PUBLIC FINANCIAL REPORTING AND AUDITS: CHALLENGES AND OPPORTUNITIES

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Financial Reporting as a useful tool for public governance: New needs, new answers
The Wheel of Public Management and Governance

START AND FINAL DESTINATION:
NATIONAL AND INTERNATIONAL INSTITUTIONS AND MARKETS
CITIZENS: FOCUS ON PUBLIC INTEREST AND PARTICIPATION

ACCOUNTABILITY

POLITICIANS

STRATEGIC MANAGEMENT

OBJECTIVES AND RESPONSIBILITY

NEW PUBLIC MANAGEMENT AND GOVERNANCE

DESCENTRALIZATION
PUBLIC-PRIVATE PARTNERSHIP

FINANCIAL REPORTING –TRANSPARENCY–

RESULTS

AUDITS AND CONTROL

ORGANIZATIONAL NETWORK MANAGEMENT
Main tools for the reform of public governance and management

- **Emphasis on accountability:** Take all stakeholders into consideration: institutions, citizens, third parties...
- **Emphasis on disclosure:** Complete, clear, in time and easily accessible Information.
- **Emphasis on outcomes and outputs:** Use and disclosure of Performance Indicators.

<table>
<thead>
<tr>
<th>Transparency</th>
<th>Keys for the reform</th>
<th>Efficiency</th>
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- Introduction of new concepts and management tools, as *benchmarking* and *best practices*,
- Preferent attention to non-market values and targets, such as *social welfare, quality, consumers’ preferences* and *environmental management*
- Paramount relevance of *comparison* (also international) of practices, policies and performances
New trends in Governmental Accounting

• From traditional Input-oriented stewardship and control of fraud to Output and outcome-oriented Management and control
• From traditional “exactness” to “true and fair view” accounting information
• From accounting for a Burocratic Administration to accounting for Good Governance of organisations
• From “cash basis” reporting to three-pillars based Accounting for Public Reporting
• Next steps:
  • A unified and comprehensive Public Reporting System?
  • Focusing on quality of public services, social and sustainable public policies?
  • A new concept and scope for public accountability?
  • Through accrual budgeting?
  • Through more participative public management, budgeting and even audits?
In summary: New Answers for a new framework

**Socio-economic framework**
- Financial discipline
- Fraud and corruption control
- Social and environmental requirements
- Public entities’ Good Governance
- Globalisation
- Regional Integration

**Government Accounting and Reporting Issues**
- Transparency and timely Disclosure
- International Government Accounting Standards
- Management Accounting and Performance Measurement
- New scope of Accountability and implementation of performance reporting
- Financial / Budgetary / National Accounting Links
- Integrated accounting system (financial, budgetary, statistical and management information) and decentralised management
The three Pillars/Systems of Public Reporting

**MICRO ECONOMIC FINANCIAL REPORTING** (accrual basis)
- International Financial Reporting Standards (IFRS)
- International Public Sector Accounting Standards (IPSAS)
- Public and Private Business Enterprises
- Administrative entities

**STATISTICAL AGGREGATE REPORTING SYSTEMS** (accrual basis)
- UN System of National Accounts (SNA)
- IMF (GFS) 2001/2014
- European System of national and regional Accounts (ESA 2010)
- Aggregate Statistical Reports

**BUDGETARY REPORTING** (mainly cash basis)
- Diversity of national standards
- Lack of International Standards
- Figures hardly comparable
- Budgetary Reports
### The main features of Public Reporting Systems

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<tr>
<th></th>
<th>GFS</th>
<th>IPSAS</th>
<th>BUDGET</th>
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<tbody>
<tr>
<td><strong>REPORTING ENTITY</strong></td>
<td>Institutional units and sectors</td>
<td>Economic entity and consolidation</td>
<td>Public sector boundaries differ across EU countries</td>
</tr>
<tr>
<td><strong>RECOGNITION CRITERIA</strong></td>
<td>Accrual with exceptions</td>
<td>Accrual in general</td>
<td>Cash in the most countries</td>
</tr>
<tr>
<td><strong>VALUATION</strong></td>
<td>Current market prices (in general)</td>
<td>Fair value, historic cost and other bases</td>
<td>Short term financial flow of rights and obligations</td>
</tr>
<tr>
<td><strong>REVALUATION</strong></td>
<td>Separate account</td>
<td>Yes</td>
<td>No</td>
</tr>
</tbody>
</table>
Financial Information Convergence in Public Entities

- IASB Business Standards (IAS/IFRS)
- IPSASB Public Sector Standards (IPSAS)
- Process of Convergence
- Statistical Financial Reporting
- Budgetary Reporting
Auditors advocating Reporting Reforms and implementing new ways for control
UN Department of Economic and Social Affairs (DESA) supports the Member States to foster **efficient, effective, transparent, accountable, clean and citizen centered public governance, administration and services** through innovation and technology to achieve the internationally agreed development goals, including the Millennium Development Goals (MDGs). Since the MDGs Declaration, INTOSAI has built up capacities of SAIs to conduct *performance audits*.

### The global partners: United Nations

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| **2000**         | 55/2. United Nations Millennium Declaration | -Main human, social, economic and ecological values and principles.  
-Strengthening good governance and transparency  
-Working collectively for more inclusive political processes, allowing genuine participation by all citizens |
| **2011 and 2014**| Resolutions 66/209 and 69/228 | -SAIs Independence as a prerequisite  
-The important role of SAIs in promoting the *efficiency, accountability, effectiveness and transparency* of public administration |
# The global partners: INTOSAI

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| 1977, 2007       | Declarations of Lima and Mexico | -Purpose, types of audits, audit methods  
                  -Independence: the eight pillars  
                  -International Exchange of experiences  
                  -Reporting  
                  -Audit of international and supranational organisations |
| 2010             | Strategic Plan 2011-2016 The 4 Goals | 1: Accountability and Professional Standards  
                  2: Institutional Capacity Building  
                  3: Knowledge Sharing and Knowledge Services  
                  4: Model International Organization |
| 2010 -           | Professional Standards | 1. International Standards of Supreme Audit Institutions (ISSAIs)  
                  2. INTOSAI Guidance for Good Governance (INTOSAI GOV).  
                      • INTOSAI GOV 9100-9199 - Internal Control  
                      • INTOSAI GOV 9200-9299 - Accounting Standards  
                      • INTOSAI GOV 9300-9399 - Audit Arrangements |
## INTOSAI, an actor in the WorldWide panorama

### Cooperation with global partners
- Important cooperation of INTOSAI with external partners, UN, OECD, IFAC, Institute of Internal Auditors, Interparliamentarian Union, World Bank and International Donor Community

### Accounting Standards
- INTOSAI highlights IPSASB and IASB Standards as high-quality, global accounting and reporting standards for the public and private sectors at the international level.

### Standards on Auditing
- The International Standards on Auditing (ISAs) issued by the IFAC are incorporated into the financial audit guidelines (ISSAIs 1000-2999).
- In financial audits reference may therefore be made either to the ISSAIs or to the ISAs.
- The ISSAIs just provide additional public-sector guidance, but the requirements of the auditor in financial audits are the same.

### European Regional Working Group
- EUROSAI Strategic Plan 2011-2017 contains four goals: 1) Capacity Building; 2) Professional Standards; 3) Knowledge Sharing; 4) Governance and Communication
Broadening SAI audit objectives and boundaries: Emphasis on performance, citizens, sustainability and accountability

- Emphasis on Performance Audits
- Evaluation of social, economic, financial and environmental impact of public policies
- Audit of public sector data for GFS and SNA
- Fairness and consistency of prospective reported information, including budgetary figures
- Stress verification of internal control systems
- Effectiveness of mechanisms against fraud and corruption
- Advocate improvements in Management, Reporting and Accountability
Strengthening auditors’ independence, integrity and responsibility

Development of new skills of auditors, in accordance with the new objectives and scope of audits

Regulation of public-private partnerships in control: conditions, requirements and limitations

Incorporation of new specialists as members of the staff or, alternatively, use outsourcing for technical issues
Adapting Audit Procedures

New *social demands* for audits: Transparency, emphasis on performance and outcomes, timely and broad disclosure of results

Cooperation and participation of *citizens* in the audit process

*International* cooperation

A more cooperative and harmonized model for *European Government Auditing*. The role of European Parliament, European Commission, ECA and National SAIs

Use and enhancement of *peer reviews*
Thank you for your attention

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