



GUIDANCE

Good Practices in Public Sector Financial Reporting and Fiscal Transparency

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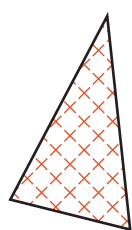
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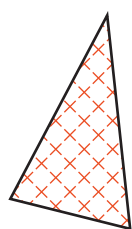
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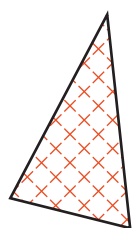
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ABBREVIATIONS

ESRS	European Sustainability Reporting Standards
EU	European Union
IFI	Independent Fiscal Institution
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
IPSASB	International Public Sector Accounting Standards Board
NZ	New Zealand
OBR	UK Office for Budget Responsibility
OECD	Organisation for Economic Co-operation and Development
PFM	Public Financial Management
PULSAR	Public Sector Accounting and Reporting Program
PULSE	Public Sector Accounting Assessment
SOE	State-Owned Enterprise
SRS	Sustainability Reporting Standard
UK	United Kingdom



PREFACE AND ACKNOWLEDGMENTS

The Public Sector Accounting and Reporting Program (PULSAR), launched in 2017, is a regional and country level program in 11 beneficiary countries of Europe and Central Asia. Its objective is to support the enhancement of public sector accounting and financial reporting frameworks in line with international standards and good practices to improve government accountability, transparency, and performance.

The objectives and scope of the PULSAR Program are jointly determined by the PULSAR Partners - Austria, Switzerland, and the World Bank - which provide institutional support for its implementation and mobilize the resources needed for its activities. Beneficiary countries help shape the program through regional cooperation platforms and input to two Communities of Practice, on financial reporting frameworks and on education.

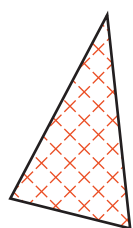
More information about the PULSAR program and its publications is available online at:

www.pulsarprogram.org

This Guidance on Good Practices in Public Sector Financial Reporting and Fiscal Transparency is a knowledge paper of the World Bank Institutions Department developed under the PULSAR Program.

It was developed by a World Bank team under the direction of Adrian Fozzard led by Iwona Warzecha and including Sumita Shah, who provided technical inputs, Susan Schroeder, who provided extensive editorial work, and Kora Reichardt, who prepared the graphic design. Arman Vatyán provided guidance and comments through the key stages of writing. The World Bank's AI-powered Document Review Tool was utilized in the final stage to suggest edits to the executive summary, which were subsequently reviewed and approved by World Bank staff.

Special acknowledgments are owed to the PULSAR Technical Advisory Board: Andreas Bergmann, Professor/Director Public Sector, School of Management and Law, Zurich University of Applied Science; Ian Carruthers, Chair, International Public Sector Accounting Standards Board; Sandro Fuchs, Professor for Public Financial Management, Zurich University of Applied Sciences (ZHAW); Thomas Müller-Marqués Berger, MMB Consult; and Bernhard Schatz, Director, PwC Austria, who provided insightful and useful peer review comments. We are very grateful for their time and contribution to this paper.



EXECUTIVE SUMMARY

This paper offers guidance to support the improvement of public sector financial reporting and fiscal transparency, in line with international standards and in accordance with good practice, that enhance government accountability, transparency, and performance. It is aimed at a broad audience including both users and preparers: public officials, politicians, accountants, investors, development organizations, academia, civil society, and other stakeholders.

GOOD PRACTICE 1: DEVELOP COMPLETE, ACCURATE, AND CREDIBLE FINANCIAL INFORMATION ON THE SHORT- AND LONG- TERM FISCAL IMPACT OF POLICY DECISIONS

The successful implementation of long-term sustainable **public financial management (PFM)** reforms necessitates:

- ▶ an effective prioritized plan to deliver reforms;
- ▶ people with the skills, knowledge, and the right approach to drive and implement the reforms;
- ▶ adoption of internationally accepted standards;
- ▶ financial management structures, including good governance, systems, and processes to collect, collate, analyze, and produce high-quality and

timely financial information that enables policy makers to make effective decisions and achieve the right outcomes for their economy and people.

Moving to **full accrual-based accounting** provides more comprehensive and useful information on public sector finances. However, the journey to full accrual accounting can be long and some countries struggle to embed accrual-based information into their financial reporting processes. Successful implementation relies on governments enhancing their capacities and capabilities while also improving the reliability and integrity of budgetary and financial reporting systems. While accrual accounting does not replace cash information, it provides a comprehensive view of a government's financial position and performance by including both cash and non-cash items in financial statements.

Balance sheet management is needed for both decision making and accountability in PFM. Balance sheets reveal the financial status of an entity at a specific point in time, detailing what it owns (assets) and what it owes (liabilities). In the public sector, balance sheets help governments visualize public finances and enhance management of fiscal risks. They facilitate long-term planning, sustainable economic growth, intergenerational fairness, and conditions for future prosperity. Good balance sheet management is an essential feature to manage public finances and can help governments deliver policy objectives and the related services. In the long-term, balance sheet management allows governments to manage their assets and liabilities and consider how to minimize risks as well as maximize value for taxpayers.

GOOD PRACTICE 2: ENSURE TRANSPARENT CONSOLIDATED FINANCIAL REPORTING WITH EFFECTIVE SCRUTINY AND ASSURANCE

Many governments have well-prepared national statistical accounts, which are important, but financial reporting serves distinct purposes and offers a more comprehensive view of public finances. Robust macroeconomic policies informed by both statistical data and comprehensive financial reporting are essential for successful fiscal management. Together, they enhance transparency, support sound policy-making, and contribute to effective fiscal management to foresee and manage potential economic crises.

Consolidated financial statements enhance transparency by providing a comprehensive and clear overview of a country's public finances. This supports governments to improve the management of government assets, liabilities, income, and expenditure which leads to better and more efficient service delivery. Reliable consolidated financial statements provide governments and stakeholders with useful information for policy-making and enhance international comparability.

Robust **scrutiny** structures are critical to prevent political bias or omissions in the collection and reporting of financial information. Bodies such as public accounts committees or equivalent, state audit institutions, and other independent mechanisms (such as independent fiscal institutions [IFI]) improve the reliability and accuracy of the information and help to mitigate the risk of potential future crisis.

State-owned enterprises (SOEs) must adhere to corporate governance and PFM principles, including accountability, transparency, and sound financial practices. SOEs play crucial roles in public service delivery across many nations. They can be large complex organizations, with multi-faceted relationships and interests. It is important that they have effective corporate governance arrangements, mechanisms for public scrutiny, and that they provide performance information based on comprehensive and consistent financial and operational data, consistent with the overall PFM system. The model of financial reporting for the SOE sector should ensure acceptable and adequate accounting standards.

GOOD PRACTICE 3: COMMUNICATE INFORMATION TO STAKEHOLDERS IN AN OPEN, TRANSPARENT, AND ACCESSIBLE WAY TO BUILD TRUST AND CONFIDENCE IN FINANCIAL REPORTING

Everything that a government does is in the public interest, which means that the public and key stakeholders have a high stake. Citizens expect to have trust and confidence in the public finances to which they contribute. They also expect governments to be transparent about the country's fiscal situation and how public funds are used (accountability, governance, ethics).

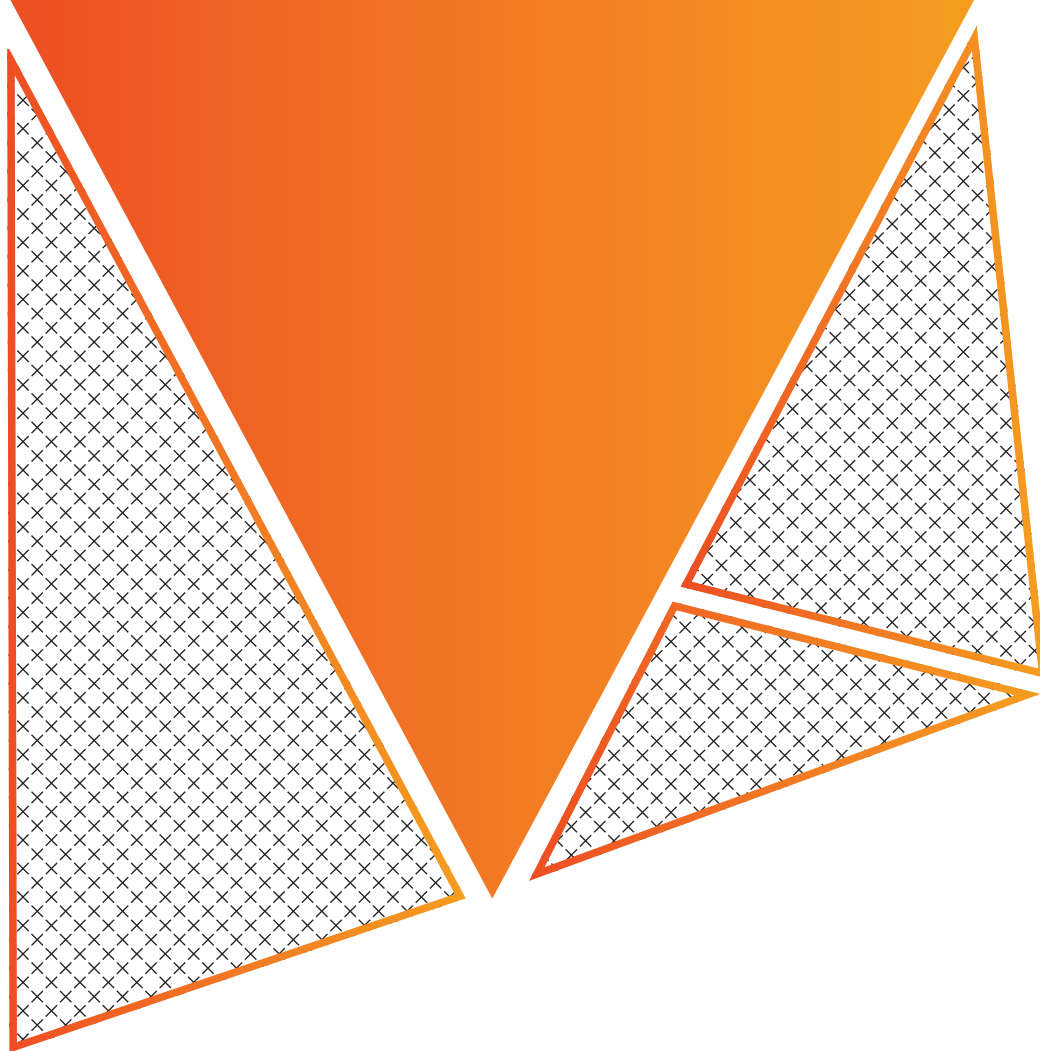
Fiscal transparency is essential for effective fiscal management and accountability. It strengthens the credibility of a country's economic plans, underpinning market confidence and perceptions of solvency. It

- ▶ relies on the disclosure of complete, reliable (accurate and robust), timely, relevant, and good quality information (in accordance with International Public Sector Accounting Standards (IPSAS)) about a country's public finances which contributes to government policy decisions.
- ▶ requires government information to be accessible and understandable, enabling stakeholders to hold governments to account.
- ▶ expects information to withstand independent scrutiny and assurance.

Public communication of public sector financial information/annual reports should aim to be clear, comprehensive, and proactive.

GOOD PRACTICE 4: INCORPORATE NEW DEVELOPMENTS IN PUBLIC SECTOR REPORTING

Governments need to keep up-to-date with developments and trends in financial reporting. This includes leading by example to embrace and develop strategies, systems, and processes for **green budgeting** and **sustainability reporting**; utilizing **gender responsive budgeting** to strengthen government budgeting and support and better align with sustainable development goals; and through the use of **government technology (GovTech)** to help modernize the public sector towards being citizen-centric, providing accessible services and a whole-of-government approach to digital transformation.



INTRODUCTION

Comprehensive and accurate public sector financial reporting ensures that governments have the financial information they need for informed decision making. It can facilitate greater fiscal transparency and public disclosure to improve accountability and performance. One focus of the regional PULSAR program is to raise awareness of the rationale for public sector accounting reform, including demonstrating the benefits of accrual accounting and encouraging consensus among stakeholders on the reform agenda and implementation.

Assessing the sustainability of public finances is crucial for economic stability and growth and development. This means that governments have a duty to:

- ▶ develop credible, accurate, and complete financial information taking into account both the short- and long-term impact of policy decisions;
- ▶ create structures that allow their decisions to be challenged and held up to scrutiny and assurance;

- ▶ communicate information to stakeholders in an open, transparent, and accessible way;
- ▶ build trust and confidence in financial reporting.

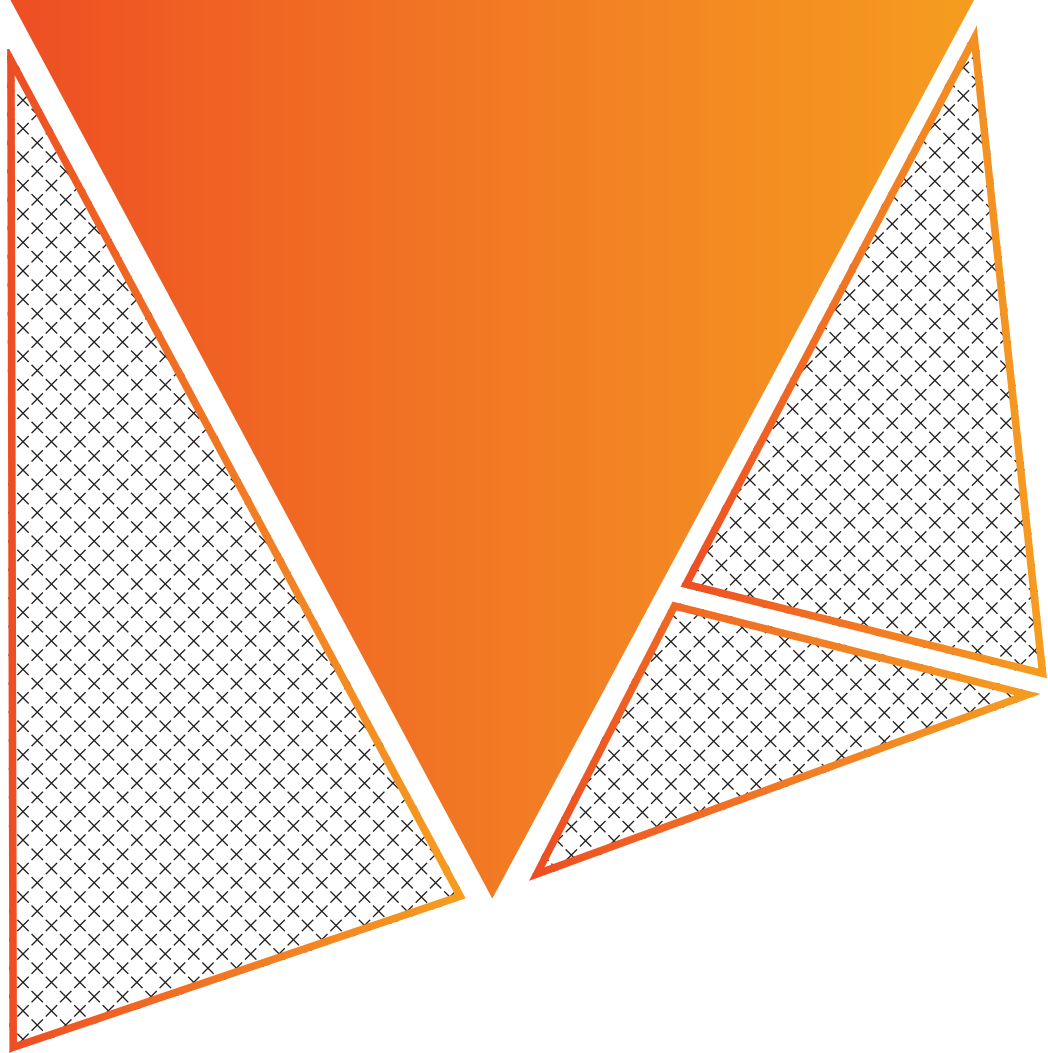
Economic crises in recent decades shed light on countries' poor quality financial management and reporting. Financial and economic crises hit Southeast Asia, Russia, and much of Latin America in the 1990s, and the 2008-2010 sovereign debt crisis affected governments around the world. Several nations in Europe (including Greece, Portugal, and Cyprus) required bailouts from various organizations such as the International Monetary Fund (IMF), European Central Bank, and the European Commission. There was widespread evidence that weak PFM, and particularly poor quality financial management and reporting, contributed to, prolonged, and deepened fiscal crisis. Some countries underestimated or concealed their deficit and debt positions, increasing distrust in all financial information and undermining confidence in the government and broader economy.

This generated demand for better financial management in both public and private sectors.

The aim is improved governance and accountability mechanisms, and open and transparent reporting based on high quality and consistently applied accounting and audit standards, underpinned by strong financial leadership at the top of government. In a competitive world economy, governments need to carefully manage their finances, account for all assets and liabilities, identify and mitigate risks, and take timely decisions to steer sound macroeconomic policies toward a multitude of goals. This requires accurate and relevant information as well as input from all stakeholders (i.e., strong parliamentary and oversight structures, with public policies, budgets, and growth plans being transparently subject to scrutiny).

PULSAR countries are addressing the challenges of improving and expanding public sector financial reporting.

This guidance seeks to support this work, identifying four areas of good practice that PULSAR countries should focus on as part of efforts to revise and improve public sector financial management. It is aimed at a broad audience including both users and preparers: senior public officials, politicians, accountants, civil society and concerned citizens without accounting experience, because all have a stake in the performance of the public sector.



GOOD PRACTICE 1: DEVELOP COMPLETE, ACCURATE, AND CREDIBLE FINANCIAL INFORMATION ABOUT THE SHORT- AND LONG-TERM IMPACT OF POLICY DECISIONS

A good PFM framework helps manage the long-term sustainability of public finances. The framework should address the method of accounting and management of the balance sheet.

While many governments have well-prepared national statistical accounts, financial reporting serves different purposes and provides a broader and more comprehensive view. Together, they enhance transparency, support sound policy-making, and contribute to effective fiscal management to foresee and manage potential economic crises. Sound macroeconomic policies based on both statistics and financial reporting are essential.

Having access to more complete information can support governments to better understand public finances and enable better choices and decisions to be made about tax policy and public spending. Thus, a good set of **accrual-based financial statements**, prepared and in compliance with IPSAS or comparable local standards, is a key step. Accrual-based financial statements can help identify comprehensive indicators and information on the government's deficit and debt levels as well as help to establish and forecast public spending and revenue which can, in turn, help reveal fiscal problems which are not visible in cash-based statements.

Governments need to be able to use **balance sheet management** to assess long-term public finance sustainability, i.e., by understanding and analyzing assets obligations. For example, a government may want to roll over its outstanding debt to take advantage of low interest rates. But this needs to be done with extreme caution. Excessive focus on possible cost savings associated with large volumes of short-term or floating rate debt risks leaving the country exposed to fluctuating financial market conditions and changes in the country's creditworthiness.

PUBLIC FINANCIAL MANAGEMENT FRAMEWORK

The systems, processes, and practices that governments use to manage public funds must enable financial information to be collected, collated, analyzed, and used for high quality and timely financial reporting. The framework should require **internationally accepted standards and policies**.

There are a range of **diagnostic tools** that can support reform of the PFM framework. The Public Expenditure and Financial Accountability Secretariat have mapped the available PFM diagnostic tools,¹ including the Public Sector Accounting Assessment (PULSE) framework developed by the World Bank. Diagnostic tools cover broad, multiple aspects of the PFM system and some focus on individual PFM functions, institutions, or subsystems and on specific sectors or topics.

Change management, including the human dimension, must also be considered to ensure that there are the right management structures, and that staff involved in producing or using financial information have the right skills, knowledge, and capacity.

ACCRUAL-BASED ACCOUNTING

Accounting involves recording, analyzing, and reporting economic transactions in monetary terms to stakeholders. While private corporations often use accrual accounting and standards like International Financial Reporting Standards (IFRS), the public sector has traditionally relied on cash accounting. Cash accounting is simple and easy to understand but does not capture the complexity of modern government transactions, incurred debts, all liabilities, and assets.

Accrual accounting, which records transactions and economic events when they occur rather than when cash is exchanged, provides a more comprehensive view of financial performance and position. This method is beneficial for year-end balance sheets and financial performance reporting, as it supports better decision-making, forecasting, budgeting, and enhances financial control through standardized processes. (See also PULSAR publication *Benefits of Accrual Accounting in the Public Sector*).²

The transition to accrual accounting is gradual and involves inter alia: setting goals, planning, implementation, integration into decision-making, training staff, establishing appropriate IT systems, and legislation. Accrual accounting does not eliminate the need for cash information but complements it, offering a fuller financial picture. Governments often prefer cash budgets while adopting accrual financial statements to meet the scrutiny and accountability demands of stakeholders and citizens. Accrual budgeting provides additional benefits of full alignment with financial reporting, and enhanced transparency and accountability (See **Appendix 1**).

The benefits of accrual accounting over cash models are listed in **Figure 1** below.

¹ <https://www.pefa.org/node/5240>

² <https://cfr.worldbank.org/publications/benefits-accrual-accounting-public-sector>

Figure 1. Benefits of accrual accounting over cash models

Box 1. Country examples of accounting and financial reporting models**NEW ZEALAND³**

New Zealand (NZ) was the first country to adopt accrual accounting within its government. The financial statements are prepared in accordance with the Public Finance Act 1989 and with NZ Generally Accepted Accounting Practice as defined in the Financial Reporting Act 2013 (based on IPSAS). The country uses these standards for budgeting, management accounting, and fiscal target setting. The financial statements are audited by the NZ Controller and Auditor General.

SWITZERLAND ACCOUNTING⁴

The public sector accounting model⁵ highlights financial processes and relationships from a dual perspective (dual control principle), i.e. using performance and financing approaches.

The model follows the private sector, using IPSAS-based accrual accounting. There is a statement of financial performance, statement of financial position, cash flow statement, and notes. In addition, there is a statement of investments and proof of compliance with the debt brake. Financial statements present the actual situation as accurately as possible in terms of assets, finances, and revenue. This ensures transparency and continuity in financial reporting but also makes it possible to compare the federal financial statements with those of other public authorities and the private sector. Transparency and comparability in turn support financial management and build confidence among the public. Article 126 of the Federal Constitution, the Financial Budget Act, and the Financial Budget Ordinance form the legal basis for the accounting model.

The **performance approach** shows expenses (decline in value) and revenue (increase in value) generated during task performance. Values are allocated to the period in which they are created or consumed. In the statement of financial performance, the expenses of a given accounting year are set against the revenue generated in the same period. Their balance shows the surplus or deficit for the year. To promote efficiency, the statement of financial performance is supplemented by cost accounting at the level of the administrative units. Consistently decentralized credit responsibility and internal federal service charging promote a sense of cost awareness and the economical use of funds.

The **financing approach** is decisive for the overall steering of the federal budget based on the debt brake requirements. The debt brake is intended to ensure a lasting balance between expenditure and receipts and avert a structural imbalance in the federal budget.

The main difference between the performance approach and the financing approach concerns the treatment of investments. Whereas only the annual consumption of the associated fixed capital (depreciation) is included under the performance approach, the full amount of investment expenditure is reported immediately under the financing approach. This means that the fiscal effects of investments are directly visible and controllable at the time of acquisition and not at the time of consumption. Under the financing approach, it is net lending/borrowing, or the overall fiscal balance, that is relevant. This is shown in the proof of compliance with the debt brake.

³ Source: New Zealand Treasury

⁴ Source: https://www.efv.admin.ch/efv/en/home/themen/finanzpolitik_grundlagen/rechnungsmodell.html

⁵ https://www.efv.admin.ch/efv/en/home/themen/finanzpolitik_grundlagen/rechnungsmodell.html

BALANCE SHEET MANAGEMENT

The purpose of a balance sheet is to reveal the financial status of an entity, i.e., what it owns and what it owes. Balance sheets of the public sector or a defined subsector would require consolidation of controlled entities or aggregation and can support

a government to establish a clearer picture of the country's public finances. This permits more effective management of fiscal risks, long-term planning, the promotion of intergenerational fairness,⁶ and underpins efforts to create the right conditions for future prosperity. Balance sheet management allows governments to better manage their assets and liabilities and consider how to minimize risks as well as maximize value for taxpayers.

Box 2. Use of balance sheets in the public sector⁷

Balance sheets support policy making. Their use:

- ▶ provides valuable information in integrated financial statements regarding the assets, risk, liabilities, and financial position of government
- ▶ shows the financial consequences of decisions made by policy makers
- ▶ supports informed decision-making
- ▶ gives stakeholders information to hold decision-makers to account
- ▶ can help improve PFM

Key information contained in the balance sheets of some countries that have integrated financial statements includes assets and liabilities, infrastructure and public property, financial assets, working capital, financial liabilities, pensions, and balance sheet risks.

Questions for governments to help ensure they make the best use of financial information include:

- ▶ What assets do they have and are they getting the best use out of them?
- ▶ Should governments increase or decrease investment?
- ▶ What are their liabilities and how are they going to settle or service them?
- ▶ Could refinancing offer opportunities to save money?
- ▶ How fast are liabilities increasing relative to income and could their growth be slowed?
- ▶ What is the long-term impact of decisions with financial consequences beyond the next year?

The United Kingdom (UK) uses a whole-of-government accounts approach. This provides a complete record of the income, expenditure, assets, and liabilities at a point in time and over a period of years for all

governments in the UK. Its balance sheet review, launched in 2017, is the most important use of this information to date. The approach was deemed to have been successful, delivering detailed information

⁶ ICAEW (2016) *Managing the Public Balance Sheet* - Today's generations (as both beneficiary and trustee of finite resources) benefit from what other generations have built and accumulated, while today's decisions and management of these resources strongly determine their availability for future generations. intergenerational fairness could mean that each generation must contribute at least as much societal wealth as it takes out. But how to measure the amounts each generation contributes or takes?
<https://www.icaew.com/-/media/corporate/files/about-icaew/what-we-do/policy/public-finances/managing-the-public-balance-sheet.ashx>

⁷ Source: The Institute of Chartered Accountants in England and Wales *Managing the Public Balance Sheet*
<https://www.icaew.com/-/media/corporate/files/about-icaew/what-we-do/policy/public-finances/managing-the-public-balance-sheet.ashx>

on the four modes of government accounting (government financial reporting, statistical accounting, budgeting, and fiscal sustainability projections) with

improved fiscal transparency that is therefore less vulnerable to “creative” accounting.^{8,9}

Box 3. United Kingdom balance sheet review¹⁰

The balance sheet review aims to: identify opportunities to dispose of assets that no longer serve a policy purpose, improve returns on retained assets, and reduce the risk and cost of liabilities.

PROCESS

Working closely with those responsible for assets and liabilities, government departments are asked to distinguish between 1) core assets and liabilities (i.e., those vital to policy or in the public interest to continue holding); and 2) non-core assets and liabilities (those that no longer serve a policy purpose).

This reveals the challenges faced by departments to manage their balance sheets efficiently. It allows the government to identify barriers, develop proposals for reform, and implement change to deliver systemic improvements.

OUTCOMES

The review demonstrates the value of having a clear public sector balance sheet framework for managing assets and liabilities over the long-term. It has helped:

- ▶ identify opportunities where public sector real estate could be better managed and/or released for alternative uses or sale;
- ▶ remove arbitrary targets to sell assets which means departments do not need to proceed with asset sales that do not achieve value for money;
- ▶ improve decision-making on asset sales – the policy rationale for the sale, how sales were disclosed, and whether the sale achieved value for money;
- ▶ increase transparency;
- ▶ embed balance sheet management in spending reviews which incentivizes a longer-term approach to decision-making; and
- ▶ focus on improving the management of existing assets and liabilities before providing new money.

NEXT STEPS

Amongst other things, the UK continues to focus on improving balance sheet management by assessing performance to improve efficiencies across government, encouraging officials to consider balance sheet management impact in spending decisions, process, and guidance across government. The review is contributing to consideration of risk exposures in relation to climate change and the shift to a greener economy.

⁸ “The under-realised potential usefulness of the UK Whole of Government Accounts”, published in December 2023

⁹ However, its future usefulness has recently been undermined a National Audit Office disclaimer on the Whole of Government Accounts for 2022/23 due to “severe backlogs” in English local authority audits. Only 10% of local authorities submitted reliable data, while 46% submitted unaudited information and 44% did not submit any data. As a result, net liabilities and net income were significantly overstated. The Comptroller and Auditor General emphasized the need for timely and robust local authority audited accounts.

¹⁰ Source: *The Balance Sheet Review – improving public sector balance sheet management* published in November 2020. https://assets.publishing.service.gov.uk/media/5fbd02dfe90e077ee6d17a26/The_Balance_Sheet_Review_report____.pdf

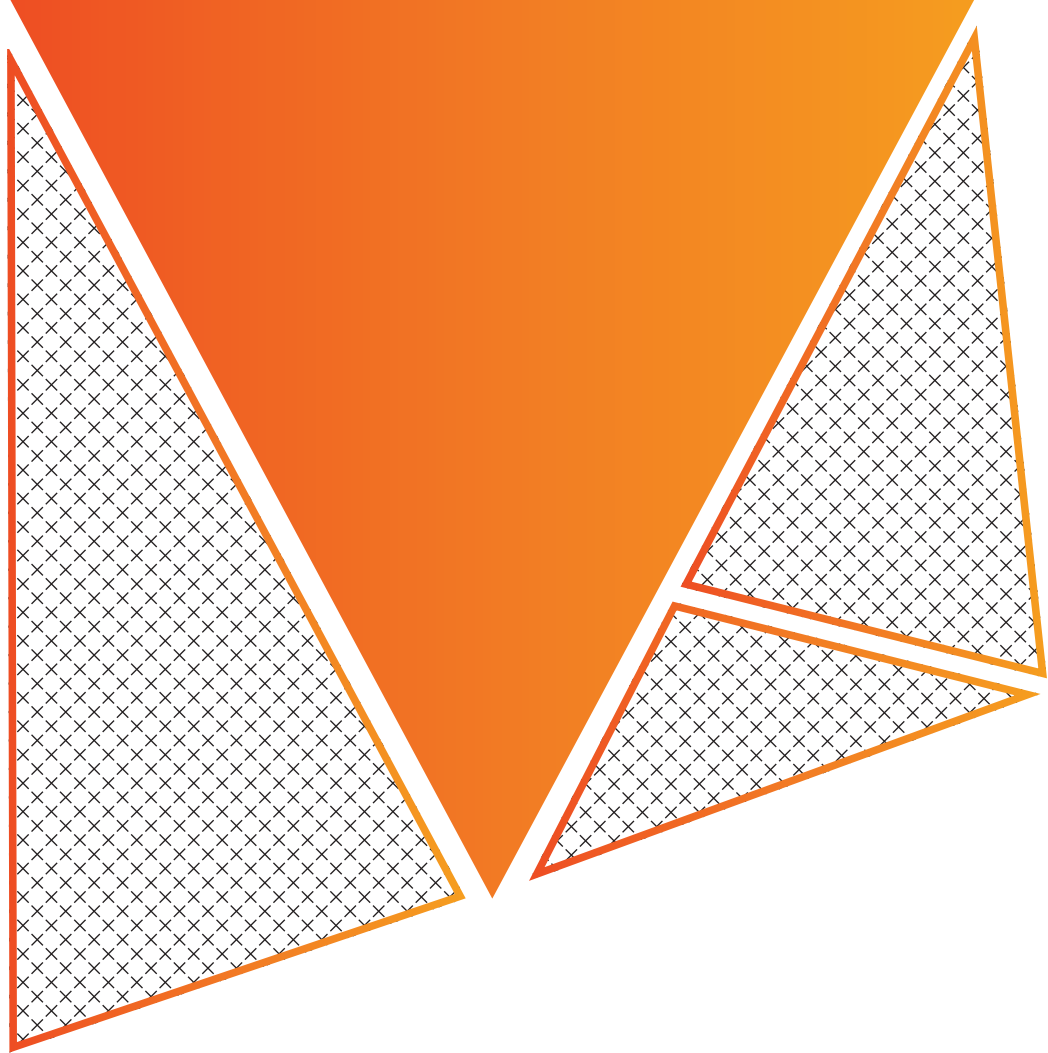
The balance sheet provides clear information that can be used to understand the financial position of the country. It gives a transparent view of assets and

liabilities that can be used for decision-making and planning to support the management of risk and maximize value, see **Box 4**.

Box 4. New Zealand assets and liabilities in 2019-2023¹¹



¹¹ Source: For 2023 figures – Page 5 of <http://www.treasury.govt.nz/sites/default/files/2023-10/fsgnz-2023.pdf>



GOOD PRACTICE 2: ENSURE TRANSPARENT CONSOLIDATED FINANCIAL REPORTING WITH EFFECTIVE SCRUTINY AND ASSURANCE

Even with well-prepared national statistical accounts, relying on specific and narrow statistics without a holistic overview makes it harder to foresee and manage potential economic crises. Using consolidated financial statements gives a much more comprehensive overview. In addition to enhancing policy decision-making, it allows the public disclosure of information that is accessible and comparable for stakeholders to scrutinize. Effective scrutiny structures (such as public accounts committees or equivalent, state audit institutions, etc.) and other independent mechanisms (such as IFIs) are important to manage compliance with accounting policies and also mitigate risks of economic and /or financial and debt crisis at the consolidated level.

As the collation and reporting of this information can be susceptible to politicization and omissions (leaving some significant entities out of the consolidation), the accounting policy embedded into the legal framework should clearly determine the consolidated entities to ensure completeness. In accordance with IPSAS, this is accomplished by assessing and applying the principle of control, which establishes that an entity controls another entity if all of the following criteria are met: (i) the entity has power over the other entity; (ii) the entity is exposed, or has rights, to variable benefits from its involvement with the other entity; and (iii) the entity has the ability to use its power over the other entity to affect the nature or amount of the benefits from its involvement with the other entity (IPSAS 35 para. 20).

SOEs have key public service delivery roles in many countries. As large complex organizations, with multi-faceted relationships and interests, it is important that they follow PFM principles of accountability, transparency, and good financial management. Performance information should be based on comprehensive and consistent financial and operational data, which identifies use of resources and service delivery and is consistent with the overall PFM system. SOEs should be subject to corporate governance requirements and public scrutiny. There should be adequate and unified accounting standards and policy and an acceptable model of financial reporting for the SOE sector. This can differ according to the orientation of a SOE (commercially oriented SOEs should follow commercial accounting standards such as IFRS, while IPSAS can be more suitable for service-oriented enterprises). In practice, governments choose different models for gathering and monitoring the financial and sustainability performance of SOEs, including consolidation into the government or holding company financial statements, aggregated reporting of all or selected SOEs, additional disclosure in annual reports, or some combination of these.

CONSOLIDATED FINANCIAL STATEMENTS

The aim of consolidating financial statements is to achieve transparency by establishing a clear picture of the public sector or defined subsector so that performance, fiscal risks, liabilities, and assets can be managed efficiently and effectively. This should contribute to openness, transparency, and public accountability through accessible and understandable public sector financial information.

Consolidated financial statements give an overview of existing assets, their location, and allocation (e.g. in geographical terms). This can be used to develop an understanding of incurred risks in aggregation and cumulation in order to make assessments of

whether and how these risks could be mitigated or if they are manageable once they materialize. It also builds a picture of the overall performance of whole-of-government (including its controlled entities) on the delivery on political objectives and programs. Consolidation allocates the ownership and responsibility to the highest entity, which should be responsible for the consolidation process and the reliability of financial information provided by subsidiaries, including particular assets and liabilities.

PULSAR'S *Consolidation of Financial Statements at Different Levels of Government*¹² provides information on different consolidation and compilation approaches for financial statements, including jurisdictional experiences and international good practices. It also highlights challenges for jurisdictions in the reconciliation process and how they have been addressed.

A summary review of some jurisdictions (**Table 1** below) highlights the ways in which governments report on their public sector finances. Jurisdictions choose the format, methodology, and accounting basis depending on their local legislation, regulations, and policy decisions. IPSAS can provide clear guidance on completeness of entities to be consolidated (using the principle of control), the consolidation process including obtaining comparable data, and performing consolidation adjustments. The review highlighted that not all governments financial statements are easily accessible on their government website; it was not always apparent from some of the statements what the level of consolidation was - users would need to filter through a lot of information to find which bodies were part of the consolidation; in some cases, while local citizens and stakeholders may be able to understand the information, the international community may struggle to find meaningful information for comparability purposes; and it was not always clear whether the statements had been audited in accordance with international or local auditing standards. The consolidated financial statements are also condensed, since they do not repeat detailed disclosures already presented at entity level.

¹² <https://cfr.worldbank.org/publications/consolidation-financial-statements-different-levels-government>

Table 1. Different jurisdictions approach to public sector financial reporting

Consolidated Government Accounts	Australia	Canada	Estonia	France	New Zealand	Switzerland	UK
Annual Report / Financial Statements	yes	yes	yes	yes	yes	yes	yes
Year for which financial statements reviewed	2023	2023	2022	2019	2023	2023	2021
No of pages	177	41 (condensed)	277	64	181	67	285
Which entities are consolidated	Crown plus all central government incl SOEs	All central / federal government bodies incl SOEs	Central and local government and other public sector entities	Central Government entities incl SOEs	Whole of Govt Accounts excl local government incl SOEs	Central/ Federal government and National SOEs	Whole of Govt Accounts excl SOEs
Auditors Report	yes	yes	Limited to opinion on accuracy of accounts and regularity of transactions	yes	yes	No for the consolidated financial statements which are not audited. Yes for the "State" financial statements (which are also consolidating ministries and decentralized entities)	yes
General economic information	yes	yes	yes	yes	yes	yes	yes
Financial performance/ indicators	yes	yes	yes	yes	yes	yes	yes
Surplus/deficit	yes	yes	yes	yes	yes	yes	yes
Operating results	yes	yes	yes	yes	yes	yes	yes
Expenditure	yes	yes	yes	yes	yes	yes	yes
Use of state budget	yes	yes	yes	yes	yes	yes	yes
Use of assets and liabilities	yes	yes	yes	yes	yes	yes	yes

Consolidated Government Accounts	Australia	Canada	Estonia	France	New Zealand	Switzerland	UK
Financial Statements							
Balance sheet	yes	yes	yes	yes	yes	yes	yes
Financial Performance Statement	yes	yes	yes	yes	yes	yes	yes
Cash flow statement	yes	yes	yes	yes	yes	yes	yes
Changes in net assets / net worth	yes	yes	yes	yes	yes	yes	yes
Accounting models and valuation principles	Australian accounting standards based on IFRS	Canadian public sector accounting standards	Estonian financial reporting standard based on internationally acknowledged financial reporting standards, incl. IPSAS	France's own public sector accounting standards (with comparison against IPSAS / IFRS where appropriate)	NZ Generally Accepted Accounting Practice / IPSAS	IPSAS with tax revenue on cash receipt basis and defense equipment on cost basis	UK Generally Accepted Accounting Practice based on IFRS
Additional Information	yes	yes	yes	yes	yes	yes	yes

Box 5. Examples of country approaches to consolidated reporting

ESTONIA

Estonia's consolidated report provides the government's public sector financial position and the performance of its action plans and evaluation of its internal controls. The Ministry of Finance submits the consolidated report to the Government and Parliament by August 31 every year. The consolidated report includes a management report, annual accounts, local authority information, and other public sector and central government departments information. The consolidation includes local and central government bodies and other public sector entities. The annual accounts provide an overview of the state's consolidated and unconsolidated financial position, financial performance, cash flows, and implementation of the state budget, and explain the most important entries. Information on public sector and general government sector and information on local authorities includes a consolidated overview of the financial position, financial performance, and cash flows of these sectors. Financial statements are compiled on cost principle and fair value basis. The National Audit Office's audit report on the Consolidated Annual Report is limited to assessing the accuracy of the accounts and the regularity of the transactions, the report is then approved by Parliament.

Appendix 2 presents extracts from the 2022 Annual Accounts of Estonia.

NEW ZEALAND

NZ's government published its financial statements for the year ended June 30, 2023, on October 5, 2023 – four months after the year end. The statements are prepared in accordance with the provisions of the NZ legislation and comply with NZ's Generally Accepted Accounting Practice and the IPSAS-based Public Sector Public Benefit Entity Accounting Standards. NZ provides a summary of total expenses compared to budget in its final year-end financial statements. They are audited by the NZ Controller and Auditor General. The Statements start with a Fiscal Overview, highlighting fiscal performance and resilience – see Appendix 3 for an example.

SWITZERLAND

Switzerland's financial statements are prepared in accordance with IPSAS. Since 2023, direct federal taxes are recognized on an accrual basis in the statement of financial performance when the tax receivable is accrued (previously, some information had been shown on receipts and payments basis, for example revenue from direct federal tax was shown as recognized upon receipt, rather than accrued for and defense equipment was recorded at cost rather than on its useful life). The Consolidated Federal Financial Statements are not subject to audit, while at the lower level the State Financial Statement which are also consolidating ministries and decentralized entities are audited by the Swiss Federal Audit Office. Appendix 4 includes an example of the Swiss State Financial Statements.

PARLIAMENTARY OVERSIGHT

In many countries, the parliament has an important role to examine, challenge, and hold government ministers and departments to account. Some governments have formal parliamentary scrutiny and assurance processes in place to question ministers, debate, examine, and investigate government policies,

actions, and spending. Part of the process includes relying on select committees or similar to regularly scrutinize departmental policies and spending of taxpayers' money.

Countries have different mechanisms for oversight, including by parliament. **Table 2** below provides a comparison of the scrutiny approaches in some countries:

Table 2. Mechanisms for financial oversight

Scrutiny Structures	UK	Australia	NZ	Austria	Estonia	Georgia
Public accounts committee or equivalent	✓	✓	✓	✓		
Select committees or equivalent responsible for policy scrutiny	✓	✓	✓	✓	✓	✓
Departmental committees or equivalent responsible for financial / budget scrutiny	✓	✓	✓	✓	✓	✓
Financial scrutiny (staff led)	Scrutiny Unit					
Independent fiscal institution	✓	✓		✓	✓	✓
National audit office or state audit institution	✓	✓	✓	✓	✓	✓

Scrutiny Structures	UK	Australia	NZ	Austria	Estonia	Georgia
Internal audit	centralized	departmental	departmental	centralized	departmental	limited departmental
Office for national statistics	✓	✓	✓	✓	✓	✓

Box 6. Example of country approach to scrutiny¹³

In the **UK**, a scrutiny unit forms part of the committee office in the lower house of Parliament. It provides specialist expertise (including legal, accounting, policy specialists, an economist, and a statistician) to select committees (who run inquiries on specific topics) on legislative and financial matters.

The scrutiny unit supports examination of draft legislation, coordinates written and oral submissions, and provides briefings to members of committees for oral evidence sessions. It scrutinizes policy, including research, analytical analysis, as well as support for scoping issues for potential inquiries, managing one off evidence sessions or elements of longer inquiries, drafting questions for public bill sessions, and following up on report recommendations. It also undertakes reviews of departmental financial information such as: main and supplementary estimates; annual reports and accounts; and spending review settlements, budget statements, and autumn statements. Through these reviews, it will seek written answers from departments and briefings for oral sessions. In addition, it aims to improve the quality of financial information through guidance notes and training (including best practice examples).

OVERSIGHT BY INDEPENDENT FISCAL INSTITUTIONS

Another way of scrutinizing government fiscal policies and growth plans is to establish an IFI to review tax and spending policies. The core duty of an IFI is to provide independent and competent analysis of the sustainability of public finances. IFIs can critically assess and examine the sustainability of public finances including macroeconomic forecasts for budget planning and monitor compliance with

fiscal rules in an objective and transparent way, while providing scrutiny over fiscal policies. They can provide non-partisan advice on fiscal policy and performance which can be key to promoting sound public finance decisions in line with the public interest. There have been instances where budget disputes have been a source of major tension between a fiscal council and the government (see example of the UK in **Box 7**). If accrual financial statements are part of the PFM system, it is very important that oversight institutions like parliaments and IFIs build enough capacity to actually use and analyze the information. In many cases public oversight bodies use only budget and government finance statistical information.

¹³ Source: UK Parliament. <https://www.parliament.uk>

Box 7. Country example of an established IFI and implementation failure

Created in 2010, the **UK's Office for Budget Responsibility (OBR)** has an advisory rather than a policy-making role. It is independent of government but accountable to Parliament and the Chancellor. It analyses fiscal risks and highlights issues associated with them, evaluates progress against the government's fiscal targets (economic and fiscal outlooks), and produces economic and fiscal forecasts. It has a legal right to information and assistance from within government and has a multi-annual budget settlement which is made public. Its Budget Responsibility Committee is appointed by the Chancellor, but the Treasury Subcommittee also has a veto in any appointment decision. This 'double-lock' is unique among other public appointments in the UK. Members are accountable to, but independent from, politicians.

The OBR is unique among its international peers in that it produces the government's official forecasts and has a scrutiny role in challenging the Treasury on its costing of policy measures during the fiscal forecasting process. The UK government usually responds with a report identifying how it will manage the fiscal risks and address the issues highlighted by the OBR. This provides the disclosure and management components of fiscal risk frameworks, which are important and provide a way for the parliament and public to assess the adequacy of government strategies in managing risks and holding government to account for their implementation.

In September 2022, the UK government presented a mini-budget which included tax cuts funded by increased borrowing. The government failed to first consult and provide information to the OBR as per usual practice, leading to a lack of independent scrutiny. The mini-budget caused financial crisis; the pound sterling plummeted against the US dollar amidst a cost-of-living crisis. The IMF criticized the UK's approach, leading to negative reactions from world markets and a reversal of the policy. The London School of Economics discussed this incident, highlighting the importance of transparency and oversight process for future policymakers, especially in advanced democracies.

The number of IFIs increased sharply in the wake of the global financial crisis and then again more recently when the member countries of the eurozone were required to have such bodies (see **Box 8** below).

In 2014, the Organisation for Economic Co-operation and Development (OECD) published a report on *Principles for Independent Fiscal Institutions*¹⁴ to assist countries in designing their IFIs and the related governance that would need to be in place to enable these bodies to provide authoritative and non-partisan analysis of a country's public finances. In 2022, it published a report indicating that the principles had been widely applied and used in designing new IFIs or reforming existing ones.

The key message of an analysis by the Economic Governance and Economic and Monetary Union Scrutiny Unit, was that *"National IFIs are an important element in the European Union (EU) fiscal governance landscape and can play a role in the envisaged fiscal-structural plans. To this end, minimum standards are needed. Even though an individual government may be reluctant to strengthen its IFI, it is in the collective interest to have a set of strong IFIs throughout the EU. This would need the support from the European Commission and the European Parliament, being the institutions that "internalize" fiscal policy externalities."*¹⁵

EU Directive 2011/85 on requirements for budgetary frameworks of the Member States was amended in 2024.¹⁶ It aims to further strengthen the role of IFIs by increasing their independence, responsibilities,

¹⁴ <https://www.oecd.org/gov/budgeting/OECD-Recommendation-on-Principles-for-Independent-Fiscal-Institutions.pdf>

¹⁵ Economic Governance and Economic and Monetary Union Scrutiny Unit. 2023. "Strengths and Weaknesses of IFIs in the EU Economic Governance Framework"

¹⁶ <https://eur-lex.europa.eu/eli/dir/2024/1265/oj>

Box 8. Independent fiscal institutions in Europe and year of establishment

- ▶ **Austrian Fiscal Advisory Council (2002)**
<https://www.fiskalrat.at/en/>
- ▶ **Belgian Federal Planning Bureau**
<https://www.plan.be/en>
- ▶ **Croatian Fiscal Policy Commission (2014)**
<https://www.sabor.hr/en/positions-fiscal-policy-commission>
- ▶ **Cyprus Fiscal Council (2014)**
<https://www.fiscalcouncil.gov.cy/en/>
- ▶ **Czech National Budget Board (2017)**
<https://unrr.cz/>
- ▶ **Danish Economic Council (1962)**
<https://dors.dk/english>
- ▶ **Estonian Fiscal Council (2014)**
<https://eelarvenoukogu.ee/en>
- ▶ **European Commission Independent Fiscal Institution database**
http://ec.europa.eu/economy_finance/db_indicators/fiscal_governance/independent_institutions/index_en.htm
- ▶ **Fiscal Council of Bulgaria (2015)**
<https://www.fiscalcouncil.bg/>
- ▶ **Fiscal Council of Hungary (2009)**
<http://www.parlament.hu/web/koltsegvetesi-tanacs/in-english>
- ▶ **French Fiscal Council (2013)**
<https://www.hcftp.fr/en>
- ▶ **Georgia Parliamentary Budget Office (1997)**
http://pbo.parliament.ge/index_en.htm
- ▶ **Greece Parliamentary Budget Office (2010)**
<http://www.pbo.gr/en-gb/>
- ▶ **Independent Advisory Board to the German Stability Council (1963)**
<https://www.stabilitaetsrat.de/EN>
- ▶ **Irish Fiscal Advisory Council (2011)**
<http://www.fiscalcouncil.ie/>
- ▶ **Italian Parliamentary Budget Office (2014)**
<http://en.upbilancio.it/>
- ▶ **Latvian Fiscal Council (2014)**
<http://fiscalcouncil.lv/council>
- ▶ **Lithuanian National Audit Office (2015)**
<https://www.valstybeskontrolė.lt/EN>
- ▶ **Luxembourg National Council of Public Finance (2014)**
<https://cnfp.public.lu/en.html>
- ▶ **Malta Fiscal Advisory Council (2015)**
<https://mfac.org.mt/>
- ▶ **National Audit Office of Finland (2013)**
<https://www.vtv.fi/en/>
- ▶ **Netherlands Bureau for Economic Policy Analysis (1945)**
<http://www.cpb.nl/en>
- ▶ **Netherlands Council of State (2014)**
<https://www.raadvanstate.nl/talen/artikel/>
- ▶ **Portuguese Public Finance Council (2012)**
<http://www.cfp.pt/?lang=en>
- ▶ **Republic of Slovenia Institute of Macroeconomic Analysis and Development (2000)**
<https://www.umar.gov.si/en>
- ▶ **Romania Fiscal Council (2010)**
<http://www.fiscalcouncil.ro/>
- ▶ **Scottish Fiscal Commission (2017)**
<http://www.fiscalcommission.scot/>
- ▶ **Serbian Fiscal Council (2011)**
<https://www.fiskalnisavet.rs/>
- ▶ **Slovak Republic Council for Budget Responsibility (2012)**
<https://www.rrz.sk/en/>
- ▶ **Spanish Independent Authority for Fiscal Responsibility (2014)**
<http://www.airef.es/?locale=en>
- ▶ **Swedish Fiscal Policy Council (2007)**
<https://www.fpr.se/english/fiscal-policy-council.html>
- ▶ **United Kingdom Office of Budget Responsibility**
<https://obr.uk/>

and accountability. It mandates the involvement of IFIs in the budgetary process to ensure effective and timely monitoring of compliance with fiscal rules, realistic annual and multiannual macroeconomic forecasts, coherent and effective national budgetary frameworks, and regular communication with parliaments and other stakeholders.

REQUIREMENTS FOR STATE-OWNED ENTERPRISES

Typically, SOEs are government entities established by a national or regional government, with a distinct legal set-up, usually through an act of parliament. They may be used for a mostly commercial purpose with additional developmental or financial objectives and goals (i.e., to earn profit for the government); to control a monopoly situation; to implement government policies; and/or to deliver government products or services to citizens at lower prices or to remote locations. SOEs tend to be concentrated in network industries such as utilities, and natural monopolies such as railways and commodities.

SOEs financial information is important as they are often significant taxpayers, their dividend revenue goes to the budget and their subsidy/grant allocation comes from the budget. Countries often define their own policy towards SOEs – with classifications, legal definitions, performance management frameworks, and dividend and investment policies. Some SOEs are defined as strategic and cannot be subject to privatization. Similarly, restrictions can also apply to real estate operated by SOEs, which can be legally protected as public assets directly owned by the state (and therefore not subject to sale by SOEs).

IPSAS guides how SOEs should be treated in government financial statements. In practice, national approaches include full or equity consolidation of SOEs (which can include fully and partially government controlled entities) in the government financial statement or state asset management entity; disclosure of the value of the shareholding and other relevant information in the financial statements; a separate aggregated annual report specifically for SOEs; or a combination of these.

The 2024 OECD Guidelines on Corporate Governance of State-Owned Enterprises recommends that government-controlled SOEs *"should observe high standards of transparency, accountability, and integrity and be subject to the same high-quality accounting, disclosure, compliance, and auditing standards as listed companies. The ownership entity should develop consistent reporting on SOEs and **publish annually an aggregate report on SOEs**, on material issues, including information related to sustainability, governance aspects, as well as on the achievement of public policy objectives. The information should give a full, clear, and reliable picture of the SOE portfolio and be high quality, comparable, concise, and accessible publicly, including through digital communications."*

As large complex organizations with multi-faceted relationships and interests, much of which is related to public service delivery, SOEs should follow typical PFM principles of:

- ▶ Accountability and transparency – including using accruals-based international standards such as IFRS, with comparable and transparent financial information, which is complete, reliable, timely, relevant, and of good quality as well as being accessible and understandable.
- ▶ Financial management– which identifies accurate information on, for example, short- and long-term assets and liabilities, management of risks, their decision-making processes, and sufficient information to indicate their financial resilience.
- ▶ Performance information - based on comprehensive and consistent financial and operational data, which identifies use of resources and service delivery.

Significantly large SOEs should be treated as public interest entities. Requirements should include financial reporting, ideally under IFRS, IPSAS (for more service oriented SOEs), or relevant jurisdictional standards; sustainability reporting standards; being subject to annual audits and mandatory publication of audited financial statements; and implementing corporate governance at the same level as private sector peers, including functioning management boards, supervisory boards, and audit committees with proper expertise and autonomy.

Box 9. Country examples of SOE financial reporting arrangements**BULGARIA**

There are 265 state-owned public enterprises (as at end of 2021) in Bulgaria. There is a separate annual report¹⁷ specifically for SOEs with a total value of BGN 26,850 million.

SWEDEN

The government owns or part-owns 43 SOEs with a total portfolio value of SEK 850 billion. A separate annual report for SOEs is published by the Government Offices of Sweden.

NZ

Financial Information showing revenue, expenditures, assets, liabilities, and equity in relation to the SOE segment (covering controlled and minority shareholding entities) is included into the consolidated government financial statements. See Appendix 5 for an example.

UK

Government-owned bodies are consolidated under the accounts of the government department they are part of, for example, National Highways (responsible for the strategic road network) is consolidated under the Department for Transport.

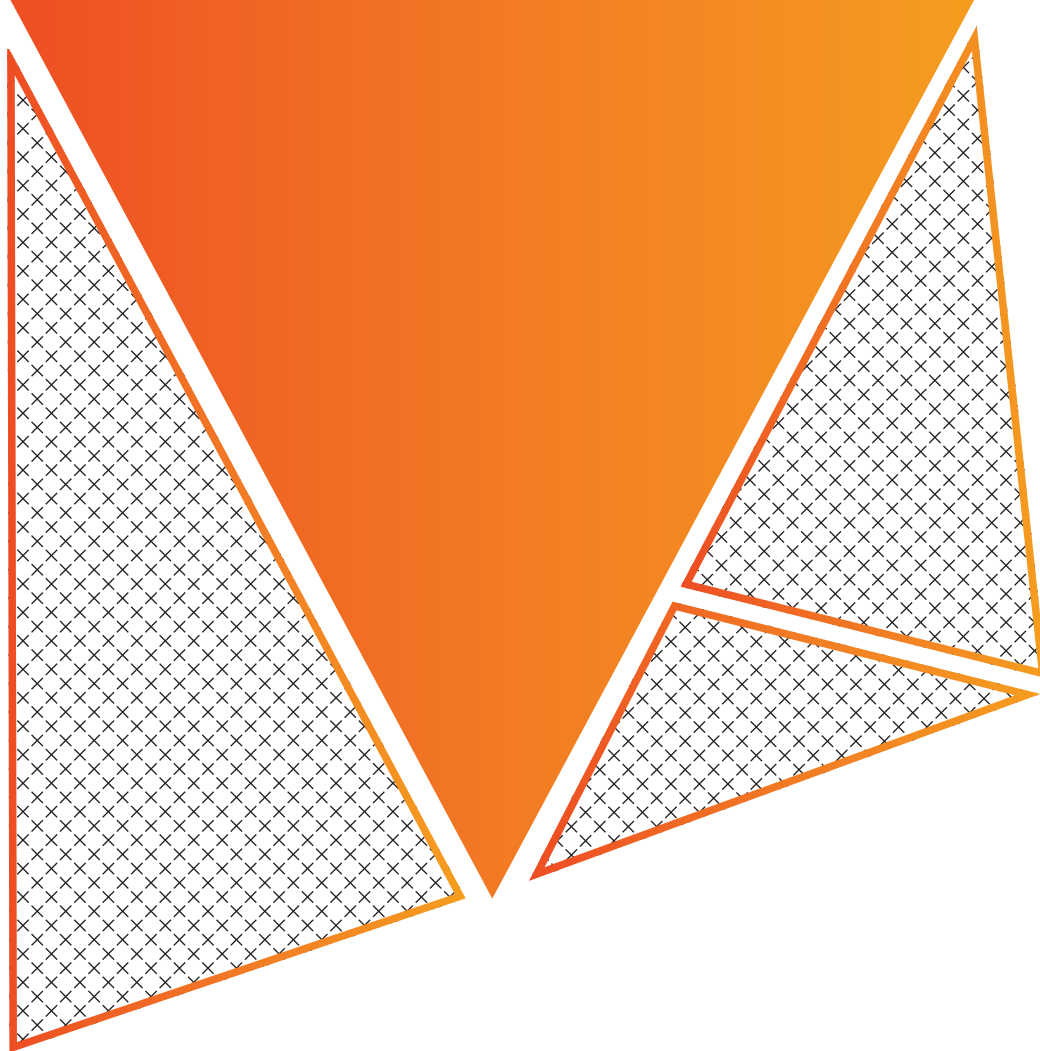
CHINA

Following reform of SOEs and consolidation there are over 200,000 SOEs in China at the central and local government level, including subsidiaries and multinational enterprises investing in foreign emerging markets around the world. The 98 central SOEs and their thousands of subsidiaries are the most prominent, operating in crucial sectors like banking, energy, transportation, telecoms, medicine, and food and agriculture. These sectors account for 70% of the central SOEs' revenue. The governmental authority, the State-Owned Asset Supervision and Administration Commission, oversees Chinese and multinational SOEs (and publishes infographics in English with key highlights on central and local SOEs segments) with particular attention to risk management and monitoring including:

Regulatory Risk: Driven by foreign governments' efforts to address tougher economic conditions and fiscal fragility, leading to long-term structural changes to increase revenues through taxation, investment rules, and trading restrictions. These changes increase the compliance burden for multinational SOEs.

Digital Risk: Specifically related to cybersecurity and data compliance. The fragmentation of global networks into regional or national architectures, influenced by geopolitical and economic pressures, complicates cross-border data requirements and cybersecurity. This has led to a slowdown in data harmonization and the implementation of stringent, country or region-specific data security regulations.

¹⁷ <https://www.government.se/contentassets/c598db6fe50d4d01abdeae3b6b1496ce/annual-report-for-state-owned-enterprises-2022.pdf>



GOOD PRACTICE 3: COMMUNICATE INFORMATION TO STAKEHOLDERS IN AN OPEN, TRANSPARENT, AND ACCESSIBLE WAY TO BUILD TRUST AND CONFIDENCE IN FINANCIAL REPORTING

Everything that a government does should be in the public interest which means that the public and key stakeholders have a high stake. Governments must earn citizens' trust and confidence in the public finances to which they contribute. The public expect governments and accountable institutions, such as ministries of finance, to be transparent and reliable about the country's fiscal situation and how public funds are used (accountability, governance, ethics).

Governments should also encourage **civil society and citizen engagement** with public finances. This requires them to be proactive in ensuring that financial information is accessible, understandable,

and openly and proactively communicated to the general public and other stakeholders. The World Bank *Guide to Data Storytelling in the Public Sector*¹⁸ provides ways and examples how to communicate PFM information to the public.

FISCAL TRANSPARENCY

Enhanced fiscal transparency is increasingly demanded by parliaments, citizens, investors, and lenders. Without it, countries can be vulnerable to

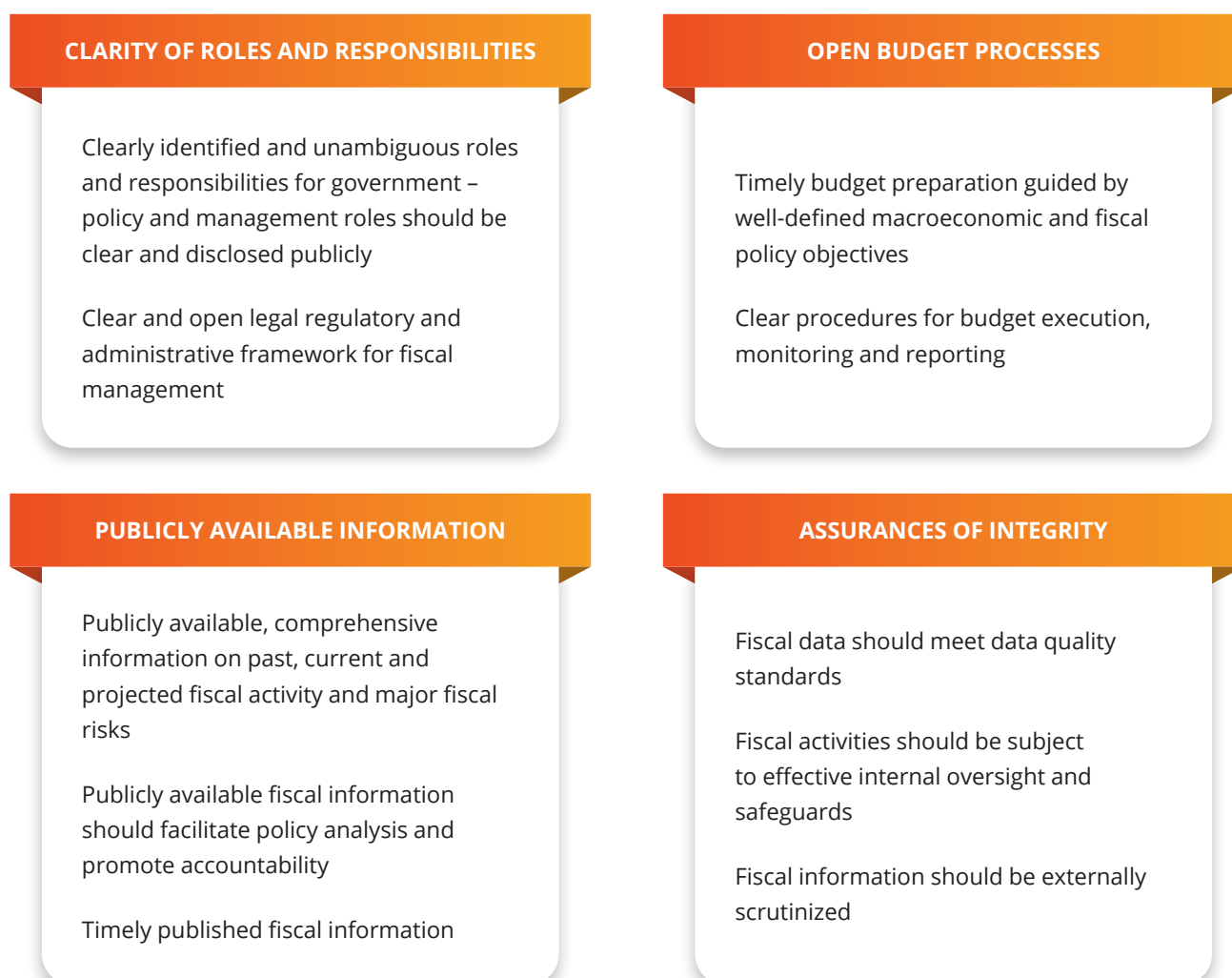
magnification of market reactions during an era of frequent external shocks. Moreover, in normal times the public sector will not fully reap the efficiency gains offered by information technology advances in the absence of a well-designed fiscal transparency structure and processes which expand parliamentary oversight and mobilize inputs from citizens and civil society.

Modern fiscal transparency requires the disclosure of complete, reliable, timely, relevant, and good quality information about a country's public finances. It contributes to public accountability by making government information more accessible and understandable. It can contribute to effective and efficient fiscal management and can strengthen the credibility of a country's economic and fiscal plans which, in turn, can underpin market confidence and market perceptions of fiscal solvency.

Transparency demands two-way communication of important information. Governments should avoid just dumping data in an effort to demonstrate improved transparency if the data will be largely incomprehensible or invisible to many stakeholders. The form of their presentation, timing, and the uses of the data are critical factors. As the collation and reporting of financial information can be susceptible to politicization and omissions, independent mechanisms must be put in place to mitigate risks of economic and /or financial and debt crisis.

The IMF's Code of Good Practices on Fiscal Transparency, published in 2007, highlights the need for clarity of roles and responsibilities, open budget processes, publicly available information, and assurance of integrity (see **Figure 2** below).

Figure 2. Good Practices on Fiscal Transparency¹⁹



¹⁹ Source: <https://www.imf.org/external/np/fad/trans/code.htm>

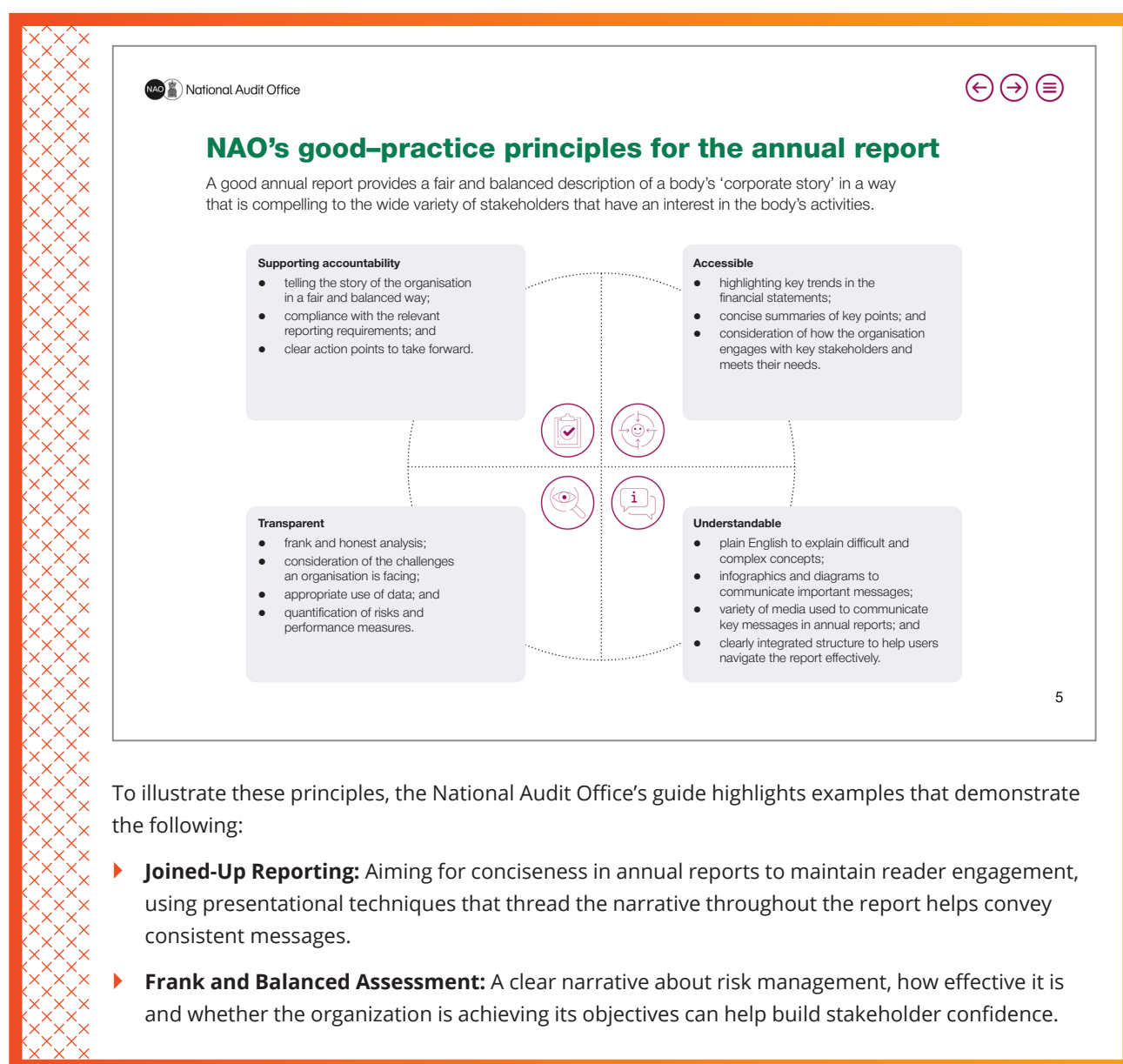
ANNUAL REPORT

It is important to publish annual financial reporting on the public sector for transparency and accountability, allowing stakeholders to understand how taxpayer money was used and what the outcomes were. The detailed financial information should demonstrate informed decision-making and evidence efforts towards achievement of strategic priorities. The annual report is an opportunity for performance evaluation and a demonstration of responsible fiscal management by highlighting debt levels and financial

risks. It can also be used for benchmarking and comparison.

In its Good Practice in Annual Reports publication,²⁰ the UK National Audit Office outlines good practice principles under the following organizational subject areas: strategy, risks, operations, governance, measures of success, financial performance, and external factors. The principles are grouped into four key areas: supporting accountability, transparency, accessibility, and understandability (see **Box 10** below).

Box 10. Good Practice Principles of an Annual Report



²⁰ Good practice in annual reports, UK National Audit Office, February 2025
https://www.nao.org.uk/wp-content/uploads/2021/02/Good_practice_in_annual_reporting.pdf

- ▶ **Understandable Non-Financial Information:** Stakeholders increasingly seek information beyond the financials. Organizations should clearly communicate their responses to external factors affecting them.
- ▶ **Linkages Between Financial and Non-Financial Information:** Showing how the financials tie to operational activities – and supporting this with performance indicator reporting – provides context to achievements and future objectives.
- ▶ **Accessibility:** Offering reports in various formats and considering reader accessibility requirements benefit their users.

CIVIL SOCIETY AND CITIZEN ENGAGEMENT

Citizens want to be more involved and have a say on what and how their taxes are generated and spent. Governments should include them in the process, particularly as they are often the ones who know what is happening in local communities. With advances in technology and the increase in digital tools, governments can no longer say it is too hard or too costly to provide information. Citizens and civil society are ready to play their part, governments need to rise to the occasion. The provision of accurate and timely information, alongside the opportunity for stakeholders to participate and provide feedback can be critical elements of government decision-making, reporting, and accountability.

Public communication of public sector financial and non-financial information plays a critical role in supporting more open and inclusive governance mechanisms. More governments are putting in place processes to have more engagement and dialogue with citizens to support greater transparency and accountability.

The OECD *Report on Public Communication*²¹ emphasizes the importance of separating and distinguishing between political communication and public communication (especially in the context of rising misinformation and distrust toward information perceived as manipulated or politically partisan). It affirms that the provision of and accessibility to accurate sources of verified information are essential to enable democratic engagement and are more necessary than ever.

The World Bank *Guide to Data Storytelling in the Public Sector*²² provides PFM experts with tips and guidance on how to effectively communicate public finances. Data storytelling combining financial information with narrative, visuals, and comprehensible language enables effective communication with the general public and non-financial experts. Data storytelling is the missing link to make better use of public sector financial data for evidence-based decision making and high-quality service delivery. Recent developments in artificial intelligence technology can help to apply such methods in practice.

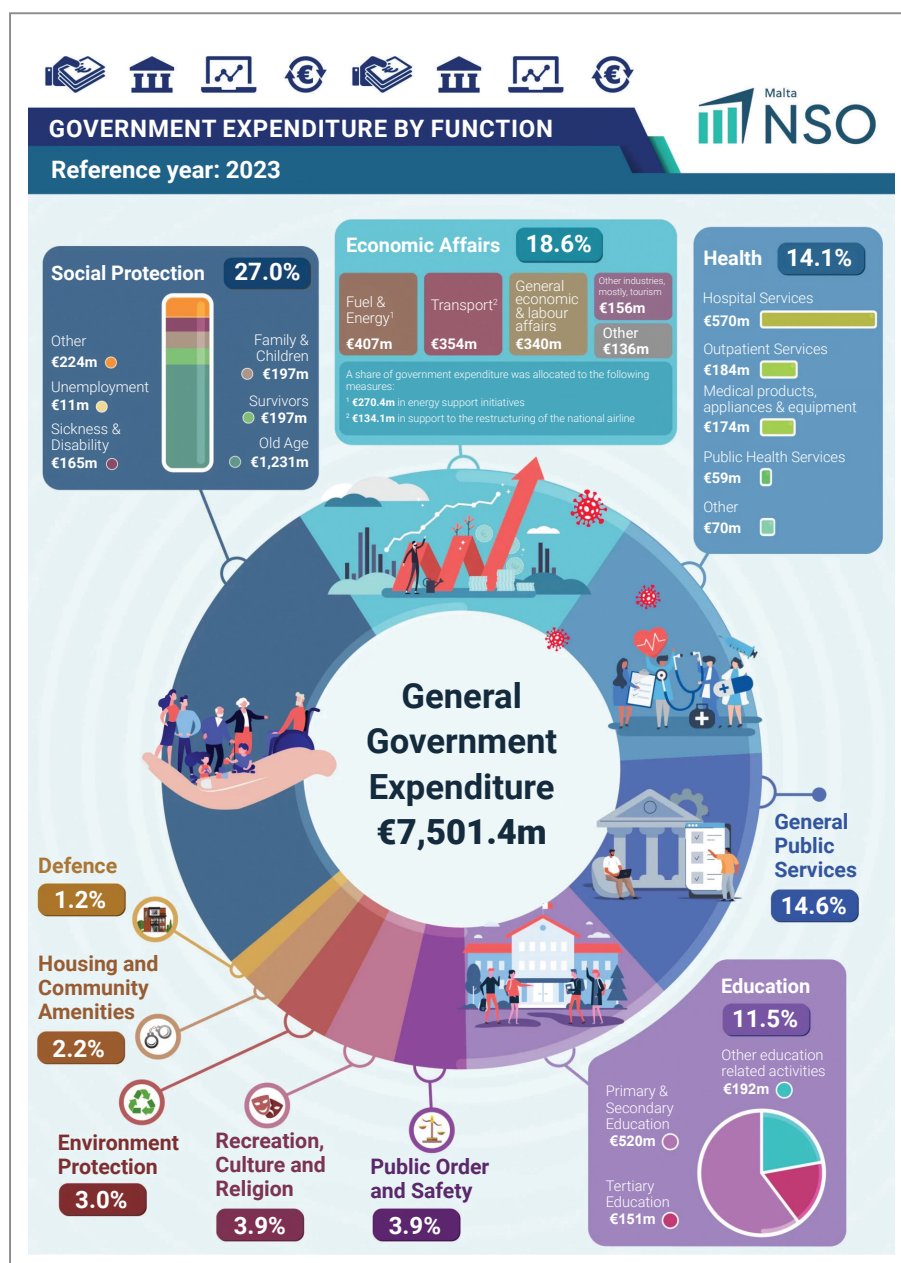
Many governments are making efforts to provide useful and accessible financial information to the general public and civil society (see example in **Box 11** below).

²¹ https://www.oecd.org/en/publications/oecd-report-on-public-communication_22f8031c-en.html

²² <https://cfr.worldbank.org/publications/data-guide>

Box 11. Examples of efforts to improve communication of financial information**MALTA**

The National Statistics Office provides financial information on its *Expenditure of General Government Sector by Function*.²³ Data is shown in different ways via several tabs, which is helpful for different stakeholders, the most useful for citizens is the visualizations tab. Information is also available as a downloadable PDF.



²³ <https://nso.gov.mt/public-finance/expenditure-of-general-government-sector-by-function-2023/>

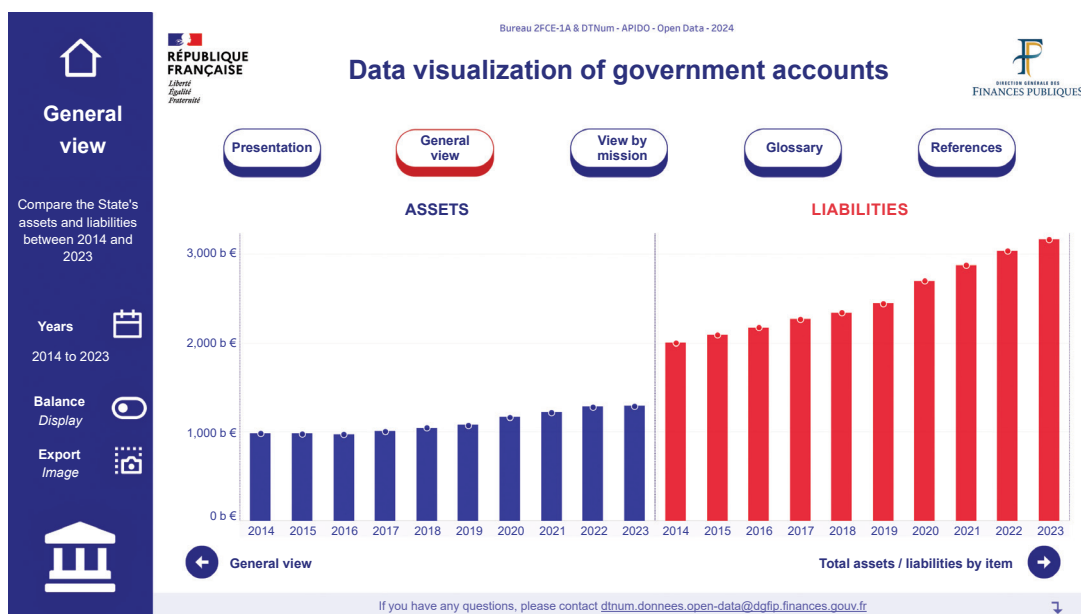
FRANCE

France has a digital platform²⁴ which enables citizens to access information on state finances in various breakdowns such as by central administration bodies, local government expenditure, and social security expenditure (e.g., hospitals, retirement and unemployment insurances, and other social security schemes).

As part of this platform, citizens can access detailed public finance documentation²⁵ (budget documentation, state accounts, and other public management information). Within the State Accounts for years 2006 to 2023 are detailed documents for each year. The 2023 information²⁶ provides detailed financial statements and a four-page summary with key highlights summary.

French state accounts dashboard²⁷

General accounting is kept on an accrual basis, i.e. by attaching expenses and income to the financial year in which they arose, regardless of the date of payment or collection. General accounting makes it possible to monitor changes in the value of the state's assets and debts. For over ten years, general accounting has contributed to providing a true and fair view of the state's assets and liabilities. By supporting and supplementing budgetary and national accounting, it contributes to enriching the analysis and transparency of the state's financial situation and its development over time.



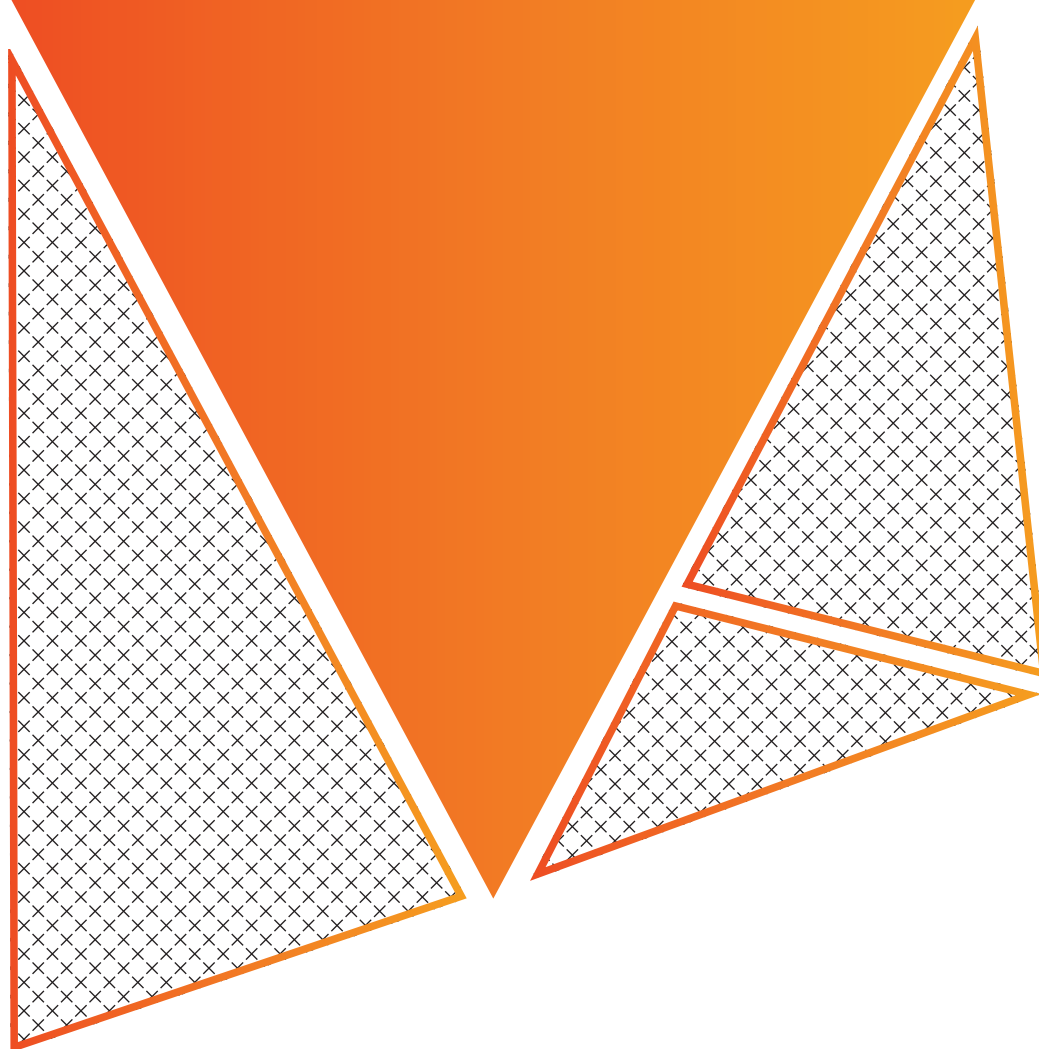
²⁴ https://www.budget.gouv.fr/reperes/comptes_etat/articles/comptes-de-letat-2023

²⁵ <https://www.budget.gouv.fr/budget-etat>

²⁶ <https://www.budget.gouv.fr/documentation/comptes-de-letat/comptes-de-letat-2023>

²⁷ Source: *Datavisualisation des comptes de l'Etat* | Tableau Public

<https://public.tableau.com/app/profile/dtnum.open.data/viz/DatavisualisationdescomptesdelEtat/Accueil>



GOOD PRACTICE 4: INCORPORATE NEW DEVELOPMENTS IN PUBLIC SECTOR REPORTING

As well as improving PFM and financial reporting for current budgeting priorities, a modern system of accrual accounting and fiscal transparency will provide the foundation for emerging developments and trends in financial and non-financial and performance reporting. These include:

- ▶ **Sustainability reporting and green budgeting** – Governments need to have in place strategies, systems, and processes to recognize and address climate-related challenges.
- ▶ **Gender responsive budgeting** – Governments need to strengthen and support better alignment of national budgets with social inclusion goals.
- ▶ **GovTech** – Governments need to keep pace with and take advantage of the rapid changes in information technology.

SUSTAINABILITY REPORTING

Sustainability issues are likely to have significant impact on public finances which aligns with the public interest in transparency and accountability in government actions. Heightened awareness of environmental and social issues is increasing demand for sustainability information from various stakeholders, including lenders, investors, policymakers, citizens, and academics. Citizens want to know how their government is reducing carbon emissions, investing in green technologies, climate mitigation, and adaptation, preserving and restoring the natural environment, and improving energy efficiency and waste management practices. For example, there may be interest in how funds gathered from environmental fines and charges (such as emission trading systems) are used: either

for environmentally friendly green investments or absorbed into recurrent budget spending. Citizens and advocacy groups may use sustainability reporting to monitor government progress on environmental initiatives and hold them accountable. Investors might be interested in the sustainability practices of public sector entities to assess the long-term viability of government bonds and loans.

Sustainability reporting and green budgeting in the public sector are important for addressing environmental and social challenges. Public sector entities are expected to provide information on climate change performance and progress towards the United Nations Sustainable Development Goals. Leveraging international guidance and aligning with global standards will enable them to provide comprehensive, transparent, and accountable sustainability information.

There is not yet a universally recognized framework for preparing and disclosing sustainability-related information for the public sector. This leads to inconsistencies in reporting and development of various reporting frameworks and practices, even within jurisdictions. Recognizing the urgency of developing sustainability reporting guidance in the public sector the International Public Sector Accounting Standards Board (IPSASB) has drafted the first public sector Sustainability Reporting Standard (SRS). The SRS 1 - *Climate-Related Disclosures* Exposure Draft was published in October 2024. It proposes disclosure requirements for public sector entities to report on (i) the climate-related risks and opportunities to its own operations and (ii) climate-related public policy programs and their outcomes, that are useful for primary users of general purpose financial reports to support decision-making and accountability. The aim is to help public sector entities report on their climate action plans and progress, providing consistency, comparability, transparency, and accountability. In addition, sustainability information allows stakeholders to understand the financial implications of sustainability initiatives and risks, such as the cost savings from energy efficiency projects, and identification of climate related risks. IPSASB has also added sustainability examples to its Recommended Practice Guidelines on Reporting on the Long-term Sustainability of an Entity's Finances and Reporting Service Performance Information.

In the transition period until the SRS is published, public sectors could adapt private sector sustainability reporting frameworks that offer a structured approach to reporting on environmental, social, and governance factors, such as the Global Reporting Initiative, the International Sustainability Standards Board guidelines, or European Sustainability Reporting Standards (ESRS), to meet the unique needs of government entities and jurisdictions.

The EU Corporate Sustainability Reporting Directive mandates large companies (including SOEs) to use the ESRS. These requirements aim to enhance the transparency, consistency, and reliability of sustainability information across the EU. Companies must apply the double materiality principle and report on both the impact of their activities on the environment and society, and how sustainability issues affect their business. The ESRS incorporates the four pillars of the Task Force on Climate Related Financial Disclosures (governance, strategy, risk management, and metrics and targets) as mandatory and adds the following additional requirements if material:

► **Environmental**

- Climate Change
- Pollution
- Water
- Biodiversity
- Resources and circular economy

► **Social**

- Own workforce
- Workers in value chain metrics
- Consumers and end-users metrics
- Affected communities metrics

► **Governance**

- Business Conduct

GREEN BUDGETING

The transition to net zero emissions requires significant private and public investment. Governments need to consider how this investment

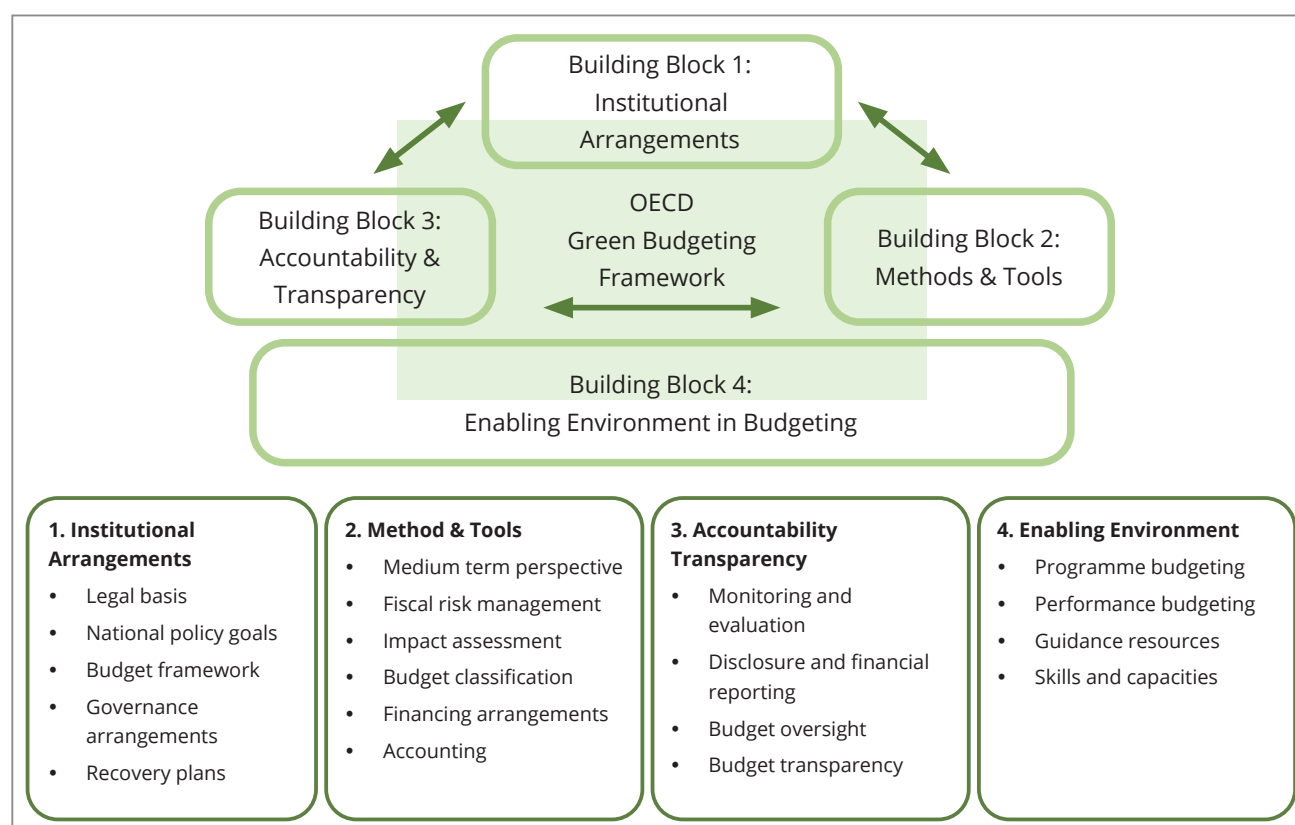
might be mobilized during the short, medium, and long-term and ensure that the financial opportunities and risks are identified and well-managed. Green budgeting tools can support policymaking that achieves environmental and climate goals. This includes evaluating the environmental impact of budgetary and fiscal policies and assessing their impact on the delivery of national and international commitments. Green budgeting can also contribute to an informed, evidence-based debate and discussion on sustainable growth.

Green budgeting should be woven into a country's existing PFM framework and be aligned with the existing budgeting process. For instance, environmental and climate goals can be integrated into the performance budgeting system. Where spending review processes are strong, there could

be increased focus on measuring efficiency goals in relation to climate goals. (See also PULSAR publication *Characteristics of Public Sector Entities and the Reporting Entity for Sustainability Reporting*).²⁸

Countries are increasingly introducing green budgeting practices. The OECD's Paris Collaborative on Green Budgeting provides practical guidance to help governments consider climate and environmental goals within their budget frameworks. The OECD website on Green Budgeting²⁹ provides a variety of green budgeting methods and tools for budgetary policies. Several OECD countries have implemented green budgeting to inform political decision making, guide budget allocations during budget negotiations, and support the prioritization of capital expenditure, and have applied green budgeting across all public policy requirements.

Figure 3. OECD Green Budgeting Framework key building blocks³⁰



²⁸ <https://cfr.worldbank.org/publications/characteristics-public-sector-entities-and-reporting-entity-sustainability-reporting>

²⁹ <https://www.oecd.org/en/topics/sub-issues/green-budgeting.html>

³⁰ Source: OECD Green Budgeting Framework: [https://one.oecd.org/document/GOV/SBO\(2024\)2/en/pdf](https://one.oecd.org/document/GOV/SBO(2024)2/en/pdf)

Box 12. Country examples of green budgeting efforts**AUSTRALIA**

The Australian Government has a National Climate Resilience and Adaptation Strategy,³¹ setting out three key objectives:

1. Drive investment and action through collaboration
2. Improve climate information and services
3. Assess progress and improve over time

As part of its obligation under the Climate Change Act 2022, the government publishes an Annual Climate Change Statement.³² It reports on:

- ▶ progress made during the year towards achieving greenhouse gas emissions reduction targets
- ▶ international developments during the year relevant to addressing climate change
- ▶ climate change policy
- ▶ the effectiveness of the Commonwealth's policies in contributing to the achievement of Australia's greenhouse gas emissions reduction targets and reducing emissions in the sectors covered by those policies
- ▶ the impact of the Commonwealth's climate change policies to achieve Australia's greenhouse gas emissions reduction targets on rural and regional Australia, including the social, employment and economic benefits being delivered by those policies in rural and regional Australia
- ▶ risks to Australia from climate change impacts, such as those relating to Australia's environment, biodiversity, health, infrastructure, agriculture, investment, economy, or national security.

While the Annual Consolidated Accounts 2023 included only limited performance information or disclosures on climate change, the independent Climate Change Authority (Department of Climate Change, Energy, the Environment and Water³³) published a National Climate Risk Assessment,³⁴ in March 2024, providing a rapid qualitative assessment to identify nationally significant and priority risks.

FRANCE

Since 2020, France includes a green component in the preparation of its state budget. The government publishes its annual green report in an annex to the draft finance bill, listing all expenditure that has a favorable, unfavorable, neutral, mixed, or undefined impact on the environment.

A government assigned working group assesses the environmental impact of each action in the budget under the state expenditure and tax expenditure against six environmental objectives:

- ▶ fight against climate change
- ▶ adaptation to climate change and prevention of natural risks
- ▶ water resource management

³¹ <https://www.dcccew.gov.au/climate-change/policy/adaptation/strategy>

³² <https://www.dcccew.gov.au/climate-change/strategies/annual-climate-change-statement-2023>

³³ <https://www.dcccew.gov.au/>

³⁴ <https://www.dcccew.gov.au/sites/default/files/documents/national-climate-risk-assessment-first-pass-assessment-report-2024.pdf>

- ▶ transition to the circular economy, waste management and the prevention of technological risks
- ▶ fight against pollution
- ▶ preservation of biodiversity and the protection of natural, agricultural and forestry areas

The data is made available annually. For 2024, it can be found here: www.budget.gouv.fr/reperes/budget_vert/articles/plf-2024-la-4eme-edition-du-budget-vert






NORWAY

As one of the most environmentally sustainable countries, Norway's National Transport Plan 2022-2033³⁵ highlights initiatives for an efficient, environmentally friendly, and safe transport system by 2050. This outlines a comprehensive strategy to enhance Norway's transport system by focusing on efficiency, environmental sustainability, and safety. It emphasizes the use of new technologies, such as automation and electrification, to improve transport accessibility and reduce emissions. The plan provides an overview of total spending distributed by mode of transport. The Norwegian Government Annual Report provides comparative information from the Ministry of Transport in a note to the accounts.

UK

In the UK, a disclosure note within the Whole-of-Government Accounts 2021/22 highlights the requirements for UK central government departments and their agencies regarding greenhouse gas emissions.³⁶ Individual government departments are required to publish their own sustainability reports either as part of their annual reports or as separate reports showing progress against specific targets. The Greening Government Commitments initiative³⁷ sets out reporting requirements for the actions government departments and their agencies take to reduce their impact on the environment for 2021 to 2025.

Chart 1.VV: GGC progress against targets

Greening Government Commitment	2020-21 Target	Progress from 2001-10 to 2020-21	2020-21 Performance	Result
Greenhouse gases	Reduce greenhouse gas emissions by at least 43%		57% reduction	Exceeded target
Domestic flights	Reduce the number of domestic flights by at least 30%		96% reduction	Exceeded target
Waste to landfill	Reduce the amount of waste going to landfill to less than 10%		8% of waste to landfill	Exceeded target
Paper consumption	Reduce the government's paper use by at least 50%		80% reduction	Exceeded target
Water	Continue to reduce water consumption		14% reduction	

³⁵ <https://www.regjeringen.no/en/dokumenter/national-transport-plan-2022-2033/id2863430/?ch=6>

³⁶ https://assets.publishing.service.gov.uk/media/6601a433f1d3a0666832ad02/WGA_2021-22_Final_for_publication.pdf

³⁷ <https://www.gov.uk/government/publications/greening-government-commitments-2021-to-2025>

The UK has established a new government Department for Energy Security and Net Zero which is responsible for the energy portfolio. Its long-term objectives include ensuring properly functioning energy markets, coordinating government wide net zero objectives, and using external delivery expertise to support its major projects.

SWITZERLAND

The 2024 Fiscal Sustainability Report for Switzerland³⁸ highlights the need for action in economic and fiscal policy and includes the first quantitative estimate of the long-term impact of climate change on public finances.

The Federal Act on Climate Protection and Innovation commits Switzerland to becoming climate-neutral by 2050. The climate protection measures in Switzerland impact both public receipts and expenditure directly and indirectly, including federal, cantonal, and communal levels. Key impacts include reduced revenue from taxes on mineral oil and the CO2 levy, as well as public expenditure on federal and cantonal building programs. In 2021, approximately 71% of ordinary government receipts and 75% of ordinary expenditure were affected by these measures.

GENDER RESPONSIVE BUDGETING

Gender-responsive budgeting is about more than money, it is a statement of the country's priorities for diversity and inclusion, including removing gender biases from key government processes and tools.

Broad government efforts weave gender related thinking into the wider strategic approach including regarding legal, regulatory, policy, and budgeting and financial decisions. This should result in improvements to public systems, processes, and tools to achieve gender equality goals. Gender budgeting helps to identify priorities, for example to reduce or close gender pay gaps in the employment market.

Box 13. Country examples of gender budgeting

CANADA

The Canadian Government, as part of its budgeting process, publishes a *Statement and Impacts Report on Gender Equality, Diversity and Quality of Life*.³⁹ The detailed information in the Statement includes analysis of the Gender Results Framework indicators and achievements in areas such as on the Gender Equality Goals for Canada, including a note on methodology.

UKRAINE

Between 2013 and 2020, the Ministry of Finance of Ukraine led one of the largest global projects on gender budgeting. Over 300 budget programs were analyzed at state and local levels and many were amended to be more gender responsive. It resulted in a series of recommendations and strategy

³⁸ <https://www.efd.admin.ch/en/fiscal-sustainability-report#First-quantitative-estimate-of-the-impact-of-climate-protection-measures>

³⁹ <https://www.budget.canada.ca/2023/pdf/gdql-egdq-2023-en.pdf>

proposals to ensure that government policies include adequate resources to promote and achieve gender equality objectives and that gender-sensitive budgeting methodologies were developed and implemented (including monitoring and evaluation of budget policies from a gender perspective) at all levels.

UN Women has a simple tool (used on the Ukraine Project) that can be used to carry out the analysis *Gender Responsive Budgeting: Analysis of Budget Programs from Gender Perspective*.⁴⁰

GOVTECH SOLUTIONS IN FINANCIAL REPORTING

Governments must keep up with the rapid development and innovation in information technology, moving away from paper-based processes by adopting up-to-date technology and related processes to enable progress, support infrastructure projects, and promote efficiency. With increased use of technology, it is also important to give citizens up-to-date digital infrastructure to access government information and services and acknowledge that numerous technological options may give rise to new risks and greater societal expectations which governments need to be prepared to address.

GovTech is a whole-of-government approach to modernizing the public sector. It emphasizes enhancing internal capacity and skills within the government to be on par with the private sector. With a robust technological foundation, citizen-centric and outward-oriented solutions can be developed more effectively, providing accessible public services and fostering better governance outcomes. Automating budget payments, for example, can improve the quality of budget management, and adopting an e-procurement platform can boost fiscal transparency.

In relation to financial reporting at country level, the IMF states that *“Digital adoption by governments has the potential to strengthen public finance operations and improve the delivery of basic services. GovTech solutions in revenue administration can enhance revenue collection significantly.”*⁴¹

Box 14. Country examples of GovTech innovations

AUSTRALIA

The Australian government has developed a Transparency Portal⁴² – a central database of publicly available reports and information for all Commonwealth Entities. It provides access to information for the public, parliament, and all stakeholders. It includes information about the government budget and there is a financial ratio⁴³ page through which the financial sustainability of any entity (public or private sector) can be viewed (based on financial information uploaded about each entity). There is also non-financial information.

⁴⁰ <https://www.efd.admin.ch/en/fiscal-sustainability-report#First-quantitative-estimate-of-the-impact-of-climate-protection-measures>

⁴¹ IMF paper Transforming Public Finance Through GovTech
<https://www.elibrary.imf.org/view/journals/006/2023/004/article-A001-en.xml>

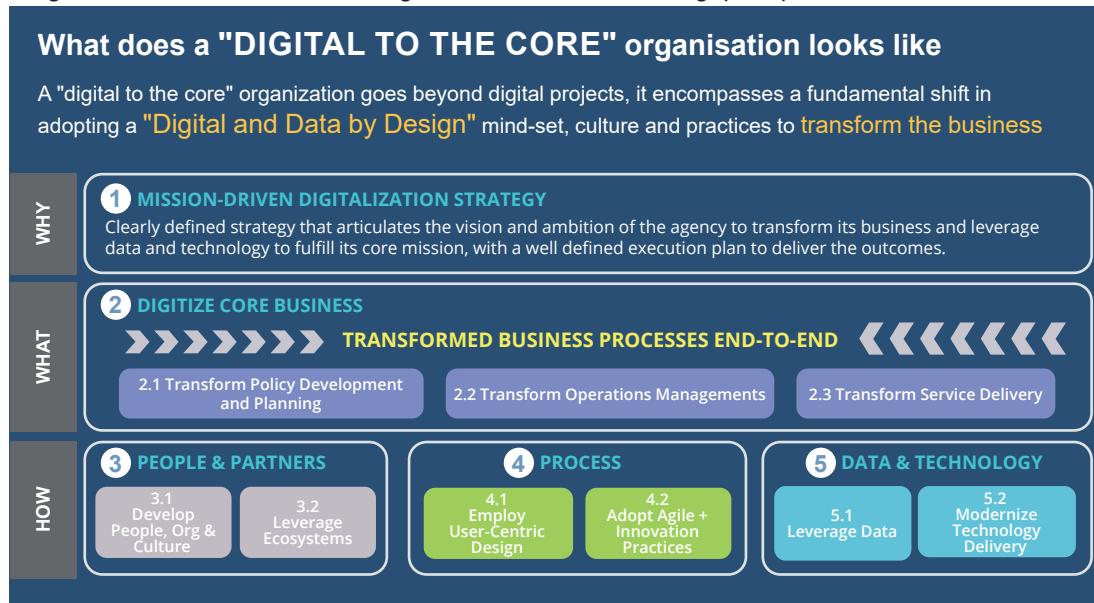
⁴² <https://www.transparency.gov.au/about>

⁴³ <https://www.transparency.gov.au/financial-ratios>

SINGAPORE

Singapore's vision of a digital government⁴⁴ aims to serve citizens through designing policies and services that are inclusive, seamless, and personalized for everyone. The digitalization of government services, including the development and application of digital technologies and capabilities across Singapore, promotes digital inclusivity, while regulating data and online activities and strengthening digital security. It is funded by a grant from the National Research Fund and financial information is included in the Explanatory Notes to the Statement of National Research Fund within Singapore's Government Financial Statements for the Financial Year 2022/23.⁴⁵

Diagram 1: What it means to be "digital to the core" within Singapore public service⁴⁶



⁴⁴ <https://www.smartnation.gov.sg/vision/>

⁴⁵ Page 65 of https://www.agd.gov.sg/files/Publications/fy2022_government_financial_statements.pdf

⁴⁶ Source: https://www.smartnation.gov.sg/files/publications/dgb-public-document_30dec20.pdf



CONCLUSION: IMPLEMENTING GOOD PRACTICES IN PUBLIC SECTOR FINANCIAL REPORTING

The good practices outlined above can lead to reforms that enhance financial reporting in the public sector to:

- ▶ **Advance the public interest** – everything that a government does affects the public interest which means that the public and key stakeholders have a high stake. Citizens expect governments to establish systems, procedures, and effective oversight that build trust and confidence in the financial data which is reported. They also expect governments to be transparent about the fiscal situation and how public funds are used (accountability, governance, ethics).
- ▶ **Improve governance, policies, and scrutiny** – there should be transparent policies, clear structures, including parliament, parliamentary committees, and scrutiny units, to hold government departments accountable in addition to internal and external audit and assurance providers.
- ▶ **Establish credible budget and financial reporting processes** – systems and processes should ensure the production of high-quality and verifiable data and financial information providing clarity on the state of public finances, public resources, and public service delivery.
- ▶ **Produce quality, reliable information** – the information produced should be comprehensive, complete, relevant, good quality, and reliable to assess the financial impact of government policies and use of resources and for better management and policy decision-making.
- ▶ **Enable access to information** – interested stakeholders, especially taxpaying citizens, should

be able to access information in an understandable form and on a timely basis. The development of digital and interactive reporting tools should be considered to meet the needs of citizens.

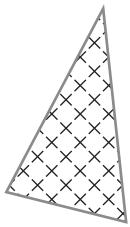
Implementing good practices in public sector financial reporting requires a coherent overall project structure including roles and responsibilities, decision-making authority, detailed policies and procedures, reporting lines, and governance processes. The project strategy will need to ensure:⁴⁷

- ▶ a legislative and accountability framework
- ▶ a prioritized plan with strong project management principles including risk management, governance, and oversight mechanisms

- ▶ a commitment to internationally accepted standards and policies
- ▶ IT solutions
- ▶ the right people with the skills, knowledge, and approach to drive the reforms from top-down and bottom-up
- ▶ identification of the resources needed (current and future) and the ability to access these.

PULSAR continues to support member countries in identifying and tailoring good practices to their national needs.

⁴⁷ ICAEW Building Blocks to Better PFM – A cash to accruals accounting toolkit
<https://www.icaew.com/about-icaew/regulation-and-the-public-interest/policy/better-government-series/building-blocks-to-better-pfm>



APPENDIX 1. JOURNEY FROM CASH TO ACCRUAL ACCOUNTING

Before moving to accrual accounting, governments need to build their capacities and improve the reliability and integrity of their systems through a well-functioning cash accounting system. Detailed and

timely monitoring of cash reserves and cash flows and the processing accounting of all cash receipts and payments is essential.

Cash Accounting

- ▶ Cash accounting is simple and easy to administer.
- ▶ Revenue is recorded when cash is received, and expenditure is recorded when cash is paid out.
- ▶ Transactions are only recognized when the related cash is received or paid.
- ▶ Cash accounting provides a detailed position of the government's financial position by comparing cash balances with outstanding debt.
- ▶ Stakeholders and the market can use cash-based accounts to assess the immediate solvency and liquidity of the government.

Modified Cash

- ▶ Modified cash combines both cash and accrual basis of accounting.
- ▶ Sales or revenues are recognized when they are measurable and available, and expenses are recorded on a full accrual basis because they are measurable as soon as they occur.
- ▶ Long-term assets are recorded on an accrual basis.
- ▶ Short-term assets are recorded on a cash basis.
- ▶ Modified cash accounting also means a government can record accounts receivable, current and fixed assets, and accounts payable.
- ▶ Modified cash basis provides more relevant financial information than the cash basis and is cheaper than accrual basis of accounting.

Accrual Based Accounting

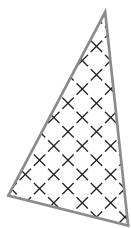
- ▶ Revenue is recorded when earned and expenditure when incurred, regardless of whether cash has been received or paid out during the period.
- ▶ Items such as depreciation, revaluation, or impairment will not create a cash flow, but will remain relevant as they can be connected to previous transactions.
- ▶ All assets (incl depreciations) and liabilities are recognized, stocks are usually recorded at their current market value - value in use, or an approximation reflecting a revaluation.
- ▶ By capturing both cash transactions and non-cash items in financial statements, accrual-based reporting provides a more comprehensive view of the government's financial position, performance and the cost of activities.
- ▶ The balance sheet reflects the governments true financial position at any given time.
- ▶ Effective monitoring of cash receipts and payments is essential for budgeting purposes even after moving to full accrual basis.

Accruals Budgeting

- ▶ To get the full benefits of accrual accounting, accrual budgeting is used.
- ▶ PFM and spending allocations are shown on an accrual budgeting basis, allowing actual expenditure to align with the budget.
- ▶ Governments can track budgeted expenditure to actual spend.
- ▶ Accrual budgets take account of non-cash items such as depreciation and provisions for future expenditure.

Integrated Reporting

- ▶ Public sector reporting in some jurisdictions has moved to integrated reporting, with organizations including non-financial information in their annual reports demonstrating both their performance and prospects and demonstrating how they add value.
- ▶ Integrated reporting in the public sector is intended to meet the broader information needs of all stakeholders, not just the financial requirements.
- ▶ The range of information materially impacts on an organization's ability to create value over time and fulfils many stakeholder needs.
- ▶ Integrated reporting can promote better decision-making, provide greater transparency, improve accountability, and build public trust. It helps maintain and/or improve services with less resources in a sustainable and socially responsible way.



APPENDIX 2. ESTONIA: EXTRACTS FROM 2022 ANNUAL ACCOUNTS OF THE STATE⁴⁸

2 Consolidated and unconsolidated annual accounts of the state

2.1 Balance sheet

In millions of euros

	Consolidated			Unconsolidated			Note
	31.12.2022	31.12.2021	31.12.2020	31.12.2022	31.12.2021	31.12.2020	
Assets							
Current assets							
Cash	2,496.4	2,503.2	2,300.7	1,415.1	1,658.9	1,573.9	a2
Financial investments	1,609.1	461.6	645.5	1,598.1	448.3	644.0	a3
Tax, state fee and fine receivables	1,387.5	1,248.8	1,125.4	1,454.2	1,322.1	1,169.7	a4
Other claims and pre-payments	1,676.8	1,294.7	1,097.8	1,034.0	1,228.5	775.9	a5
Derivatives	199.8	160.2	31.8	0.0	0.0	0.0	a18
Inventories	714.4	367.4	319.9	40.0	33.3	47.0	a7
Intangible current assets	444.1	208.6	85.3	0.0	0.0	0.0	a12
Biological assets	62.2	41.1	31.3	3.1	1.8	1.3	a14
Total current assets	8,590.3	6,285.6	5,637.7	5,544.5	4,692.9	4,211.8	
Non-current assets							
Ownership interest in foundations	0.0	0.0	0.0	430.8	441.7	442.9	a8
Ownership interest in subsidiaries and affiliated associates	89.4	67.5	60.4	4,490.0	4,169.9	3,881.8	a9
Financial investments	480.0	319.8	316.6	453.0	301.8	298.6	a3
Other claims and pre-payments	941.4	925.1	867.1	1,193.2	1,089.2	1,533.3	a5
Derivatives	496.5	187.6	23.7	0.0	0.0	0.0	a18
Investment property	83.2	85.3	84.3	37.0	37.1	37.4	a10
Property, plant and equipment	10,803.2	10,318.1	9,885.4	3,471.5	3,334.0	3,082.9	a11
Intangible assets	333.2	305.9	279.8	180.3	150.4	125.6	a12
Biological assets	2,170.3	930.7	758.9	27.7	16.5	12.0	a14
Total non-current assets	15,397.2	13,140.0	12,276.2	10,283.5	9,540.6	9,414.5	
Total assets	23,987.5	19,425.6	17,913.9	15,828.0	14,233.5	13,626.3	

⁴⁸ Source: <https://www.fin.ee/sites/default/files/documents/2023-12/Estonia%20Consolidated%20annual%20report%20of%20the%20state%20for%202022.pdf>

	Consolidated			Unconsolidated			Note
	31.12.2022	31.12.2021	31.12.2020	31.12.2022	31.12.2021	31.12.2020	
Liabilities and net assets							
Current liabilities							
Prepayments of taxes, state fees and fines received	700.2	622.8	523.2	716.6	638.6	534.7	a4
Trade payables	532.0	387.1	303.8	218.6	172.9	153.5	
Payables to employees	188.5	165.9	152.1	71.7	63.1	60.6	
Tax, state fee and fine liabilities	435.5	407.7	353.3	418.5	392.2	346.6	a4
Other liabilities and prepayments received	2,639.3	2,019.3	1,669.4	3,087.7	2,865.2	2,518.7	a15
Provisions	855.6	347.1	264.8	387.7	117.1	129.3	a16
Loan liabilities	1,327.8	718.6	879.9	417.8	472.9	497.7	a17
Derivatives	169.1	116.1	10.4	0.0	0.0	0.0	a18
Total current liabilities	6,848.0	4,784.6	4,156.9	5,318.6	4,722.0	4,241.1	
Non-current liabilities							
Provisions	4,111.1	3,787.8	3,289.3	4,025.7	3,701.4	3,215.6	a16
Loan liabilities	5,621.5	5,179.0	4,817.3	4,542.5	3,443.6	3,136.1	a17
Other liabilities and received	prepay						
ments	460.8	304.0	233.7	132.5	145.1	141.4	a15
Derivatives	32.1	37.8	4.4	0.0	0.0	0.0	a18
Total non-current liabilities	10,225.5	9,308.6	8,344.7	8,700.7	7,290.1	6,493.1	
Total liabilities	17,073.5	14,093.2	12,501.6	14,019.3	12,012.1	10,734.2	
Net assets							
Minority shareholding	301.9	283.5	134.5	0.0	0.0	0.0	
Net assets of the state							
Stabilisation Reserve Fund and ownership reform reserve	474.3	471.9	469.8	474.3	471.9	469.8	a20
Hedging reserve	698.4	211.5	34.1	0.0	0.0	0.0	a18
Other reserves	12.5	8.2	5.9	0.0	0.0	0.0	
Accumulated surplus or deficit	5,426.9	4,357.3	4,768.0	1,334.4	1,749.5	2,422.3	
Total net assets of the state	6,612.1	5,048.9	5,277.8	1,808.7	2,221.4	2,892.1	
Total net assets	6,914.0	5,332.4	5,412.3	1,808.7	2,221.4	2,892.1	
Total liabilities and net assets	23,987.5	19,425.6	17,913.9	15,828.0	14,233.5	13,626.3	

2.2 Statement of financial performance

In millions of euros

	Consolidated		Unconsolidated		Note
	2022	2021	2022	2021	
Income from operations					
Taxes and social security contributions	11,641.2	10,497.1	11,773.0	10,600.1	a4
Goods and services sold	4,347.1	3,173.9	514.5	401.9	a21
Grants received	1,176.0	1,034.2	1,085.9	984.0	a19
Other income	661.5	302.6	281.0	190.5	a22
Total income from operations	17,825.8	15,007.8	13,654.4	12,176.5	
Operating expenses					
Grants awarded	-6,662.8	-6,686.6	-7,134.9	-7,049.4	a19
Pass-through taxes, state fees, fines	-4,072.8	-3,532.9	-4,072.8	-3,532.9	a4
Change in doubtful tax, state fee and fine receivables	-34.2	-39.4	-34.2	-39.4	a4
Labour costs	-2,093.9	-1,903.9	-1,173.9	-1,068.8	a23
Management expenses	-2,847.7	-2,076.4	-962.0	-811.3	a24
Depreciation and change in value of non-current assets	-739.0	-704.7	-312.2	-291.2	a25
Other expenditure	-939.1	-341.7	-144.5	-133.1	a26
Total operating expenses	-17,389.5	-15,285.6	-13,834.5	-12,926.1	
Operating result	436.3	-277.8	-180.1	-749.6	
Operating result from change in fair value of biological assets	1,260.7	181.6	12.5	4.9	a14
Financial income and expenditure					a27
Profit/loss from financial investments	30.5	1.0	331.8	365.7	
Interest expense	-198.6	-166.2	-162.1	-126.5	
Income from deposits and securities	-8.5	-1.0	1.1	-4.4	
Other financial income	5.8	5.7	3.6	3.6	
Other financial expenses	-0.4	-0.5	0.0	0.0	
Total financial income and expenditure	-171.2	-161.0	174.4	238.4	
Surplus or deficit for the reporting period	1,525.8	-257.2	6.8	-506.3	
Incl. the state's share in surplus/deficit	1,491.2	-274.3	6.8	-506.3	
Incl. the share of minority shareholding surplus or deficit	34.6	17.1	0.0	0.0	

2.3 Cash flow statement

In millions of euros

	Consolidated		Unconsolidated		Note
	2022	2021	2022	2021	
Cash flow from principal activities					
Operating result	436.3	-277.8	-180.1	-749.6	
Depreciation and change in value of non-current assets	739.0	704.7	312.2	291.2	a25
Profit/loss from non-current assets sold	-59.2	-38.4	-52.3	-31.3	a22
Revenue from government grants received for acquisition of non-current assets	-600.0	-488.2	-544.5	-454.9	a19
Expenditure on government grants awarded for acquisition of non-current assets	395.5	448.6	562.5	557.3	a19
Other non-financial income and expenditure	182.7	11.7	-5.5	-0.2	
Total adjusted operating result	1,094.3	360.6	92.3	-387.5	
Net change in current assets	-1,112.9	-591.2	-310.5	-234.2	
Net change in liabilities	1,174.1	828.0	472.5	684.4	
Total cash flows from principal activities	1,155.5	597.4	254.3	62.7	
Cash flows from investment activities					
Investments in non-current assets	-1,318.0	-1,063.7	-479.5	-542.6	a13, a17
Capital gains from non-current assets sold	66.9	50.7	54.4	33.9	a5, a10, a11, a14
Government grants received for the acquisition of non-current assets	453.5	452.7	390.4	415.8	a19
Government grants invested for acquisition of non-current assets	-351.6	-404.6	-514.5	-459.1	a19
Paid for acquisition of liquid financial investments	-1,516.2	-679.7	-1,514.9	-679.2	
Received from sale of liquid financial investments	352.4	862.4	350.4	860.9	
Paid upon acquisition of other financial investments	-163.4	-8.5	-179.1	-31.6	a3, a5
Paid for acquisition of holdings (minus the cash acquired)	-14.1	-31.9	-148.0	-33.0	a5, a8, a9
Received and granted from transfer, sale and liquidation of holdings and other financial investments (net of cash disposed of)	26.4	189.8	479.1	52.3	a3, a8, a9
Dividends received	2.6	3.4	190.6	104.2	a9, a5
Dividends paid	-17.5	-6.6	0.0	0.0	a9A
Loans issued	-34.2	-86.6	-20.1	-0.2	a6
Repayments of loans received	53.9	46.7	16.5	15.1	a6
Financial income received	6.7	-3.6	1.0	-7.2	
Total cash flows from investment activities	-2,452.6	-679.5	-1,373.7	-270.7	
Cash flows from financing activities					
Received from assumption of loan liabilities	2,051.3	957.0	1,666.1	781.0	a17
Loans repaid	-973.0	-791.2	-625.5	-499.7	a17
Interest paid and other financial expenses	-34.4	-34.3	-3.0	-0.8	
Change in deposits by customers	246.4	153.1	-162.0	12.5	a15
Total cash flows from financing activities	1,290.3	284.6	875.6	293.0	
Net cash flows	-6.8	202.5	-243.8	85.0	
Cash and cash equivalents at the beginning of the year	2,503.2	2,300.7	1,658.9	1,573.9	a2
Cash and cash equivalents at the end of the year	2,496.4	2,503.2	1,415.1	1,658.9	a2
Change in cash and cash equivalents	-6.8	202.5	-243.8	85.0	

2.4 Statement of changes in net assets

In millions of euros

A. Consolidated report

	Net assets of the state						Minority shareholding	Total	Note
	Stabilisation Reserve Fund	Ownership Re-form Reserve Fund	Hedging re-serve	Other reserves	Accumulated surplus or deficit	Total			
Balance as of 31.12.2020	431.9	37.9	34.1	5.9	4,768.0	5,277.8	134.5	5,412.3	
Exchange rate differences attributable to foreign subsidiaries and impact of other comprehensive income of affiliated undertakings				2.3		2.3		2.3	
Revaluation of risk hedging instruments			177.4			177.4		177.4	a18
Actuarial gains and losses in provisions for pensions					167.6	167.6		167.6	a16
Revaluation of property, plant and equipment					4.7	4.7		4.7	a11
Surplus or deficit of the reporting period					-274.3	-274.3	17.1	-257.2	
Total surplus or deficit of the reporting period			177.4	2.3	-437.2	-257.5	17.1	-240.4	
Acquisitions and sales of minority holding					27.7	27.7	138.5	166.2	a9A
Holdings consolidated for the first time					0.9	0.9		0.9	
Dividends paid						0.0	-6.6	-6.6	
Reallocation	-1.8	3.9			-2.1	0.0		0.0	a20
Balance as of 31.12.2021	430.1	41.8	211.5	8.2	4,357.3	5,048.9	283.5	5,332.4	
Exchange rate differences attributable to foreign subsidiaries and impact of other comprehensive income of affiliated undertakings				4.3		4.3		4.3	
Revaluation of risk hedging instruments			486.9			486.9	3.4	490.3	a18
Actuarial gains and losses in provisions for pensions					-394.7	-394.7		-394.7	a16
Transfer of inventories to the Health Insurance Fund					-28.0	-28.0		-28.0	a7
Revaluation of property, plant and equipment					3.5	3.5		3.5	a11
Surplus or deficit of the reporting period					1,491.2	1,491.2	34.6	1,525.8	
Total surplus or deficit of the reporting period	0.0	0.0	486.9	4.3	1,072.0	1,563.2	38.0	1,601.2	
Acquisitions and sales of minority holding						0.0	-2.1	-2.1	a9A
Dividends paid						0.0	-17.5	-17.5	
Reallocation	-6.2	8.6			-2.4	0.0		0.0	a20
Balance as of 31.12.2022	423.9	50.4	698.4	12.5	5,426.9	6,612.1	301.9	6,914.0	

B. Unconsolidated report

	Stabilisation Reserve Fund	Ownership Re- form Reserve	Accumulated surplus or deficit	Total	Note
Balance as of 31.12.2019	431.9	37.9	2,422.3	2,892.1	
Actuarial gains and losses in provisions for pensions			-167.6	-167.6	a16
Revaluation of property, plant and equipment			3.2	3.2	a11
Surplus or deficit of the reporting period			-506.3	-506.3	
Total surplus or deficit of the reporting period			-670.7	-670.7	
Reallocation	-1.8	3.9	-2.1	0.0	a20
Balance as of 31.12.2021	430.1	41.8	1,749.5	2,221.4	
Actuarial gains and losses in provisions for pensions			-394.7	-394.7	a16
Transfer of inventories to the Health Insurance Fund			-28.0	-28.0	a7
Revaluation of property, plant and equipment			3.2	3.2	a11
Surplus or deficit of the reporting period			6.8	6.8	
Total surplus or deficit of the reporting period			-412.7	-412.7	
Reallocation	-6.2	8.6	-2.4	0.0	a20
Balance as of 31.12.2022	423.9	50.4	1,334.4	1,808.7	

2.6 Accounting methods and valuation principles

These annual accounts have been prepared in accordance with the Estonian financial reporting standard and the State Budget Act. The basic requirements of the Estonian financial reporting standard have been set forth in the Accounting Act and supplemented with the guidelines issued by the Estonian Accounting Standards Board, including the public sector financial accounting and reporting guidelines. The Estonian financial reporting standard is based on internationally acknowledged financial reporting standards, including the International Public Sector Accounting Standards.

In the unconsolidated annual accounts of the state, state accounting entities have been consolidated line-by-line and include, pursuant to the Accounting Act, all ministries, the Government Office of Estonia and the constitutional institutions – *the Riigikogu*, the President of the Republic, the National Audit Office, the Chancellor of Justice, and the Supreme Court. According to the State Budget Act, state accounting entities are also administrative subjects of the state budget concerning whom a report on the implementation of the state budget has been prepared. The list of the state accounting entities included in the unconsolidated annual accounts of the state has been disclosed in note a1 A to the annual accounts.

In the unconsolidated annual accounts of the state, the financial data of the foundations and subsidiaries which are under the controlling influence of the state, and the profit-making state agency State Forest Management Centre have been consolidated line-by-line in addition to the unconsolidated financial data of the state. The list of the foundations and subsidiaries included in the consolidated report and their major economic indicators have been disclosed in Note a1 B to the annual accounts.

The annual accounts have been prepared in accordance with the cost principle, except for held-for-trading securities, financial assets and liabilities held for resale, derivative transactions and biological assets grown for profit, which are reported in their fair value.

Functional and presentation currency

The functional currency is the currency of the primary economic environment. The presentation currency is the euro. The reports have been rounded to the nearest hundred thousand, except for the report on the implementation of the state budget, which has been rounded to the nearest thousand.

Classification of assets and liabilities into current and non-current

In the balance sheet, assets and liabilities have been classified into current and non-current based on whether a liability is expected to be held for up to one year or longer, calculated from the balance sheet date.

Cash and cash equivalents

The cash section in the balance sheet includes cash at hand, bank account balances (except overdraft) and short-term deposits or deposits terminated before maturity with a remaining term of up to one year. The interests accrued and not received on deposits by the balance sheet date are recognised as accrued income.

Financial investments

Short-term financial investments include securities held for short-term trading (shares, bonds, fund units, etc.) and securities with a fixed maturity within 12 months after the balance sheet date. Long-term financial investments reflect securities unlikely to be sold within the nearest 12 months (except holdings where the reporting entity exercises controlling influence, given by voting right starting from 20% ownership interest) and securities with a fixed maturity of more than 12 months after the balance sheet date.

Financial investments (except debt instruments held to maturity) are recorded in their fair value if it can be estimated reliably. The stock market price of the balance sheet day is used as fair value. If fair value cannot be estimated reliably, financial investments are recorded according to the adjusted cost method (e.g. the original cost less potential writedowns, if the value covered by the investment has dropped below the book value).

Financial investments into bonds and other debt instruments held to maturity are recognised at adjusted cost by using the effective interest rate.

Purchases and sales of financial investments are recognised on the transaction date.

Tax, state fee, fine and other receivables

Tax, state fee, fine and other receivables are recognised in the balance sheet according to the adjusted cost method. Receivables are recognised in the balance sheet as the right of claim arises and are estimated based on collectible amounts. Certain receivables are originally recognised off-balance-sheet upon determining, until their receipt is considered likely (tax decisions, court judgements). If possible, the receivables from each customer are evaluated separately for each specific customer, taking into account any available information about the customer's solvency. The recoverability of a large number of receivables of the same category is evaluated on a group basis, taking into account the statistics of previous periods on the receipt of similar receivables. Doubtful receivables are written down to their doubtless collectible value. The receivables received in the reporting period and charged to costs are recognised as a reduction in the expenditure on doubtful receivables in the reporting period. Irrecoverable receivables were withdrawn from the balance sheet. A receivable is treated as irrecoverable if the management board is of the opinion that it is impossible to recover the receivable.

Long-term receivables are recognised at present value of the consideration receivable, taking into account the interest income on the receivable in the following periods, using the effective interest rate method.

Tax receivables and tax penalties are evaluated individually if total receivables per customer exceed 60 thousand euros. In estimating the remaining tax and interest receivables as doubtful, the following approximate method is used: receivables from legal persons have been written down by 100% if their payment deadline is overdue by more than 180 days; receivables from physical persons have been written down by 100% if their payment deadline is overdue by more than 360 days.

Derivatives

Derivatives are recognised at fair value and the fair value change is generally recognised in the statement of financial performance. If the goals of hedging and the strategy for hedging transactions have been determined, the link between a derivative considered a hedging instrument and the hedged object has been documented at the time of entry into the transaction, and the derivative is deemed very efficient in terms of hedging throughout the validity of the hedging instrument, the effective portion of the fair value change can be recognised in net assets as a change in hedging reserve.

Inventories

Finished goods and work-in-progress are recognised at manufacturing costs, which include direct and indirect manufacturing expenses. Other inventories are recognised at cost, which comprises the purchase price and other directly attributable costs related to acquisition. In charging inventories to costs, either the FIFO or the average weighted cost principle is used.

Inventories are written down to the estimated net realisable value if it is lower than their cost. If the net realisable value of inventories previously written down increases, the future write-down is cancelled.

Ownership interest in foundations and non-profit associations

The balance sheet of the reporting entity shows ownership interest in foundations and non-profit associations where the reporting entity has dominant influence. Influence is considered controlling if the reporting entity has the right to appoint or remove most of the members of the entity's supervisory board. Ownership interest is recognised in the unconsolidated report at deemed cost (see explanation). In the consolidated reports, the foundations and non-profit associations under controlling influence have been consolidated line-by-line.

Ownership interest in subsidiaries and associates

A subsidiary is considered to be under controlling influence if the reporting entity owns more than 50% of the voting shares of the subsidiary, is able to control the subsidiary's operating and financial policy or has the right to appoint or remove most of the members of the supervisory board.

An associate is a company where 20 to 50% of the voting shares are held. Holdings in the shares of subsidiaries and associates are recognised in the unconsolidated reports at deemed cost (see relevant explanation).

In consolidated reports, the subsidiaries under controlling influence have been consolidated line-by-line and associates are recorded based on the equity method.

Deemed cost

In case of ownership interest acquired before 31 December 2003, deemed cost is defined as its value according to the equity method because there is no reliable information on the cost in previous periods, and in case of ownership interest acquired after 31 December 2003, as cost. Deemed cost is written down if the share owned by the entity holding the ownership interest in the investee drops below the value of the ownership interest as given in the owner's balance sheet. The write-downs made are reversed in the future reporting periods, but not higher than the deemed cost.

Consolidation

The activity of entities under controlling or significant influence is recognised in the consolidated report from the beginning to the end of the controlling or significant influence. The acquisition of entities under controlling or significant influence is recognised using the purchase method where the assets and liabilities of the ownership interest acquired are evaluated at fair value, except the acquisitions made under joint control, which are recorded at book value.

In the consolidated report, the financial indicators of entities under controlling influence are added up line-by-line, whereas mutual assets, liabilities, net assets, revenue, expenses and unrealised gains and losses of the entities included in the consolidation have been eliminated.

In the consolidated report, entities under significant influence are recorded using the equity method.

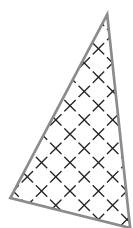
Investment property

Investment property includes real estate objects (land, buildings, facilities) held for renting or for increasing market value, which the reporting entity or any other public sector entity does not use in its principal activity. Investment property is recorded using the cost method (at cost, less accumulated depreciation and potential write-downs).

Property, plant and equipment

Assets with an expected useful life longer than one year and cost starting from 5,000 euros are accounted for as property, plant and equipment. The cost of property, plant and equipment includes expenditure needed for utilisation, except the taxes, state fees, training and travel expenses related to the acquisition, which are recorded as expenditure of the reporting period upon accrual. The subsidiaries who prepare their financial statements according to the international financial reporting standards capitalise the loan expenses into the cost of tangible assets. All other entities do not capitalise their loan expenses but record these under interest charges as accrued.

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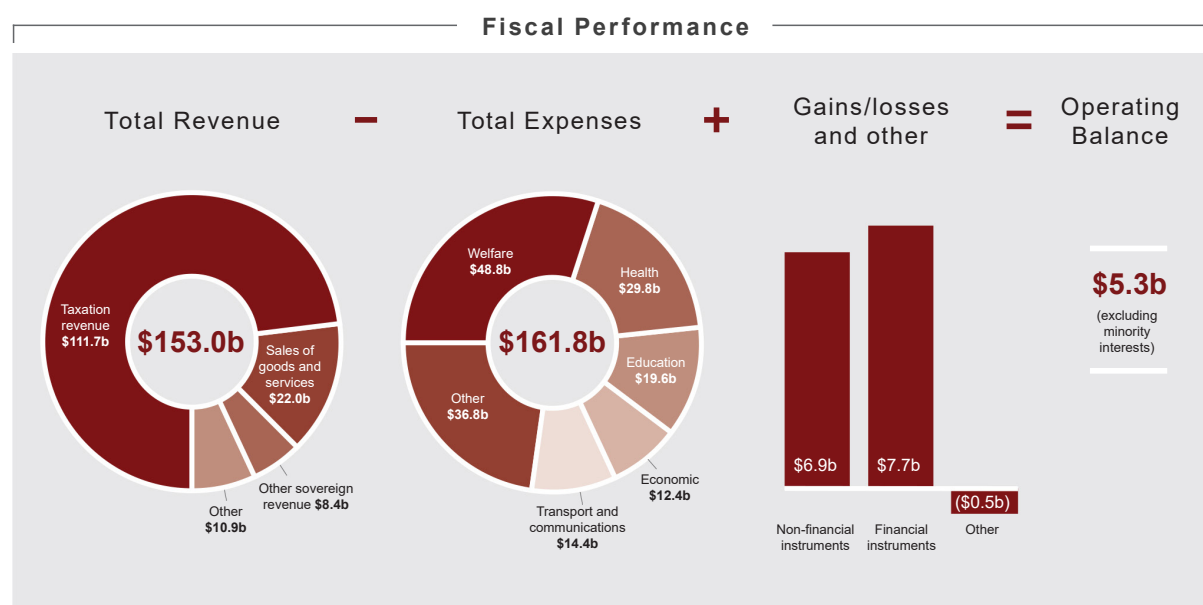
APPENDIX 3. NEW ZEALAND: FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2023⁴⁹

The New Zealand Government published its annual financial statements for the year ended 30 June 2023 within four months after the year end. The Statements

start with a Fiscal Overview, highlighting fiscal performance and resilience presented below.

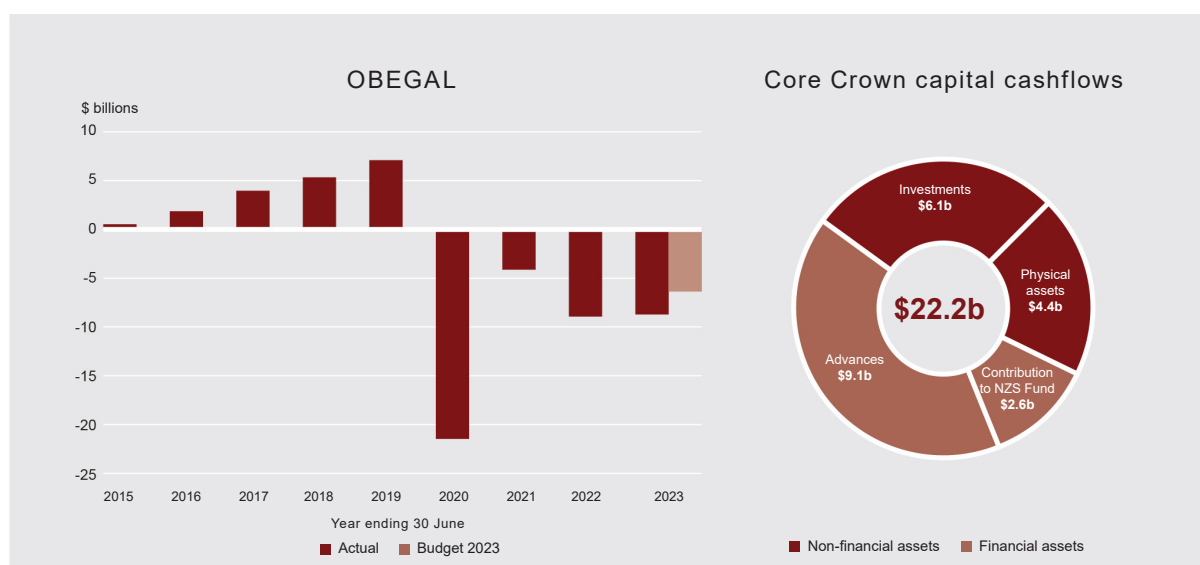
Fiscal Overview

2023 Financial Results



Fiscal Rules

Under the Public Finance Act the Government is required to articulate a fiscal strategy following the principles of responsible fiscal management. Ahead of Budget 2022, the Government announced that their fiscal strategy will be underpinned by two fiscal rules. These rules aim to ensure that over time operating expenses do not add to net debt as a share of GDP, providing fiscal space for high-quality capital investment and ensures a sufficient fiscal buffer for any future shocks.

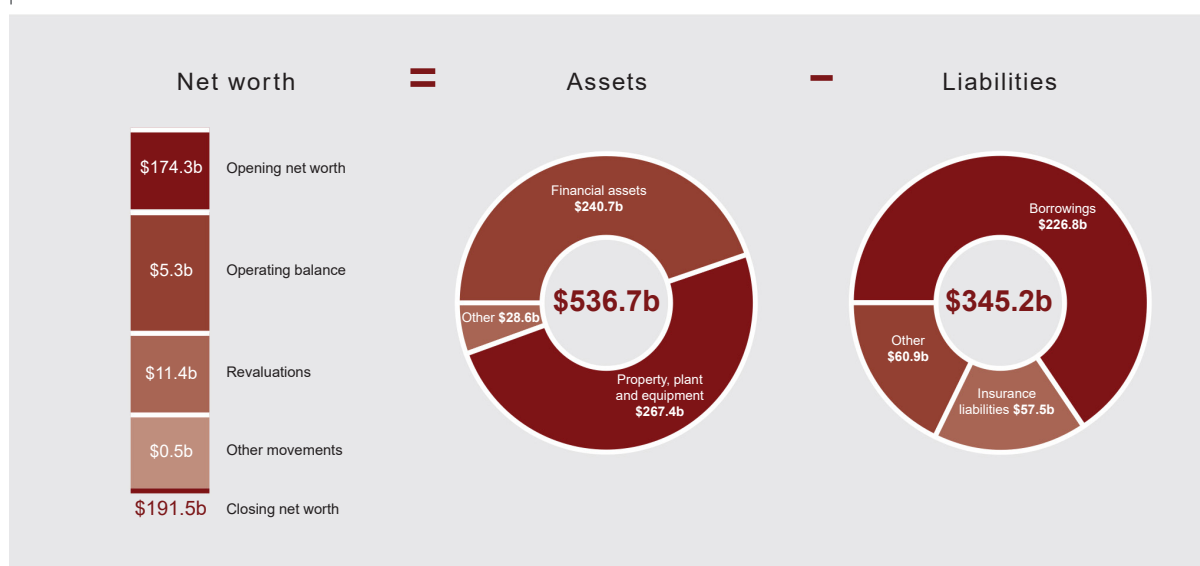


OBEGAL

The Government's short-term intention is to return to OBEGAL surplus by 2026/27, subject to economic and fiscal conditions. Once the operating balance (before gains and losses) has returned to a surplus, the long-term objective is to maintain an average surplus in the range of 0 percent to 2 percent of GDP. This will ensure that, on average, over a reasonable period of time, total operating expenses do not exceed total operating revenue. The Government reported a deficit of \$9.4 billion, which means some of this deficit will need to be funded by increasing net debt.

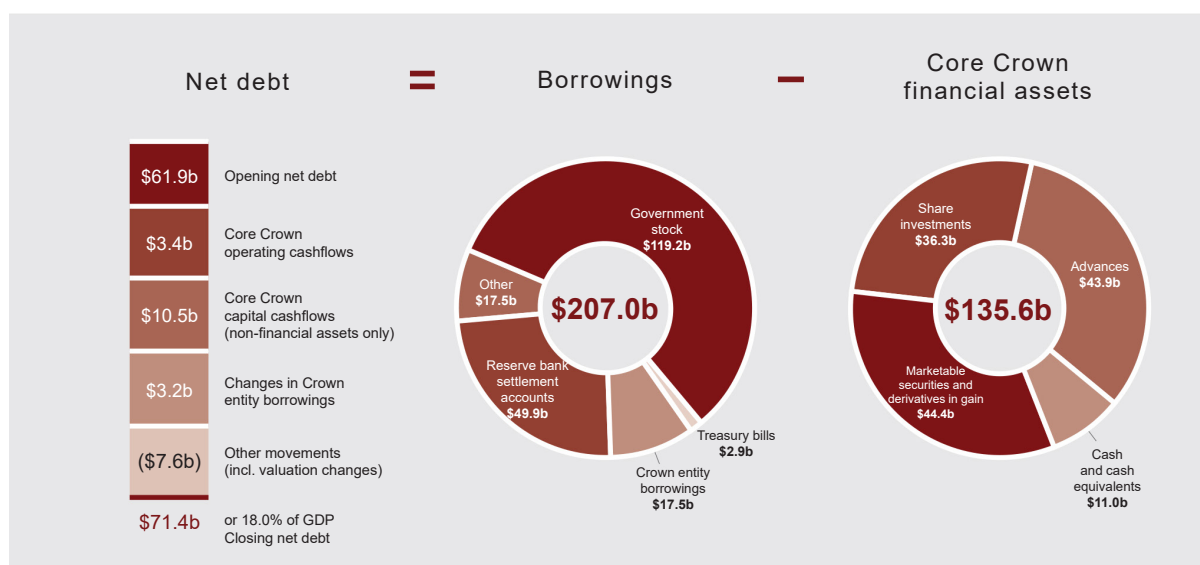
In addition, capital spending totalled \$22.2 billion, with \$10.5 billion resulting in an increase in net debt.

Fiscal Resilience



These rules were:

- returning the operating balance before gains and losses (OBEGAL) to a surplus and aiming for small surpluses thereafter, as the **primary fiscal rule**, and
- a net debt ceiling that complements the OBEGAL target while allowing more fiscal space to fund high-quality capital investments that will improve productivity and living standards.



Net Debt

The Government's short-term intention is to maintain net debt below 30% of GDP. Net debt has increased by \$9.5 billion to be \$71.4 billion at 30 June 2023 (18.0% of GDP).

Financial Statements Summary

The financial results of the Government for the 2022/23-year show that revenue and expenses have grown at a similar pace since last year. Revaluation gains have had a significant favourable impact on the value of assets and liabilities, which has resulted in a stronger operating balance result and net worth position compared to last year. Since Budget 2023, tax outturns have fallen short of expectations which has led to a number of fiscal indicators coming in weaker than expected.

- Total revenue at \$153.0 billion was \$11.4 billion higher than last year, but lower than the Budget 2023 forecast by \$2.5 billion. These differences were largely due to changes in tax revenue (page 11).
- Total expenses were \$161.8 billion, \$10.9 billion higher than last year and consistent with the Budget 2023 forecast (page 14). The increase from last year was largely due to economic factors and policy decisions (page 12).
- The operating balance was a surplus of \$5.3 billion largely a result of net gains of \$14.7 billion partially offset by expenses exceeding revenue by \$8.8 billion (page 15).
- With revenue and expenses growing by a similar amount during the year, the operating balance before gains and losses (OBEGAL) deficit of \$9.4 billion was broadly consistent with the deficit reported last year (page 18). However weaker tax outturns since Budget 2023 have resulted in the OBEGAL deficit being \$2.5 billion more than anticipated.
- Net worth increased by \$17.2 billion to \$191.5 billion (page 28), largely as a result of upward property, plant and equipment revaluations and the operating balance surplus (page 25).
- Net debt at \$71.4 billion (18.0% of GDP), was \$9.5 billion higher than the June 2022 level, but close to the \$71.0 billion (18.0% of GDP) forecast in Budget 2023 (page 21).

Table 1 – Key financial results

Year ended 30 June	Actual				Forecast		
	Actual 2023 \$ millions	Actual 2022 \$ millions	Variance		Budget 2023 2023 \$ millions	Variance	
			\$ millions	%		\$ millions	%
Total revenue	153,011	141,627	11,384	8	155,556	-2,545	-1.6
Total expenses	161,822	150,956	10,866	7.2	161,924	(102)	(0.1)
Operating balance ¹	5,321	(16,932)	22,253	(131.4)	4,219	1,102	26.1
Total net worth	191,472	174,319	17,153	9.8	178,956	12,516	7.0
Total assets	536,666	501,844	34,822	6.9	519,192	17,474	3.4
Total liabilities	345,194	327,525	17,669	5.4	340,236	4,958	1.5
OBEGAL ¹	(9,446)	(9,691)	245	(2.5)	(6,959)	(2,487)	35.7
Net debt	71,367	61,850	9,517	15.4	70,957	410	0.6
% of GDP²							
Total revenue	38.6	38.9		(0.3)	39.5		(0.9)
Total expenses	40.9	41.5		(0.6)	41.1		(0.2)
Operating balance	1.3	(4.7)		6.0	1.1		0.2
Total net worth	48.4	47.9		0.5	45.4		3.0
Total assets	135.6	138.0		(2.4)	131.8		3.8
Total liabilities	87.2	90.1		(2.9)	86.4		0.8
OBEGAL	(2.4)	(2.7)		0.3	(1.8)		(0.6)
Net debt	18.0	17.0		1.0	18.0		0.0

1 Excluding minority interests.

2 Actual GDP is updated to reflect the most recently published numbers – refer historical time series on page 181 for the nominal GDP figures (Source: Stats NZ).

Source: The Treasury

Financial Statements Summary (continued)

This commentary should be read in conjunction with the audited financial statements on pages 44 to 166. The Financial Statements of the Government received an unmodified auditor's opinion for the year ended 30 June 2023.

The 2022/23 fiscal year coincided with an economic backdrop of high inflation and rising interest rates. These conditions have contributed to a number of the trends in the Government's key fiscal indicators compared to last year. At 30 June 2023, the annual percentage change in the Consumer Price Index was 6.0%. This has supported strong wage growth and private consumption through the year and led to steady growth in the nominal economy, with nominal GDP increasing by 8.9%. Tax revenue has grown on the back of growth in the economy, however at a slightly slower pace reflecting the impact of weaker business profits. Inflation has also contributed to the growth in expenses, with a large part of the *Budget 2022* package funding cost pressures and policy initiatives to support New Zealanders through the rising cost of living (eg, the cost-of-living payment).

With the objective of easing the rate of inflation, the Reserve Bank of New Zealand (the Reserve Bank) has lifted the official cash rate (OCR) from 2.5% in July 2022 to 5.5% by June 2023, which in turn flows through to an increase in interest rates. Overall, the increase in interest rates have had an adverse impact on the Government fiscal results with the increase in finance cost exceeding the increase in interest revenue.

The 2022/23 fiscal year also covers a period where COVID-19 restrictions have mostly come to an end and significant temporary Government support measures (for example, the wage subsidy scheme and resurgence support payments), have been minimal compared to the last few years, resulting in a reduction in expenses. The removal of most COVID-19 restrictions has also meant activity in some sectors (eg, air travel) has rebounded back to pre-COVID-19 levels, which has increased both revenue and expenses. However, the North Island weather events early in the 2023 calendar year have resulted in some one-off costs being incurred in the 2022/23 fiscal year. This includes costs to settle insurance claims, asset impairment and immediate response costs.

As a result of the above factors, total Crown revenue at \$153.0 billion has increased by \$11.4 billion and total Crown expenses at \$161.8 billion were higher by \$10.9 billion from the 2021/22 fiscal year. With both revenue and expenses growing at a similar rate the OBEGAL deficit of \$9.4 billion for 2022/23 is broadly consistent with the deficit reported last year.

Similarly, the residual cash deficit of \$25.6 billion was broadly consistent with the deficit reported in 2021/22. The funding of the cash shortfall in 2022/23 contributes to the increase in net debt. However, this is somewhat offset by stronger investment market conditions through the 2022/23 year which has increased financial assets. Overall, net debt in 2022/23 was \$9.5 billion more than the prior year increasing from \$61.9 billion (17.0% of GDP) to \$71.4 billion (18.0% of GDP).

The valuation of assets and liabilities have contributed to a stronger operating balance result and net worth position compared to last year. Stronger investment market conditions have increased the value of financial instruments, predominately held by the NZS Fund and the Accident Compensation Corporation (ACC). The value of the New Zealand Emissions Trading Scheme (NZ ETS) liability has reduced, resulting in the recognition of a valuation gain. Overall, net valuation gains recognised in the operating balance result totalled \$14.7 billion and were the key driver for the operating balance surplus of \$5.3 billion being stronger than the result from last year.

The Government's net worth position is \$17.2 billion stronger than the prior year mainly as a result of the operating balance surplus reported in 2022/23 and revaluation uplifts in some of the Government's physical assets. The revaluation increases largely reflect higher material costs required to replace existing assets.

Most of the Government's key fiscal indicators have come in weaker than what was forecast at Budget 2023.

The weaker result is largely owing to tax revenue, which came in \$2.9 billion lower than expected. This was mostly due to weaker than expected corporate and net other persons tax revenue, as taxable profits for the 2022 tax year were lower than what was assumed in the Budget 2023 forecast.

The results are compared against the previous year and against forecasts for the 2022/23 year:

- *Budget 2022* refers to the *2022 Budget Economic and Fiscal Update* published in May 2022, and
- *Budget 2023* refers to the *2023 Budget Economic and Fiscal Update* published in May 2023.

Year end results compared to the unaudited results included in the *Pre-election Update*

The *Pre-election Economic and Fiscal Update (Pre-election Update)* was published on 12 September 2023 and included the unaudited results for the year ended 30 June 2023. This section compares the year end results with the unaudited results published in the *Pre-election Update*.

Overall, most financial indicators were close to the unaudited results presented in the *Pre-election Update* (Table 2), with most differences relating to reclassifications and the finalisation of valuations. The nature of the changes mean they have minimal implications to the fiscal outlook presented in the *Pre-election Update*.

Table 2– 30 June 2023 results compared to the *Pre-election Update*

Year ended 30 June	Actual 2023 \$ millions	Pre-election Update 2023 \$ millions	Variance \$ millions	%
Total revenue	153,011	152,474	537	0.4
Total expenses	161,822	161,873	(51)	0.0
Operating balance ¹	5,321	5,086	235	4.6
Total net worth	191,472	191,437	35	0.0
Total assets	536,666	536,187	479	0.1
Total liabilities	345,194	344,750	444	0.1
OBEGAL ¹	(9,446)	(10,034)	588	(5.9)
Net debt	71,367	71,421	(54)	(0.1)

1 Excluding minority interests.

Source: The Treasury

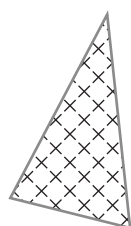
Total revenue was \$0.5 billion higher than the unaudited result, largely reflecting a reclassification from gains on financial instruments into interest revenue on the income from the Funding for Lending Programme (FLP). This flows through to improve OBEGAL but has a neutral impact on the operating balance.

Total expenses were \$0.1 billion lower than the unaudited result. An additional \$0.4 billion of expenses were recognised to reflect the back pay portion of the recent nurses pay equity settlement on 31 July 2023. However, this was more than offset by the reversal of impairment losses and depreciation changes on assets held by KiwiRail. This change reflects that some assets are now considered as primarily held for public benefit, rather than assets solely held to generate cash, which has changed the valuation approach for Crown reporting purposes this year.

As a result of the changes in total revenue and total expense, the OBEGAL deficit was \$0.6 billion smaller than the unaudited result. As mentioned above, the gains on financial instruments have reduced, therefore the operating balance is broadly consistent with the unaudited result.

Although total net worth was close to the unaudited result, both total assets and total liabilities were higher by a similar amount. The changes in total assets largely relate to the valuations of physical assets. While the change in total liabilities, largely reflects the provision from the back pay of the nurses pay equity settlement.

There have been no significant changes in net debt.



APPENDIX 4. SWITZERLAND: 2023 STATE FINANCIAL STATEMENTS^{50,51}

STATEMENT OF FINANCIAL PERFORMANCE

CHF mn	FS 2022	Bdg. 2023	FS 2023	Δ 2022-23	
				absolute	%
Current receipts	74 766	80 309	78 605	3 840	5.1
Tax receipts	69 493	74 970	74 784	5 291	7.6
Direct federal tax natural persons	12 532	13 306	13 344	812	6.5
Direct federal tax legal entities	12 249	13 835	14 491	2 242	18.3
Withholding tax	3 888	6 675	6 445	2 557	65.8
Stamp duty	2 483	2 375	2 181	-302	-12.2
Value added tax	24 588	25 410	25 148	559	2.3
Other consumption taxes	8 207	8 077	7 992	-214	-2.6
Misc. tax receipts	5 546	5 292	5 183	-363	-6.6
Nontax receipts	5 272	5 339	3 821	-1 451	-27.5
Royalties and concessions	2 393	2 350	374	-2 020	-84.4
Other receipts	2 521	2 589	2 818	297	11.8
Financial receipts	358	400	630	272	75.9
Current expenditure	75 072	76 629	75 203	131	0.2
Operating expenditure	12 009	11 626	11 529	-480	-4.0
Personnel expenditure	6 107	6 379	6 234	127	2.1
General, administrative and operating expenditure	4 970	4 443	4 353	-618	-12.4
Defense expenditure	932	804	943	10	1.1
Transfer expenditure	62 057	63 993	62 379	322	0.5
Deposits in special funds and special financing	7 614	8 034	7 438	-176	-2.3
Contributions to own institutions	3 920	3 926	4 042	122	3.1
Contributions to social insurance	19 332	18 426	18 422	-910	-4.7
Contributions to cantons and communes	23 025	25 088	24 340	1 315	5.7
Contributions to third parties	8 166	8 519	8 138	-28	-0.3
Financial expenditure	1 006	1 010	1 295	289	28.7
Self-financing	-307	3 681	3 402	3 708	n.d.
Deprec. & amort. tangible/intangible fixed assets	-2 946	-3 123	-3 002	-57	-1.9
Depreciation of investment contributions	-1 188	-1 432	-1 229	-40	-3.4
Other valuation changes under administrative assets	-694	-210	-704	-9	-1.4
Result from financial interests	1 516	1 423	2 410	894	59.0
Surplus/deficit for the year	-3 619	339	877	4 496	124.2

The figures for 2022, as well as the structure and presentation have been adjusted (see section B 72, Changes in the 2023 financial statements)

⁵⁰ State Financial Statements are consolidating government departments (ministries) and decentralized entities, but not SOEs. State FS correspond to the State Budget. The Consolidated Financial Statements are also prepared and additionally consolidate SOEs and have no corresponding budget, since SOEs are not included in the state budget.

⁵¹ Source: <https://www.efv.admin.ch/efv/en/home/finanzberichterstattung/finanzberichte/staatsrechnung.html>

STATEMENT OF FINANCIAL POSITION

CHF mn	01.01.2022	31.12.2022	31.12.2023	Δ 2022–23	Notes section
Assets	181 781	188 700	190 187	1 487	
Non-administrative assets	40 955	45 504	44 564	-940	
Liquid assets	12 973	15 615	16 791	1 177	-
Receivables	10 746	10 557	11 615	1 058	-
Prepaid expenses and accrued income	3 784	4 231	4 141	-90	-
Financial investments	13 453	15 101	12 017	-3 084	-
Administrative assets	140 825	143 196	145 623	2 427	
Inventories and advances	4 425	4 264	3 764	-500	-
Tangible fixed assets	60 893	61 635	62 853	1 218	-
Intangible fixed assets	431	564	677	113	-
Loans	5 574	5 523	5 627	105	-
Financial interests	69 503	71 211	72 701	1 491	-
Liabilities and equity	181 781	188 700	190 187	1 487	
Liabilities	175 888	184 510	186 251	1 742	
Current liabilities	18 558	19 235	21 223	1 988	-
Accrued expenses and deferred income	12 796	8 511	7 587	-924	-
Financial liabilities	92 736	104 469	106 869	2 400	-
Restricted funds in liabilities	9 285	10 832	11 207	375	-
Employee retirement benefit obligations	3 475	2 139	2 767	628	-
Provisions	39 038	39 323	36 598	-2 725	-
Net assets/equity	5 893	4 191	3 936	-255	
Restricted funds in net assets/equity	6 523	6 582	6 601	20	-
Reserves from global budget	446	710	621	-88	-
Accumulated deficit	-1 076	-3 101	-3 287	-186	-

The figures for 2022 have been adjusted (see section B 72, Changes in the 2023 financial statements)

CASH FLOW STATEMENT

CHF mn	FS 2022	FS 2023	absolute
Total cash flow	2 642	1 177	-1 465
Cash flow from operating activities	-3 716	-733	2 982
Surplus/deficit for the year	-3 619	877	4 496
Depreciation, amortization and impairments	2 946	3 002	57
Result from financial interests (equity method)	-1 516	-2 410	-894
Profit from disposals of non-current assets	-6	-12	-6
Net increase/decrease in provisions	285	-2 725	-3 010
Other non-cash transactions	1 899	-61	-1 960
Change in net current assets	-3 705	595	4 300
Increase/decrease in receivables	189	-1 058	-1 247
Increase/decrease prepaid expenses/accrued income	-447	90	538
Increase/decrease in inventories	161	500	338
Increase/decrease in current liabilities	677	1 988	1 311
Increase/decrease accrued expenses/deferred income	-4 284	-924	3 360
Cash flow from investing activities	-4 550	253	4 803
Purchase of tangible and intangible fixed assets	-3 865	-4 265	-400
Disposal of tangible and intangible fixed assets	75	23	-53
investments in loans/financial interests (admin. assets)	-143	-139	4
Divestiture of loans/financial interests (admin. assets)	105	147	42
investments in non-administrative assets	-7 431	-7 581	-150
Divestiture of non-administrative assets	5 784	10 646	4 862
interest and dividends received	925	1 423	497
Cash flow from financing activities	10 908	1 657	-9 251
Increase in short-term financial liabilities	48 622	60 234	11 613
Disposals short-term financial liabilities	-43 857	-65 706	-21 849
Additional long-term financial liabilities	13 219	14 669	1 450
Disposals long-term financial liabilities	-5 687	-6 127	-440
Interest paid	-1 389	-1 415	-25

CASH FUND STATEMENT

CHF mn	FS 2022	FS 2023	absolute
cash at 01.01.	12 973	15 615	2 642
increase (+) / decrease (-)	2 642	1 177	-1 465
cash at 31.12.	15 615	16 791	1 177

The presentation and structure have been adjusted (see section B 72, Changes in the 2023 financial statements)

STATEMENT OF INVESTMENTS

CHF mn	FS 2022	Bdg. 2023	FS 2023	Δ 2022-23	
				absolute	%
Investment receipts	882	1 038	1 002	119	13.5
Dividends	633	833	832	200	31.6
Loan repayment	105	152	147	42	40.1
Other investment receipts	145	53	22	-123	-84.6
Investment expenditure	5 825	9 544	5 835	10	0.2
Buildings	861	898	829	-32	-3.8
Property, plant and equipment	123	135	253	130	106.1
Inventories	673	105	232	-441	-65.5
Motorways	2 012	1 772	2 067	55	2.7
Defense equipment	771	950	1 026	255	33.0
Intangible fixed assets	52	38	57	6	10.8
Loans	62	4 143	68	6	9.4
Financial interests	81	71	71	-10	-12.2
Own investment contributions	1 189	1 432	1 231	41	3.5
Net investments	-4 943	-8 506	-4 833	110	2.2

The presentation and structure have been adjusted (see section 72, Changes in the 2023 financial statements)

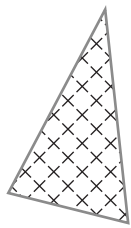
STATEMENT OF NET ASSETS/EQUITY

CHF mn	Special financing 1	Special funds 2	Other restricted funds 3	Restricted funds 4=1+2+3	Global budget reserves 5	Accumulated deficit/ surplus 6	Total net assets/ equity 7=4+5+6
At 01.01.2022 reported	5 055	1 437	30	6 523	446	-841	6 127
Changes in accounting standards/restatement	-	-	-	-	-	-235	-235
At 01.01.2022 restated	5 055	1 437	30	6 523	446	-1 076	5 893
Special funds result	-	33	-	33	-	1	34
Change in other restricted funds	-	-	-1	-1	-	-	-1
Revaluation employee retirement benefits	-	-	-	-	-	1 386	1 386
Share of equity transactions involving equity interests	-	-	-	-	-	738	738
Hedging transactions	-	-	-	-	-	-239	-239
Total items recognized under net assets/equity	-	33	-1	31	-	1 886	1 917
Surplus/deficit for the year restated	-	-	-	-	-	-3 619	-3 619
Total profit and loss recognized	-	33	-1	31	-	-1 733	-1 702
Entry transfers in net assets/equity	28	-	-	28	264	-292	-
Consolidation scope changes	-	-	-	-	-	-	-
At 31.12.2022 restated	5 083	1 470	28	6 582	710	-3 101	4 191
Changes in accounting standards/restatement	-5	35	-	30	-	21	51
At 01.01.2023 restated	5 078	1 505	28	6 612	710	-3 080	4 242
Special funds result	-	8	-	8	-	1	10
Change in other restricted funds	-	-	-6	-6	-	-	-6
Revaluation employee retirement benefits	-	-	-	-	-	-661	-661
Share of equity transactions involving equity interests	-	-	-	-	-	-82	-82
Hedging transactions	-	-	-	-	-	-444	-444
Total items recognized under net assets/equity	-	8	-6	2	-	-1 185	-1 183
Surplus/deficit for the year	-	-	-	-	-	877	877
Total profit and loss recognized	-	8	-6	2	-	-308	-306
Entry transfers in net assets/equity	-13	-	-	-13	-88	101	-
Consolidation scope changes	-	-	-	-	-	-	-
As of 31.12.2023	5 066	1 513	22	6 601	621	-3 287	3 936

The figures for 2022 have been adjusted (see section B 72, Changes in the 2023 financial statements)

STATEMENT OF NET ASSETS/EQUITY

The statement of net assets/equity shows which financial transactions led to a change in the respective equity item. Specifically, it indicates the expense and revenue items that were recognized directly in net assets/equity rather than in the statement of financial performance, and the impact of a change in reserves and restricted funds on net assets/equity.



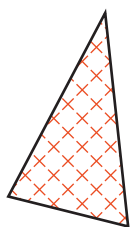
APPENDIX 5: NEW ZEALAND EXAMPLE OF STATE-OWNED ENTERPRISES REPORTING⁵²

Financial Information showing revenue, expenditures, assets, liabilities and equity in relation to SOE segment is included into the consolidated government

financial statements as at 30 June 2023 with prior year comparative on pages 176 and 177.

	30 June 2023				30 June 2022			
	Revenue (excl gains)	Expenses (excl losses)	Operating balance	Distri- butions	Revenue (excl gains)	Expenses (excl losses)	Operating balance	Distri- butions
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
State-owned Enterprises								
Airways Corporation of New Zealand Limited	226	220	7	-	144	178	-34	-
AsureQuality Limited	233	231	4	4	213	206	7	12
Landcorp Farming Limited	259	259	(3)	5	275	247	51	5
New Zealand Post Limited	1,200	1,245	48	717	1,095	1,082	107	-
KiwiRail Holdings Limited	1,629	1,167	455	-	1,333	1,075	251	-
Transpower New Zealand Limited	921	786	130	120	890	737	171	120
Kordia Group Limited	151	144	7	2	137	127	(2)	-
Kiwi Group Holdings Limited	548	431	121	-	1,054	931	182	98
New Zealand Railways Corporation	-	-	-	-	-	-	-	-
Other State-owned enterprises	125	117	8	2	109	103	4	1
Total State-owned Enterprises	5,292	4,600	777	850	5,250	4,686	737	236
Air New Zealand Limited	6,426	5,933	788	-	2,779	2,469	283	-
Genesis Energy Limited	2,358	2,261	166	186	2,851	2,761	218	183
Meridian Energy Limited	3,234	2,794	81	453	3,912	3,728	657	437
Mercury NZ Limited	2,724	2,401	131	286	2,192	2,002	470	248
Less minority interests	-	-	(566)	(500)	-	-	(792)	(423)
Total mixed ownership companies	14,742	13,389	600	425	11,734	10,960	836	445
Intra-segmental eliminations	(257)	(147)	(101)	-	(259)	(587)	199	-
Total SOE segment	19,777	17,842	1,276	1,275	16,725	15,059	1,772	681

	30 June 2023						30 June 2022
	Purchase of PPE	Total PPE	Total assets	Borrowings	Total liabilities	Equity	Equity
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
State-owned Enterprises							
Airways Corporation of New Zealand Limited	35	169	320	58	103	217	196
AsureQuality Limited	8	56	158	25	58	100	100
Landcorp Farming Limited	46	1,596	2,100	263	297	1,803	1,831
New Zealand Post Limited	62	239	1,040	60	320	720	1,485
KiwiRail Holdings Limited	1,221	16,244	17,187	31	545	16,642	13,478
Transpower New Zealand Limited	350	4,787	6,067	3,510	4,479	1,588	1,597
Kordia Group Limited	15	56	119	28	57	62	58
Kiwi Group Holdings Limited	-	-	-	-	-	-	2,246
New Zealand Railways Corporation	12	4,261	4,263	-	-	4,263	4,311
Other State-owned enterprises	5	22	85	11	30	55	49
Total State-owned Enterprises	1,754	27,430	31,339	3,986	5,889	25,450	25,351
Air New Zealand Limited	539	5,353	9,595	2,793	6,352	3,243	2,432
Genesis Energy Limited	77	3,743	4,974	1,365	2,567	2,407	2,377
Meridian Energy Limited	316	8,950	9,967	1,424	4,010	5,957	5,508
Mercury NZ Limited	250	8,008	9,313	2,245	4,465	4,848	4,767
Total mixed ownership companies	1,182	26,054	33,849	7,827	17,394	16,455	15,084
Intra-segmental eliminations	2	(170)	(290)	(142)	(188)	(102)	(2,437)
Total SOE segment	2,938	53,314	64,898	11,671	23,095	41,803	37,998



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World Bank PULSAR

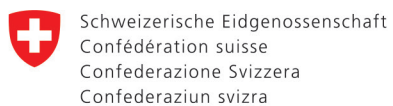
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