

SM/98/199
Supplement 1

July 31, 1998

To: Members of the Executive Board

From: The Secretary

Subject: **Draft Manual on Fiscal Transparency—Annexes**

The attached annexes provide background information to the draft manual on fiscal transparency (SM/98/199, 7/31/98), which is tentatively scheduled for discussion on Monday, August 24, 1998.

Mr. Hemming (ext. 38543) or Mr. Allan (ext. 38542) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

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INTERNATIONAL MONETARY FUND

Draft Manual on Fiscal Transparency—Annexes

Prepared by the Fiscal Affairs Department

Approved by Vito Tanzi

July 31, 1998

Contents	Page
I. Questionnaire on Fiscal Transparency	3
II. Summary Report on Fiscal Transparency	29
III. International Standards Related to Fiscal Transparency	37
IV. Glossary	38
V. Web Site Addresses	44

Abbreviations

COFOG	Classification of the Functions of Government
EBFs	Extrabudgetary funds
GDDS	General Data Dissemination System
GFS	Government Finance Statistics
IFAC	International Federation of Accountants
INTOSAI	International Organization of Supreme Audit Institutions
MTBF	Medium-term budget framework
NAA	National Audit Authority
NFPEs	Nonfinancial public enterprises
OECD	Organization for Economic Cooperation and Development
PSC	Public Sector Committee (of IFAC)
PFI	Public financial institutions
PSBR	Public sector borrowing requirement
QFAs	Quasi-fiscal activities
SDDS	Special Data Dissemination Standard
SNA	System of National Accounts
UNCITRAL	United Nations Commission on International Trade Law

QUESTIONNAIRE ON FISCAL TRANSPARENCY

Country:

Date of Preparation:

Contacts: *(names, organizations, e-mail, facsimile, telephone or postal addresses)*

This questionnaire provides a vehicle for systematically reviewing the transparency of a country's fiscal management system in relation to the *Code of Good Practices on Fiscal Transparency—Declaration on Principles*. The IMF has prepared a supporting *Manual on Fiscal Transparency* which explains in detail the requirements set out in the Code and provides references to good practices in member countries. Guidance to answering specific questions can be obtained either by referring to the relevant section of the Manual or by a key word search of the web version (<http://www.imf.org/>). An electronic mailbox (fisctran@imf.org) has also been established where enquiries can be sent and more extensive support can be requested.

In completing the questionnaire, respondents are asked to describe each aspect of transparency by marking one box (or, where indicated, several boxes). All responses should be supported by a more detailed description under the supporting comment section. The relevant section of the Manual (paragraph references given) and the summary of good practices in Box 1 should be consulted for topics to be covered in this comment. The response should be based on the assessment of the current status of the fiscal management system in practice. Recent or planned improvements in transparency could also be indicated in the supporting comment space.

I. CLARITY OF ROLES AND RESPONSIBILITIES

1.1 The government sector should be clearly distinguished from the rest of the economy, and policy and management roles within government should be well-defined.

1.1.1 Boundary between general government and rest of economy

Is there a clear separation of the predominantly noncommercial activities of general government from the rest of the public sector, and the private sector?

- General government (as per Government Finance Statistics (GFS)/System of National Accounts (SNA) definition) not clearly distinguished from other sectors
- A lack of separation with respect to some significant activities
- Generally, a clear separation

Supporting comment: paragraphs 17-20

1.1.2 Government involvement in rest of economy

1.1.2.1 Government involvement in the private sector

Government involvement in the private sector is:

- Pervasive and not well-defined?
- Not well-defined in a number of aspects?
- Open, public, and on the basis of clear rules and procedures?

Supporting comment: paragraphs 21-24

1.1.2.2 Regulation of the nonbank private sector

Government regulation of the nonbank private sector is implemented through:

- Complex regulations, nontransparent regulatory processes?
- Relatively simple open regulations, but significant scope for
discriminatory implementation?
- Clear simple regulations and open regulatory processes?
- As above, and an open formal process for assessing quality of proposed
new regulations and periodically reviewing existing regulations?

<i>Supporting comment:</i>	<i>paragraph 22</i>
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1.1.2.3 Government involvement in the financial sector

- Extensive government ownership with limited reporting of performance,
together with significant unreported QFAs by both government and
nongovernment banks?
- Limited government ownership, but significant unreported QFAs by
private banks?
- Limited government ownership and only minor QFAs?
- No government-owned banks, and no QFAs or full public reporting
of any QFAs?

<i>Supporting comment:</i>	<i>paragraph 23</i>
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1.1.2.4 Government direct equity investment

Government's equity participation in private companies is:

- Widespread and not clearly reported?
- Moderate but not clearly reported?
- Limited, reported, and clearly explained?

<i>Supporting comment:</i>	<i>paragraph 24</i>
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1.1.3 Responsibilities across levels and branches of government

1.1.3.1 Intergovernmental fiscal relations

(a) Central control over general government balance can be best described as:
(Indicate in the comment section whether control issues arise primarily during planning and preparation, execution, or audit stages).

- Very weak?
- Weak?
- Firm, but areas of negotiation?
- Strong?

(b) Subnational expenditure responsibilities and tax powers

- unclear or emerging?
- Main subnational functions and powers clear but many subject to
ad hoc negotiations?
- Comprehensive allocation of powers and responsibilities, and
intergovernmental transfer mechanisms?

Supporting comment: *paragraph 26*

1.1.3.2 Role of executive, legislative, and judicial branches

Are the fiscal management roles of the various branches of central government:

- Unclear or emerging?
- Established but with significant areas of uncertainty?
- Well-established with capacity to resolve emerging issues?

Supporting comment: *paragraph 27*

1.1.4 Budget coordination and arrangements with other government entities

1.1.4.1 Mechanisms for the coordination and management of budgetary and extrabudgetary activities are:

- Not well-defined?
- Sufficiently defined to permit effective control of budget and extrabudgetary fund (EBF) spending?
- Well-defined?

<i>Supporting comment:</i>	<i>paragraphs 29–33</i>
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1.1.4.2 General government and the central bank

The government influences central bank policy for fiscal purposes:

- To a great extent?
- To some extent?
- Little or not at all?

<i>Supporting comment:</i>	<i>paragraphs 35–37</i>
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1.1.4.3 General government and other public financial institutions (PFIs)

Separation of PFIs from general government:

- Poor separation/extensive quasi-fiscal activity?
- QFA relatively limited?
- Clear separation of fiscal and banking policies and operations?

<i>Supporting comment:</i>	<i>paragraph 38</i>
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1.1.4.4 General government and nonfinancial public enterprises (NFPEs)

Are arrangements between NFPEs and general government:

- Poorly distinguished and nontransparent?
- Mainly distinct, but with significant nontransparent intervention?
- Clear distinctions in management and transparent financial arrangements?

Supporting comment: *paragraphs 39–41*

1.2 There should be a clear legal and administrative framework for fiscal management.

1.2.1 Legal framework for fiscal management

1.2.1.1 Does the legal framework define roles and responsibilities for all key aspects of fiscal management:

- To a limited extent?
- Most aspects, but with significant gaps?
- Comprehensively, but through complex laws, orders, and administrative arrangements?
- Through comprehensive, clear legislation, regulations, and instructions?

Supporting comment: *paragraphs 43–46*

1.2.1.2 Legal framework—transparency and accountability: *(tick one box in a, b, and c)*

(a) Administrative accountability provisions in the framework:

- Are not clearly defined?
(e.g., emphasizing broad sectoral allocations rather than establishing a clear line of accountability to specific individual agencies for the expenditure of public monies)
- Are defined mainly in terms of financial compliance?

Cover both financial compliance and effectiveness of performance
 (For example, legislative requirements for reporting fiscal outcomes, for the timing of budget authorization and approval, for the completion of audit, for the nature of information the executive is required to provide with the budget, for the accounting basis used to prepare the financial statements)

(b) Legislation sets out fiscal transparency requirements for the executive branch of government:

- To a limited extent or not at all?
- For some aspects, such as comprehensive fiscal reporting?
- Explicitly and comprehensively?
 (i.e., in a way comparable to that of New Zealand's Fiscal Responsibility Act)

(c) The transparency/accountability provisions of the law are observed in practice:

- To a limited extent?
- Moderately well?
- Very well?

Supporting comment: *paragraphs above and Box 11*

1.2.2 Legal basis for taxes

1.2.2.1 Legal framework for tax and its practical observation: *(tick one box in a and b)*

- (a) Widespread discretionary concessions or negotiated tax and customs liabilities
- Explicit and clear statutory basis for liability or concession in most tax and customs laws
- Explicit and clear statutory basis for liability or concession in all tax and customs laws

(b) The provisions of the law are observed in practice:

- To a limited extent?
- Moderately well?

Very well?

Supporting comment: *paragraphs 47-49*

1.2.2.2 Tax regulation and administration

- (a) Unclear tax regulations and procedures generally
- Unclear regulations and procedures for some taxes
- Clear regulations and procedures for all taxes

Supporting comment: *paragraphs 50-56*

(b) Tax officials' code of conduct or process protection:

- Exists and is observed for: none or few taxes?
- some taxes?
- most or all taxes?

Supporting comment: *paragraph 57*

(c) Taxpayer's rights and obligations:

- Are clear for: none or few taxes?
- some taxes?
- most or all taxes?

(d) Taxpayer's rights and obligations:

- Are observed for: none or few taxes?
- some taxes?
- most or all taxes?

Supporting comment: *paragraph 57*

1.2.3 Ethical standards

Are ethical standards of behavior for public servants:

- Not stated formally?
- Covered partially in various laws or statements?
- Covered in a clear and well-publicized law or statement?

Supporting comment: *paragraph 58*

II. PUBLIC AVAILABILITY OF INFORMATION

2.1 The public should be provided with full information on the past, current, and projected fiscal activity of government.

2.1.1 Budget coverage

(In the comment, indicate how the term "budget" is interpreted in the country. If the term is restricted to the (usually limited) proportion of the public accounts subject to annual appropriation, discuss the extent of the problem of data outside the budget and whether these transactions are treated similarly to budget transactions.)

Identify which of the following features apply to the budget presentation:
(tick one box in a and applicable boxes in b)

(a) Coverage of central government:

- Limited?
- Most of central government?
- Comprehensive?

(b) Coverage of general government:

- Some coverage of general government?
- Comprehensive coverage of general government?
- Comprehensive coverage of public sector?

<i>Supporting comment:</i>	<i>paragraphs 61-65</i>
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2.1.2 Outturns for preceding two fiscal years

Indicate which of the following is presented with the annual budget estimates:

- No historical information on previous years
- Some aggregate information on the actual or expected outturn of the preceding fiscal year, and the original budget for that year
- Some aggregate information on the budget and outturn for the preceding two fiscal years

<i>Supporting comment:</i>	<i>paragraph 66</i>
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2.1.3 Statements on contingent liabilities, tax expenditures, and quasi-fiscal activities
(tick one box in a, b, and c)

- (a) No statement on contingent liabilities published with the budget
- A statement on contingent liabilities published with the budget, but
no quantitative estimates
- As above, with some quantitative estimates

- (b) No statement on tax expenditures published with the budget
- A statement on tax expenditures published with the budget, but no
quantitative estimates
- As above, but with some quantitative estimates

- (c) No statement on quasi-fiscal activities published with the budget
- A statement on quasi-fiscal activities published with the budget, but
with no quantitative estimates
- As above, but with some quantitative estimates
- No statement, because QFAs are very limited

<i>Supporting comment:</i>	<i>paragraphs 67-79</i>
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2.1.4 Information on debt and financial assets

Does the central government publish information on the level and composition of:
(tick one box in a and b)

- (a) Debt: To a limited extent or infrequently?
- With the annual budget?
- With the budget and within year?

- (b) Financial assets: To a limited extent or infrequently?
- With the annual budget?
- With the budget and within year?

<i>Supporting comment:</i>	<i>paragraphs 80–87</i>
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2.2 A public commitment should be made to the timely publication of fiscal information.

2.2.1 Specific commitments to publication

Is there a public commitment to publication of fiscal information:
(tick all applicable boxes)

- Not at all or not clear?
- By government policy statements or administrative orders?
- Commitment to data access and integrity as specified in the IMF’s data dissemination standards (General Data Dissemination System (GDDS)/ Special Data Dissemination Standard (SDDS))?
- In law?

<i>Supporting comment:</i>	<i>paragraphs 89–92</i>
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2.2.2 Advance release date calendars

Are there published advance release date calendars for fiscal reporting to the public?

- No advance release dates
- Release dates established for most reports
- Advance release dates calendar published

<i>Supporting comment:</i>	<i>paragraphs 93–94</i>
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III. OPEN BUDGET PREPARATION, EXECUTION, AND REPORTING

3.1 Budget documentation should specify fiscal policy objectives, the macroeconomic framework, the policy basis for the budget, and identifiable major fiscal risks.

3.1 Policy objectives and sustainability

3.1.1.1 Budget framework

Indicate which of the following apply to the budget estimates framework: (tick all applicable boxes)

- Forecast of fiscal aggregates for budget year plus two years
As above, but with forecast also by individual agency
Formal rolling medium-term (3-5 year) baseline
Statement of government's medium-term fiscal policy objectives and priorities
Explicit target(s) set for budget policy in the medium term: Expenditure/GDP, Revenue/GDP, Current balance, Deficit/GDP, Debt/GDP, Other (specify)

Supporting comment: paragraphs 97-101

3.1.1.2 Indicators of fiscal policy stance

Identify whether the following indicators (as defined in the Manual) are provided in fiscal policy statements—and the extent to which these are monitored ex post:

(a) For central government (*tick all applicable boxes*)

	<i>Ex ante</i>	<i>Ex post</i>
Overall balance?	<input type="checkbox"/>	<input type="checkbox"/>
Overall balance excluding asset sales?	<input type="checkbox"/>	<input type="checkbox"/>
Current balance?	<input type="checkbox"/>	<input type="checkbox"/>
Primary balance?	<input type="checkbox"/>	<input type="checkbox"/>
Operational balance?	<input type="checkbox"/>	<input type="checkbox"/>
Public debt?	<input type="checkbox"/>	<input type="checkbox"/>
Contingent liabilities?	<input type="checkbox"/>	<input type="checkbox"/>
Tax expenditures?	<input type="checkbox"/>	<input type="checkbox"/>
Quasi-fiscal operations?	<input type="checkbox"/>	<input type="checkbox"/>
Statement of financial assets and liabilities?	<input type="checkbox"/>	<input type="checkbox"/>
Net worth? (Or other form of balance sheet indicator)	<input type="checkbox"/>	<input type="checkbox"/>
Other? (<i>specify</i>)	<input type="checkbox"/>	<input type="checkbox"/>

(b) Are similar indicators applied to subnational government or general government policy statements: (*tick one box*)

- Limited or not at all?
- To some extent?
- To a great extent?

Supporting comment: *paragraphs 97-101*

3.1.1.3 Indicators of sustainability of fiscal policy

Indicate which of the following techniques or indicators are used to a significant extent in formulating or justifying fiscal policy in formal policy statements: (*tick all applicable boxes*)

- Qualitative statement of sustainability
- Structural or cyclically adjusted fiscal balance
- Sustainability calculations (e.g., estimates of the primary balance required to stabilize debt)
- Accrual basis budgets and accounts
- Generational accounts

Other (*specify*)

Supporting comment: *paragraphs 102–103*

3.1.1.4 Long-term forecasting and planning

Are long-range (10–40 year) scenarios prepared: (*tick only one box*)

Rarely or not at all?

For specific sectors? (e.g., examination of the sustainability of pension and social security funds)

As a regular and integral part of fiscal policy and budgeting?

Supporting comment: *paragraphs 102–103*

3.1.2 Fiscal rules

Are there fiscal rules placing limits on executive branch fiscal policy discretion: (*tick one box in a and b*)

(a) Not at all?

Administrative rules (i.e., without specific legislation)?

Broad qualitative rules in legislation (e.g., the “golden rule”)?

Specific quantitative rules in legislation (e.g., a limit on borrowing or the deficit)?

(b) Are any fiscal rules clearly specified, and is “fiscal scorekeeping” with respect to observance of the rule in accordance with the requirements of the Code on Fiscal Transparency?

Not well-defined and not consistent

Some aspects unclear or inconsistent with the Code

Well-defined and consistent

<i>Supporting comment:</i>	<i>paragraph 104</i>
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3.1.3 Macroeconomic and fiscal forecasts

Are medium-term macroeconomic and fiscal forecasts used as a basis of fiscal policy and budgeting:

- To a very limited extent?
- Yes, but with limited technical capacity?
- Yes, with some supporting analysis
- As above, with thorough analysis of assumptions and parameters?
- As above, and open to independent expert assessment?

<i>Supporting comment:</i>	<i>paragraph 105</i>
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3.1.4 Existing commitments and new policies

In the budget preparation process, and in budget presentation, are **existing commitments** under current policies distinguished from **new policy commitments**:

- Not at all?
- To some extent, but not systematically?
- Systematically, as a formal part of the budget process?

<i>Supporting comment:</i>	<i>paragraph 106</i>
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3.1.5 Risks to the annual budget

3.1.5.1 Identification of fiscal risks

Does the budget presentation formally incorporate information on risks to the fiscal position (e.g., variations in economic assumptions and the uncertain costs of specific expenditure commitments, such as financial restructuring):

- Not at all?
- To a limited extent?
- Extensively?

Supporting comment: *paragraph 107*

3.1.5.2 Reliability of budget data

Are budget cost and revenue estimates data:

- Unrealistic or based on unclear assumptions?
- Moderately reliable?
- Very reliable?

Supporting comment: *paragraph 107*

3.2 Budget estimates should be classified and presented in a way that facilitates policy analysis and promotes accountability.

3.2.1 Estimates classification

Do the following aspects of classification accord with the following practices:
(tick all applicable boxes)

- A comprehensive coverage of all budget and extrabudgetary funds?
- Expenditure classified by individual administrative agency?
- Classification of revenues, expenditures, financing, and debt in a way that is *compatible* with GFS or other similar international standard?
- GFS/SNA-consistent functional classification of expenditures?

Supporting comment: *paragraphs 109–112*

3.2.2 Statement of objectives

Is a statement of objectives to be achieved by major government programs provided with budget documentation?

- Not at all
- Some reporting of objectives
- General reporting of objectives
- As above, and with some reporting of expected performance,
output, or outcome indicators

Supporting comment: *paragraphs 113-114*

3.2.3 Overall budget balance

3.2.3.1 What is the main summary indicator of the government's financial position in the annual budget presentation? (*tick one box*)

- No indicators presented with the annual budget
- Central government overall balance
- Central government underlying balance
(i.e., overall balance net of proceeds from asset sales)
- As above, with limited additional supporting analysis and indicators
- As above, with extensive additional supporting analysis and indicators

3.2.3.2 Is there an analytical table showing clearly the relation between the budget estimates and the overall balance? (*tick one box*)

- No
- Yes, but not clear
- Yes

Supporting comment: *paragraphs 115-121*

3.2.4 Accounting policies

3.2.4.1 Accounting basis (see definitions in Manual)

Are budget transactions recorded primarily: *(tick only one box)*

- On a cash basis?
- On a modified cash basis?.....
- On a modified accrual basis?
- On an accrual basis?

<i>Supporting comment:</i>	<i>paragraph 122</i>

3.2.4.2 Statement of accounting policies

Is a clear statement made on the accounting basis (e.g., cash or accruals), and the accounting policies adopted in the budget and accounts of government?

- No
- Partial statement
- Yes

<i>Supporting comment:</i>	<i>paragraph 122</i>

3.3 Procedures for the execution and monitoring of approved expenditures should be clearly specified.

3.3.1 Comprehensive integrated accounting system

Is the accounting system:

- Of limited capacity, unable to generate reliable data on accounts due for payment?
- Reasonably comprehensive and capable of generating reasonable data on accounts due for payment?
- Comprehensive and capable of generating data on all stages of the payments process?

<i>Supporting comment:</i>	<i>paragraphs 124–135</i>
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3.3.2 Procurement and employment

3.2.2.1 Procurement and contracting out: (tick one box in a and b)

(Please indicate in the comment section if regulation of contracting out arrangements differ materially from established areas of government procurement of goods and services.)

(a) Regulations requiring open tendering processes for public supply contracts:

- Are not in place?
- Are in place but are unclear or incomplete?
- Are satisfactory?

(b) Procurement regulations:

- Are not observed?
- Are only partially applied?
- Are followed rigorously?

<i>Supporting comment:</i>	<i>paragraphs 136–137</i>
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3.3.2.2 Employment

Government employment and pay: (tick one box in a and b)

(a) Openness of employment and pay regulation:

- Regulations not well-defined, allowing considerable discretion?
- Regulations well-defined, some discretion?
- Clear regulations and criteria for discretion?
- As above, but open to competition?

(b) Employment and pay regulations:

- Are not observed?

- Are only partially applied?
- Are followed rigorously?

Supporting comment: *paragraph 138*

3.3.3 Budget execution and control: *(tick one box in a and b)*

(a) Mechanisms of accounting and control (including internal audit) are:

- Weak?
- Adequate?
- Strong?

(b) Internal audit procedures are:

- Not clearly set out, and not subject to effective oversight by external auditors?
- Clearly set out and subject to effective oversight by external auditors?

Supporting comment: *paragraphs 125–127, 139*

3.4 Fiscal reporting should be timely, comprehensive, reliable, and identify deviations from the budget.

3.4.1 Periodicity and timeliness of budget outturn reports

(a) Indicate the frequency and timeliness of published central government financial accounting reports: *(tick applicable boxes)*

Periodicity:

- Annual reports
- Half-yearly reports
- Quarterly reports
- Monthly reports

Timeliness:

- Annual report audited and to legislature infrequently
 - or not at all.....
 - more than 12 months
 - within 12 months
 - within 6 months

- Within-year reports more than 2 months after month-end
 - within 2 months after month-end
 - within 1 month after month-end

(b) Do subnational governments meet similar (or higher) standards:

- Not at all or to a limited extent?
- Reasonably well?
- Completely or to a great extent?

<i>Supporting comment:</i>	<i>paragraphs 140-145</i>
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3.4.2 Presentation of final accounts

3.4.2.1 Coverage

Do the final financial accounting reports of central government cover:
(tick one box in a and applicable boxes in b)

- (a) Central government budgets only? (Indicate any issues with specific areas of the budget (such as foreign-financed development expenditure) in the comment) ...
 - As above, and some extrabudgetary funds
 - As above, and all extrabudgetary funds

- (b) Subnational government budgets?
 - Quasi-fiscal activities

<i>Supporting comment:</i>	<i>paragraph 145</i>
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3.4.2.2 Reconciliation

Are accounting reports: *(tick one box in a and b)*

(a) Reconciled rigorously with budget appropriations:

- Not at all or ineffectively?
- Fairly effectively, but not timely?
- Effectively and timely?

(b) Reconciled with bank accounts:

- Not at all or ineffectively?
- Fairly effectively, but not timely?
- Effectively and timely?

(c) Audited:

- Not at all or ineffectively?
- Fairly effectively, but not timely?
- Effectively and timely?

<i>Supporting comment:</i>	<i>paragraph 142</i>
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3.4.3 Results achieved against objectives

Which of the following have been adopted to measure and assess value, efficiency, or effectiveness of public activities: *(tick all applicable boxes)*

- Review of the success of major programs in achieving their announced objectives?
- Ad hoc sectoral or program reviews?
- Regular program reviews?

- Systematic government evaluation of efficiency and effectiveness?
- Performance agreements specifying expected outputs?
- Performance or value for money audits?

<i>Supporting comment:</i>	<i>paragraph 146</i>
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IV. INDEPENDENT ASSURANCES OF INTEGRITY

4.1 The integrity of fiscal information should be subject to public and independent scrutiny.

4.1.1 National Audit Authority (NAA)

(a) Audit authority: *(tick one box)*

- No formal external audit of government accounts?
- Inspection/audit authority reports only within executive?
(e.g., to the president)
- A national audit body, independent of the executive, audits
government accounts, and reports to the legislature?

(b) The independence of the NAA from the executive is:

- Not clearly set out in legislation?
- Established in ordinary law?
- Established in the constitution?

(c) Are there institutional arrangements to assure that the findings of external audits are addressed?

- No
- Yes, but not very effective
- Yes

(d) Are there arrangements for a greater-than-usual degree of oversight by the legislature in setting the budget, and deciding staffing matters for the national audit body?

- No
- Yes

(e) Where a NAA exists, it has: *(tick one box in (i) and (ii))*

- (i) A limited mandate, mainly covering financial compliance?
- A mandate covering performance as well as financial compliance?
- (ii) Limited technical capacity?
- Sound technical capacity?

<i>Supporting comment:</i>	<i>paragraphs 149–155</i>
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4.1.2 Availability of macroeconomic forecasts

Are macroeconomic forecasts, and any formal models used to generate them, open to external scrutiny? (*tick one box*)

- No, or to a very limited extent
- Yes, but no formal institutional arrangements
- Yes, and formal institutional arrangements to assure quality

<i>Supporting comment:</i>	<i>paragraphs 156–158</i>
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4.1.3 Integrity of statistics

4.1.3.1 National Statistics Office

Does the national statistics office have institutional independence on technical matters?

- No explicit legislative technical independence
- Limited provisions for noninterference in statistical standards
- Statutory assurance of technical independence

4.1.3.2 Data integrity and quality

Are the standards for data integrity and quality set out in the IMF's General Data Dissemination System adhered to?

- No
- Yes

<i>Supporting comment:</i>	<i>paragraphs 159–160</i>
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SUMMARY REPORT ON FISCAL TRANSPARENCY

I. CLARITY OF ROLES AND RESPONSIBILITIES	
1.1 The government sector should be clearly distinguished from the rest of the economy, and policy and management roles within government should be well defined.	
1.1.1 The boundary between the government sector and the rest of the economy should be clearly defined and widely understood. The government sector should correspond to the general government, which comprises the central government and lower levels of government, including extrabudgetary operations.	
1.1.2 Government involvement in the rest of the economy (e.g., through regulation and equity ownership) should be conducted in an open and public manner on the basis of clear rules and procedures, which are applied in a nondiscriminatory manner.	
1.1.3 The allocation of responsibilities between different levels of government, and between the executive branch, the legislative branch, and the judiciary, should be clearly defined.	

<p>1.1.4 Clear mechanisms for the coordination and management of budgetary and extrabudgetary activities should be established, and well-defined arrangements vis-à-vis other government entities (e.g., the central bank, and state-controlled financial and nonfinancial enterprises) should be specified.</p>	
<p>1.2 There should be a clear legal and administrative framework for fiscal management.</p>	
<p>1.2.1 Fiscal management should be governed by comprehensive laws and administrative rules applying to budgetary and extrabudgetary activities. Any commitment or expenditure of government funds should have a legal authority.</p>	
<p>1.2.2 Taxes, duties, fees, and charges should have an explicit legal basis. Tax laws and regulations should be easily accessible and understandable, and clear criteria should guide any administrative discretion in their application.</p>	
<p>1.2.3 Ethical standards of behavior for public servants should be clear and well-publicized.</p>	

II. PUBLIC AVAILABILITY OF INFORMATION	
2.1 The public should be provided with full information on the past, current, and projected fiscal activity of government.	
2.1.1 The annual budget should cover all central government operations in detail, and should also provide information on central government extrabudgetary operations. In addition, sufficient information should be provided on the revenue and expenditure of lower levels of government to allow a consolidated financial position for the general government to be presented.	
2.1.2 Information comparable to that in the annual budget should be provided for the outturns of the two preceding fiscal years, together with forecasts of key budget aggregates for the two years following the budget.	
2.1.3 Statements should be published with the annual budget giving a description of the nature and fiscal significance of contingent liabilities, tax expenditures, and quasi-fiscal activities.	
2.1.4 The central government should regularly publish information on the level and composition of its debt and financial assets.	

2.2 A public commitment should be made to the timely publication of fiscal information.	
2.2.1 Specific commitments should be made to the publication of fiscal information (e.g., in a budget law)	
2.2.2 Advance release date calendars for fiscal reporting to the public should be announced.	
III. OPEN BUDGET PREPARATION, EXECUTION, AND REPORTING	
3.1 Budget documentation should specify fiscal policy objectives, the macroeconomic framework, the policy basis for the budget, and identifiable major fiscal risks.	
3.1.1 A statement of fiscal policy objectives and an assessment of sustainable fiscal policy should provide the framework for the annual budget.	
3.1.2 Any fiscal rules that have been adopted (e.g., a balanced budget requirement and borrowing limits for lower levels of government) should be clearly specified.	
3.1.3 The annual budget should be presented within a comprehensive and consistent quantitative macroeconomic framework, and the economic assumptions and key parameters (e.g., effective tax rates) underlying budget estimates should be provided.	

<p>3.1.4 Existing commitments should be distinguished from new policies included in the annual budget.</p>	
<p>3.1.5 Major risks to the annual budget should be identified and quantified where possible, including the variations in economic assumptions and the uncertain costs of specific expenditure commitments (e.g., financial restructuring).</p>	
<p>3.2 Budget estimates should be classified and presented in a way that facilitates policy analysis and promotes accountability.</p>	
<p>3.2.1 Government transactions should be on a gross basis, distinguishing revenue, expenditure and financing, and classifying expenditures on an economic and functional basis. In addition, expenditure should be classified by administrative category. Data on extrabudgetary operations should be similarly classified. Budget data should be presented in a way that allows international comparisons.</p>	
<p>3.2.2 A statement of objectives to be achieved by major budget programs (e.g., improvement in relevant social indicators) should be provided.</p>	

<p>3.2.3 The overall balance of the general government should be a standard summary indicator of the government's financial position. It should be supplemented by other fiscal indicators (e.g., operational balance, structural balance and primary balance) when economic circumstances make it inappropriate to base judgements about fiscal policy stance on the overall deficit alone.</p>	
<p>3.2.4 The annual budget and final accounts should include a statement of the accounting basis (i.e., cash or accrual) and standards used in the preparation and presentation of budget data.</p>	
<p>3.3 Procedures for the execution and monitoring of approved expenditures should be clearly specified.</p>	
<p>3.3.1 A comprehensive, integrated accounting system, should be established. It should provide a reliable basis for assessing payments arrears.</p>	
<p>3.3.2 Procedures for procurement and employment should be standardized and accessible to all interested parties.</p>	
<p>3.3.3 Budget execution should be internally audited, and audit procedures should be open to review.</p>	

3.4 Fiscal reporting should be timely, comprehensive, reliable, and identify deviations from the budget.	
<p>3.4.1 During the year, there should be regular, timely reporting of budget and extrabudgetary outturns, which should be compared with original estimates. In the absence of detailed information on lower levels of government, available indicators of their financial position (e.g., bank borrowing and bond issues) should be provided.</p>	
<p>3.4.2 Timely, comprehensive, audited, final accounts of budget operations, together with full information on extrabudgetary accounts, should be presented to the legislature.</p>	
<p>3.4.3 Results achieved relative to the objectives of major budget programs should be reported to the legislature.</p>	

IV. INDEPENDENT ASSURANCES OF INTEGRITY	
4.1 The integrity of fiscal information should be subject to public and independent scrutiny.	
4.1.1 A national audit body, or equivalent organization, should be appointed by the legislature, with the responsibility to provide timely reports to the legislature and public on the financial integrity of government accounts.	
4.1.2 Macroeconomic forecasts (including underlying assumptions) should be available for scrutiny by independent experts.	
4.1.3 The integrity of fiscal statistics should be enhanced by providing the national statistics office with institutional independence.	

INTERNATIONAL STANDARDS RELATED TO FISCAL TRANSPARENCY

A number of technical standards or guidelines for data presentation and fiscal management procedures relevant to fiscal transparency are being developed by various international organizations. These detailed standards should be consulted in implementing the relevant aspects of the Code. The Manual refers to these and discusses their linkage to the Code at appropriate points. This annex provides a brief overview of the main related areas of work and the organizations involved. Web site addresses, where available, are given in the text and included in the list of web site addresses in Annex V.

- **International accounting standards** for the public sector are being developed by the Public Sector Committee (PSC) of the International Federation of Accountants (IFAC).
- **Data dissemination standards** have been established by the IMF. The SDDS sets standards for providing economic and financial data to the public for member countries operating in international financial markets; the GDDS aims more generally to improve data quality among Fund member countries.
- **Fiscal reporting standards** are included in the *IMF's Manual of Government Finance Statistics (GFS)*, which is currently in the process of being revised and brought into line with other standards for economic and financial statistics and developments in government accounting.
- **Internal accounting control guidelines** have been issued by the International Organization of Supreme Audit Institutions (INTOSAI). They define standards for achieving effective internal controls.
- **International standards for government auditing** are set by INTOSAI to provide a basis for assuring reasonable standards of practice in the accounts of government and government agency accounts.
- **Fundamental principles of official statistics** have been promulgated by the United Nations Statistical Commission to help assure the integrity of official statistics.

Standards or guidelines are also being developed in a number of other areas linked more indirectly to fiscal transparency, such as the work of Basle Committee on Banking Supervision, that of the Organization for Economic Cooperation and Development (OECD) on government regulation, and the United Nation's International Code of Conduct for Public Officials.

GLOSSARY

Accounting basis: Defined in IFAC (1998) as “the body of accounting principles that determine when the effects of transactions or events should be recognized for financial reporting purposes. It relates to the timing of the measurements made, regardless of the nature of the measurement.” There are many variations of the basis of accounting. IFAC identifies two basic reference points (cash and accrual) and two variations (modified cash and modified accrual) in the spectrum of accounting bases. **Cash basis** accounting systems recognize transactions and events when cash is received or paid. **Accrual basis** systems recognize transactions or events at the time economic value is created, transformed, exchanged, transferred, or extinguished—and all economic flows (not just cash) are recorded. **Modified cash basis** differs from a cash basis in that it recognizes receipts and disbursements committed in the budget year and allows a specified period after year-end for payments of these to be recorded and reported. **Modified accrual basis** differs from an accrual basis in that physical assets are expensed at time of purchase.

Accounting system: The set of accounting procedures, internal mechanisms of control, books of account, and plan and chart of accounts that are used for administering, recording, and reporting on financial transactions. Systems should embody double entry bookkeeping, record all stages of the payments and receipts process needed to recognize accounting transactions, integrate asset and liability accounts with operating accounts, and maintain records in a form that can be audited.

Accrual basis (*see accounting basis*)

Aid-in-kind: Flows of goods and services with no payment in money or debt instruments in exchange. In some cases, often termed “commodity aid” goods (such as grain) are subsequently sold and the receipts are used in the budget, or more commonly, through a special fund, for public expenditure.

Appropriation: Refers to an authority under a law by the legislature to the executive to spend public funds for a specified purpose. **Annual appropriations** are made through annual budget laws. **Supplementary budgets/appropriations** are sometimes granted subsequent to the annual law if the annual appropriation is insufficient to meet the purpose. “Standing appropriation” is sometimes used for authority extending beyond a single budget year under separate legislation (such as social security legislation). In some countries, such as the **United States**, the term “authorization” is used to denote a general law setting up a program and permitting appropriation but not giving any specific authority to spend. In most countries, agencies and departments require specific executive authorization (“apportionment, allotment, or warrant”) to actually incur an obligation against appropriation.

Arrears: Amounts that have not been paid or received by the date specified in a contract or within a normal commercial period for similar transactions. **Payments arrears** may arise from nonpayment by government in such areas as bills due from suppliers, due salaries or transfers, or due debt repayment or service. **Tax arrears** are taxes due to government but not paid. Other arrears in receipts could arise from nonpayment of loans by government or nonpayment of bills for government services.

Augmented balance: The overall balance plus any losses incurred by the central bank, and any issuance of government debt to recapitalize PFIs not recorded in the overall balance.

Cash basis (*see accounting basis*)

Central government: All government elements that are agencies or instruments of the central authority of a country and that are covered by or financed through the budget or extrabudgetary funds at that level.

Commitments: In accounting usage, commitments refer to a stage in the expenditure process at which contracts or other forms of agreement are entered into, generally for future delivery of goods or services. A liability will not be recognized until delivery of the item, but the government is contractually committed to meeting the obligation once delivery is made. The term is also used in a more general, noncontractual sense to mean firm promises of the government made in policy statements.

Contingency funds or reserves: A separate fund or a budget provision set aside to meet unforeseen and unavoidable requirements that may arise during the budget year. Certain types of contingency (such as meeting loan guarantee obligations) may be specified as a potential use for such funds.

Contingent liabilities: Obligations that have been entered into, but the timing and amount of which are contingent on the occurrence of some uncertain future event. They are therefore not yet liabilities, and may never be if the specific contingency does not materialize.

Economic classification: *GFS* (1986) refers specifically to a “classification of expenditure by the nature of transaction, that is, whether required or unrequired, for current or capital purposes, kind of goods or services obtained, and sector or subsector receiving transactions” (p. 325). It is generally used to identify the nature and economic effects of government operations. Though not formally described as “economic” in the *GFS*, the classification of revenue into current (tax and nontax), capital, and grants serves a similar purpose.

Extrabudgetary funds/accounts (EBFs): The term generally refers to sets of government transactions that are not included in the annual budget presentation. These

may not be subject to the same level of scrutiny or accounting standards as the annual budget. A wide variety of extrabudgetary arrangements are used, including funds (such as social security funds) set up under separate legislation, commodity funds that use proceeds of commodity aid, and earmarking specific kinds of revenue for specific purposes.

Fiscal impulse: (*see structural or cyclically adjusted balance*)

Functional classification: *GFS* (1986) refers specifically to the Classification of the Functions of Government (COFOG), which is the international standard for classifying expenditures of government according to broad purposes for which transactions are undertaken. It is generally used to measure the allocation of resources by government to the promotion of various activities and objectives (such as health, education, and transportation and communication).

General government: Defined in SNA (1993) as consisting of the following group of resident institutional units:

- (a) all units of central, state, or local government;
- (b) all social security funds at each level of government; and
- (c) all nonmarket, nonprofit institutions that are controlled and mainly financed by government units.

The sector does not include public corporations, even when all the equity of such corporations is owned by government units. It also does not include quasi-corporations that are owned and controlled by government units. However, unincorporated enterprises owned by government units that are not quasi-corporations remain integral parts of those units and, therefore, must be included in the general government sector.

Generational accounting: Generational accounts are used to assess the distributional implications of fiscal policy for different cohort groups. This is accomplished by estimating the present value of net tax payments (taxes paid less benefits received) over the lifetime of different generations under current tax and spending policies. A generation is defined as including all males and females (separately accounted for, because of differing tax and benefits profiles) born in the same year. The technique has heavy data requirements and the results depend on a large number of simplifying assumptions. It is generally regarded as a supplementary technique for analysis of sustainability and intergenerational distribution questions.

Government balance sheet: A comprehensive statement of the assets, liabilities, and net worth (assets less liabilities) of government at a point in time—usually year-end. In practice, very few governments prepare statements of their financial position that could be described as balance sheets. Adoption of accrual basis accounting reports and

generally accepted methods of asset valuation are prerequisites for a reliable balance sheet presentation.

Lending minus repayments: *(see overall balance)*

Line-item budgeting: A general term used to describe a relatively unsystematic budgetary chart of accounts. In addition to standard votes or “lines” for items such as “salaries and wages,” separate lines for new requirements are introduced as they arise, thus giving rise to lengthy, ad hoc forms for appropriating and accounting for spending.

Medium-term budget framework (MTBF): A framework for integrating fiscal policy and budgeting over the medium-term by linking a system of aggregate fiscal forecasting to a disciplined process of maintaining detailed medium-term budget estimates by ministries reflecting existing government policies. Forward estimates of expenditures become the basis of budget negotiations in the years following the budget and the forward estimates are reconciled with final outcomes in fiscal outcome reports.

Modified accruals basis *(see accounting basis)*

Modified cash basis *(see accounting basis)*

Moral hazard: The possibility that the signal or expectation of possible future government support may induce an undesirable change in behavior by management of an enterprise or bank, for example, engaging in more risky activities because some of the potential losses are seen as being effectively underwritten by the government.

Operational balance: The overall balance minus that part of the debt service that compensates debt holders for actual inflation—only real interest payments are included among the government expenditures that determine the operational balance. Inflation induced interest payments are treated as equivalent to amortization of debt. In high inflation countries, the overall balance will overstate the size of the fiscal adjustment required (since adjustment will lower the rate of inflation and therefore the size of the deficit).

Outputs and outcomes: In performance assessment in government, outputs are defined as the goods or services produced by government agencies (e.g., teaching hours delivered, welfare benefits assessed and paid); outcomes are defined as the impacts on social, economic, or other indicators arising from the delivery of outputs (e.g., student learning, social equity).

Overall balance: This term corresponds to the GFS terminology of “Overall Deficit/Surplus,” which is defined as revenue plus grants received less expenditure less “lending minus repayments.” The balance so defined is equal (with an opposite sign) to

the sum of net borrowing by the government, plus the net decrease in government cash, deposits, and securities held for liquidity purposes. The basis of this balance concept is that government policies are held to be deficit or surplus creating and thus the revenue or expenditures associated with these policies are “above the line,” borrowing or rundown of liquid assets, however, are “deficit financing” or “below the line.” It should be noted that the term **lending minus repayments** included above the line in the current GFS covers government transactions in debt and equity claims on others undertaken for purposes of public policy rather than for management of government liquidity or earning a return.

Primary balance: The overall balance excluding interest payments. Since interest payments represent the cost of past debt, and the “drivers” of future debt that are under policy control of government are other spending and revenue measures exclusive of interest payment, the primary balance is of particular importance as an indicator of the fiscal position of countries with high levels of debt.

Program budgeting/program classification: “Programs” are groupings of government activities in relation to specific government objectives. Program classification applies this principle across all government activities. Program budgeting attempts to apply cost-benefit analysis to the allocation decision, allocate expenditures by program, and assess results of programs in relation to objectives. A full system of program budgeting (or subsequent proposals such as **zero-based budgeting**) has not been successfully realized in any country, in large part because of the high information and complex management requirements of such systems.

Public sector: A classification drawn from sectors and subsectors of the SNA (1993) classification consisting of general government and the public subsectors of nonfinancial and financial corporations. The principle of classification is that of government ownership and/or control rather than function (as in the primary classification of SNA). An important subdivision within this sector for fiscal analysis purposes is the “nonfinancial public sector” comprising general government and NFPEs.

Public sector borrowing requirement: The financing requirement of the nonfinancial public sector, which is the overall balance of general government plus the net borrowing requirements of NFPEs. The **United Kingdom** has used the public sector borrowing requirement (PSBR) as one of the key fiscal policy aggregates in the past. In line with the change to accrual basis accounting, however, it now uses the measure of “public sector net borrowing,” which excludes privatization receipts and other balance sheet transactions that affect cash measures of borrowing such as the PSBR.

Quasi-fiscal activities (QFAs): Activities (under the direction of government) of central banks or other public financial or nonfinancial institutions outside general government that are fiscal in character—that is, in principle, they can be duplicated by

specific fiscal measures, such as taxes, subsidies or other direct expenditures, even though precise quantification can in some cases be very difficult. Examples include noncommercial or directed bank credit, or noncommercial public services provided by an enterprise through cross-subsidization.

Structural or cyclically adjusted balance: A measure of the fiscal balance that estimates the fiscal position at full employment by removing the effect of cyclical fluctuations. There are several variations of this construct, but all of them are designed to measure the underlying fiscal balance. The **standardized-employment deficit** is one such measure used in the **United States** which estimates the level of the federal government budget deficit or surplus that would occur under current law if the economy were operating at potential GDP (i.e., the highest level of GDP that is estimated to be sustainable without raising inflation). The **fiscal impulse** is a variation (in first difference form) that attempts to quantify exogenous changes in fiscal policy in a given year. The **structural balance**, defined as the actual budget deficit (or surplus) less the effects of cyclical deviations of output from potential output, can be found for industrial countries in the IMF's World Economic Outlook and the OECD's Economic Outlook. None of these constructs are observable, but rather depend upon estimates of potential output and tax and spending elasticities.

Supplementary budgets/appropriations (*see appropriation*)

Tax arrears: (*see arrears*)

Tax expenditures: Concessions or exemptions from a “normal” tax structure that reduce government revenue collection and, because the government policy objectives could be achieved alternatively through a subsidy or other direct outlays, the concession is regarded as equivalent to a budget expenditure. Precise definition and estimation of tax expenditures thus require definition of the normal base as well as determination of the most appropriate way of assessing costs (i.e., by revenue foregone or the expenditure required to achieve the policy objective).

Unfunded public pension liabilities: This term refers to future liabilities of government under unfunded (pay-as-you-go), or partially funded public pension schemes. Liabilities for such schemes are generally not recognized in accounting terms until the obligation to pay arises (see IFAC, 1998), though this will depend on institutional arrangements in particular countries. (These points are under continuing consideration by the IFAC/PSC.) Such future liabilities need to be taken into account in assessing fiscal sustainability over the long term.

WEB SITE ADDRESSES

Hong Kong SAR: Budget

<http://www.info.gov.hk/fb/bdgt98/english/eindex.htm>

Hungary: Budget

<http://www.meh.hu/default.htm>

IFAC-PSC: Guidelines

<http://www.ifac.org>

**IMF: Site is to include a Fiscal Transparency
Home Page**

<http://www.imf.org/>

International Organization of Supreme Audit Institutions (INTOSAI)

<http://www.intosai.magnet.at/intosai/>

New Zealand: Fiscal Responsibility Act of 1994

<http://www.treasury.govt.nz/pubs/bmb/fra/details.htm>

OECD: Principles for Ethical Conduct in the Public Service

<http://193.51.65.78/puma/gvrnance/ethics/pubs/rec98/rec98e.htm>

**OECD/PUMA: Provides access to PUMA publications on public expenditure
management and to individual country sites**

<http://www.oecd.org/puma/links.htm>

Also cites relevant legislation under multilateral trade arrangements like the World Trade Organization's *Government Procurement Agreement* and the EU's *Procurement Directives* that set legal obligations for national systems and practices
<http://www.oecd.org/puma/sigmaweb/pubs/pbno3.htm>

Republic of South Africa: Intergovernmental relations and budget

<http://www.finance.gov.za>

<http://www.sacs.org.za/gov/ffc/home/ffchome.htm>

Thailand: Code of Conduct for Internal Auditors

<http://www.infonews.co.th/IIAT/ethics.htm>

Transparency International: The Transparency International Source Book

<http://www.transparency.de/sourcebook/>

United Nations Commission on International Trade Law (UNCITRAL): Model Law on Procurement of Goods, Construction, and Services
<http://www.un.or.at/uncitral/en-index.htm>

United States: Taxpayers' rights
http://www.irs.gov/prod/ind_info/advocate.html

World Bank: Site includes details of public expenditure management systems in Bank member countries
<http://www.worldbank.org>

