



Australian Government

Financial Reporting Council

**International Perspectives on
Sovereign Financial Reporting**

Overview

- Why it matters
- A case in point – the GFC
- The role of intermediaries
- Role of financial reporting
- The key attributes of public sector financial reporting
- Systems of Financial Reporting

Why it matters

- Governments worldwide seek access to external funding other than taxation – bonds, direct loans, aid etc
- These fund flows make up a significant part of world capital markets
- Continued fund flows depend on retaining the confidence of those providing the funding – lenders, donors etc
- This in turn depends to a great extent on funders having access to high quality sovereign financial information

Case in point

- The Global Financial Crisis, in particular the situation in Europe
- The issue is a concern about the fiscal position of several countries and their ability to repay borrowings
- Even where further credit is extended there are consequences such as higher interest rates and/or financial austerity measures
- Europe has an internal mechanism for dealing with such situations, resulting in recent bailouts. Not all countries are in the same position and may seek the assistance of the IMF or aid donors

The role of intermediaries

- Intermediaries play a key facilitating role in the international sovereign financial market. Some include:
- The International Monetary Fund (IMF) is established to foster global monetary co-operation and secure financial stability
- Ratings agencies provide assessments of the bond issues of individual governments
- Various development banks that provide project finance on favourable terms
- Intermediaries require high quality financial information to undertake their roles effectively

Role of sovereign financial reporting

- The observation is that funders, and intermediaries, find it important to understand that a country demonstrates fiscal responsibility
- Financial reporting plays a key part in this – both the budget and the actual outcome
- It is increasingly expected that there will be consideration of the long term fiscal position

Key attributes of high quality sovereign financial reporting

- Address the key objectives of financial information – accountability and decision-making
- Qualitative characteristics – relevance, timeliness, understandability, verifiability, faithful representation, comparability
- Importance of transparency and open-ness
- Independently-set accounting standards
- Independent audit
- Comparison of budget and actual, prepared on the same basis

Systems of Financial Reporting

- The decision about the actual system are currently decided by each government
- The precise details of the system used should be appropriate for the country considering culture, stage of development and available resources
- The system may be developed and enhanced over time

Systems of financial reporting (cont)

- The key attributes (earlier slide) should be used to decide on a high quality system
- IPSAS in particular is designed for governments and it contains different “entry points” – for cash or accrual
- Other systems may have a role to play:
 - A small number of countries use International Financial Reporting Standards as their base (e.g. Australia)
 - Some countries have their own system (e.g. Federal Accounting Standards Advisory Board in the USA)
 - International statistical standards (System of National Accounts and Government Finance Statistics) may provide useful information at a macro-economic level, particularly with supplementary disclosures

Enhancements to the system

- The basic financial reporting system can be enhanced to meet the needs of individual countries and to increase transparency and improve accountability. Examples:
 - Forward estimates
 - Complimentary budget management processes or budget integrity rules
 - Reporting at a greater level of detail (agencies, functions, programs)
 - Greater frequency of reporting
 - Requirements for publication of reports
 - Simplified guides to explain government financial outcomes

Further information

- Financial Reporting Council – <http://www.frc.gov.au/>
- International Public Sector Accounting Standards Board - <http://www.ifac.org/public-sector/about-ipsasb>
- Australian Government financial reports - <http://www.finance.gov.au/publications/index.html>
- Australian Accounting Standards Board – www.aasb.gov.au