



SIGMA

Support for Improvement in Governance and Management

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SIGMA EXTERNAL AUDIT & FINANCIAL CONTROL GLOSSARY¹

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1. Main sources for this glossary are: Everard, Patrick and Diane Wolter (1989), *Glossary: Selection of Terms and Expressions Used in the External Audit of the Public Sector*. Luxembourg: Court of Auditors of the European Communities; IFAC (2000), *Governmental Financial Reporting. Accounting Issues and Practices*. Study 11. New York; IMF (2000), *A Manual on Government Finance Statistics*. Washington DC; SIGMA (1997), *SIGMA Paper No. 19: Effects of European Union Accession: Part 1. Budgeting and Financial Control*, OECD/GD(97)163, Paris; OECD; EC, IMF, OECD, UN, and the World Bank (1993), *System of National Accounts*, Brussels, Luxembourg, Paris, New York, Washington DC; World Bank (1998), *Public Expenditure Management Handbook*, Washington DC.

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	Subsidy Supplementary appropriation Supreme audit institution Surplus (see Deficit) Suspense account
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Zero-base budgeting	

Accountability

A government policy or management concept that means (i) politicians and public officials have to respond periodically to questions concerning their activities (answerability) and (ii) must be held responsible for the exercise of the authority provided to them. For effective accountability, clear lines of responsibility must be firmly established and consistently maintained. Accountability measures should address three questions: accountability by whom; accountability for what; and accountability to whom. To ensure that accountability is properly enforced, there is a need for predictable and meaningful consequences related to performance. In the public sector, accountability of individual officials, within their organisation and to external controlling bodies, is applied most often to how money has been spent and what results have been achieved. Crucial too in democratic systems is the general accountability of ministers to parliament and to the public at large.

Accounting

The theory and systems of organising and summarising information about financial and economic activities. Good accounting systems are essential for budget management, financial accountability and efficient decision-making. See also accounting basis and accounting system.

Accounting basis

Defined in IFAC (2000) as “the body of accounting principles that determine when the effects of transactions or events should be recognised for financial reporting purposes. It relates to the timing of the measurements made, regardless of the nature of the measurement.” There are many variations of the basis of accounting. IFAC identifies two basic reference points (cash and accrual) and two variations (modified cash and modified accrual) in the spectrum of accounting bases. Cash-based accounting systems recognise transactions and events when cash is received or paid. Accrual-based systems recognise transactions or events at the time economic value is created, transformed, exchanged, transferred, or extinguished and when all economic flows (not just cash) are recorded. Certain modifications of the cash basis recognise receipts and disbursements committed in the budget year and allow a specified period after year-end for payments of these to be recorded and reported (the so-called “complementary period”).

Under certain modifications of the accrual-based methods, physical assets are expensed at the time of purchase.

Accounting controls

Procedures and documentation concerned with safeguarding of assets, the conduct and recording of financial transactions and the reliability of financial records. They are frequently based on standards issued by the ministry of finance or the supreme audit institution to ensure comparability of accounting practices across all ministries and conformity with national and/or international conventions.

Accounting system

The set of accounting procedures, internal mechanisms of control, books of account, and plan and chart of accounts that are used for administering, recording, and reporting on financial transactions. Systems should embody double entry bookkeeping, record all stages of the payments and receipts process needed to recognise accounting transactions, integrate asset and liability accounts with operating accounts, and maintain records in a form that can be audited.

Accounts payable/receivable

Money owed to/by suppliers/customers.

Accrual accounting (See accounting basis)

Accrual-based budget (accrual budgeting)

This term can be interpreted in two ways: (i) budgetary documents that include in addition to cash-based appropriations accrual accounting information; or (ii) budgetary appropriations based on accrual accounting information, e.g. including provision for depreciation. In the United Kingdom, accrual accounting/budgeting is referred to as resource accounting/budgeting.

Acquis communautaire

Comprises the entire body of European Community legislation that has accumulated, and been revised, over the last 40 years. It includes the founding Treaty of Rome as revised by the Single Act and the Treaty of Maastricht and Treaty of Amsterdam; all the regulations and directives passed by the Council of Ministers; and the judgements of the European Court of Justice.

Activity

In terms of expenditure classification, an activity is a subdivision of a programme with specific objectives and outputs, thus facilitating the measurement and management of performance.

Activity-based costing (ABC)

A costing approach that specifically addresses the problem of overhead cost allocation. ABC differs from traditional cost allocation by seeking to identify the cost driver for a particular category of overhead, rather than simply applying an arbitrary allocation basis.

Administrative controls

Non-financial procedures and records of ministries which ensure compliance with rules on:

appointment, promotion, pay, and disciplining of personnel;

public procurement (bids, tenders, contract management, etc.);
 equal opportunities for minority groups;
 the handling of information flows;
 travel and entertainment allowances, etc.

Agenda 2000

Single framework in which the European Commission outlines the broad perspective for the development of the EU and its policies beyond the turn of the century; the impact of enlargement on the EU as a whole; the Opinions on membership applications from the candidate countries; and the future financial framework for 2000-2006.

Aid-in-kind

Flows of goods and services with no payment in money or debt instruments in exchange. In some cases, so-called “commodity aid” goods (such as grain) are sold and the receipts transferred to the budget. More commonly, the receipts are transferred through a special fund.

Allocative efficiency

Refers to the capacity of the government to allocate resources and select programmes and projects in conformity with its objectives. In economic theory, allocative efficiency, also called “Pareto efficiency”, occurs when resources are allocated in such a way that any change in the amounts or type of outputs currently produced would make someone worse off.

Allotment

Either synonymous with apportionment or a particular stage in the procedure for distributing budget funds among spending units. See also apportionment.

Apportionment

Authorisations or distributions of funds generally made by the ministry of finance to line ministries and other spending units permitting them to either commit or pay out funds, or both, within a specified time period and within the amounts appropriated and authorised. See also warrant.

Appraisal

Examination of the details of a policy proposal or capital investment project on the basis of an analysis of its economic, financial and other effects. Policy/project appraisal is sometimes called ex ante evaluation.

Appropriation

Refers to an authority granted under a law by the legislature to the executive to spend public funds, up to a set limit, for a specified purpose. Annual appropriations are made through annual budget laws or, in some countries, separate appropriation acts consistent with the budget. Supplementary budgets/appropriations are sometimes granted subsequent to the annual law if the annual appropriation is insufficient to meet the specified purpose. The term “standing appropriation” is sometimes used to define an authority extending beyond a single budget year under separate legislation (such as social security legislation). In most countries, agencies and departments require specific executive authorisation (“apportionment, allotment, or warrant”) to actually incur an obligation against an appropriation.

Arrears

Amounts that have not been paid or received by the date specified in a contract or within a normal commercial period. Payment arrears may arise from non-payment by government ministries/agencies in areas such as bills due from suppliers, salaries due, transfers, or debt repayment costs. Tax arrears are taxes due to government but not paid.

Assets

Property functioning as a store of value over which ownership rights are enforced by institutional units, individually or collectively, and from which economic benefits may be derived by holding them or using them over a period of time. “Tangible” assets may either be financial (e.g. cash or government securities) or physical (e.g. buildings, roads, national parks, etc.). Assets may also be “intangible” such as copyright or mineral exploitation rights.

Attestation audit

See audit.

Attribution

Deciding how much of the outcome is truly attributable to a policy measure or government expenditure programme, rather than to other influences. It is one of the most challenging tasks in an evaluation study.

Audit

Expert examination of legal and financial compliance or performance, carried out to satisfy the requirements of management (internal audit), or an external audit entity, or any other independent auditor, to meet statutory obligations (external audit). A particular task of internal audit is to monitor management control systems and report to senior management on weaknesses and recommend improvements. The scope of audits varies widely, as does the terminology in this area, and includes (according to the auditing standards prepared by the International Organisation of Supreme Audit Institutions (INTOSAI):

1) Financial audit (regularity audit) comprising:

Attestation of financial accountability of accountable entities, involving examination and evaluation of financial records and expression of opinions of financial statements.

Attestation of financial accountability of the government administration as a whole.

Audit of financial systems and transactions including an evaluation of compliance with applicable statutes and regulations.

Audit of internal control and internal audit functions.

Audit of the probity and propriety of administrative decisions taken within the audited entity.

Reporting of any other matters arising from or relating to the audit that the SAI considers should be disclosed.

Note that the first two items above are commonly known as attestation audit. The third and fifth items are commonly known as compliance audit.

2) Performance audit (value for money audit) comprising:

Audit of the economy of administrative activities in accordance with sound administrative principles and practices, and management policies.

Audit of the efficiency of utilisation of human, financial and other resources, including examination of information systems, performance measures and monitoring arrangements, and procedures followed by audited entities for remedying identified deficiencies.

Audit of the effectiveness of performance in relation to the achievement of the objectives of the audited entity, and audit of the actual impact of activities compared with the intended impact.

Audit finding

Pertinent statements of fact. Audit findings emerge by a process of comparing “what should be” with “what is”.

Audit risk

The risk that the procedures carried out by the auditor will not detect matters which, if known, would require the auditor’s report to be altered.

Audit sampling

Audit procedures carried out on a sample of an underlying population relevant to the audit work being carried out, rather than the whole of that population.

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Balance sheet

A financial statement showing the values of the stocks of assets and liabilities held by an entity at a particular point in time. A balance sheet is typically compiled at the beginning and end of an accounting period. Balance sheets summarising starting balances, incomes and outflows, and ending balances are generally required for each distinct fund within a government’s accounting structure. However, in practice, very few governments prepare statements of their financial position that can genuinely be described as comprehensive balance sheets covering all assets and liabilities. See also net worth

Baseline budget

The amount of funding for current programmes or existing policies — often adjusted for inflation, one-time expenditures, legally mandated requirements under changed demographic conditions — from which increases and decreases in expenditures are negotiated during budget preparation. In a narrow and cautious definition, this baseline budget includes the costs of the current level of activity, that is the costs of ongoing programmes adjusted for inflation services, legally mandated requirements, one-time expenditures, and the impact on a full year basis of decisions made the current year. In addition, account can be taken of the current level of services and, therefore, the baseline budget can also include changes in clients served in various programmes (e.g. school children, etc.).

Below-the-line-items

Items that are not actual revenues and expenditures but may be used to finance the government’s deficit.

Benchmarking

Methods and procedures for comparing one organisation with another as a means of improving performance. Process benchmarking is the study and comparisons of the processes and activities that turn inputs into outputs. Results benchmarking compares actual performance of organisations using performance indicators or measures.

Budget

Document(s) that include the plan of the future financial activities of the government or a governmental organisation. The budget is generally prepared annually, and comprises a statement of the government's proposed expenditures, revenues, borrowing and other financial transactions in the following year and, in many countries, for two or three further years. The budget is prepared on a cash basis in most countries. It is submitted to parliament, which authorises expenditure by approving either a budget act or an appropriation act that is consistent with the budget proposals.

Budget examination

The process of reviewing budget requests from ministries and agencies by a staff member of a central budget department in the ministry of finance, in which the budget request is analysed, alternatives are developed, conclusions are reached, and recommendations are made.

Budget formulation

The steps and processes for preparing a government's budget, from preliminary analyses and forecasts, through submission of budget requests by ministries and other government bodies and the review and decision of the executive, to its official presentation to the legislature.

Budget request

See estimates submission.

Budget year

The period of time for which parliament authorises expenditures and other budget transactions. In a number of budget systems, actual allocations, commitments, deliveries, and payments relating to government expenditure programmes may extend beyond the year for which they were originally appropriated.

Budgetary documents

The set of documents presented to the parliament with the budget. In addition to proposals relating to government spending, revenues and borrowing, the budget documents may include a statement of the economic and financial context for the budget proposals, the government's economic policy objectives, and medium-term macroeconomic projections, and some explanation of the government programmes and activities to be funded under the budget.

Budgeting

The process by which the government, or a governmental organisation, plans for its future expenditures, revenues, borrowing and other financial activities.

[TOP](#)**Capital (capital assets)**

A stock of physical or financial assets. See also gross fixed capital formation and non-financial assets.

Capital account

See capital expenditure.

Capital budget

See capital expenditure.

Capital charge

In a very limited number of countries (e.g. New Zealand), a capital charge is applied to the assets of government ministries/agencies. Introducing a capital charge is aimed at giving incentives to spending agencies to use their capital more efficiently. It requires a proper system for accounting for, and valuing capital assets.

Capital expenditure

Expenditure incurred for the acquisition of land and other physical assets, intangible assets, government stocks, and non-military, non-financial assets, of more than a minimum value, with an expected lifetime of more than one year. Capital expenditures are often recorded in a separate section (or capital account) of the budget, or into an entirely separate budget for capital expenditures. See also gross fixed capital formation.

Capital transfer

A transfer of ownership of an asset (other than inventories and cash) or the cancellation of a liability by a creditor, without any payment being received in return. Such a transaction consists of the transfer of cash that is linked to, or conditional on the acquisition of the asset concerned. A transfer that is not a capital transfer is a current transfer. Capital transfers made by the government are classified as expenses in GFS 2000.

Cash accounting

See accounting basis.

Cash-based budget

A budget in which appropriations are authorisations for cash payments.

Cash management

The process of developing agency and central cash flow forecasts, the release of funds to spending agencies, the monitoring of cash flows and expected cash requirements, the issue and redemption of government securities for financing government programmes.

Central agencies

Those organisations in the executive branch that co-ordinate the activities of, and provide policy direction and operational guidance to the line ministries and agencies. Practice varies widely from country to country, but “central agencies” generally include: the ministry of finance; the office that reports directly to the prime minister or the council of ministers in the development and co-ordination of policy; the ministry or agency responsible for developing and co-ordinating policies in relation to human resource management within the public sector; the ministry of foreign affairs, in certain areas of work such as international co-operation; and the ministry of justice, in relation to work on legal norms and law drafting.

Central bank

A public institution responsible for performing monetary policy functions such as issuing currency, managing international reserves, and accepting deposit liabilities to other banks. The central bank also

acts as the lender of last resort, and, frequently, provides fiscal agent services to the central government (e.g. managing the government's treasury single account).

Central government

All units of government that exercise authority over the entire economic territory of a country. In general, the central government is responsible for those functions that affect the country as a whole: for example, national defence, conduct of relations with other countries and international organisations, establishment of legislative, executive and judicial functions that cover the entire country, and delivery of public services such as healthcare and education. Non-market, non-profit institutions controlled and mainly financed by the central government are included in the central government. See also general government, local government, state government and subnational government.

Centre of government

The centre of government encompasses the body or group of bodies that provide direct support and advice to the head of government and the council of ministers, or cabinet.

Certification

See verification.

Chart of accounts

The classification of transactions and events (payments, revenues, depreciation, losses, etc.) according to their economic, legal, or accounting nature. It defines the organisation of the ledgers kept by government accountants.

Cheques issued

A stage in the expenditure process at which payment instruments are issued by the treasury or by ministries' payment officers and are sent to suppliers of goods and services as payment for goods and services received. In some countries, where the banking system is not highly developed, separate checks or warrants may not be issued and the payment orders certifying delivery may serve as an instrument calling for direct cash payment by the treasury. Government accounts often records expenditure on the basis of checks or warrants issued.

Cheques paid

A stage in the expenditure process represented by the presentation and payment of government cheques at banks and the corresponding debit to the accounts of the treasury or ministries/agencies. Government expenditure is reflected in the monetary accounts through cheques paid and the resulting debits to the government's accounts.

Closed accounts

The principal statement on the final budgetary outcome produced by the supreme audit institution, or another accounting or auditing agency, after the closing of the budgetary period. Closed accounts may be cash accounts, recording annual receipts and payments (with or without a complementary period), or accrual accounts, recording also obligations for future expenditure, or obligations of future tax collections, as well as the carry-overs of revenues and expenditures from preceding budgets.

Commitment

In accounting terms, a commitment refers to a stage in the expenditure process at which a contract or other form of legally binding agreement is entered into, generally for future delivery of goods or services. A liability will not be recognised until delivery of the item, but the government is contractually committed to meeting the obligation once delivery is made. In some budget systems, the term commitment refers to a stage in the expenditure cycle different from the commitment stage in its accounting sense (e.g. reservation of appropriations or the verification stage). The term commitment is also used in a more general, non-contractual sense to mean a firm promise of the government made in policy statements.

Complementary period

A period after the close of the regular fiscal year during which uncompleted collections and payments or commitments may be carried out and assigned to the previous budgetary period. It may be several months in duration. In some countries, the accounting period includes a “complementary period” for payments (e.g. 30 or 60 days) after the close of the fiscal year. Payments over the complementary period that are related to transactions (commitments and deliveries) incurred during the previous fiscal year closed are reported as expenditure during that year. In some countries, both paid and unpaid payments orders are recognised as expenditure during the complementary period.

Compliance audit

See audit.

Comprehensiveness

Comprehensiveness of the budget means that the budget must encompass all the expenditures, revenues, borrowing and other financial activities of the government. This creates a framework that promotes sound appraisal of competing policy options, and efficient budget planning and execution.

Concession

A concession is a form of public-private partnership. Concession contracts may have different legal names and scopes under different national laws. In most concession contracts, the contractor bears the risk involved in operating the service, generally obtaining a significant part of revenue from the user, usually by charging fees in one form or another. The European Commission defines concessions as contracts in which public authorities authorise a third party to run infrastructure projects or other public services on its behalf and in which the third party assumes the operating risks. See also contracting out.

Consolidated accounts

See consolidation.

Consolidated fund

The main fund into which all receipts are deposited and from which all payments are made, unless otherwise legislated; equivalent to a treasury single account. Term used in many British Commonwealth countries. See also general fund.

Consolidation

The process of eliminating transactions between different ministries/agencies/units of government and combining in a common set of categories the sum of their “external” transactions to and from the rest of the economy.

Consumption of fixed capital

The reduction in the value of fixed assets used during the accounting period that results from physical deterioration, normal obsolescence or accidental damage. See also depreciation.

Contestability

Ensures that existing policies are subject to review and evaluation.

Contingency fund or reserve

A separate fund or a budget provision set aside within the annual budget total, to be allocated later, and to meet unforeseen changes in external circumstances. In medium-term budgeting, contingency and policy reserves are used to provide flexibility and to avoid premature expenditure commitments, with progressively bigger reserves in the totals set aside for later years.

Contingent liability

Obligations that have been entered into, but the timing and amount of which are contingent on the occurrence of some uncertain future event. They are therefore not yet actual liabilities, and may never be if the specific contingency does not materialise.

Contracting out

An arrangement whereby a department or agency enters into a commercial contract with an external supplier that provides public services. Concerning the construction of large infrastructure assets, governments may enter into arrangements with private sector firms to build such assets, often with an agreement that the private sector firm may be guaranteed the right to revenues for a number of years following construction. Such arrangements may be referred to Build Operate and Transfer (BOT), Build Lease Transfer (BLT), Build Own and Operate (BOO), concessions or Design Build Finance and Operate (DBFO).

Control

See financial control, management control.

Copenhagen criteria

Agreed upon in 1993 by the European Council, the Copenhagen criteria must be fulfilled by candidate countries if they are to become members. Candidate countries must achieve stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities; the existence of a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the Union; and the ability to take on the obligations of membership including adherence to the aims of political, economic and monetary union.

Corporate governance

The rules and procedures to ensure that a company is properly and efficiently managed, including that directors and staff behave appropriately and in accordance with law and best practice.

Corruption

There are many different definitions of this concept. The simplest, and broadest, is “the misuse of public or private position for direct or indirect personal gain”.

Cost driver

Any factor that causes a change in the cost of an activity or output.

Cost-benefit analysis

A type of analysis that includes measures in pecuniary units of costs and/or benefits (such as leisure time or environmental impacts) which do necessarily not have a market value. Cost-benefit analysis involves the application of three logical steps: (i) defining objectives and alternatives for accomplishing those objectives; (ii) analysing incremental changes with each alternative intervention versus without the respective alternative; and (iii) comparing costs and benefits of the various alternatives.

Cost-effectiveness analysis

A type of analysis that compares projects or programmes having broadly common outcomes or outputs. Used to compare alternatives for which major outputs can be identified but not valued. Cost-effectiveness indicators include the cost per unit of output, or units of output per unit of costs, and is aimed at identifying the least costly method of achieving a particular good or objective. See also least-cost analysis.

Cost recovery

See user charges.

Council of ministers

The principal policy-making body of the government, chaired by the prime minister, and consisting of senior ministers (in many countries, all ministers). The council of ministers usually meets at least once a week. Detailed business is often carried out in subcommittees. In some countries, the council of ministers is called the “cabinet”, in others the “cabinet of ministers” or simply the “government”.

Current account

Receipts (including grants) and payments (including interest) that are not capital transactions.

Current expenditure

Expenditure other than for capital expenditure or capital transfers. See also capital expenditure and capital transfer.

Current transfer

See capital transfer.

[TOP](#)**Debt management**

Managing the public sector debt portfolio in as efficient manner as possible in order to minimise the costs to the government. Debt management functions are sometimes carried out by a department of the ministry of finance, sometimes by the state treasury, sometimes by an agency reporting to the minister of finance.

Decentralisation

The transfer of responsibility to democratically independent lower levels of government, thereby giving them more managerial discretion, but not necessarily more financial independence.

Deconcentration

The transfer of responsibility from central ministries to field offices or more autonomous agencies, thereby becoming closer to citizens while remaining part of central government.

Deficit/surplus

There are different definitions of the deficit:

The deficit (or surplus) as defined in the European Council regulations within the context of the Treaty of Maastricht and the Treaty of Amsterdam is the net borrowing (or lending) of the general government as defined in ESA95.

The deficit *on a cash basis*, as defined in the GFS 2000, is equal to expenditure payments plus “lending minus repayments” less revenues on a cash basis less grants received. By contrast to the deficit defined within the context of the Treaty of Maastricht and the Treaty of Amsterdam, this measure of the deficit comprises only cash transactions and includes “above the line” some transactions classified as financing transactions in the SNA93 and ESA95 (such as the sale of shares and equity related to privatisation programmes).

The deficit *on a commitment basis* is defined as the cash deficit plus the net increase in arrears, or expenditure at the verification stage plus “lending minus repayments” minus revenues (on a cash basis). This measure of the deficit should not include commitments related to undelivered orders and multi-year commitments.

Departmental enterprise

An unincorporated industrial or commercial unit that: (i) is closely integrated with a government ministry/agency; (ii) is likely to hold a small working balance; (iii) is either mainly engaged in supplying goods and services to government units or the general public; but (iv) operates on a small scale.

Depreciation

The reduction in the value of an asset over time that is brought about through physical use or obsolescence. Under accrual accounting, depreciation estimated over the useful life of an asset is progressively deducted (written off) from the value of the asset each year. Depreciation as recorded in business accounting, or as allowed for taxation purposes, may deviate from the value of consumption of fixed capital estimated for the national accounts, especially during periods of inflation. See also consumption of fixed capital.

Discounting

A method of comparing costs or benefits that will occur (or have occurred) at different times. 1 euro in year n is given a “present value” of $1/(1+r)^n$ euro in year 0, where r is the “discount rate”. See also net present value and internal rate of return.

Discretionary spending

This refers to the part of the budget which the government and the legislature must each year decide to spend for the next fiscal year, such as for housing, education or foreign aid. It is to be contrasted with “mandatory spending” on those items where there exists a legal requirement for the government to

provide funds and a permanent appropriation authorising such expenditures. Interest on the debt and entitlement programmes are examples. The “mandatory” part of the budget is often much larger than the discretionary portion.

Double-entry accounting/bookkeeping

In a double-entry system each flow gives rise to two equal-valued entries, a credit and a debit entry. By convention, increases in asset accounts and decreases in liability and net worth accounts are debits. Conversely, decreases in asset accounts and increases in liabilities and net worth accounts are credits. Use of the double entry system facilitates consistency checks of recorded flows and stocks.

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Earmarking

Tax earmarking is the practice of assigning revenue from specific taxes or group of taxes to specific government activities or areas of activity.

Economic classification

The classification of expenditures (or expenses) and the acquisition/disposal of assets into economic categories, which emphasise the economic nature of the transaction (salaries, interest, transfers, etc.)

See also object/line-item classification.

For the international standard on economic classification, see also GFS.

Economy

The acquisition of the appropriate quality and quantity of financial, human and physical resources at appropriate times and at the lowest cost.

Effectiveness

The extent to which programmes achieve their expected objectives, or “outcomes”. Effectiveness is the most important element of value for money in the public sector. Goods or services may be provided economically and efficiently but, if they do not achieve their intended objectives, the resources used will be largely wasted.

Efficiency

The relationship between the goods and services produced by a programme or an activity (outputs) and the resources used to produce them (inputs). Efficiency is measured by the cost per unit of output.

End outcomes

See outcomes.

Entitlement programme (demand-led programme)

Any spending programme where expenditure is open-ended (usually transfer/grant payments) and where beneficiaries must be paid or given transfers/grants if they meet certain criteria, as defined in legislation or government regulations. Some common examples are found in social security programmes, unemployment programmes, and poverty-reduction programmes.

Estimates submission

Refers to the set of documents that a spending unit sends to the ministry of finance to define and support its requests for additional funding through the budget.

European Union (EU) Member States

The European Union is the result of a process of co-operation and integration which began in 1951 between six countries (Belgium, Germany, France, Italy, Luxembourg and the Netherlands). After nearly fifty years, with four waves of accessions (1973: Denmark, Ireland and the United Kingdom; 1981: Greece; 1986: Spain and Portugal; 1995: Austria, Finland and Sweden), the EU today has fifteen Member States and is preparing for its fifth enlargement, this time towards Eastern and Southern Europe. Poland, Hungary, the Czech Republic, Estonia, Slovenia and Cyprus have been holding membership talks since 1998. Bulgaria, Romania, Slovakia, Lithuania, Latvia and Malta began similar talks in 1999. Turkey is also a candidate.

Evaluation

Programme evaluation is an in-depth examination of the economic, financial, social, etc. effects of a programme or policy initiative. Summative evaluations are carried out when the programme has been in place for some time (ex post evaluation) to study its effectiveness and judge its overall value. Formative evaluations are usually undertaken during the implementation of the programme (intermediate evaluation) in order to improve its effectiveness.

Evaluation design

The logic model used to arrive at conclusions about outcomes in an evaluation study. In selecting the evaluation design, the evaluator must determine simultaneously the type of information to be retrieved and the type of analysis this information will be subjected to.

Ex ante control (a priori audit)

Prior authorisation of a specific expenditure. Payment orders and supporting documentation received are checked to verify that the transaction is properly authorised, is legal and regular, and that there are sufficient provisions in the budget. Such inspections may be carried out by central authority of the ministry of finance or by line ministries/agencies.

Ex post control (a posteriori audit)

See audit.

Expenditures

The term “expenditures” is sometimes loosely used to refer to cash payments. However, a strict definition is the cost of goods and services acquired, regardless of the timing of related payments. Expenditures on goods and services occur at the times when buyers incur liabilities to sellers, i.e. when either (a) the ownership of the goods and services concerned is transferred from the seller to the new owner; or (b) when delivery of the goods and services is completed to the satisfaction of the consumer.

Expenses

In GFS 2000, the term “expense” defines the set of transaction flows that reduce net worth over the accounting period. Expense transactions include compensation of employees, use of goods and services transactions, consumption of fixed capital, property expenses (interest and rent), social benefits, subsidies, grants and miscellaneous transactions, such as transfers to non-profit organisations and compensation of

damage or injury. Acquisitions of non-financial assets and financing transactions are not expense transactions.

External audit

Refers to audit carried out by a body that is external to, and independent of, the organisation being audited, the purpose being to give an opinion and report on the organisation's accounts and financial statements, the legality and regularity of its operations, and its financial management procedures and financial performance. Organisations responsible for external audit of government activities most often report directly to parliament, and are often referred to as supreme audit institutions (SAI).

External debt

Debt owed to non-residents of the country concerned.

Extra-budgetary funds/accounts (EBF)

The term generally refers to government activities that are not included in the annual budget presentation. Moreover, EBFs may be subject to different systems of cash management, control and reporting than the budget itself. A wide variety of extra-budgetary arrangements are used, including funds (such as social security funds) set up under separate legislation, commodity funds that use proceeds of commodity aid, and earmarking certain revenues for specific purposes. See also off-budget expenditures.

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Financial audit (regularity audit)

See audit.

Financial control

Aspects of management (or internal) control that relate to financial issues and performance. See also management control

Financial instrument

Any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial ledger system

See general ledger system.

Financial management

The legal and administrative systems and procedures put in place to permit government ministries and agencies to conduct their activities so as to ensure correct usage of public funds that meets defined standards of probity, regularity, efficiency and effectiveness. Financial management includes the raising of revenue; the management and control of public expenditure; financial accounting and reporting; cash management; and, in some cases, asset management.

Financial reporting

The communication of financial information by an entity (e.g. the government, a line ministry) to interested parties (e.g. parliament, the ministry of finance). It encompasses all reports that contain financial information based on data generally found in the financial accounting and reporting system.

Financial statements

The accounting statements prepared by a reporting entity to communicate information about its financial performance and position. An accrual accounting system commonly entails the preparation of a Financial Position Statement, or Balance Sheet, which shows the total assets, liabilities and the net worth; a Financial Performance Statement, or Operating Statement, which shows the revenues and expenses of the period; and a Statement of Changes of Net Worth, which explains movements in the opening and closing balances. These accrual-based statements are supplemented with a Statement of Cash Flows. They include those notes and schedules that are needed in order to clarify or further explain items in the statements. Similarly, the analytical framework in GFS 2000 includes the following tables: Government Operations, which is a summary of the transactions of the general government in a given accounting period; Statement of Other Economic Flows, which tabulates influences, other than transactions, on the government's financial position; and a Balance Sheet and Statement of Sources and Uses of Cash.

Financing

All transactions in financial assets and liabilities that balance the fiscal deficit or surplus. Broadly speaking, the means by which a government obtains financial resources to implement its policies, programmes and projects.

Fiscal deficit

See deficit.

Fiscal policy rules

Permanent constraints on fiscal policy, typically defined in terms of an indicator(s) of overall fiscal performance such as the deficit/GDP ratio, the debt/GDP ratio. In the EU context, these rules are defined in the Treaty of Maastricht and the Treaty of Amsterdam.

Fiscal transparency

A policy of providing information to the public about the functions and organisation of the government, its economic and fiscal policy goals and objectives, its financial forecasts and public sector accounts. It involves ready access to reliable, comprehensive, timely, understandable, and internationally comparable information on government activities—including those activities undertaken outside the government sector—so that the electorate, legislature and financial markets can accurately assess the government's present and future financial position.

Fiscal year

The regular annual budget and accounting period for which provision of revenue and expenditure is made, and for which accounts are presented, excluding any complementary period during which the books may be kept open after the beginning of the following fiscal year.

Fixed assets

Durable goods except land, mineral deposits, timber tracts and similar non-reproducible tangible assets, employed in production by resident industries, producers of government services for civilian purposes,

and producers of private non-profit services to households, including owner-occupied dwellings, permanent family dwellings for military personnel, breeding stock, draught animals and dairy cattle.

Float

Cheques issued but not yet paid. The amount of float is reflected in the difference between the total of cheques issued by the treasury and the total of cheques paid as shown in the books of the treasury's bank account. If float can be identified, it should be shown as an adjustment to total expenditure. It is also known as "items in transit". The term "float" is also sometimes used to mean the payables that are not immediately due for payment (e.g. invoices recorded before the latest time they can be paid without incurring additional charges or penalties).

Floating debt

The amount of obligations, other than fixed-term contractual obligations, incurred by a government for goods and services received that have not yet been paid for, that is, an accumulated backlog of unpaid bills. (In some countries, the term refers to the unconsolidated portion of outstanding government short-term debt).

Foreign debt

See external debt.

Forward commitments (multi-year commitments)

Commitments that cover a period of more than one year (e.g. contracts for an infrastructure project). Effective monitoring of forward commitments is essential, for good budgeting and expenditure control. A number of countries include authorisations for forward commitments in the budget.

Fraud

The severest form of an irregularity. In respect of expenditure, it includes any intentional act or omission relating to:

The use or presentation of false, incorrect or incomplete statements or documents, which has as its effect the misappropriation or wrongful retention of funds.

Non-disclosure of information in violation of a specific obligation, with the same effect.

The application of funds for purposes other than those for which they were originally granted, with the same effect.

In respect of revenue, fraud includes any intentional act or omission relating to:

The use or presentation of false, incorrect or incomplete statements or documents, which has as its effect the illegal diminution of the resources of the budget.

Non-disclosure of information in violation of a specific obligation, with the same effect.

Misapplication of a legally obtained benefit, with the same effect.

Full costs

The sum of all the costs of a programme or activity, including consumption of fixed capital, overheads and the costs of activities related to the programme but performed by entities other than the entity responsible for the programme.

Functional classification

The classification of expenditure (as well as expense) transactions and acquisitions/disposals of financial assets for policy purposes, according to the purpose for which transactions are undertaken. A functional classification is independent of the administrative organisations or units that carry out the activities or transactions concerned. The standard Classification of Functions of the Government (COFOG) system, established by the United Nations, is aimed at facilitating international comparisons and preparing income accounts consistent with the System of National Accounts (SNA) methodology.

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General fund

This refers to the account in which the majority of tax revenues are deposited, and from which the majority of the operating expenses of government activities are paid. It is to be contrasted with earmarked funds, proprietary funds, trust or enterprise funds and extra-budgetary funds. In the British Commonwealth context, the general fund is called the consolidated fund.

General government

According to the System of National Accounts, “general government” is the grouping of government units at different levels: central, state (in federalist countries), local authorities and social security funds. Government units are units that, in addition to fulfilling their political responsibilities and their role in economic regulation, produce principally public services for individual or collective consumption and redistribute income and wealth. A defining characteristic of government units is the ability to impose, directly or indirectly, taxes and other compulsory levies for which there is no direct quid pro quo on other sectors of the economy. See also central government, local government, state government, subnational government.

General ledger system

Core system(s) for budget execution, accounting and financial reporting. This system(s) maintain data on approved appropriations and supplementary appropriations; virements; fund release (apportionment/allotment, warrants, cash plans, etc.); commitments, accrued expenditures and payments against budgeted allocations and fund release. The general ledger system maintain the ledgers, and registers also data on revenues, debt and other liabilities, financial assets (and physical assets under full accrual accounting), and other financial transactions (such as transactions between government agencies). See also government financial management information systems.

General purpose financial reports

Financial reports intended to meet the information needs of general users.

Generally Accepted Accounting Principles (GAAP)

The GAAP (termed “Practice” in the United Kingdom) are the accounting concepts or principles which represent the consensus of experts and bodies of the accounting profession. In a number of countries these accounting concepts and principles are prescribed by the government, after consulting experts and the private accounting professional bodies. In some EU Member States (e.g. France), a “general accounting plan” defines the core structure of the chart of accounts and its associated accounting principles.

Generational accounting

An accounting system used to assess the distributional implications of fiscal policy for different cohort groups. This is accomplished by estimating the present value of net tax payments (taxes paid less benefits

received) over the lifetime of different generations under current tax and spending policies. A generation is defined as including all males and females (separately accounted for, because of differing tax and benefits profiles) born in the same year. The technique has heavy data requirements and the results depend on a large number of simplifying assumptions. It is generally regarded as a supplementary technique for analysis of the sustainability of fiscal policy and intergenerational distribution questions.

Goals and objectives

Both terms are used to describe the desired, measurable results to be achieved from government programmes or activities. “Goals” (or “general objectives”) typically refer to broad results which may take a number of years to achieve and often involved many people, activities, processes, and intermediate achievements. “Objectives” (or “specific objectives”) tend to refer to more specific results, often precisely measured (time, cost, number, quality), which can usually be accomplished in a shorter time period, and are often an intermediate step in achieving a broader goal.

Governance

Governance is the exercise of political powers to manage a nation’s affairs. Sound governance invokes as essential elements political accountability; freedom of association and participation; reliable and equitable legal frameworks; transparency; and effective and efficient public sector management.

Government financial management information systems

The information systems that assist ministries/agencies manage their programmes efficiently and effectively, and in accordance with the law. At the core of these systems are the procedures for accounting and reporting that keep the ledger into which all inflows and outflows of funds are recorded. Under an integrated approach, other information systems must be seen as supportive of these core accounting systems by adhering to their data exchange standards. Management information systems form a key element of management controls, and must themselves be efficient and cost-effective. See also general ledger system.

Government Finance Statistics (GFS)

GFS is published by the International Monetary Fund (IMF). The 2000 version substantially revises the earlier version published in 1986, e.g. in relation to information on accrual-based accounting. GFS 2000 should be published in late 2000 or in 2001.

Grants

In GFS, a grant is a voluntary current or capital transfer between government units, or between a multi-national organisation and a national government (e.g. a Phare grant). In addition, a voluntary transfer to a private organisation or person is also often called a grant.

Gross fixed capital formation

The value of new or existing durable non-military goods, property, plant and equipment acquired by government or produced for own account, less sales of such goods. It encompasses only goods that have a normal life of more than one year and a value above a specified minimum level. Changes in government stocks or inventories are included in capital formation but not in fixed capital formation. Consumption of fixed capital (depreciation) is subtracted from gross fixed capital formation to measure net fixed capital formation.

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Impact

The term “impact” is often used synonymously with the term “outcomes”. The “net impact” of a programme describes the outcomes that are truly attributable to the programme. It does not include the effects of factors external to the programme, and is estimated through evaluation methods. “Impact analysis” refers to the assessment of the effects of a programme or policy initiative on its surroundings (e.g. an environmental impact study), or shows the extent to which a programme actually produced the desired effects on the beneficiaries concerned.

Imprest fund

A fixed-cash or petty-cash fund in the form of currency, government cheques or bank accounts, which has been advanced as “funds held outside of treasury” and charged to a specific appropriation account to an authorised cashier for payment. The fund may be a revolving type, replenished to the fixed amount as spent or used, or may be of a stationary nature.

Inputs

The resources used to produce outputs. Inputs are usually expressed as amounts of expenditure or of resources themselves (e.g. the number of employee/days). An input to one activity may be the output of an earlier activity.

Institution

Sometimes used synonymously with the term “organisation” or “body”, e.g. a ministry or government office. However, the term is also increasingly used in a different sense, to describe the formal and informal rules that determine behaviour, and the enforcement of these rules.

Institutional sector

An institutional sector is a group of institutional units with similar behavioural characteristics (e.g. the general government sector).

Institutional unit

In the SNA and GFS 2000, an institutional unit is an entity that can own assets, incur liabilities and act on its own behalf in economic and financial matters. Three types of government units are distinguished:

Administrative units of the central, state or local governments, including extra-budgetary funds.

Social security funds.

Non-market, non-profit organisations that are controlled and mainly financed by the government.

Internal audit

Refers to audit carried out by a department or unit within a ministry or another government organisation, entrusted by its management with carrying out checks and assessing the organisation’s systems and procedures in order to minimise the likelihood of errors, fraud and inefficient practices. Internal audit units must be functionally independent within the organisation they audit and report directly to the organisation’s management.

Internal rate of return (IRR)

The discount rate which would give a zero net present value (NPV) for the investment. See also discounting and net present value.

Inventory

Goods, other property and services that are:

Held for use in the ordinary course of operations.

In the process of production for sale.

Or to be used up in the production of goods, other property or services including consumable stores and supplies, but not including depreciable assets.

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Least-cost analysis

A type of analysis that compares projects or programmes having a common outcome or common outputs. Least cost analysis is used to compare alternatives for which major outputs and outcomes are identified, but not quantified. See also cost-effectiveness analysis.

Legitimacy

Legitimacy means that decision-makers who can change policies during implementation must take part in and agree to the original policy decision, whether it is made during the process of formulating the budget or at some other time.

Lending minus repayments

See transactions in financial assets for policy purposes.

Liability

Loss of service potential or future economic benefits that an entity is presently obliged to make to other entities as a result of past transactions or other past events. A liability must be recognised in the statement of assets and liabilities only when it is probable that the future loss of service potential or future economic benefits will be required; and the amount of the liability can be measured reliably.

Line-item classification

See object classification

Local government (or local authorities)

Local government is a collection of public bodies with authority over a subdivision of a significant area of a country's territory. It is either the third tier in federal countries or the second and third tiers in unitary countries (regions, counties, municipalities, etc.) To exist as a separate entity, a local government body must have the authority to exercise powers independently from other levels of general government. See also central government, general government, state government and subnational government.

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Macroeconomic framework

A medium-term macroeconomic framework typically includes projections of the balance of payments, the real sector (or production sector), the fiscal accounts and the monetary sector. It is a tool to check the consistency of assumptions or projections concerning economic growth, the fiscal surplus or deficit, the

balance of payments, the exchange rate, inflation, credit growth and its share between the private sector and the public sector, policies on external borrowing, etc.

Management control (internal control)

Defined as “the organisation, policies and procedures used to help ensure that government programmes achieve their intended results; that the resources used to deliver these programmes are consistent with the stated aims and objectives of the organisations concerned; that programmes are protected from waste, fraud and mismanagement; and that reliable and timely information is obtained, maintained, reported and used for decision-making” (INTOSAI). In practice, management control systems embrace a wide range of specific procedures, including, for example, controls on accounting, processes, procurement, separation of duties and financial reporting. Management control systems require effective communications within an organisation and need to be supported by sound internal audit procedures. It is the responsibility of an organisation’s management to establish and monitor management control systems, not that of the external auditor. However, an external auditor should comment on the absence or adequacy of such systems since a consequence of good management controls is that less detailed auditing of individual documents and transactions will be necessary. See also accounting controls, administrative controls and financial control.

Market testing

A process by which government ministries/agencies assess whether the services for which they are responsible can be delivered by private sector companies rather than remaining in the public sector. The “market testing” approach was popularised in the United Kingdom during the 1980s and 1990s to evaluate whether government activities should be contracted out or privatised.

Medium-term budget framework (MTBF)

A framework that includes projections of government expenditures and revenues over the medium-term (generally 3-5 years). Different degrees of detail for expenditure projections are conceivable, depending on the country context. Some countries have established a disciplined multi-year budgeting process. In these countries, the multi-year estimates focus on existing policies and become the basis of budget negotiations in the years following the budget. In other countries, they only provide background information to budgeting. Generally, the multi-year estimates are rolled forward by one year, so that another year is added at the end of the period.

Medium-term expenditure framework (MTEF)

The public expenditure component of a medium-term budget framework. See also medium-term budget framework.

Medium-term fiscal (or financial) framework (MTFF)

Aggregate projections of revenue, expenditure and financing over the medium-term. See also medium-term budget framework.

Mission

A broad statement of the high level goals and objectives of an organisation or programme.

Modified accrual accounting

See accrual accounting.

Modified cash accounting

See cash accounting.

Monetary financial assets and liabilities

Assets and liabilities to be received or paid in fixed or determinable amounts of money.

Multi-year budget, multi-year estimates

See medium-term budget framework.

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Net fixed capital formation

See gross fixed capital formation.

Net lending/borrowing

Net borrowing/lending as defined in the GFS 2000 and ESA95 as the net increase in financial assets less the net increase in liabilities incurred. It can be calculated also as the net operating balance plus the net acquisition of capital assets. See also lending minus repayments.

Net operating balance

One of the key balances of the government operation table prepared under the GFS 2000 methodology. It is defined as revenue less expenses, or the change in net worth resulting from transactions.

Net present value (NPV)

The net value of a set of costs and benefits after they have been discounted to a specific time. It is most often applied to the costs and benefits of constructing and using a proposed capital investment over its lifetime, discounted to the year in which construction would start. See also discounting.

Net worth

Net worth is the difference between the value of all assets and all liabilities at a particular moment in time. It is the balancing item in a balance sheet.

Non-financial assets

Assets that include:

Those that come into existence in the form of outputs from a process of production. They include fixed assets and inventories. In the government sector, assets are classified as buildings and structures, machinery and equipment, cultivated assets and intangible fixed assets.

“Non-produced assets” that come into existence in ways other than through a production process. They may occur naturally (e.g. water resources) or they may be created by legal or accounting actions (e.g. ownership rights to the electromagnetic spectrum).

Non-financial public sector

The general government sector plus non-financial public enterprises. The non-financial public sector excludes public enterprises in the financial sector because consolidation with public financial institutions would eliminate statistics on the financing requirements of general government and of non-financial public enterprises met by the central bank and other government-owned and/or controlled banks.

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Object classification

A group of expenditures that identifies the specific types of goods or services acquired or transfer payments made within a particular programme or activity. This concept is often called a “line-item” classification.

Obligation

Generally refers to commitments and liabilities, actual and contingent. Sometimes used more narrowly, to mean only commitments.

Obligation-based budget

A budget that includes obligation-based appropriations. Such appropriations give rights to enter commitments with third parties and make cash payments according to these commitments, without a predetermined time limit. Such appropriations have their own life cycle and are not limited to one year. This system is no longer used for all expenditures, but may be used for special programmes (e.g. in the US).

Off-budget transaction (activity)

The term “off-budget” is often used differently from “extra-budgetary”. An “off-budget” transaction is one conducted by a spending agency or line ministry whose transactions should be within the budget (e.g. by means of a “special fund” set up to appropriate revenues generated by the ministry that are not paid over to the treasury or ministry of finance and are used for bonus payments to staff or other purposes). An extra-budgetary fund (typically set up by law and executed to rules) conducts transactions that are, by definition, outside the budget. See also extra-budgetary funds/accounts.

Operating activities

Activities that relate to the provision of goods and services.

Operating statement

A financial statement that shows, for the fiscal year or some other financial period, the full cost of resources consumed by a ministry/agency in achieving its objectives; the extent of any cost recoveries (e.g. through user charges); and any other operating revenues from independent sources and revenues from the government. It is in effect an income and expenses statement.

Organic budget law (OBL)

A law specifying the time schedule and procedures by which the budget should be prepared, approved, executed, accounted for, and final accounts submitted for approval. In some countries, the OBL takes precedence over other financial laws, e.g. on accounting, treasury, debt management, internal control, local government finance, etc. The law provides for both authorities and responsibilities for the

preparation, management, and execution of the annual budget. It may also be referred to as the “budget system law”.

Organisation for Economic Co-operation and Development (OECD) Member countries

The OECD brings together 29 countries sharing the principles of the market economy, pluralist democracy and respect for human rights. The original 20 Members of the OECD are the Western countries of Europe and North America (Austria, Belgium, Canada, Denmark, France, Germany, Greece, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States). Next came Japan, Finland, Australia and New Zealand. More recently, Mexico, the Czech Republic, Hungary, Poland and Korea joined. In September 2000, the OECD invited the Republic Slovak to become its 30th Member.

Outcomes

Economic or social changes brought about by a policy measure, programme or activity. Outcomes are distinct from outputs, which measure the immediate effects of a programme or activity. For example, the outcome of a random breath-testing campaign conducted by the police may be a decline in drunk driving, while one of the outputs could be the number of drivers charged with exceeding the legal alcohol limit. Programmes usually have two types of outcomes: (i) End outcomes that reflect the desired end or ultimate results that the programme or activity aims to achieve; (ii) Intermediate outcomes that are expected to lead to the ends desired, but are not themselves ends. See also impact, outputs, performance indicators and performance measurement.

Outlay

Refers to government expenditures.

Outputs

The products and services produced directly by a programme or activity. Outputs are important e.g. in setting targets for staff to achieve and measuring performance, but do not in themselves indicate the extent to which progress has occurred toward achieving a programme’s ultimate purpose. Depending on their nature, outputs may or may not be easy to measure, e.g. the number of hospital cases is easier to measure than the quality of advice on a policy issue submitted by a health official to the minister concerned.

Output budgeting

A budget system that links appropriations to specific outputs. In the purest form of output budgeting, appropriations are measured on an accrual basis, instead of a cash basis as usually, and managers are engaged to deliver outputs through “contracts” negotiated with ministers. Until recently, such a budget system was implemented in only one OECD country (New Zealand), though some countries such as the United Kingdom are moving towards implementation of accrual-based budgeting systems that would present a number of similar features. See also accrual budgeting.

Outturn

Actual revenues and outlays.

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Payment order

Authorisation for payment against a bill or invoice made by officials of line ministries, other spending units or the ministry of finance.

Pension funds (funded type)

Organisations established for the purpose of providing benefits on retirement to specific groups of employees. They have their own assets and liabilities and engage in financial transactions in the market on their own account. Such pension funds are included in the financial sector.

Performance audit

See audit.

Performance budgeting

Performance budgeting consists of classifying government transactions into functions and programmes in relation to the government's policy goals and objectives; establishing performance indicators for each programme or activity; and measuring the costs of these activities and the outputs delivered. The terms "performance budgeting" and "programme budgeting" are often used interchangeably, but programme budgeting can also be defined as a form of performance budgeting giving greater emphasis to the classification of programmes according to the government's policy objectives and the needs of efficient resource allocation. A full system of performance budgeting is difficult to realise, in large part because of the high information requirements and complex management systems that are needed. See also planning programming budgeting system (PPBS).

Performance indicators

Performance can be monitored and assessed through measures or indicators. Measures correspond to direct records of inputs, outputs and outcomes (e.g. the number of police patrols carried out in a given period is an output measure). Indicators are used as a proxy when direct measures are difficult or costly to obtain (e.g. the "street" price of illegal drugs is an indicator of the outcome of an anti-drug programme). In practice, however, the terms "measures" and "indicators" are often used interchangeably. "Performance indicators" may be used to evaluate inputs, processes, outputs and outcomes. See also performance measurement.

Performance measurement

Assessment of the efficiency and effectiveness of a programme or the activities of an organisation by measuring the relevant inputs, processes, outputs and outcomes. "Performance measures" or "performance indicators" may be used for this purpose.

Planning programming budgeting system (PPBS)

A systemic programme budgeting approach that was developed in the US in 1965, and later in many other countries. The PPBS processes consist essentially of three phases: 1) In the planning phase, systems analysis is used to establish the objectives of the programme and identify related solutions. 2) At the programming stage, means are reviewed and compared to the solutions identified at the planning stage. Sets of activities are grouped into multi-year programmes, which are appraised and compared. Cost-benefit and cost-effectiveness analyses are used to compare the various programmes and activities as competing means of achieving a given objective. 3) In the budgeting phase, these programmes are translated into the annual budget. After years of efforts and discouraging results, the PPBS was largely abandoned by the countries that have experimented with it, though elements of the system can still be found (e.g. in performance budgeting systems). See also performance budgeting.

Planning reserve

A small portion of total planned budget expenditure that is (notionally) set aside by the ministry of finance before the budget is formulated, and then allocated to programmes by the government according to perceived policy priorities on individual sectors, programmes, etc.

Policy

A set of activities, which may differ in type and may have different beneficiaries, which are directed towards common general objectives or goals. In contrast to a programme, a policy does not have necessarily a delimited budget.

Policy balance

In GFS 2000, the “policy balance” is defined as net lending/borrowing less the net acquisition of financial assets for policy purposes, or as revenue less expenses less net acquisition of capital assets less net acquisition of financial assets on a non-market basis. The negative value of the policy balance is referred to as financing for liquidity management purpose. This balance is the accrual equivalent of the overall deficit/surplus as defined in the 1986 version of GFS. See also deficit/surplus (on a cash basis).

Predictability

Predictability in budget management means that managers should know in advance the amount of resources allocated to their programmes. Lack of predictability creates difficulties for public officials in planning for the provision of services. However, predictability requires a significant level of macroeconomic stability. Predictability of government expenditure in the aggregate, and of the government’s overall fiscal position, gives assurance to the private sector that it has a secure economic and financial basis on which to make its own production, marketing and investment decisions.

Programme

A group of activities intended to contribute to an identifiable set of government objectives (e.g. crop development). A programme should have an identifiable target population; a defined budget, staffing and other necessary resources; and clearly defined objectives and outputs.

Programme budgeting

See performance budgeting.

Programme classification

The classification of the country’s budget and expenditures according to the overall programme structure for government activities. The programme’s classification is the primary classification for budget formulation and execution in countries using programme budgeting. However, it is normally used in conjunction with other classifications (organisation, economic), and some systems generally provide for analysis and reporting according to internal functional categories.

Project

A single, non-divisible activity with a fixed time schedule, a dedicated budget and clearly defined objectives and outputs.

Provincial government

See state government.

Public corporation

A company or enterprise controlled by the government. The government can be said to exercise a controlling interest on a corporation if it has the ability to determine general corporate policy e.g. by appointing appropriate directors, if required. Control is usually established through government ownership of more than half of the voting shares of the corporation. In addition, it may be possible to exercise control through special legislation, ownership of a significant minority of the voting shares, or indirectly through ownership of a second public corporation.

Public expenditure management

The term can be broken down into its parts. Public expenditure is generally understood to mean expenditure by: general government, central government through the national budget and other budgetary instruments, and local government. Public expenditure in this book does not include the activities of public enterprises, which are essentially commercial enterprises, and financial institutions owned by the state. The management of public expenditure in this context covers: the management of the budget, including its preparation, management, and execution, including ex ante control, ex post control, internal and external audit, and evaluation, with various types of reporting at each stage.

Public investment programme (PIP)

A rolling investment programme, generally covering a period of 3-5 years, prepared in a number of transition and developing countries, and often using loan or grant finance from multi-national organisations such as the World Bank and EBRD and bilateral donor assistance. PIPs should be regarded as a component of the beneficiary country's medium-term budget framework, or at least should be consistent with the country's medium-term fiscal projections. PIPs financed by the IFIs often include a significant element of current expenditures. See also medium-term budget framework.

Public quasi-corporation

Unincorporated enterprises owned by the government that are engaged in market production and which operate in a similar way to publicly owned corporations.

Public sector

General government, plus all public corporations and quasi-corporations.

See general government.

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Quasi-fiscal operations

Activities of the central bank (or, possibly, other state-owned financial or non-financial enterprises) that are in character similar to fiscal actions pursued by the government. Although undertaken at the direction of the government, they are usually financed by the central banks and are not included in the national budget. Examples include the provision of credit to commodity boards (or other entities) at below-market interest rates, and expenditures by the central bank to bailout failing commercial banks.

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Reconciliation

Usually, the process of checking payment orders issued by a government agency against actual payments according to bank statements. Reconciliation can also apply to other stages of the expenditure process, such as commitments made and payment orders issued.

Reliability

As relating to the quality of financial information: when such information can be depended upon to represent faithfully, and without bias or undue error, the transaction or events that it either purports to represent or could reasonably be expected to represent.

Reporting entity

The government organisation or entity required by law or regulation to make financial reports during implementation of the budget and/or at the end of the budget year (“closing of account” reports). Such reports may be delivered to the ministry of finance, parliament or the supreme audit institution.

Reporting model

The configuration and presentation of financial statements — in particular, what tables and statements are to be included, how they are interrelated, and how key measures are to be displayed in the various statements.

Revaluation

The act of placing a market value on a capital asset at a particular date.

Revenue estimate

An estimate of the revenues available to the budget for the next year or next several years. Preparing an estimate of revenues is essential at the beginning of budget formulation. This estimate usually needs to be updated several times during the budget cycle.

Risk analysis/assessment

A systematic process for assessing and integrating judgements about possible adverse conditions and/or events, as a basis for the appropriate budgetary treatment of those conditions or events. Examples include the risk of war, bank failures, floods and other natural disasters, epidemics of virulent disease, etc. See also contingent liability.

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Service quality

In its broader sense, “quality of service” refers to effectiveness. However, it is generally used in a narrower sense, in terms of satisfying the more immediate needs of users, such as the timeliness, accessibility, accuracy and continuity of services. As such, it relates to the quality of service delivery rather than of service outcomes. Development of a responsive client/consumer-oriented culture in public service delivery is on the reform agenda of most EU Member States (e.g. the “Citizen’s Charter” in the United Kingdom).

Social security funds

Funds that provide social benefits to the community through a social insurance scheme which generally involves compulsory contributions by participants. In most countries, such funds are separately organised from the other government activities, have their own budget, and hold their assets and liabilities separately. Social security systems which do not hold their assets and liabilities separately are not called social security funds. In the GFS, the preferred treatment of social security funds is to classify them as a part of the level of government at which they operate. An alternative treatment is to group all social security funds into a separate subsector. Funded government/employee pension plans are not social security funds. They are financial corporations and are excluded from the general government sector.

Special accounts

Accounts recording transactions of an “exceptional” character that are made outside the normal procedures for expenditure approval and recording. Examples of such arrangements are “temporary accounts” (such as advances), or transactions whose authority is questionable, or the accounts of extra-budgetary funds, or “below-the-line” accounts.

Special funds

Usually refers to extra-budgetary funds, but sometimes refers to funds financed by earmarked revenues or user charges that are within the government’s budget.

Special purpose financial reports

Financial reports other than “general purpose financial reports” that includes management reports.

Spending unit

Any government entity that is responsible for its own budgetary operations. In many countries, these units are denominated in terms of several hierarchical levels (first level spending unit, second level spending unit, etc.) with the first level corresponding to a ministry or other organisation headed by a person of ministerial rank. In addition to ministries, such units may include subordinated and autonomous agencies, extra-budgetary funds, or administrative units within entities that (exceptionally) deal directly with the ministry of finance on budget matters.

Standing appropriations

Moneys appropriated by a specific act of parliament for a specific purpose (e.g. payments of social welfare benefits). Standing Appropriations may or may not be for a specific amount of money or a particular period of time. However, they do not require annual spending authorisation by the parliament since they do not lapse at the end of each fiscal year. Also referred to as “permanent appropriations”.

State government

State government has independent authority for certain functions in a significant part of a country’s territory. This intermediate level of government exists in all countries with a federal constitution (provinces, *Länder*). Regional government authorities have similar characteristics in terms of territorial jurisdiction but are generally found in countries that do not have federal constitutions. See also central government, general government, local government and subnational government.

Statement of assets and liabilities

A financial statement that gives information on the assets and liabilities of an entity at the end of each reporting period. See also balance sheet.

Strategic plan

A plan which sets forth an organisation's mission, goals, objectives, courses of action, and expected results for a specific time frame, usually five to ten years. Strategic planning is the process by which such plans are developed. A council of ministers, or cabinet, may have a strategic planning process to establish goals and priorities for the government, but generally will not produce a "strategic plan" (document) as would a ministry or agency. Sometimes called "business plans", these documents are often used a major justification for an organisation's budget request.

Subnational government

All government below the first (central or national) level. See also central government, general government, local government and state government.

Subsidiarity

The subsidiarity principle requires that decisions be taken at the lowest practicable level of government. It implies that central government should not take action unless doing so is more effective than action taken at regional or local government level. The term is commonly used in the European Union to define the areas where Member States have an independent right of action, i.e. where the *acquis communautaire* does not apply (e.g. the timetable for preparing the annual budget and submitting it to parliament is a matter of subsidiarity).

Subsidy

According to the GFS and the SNA, the term "subsidy" is narrowly defined as current, unrequited transfers that the government makes to enterprises either on the basis of the levels of their production activities or on the basis of the quantities or values of the goods and services that they produce. More broadly, the term "subsidy is also often used to in the sense of payments or tax credits to individuals on the basis of their personal circumstances, according to criteria laid down in law or regulations (e.g. if they are unemployed or disabled).

Supplementary appropriation

Legislation passed during the budget year to provide for expenditures additional to the original budget.

Supreme audit institution (SAI)

A public organisation, normally independent of government and accountable to the legislature, that is responsible for auditing the government's financial operations. The SAI may carry out different types of audit activity: financial, compliance and regularity, and performance audits. See also audit.

Surplus

See deficit.

Suspense account

A type of special temporary account used to record balances, or correct mistakes in amounts, that have not yet been "posted" to the relevant line-item. Such transactions often include payments of adjustable advances, until the final amount chargeable is known.

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Tangible/intangible assets

These assets may be grouped in several categories. Tangible fixed assets consist of dwellings, other buildings and structures, machinery and equipment, and cultivated land. Intangible fixed assets include mineral exploration rights, computer software and works of art. Tangible non-produced assets are assets that occur in nature and over which ownership rights may be enforced (e.g. land on which dwellings are constructed). Intangible non-produced assets include examples such as the granting of a patent.

Tax expenditures

Concessions or exemptions from a “normal” tax structure that reduce government revenue collection and, because the government’s policy objectives could be achieved in other ways such as through a subsidy or other direct outlays, the concession is regarded as equivalent to a budget expenditure. Precise definition and estimation of tax expenditures thus requires definition of the “normal” tax base as well as determination of the most appropriate way of assessing costs (i.e. by revenue forgone or the expenditure required to achieve the policy objective). Several countries (e.g. France and the US) include information on tax expenditures in their annual budget.

Transaction

A transaction in the SNA and GFS 2000 is defined “an interaction between two institutional units by mutual agreement or an action within a unit that is analytically useful to treat as a transaction”. A transaction can be in cash or in kind. See also transfer.

Transactions in financial assets for policy purposes

GFS 1986 defines “lending minus repayment” as government transactions in debt and equity claims taken for public policy purposes, rather than for management of government liquidity. In GFS 2000, “lending minus repayment” is called “financial transactions in assets for policy purposes (or by non-market means)”. Such transactions are made for purposes such as assisting ailing enterprises or fostering new industries. They can take a variety of forms such as granting loans with an interest subsidy component, and the acquisition or sale of equities. According to the GFS, privatisation programmes and acquisitions of liabilities as a result of government guarantees are always policy related. Identifying other transactions in financial assets for policy purposes is not always easy. Although it is termed “lending minus repayment” in GFS 1986, this concept should not be confused with the term “net lending/borrowing” as defined in the System of National Accounts and GFS 2000. See also deficit/surplus and policy balance.

Transfer

A transaction in which one individual or institutional unit provides a good, service or asset to another individual or unit without receiving from the latter any good, service or asset in return as a counterpart. Transfers may be made in cash or in kind.

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Unfunded public pension liabilities

This term refers to future liabilities of government under unfunded, or partially funded public pension schemes. Liabilities for such schemes are generally not recognised in accounting terms until the obligation to pay arises, though this will depend on institutional arrangements in particular countries. Such future liabilities need to be taken into account in assessing fiscal sustainability over the long-term.

User charges

Payments made directly by the consumer for goods and services provided by public sector entities to the private sector (whether for partial or total recovery of costs of provision) as well as the internal pricing of goods and services (i.e. user charges between one government agency and another). In many countries, rules governing the scope and application of user charges, and the methodology for calculating them, are issued by the ministry of finance.

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Valuables

Capital assets that are not used primarily for the purpose of production or consumption but are held as store of values over time.

Value for money audit

See performance audit.

Verification (certification)

Once a bill for goods or services has been received, the relevant line ministry/agency must confirm that the bill is correct and that the goods or services have in fact been received. At this point, the bill becomes a liability of the public sector. In accrual accounting terms, an expenditure is recognised even though the bill has not yet been paid.

Virement

The process of transferring expenditure provision from one line-item to another during the budget year. To prevent misuse of funds, spending agencies must normally go through approved administrative procedures to obtain permission to make such a transfer.

Vote

See appropriation.

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Warrant

A release of all, or more commonly a part, of the total annual appropriation on a quarterly or monthly basis that allows a line ministry or spending agency to make commitments.

See apportionment.

Zero-base budgeting (ZBB)

A system of programme budgeting attempted in the US in the late 1990s. Literally interpreted, ZBB consists of evaluating all programmes each year and preparing the budget from scratch. In practice, however, the ZBB system did not go so far. Agencies were asked to rank the programmes within predetermined funding limits. The main features of the system consisted of: (i) formulating objectives for each agency; (ii) identifying alternative approaches to achieving the agency objectives; (iii) identifying alternative funding levels, including a “minimum” level normally below current funding; (iv) preparing “decision packages”, including budget and performance information; and (v) ranking the decision packages against each other. Nevertheless, ZBB was excessively time-consuming and proved to be short-

lived. However, similar approaches have been tried in other countries (e.g. the United Kingdom's programme of "Fundamental Expenditure Reviews" started in 1993). See also performance budgeting.

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