

# **Gathering Strength across the Accountancy Profession for**

## **Financial Transparency and Sustainable Growth**

——Speech at the 19th World Congress of Accountants (WCOA)

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**Dear Chairman Andreas Bergman,**

**Distinguished Guests, Ladies and Gentlemen,**

It is my great pleasure to participate in the 19th World Congress of Accountants in Italy, a magnificent country famous for world-renowned artistic wonders as well as for its far-reaching accounting inventions. Today delegates and leaders of the accounting profession are gathered here from all over the world to learn from the past, to draw insights from the time-honored accounting civilization, to share experience of economic development and to build the future of the accountancy profession, all of which is essential for promoting global financial stability and sustainable economic growth.

IFAC is a respected global organization of the accounting profession and the convener of the World Congress of Accountants. It effectively advances the development of the accounting sector worldwide, and plays a significant role in fostering global economic growth and protecting public interest, through developing, facilitating the international convergence to and implementation of high-quality standards, and contributing to the growth of the accounting profession. On behalf of the Chinese Ministry of Finance and the Chinese accountancy profession, I would like to extend my appreciation and gratitude to the efforts and achievements made by IFAC and its leadership.

**Ladies and gentlemen, my fellow delegates,**

Presently, much of the world is still in the stage of recovery and transformation of the economic development mode after the financial crisis. There are deep-rooted structural imbalances that are restraining the development of global economy. Therefore, a speedy and robust recovery would be difficult and unrealistic. However, in the short term, we can anticipate gradual and cyclical recoveries.

In China, after three decades of extraordinary high speed growth, our economy is also transitioning, shifting to a stage with three overlapping periods: a period of changing-gear for economic growth, a period for enduring the pain induced by economic structural adjustments, and a period for digesting the earlier stimulus policies. A new normal of China's economy has emerged with several notable features. First, the economy has shifted gear from the previous high speed to a medium-to-high speed growth. Second, the economic structure is constantly improved and upgraded. Third, the economy is increasingly driven by innovation instead of input and investment. A In 2014, facing the complex economic situation and downward pressure on the

economy, the Chinese government has continued to follow the general principle of making progress while maintaining stability. We have stayed the course and pursued a proactive approach. Instead of adopting strong economic stimulus, we have vigorously promoted reform and economic readjustment, stabilized the economic growth, and made efforts to improve people's lives. As a result, the Chinese economy reveals a trend featuring the overall stability with advancement and quality improvements. During the first three quarters of this year, China's GDP growth rate was at 7.4 percent, still within the reasonable range. Several positive and profound trends have emerged. For example, the structural optimization driven by service sectors became more apparent, evident in the accelerated emergence of new industries. The tertiary industry contributed 46.7 percent to GDP growth, 1.2 percentage point increase over the previous year; indicators of employment, energy conservation and consumption reduction scored better than expected, and over 10 million urban residents became newly employed, meeting the objective well ahead of schedule. Energy consumption per unit GDP fell by 4.6 percent; streamlined administration, decentralization and other reform procedures have generated vitality across businesses and markets.

To fulfill the mission of building a moderately prosperous society and strengthening sustainability of China's economic and social development, we are focused on expanding reforms in a multi-faceted way and promoting national governance systems and governance capacity modernization. The reforms involve all aspects of the economic, political, cultural, social and ecological systems, with more attention paid to systemic reforms in the pursuit of comprehensiveness and synergy. Among all initiatives for deepening reform, economic reform is a priority. It is centered on striking a balance between the government and the market, enabling the market to play a decisive role in resources allocation while allowing the government performs its roles better.

Deepening fiscal and tax reforms is one of the key tasks. Public finance is the foundation and pillar of national governance. Well -designed fiscal and taxation systems serve to optimize the allocation of resources, maintain market unity, promote social justice and build long-term stability of the country. China's new round of fiscal and taxation systems reform aims to establish a modern fiscal system featuring unity and integrity, openness and transparency, rule of law and efficient operation. We have set openness and transparency as a critical goal for fiscal reform, because it is both the inherent call of a modern national governance system and governance capacity and the strong warning by the sovereign debt crisis overseas.

**For China, our understanding** is that fiscal transparency sets the groundwork for good government governance, economic stability and fiscal fairness. Openness and transparency are basic characteristics of the modern fiscal system, and is essential for the construction of a transparent, responsible and service-oriented government. Strengthening fiscal transparency is conducive to administration according to laws, fiscal management according to laws and regulation of government behavior. It will also help make scientific decisions, safeguarding against fiscal risks, enhance public scrutiny to curb corruption at the root, inform the general public of intentions behind government policies and encouraged directions to lead expectations and behaviors of economic and social entities.

**Our plan** is to focus on building a modern "open, transparent, comprehensive, and completely-regulated" budget system, internalizing openness and transparency in the whole process of budget reform and management to give full range of its role in overseeing and disciplining of government. Based on the underlying appeal, we have taken the following actions and reform initiatives:

— **Strengthening legal protection:** in the budget law amendment passed by the Chinese legislature in August, as well as in the Decision of the State Council on Deepening Reform of the Budget Management System promulgated in October, open and transparent budgeting is outlined as an important requirement, providing a legal framework for enhancement of financial transparency.

— **Strengthening budget disclosure:** we have made specific requirements regarding the procedures and timing of public disclosure of the budgets, budget adjustments, final accounts of the government and the implementation of budgets. More detailed information on the budgets and final accounts of the government and its departments is required to be disclosed, with extended coverage based on economic classification. Public disclosure of budgets will also drive the broader release of both government accounts and fiscal policy instead of the mere disclosure of accounts. Public disclosure will contribute to the citizens' rights to know, to participate, to express their opinions and to supervise government conduct.

— **Improving information quality:** the purpose of being open and transparent lies in better reporting the government's stewardship with enhanced public scrutiny. Therefore, what's equally important is the quality of information in the publicly-disclosed budget, which is also one of core tasks in building fiscal transparency. In order to improve clarity, reliability and relevance of the budget, we emphasize the importance of incorporating all government income and expenditure in the budget, which highlights multifaceted specifications - A well-disclosed budget system covering the general public budget, the government fund budget, the state-owned capital operation budget and the social insurance fund budget. To safe-guard against debt risk, we prescribe restrictions on the debtor, purpose, size and manner of the debts of local governments, and facilitate their efforts such as developing sound mechanisms for debt risk assessment, early warning, emergency response and accountability. In addition, we are promoting the reform of government accounting, with the aim of developing a system of comprehensive financial reporting by governments and the government accounting standards system on accrual basis. This is to timely reveal the ins and outs of public funds, the cause and effect of budget revenue and expenditure and the history and status quo of assets and liabilities. These actions will increase public awareness and understanding of the efficiency and outcome of government operations, which will contribute to an objective assessment of the accountability and public service capacity of the government.

The Chinese government attaches great importance to promoting the development of the accountancy profession as important institutional arrangements for the market economic system, and has launched timely policy measures to support and drive the development of the accounting profession in line with the progress of China's social and economic reform and development. We are making relentless and consistent efforts to maintain ongoing and comprehensive convergence of Chinese accounting and auditing standards with international standards. We have developed standards on internal control for business enterprises, created

national XBRL standards and common XBRL taxonomy, cultivated world-class accounting professionals. We are helping CPAs to expand their audit services to hospitals, universities, foundations and other public organizations while introducing professional CPA services to local governments in respect of bond issuance, public funds performance evaluation and other related areas. Currently, a total of 14 million accounting personnel are engaged in all sectors, with 250,000 accountants qualified as CPAs. We have more than 8,200 accounting firms. The sound development of the accountancy profession has greatly supported the implementation of our country's policy of reform and opening up and the construction of the market economic system.

**Fellow delegates,**

Transparency is closely related to government accountability, financial stability and sustainable growth. Boosting transparency is a major systemic project that calls for participation and support from government, enterprises, social organizations and all parties concerned. Our profession, accounting, has historically been the driving force for economic development and social progress. On the same token, it is the inseparable element of fiscal transparency. Based on that , I would like to put forward three proposals:

**First, attach great importance to the role of accounting in fostering fiscal transparency.** The accounting system is a key factor in economic and social operation as well as a key condition for creating fiscal transparency. A well-established accounting system which allows public access to the accounts, fiscal policy, forecasts and other information of the public sector to the extent possible and which ensures that such information is reliable, detailed, timely, easy to understand and comparable is conducive to accurate evaluation of the efficiency and effectiveness of the use of public resources, identification and management of debt risks and guarantee on economic sustainability. The outbreak and spread of the global financial crisis and sovereign debt crisis had much to do with missing or distorted accounting information. Learning from recent events, we should therefore, put our efforts in promoting and prioritizing accounting architecture and its functionality as a prerequisite for fiscal transparency.

**Second, accelerate the development of government accounting standards.** To improve the quality of government accounting information via enhanced accounting functionality, we cannot do without high-quality accounting standards. We very much appreciate the efforts of the IFAC and the IPSASB in setting up the international accounting standards for the public sector. Contributing to this process shows that the accounting profession is committed to commonweal and willingness to shoulder the responsibility. We support the vision for improved mechanisms for international accounting standards-setting in the public sector characterized by shared responsibility and accountability. We support the drive towards accrual-based accounting standards for the public sector, as accrual basis gets an irreplaceable advantage over any other basis in fully reflecting the government's financial condition and performance. In further promoting the international public sector accounting standards-setting efforts, we should focus on research into accounting practices in the public sector all over the world, learning from and sharing best practices with each other. The due process for standards-setting should be refined to ensure broad participation, transparent process and theoretical soundness. Policy coordination should be enhanced on budgets, statistics, accounting and other caliber issues for consensus in

terms of the scope of public sector, the treatment of relevant assets and liabilities, the reporting of transactions and other economic flows and the comparability of predictive and actual data, which will help to maintain consistency of accounting standards.

**Third, engage fully the expertise of professional accountants.** Construction of fiscal transparency requires both institutional arrangements and expert support. The seasoned accounting and finance professional can provide us insights in fiscal transparency enhancement and government accounting reforms. Government accounting personnel training should be doubled to improve their competency with updated accounting knowledge, upgraded accounting philosophy and enhanced professional skills. Professional accounting organizations and accountants should be engaged in advisory for the government accounting reforms. The role of professional accountants should be a major part of budget reviews, performance evaluations and policy assessments, and audits of financial reporting of the government. This is to ensure continual improvement of the reliability and credibility of the government's financial reporting and accounting information.

**Ladies and gentlemen, my fellow finance and accounting professionals from around the world,** We know the famous proverb, "Rome was not built in a day". In the same way, our proposals and goals won't be achieved overnight. Promoting transparency and government accounting reforms will take time and require us all to press forward with wisdom, and tireless efforts. Let this year's world congress in Rome inspire us even more to work together to enhance transparency and government accountability in our pursuit of fairness and justice.

Thank you.