need to work out the relevant laws and regulations of auditing and certifying government financial reports as soon as possible.

5. Conclusions

This paper analyzes the existing problems of Chinese government financial reports. According to the requirements for government financial reports of the new public management,

we explores how to build a new type of government financial reporting system under the new public management system, and put forward specific measures from different angles to improve the system, which is of a certain significance to improve the financial reporting system of our government.

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