

# Research on the embedding of financial performance information in government comprehensive financial report

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**Abstract:** As a collection of information to show the performance of the government, the government's comprehensive financial report has built in the public's core appeal for administrative benefits. Therefore, embedding the financial performance evaluation information into the government's comprehensive financial report and expanding it to reconstruct the benign interaction mechanism between the financial performance evaluation results and the budget capital investment is a key measure to build a "service-oriented" government. The contribution of this paper lies in: (1) Deepening the existing practice of government performance evaluation, further enriching the information connotation of government performance evaluation; (2) The specific framework of embedding financial performance evaluation information into government comprehensive financial report is constructed, which further expands the information boundary of government financial report.

**Keywords:** financial performance information; Government consolidated financial report; embed

## 1. Question raising

The new public management movement, which began in the 1970s, is supported by the theory of public choice and the theory of new institutional economics. Government performance management is regarded as the main means to reflect the good governance of the government. From the perspective of the internal motivation of the development of the new public management movement, the improvement of government performance is the core guiding goal of public management reform. It is generally believed that public accountability is the basis of government accounting and financial reporting, and government financial reporting should provide accurate and transparent financial performance information. It can be seen that a good governance oriented national governance system needs an information disclosure mechanism with government financial performance evaluation as the core, and high-quality accounting information provided by government financial reports is the basis.

It is generally believed that accounting information comes from the contradictory movement between entrustment and agency, and the quality of accounting information depends on different accounting recognition bases. Because different accounting recognition bases determine different accounting interest protection orientations, and the government accounting system based on cash basis is the bottleneck restricting government financial performance management. The government is in danger of falling into the double trap of wasting financial funds and widening financial fund gap. Because, on the one hand, under the input oriented government accounting system, output is considered to be at the bottom and even becomes a "black box" to cover up the waste of financial funds; On the other hand, based on the mismatch of financial power and power, the local government shifted the huge gap of capital demand to the direction of implicit debt, which led to China's actual fiscal deficit being far greater than the nominal deficit, resulting in huge financial and financial risks. It can be seen from this that the original government accounting information disclosure mechanism cannot realize the matching of rights and responsibilities and the matching of income and expenses, which in turn restricts the prevention of financial risks and the improvement of government administrative efficiency.

From the current practice of government performance evaluation in China, based on the information monopoly position of the government in public affairs, the scope, results and application of government performance evaluation are affected by the governance structure and leadership authority of the government, and the role of government performance evaluation is questioned, which may lead to "moral hazard"; The public is also affected by the information asymmetry and the "rational ignorance" of the comparison of costs and benefits, and finally falls into the dilemma of "adverse selection". Therefore, embedding the financial performance evaluation information into the government's comprehensive financial report can, on the one hand, alleviate the degree of information asymmetry, reduce the cost for the public to obtain information from the government to relieve the accountability, and avoid the "adverse selection risk" caused by "rational ignorance"; On the other hand, take financial performance evaluation as a means to reconstruct the benign interaction mechanism between financial performance evaluation results and budget input, so as to fundamentally solve the problem of power mechanism that hinders the improvement of government administrative efficiency, and to avoid the "moral hazard" caused by government information monopoly as much as possible.

## 2. The relationship and boundary between government financial performance evaluation and government performance evaluation

### 2.1 The relationship between government financial performance evaluation and government performance evaluation

The report of the 19th National Congress of the Communist Party of China clearly stated that in the new era, a service-oriented government will be built to satisfy the people, and improving the people's sense of gain will become one of the important reference indicators to measure the performance of the "service-oriented government". Therefore, the ultimate goal of government performance management is "whether the people are satisfied or not, and whether they agree or not", which is embodied in the realization of the goal of "economy, efficiency and effectiveness". The "economic goal" is to pursue the minimization of the administrative cost of the government itself; The "efficiency target" is reflected in the efficiency of the government to complete public services under certain resource consumption, which is reflected in the cost of time, etc; The "benefit objective" is reflected in the comparative relationship between input and output. From the current practice of government performance management, its focus is on the inspection of the executive power of the lower level government (department) to the work arranged by the higher level government (department), such as the Jiangsu Provincial People's Government Department Performance Management Measures (Trial) (SZF [2011] No. 94), which emphasizes the improvement of the government's administrative efficiency or effectiveness, and reflects less on "economic goals" and "efficiency".

The government financial performance evaluation is equal to the result of dividing the government budget output by the budget input from the visual result. It mainly focuses on the government budget fund efficiency. From the point of view of the inspection, it is basically the same as the budget performance management implemented in some provinces. Generally speaking, the government budget input behavior is mainly divided into: general public administration action input and government investment project input. The former is reflected in the administrative efficiency output under the bureaucratic management system, while the latter is reflected in the benefit output of investment projects. From the economic perspective, it is mainly embodied in the "economy" with the goal of "cost minimization" and the "effectiveness" with the goal of "output maximization". The connotation of "cost minimization" is "spend less and do more", which is reflected in the output of administrative efficiency; The connotation of "output maximization" is the maximization of the "output cost" ratio, which is reflected in the benefit output of government investment projects. Therefore, the objectives of government financial performance evaluation and government performance evaluation are the same, including "economy, efficiency and effectiveness" evaluation. However, from the perspective of emphasis, financial performance evaluation pays more attention to the input-output matching relationship, which is reflected in the inspection of "economy" and "effectiveness", and ultimately reflects "efficiency".

### 2.2 The boundary between government financial performance and government performance

As the observation window for the client to evaluate the agent's efforts, the government performance evaluation has built-in the agent's goal idea, that is, to respond to "the people's demands and reflect the people's supremacy". The goal of the agent is embodied in the value goal and the technical goal, and the value goal is embodied in the government's credibility, which is also the basis for the government's legitimate governance; The technical objectives are reflected in the government performance, the ratio of input and output, and the governance effect of the government. From the practice of local government performance management, although it has responded to the people's demands for the government's ruling efficiency to a certain extent, it has always avoided two most important public concerns: (1) economy, that is, what is the government's administrative cost? (2) Effectiveness, that is, what is the result of the "input-output" ratio of government administrative actions? Both the government and the people need an effective information communication tool to answer the above questions.

From the existing practice of government input-output evaluation, it mainly shows a series of institutional arrangements. For example, investment cost control is embodied in the Measures for the Administration of Public Bidding of Government Investment Projects, the Government Procurement Law, etc; The evaluation of government output is reflected in the Audit of Economic Responsibility of Leading Cadres and the Audit of Economic Benefits of Government Investment Projects. These institutional arrangements indeed play a role in reasonably evaluating the input-output effect of government investment projects to a certain extent, but their defects are also obvious: (1) The public has no smooth access to the audit report on the economic benefits of government investment projects. Based on the comparison of costs and benefits, The public may fall into "rational ignorance" (2) The evaluation of the economic benefits of government investment projects may fall into "moral hazard" controlled by insiders. Based on the strong position of the main leaders of the government in the bureaucratic administrative system, the audit of the economic benefits of government investment projects may become a mere formality risk in line with the leaders' performance goals; (3) The public welfare of government investment projects determines the uncertainty of the audit results of economic benefits. The evaluation of economic benefits of government investment projects that are purely public welfare is suitable for qualitative evaluation of social and ecological benefits; For investment projects that are not purely public welfare, cost income financial indicators are used for quantitative evaluation of the amount of income. In the case of qualitative evaluation falling into the trap of "insider control" and quantitative evaluation lacking "market comparison benchmark", the benefit audit of government investment projects

often becomes a tool for the government to “discharge its responsibility”, that is, as long as the process control of investment projects such as project establishment, decision-making, procurement, bidding, construction, supervision and final accounts of completion is compliant, then whether they will finally give play to economic and ecological benefits Social benefits are not the priority responsibility of the government, which is the logic behind the “government image project” and “achievements project”. Obviously, the focus of financial performance evaluation is the matching relationship between input and output, which is embodied in “economy, efficiency, effectiveness and fairness” (i.e. 4E standard). It is intended to reconstruct the interaction between budget capital input and administrative efficiency evaluation results, which is a further expansion of the connotation boundary of government performance evaluation practice.

### **3. Analysis on the restrictive factors of government financial performance evaluation from a multi-dimensional perspective**

#### **3.1 The Contradiction between Client and Agent in Government Financial Performance Evaluation**

As an organization, the government aims to drive action. The government administrative goal originates from the multiple game results of the consigner and agent. In the case of multiple entrustments, the original performance goal information of the government has the risk of dispersion and weakening with the increase of the entrustment level, and sometimes even deviates from the original goal. In the absence of effective external supervision, this deviation will become more serious. Therefore, the constraints of a successful financial performance goal are: the agent (government) has an open and transparent channel for financial performance information disclosure; The client (the public, etc.) has an efficient supervision mechanism to reward and punish the financial performance evaluation results. Under the condition of information symmetry between the government and the client, the government’s administrative goal has built-in the client’s interest appeal, that is, maximizing financial performance, because in essence, government performance management is a technical tool and means to achieve democratic politics, and a concrete manifestation of good governance of the government.

#### **3.2 External supervision of financial performance evaluation**

From the perspective of the evaluation of the output of general government administrative services, based on the commonweal nature of government management and the monopoly nature of government services, in the absence of performance benchmarking, it is really a difficult problem to accurately calculate the output of general government public services. When the consigner is unable to observe the government’s administrative output, the government may have the risk of “slack effect”. Although the reason for the “risk of slack effect” is the personal quality of civil servants, the system defects behind it cannot be ignored: when the client cannot observe and measure the specific administrative performance of officials, and does not grasp the right to reward and punish, the administrative logic of officials is “only superior but not inferior”, so the external performance evaluation is basically invalid. Under this logic background, in order to improve the administrative efficiency of the government, the only way to play its role is to rely on the bureaucratic administrative pressure transmission mechanism, but it has not fundamentally solved the misplacement of “people (officials)”, “finance (budget funds)” and “affairs (public affairs)”, which is exactly the root cause of the problems in the performance evaluation of local governments in China.

### **4. Embedding financial performance information in government comprehensive financial reports**

#### **4.1 Embedding financial performance information in the balance sheet**

Based on information asymmetry, the public urgently needs an open and transparent information medium with low access cost. Embedding government financial performance evaluation information in the government balance sheet can play an authoritative role. The expansion of the connotation of government balance sheet information can include the following contents: (1) From the perspective of accounting, the results of government input and output should ultimately be reflected in assets and liabilities, so the financial performance information of the balance sheet can be reflected in the changes in net assets as a whole, that is, the ability of the government to maintain and increase the value of assets. The expansion of the information content of the balance sheet includes the maintenance and appreciation of government assets; The stock and increment of government explicit debt; Evaluation of overall government asset liability ratio; The maintenance and appreciation rate of government net assets. (2) The following information shall be disclosed in the notes to the balance sheet: accounting measurement methods affecting government assets; Changes in government explicit debt ratio; Changes in government implicit debt ratio; The change trend of the overall government asset liability ratio and the countermeasures.

#### **4.2 Embedding financial performance information in income expense statement**

##### **4.2.1 Overall government budget performance report**

The overall budget performance report of the government mainly inspects the completion of the government budget and the composition of the budget, and finds out the problems and reasons by comparing the actual implementation of the budget with the budget at the beginning of the year. In addition, the details of the government budget should also be disclosed, such as “general public budget”, “government funds”, “government transfer payments”, “PPP projects”, “government purchase services”, etc., to examine the government’s

efforts to complete the budget, allocate the budget, and save the budget. The overall budget shall also describe the inter period budget revenue and budget expenditure, so as to examine the overall performance ability of the government to use assets to obtain budget revenue and bear budget expenditure.

#### 4.2.2 Performance evaluation report on general public services of the government

The general public service expenditure of the government is mainly composed of public activity funds of various government departments, including personnel funds, transportation expenses, entertainment expenses, office expenses, etc. The comparison between the amount and quality of government public service funds and services can reflect the comparison between the performance of government in saving administrative costs and the quality of administrative services. The cost of government public expenditure can be obtained from the expenditure amount of the transaction budget. The difficulty in evaluating the financial performance of general public services of the government is that it is difficult to quantify the quantity and quality of public services provided by the government. Although the public services of the government can be subdivided into each project, it is almost impossible to accurately quantify their benefits. Therefore, it is feasible to replace the output of government public services by third-party evaluation. In order to solve the problem that there is no comparative standard for government performance, we can evaluate the financial performance of government performance vertically and horizontally according to the functional and economic classification of government expenditure. Vertically, it mainly compares the public service performance of different levels of governments with the same function and economic nature; Horizontally, it is mainly carried out by comparing the public performance of governments at the same level and in different regions.

## 5. Conclusion

The core goal of financial performance oriented government financial report is to improve the administrative efficiency of the government, and high-quality government accounting information is the basis. As a collection of information showing the performance of government duties, the government's comprehensive financial report has built in the public's core appeal for administrative benefits. Therefore, embedding financial performance evaluation information into the government's comprehensive financial report and expanding it to reshape the benign interaction mechanism between financial performance evaluation results and budget investment is a key measure to build a "service-oriented" government.

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