**Appendix to participant’s note**

**Issues and challenges in reporting due to Unique Characteristics of Government**

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| S. No | Unique Characteristic | Explanation | Reporting implication |
| 1. | Government’s goal is to provide  services and redistribute resources,  not to make a profit. | Government accountability is primarily for the level, quality  and cost of services provided. Governments redistribute resources through grants, concessionary loans and other transfers, in accordance with government objectives. In fact, most resource redistribution involves service provision by one  level of government or another, except for welfare and other monetary assistance programs.  The ability of a government to afford existing services and  meet the need for new services is also key information. | Net cost of services  and affordability of services should be reported.  The net economic resources (accumulated  surplus/deficit) available to use in providing future services should be reported. |
| 2. | Most government tangible capital  assets are different in nature from those held by a business. | Most government tangible capital assets represent service capability, rather than future cash inflows to the government. They, and other non-financial assets, represent the portion of the government’s financial position that is unexpired service potential. The distinction between a government’s financial  and non-financial assets is the degree of choice in application associated with them. Financial assets can be used to discharge liabilities or provide services, while non- Financial assets are normally used only for service provision, unless they are sold and thus converted back into financial assets. | Financial assets  and non-financial assets  should be  reported separately on the statement of financial position.  The net financial resources/net debt  and the net economic resources (accumulated surplus/deficit) measures should both be reported on the statement of  financial position as they represent different perspectives of the government’s financial position |
| 3. | Government capital spending may  not focus on maximizing financial  return because government  objectives are broader. | A business is interested in what acquired capital will produce  — the end product and the related net cash inflows. For government, the end product might not always be financial.  Sometimes, it is the process of building capital that achieves a  government objective (for example, providing employment or  regional development) | Capital spending and its effect on net debt  must be highlighted in the financial statements |
| 4. | The principal source of revenue for  governments is taxation | The payment of taxes is obligatory — not part of an exchange transaction nor a voluntary contribution or investment. The bulk of government revenues do not arise from the direct sale of goods and services. | Ability to tax = ability to spend. So net debt  needs to be reported because it represents the government’s future  revenue requirements based on past transactions and events (such as spending) to be met from future taxes and is an indication, therefore, of the affordability of additional  spending. |
| 5. | Government holds assets acquired  in right of the constitutional Head of the State | For many governments, the value and use of these items far  outweigh the value and use of recognized assets. A business  does not have access to these types of assets unless they are paid for | Practical issues regarding the measurement and valuation of these assets prevent their financial statement recognition;  however, disclosure of the existence of these assets is key to understanding the government’s total economic resources. |
| 6. | Governments operate in a non- competitive environment. | No competitive market for most government outputs means  that there is no independent indication of their value. And many of the services provided by government are unlikely to be provided by anyone else, such as welfare and defence. The  benefits of government services cannot be measured solely by  a bottom line that shows net revenues or expenses. | Net cost of services  and affordability of services are the financial measures required, but these are not enough to show the efficiency and effectiveness of government services.  Performance measurement information is needed, too. There is no one measure of government performance. Non-financial  performance measures are also needed. |
| 7. | A government’s budget portrays  public policy, establishes estimates  of revenue, expense, expenditure  and financing requirements and is  an important part of the  government accountability cycle. | The budget includes financing requirements for operating and  capital spending. It sets tax rates and decides on borrowing  requirements. A comparison of actual-to-budget amounts  demonstrates public accountability for government finances | Actual-to-budget comparisons  should be provided in the  financial statements |
| 8. | Governments are held to a higher  standard of accountability than a  business or a not-for-profit organisations | A broader public accountability must be demonstrated in government financial statements because the nature of a democratically elected government requires a greater degree of transparency in financial reporting than most private sector reports provide. Governments are accountable to taxpayers on many levels, in contrast to the more limited accountability a company has for return on investment to a limited group of investors | The “captive” nature of taxpayers as contributors to  government finances require that they be given simple yet robust information about what has been done with them  money — that is, complete information about the  government’s financial position and results is needed and each financial statement should convey clear, key messages about government finances. |