The International Journal on Governmental Financial Management

Vol. XX, No. 2, 2020

International Consortium on Governmental Financial Management

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"Working globally with governments, organizations, and individuals, the International Consortium on Governmental Financial Management is dedicated to improving financial management so that governments may better serve their citizens"

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icgfm.ijeditor@icgfm.org.

Requests for information on the Consortium should be addressed to:

International Consortium on Governmental Financial Management

6312 Seven Corners Center, #264

Falls Church, VA 22044

Telephone: (571) 401-1687

Email: icgfm@icgfm.org

www.icgfm.org

International Journal on Governmental Financial Management

Vol. XX, No 1, 2020

ISSN 2220-4709

Key title: International journal on governmental financial management

Abbreviated key title: Int. j. gov. financ. manag.

Published by

The International Consortium on

Governmental Financial Management

6312 Seven Corners Center, #264

Falls Church, VA 22044

United States of America

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General Information

"Working globally with governments, organizations, and individuals, the International Consortium on Governmental Financial Management is dedicated to improving financial management so that governments may better serve their citizens."

Our mission includes three key elements. First, it highlights that, within the international community, the International Consortium on Governmental Financial Management (ICGFM or the "Consortium") is unique — it serves as an "umbrella" bringing together diverse governmental entities, organizations (including universities, firms, and other professional associations), and individuals. At the same time, it welcomes a broad array of financial management practitioners (accountants, auditors, comptrollers, information technology specialists, treasurers, and others) working in all levels of government (local/municipal, and national). Additionally, the mission statement emphasizes the organization's commitment to improving government infrastructure so that needs of the people are better met. Our programs provide activities and products to advance governmental financial management principles and standards and promote their implementation and application.

Internationally, the Consortium: (1) sponsors meetings, conferences, and training that bring together financial managers from around the world to share information about and experiences in governmental financial management; and (2) promotes best practices and professional standards in governmental financial management and disseminates information about best practices and professional standards to our members and the public. ICGFM provides three options for membership:

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Foreword

In order to achieve ambitious socioeconomic goals, developing economies require public sector institutional capacity for setting and implementing public policy, which in turn necessitates public sector accounting, budgeting and taxation reform. The social value of public sector accounting, budgeting and taxation reform lies in its contribution to development goals, including poverty re-duction, enhancing government performance information and achieving sustainable economic de-velopment. Therefore, the current issue focuses on the public financial management reforms in some developing economies.

First article of this issue focuses on the shift towards the Results-Oriented Budget and its impact on government performance information. In this article, Sanaa Yassin and Salman Abdullah have attempted to verify the possibility of developing the approach used in preparing the public budget of the State of Iraq by shifting towards the results-oriented budget approach and the extent to which this shift is reflected in government performance information. The results have shown that there is a possibility to shift towards the results-oriented budgeting approach in preparing the pub-lic budget and that after the application requirements have been met.

Second article deals with the taxation for sustainable development in developing economies. In this article, Kabiru Dandago has pointed out to what extent the taxation is considered as the most im-portant and most durable revenue source to be used by any serious government as it pursues the achievement of sustainable economic development. The article concluded that the present time in Nigeria and other developing economies of the world is the time for telling the truth to the govern-ment that centralization of taxation for sustainable development is the reality to squarely face by any serious government of a developing economy.

Third article focuses on the proposed definitions for all phases of accounting. In this article, Jesse Hughes, Michael Parry, and Hassan Ouda have argued that there has been a lot of research and discussion concerning the various phases of accounting. Yet there is not consistency in what is covered in each of these phases nor is there a clear understanding as to what is covered in any par-ticular accounting base. This article attempts to more clearly define each of these accounting phases and bases.

Finally, fourth article deals with Public Money: How do the institutional financial management leadership controls work to ensure its sanctity in Pakistan. In this article, Aamir Fayyaz has pre-sented how Pakistan's government has established an elaborate system of financial management leadership controls within ministries and departments involving several categories of functionaries who are supposed to strive for economy, efficiency, effectiveness in government's operations while adhering to the laws, rules and regulations. The common objective behind establishment of all these controls is to ensure sanctity of public money and minimize risks to its misuse.

We hope the articles in this issue will stimulate discussion on contemporary problems of public organizations. If you would like to participate in such discussions, please contribute to the next is-sue of this Journal and/or attend future ICGFM events. We would also be pleased to receive re-views and suggestions for future issues. Send them to icgfm@icgfm.org.

We look forward to hearing from you!

Prof. Dr. Hassan Ouda	**Julie Cooper**	**Dave Pearl**
Editor	*Vice President of Communications*	*President*

December Issue 2020

The Shift Towards the Results-Oriented Budget and Its Impact on Government Performance Information

Sanaa Ahmed Yassin and Dr. Salman Hussein Abdullah

Department of Accounting,
College of Administration & Economics,
University of Baghdad.
Email: sana@coadec.uobaghdad.edu.iq

Abstract

This study is aimed at verifying the possibility of developing the approach used in preparing the public budget of the State of Iraq by shifting towards the results-oriented budget approach and the extent to which this shift is reflected in government performance information (in terms of its uses, nature, and quality). To achieve that goal, a questionnaire of (33) items was designed and distributed to a random sample of (194) individuals who were employees in the Department of Financial Affairs and the Department of Internal Auditing at the University of Baghdad and the colleges and scientific research centers affiliated with it. The results of the study came out to show that there is a possibility to shift towards the results-oriented budgeting approach in preparing the public budget and that after the application requirements have been met, the most important of which is training the personnel responsible for preparing, implementing and controlling the public budget so that to find human resources who are qualified and capable of comprehending the concept and the procedures involved in implementing the results-oriented budget, noting that the shift towards the results-oriented budget has an effect of statistical significance in respect to the government performance information (in terms of its uses, nature, and quality).

Keywords: Results-oriented budget, line-item budget, the financial government performance information, non- financial government performance information, quality of government performance information.

1.0 INTRODUCTION

The public budget is considered the basic document representing the objectives the government intends to achieve during the coming period as well as the performance that must be accomplished in order to achieve that. However, in relation to its preparation, implementation and control, the public budget still keeps the focus on government performance information of a financial nature. Under the increasing need for non-financial information regarding the government performance (Wall & Roberts, 2008), it has become crucial to know the areas of developing the services provided and improving their quality in a manner commensurate with the aspirations of society members. Accordingly, several attempts to develop the preparation of the public budget have emerged in many countries of the world (Schick, 2008, p.2) with the intention to abandon the line-item approach which focuses on providing financial information related to spending items (Panzardi, 2005) without trying to link them to the results achieved (Rose, 2003, p.17).

Under the environment in which the Iraqi governmental units are working, it is a matter of necessity to readdress the approach adopted in preparing the public budget, reconsidering the shift from the line-item approach to a more developed one as a way of dealing with the problem of increasing the spending from one year to the next without observing the extent to which the goals and the desired results are accomplished. In 2004 the public budget of the State of Iraq was equivalent to $ 20 billion (Abdullah & Yassin, 2016, p.526) and in 2019 (according to the Public Budget Law of 2019), it became equivalent to $ 112 billion.

Among the recent approaches that have emerged to develop the public budget preparation process is the Results-oriented budget ROB approach which operates as a mechanism intended to improve the decisions related to the public budget (Srithongrung, 2009) along its various stages of preparation, implementation and control and that by linking the goals and results expected to be achieved to the relevant resources allocated in the public budget. Thus, the problem of the study can be represented in the following two questions:

i. Is it possible to shift towards the ROB approach in preparing the public budget within the Iraqi environment?

ii. Does shifting towards the ROB in preparing the public budget have an effect on the government performance information (in terms of its uses, nature, and quality)?

The study aims to demonstrate the possibility of developing an approach for preparing the public budget of the State of Iraq, which is an urgent need, especially with the Iraqi government recent orientations and the repeated calls to abandon the traditional approach based on the line-item budget, and to choose a modern approach instead that is appropriate with the requirements of the current stage and the availability of necessary capabilities, a move backed by Article (53) of the Federal Financial Management Law No. (6) of 2019 by shifting towards the ROB approach in preparing the public budget, as well as determining the extent to which that shift would influence the government performance information (in terms of its uses, nature, and quality), so that to ensure the attainment of integrated high-quality financial and non-financial information which would, in turn, aide in determining the extent to which the objectives of the given government unit have been achieved and so the desired results, compared to the plans devised.

To accomplish this, the second section of the study dealt with the theoretical framework that discusses the theoretical aspects of the independent variable of the shift towards the ROB approach and then the dependent variable represented by government performance information. The third section was devoted to the hypotheses involved. The method of research and the procedures used are dealt with in the fourth section, followed by the fifth section that was dedicated to the practical aspect. The sixth and final section was meant to review the most important conclusions and recommendations drawn from the study.

2.0 THEORETICAL FRAMEWORK FOR THE STUDY

2.1 Adopting the ROB Approach in Preparing the Public Budget

The approach of preparing the public budget has evolved over the years and with it the main goal of its preparation until it moved towards the need to link the allocation of public resources with the goals sought and the results expected of the governmental units. This eventually led to the emergence of the so-called results-oriented budget (ROB).

The term ROB is used to refer to the budget that provides information about the expectations of the government unit in regards to the goals that it intends to achieve and the results related to it, in allocating the funds needed. Thus, it is simply possible to say that the performance information would be part of the budget documents or as part of the budget segments in which the approved allocations would be divided into groups based on the results expected to be achieved (Curristine, 2005, p.131).

ROB which is viewed by (Mizutani) as the process of reforming the public budget in the long run, may fundamentally change the way of carrying out works and delivering services. As an approach of preparing the public budget, it is considered a leap into a more performance-oriented philosophy that involves accountability of all parties responsible for carrying out that performance to achieve the desired goals and results (Mizutani, 2015, p.1).

Accordingly, it is possible to say that ROB is one of the modern and important approaches in preparing the public budget in which attention is focused on trying to measure the results as a basic consideration in the distribution of limited financial resources among the various aspects of spending upon outlining the public budget.

Furthermore, the ROB approach aims to enhance the government's accountability for its performance and the results achieved from the goals it has set previously, all that carried out in a way that contributes to activating control over the public spending, hence ensuring it achieves its goals while reducing waste, which in turn would lead to a reduction in the public budget deficit. This is feasible by linking the public spending to measures of performance through which any improvement (in performance) will be detected (Hatry, 2006). Moreover, the adoption of ROB will help follow up the implementation of government projects and validate the achievement of the previously planned results, evaluating and dealing with the associated risks in a timely manner (Al-Zoubi, 2012, p.267). In this respect, the study of (Henaish, 2017) concluded that the goal of ROB was to find the best way to allocate the available resources and determine the general directions of the budget, including the desire to rationalise public spending and preserve public funds. ROB will also change the direction of budget discussion from being focused on detailed items to discussing general goals and expected results, which in turn would facilitate the process of making better budgetary decisions (Shah & Shen, 2007, p.5) keeping the focus on what is most important to achieve (Hatry, 2006, p.29).

The ROB application includes several steps, as follows: (APCOP, 2013)

The First Step: Defining the general objectives expected to be achieved during the next period.

The Second Step: Determining the results that the government or a government unit wants to achieve (United Nations Children's Fund, 2017, p.1), with the results representing the direct effects achieved through the services provided (Makon & Varea, 2015, p.88). Those results must be objectively defined, and must be measurable, consistent and of significance (Besrest, 2012, p.7).

The Third Step: Defining the expected outputs needed to reach the results. Those outputs represent the services provided by government units to achieve the desired goals (Mizutani, 2015, p.1) (Besrest, 2012, p.5).

The Fourth Step: Setting measures for the expected results and outputs for the next period. This represents a fundamental step for tracking the expected results (Friedman, 1997, p.2). Measures should be objective and should be outcome-oriented, applicable, and verifiable at an acceptable cost and designed to be conducted within a reasonable time (Council of Europe, 2005, p.13).

The Fifth Step: Estimating the expenditures necessary to produce the outputs and achieve the desired results (Schich, 2008, p.15) (Abraszewski and others, 1999, p.3). The benefit to be obtained from this procedure lies in the fact that it links the approved allocations stated upon in the public budget directly to the services provided by governmental units (Makon & Varea, 2015, p.77), and thus making the governmental unit obligated to submit the specified output in advance.

The Sixth Step: Measuring actual performance by providing information related to the actual spending achieved to produce outputs by identifying the output indicators and actual results and reporting them to relevant parties (Mizutani, 2015, p.7).

The Seventh Step: Evaluating the performance of governmental units through different control bodies that are responsible for this task. Their work involves observing the extent to which the planned results are achieved by comparing the targeted results (that are pre-determined and on which the public budget was prepared) with the actual results (Srithongrung, 2009, p.66). The step also involves questioning government units in case they fail to achieve the previously defined results, since this is a situation that reflects a failure in achieving the objectives set in advance, and upon which the relevant government unit is then required to provide an explanation about that (Hatry, 2006, p.23).

Following the aforementioned points, it is obvious that the ROB approach represents a system of collecting and providing information on the goals of the government unit and the results, whether planned (during the stage of preparing and approving the public budget) or actual (during the stage of implementing the public budget), on which the allocation and the spending of public resources are made.

2.2 What is meant by government performance information: -

If the government performance represents the ability of the government unit to achieve its set goals through the use of public resources in an efficient and effective manner (Mashaal & Rabee, 2017, p.58), then government performance information will enable parties related to government performance to diagnose the reality of that performance and search for areas to improve it. Therefore, the availability of government performance information is important in several areas, including:

i. Assisting in the processes of preparation, implementation and control of the public budget (Curristine, 2005, p.132) (Robinson & Last, 2009, p.4).

ii. Assisting the government unit administration in identifying the satisfaction of those benefiting from the services it provides in a way that enables it to improve the quality of the services provided (Mashaal & Rabee, 2017, p.63) (Downes, 2013, p.12).

iii. Government performance information is regarded an incentive meant to improve and develop that performance (Curristine, 2005, p.147). It helps achieving that by enabling relevant parties to pinpoint the government performance's weakness or strength.

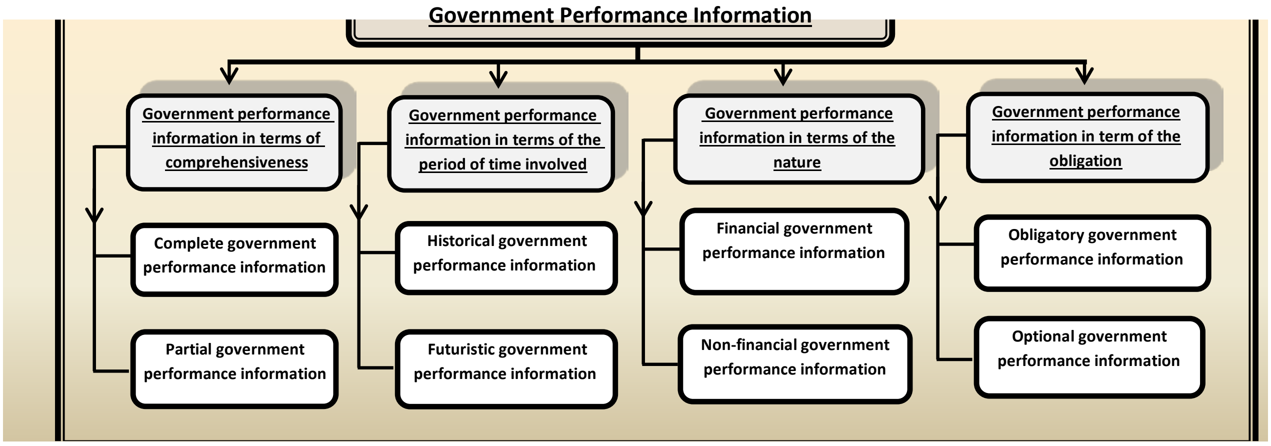
iv. Providing performance information has a behavioral aspect that stands out by encouraging working individuals to show a distinctive level of performance, where Ludji indicates that the performance of the individual would be better in case the performance information is available compared to when it is unavailable (Ludji, 2018, p.220).

v. Providing government performance information to related parties aids in improving the government performance in terms of transparency, thus boosting the trust in government (Curristine, 2005, 137).

vi. The availability of government performance information aides the government unit administration in carrying out its various tasks of planning, organizing, controlling, and evaluating the performance as well as in making decisions, which in turn would help that administration avoid randomness in performing those tasks.

From the above-mentioned we notice that the importance of government performance information lies in the framework of meeting the needs of relevant parties - whether from within or outside the government unit - of government performance information which justifies why the government performance information is classified differently based on many aspects summarized in Figure 1.

Figure (1) Classification of the government performance information



The figure shows that the mentioned aspects of the classification of government performance information do not mean that they are separate. To the contrary, they are interconnected to each other and are used side by side. They might be of a historical financial nature and government units are obligated to provide them through the financial reports that they prepare, like for example what Chapter Ten - Transparency - of the Iraqi Federal Financial Management Law No. (6) of 2019 confirms. Or they might be non-financial planned information and thus the government unit is free to make it available on its website in order to make their performance transparent (Makon & Varea, 2005, p.98), in addition to what was mentioned by Knaap, that 32% of the Organization for Economic Co-operation and Development (OECD) member states tend to include non-financial government performance information in addition to financial performance information within budgets documents in implementation of legal requirements (Knaap, 2006, p.279).

In order for government performance information to be useful to parties linked to government performance so that they assess the effectiveness of the relevant management in using the resources available (Bamidele and others, 2018, p.23), then the information must be of high quality, as is the case with accounting information, so that the government performance information would be useful to its users (Bukenya, 2014, p.186) in terms of relevance , comparability (Robinson, 2016, p.25), reliability, understandability, consistency, and in terms of being timely presented (Guzmán, 2003, p.10: 12-13).

3 THE STUDY HYPOTHESES

The study is based on the following hypotheses:

H1: It is possible to shift towards the ROB approach in preparing the public budget.

H2: Shifting towards ROB has an effect of significance on government performance information.

From this hypothesis emerge the following sub-hypotheses:

H2A: Shifting towards ROB has an effect of significance on the areas of using government performance information.

H2B: Shifting towards ROB has an effect of significance on the nature of government performance information.

H2C: Shifting towards ROB has an effect of significance on the quality of government performance information.

4 METHODOLOGY AND PROCEDURES INVOLVED

4.1 Study Community and Sample

The study community included the employees in the Department of Financial Affairs and the Department of Internal Auditing at the University of Baghdad along with its colleges and scientific research centers affiliated with it. The community numbered (341) individuals representing the authorities responsible for preparing the public budget, for implementing the budget and for controlling it within the university's domain. The questionnaire was distributed to a random sample of (194) individuals, with the retrieved questionnaires that were valid for statistical analysis being (189) in number. This means that the response rate was (97%). Thus, the sample of the study in its final form amounted to (189) individuals, which constitutes 55% of the study population. The fields of work of the participants (the sample) are distributed among the categories shown in the following table:

Table (1) Study Sample Nature of Works (tasks)

Nature of work (task)	Frequency	Percentage
Preparing the Public Budget	28	15%
Implementing the Public Budget	116	61%
Monitoring the Implementation of the Public Budget	45	24%
Total	189	100%

It is clear from Table (1) that those responsible for implementing the budget came first within the study sample, given that their work would last for a full year and they are in contact with the reality of the public budget and the problems that arise during its implementation. Following were those responsible for monitoring the implementation of the budget, and then finally those responsible for preparing the public budget at the third rank.

4.2 The Study Approach

The study, in its preparation, relied on the descriptive analytics approach for the purpose of describing the research phenomenon, collecting relevant data from the sample and analyzing it to know its causes and factors that control it and then extract the results and generalize them.

4.3 Testing the Validity and Reliability the Questionnaire: To test the truthfulness and reliability of the questionnaire, the following steps were followed:

4.3.1 The Face Validity Test: For the purpose of verifying the face validity of the questionnaire, the latter was presented in its primary form to a number of specialized arbitrators, and in the light of the observations and suggestions that they submit, the paragraphs were modified by omitting some of them, adding new ones and rephrasing others, until the questionnaire was settled on (33 paragraphs).

4.3.2 Consistency among the Components of the Questionnaire: By working out the Cronbach's Alpha coefficient it becomes clear that its value reached (0.93) which is higher than the acceptable minimum of (0.70), which in turn confirms the consistency among the components of the questionnaire and accordingly the stability required in the event of repeating the test.

4.3.3 The Split-half Reliability Tests: with the correlation coefficient of the questionnaire reaching (0.89), it was evident that the questionnaire along with its various measures was of high stability and hence could be adopted at different times and for the same sample while yielding the same results.

4.3.4 The Construct Validity of the Questionnaire:

I. Validity of the Exploratory Construct: Exploratory Factor Analysis was used to discover the relationship between the variables and the extent of the need to omit some paragraphs from the questionnaire. The following steps were followed:

The first step was to test the adequacy of the sample and the existence of correlations between the variables: the test results came as presented in the table below:

Table (2) applying KMO and Bartlett's Tests on the Questionnaire Paragraphs

Details		Shifting Towards ROB	Government Performance Information
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.843	0.840
Bartlett's Test of Sphericity	Approx. Chi-Square	457.376	678.002
	Df	78	190
	Sig.	0.000	0.000

Table (2) shows that the value of the KMO test for both variables: shifting towards ROB approach and government performance information reached were (0.843) and (0.840) respectively. And since the value was greater than (0.50) then it is considered a good value according to (Kaiser) classification. Also, the Bartlett test refers to the existence of a statistical significance at the level of (sig = 0,000) which is less than the level of significance of (sig = 0.05) approved, which in turn is an evidence that the correlation between the main study variables of shifting towards the ROB approach and government performance information is of a statistical significance.

The second step is the application of the Principal components method: The results obtained from the exploratory factor analysis of the shift towards the ROB approach applied according to this method and the rotation of the paragraphs on the extracted factors (two factors), it becomes clear that the loadings of the paragraphs on the extracted factors were in variant proportions while maintaining the condition that the saturation ratios should be greater or equal to (0.30). Also, the values of the communalities represented by the variable variance ratio that can be explained by the extracted factors reached their highest value at the paragraph **(The adoption of the ROB will make the budget a tool for expressing the goals and desired results for the coming period including the cost of its implementation)** where its value came at (0.708) which means that the extracted factors explain combined 71% of the variance of this paragraph, whereas the lowest value related to the paragraph **(enacting a legislation that includes a comprehensive description of the ROB along with an explanation of how to prepare budget estimates accordingly)** The value came at (0.338) which means that the extracted factors combined explain 34% of the variance of this paragraph.

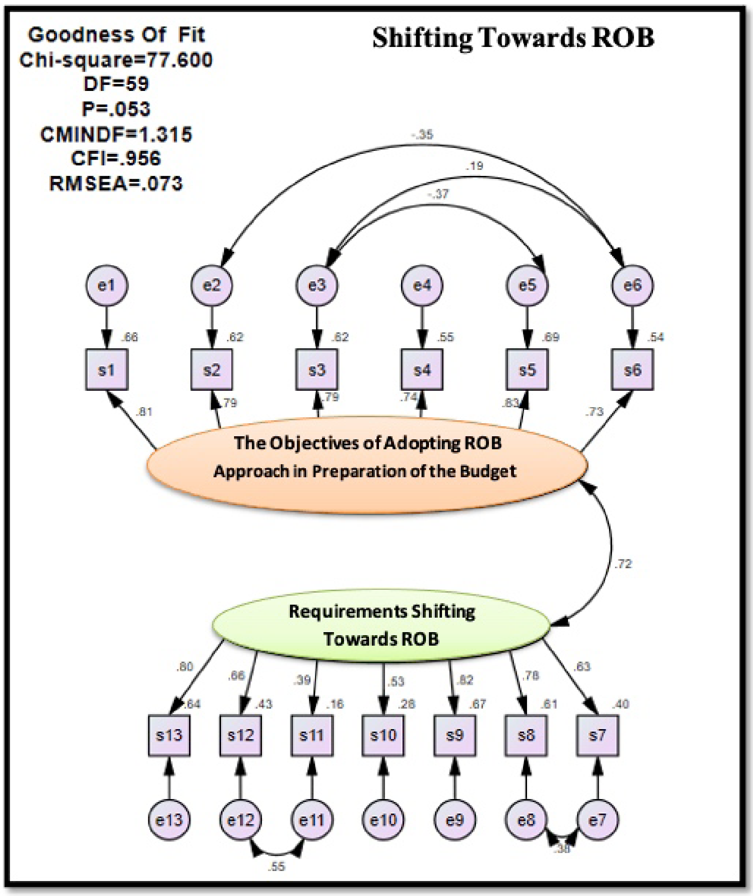
In respect to the government performance information variable, the results of exploratory factor analysis under this method and after rotating the paragraphs on the extracted factors that amounted to **(three factors)** showed that the saturations of the loadings of the paragraphs in regards to the extracted factors were in varying proportions, while maintaining the condition that the saturation percentages should be greater or equal to (0.30), and the values of the communalities represented by the variable variance ratio that can be explained by the factors reached their highest value of the communalities for the paragraph **(Updating the public budget preparation approach should lead to the obligation to provide financial and non-financial information on government performance)** and that at (0.778). This means that the extracted factors combined explain 78% of the variance of this paragraph, while the lowest value was related to the paragraph **(The shift towards ROB and the resulting financial and non-financial information on government performance will achieve the confidence of the parties involved in government performance)** at (0.32), which means that the extracted factors combined explain 32% of the variance of the paragraph.

II. Validity of Confirmatory Construct: Confirmatory Factor Analysis was used to verify the validity of the questionnaire construction and (AMOS V.23) was used as a tool.

Figure (2) - in respect to the shift towards ROB variable - shows the confirmatory factor analysis of shifting towards ROB model according to the modification indices. Consisting of two main dimensions and (13) paragraphs, the figure shows all the paragraphs related to applying the ROB variable were greater than (1.96) and all were significant and identical to the goodness of fit. That in turn gives a good indication to go ahead with other statistical analyses.

Figure (2) the complete model for shifting towards ROB variable

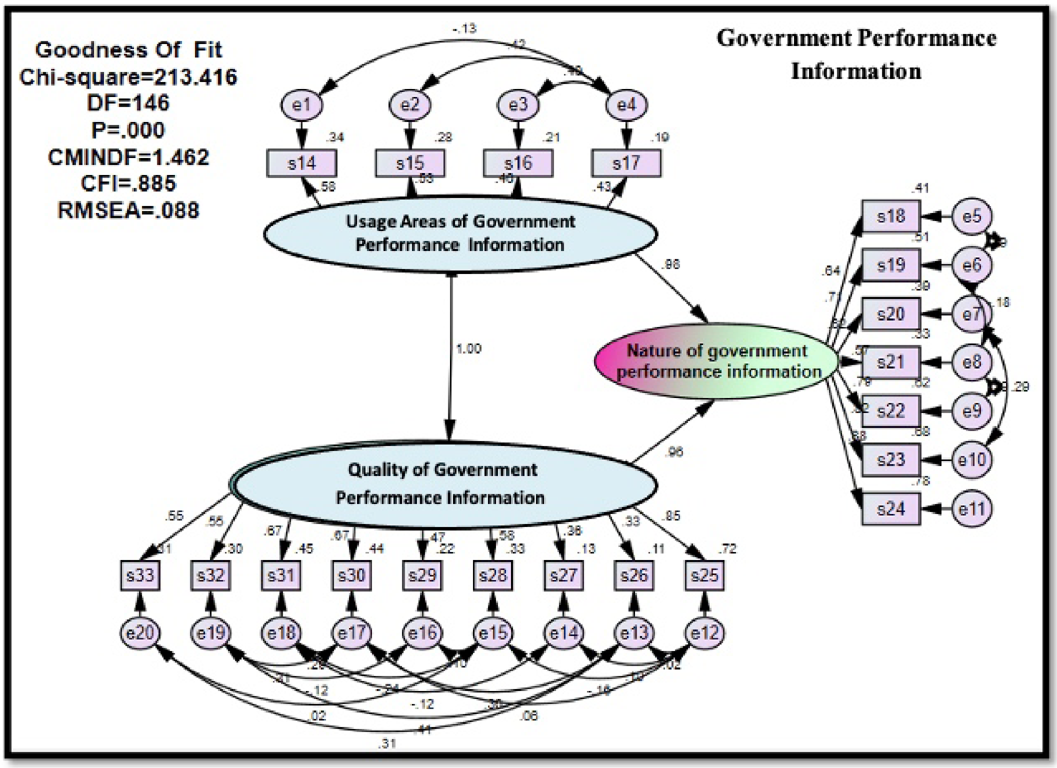
Resource: (AMOS V.23) software



In regards to the government performance information variable, figure (3) shows the confirmatory factor analysis of that variable model in accordance with the modification indices, consisting of three main dimensions of (20) paragraphs. The figure clearly shows how all the paragraphs of the government performance information variable were greater than (1.96) and all of them were of statistical significance and identical to the goodness of fit. That gives a good indication to go ahead with all other statistical analyses within the applied side of the study to obtain results.

Figure (3) the complete model for government performance information variable

Resource: (AMOS V.23) software



5 THE EMPIRICAL SIDE OF THE STUDY

5.1 Presentation and Discussion of the Results

5.1.1 Results of the statistical analysis of the study sample opinions on the shift towards ROB variable are shown in table (3) below with the statistical indications demonstrating the following:

Table (3) results of the statistical analysis of the study sample opinions on shifting towards ROB

Ref.	Paragraph	Mean	Standard Deviation	CV%
First Dimension: The objectives behind adopting the ROB approach in preparing the Public budget				
1	The adoption of the ROB will make the budget a tool for expressing the goals and desired results for the coming period including the cost of its implementation.	4.158	.719	17.292
2	The adoption of ROB will contribute to setting spending priorities according to the results desired to be obtained from the goals that the government intends to achieve during the coming period.	4.164	.778	18.684
3	Making the public budget (through ROB) an effective tool to monitor the achievement of the goals that the government intends to achieve along with the expected results.	4.148	.721	17.382
4	The ROB approach will change the direction of financial control from being inputs-detailed to the control of goals and results achieved from the objectives set during the budget period.	3.941	.800	20.299
5	ROB approach will contribute to achieving accountability of executives - at various levels - for the goals and results achieved against the fund spent.	3.978	.887	22.298
6	ROB approach will set constraints on the budget so as to rationally use the approved allocations to effectively achieve the goals and reach specific results more efficiently.	3.984	1.059	26.581
	First Dimension Weighted Mean	4.062	.575	14.156
Second Dimension: Shifting towards ROB Requirements				
7	Senior administrative leaders have a serious desire to abandon item-line budget approach in preparing the public budget.	3.291	1.108	33.668
8	Linking the objectives of the government unit and its intended results to the preparation of the public budget draft so that it can be discussed accordingly.	4.021	.729	18.130
9	Preparing quantitative measures related to the goals and results expected to be achieved from those goals so that they can be approved upon preparing the budget.	3.989	.778	19.504
10	Enacting a legislation that includes a comprehensive description of the ROB along with an explanation of how to prepare budget estimates accordingly.	4.084	.694	16.993
11	Training the personnel responsible for budget preparation, implementation, and control to find qualified human resources able to understand the ROB concept and procedures.	4.550	.671	14.747
12	Using electronic information systems to collect quantitative and financial data that facilitates the process of preparing, implementing and controlling the public budget in light of the ROB approach	4.433	.685	15.452
13	Periodically preparing statements attached to the financial reports that includes non-financial information on the achievement of the goals of the government unit and the results achieved.	4.095	.900	21.978
	Second Dimension Weighted Mean	4.066	.470	11.559

i. The table, in respect to adopting the ROB approach in preparing the public budget, shows the superiority of paragraph (2) (The adoption of ROB will contribute to setting spending priorities…) with a weighted mean of 4.164 which was greater than the hypothetical weighted mean of (3) and with a small dispersion reflected by the standard deviation of 0.778, considering that this goal will contribute to addressing the defects of the current approach of preparing the public budget which is based on the item-line budget and the accompanying problems involved in planning public expenditures. The least paragraph ranked was number (4) stating (The ROB approach will change the direction of financial control from being inputs-detailed to the control of goals and results achieved…). The paragraph came with a weighted mean of (3.941), which could probably be attributed to the belief that the ROB approach was to contribute to monitoring the achievement of the desired goals and results, which in turn would implicit practicing control over the spending associated with the goals and results.

ii. Table (3), in regards to the requirements for the shift towards ROB, reflects the study sample main interest in (Training the personnel responsible for budget preparation, implementation, and control to find qualified human resources able to understand the ROB concept and procedures). That was evident through paragraph (11) that achieved a weighted mean of (4.550), a standard deviation of (0.667) and a coefficient of variation of (14.747%), which in turn shows a little dispersion in the answers and the best harmony among all paragraphs of the second dimension. Following was paragraph (12) stating (Using electronic information systems to collect quantitative and financial data...) with a small variance, since the paragraph achieved a weighted mean of (4.433) and a standard deviation of (0.668), bearing in mind that the ROB approach requires a large amount of financial and non-financial data needed to be collected and treated in order to prepare, implement and control the public budget. Finally there was paragraph (7) (senior administrative leaders have a serious desire to abandon…) that ranked last according to the responders' agreement on the requirements for the shift towards ROB.

Based on the aforementioned, one can say that the perceptions of the study sample individuals reflect an overall agreement on the possibility to shift toward the ROB approach in preparing for the public budget, which in turn, **confirms the H1**, that states:

((It is possible to shift towards the ROB approach in preparing the public budget))

5.1.2 The results of the statistical analysis of the opinions of the study sample on the variable of government performance information, as it appears in table (4) referring to the statistical indications as follows:

Table (4) results of the statistical analysis of the sample study opinions on the government performance information variable

Ref.	Paragraph	Mean	Standard Deviation	C.V%
First Dimension: areas of using government performance information				
14	Government performance information is an urgent necessity to develop the services provided and raise their quality level in line with the aspirations of members of society.	3.291	1.108	33.668
15	Government performance information ensures achieving public accountability concerning the governmental performance.	4.021	.729	18.130
16	Government performance information is of great importance in planning, directing and controlling government performance.	3.989	.778	19.504
17	Government performance information has a role in improving methods of distributing public resources on various uses upon preparing the public budget	4.084	.694	16.993
	First Dimension Weighted Mean	4.066	.470	11.559
Second Dimension: nature of government performance information				
18	Government performance information currently available through financial reports is of financial nature only.	3.804	.927	24.369
19	Government financial reports are distinguished by ignoring non-financial government performance information which is indispensable in achieving the goals and results intended.	3.756	.919	24.468

Ref.	Paragraph	Mean	Standard Deviation	C.V%
20	The currently applied approach of preparing the public budget deprives the government units the motivation to provide optional non-financial information on government performance.	3.746	.933	24.907
21	Financial information related to government performance alone is not sufficient to plan, implement and control government performance.	4.047	.833	20.583
22	Updating the public budget preparation approach should lead to the obligation to provide financial and non-financial information on government performance.	4.142	.782	18.880
23	Updating the approach of preparing the public budget should lead to the obligation to provide future financial and non-financial information relevant to government performance.	4.127	.768	18.609
24	Updating of the public budget preparation approach should lead to the obligation to provide historical financial and non-financial information on government performance.	3.941	.806	20.452
	Second Dimension Weighted Mean	3.938	.587	14.906
Third Dimension: quality of government performance information				
25	The shift towards ROB will make government financial and non-financial performance information relevant for rationalizing the allocation of funds within the public budget.	4.153	.766	18.444
26	Adopting ROB will make the government performance information in its financial and non-financial aspects truthfully representing the goals of the government unit, its intended results as well as the cost of achieving them.	3.978	.862	21.669
27	The shift towards ROB and the resulting financial and non-financial information on government performance will achieve the confidence of the parties involved in government performance.	3.978	.898	22.574
28	The ROB approach will increase confidence in government performance information, especially the non-financial information, once included in the budget documents.	4.079	.784	19.220
29	Making non-financial information on government performance available along with the financial information will make the ROB-based public budget documents more understandable.	4.111	.731	17.782
30	Adopting ROB and the resulting non-financial information, in addition to the financial information on government performance, will increase the ability to verify the achievement of the pre-set goals and the desired results.	4.074	.808	19.833
31	Adopting ROB and the resulting non-financial government performance information, and not just government financial performance information, will increase the comparability of the government unit with another one or will increase that comparability over several periods of time.	4.084	.820	20.078
32	The adoption of the ROB approach will provide financial and non-financial information that enables the identification of strengths in government performance, enhancing them, while identifying the weaknesses, studying their causes, addressing them and avoiding their future recurrence so that to improve the level of government performance.	4.037	.760	18.826
33	The shift towards ROB will make the budget a primary source for providing financial and non-financial information that is appropriate for monitoring the progress made towards achieving the goals and desired results.	4.195	.750	17.878
	Third Dimension Weighted Mean	4.077	.579	14.202

i. In regard to the use of the government performance information, the opinions of respondents reflected a close agreement on the content of paragraph (17) stating: (Government performance information has a role in improving methods of distributing public resources...). This is highlighted by the weighted mean of (4.084) which was greater than the hypothetical weighted mean, and the standard deviation (0.694) and was also greater than the coefficient of difference (16.993%). That in turns reflects a small dispersion and a good degree of harmony among the opinions of the sample individuals on this paragraph. Contrariwise, the last rank within the dimension of the areas of use of government performance information was for paragraph (14) which states (Government performance information is an urgent necessity to develop the services provided...) with a weighted mean of (3.291), a standard deviation of (1.108) and the coefficient of variation of (33.668). That was due to the traditional view of the information focusing on the financial side only, ignoring the non-financial one in spite of the importance of that information in developing the governmental performance.

ii. Statistical indications related to the dimension of the nature of the government performance information show the superiority of paragraph (22) that states: (Updating the public budget preparation approach should lead to the obligation to provide financial and non-financial information...), since it achieved the highest weighted mean of (4.142) compared to other paragraphs within the same dimension. The paragraph values was also slightly different from those related to paragraph (23) that states: (Updating the approach of preparing the public budget should lead to the obligation to provide future financial and non-financial information...), which achieved a weighted mean of (4.127). The difference could be attribute to the fact that the financial performance information of the government was based on what happened during the last period of time, which involves passing on the mistakes of the past to the future if the government's financial performance information for the past period was inaccurate or contained errors. Additionally, the government's financial performance information alone does not reflect the future orientation of the government performance, since it does not show the possibility of adopting opportunities potential to enhance or develop the performance in the future nor does it deal with the threats that are likely to arise in the future.

iii. Statistical indications related to the third dimension of the quality of government performance information point to a consensus in the views of the sample members in respect to paragraph (33) that states (The shift towards ROB will make the budget a primary source for providing financial and non-financial information that is appropriate for monitoring...). The paragraph that ranked first among other paragraphs of this dimension came at a weighted mean of (4.195), with little dispersion and a good degree of harmony in the answers, both reflected by the standard deviation of (0.750) and the coefficient of difference of (17.878%). Following was paragraph (25) that states (The shift towards ROB will make government financial and non-financial performance information relevant for...) with a slight difference in terms of a weighted mean of (4.153), a standard deviation of (0.766) and a coefficient of variance of (18.444%), which in turn is an indicative that the shift towards ROB would provide both financial and non-financial government performance information, appropriate in the field of monitoring the implementation of the goals of the government unit, the desired results and the fund spent for that purpose. Accordingly, it is possible to consider relevance as the distinguishing feature among other characteristics to achieve the quality of government performance information in the event of a shift towards ROB.

5.2 Testing Hypotheses of Influence

To test the second main hypothesis and its secondary sub-hypotheses, coefficient of the Simple Linear Regression was used.

Table (5) the Influence of Shifting towards ROB on Government Performance Information

Independent variable	Dependent variable	Value of constant (a)	Value of marginal propensity coefficient (β)	coefficient of determination (R^2)	Calculated (F) value	Tabulated (F) value	Sig	Significance
Shifting towards ROB	areas of using government performance information	1,389	0,674	0,319	87,453	3.89	0.000	Significant
	nature of government performance information	0,533	0.838	0,442	147,935		0.000	Significant
	quality of government performance information	0.619	0,851	0,467	164,007		0.000	Significant
	Government performance information	0,847	0,788	0,555	233,065		0.000	Significant

The above table shows the results obtained from the SPSS software, where the results of the statistical analysis showed that the calculated (F) value between the independent variable (shifting towards ROB) and the dependent variable (government performance information) was (233.065) which is greater than the tabular (F) value of (3.89) at the level of significance of (0.000) which is smaller than the level of significance of (0.05). Accordingly **H2** is accepted which states **(Shifting towards ROB has an effect of significance on government performance information).** From the value of the coefficient of determination (R^2) of (0.555), it becomes evident that the shift towards ROB explains (55.5%) of the variables that affect the government performance information, while the remaining (44. 5%) relates to other variables not included in the study model. Furthermore, the (β) coefficient value of (0.788) shows how a change in the shift towards ROB by one unit would lead to a change in government performance information by (78.8%).

As to the effect of the shift towards the ROB approach on the areas of using the government performance information, the (F) value calculated between the shift towards the approach of ROB and areas of using the government performance information was (87.453) which was greater than the tabular (F) value of (3.89) at a significance level of (0.000), which was smaller than the significance level of (0.05). Accordingly, **the H2A** is accepted which states **(Shifting towards ROB has an effect of significance on the areas of using government performance information).** This indicates that the approach of shifting towards ROB in preparing the public budget is effective and strongly influential in the areas of using government performance information. Furthermore, the value of the coefficient of determination (R^2) of (0.319) shows how adopting the ROB approach explains (31. 9%) of the variables affecting the areas of using government performance information, while the remaining (68.1%) is due to other variables not included in the study model. The (β) coefficient value of (0.674) shows that a change in the shift towards ROB approach by one unit would lead to a change in the areas of the use of government performance information by (67.4%).

The results shown in table (5), regarding the effect of the shift towards ROB approach on the nature of government performance information, show that the (F) value calculated between the shift towards the approach of ROB and the nature of government performance information was (147.935) which was greater than the tabular (F) value of (3.89) at the significance level of (0.000), which was smaller than the significance level of (0.05). Accordingly, the **H2B** is accepted which states **(Shifting towards ROB has an effect of significance on the nature of government performance information).** This indicates that the approach of shifting towards ROB in preparing the public budget is effective and strongly influential on the nature of government performance information. Furthermore, the coefficient of determination (R^2) of (0.442) shows how the shift towards the ROB approach explains (44. 2%) of the variables affecting the nature of government performance information, while the remaining (56. 8%) relates to other variables not included in the study model. The (β) coefficient value of (0.838) shows that a change in the shift towards ROB approach by one unit would lead to a change in the nature of government performance information by (83.8%).

With regard to the effect of the shift towards ROB approach on the quality of government performance information, the results included in table (5) show that the calculated (F) value was (164.007) which was greater than the tabular (F) value of (3.89) at the level of significance of (0,000), which was smaller than the significance level (0.05). Accordingly **the H2C** is accepted which states **(Shifting towards ROB has an effect of significance on the quality of government performance information).** This indicates that the approach of shifting towards ROB in preparing the public budget is effective and strongly influential in regards to the quality of government performance information. Furthermore, the coefficient of determination (R^2) of (0.467) shows how the shift towards the ROB approach explains (46. 7%) of the variables that affect the quality of government performance information, while the remaining (53.3%) relates to other variables not included in the study model. The (β) coefficient value of (0.851) shows that a change in the shift towards ROB by one unit would lead to a change in the quality of government performance information by (85.1%).

6 CONCLUSIONS

This study represents an attempt to reform the current approach adopted in preparing the public budget that is being based on the item-line budget approach, by shifting towards the ROB approach which aims at reconsidering the philosophy of preparing the public budget from the viewpoint of resources to that of results. The results obtained from the field study came to confirm this, since the shift towards ROB approach will contribute to determining the priorities of spending according to the results desired to be obtained from the goals that the government intends to achieve during the coming period. The study showed that was a possibility of shifting towards the ROB approach in the Iraqi environment after creating the transformation requirements, on top of which is training the personnel responsible for preparing, implementing and controlling the budget so that to have qualified human resources capable of absorbing the concept and carrying out the relevant procedures followed in implementing the ROB. The field study results also showed that government performance information has a role in improving the methods of distributing public resources over different uses upon preparing the public budget.

Therefore, the authorities responsible for preparing, implementing and controlling the public budget of the State of Iraq, whether in the Ministry of Finance or within government units, should adopt the ROB approach and should justify the allocation of resources within the public budget according to the goals of those government units and the results expected from them during the coming period, since, the approach will contribute to the availability of high quality information applicable on broad areas of use by parties related to government performance in order to plan and control the government performance so as to enable relevant people to make sound and effective decisions in the process of allocating public resources in a manner that prevents waste of resources while achieving optimal use of the public resources available to government units.

Moreover, the ROB approach enables in establishing a database that helps integrate the government financial with non-financial performance information which in turn helps in drawing an integrated picture of the government performance with the possibility of liking that with accountability which would eventually boost transparency, hold those in charge accountable and support the scrutiny role of various oversight bodies.

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Taxation For Sustainable Development In Developing Economies

Prof. Kabiru I. Dandago PhD, FCA, FCTI, FNAA, FFRA, FNIM, MNES, AQIF

Department of Accounting,
Faculty of Management Sciences,
Bayero University,
PMB 3011, Kano, Nigeria

kidandago@gmail.com

+2348023360386

ABSTRACT

This paper aimed at stretching the point that taxation is the most important and most durable revenue source to be used by any serious government as it pursues the achievement of sustainable economic development. It is also the most important instrument for bridging the "gap" between the rich and the poor and for ensuring economic stabilization and control of consumption behavior of individuals and the productive activities of firms within an economy. The paper is a literature review-type and is strongly backed up by the numerous practical experiences generated by the author while serving public interest as a state Commissioner of Finance Kano State, Nigeria, for 28 months and, presently, as a Federal Commissioner of the Tax Appeal Tribunal. The paper argued that in the absence of strong tax system in any community at various levels of public governance, the "gap" between the rich and the poor would be widening; that economic instability would be on the high side to the level that class antagonism would be well pronounced; and that regulation and control of the consumption behavior of individuals and productive behavior of companies would be difficult. The paper concluded that the present time in Nigeria and other developing economies of the world is the truth time for telling the truth to the government that centralization of taxation for sustainable development is the reality to squarely face by any serious government of a developing economy.

Keywords: Tax, Taxation, Economic Development, Sustainable Development, Public governance

1.0 INTRODUCTION

Taxation is the process of imposing tax/levy on taxable income, profit, consumption and property with a view to, among other purposes, generate revenue needed by the government for covering the cost of executing various developmental projects (Dandago & Alabede, 2002). Tax, therefore, is a compulsory levy imposed by the government through its agents on the income, profit, capital gain or consumption of its subjects (Olumide, 2016). These citizens could be natural or artificial persons. Other purposes of Taxation are stabilization of the economy; regulation and control of consumption behaviour (of households) and production behaviour (of firms); and narrowing down the gap between the rich and the poor. These are statements of reality (truth) that are noticeable in all serious economies of the world that pursue the process of sustainable development to a logical conclusion.

Taxation is the truthful instrument for measuring the developmental level of a nation and the clear tool for differentiating between developed and developing economies (Dandago & Masud, 2014; Olumide, 2016; Fortune, 2018; and Abioye, 2018). After 20 years of stable democratic dispensation, Nigeria has tried all sort of policy measures towards attaining the status of developed economy, all to no avail. It is now time to face the truth and follow the path of honour by using taxation as the right and truthful tool for attaining sustainable development in Nigeria and other developing economies.

Taxation is guided by relevant laws but is administered through the accounting process of identifying, calculating, demanding, collecting, receipting, remitting and reporting to appropriate authorities. The fact that tax laws are legislated by the parliament, to establish jurisdiction and administration of all forms of taxes, does not make taxation to be more aligned to law than to accounting. It is expected that, as business and commercial lawyers, serious accountants must have obtained deeper understanding and more intimate knowledge of tax laws than conventional lawyers! In fact, most revenue lawyers that enjoy respect as tax experts are involving themselves only with legal interpretation of tax cases. When it comes to identification of income, profit, gains, etc accruing in, derived from, brought into or received in a country for assessment and taxing, lawyers see those processes as purely accounting matters, since they involve identification, calculation, demanding, receipting, remittance and reporting (Dandago, 2003; Salawu, 2005; Abdurrahman, 2006); Iliya, 2007; Muhammad, 2009).

Taxation, even though a clear branch of accounting, is fast growing as a discipline of its own, professionally and academically. Studies conducted on taxation have led to the identification of two clear forms of taxes, especially in Nigeria: direct and indirect (Muhammad, 2009; Nakpodia, 2011; Dandago & Masud, 2014; Olumide, 2016; Fortune, 2018; and Abioye, 2018). Direct Taxes are those whose burden could not be shifted immediately to a third party. These are taxes that are paid mostly on proceeding year basis and, so, the amount paid could not be immediately factored into the price that the consumers of the good or service would pay immediately. In Nigeria, direct taxes are: Companies Income Tax, Personal Income Tax, Petroleum Profit Tax, Capital Gains Tax, Education Tax, etc. Each of these direct taxes has been subjected to many researches to prove some points and to find better ways of administering them by relevant tax authorities, especially in economies that accept taxation as a tool for economic development (the tax-based economies) (Dandago & Masud, 2014; Olumide, 2016; and Abioye, 2018).

Indirect Taxes are those taxes whose burden could be immediately shifted to a third party (Denis, 2007; Boyi, 2007; Kyari, 2007; and Dandago, 2008). In the case of Nigeria, they include Import Duties, Export Duties, Excise Duties, Stamp Duties and Value Added Tax. These taxes are mainly consumption taxes in nature. There are high level researches by scholars and practitioners conducted with a view to finding out how they compete or serve as substitute to direct taxes in enhancing the tax revenue base of a country for it to depend greatly on taxation for sustainable economic development, rather than relying heavily on natural resources for survival (Dandago & Alabede, 2002; Ahmed, 2005; Iliya, 2010; Dandago, Liman & Ahmed (eds), 2011; Saidu, 2011; Dandago, Safiyya & Sahiba, 2014; Dandago, Dahiru & Abubakar, 2016; Muhibudeen, 2018; and Oyedokun, 2018). As is the case with direct taxes, many studies on indirect taxes across the world have produced similar results on the power of a good indirect tax system in fast-tracking the development of an economy on a sustainable basis (Iliya, 201; Dandago, Liman & Ahmed (eds), 2011; Saidu, 2011; Sarensen, 2017; Steinmuller, Thuneake & Wamser, 2019).

This paper argues for the necessity of a good tax system to any country that would want to measure up to the standard of developed economies, being the most durable source of revenue needed to execute developmental projects (Muhibudeen, 2018; and Oyedokun, 2018). The paper is divided into six (6) parts. Part One is the introduction, as above. Part Two presents taxation as key to sustainable development. Part Three is the statement of methodology. Part

Four is about impact of taxation on sustainable development. Part Five discusses party politics and taxation for sustainable development. Part Six concludes the paper.

2.0 TAXATION AS KEY TO SUSTAINABLE DEVELOPMENT

As mentioned earlier, some of the taxation "weapons" used in developed economies for the achievement of the four purposes of taxation and ultimately for attaining sustainable economic development are: personal income tax; petroleum profit tax, companies income tax; capital gains tax; value added tax; duties (import, export, excise, stamp); property tax; etc. All the taxes are backed up by some laws, as they are utilized all over the world (Iliya, 2010; Saidu, 2011; Sarensen, 2017; Steinmuller, Thuneake & Wamser, 2019). Nigeria and other developing economies use various dimensions of these taxes for the achievement of all the purposes of taxation, especially revenue generation for covering cost of governance.

In the developed economies, the payment of taxes is assured, as elements of tax evasion are under strong control (Oyedokun, 2018). In those economies, they tax income, profit, consumption and property heavily, but with some degree of human face and friendliness, so that government could have enough fund to execute developmental projects (short-term and long-term). Those in government see the positions they hold as trust and not as "booty", and they are always ready to show prudence, transparency and accountability in the management of public funds and other trusts bestowed on them (Sarensen, 2017). The taxpayers, both individuals and corporate bodies, keep close watch on the way those in government manage public funds and other resources (Muhibudeen, 2018).

Government in those countries give timely and understandable stewardship on how taxes are utilized to generate funds and on how the funds generated are used to execute sustainable developmental projects (Sarensen, 2017; Steinmuller, Thuneake & Wamser, 2019). In developing economies, however, taxes are bedevilled by fraudulent practices and the relatively "little" amount realized from taxation is not being effectively managed to execute impactful projects that could bring about sustainable economic development (Muhibudeen, 2018). This attitude is what inflicts fear of mismanagement of income tax payable to those in government by the taxpayers (both individuals and firms). It is the responsibility of those in government to be honest enough to remove this kind of fear from the mind of the taxpayers.

Below are samples of tax rates in some countries of the world in respect of only three types of taxes/weapons: companies income tax, personal income tax and value added tax/goods and services tax. The high tax rates in developed economies (who are not blessed with natural resources like crude oil, gold, diamond, etc) suggest their acceptance of taxation as the key instrument for attaining developed economy status! The tax rates of some of these countries are as follows:

Country	CIT	PIT	VAT/GST
Germany	30%	45%	19%
Italy	32%	43%	21%
Netherland	25%	52%	21%
Norway	28%	48%	25%
Portugal	25%	54%	23%
Spain	30%	52%	21%
Sweden	22%	57%	25%
UK	24%	45%	20%
USA	35%	40%	25%
Nigeria	30%	24%	5%

Source: Wikipedia, 2014

The table above shows how low tax rates are in Nigeria when compared against the rates in developed economies. Note that for each of the 9 sample countries compared with Nigeria, personal income tax rates are higher than the companies' income tax rates. This is due to the fact that companies need to obtain high profit after tax for them to finance expansion and diversification as they work towards achieving their set objectives. The ability of businesses to expand and diversify their operations is what creates skilled and unskilled jobs in those countries, courtesy of the power of the "invisible hand". The government is not the provider of jobs/employments but just the provider of enabling environment for businesses to utilize and flourish.

Looking at the PIT rates of countries like Sweden, Portugal, Netherland, Spain, Norway, Germany down to UK and USA, one would notice that they high compared to obtains in Nigeria and other developing economies. Personal Income Tax is payable by income earners only (self-employed or employee of public or private sector organizations). Non-income earners are not required to pay PIT of whatever dimension, all over the world, and the taxpayers enjoy some relieves and allowances from their gross income before tax rates are applied on the chargeable income.

In Sweden, for example, out of every one-Naira a person earns, 57 kobo go to the government in the name of taxation and the person is left with 43 kobo as his/her dispensable income. In UK, government takes 45 kobo of each one-Naira an individual taxpayer earns, while 55 kobo would be left as dispensable income to the taxpayer. The government has to account to the taxpayer, with detailed explanations, as to how that income tax deducted from his/her chargeable income has been utilized in providing some public goods to be used by all and sundry (the rich and the poor). Any slight allegation of misappropriation or misapplication of taxpayers' money would cause public officers at various levels to resign from their duty posts or just step aside for investigation to be conducted. Good tax system encourages high level of honesty, prudence, transparency and accountability.

The high personal income tax rates afford the government the opportunity to use substantial part of the earnings of workers and entrepreneurs to provide public goods (quality education, healthcare, sound security, good judicial system, good roads, etc) for all to enjoy, thereby minimizing individual/private expenditures on those goods. This arrangement narrows the "gap" between the rich and the poor and eliminates inconvenience of having to provide for the goods privately. The higher the Value Added Tax/Goods and Services Tax rate, the higher the control and regulation over consumption behavior of people in a country and the higher the revenue generated by government for the coverage of capital and recurrent expenditures (Iliya, 2010; Saidu, 2011; and Sarensen, 2017).

As developing economies, like Nigeria, cherish developed economies due to the sound human capital they produce for themselves (through sound education, effective healthcare services and result-oriented skills acquisition programs), the governments of developing economies and the citizens of those economies should appreciate studies that postulate that without good and productive tax system those economies wouldn't have been developed by now (Dandago & Masud, 2014; Olumide, 2016; and Abioye, 2018). This suggests that developing economies, like Nigeria, are bedeviled with poverty, ignorance, diseases and hopelessness due to absence of an effective tax system.

Various research results in the field of Taxation agree that taxation remains the most reliable and durable source of revenue to governments of different jurisdiction from beginning of human collective endeavor to date (Balardi, Profeta, Pugissi & Scabosetti, 2019). These researches have also made it clear that all the developed nations of the world are tax-based economies, while all the resource-based economies are developing or backward nations. For example, none of the member-countries of any resource-cartel, like the Organization for Petroleum Exporting

Countries (OPEC), is enjoying rating as a developed economy, and most of those countries in the various cartels are suffering from high level poverty, corruption and even civil wars.

Resource-curse economy is one in a situation whereby the more the revenue the economy generates through natural resources, the more the poverty its citizens suffer from! The simple reason behind this unfortunate situation is that those in position of authority in the economy see the revenue from natural resources as a "booty" for them and not a trust to protect and utilize in the best interest of the general public. No leader can dire do that on purely tax revenue!

3.0 METHODOLOGY

This paper is a product of desk-review aimed at proving that taxation is a very strong instrument for attaining sustainable economic development. Relevant studies on various aspects of taxation that showed how one or more of the purposes of taxation have been investigated for confirmation have been reviewed. If the purposes of taxation: (i) revenue generation for covering expenditures for development; (ii) controlling and regulating economic activities as carried out by various components of the economy; (iii) stabilizing the economy against inflation and other economic shocks; (i) and narrowing the "gap" between the rich and poor, could be achieved sustainable development is assured.

The paper reviewed many relevant studies, both empirical and conceptual, to pave ground for concluding on how tax-based economies of the world are developed, while resource-based economies (that do not attach serious importance to taxation) are still developing. This is with a view to do justice to the topic of the paper.

4.0 IMPACT OF TAXATION ON SUSTAINABLE DEVELOPMENT

Sustainable development, as defined by the World Commission on Environment and Development (1987) is about 'meeting the needs of the present generation without compromising the needs of the future generation'. As the government takes care of the needs of the present generation of a country, using a percentage of taxpayers hard-earned income, serious attention must be paid to the needs, yearnings and aspirations of the future generations of citizens in that country. It is taxation and the incomes it generates that inculcate this type of discipline in the psyche of the leaders. Public funds obtained through tax and non-tax sources of revenue is to be used in providing public goods for the citizens and be subjected to high level transparency and accountability to the citizens.

Taxation is a fiscal instrument for coming up with deliberate policy on economic stabilization, as it is used for exercising control over inflation and deflation in an economy, through the medium of direct taxes like personal income tax, companies' income tax, petroleum profit tax, capital gains tax, education tax and other dimensions of direct taxes. The higher the rates of these taxes, the lower would be the dispensable income of taxpayers and the lower would be their power of purchasing goods and services, thereby bringing down inflation to a controllable level. Reverse scenario follows on the control of deflation in any tax-based economy.

With high and uncontrollable inflation, diminishing purchasing power, poor market for producers of goods and services and closure of existing businesses, job opportunities are bound to be scarce (giving way to high level unemployment to the nation's teeming youth), social vices are bound to increase (resulting to more investment of public funds on the fight against drugs abuse and other anti-social activities), and insecurity situation is bound to deteriorate (resulting to more investment of public funds on the fight against criminalities). All negativities in the economy could have been substantially reduced or eliminated with a good tax system in place, as the impact of the system would be more preventive of those negativities than their cure!

For regulation and control of consumption behaviors of the three components of the economy (individuals, firms and governments), taxation is used, through the medium of indirect taxes like import duties, export duties, excise duties, value added tax and other dimensions of indirect taxes. The higher the rates of these taxes the lower the consumption of the items and vice versa. This imposes control over the consumption, production, importation and other economic behaviors of all the three components of the economy. The truth about taxation is that it is not always revenue-focused, sometimes its concern is more on exercising control or regulation over some economic and other activities. To achieve national development an instrument must be used to control and regulate economic, political, social, technological and legal activities and environment in the economy, and that instrument is taxation.

Taxation is also a fiscal policy instrument for narrowing down the “gap” between the rich and the poor. Since only the income earners, profit makers and property owners pay tax, the amount paid is to be used in providing public goods for everybody in the economy to enjoy (Agostini, Engel, Repetto & Vergara, 2018). This puts the “poor” in a position whereby they benefit from the wealth of the “rich” as roads, qualitative education, good healthcare system, tap-borne water, electricity, security, good judicial system, etc are provided by the government using the tax revenue collected from the “rich”. The poor provides the labour used by the rich to enhance their wealth out of which they pay tax to government. Without taxation, the gap between the rich and the poor would be very widely uncontrollable. The wider the gap between the rich and the poor in an economy, the more under-developed it is and the narrower the gap, the more developed the economy is. That “gap” is globally accepted as a yardstick for measuring the level of development of a nation (Dandago & Masud, 2014; Olumide, 2016; Abioye, 2018; and Steinmuller, Thuneake & Wamser, 2019).

5.0 PARTY POLITICS AND TAXATION FOR SUSTAINABLE DEVELOPMENT

The case of Nigeria is picked as a sample for other developing economies on the use of taxation for achieving sustainable development within the context of party politics. The country is witnessing the second term tenure of All Progressive Congress (APC)-led government headed by President Muhammad Buhari, at the Federal level. The government has spent 4 years trying to bring about positive change in the lives of the people, based on its three cardinal objectives: securing the nation, fighting corruption and rebuilding the economy. The government looks at the present tenure of four years as a period for moving to the “Next Level”, as if the challenges of the lower level have been successfully dealt with.

Listening to the government’s image makers on what have been achieved by the Federal Government of Nigeria (FGN) so far, it would appear to one as if the 3 cardinal objectives have been substantially achieved, while listening to the opposition (People Democratic Party members in particular) it would appear as if nothing concrete has been done to achieve any of the three cardinal objectives set by the APC government at the center. Both parties are wrong in their arguments, due mainly to the fact that none of them is considering taxation as central instrument for achieving sustainable development in driving home the argument for the situation of things. Again, none of them is arguing for prudence in running the government business (emphasizing on cost effectiveness in governance in respect of the need to cutoff unnecessary expenditure on remuneration of government functionaries, members of the parliament and judicial officers as well as cutting off the heavy investment on electoral process, even if the country is to shift from the presidential system to parliamentary system).

The APC government (just like the PDP-led government of 1999-2015) has not made taxation central in the pursuance of its three cardinal objectives and that is the main reason why the three objectives have not been reasonably achieved. You can’t fight corruption successfully in a situation whereby government's coffer is dominated by revenue from natural resources and the "gap" between the rich and the poor is increasingly widening. You can't achieve much with whatever efforts towards securing the nation where unemployment, poverty, inflation, poor quality education (which could all be neutralized by a good tax system) are high. You can't build or rebuild an economy where enabling investment environment is either absent or poor and human capital is weak.

These are the challenges the PDP government could not overcome in the first 16 years of the present democratic dispensation and the APC government too could not reasonably overcome within its first four years. As taxation has not been made central to the development plan of the government since 1999, wastefulness has been the order of the day as heavy remuneration goes to functionaries of the three arms of government and the electoral process of the country is made a heavy consumer of public funds, much higher than budgetary allocation to agriculture, health or education!

The truth is that the last 20 years of democratic dispensation in that developing economy were run by governments that have phobia for taxation as a fiscal policy instrument that must be made central for attaining sustainable economic development. The developed economies of the world are developed because they accept taxation as central to all their plans for improving the quality of lives of their citizens and, so, taxation matters are always the most controversial issues in their budgeting and budgetary control processes at the floor of their parliaments and during public hearings on budgeting exercise (Olumide, 2016; Sarensen, 2017; and Abioye, 2018).

For the Nigerian budgeting exercise, at all the three tiers of government, tax matters are not enjoying any serious attention from the policy makers, the informed group (budget analysts) and the layman group (who always prays for new budget to bring some goodies to them). When the budgets are announced (a sort of annual ritual presentation) you would not see any seriously articulated policy statements on taxation; the law makers as they discuss the budget for approval would only be talking about increase in price of barrel of crude oil, and the budget analysts would also hardly make any serious reference to fiscal policy articulation in the budget document. The feeling is that if the government talks tough about taxation (especially proposing to increase the rate of any of the direct or direct taxes), the government and its political party risk electoral backlash!

As Nigeria continues to be run with taxation-phobia (as against what is obtainable in the developed-tax-based economies of the world), the APC government might not be able to bring about any significant improvement in the lives of Nigerians in the next four years, and they might not be able to record better performance on the three cardinal objectives of the government than what have recorded in the last 4 years. The governments at the Federal, States and Local Council levels must develop the courage to bring taxation strongly to the center of their strategic plans for them to achieve their set objectives and even make much more developmental breakthroughs.

As taxation is made central to the three cardinal objectives of the present APC-led government, it is high time that the government stops incurring expenditures on non-core projects or projects that are commercially viable to private investors. Tax and long-term non-tax revenue should be concentrated on projects that would lead to provision of high-quality internal security and protection against external aggression, development of high-quality human capital, ensure self-reliance on "stomach management" and provision of critical infrastructure.

On security, government should use available revenue to fully ensure good judicial system; protection of the country against external aggression; and substantially provide high-quality internal defense. As these three core-projects are funded (using taxpayers' money and revenues from other sources), it is only on internal security that private sector organizations could be allowed limited space to operate, as they set-up some private security outfits for different organizations to patronize. As security infrastructure is provided by the government, 'stomach management' should be a great concern of the government, on which taxpayers' money could be expended in empowering micro, small and medium scale farmers with farmlands, financial support (in the form of highly regulated loan), and training and monitoring so that adequate food and cash crops could be produced annually across the country.

Other core projects that demand substantial public sector funding are: (i) provision of high-quality education (from primary school to University levels), covering needs like critical infrastructure (including construction/purchase of buildings, equipment, plants, machineries, property and facilities), purchase of books and other resources for effective learning; and provision of research grants and conference attendance funds, etc; (ii) ensuring high quality healthcare delivery; (iii) provision of infrastructure that would lead to acquisition of skills by all strata of the economy, irrespective of gender, level of economic development, place of residence, etc. These three measures lead to the development of high-quality human capital in an economy, which requires public investment of substantial funds generated through good tax system and publicly owned non-tax sources of revenue. Private sector participation in the provision of each of the three should be encouraged and regulated, as level playing ground is provided for healthy competition between the public sector agencies and private sector organizations. Public private partnership (PPP) is also to be greatly encouraged, using different variants of it.

Social amenities like electricity supply, clean water supply, provision of agricultural inputs (including fertilizer), environmental cleanliness, public transportation, etc are to be privatized in view of their necessity and high commercial viability. The government is to use taxpayers' money to provide a three-level subsidy (60% for rural dweller, 40% for semi-urban dwellers and 20% for urban dwellers) on the reasonable prices charged by the providers of those amenities.

Tax revenue and other revenues to the public coffer should not be used for the construction of highway roads, highway bridges (government to construct feeder/local roads and bridges only), airports, seaports, railways and rail stations, refineries and petrochemical plants, markets, motor parks, etc. All these are to be allowed for the private sector investors (local and foreign) to take care of as business opportunities (through acceptable models of public-private-partnership), especially as the government provides enabling investment environment. Tollgate charges and other charges are to be reasonably fixed by the investors to recoup their investments and make their target return on investment within the agreed time, after which the projects revert to the government.

With taxation at the center of the APC-led government's three cardinal objectives, effective public financial management would be assured (thereby dealing substantially with corruption), security of the Nigerians' faith, life, intellect, posterity and property would be assured (looking at the measures that would ensure tangible investment in internal security and protection against external aggression as well as opportunities for gainful employment and entrepreneurship), and the economy would actually be on the path of sustainable development (as economic activities would be on the high side to the extent that Gross Domestic Product of the country would be on the increase).

May taxation-phobia be removed from the minds of Nigerian leaders as well as Nigerian citizens, likewise leaders and citizens of other developing economies of the world!

6.0 CONCLUSION

Too many long-term Development Plans and Visioning processes have been put in place in Nigeria and many other developing economies of the world, but there has not been any tangible progress in the quality of lives of the masses; the poor citizens of those countries get poorer while the rich get richer! Again, fraudulent practices, insecurity and economic instability have been on the increase for too long. A clear structural imbalance (that calls for real and easily understandable restructuring) is the situation whereby less than 1% of the population in any of those countries owns more than 99% of the wealth of the country OR more than 99% of the population owns less than 1% of the wealth of the country! This imbalance, in the case of Nigeria, is the main cause of the class-antagonism which is noticeable all over the country, in the form of banditry, kidnapping, arm-rubbery, cattle-rustling, religious disturbances, ethnic conflicts, mistrust, etc. It is a very powerful time bomb that could only be quashed away when the government develops the required courage to covert the economy to a full-pledged tax-based economy!

A lot of signs of Dutch-disease and resource-curse could be noticed in developing economies, like Nigeria. Measures for revenue generation put in place by the governments in those economies are mainly about using natural resources, especially crude oil sales, to generate revenue for financing developmental processes. But crude oil and other resource revenues appear to be treated as "booty" to those in government (military or civilian) and the masses also appear to be in agreement that natural resource revenues are government money, mainly for those in government. This made those in government to ignore the country's potentials in taxation matters for revenue and employment generation since they are well off with what they quietly "loot" from the natural resource revenue.

This paper argues for the governments of developing economies to develop the required political will and shock absorber to ensure the centrality of taxation for attaining sustainable economic development. To ensure that those economies recover from their chronic Dutch-disease, so that they utilize all the productive sectors of the economy, taxation-phobia should be removed from the minds of the leaders and the citizens. For resource-curse syndrome to be a thing of the fast, so that all resources are effectively utilized in the best interest of the citizens of those countries, taxation should be treated as the most durable source of revenue to cover recurrent expenditure and expenditure on some long term projects, while revenue from natural resources are deployed towards financing the core-projects highlighted in this paper.

As taxation-phobia is removed from the minds of Nigerians (both leaders and followers), there would be the need for sustained quality research works on taxation and its branches so that all decisions on taxation by taxpayers, tax managers, tax practitioners, tax authorities and governments are taken as seriously informed decisions. Tax authorities are to be mandated by government to ensure adequate funding of relevant research in the field of taxation. Continuous researches on relevant taxation matters/issues would make it very clear to the taxpayers, tax managers, tax practitioners, tax authorities and the governments that taxation is actually central for whatever development agenda to be put in place, and that all hands must be on deck to promote taxation as the tool for achieving sustainable economic development.

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Proposed Definitions for All Phases of Accounting

Jesse Hughes

Professor Emeritus of Accounting,
Old Dominion University, Norfolk, Virginia, USA.

Michael Parry

Chair of the Ad Hoc Committee
on International Accounting Standards

Hassan Ouda

Professor of Accounting at
German University in Cairo
Email: Hassan.ouda@guc.edu.eg

Abstract

Accounting can be broken out into the following two phases: Backward Looking Phase (Cash, Modified Cash, Modified Accrual, Simplified Accrual, and Full Accrual) and Sustainable Forward Looking Phase (Sustainable Modified Accrual and Sustainable Full Accrual). This article attempts to more clearly define each of these accounting phases and bases.

Keywords: Backward looking phase; Sustainable forward looking phase; Sustainable full accrual basis; Sustainable modified accrual basis.

1.0 INTRODUCTION

There has been a lot of research and discussion concerning the various phases of accounting. Yet there is not consistency in what is covered in each of these phases nor is there a clear understanding as to what is covered in any particular accounting base. This is especially true in the public sector where the accounting base was initially adopted from the private sector. However, the private sector generally reports only on the cash or accrual accounting base with no disclosure on budgets. Budgeting in the public sector is much more complex since the annual or biannual budget adopted by the legislative body is legally binding and is integrated with the accounting system. The accounting phases in the public sector can be broken down into the following bases:

Phases	Bases
Backward Looking Phase	Cash
	Modified Cash
	Modified Accrual
	Simplified Accrual
	Full Accrual
Sustainable Forward Looking Phase	Sustainable Modified Accrual
	Sustainable Full Accrual

2.0 BACKWARD-LOOKING PHASE[1]

1. Main Accounting Bases

The only two bases formally recognized by the International Public Sector Accounting Standards Board (IPSASB) are cash and full accrual since these standards were based on those in the private sector as modified for the unique aspects in the public sector. The definitions of these two bases are explained in this section.

a. Cash accounting

Cash accounting definition

Cash accounting records cash flows and cash balances. The term cash includes (IPSAS 2, para 8):

- **Cash on hand** – i.e. notes and coin
- **Demand deposits** – i.e. bank balances in current and short notice deposit accounts
- **Cash equivalents** – investments held for the purpose of meeting short term cash commitments and which are (i) subject to insignificant risk of loss of value and (ii) convertible to cash at short notice (say less than 3 months). Equity investments can never be cash equivalents.

Under the cash basis, the accounting records are of balances and movements in cash (as defined above). Financial statements prepared under the Cash Basis IPSAS exclusively report on cash flows and balances.

To meet the needs of financial control, governments and other public sector entities that use cash basis accounting will usually keep records of some non-cash assets and liabilities, e.g. records of loans for debt management purposes, inventories of financial assets and liabilities as well as records of contingent liabilities. However, such records will be outside the accounting system — usually referred to as memorandum records.

Cash accounting requires only simple record keeping, analyzing cash receipts and payments by expenditure or revenue coding and reconciling cash balances with external records. Although it is possible to establish double entry ledger accounts for cash accounting, these are not essential. However, cash accounting records can become complex where there are:

- Multiple bank accounts, physical stocks of notes and coins, and other cash equivalents that must be reconciled and consolidated for financial reporting
- Charts of Accounts that require multiple analyses

Since the only assets will be cash, bank balances and cash equivalents, the only control will be over these assets. Bank statements provide external confirmation of balances; therefore, reconciling internal records to bank balances is a strong and important control, and is rightly emphasized in all accounting procedure manuals. Physical stocks of notes and coins require regular independent counting and reconciliation.

Cash accounting financial reports

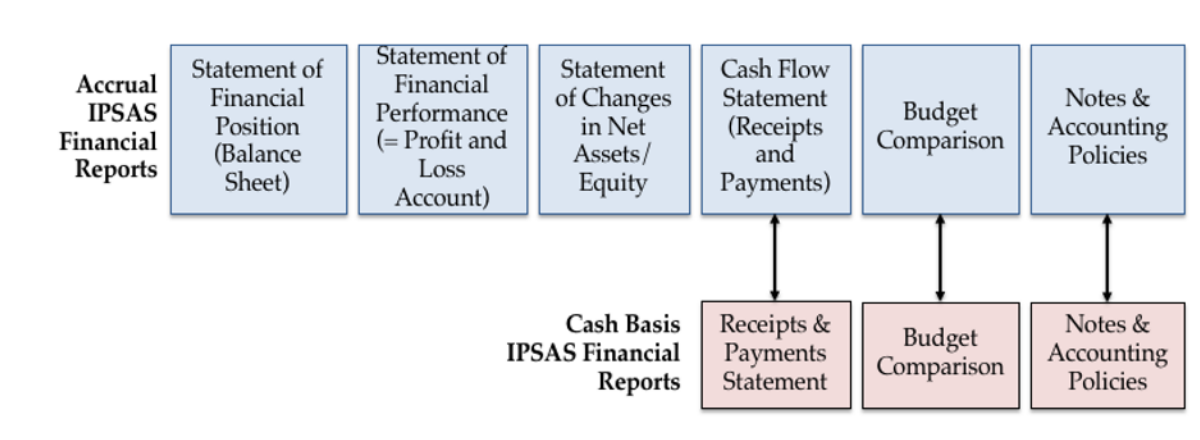
Reporting under cash accounting requires only a Statement of Receipts and Payments which shows:

1 Adapted from Chapter 8 of eBook titled "Accounting for Governments: from Budget to Audit" co-authored by Michael Parry and Jesse Hughes and self-published on Amazon (2019).

- Opening cash balances
- Cash receipts and payments during the fiscal period
- Closing cash balances

The figure below relates the financial reports under cash accounting to accrual accounting reports.

Cash basis financial reports



Why cash accounting is widely used by governments

Cash accounting continues to be widely used by governments around the world. Almost all small and/or developing countries, as well as many developed countries, use cash accounting for central government.

The five traditional goals of government accounting are identified in the table below. In addition, the table explains how each of these requirements is met under cash accounting, and also the limitations of using cash accounting.

How cash accounting meets key government requirements

Requirement	How achieved under cash accounting	Limitations and issues
1. **Fiscal management** Managing taxes and borrowing	Taxes and borrowings are specified in cash terms and hence can be managed	Cash accounting does not provide any mechanism to manage tax or payment arrears, nor is there any record of amounts borrowed or lent
2. **Budget management** Ensuring the budget is spent, no more and no less	Most budgets are prepared on a cash basis so directly linked to cash accounting	Cash budgeting makes the problem of year end curt off and funds lapsing difficult to handle
3. **Compliance** With laws and regulations governing the receiving, spending and control of money	Most compliance regulations are about cash, so cash accounting presents no problems	Does not support monitoring of such issues as payment arrears, lending and borrowing
4. **Records of money flows and balances** Cash accounting and reporting	Cash accounting directly links to management of cash flows and balances	Does not provide predictive information on flows and balances
5. **Collection and payment of money**	Records collections and payments	Since amounts owning and owed are not known does not support control and management

These five goals have determined the development and form of government accounting systems until the last half of the twentieth century and continue to be key requirements of government accounting. All five of these traditional goals can be met using cash accounting.

There are good reasons why governments continue to use cash accounting:

- Cash accounting meets the basic requirements of budget management and execution - budgets are usually prepared on cash basis and provide the information required to manage expenditures against the budget
- Cash accounting links to the requirement for cash management, since both relate to cash flows and balances
- Cash accounting is simple and absolute - there are no judgements, whereas accrual accounting requires judgements in assessing flows and values
- Many of the advantages of accrual accounting are not relevant in the public sector, e.g. measuring profit for tax and dividend capacity, profit as a measure of performance, etc.
- Accrual accounting involves a higher level of accounting skills and a significant initial investment to identify and value assets and liabilities

There are also strong arguments for accrual accounting as considered in the following sub-sections.

b.Full accrual accounting

Definition of accrual

Full accrual accounting refers to the accounting base used by the International Monetary Fund Government Financial Statistics Manual (IMF GFSM) and the accrual IPSAS. The GFSM defines accrual accounting as *"flows are recorded at the time economic value is created, transformed, exchanged, transferred, or extinguished"* (IMF GFSM, 2014: Para 1.27). IPSAS uses a different definition *"transactions and other events are recognized when they occur."* (IPSASB, 2018: Glossary of Terms). In practice, both definitions describe the same accrual accounting base though from different perspectives.

Accrual accounting records all assets and liabilities of the entity and all changes in value of such assets and liabilities. Changes in value may occur without an actual transaction, e.g. depreciation or revaluation of an asset, change in exchange rate for liabilities denominated in a foreign currency, destruction of assets through war, etc.

Definitions of terms are as follows:

- **Asset —** *"resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity"*
- **Liability —** *"present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential"* (IPSAS 1 "Presentation of Financial Statements", IPSASB, 2018)

Assets and liabilities include:

- Tangible assets
- Intangible assets
- All liabilities

Economic flows include:

- Cash transactions (as under cash accounting)
- Non-cash transactions, e.g. purchases on credit
- Economic flows not involving transactions, e.g. revaluations

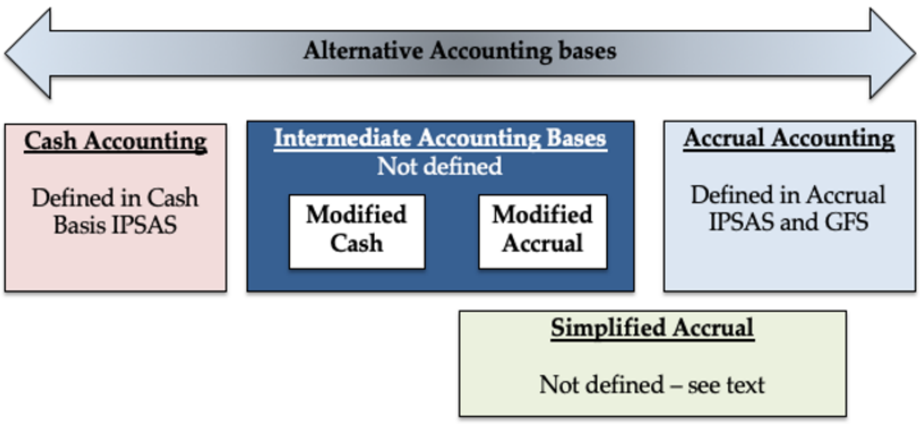
The definition and measurement of assets, liabilities and economic flows presents numerous technical problems resulting in the volume and complexity of international standards. But the principles are simple as above.

It is clear that accrual accounting is a more comprehensive method in that it captures and records the balances and flows relating to all assets and liabilities. Cash accounting, on the other hand, does what it says - captures and records balances and flows relating only to cash.

2. Intermediate accounting bases

Cash and accrual are not binary options; there are intermediate accounting bases that combine elements of cash and accrual accounting. These are usually referred to as "modified cash" or "modified accrual" accounting. IPSAS does not recognize such intermediate basis and hence does not provide definitions. In practice there are a range of intermediate bases, variously defined. The two most common variations are modified cash and modified accrual as illustrated in the figure below and explained further in the following sections. To these two is added simplified accrual, also explained below.

Cash and accrual accounting compared to intermediate stages



a. Modified cash basis

There is no IPSAS definition of the modified cash basis of accounting. However, the term is commonly used to refer to a system of cash accounting with the following exceptions from pure cash accounting:

1. Expense advances are treated as expenditure when the expenses are accounted for, not when an advance is made, and the advance is treated as an asset - i.e. an accrual approach
2. Similarly, deposits made or received are not treated as revenue or expenditure until the transaction to which they relate takes place, e.g. a deposit for material purchases is not treated as a payment until the transaction is completed and payment made in full
3. At the end of the year, the accounts are kept open for a period (e.g. one month) and payments in that post year end period relating to the year are treated as cash payments within the financial year

Advance and deposit balances are sometimes referred to as “below the line accounts” - so-called because they are not reflected in the cash based budget.

A PwC survey of central government accounting practices uses the following definition of modified cash accounting:

> *“Cash receipts and disbursements committed in the budget year are recorded and reported until a specified period after year-end”* (PwC, 2015).

Record-keeping and accounting process

A modified cash basis significantly increases the complexity of record- keeping and the accounting processes. In addition to the cash records under cash accounting, there must also be a record of:

- Non-cash items e.g. advances and prepayments
- Payments made in the first month of the new financial year attributed to the previous financial year must be excluded from the analysis of the current year, to avoid double counting

Although many countries have used memorandum records (e.g. registers) to manage such non-cash items, these will lack adequate controls. This is the stage of increasing complexity in accounting where a double entry system is required. Similarly, with automated systems, this is the stage where COTS software applications become appropriate.

Asset and liability control

With modified cash, control enters a new dimension. Additional controls are required:

- Assets and liabilities, e.g. to ensure expense advances are properly reconciled and regularly cleared
- Expensing cash payments in the first month of the following year creates complexities, in that controls are needed to ensure every payment is recorded once and once only, and balances are correctly adjusted to take account of such treatment.

From a control perspective, modified cash is inherently unsatisfactory because it lacks any clear definition or conceptual base, and controls are not automatic within the accounting system.

The modified cash statement of flows is neither a statement of cash flows nor an accrual statement of operations. Although this presentation is common, it is not consistent with any accepted accounting base, since it mixes cash and accrual concepts.

The Balance Sheet is difficult to understand, has limited use and therefore is not normally prepared. The Balance Sheet shows:

- Cash balances (identical to the cash basis)
- Advances and deposits, if any
- Bills paid in the first month of the following year (in the example in the annex January 2019) treated as paid within the financial year 2018

In practice, a modified cash basis will be much more complex, with multiple advance and deposit balances as well as other payments made in January 2019 recorded as made in 2018. The modified cash basis only exists because of the inability of pure cash accounting to deal with certain issues. It is not a proper accounting base.

Financial reporting under modified cash accounting

Modified cash accounting is not accepted as a reporting base by either IPSAS or GFS. Reports would appear under modified cash accounting, but to be consistent with the Cash Basis IPSAS they must be adjusted to the cash basis of reporting. However, in practice many countries prepare modified cash basis financial reports whilst claiming they are cash basis.

b. Modified accrual accounting

Definition of modified accrual accounting

As with modified cash accounting, there is no standard definition of modified accrual accounting. The common definition is that modified accrual refers to the cash basis plus financial assets and liabilities as identified below.

> *The Modified Accrual Basis of Accounting recognizes transactions when cash, financial assets or liabilities are paid or received. The Statement of Financial Position (Balance Sheet) includes all financial assets and financial liabilities.*

This accords with the definition used by Salvatore Schiavo-Campo for *"limited accrual accounting"* (2017:250).

Record-keeping and accounting process

Modified accrual accounting requires a record of all financial assets and liabilities. This can only be satisfactorily achieved with a double entry system, whether manual or automated. It is relatively straightforward to use commercial accounting software for modified accrual accounting, either by:

- Setting the depreciation/amortisation rate for all non-financial fixed assets to 100%, or
- By providing expense codes for all capital (fixed asset) expenditure and then expensing such items when the financial flow takes place.

Modified accrual enables enhanced control over financial assets and liabilities:

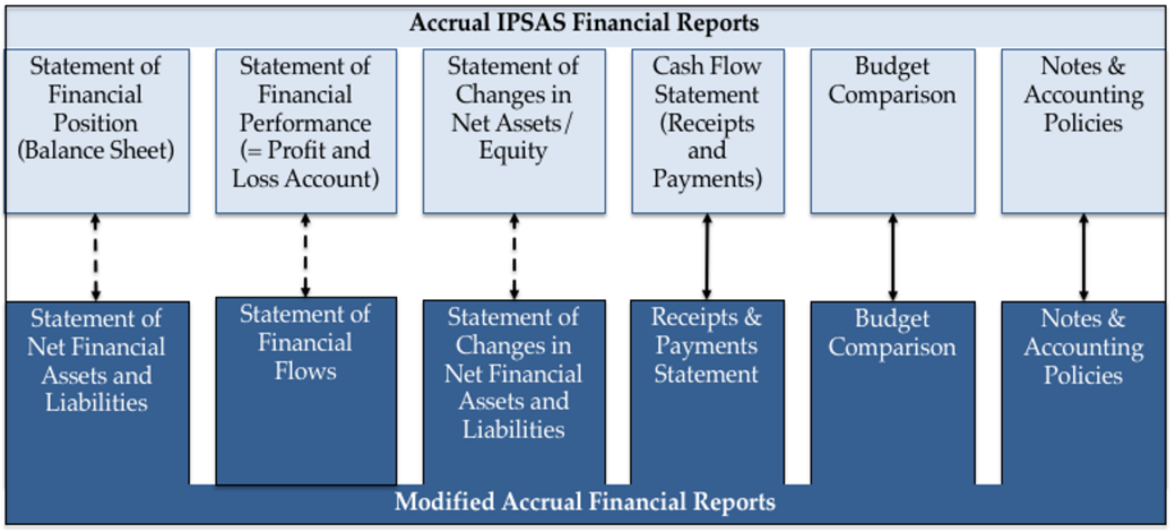
- Lending and borrowing are captured in the accounting system
- It becomes meaningful to record and report contingent liabilities (fiscal risk)
- The system should capture bills payable - unpaid bills can represent a significant and undisclosed problem unless invoices are entered on receipt, as should happen under modified accrual accounting
- Fiscal management becomes feasible through the accounting system and reports, since all fiscal information is captured and reported

Modified accrual financial reports

As noted above, there is no accounting standard for the modified accrual base, and again there cannot be such a standard without a standard definition of modified accrual. However, it is possible to select those elements of full accrual accounting standards that relate to financial assets and liabilities, and report in accordance with these.

As illustrated in the figure below, a more comprehensive set of financial reports can be prepared under modified accrual accounting than under cash accounting.

Financial reports under modified accrual accounting



Note: dotted lines indicated reports are not identical.

The modified accrual basis has advantages and limitations as summarized in the table below.

Advantages and limitations of modified accrual accounting

Advantages	Limitations
Consistent with the approach currently adopted by many governments	The financial statements will not comply with international standards. As with the modified cash basis, the financial reports have to be adjusted to show only cash flows to be consistent with the Cash Basis IPSAS
Budgets implicitly use the modified cash basis (since they reflect both revenue and financing flows). Hence the reconciliation between budget and outturn as required by IPSAS 24 is straightforward	It does not include physical assets and hence the benefits of control of such assets through the accounting system cannot be achieved
Contains important information not included in the cash basis. In particular, it provides information on borrowing, lending and current liabilities (e.g. unpaid bills) of the government. In fact, the modified accrual basis provides the key information required for fiscal management in the short or medium term	The modified accrual base will have no international definition or recognition. Therefore, the base will have to be defined in the law of the country concerned and then applied consistently across all public sector entities within that country
Avoids many of the technically complex issues of valuation and measuring flows associated with the full accrual (but not all; there are still some valuation issues)	It does not enable the matching of all costs against service delivery outcomes
Since actual liabilities are included there is a conceptual basis for including information on contingent liabilities in the notes to the financial statements (under the cash basis there is no logic in identifying contingent liabilities when actual liabilities are not disclosed)	The Statement of Financial Position for Financial Assets and Liabilities will show an excess of liabilities over assets. This is because borrowings to acquire physical assets will be recorded as liabilities, but the assets themselves will be expensed as they are acquired

A modified accrual base as described above is appropriate for many countries. It captures financial assets and liabilities without the complexity of valuing fixed assets or the full accrual IPSAS.

c. Simplified accrual accounting

None of the standard texts or standard-setting bodies refer to simplified accrual accounting. However, it is a form of "simplified" accrual that many countries are in practice implementing - even when they claim to be implementing full IPSAS compliant accrual. There is no standard definition of simplified accrual, but it can be described as accrual accounting without some or all of the complexities of full IPSAS or GFS compliance.

Simplified accrual accounting is defined as follows:

> *"An intermediate stage between modified and full accrual accounting where the following IPSAS requirements may be omitted or treated in a simplified manner:*
>
> - *Historic infrastructure assets - not valued or included in financial reports*
> - *Other fixed (capital) assets valued at cost less depreciation, with no attempt at market valuation*
> - *Pension fund or other unfunded liabilities not reported*
> - *Intangible assets not reported*
> - *Various off-balance sheet items not reported, e.g. public-private partnership assets*
> - *Not all entities in either the GGS (for GFS reporting) or controlled by government (for IPSAS reporting) included in consolidated financial reports*
> - *Not all IPSAS disclosure requirements met, e.g. related parties."*

Many countries that claim to be IPSAS compliant have financial reports that exhibit some of the above omissions. It would be invidious to name individual countries, but a detailed examination of the reports of many such low and middle-income countries will identify the above situations.

Sometimes simplified reporting may be justified and still add value as compared to less comprehensive reports, e.g.

- For many countries, creating an inventory and valuing historic infrastructure assets may not be a justifiable cost
- Similarly, the identification and valuation of historic intangible assets may not be worth the costs involved
- For many countries, consolidation of all controlled entities presents major problems of access to information and may not be feasible

It is important that countries recognize and disclose such omissions. It may be better to report compliance with the Cash Basis IPSAS and provide the additional information under Part 2 of the Cash Basis IPSAS.

3.0 SUSTAINABLE FORWARD-LOOKING PHASE[2]

The backward looking phase, starting with cash basis and ending with full accrual basis, provides information about the past period. In this phase, public sector accounting as a discipline reflects the facts and events incurred and focused only on past-oriented information. Accordingly, the backward-looking financial statement based on full accrual accounting includes physical assets, financial assets (both liquid and illiquid financial assets) and all liabilities accumulated to date.

At first glance, it seems that the balance sheet under full accrual accounting and its net worth can provide the best measure for long-term fiscal sustainability of governmental entities. This is due to the fact that it includes all assets and all liabilities accumulated to date and the difference between them is net worth, which is considered as the most comprehensive accrual stock aggregate. However, the government's responsibilities, policy commitments, and contingencies are much broader than these reported balance sheet liabilities. In fact, the balance sheet includes only explicit liabilities, but it excludes implicit obligations, which will affect the financial position of the government in the future. Moreover, the accrual accounting balance sheet recognizes the liabilities arising out of past activities such as accounts payable and accrued payments, but it excludes future liabilities and contingent liabilities arising out of the past and current policy which according to the Office for Budget Responsibility OBR-UK (2011) include the following:

- Future public service pension payments, where the liability to pay the pension was incurred as a result of past employment;
- Capital payments to PFI providers and other payments from previous long-term contracts;
- The future costs of student loans, to the extent that previous loans or the costs of servicing those loans are not fully recovered; and
- Provisions, contingencies, guarantees, and other risks of future costs that might materialize as a result of past activities.

To the above list could be added:

- Recurrent cost implications of capital expenditure, e.g. a new hospital requires an ongoing commitment to medical and other staff, medicines and other ongoing costs
- Non-discretionary future expenditure, e.g. future lease payments

On the revenue side backward looking accounting takes no account of future inflows of resources. This is despite the fact that a government has the legal power to determine its own revenues. For example, the recognition of a liability for future pension payments takes no account of the fact that a government can raise revenues to meet such payments. This is an example of where the application of commercial reporting approaches fails to recognize the nature of a government as having legal supremacy.

Because of these deficiencies, the public sector accounting literature has inferred that the backward looking phase did not help in reporting on long-term fiscal sustainability and there is no elaboration on how public sector accounting can contribute towards this objective (see for example, Dabbicco, 2019; Caruana et al. 2019; Ouda, 2021).

Due to the deficiency of public sector accounting in reporting on long-term fiscal sustainability, the sustainable forward-looking phase has been developed by Ouda (2021). The sustainable forward-looking phase describes future events or results. A forward-looking financial statement

2 Adapted from Chapter 5 of "Practice-Relevant Accrual Accounting for the Public Sector" by Hassan Ouda and published by Palgrave Macmillan (2021).

predicts, projects, or uses future events as expectations or possibilities. This means that the sustainable forward-looking financial statement should include future assets, future revenues, liabilities incurred in the future, future liabilities arising from the past activities and contingent liabilities. Forward-looking information is different from information found in historical financial statements, because it is based on assumptions that might prove to be wrong (rather than being based on facts), there is no expectation that it should be 100% accurate. Therefore, to move forward and to think about the government's long-term fiscal sustainability, we should take into account the impact of both past and future fiscal activities. As OBR (2011) pointed out that as a consequence of its past activity, government has accumulated assets (physical and financial) and liabilities. Moreover, the past activity results in financial flows in the future, such as public service pensions and the government's servicing of its debt. Furthermore, the past activity has created contingent liabilities. In addition to the past activity, the forward-looking phase, that is, the government's future activity will involve financial outflows, partly on the accumulation of future assets, but mostly to pay for current spending on public services and transfer payments. It will also receive future revenues, mostly from taxation. If the accountants need to create a role for public sector accounting in assessing and reporting the long-term fiscal sustainability, this should involve summarizing the fiscal consequences of all past and future activities. The development of the sustainable forward-looking phase has resulted in developing two new accounting bases. The development of two new accounting bases allows for recognizing elements that are related to the sustainable forward-looking phase. In other words, it allows for the recognition o future elements arising out of both past and future activities. This is in addition to all elements arising out of the past activities. The sustainable forward-looking phase includes the following two new accounting bases developed by Ouda (2021):

1. **Sustainable Full Accrual Basis**

   The sustainable full accrual basis is a newly developed basis and therefore there is no standard definition of that basis, but it can be described as accounting basis that goes beyond the traditional full accrual accounting to not only recognize the transactions and events arising out of the past activities but also recognizes the future transactions and events arising out of the future activities. Therefore, this new basis provides the users with information about total assets, liabilities, revenues, expenses and net assets arising out of the past activities. Moreover, it provides information about future assets, liabilities, revenues, expenses and net assets arising from the future activities.

2. **Sustainable Modified Accrual basis**

   The sustainable modified accrual basis is also new developed basis and therefore there is no standard definition for it. This basis comprises all the information provided by the sustainable full accrual with the exception of past and future non-financial assets. This means that it provides the users with information about total financial assets, liabilities, revenues, expenditures, and net financial assets arising out of past activities as well as information about future financial assets, liabilities, revenues, expenditures, and net financial assets arising from future activities.

   Based on the sustainable full accrual basis and the sustainable modified accrual basis (taking into account the differences between them regarding the non-financial assets), we can prepare the **sustainable balance sheet** that it has been developed by Ouda (2021) and includes three types of information as follows:

   - Past-oriented accounting information, which is prepared in accordance with the current accounting standards such as International Public Sector Accounting Standards (IPSAS).

- Present value/discounted value of future liabilities and contingent liabilities arising out of past activity
- Present value/discounted value of future assets, future revenues, and future liabilities arising from future activities

While the basis of accounting determines the elements to be reported or recognized in the financial statements, the measurement focus determines what is being measured. IFAC (1993) has identified four types of measurement focuses: total economic resources concept (based on full accrual basis), total financial resources concept (based on modified accrual basis), current financial resources concept (based on modified cash basis), and cash flow and cash balances concept (based on cash basis). Similarly, the two newly developed accounting bases can also result in creating two new types of measurement focuses: Total Sustainable Economic Resources and Total Sustainable Financial Resources (see phase b). Accordingly, if we need to measure the total sustainable economic resources, then the financial statements should be prepared using the sustainable full accrual basis, but if we need to measure the total sustainable financial resources, then the financial statements should be based on the sustainable modified accrual basis.

Accordingly, the relationship between the measurement focuses and the accounting bases can be shown in the following two phases:

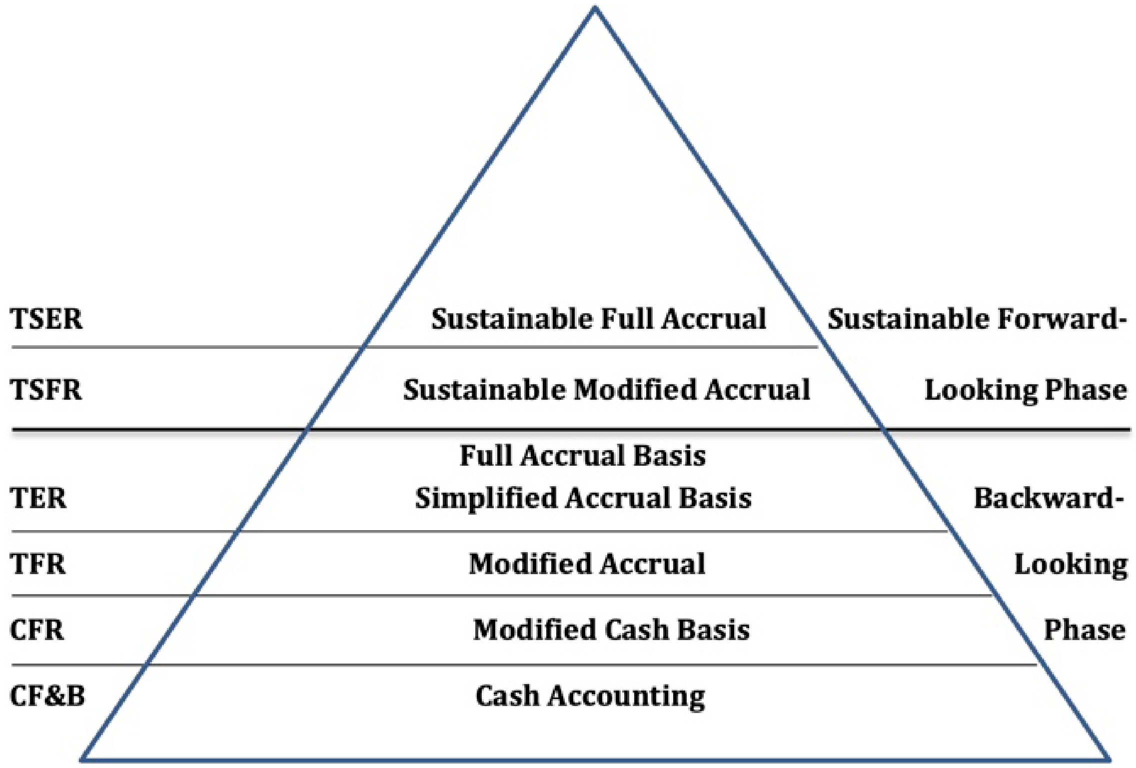
a. Backward-Looking Phase: This includes the four types of measurement focuses identified by IFAC (1993) which represent the past-oriented information phase:

- ***Total economic resources*** (and changes therein): to provide users with information about assets, liabilities, revenues, expenses, and net assets (equity) and changes therein and whether the reporting entity is operating economically and efficiently. This means that the total economic resources concept is consistent with the concept of full accrual accounting.
- ***Total financial resources*** (and changes therein): to provide users with information about liabilities, the financial assets available to meet those liabilities, and the amount and sources of the period's revenues and expenditures. This is consistent with the concept of modified accrual accounting.
- ***Current financial resources*** (and changes therein): to provide users with information about cash flows during the period, those liabilities that must be met within a short period from reporting date, and current cash balances and receivables available to meet those liabilities. It is clear that the current financial resources concept is consistent with implications of the modified cash basis.
- ***Cash flows and balances*** (and changes therein): to provide users with information about the sources and the uses of cash and cash balances at reporting date. Accordingly, this is consistent with the concept of the cash basis.

b. Sustainable Forward-Looking Phase: This is the new phase that includes the two new types of measurement focuses. The two new measurement focuses comprise the total sustainable economic resources and total sustainable financial resources (Ouda, 2021), which are based on the two new accounting bases (sustainable full accrual and sustainable modified accrual) and represent the information required for reporting on long-term fiscal sustainability as follows: (Ouda, 2021)

- ***Total sustainable economic resources*** (and changes therein): to provide the users with information about total assets, liabilities, revenues, expenses, and net assets arising out of past activities as well as the information about future assets, liabilities, revenues, expenses, and net assets arising from future activities. This means that the total sustainable economic resources is consistent with the concept of the sustainable full accrual basis.

- ***Total sustainable financial resources*** (and changes therein): to provide users with information about past and future liabilities, past and future financial assets available to meet those liabilities, and the amount and sources of the period's and future revenues and expenditures. This is consistent with the concept of the sustainable modified accrual basis.



Source: (Ouda, 2020) Pyramid of accounting bases and their relationship with the measurement focuses

TSER = *Total Sustainable Economic Resources*
TSFR = *Total Sustainable Financial Resources*
TER = *Total Economic Resources*
TFR = *Total Financial Resources*
CFR = *Current Financial Resources*
CF&B = *Cash Flow and Balances*

In fact, the newly developed pyramid of accounting bases (Ouda, 2020) includes the backward-looking phase, which represents the whole march of accountants in developing the accounting discipline during the past decades and centuries and is based on current accounting standards and frameworks. In addition, it includes the sustainable forward-looking phase that can be considered as a fundamental phase if the accountants want to create a new role for public sector accounting to contribute to reporting on and measuring the government's long-term fiscal sustainability. This phase requires the development of new accounting standards and new financial statements, either as part/supplementary of the conventional financial statements or they can be published as special purpose financial statements. They can also be published at the same time as the audited financial statements are or at another date.

4.0 CONCLUSION

Historically, the Supreme Audit Institution (SAI) has been responsible for performing a financial audit to express an opinion on the fair presentation of the backward-looking financial statements. An opinion can be expressed based on verifiable factual information or on realistic estimates. However, the information included in sustainable forward-looking financial statements is based on many assumptions that are not easily verifiable. Consequently, these statements would not be subject to a financial audit and an opinion could not be expressed on the fair presentation of financial information. In lieu thereof, the SAI (or the internal auditor) might perform a compliance audit to assure the reader that the financial information presented in sustainable forward-looking financial statements is in line with published rules and regulations and based on realistic assumptions.

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Public Money: How Do the Institutional Financial Management Leadership Controls Work to Ensure Its Sanctity in Pakistan

Aamir Fayyaz

Director, Department of the Auditor General of Pakistan

Abstract

Public money is a sacred trust. It must be spent by the authorized government functionaries with due scrupulousness. Proprietary considerations should lead to adherence of applicable compliance regimes. Wastage of public money need not be tolerated. Pakistan has put in place an elaborate system of financial management leadership controls within government ministries and departments involving several categories of functionaries who are supposed to strive for economy, efficiency, effectiveness in government's operations while adhering to the laws, rules and regulations. These leadership controls within a typical ministry are complemented and supported by controls in departments external to it and include the SAI's reporting to the legislature instances of unwarranted, unauthorized, uneconomical and ineffective use of public money. The common objective behind establishment of all these controls is to ensure sanctity of public money and minimize risks to its misuse.

Key Words: Audit, Auditor-General, Budget, Controls, Controller-General, Pakistan, Principal Accounting Officer, Public money, Public finance, rules, tax-payers

1.0 INTRODUCTION

Public finance concerns itself with income and expenditure of public authorities and its effect upon the economy in general.[1] We refer to it in the sense of management of government money as well as to the money that a government has available to spend from taxes and borrowing.[2] For simplicity, we say that public finance studies or makes an endeavor to study how do modern governments collect and spend money. Apart from public expenditures and revenues, some of its related components are public debt, financial administration and federal finance.[3] The objectives of public finance relate to efficient allocation of available resources that a country has at its disposal, their distribution and stabilization of the economy. Putting it in a broader context, we can conclude with reasonable confidence that public finance is the study of the role of the government in the economy.[4] There has been divergent thinking about the role of the public sector and of the government especially since industrialization. Adam Smith [1723-1790] believed in an economy that was driven by the market forces considering that it was not from "the benevolence of the butcher, the brewer, or the baker, that we can expect our dinner, but from their regard to their own interest."[5] This interest, in turn, was expected to work as the 'invisible hand' to put things to equilibrium in the market, at least in the long run. As far as the

1 https://financial-dictionary.thefreedictionary.com/public+finance
2 https://dictionary.cambridge.org/dictionary/english/public-finance
3 https://en.wikipedia.org/wiki/Public_finance
4 https://en.wikipedia.org/wiki/Public_finance
5 https://investinganswers.com/dictionary/a/adam-smith

government was concerned, it was generously entrusted with national defense, administration of justice, and the provision of certain public goods.[6] This concession, apparently, was made less to appreciate merits of the government and more to the lack of incentives for the market to embrace and own these functions. While industrialization, coupled with the growth of private enterprise, made it logical to expect minimum government, the Great Depression of 1930s and related events busted the myths surrounding the invisible hand which somehow remained invisible and unavailable during that time and waiting for the long run was not appealing to the affected and the vulnerable. Disappointed with the market mechanism, expectant eyes resultantly turned towards the governments for intervention and to put things to equilibrium. Iron-hand of the government was perhaps needed to replace the invisible-hand of the market! J.M. Keynes, the British economist gave words to these expectations when he advocated increase in government spending and running a budget deficit. Governments, many of them looking for excuses to increase spending, wholeheartedly accepted his views.[7] Over a period, they have now become active players in the economies. However, side by side, governments were (and are) not expected "to do things which individuals are doing already, and to do them a little better or a little worse; but to do those things which at present are not done at all."[8] The increased role of the government came to limelight in the wake of 2007-2008 crisis when private enterprises hitherto considered too big to fail struggled under market conditions and material bailouts from the public sector had to be offered.[9] Today in 2020, with Covid-19 around, the expectations from the public sector are at peak levels with governments being called upon to intervene, and to 'do more' by creating job opportunities, alleviating poverty and providing necessary boost to the sinking economies. No surprises then when we are informed that governments around the world have "pledged more than $1.9 trillion in fiscal support as they rush to contain the coronavirus and shore up financial markets and businesses."[10]

2.0 PUBLIC MONEY? KEEP SAFE DISTANCE!

Let us skip the debate about merits and demerits of the role of government in an economy. We just need to appreciate that when governments spend, they spend public money and when they have to, or are expected to spend more, they need more money and this money comes from taxation or borrowings or from both. Margaret Thatcher nailed it when she said that, "There is no such thing as public money; there is only taxpayers' money."[11] It, in fact, belonged to the salaried persons who worked hard for the whole month, many a time under stress, but got their salaries only after the government had scooped out its share from their income. Public money? It belonged to the consumers who had to pay all sorts of duties and taxes, irrespective of their income levels, before they could take groceries to their households. What is revenue for the government may well be construed as revenge by the tax-payers in the absence of any *quid pro quo* between their sacrifices and return they may be able to get from the government. These tax payers have to pay for education, health, utilities and need food, clothing and shelter. All these have to be managed from the squeezed and leftover resources. Is it a tall order then if these people expect that those who are managing and utilizing money that once upon a time was 'theirs', do so scrupulously, conscientiously, honorably and be frugal and transparent in its spending? Will it be an albatross around the neck of functionaries if they are asked to adhere to the compliance regimes and look for avenues to spend it economically, efficiently and effectively? Grover Cleveland had warned that 'the waste of public money is a crime against the citizen' and considered it 'a plain dictate of honesty and good government that public expenditures

6 https://www.independent.org/news/article.asp?id=2085
7 https://www.britannica.com/biography/John-Maynard-Keynes
8 https://books.google.com.pk/books?id=3_qCGPdqiy8C&pg=PA60&lpg=PA60&dq=/#v=onepage&q&f=false
9 https://www.investopedia.com/terms/b/bailout.asp
10 https://www.bloomberg.com/news/articles/2020-03-05/here-s-all-the-cash-asian-nations-have-pledged-for-virus- relief
11 Thatcher: There is no such thing as public money: https://www.youtube.com/watch?v=xvz8tg4MVpA

should be limited by public necessity'.[12] When you are running budgets deficits and are short of tax and non-tax revenues, you may have to borrow internally and externally. In case of latter particularly, the resources generated may well belong to the people of other countries who have made these available to you in the form of debts or grants. There are no free lunches and these inflows from outside may burden your precious treasure of foreign exchange in the long run besides denting your self-esteem and impairing independent decision-making. The sacredness of public money is therefore inherent in its very concept and it is crystal clear that it 'ought to be touched with the most scrupulous conscientiousness of honor.'[13] More or less, public money is inviolable and a trust unto the people.

3.0 Safeguarding Public Money in Pakistan: Macro Controls

In Pakistan, led by this inviolability, we have come to entrust control of public money to the legislature being the custodian of the rights of public at large. Public money is to be raised and used with explicit approval of the Parliament and without that no spending is permissible and no tax can be levied. This is a first level macro control to keep public money safely couched in the coffers. Ministry of Finance (MoF), assisted by the spending ministries, prepare budget for the fiscal year. Once passed by the legislature, public money to that extent is placed at the disposal of the line/spending ministries as per 'Budget Release Strategy'[14] of the government for the financial year. This is a second level control forcing phased spending of the budgetary outlays and is complemented by specific 'Austerity Measures' put in place by the government every year to check improper and lavish spending.[15] A related control supports this by discouraging haphazard procurements by requiring the public sector entities prepare and publicize an 'Annual Procurement Plan' outlining their proposed procurements for the year.[16] Additionally, there are specified 'sanctioning officers'[17] whose duty it is to sanction the spending of public money in line with the wishes of the parliament.

Controls over public money come from several sources and some of these have been listed in Box-I. Sources at Sr. 9-11 are quite recent, albeit long awaited, additions to this reservoir.[18] These three instruments aim at strengthening the existing PFM practices and prescribe several new controls to safeguard public money. One such control is the establishment of Treasury Single Account which will hold "every penny of the public mon-

BOX-I

Sources of Controls Over Public Money

1) Constitution of 1973 (as amended)
2) General Financial Rules
3) Fundamental Rules and Supplementary Rules
4) Treasury Rules
5) System of Financial Control & Budgeting
6) Public Works Department Code
7) Accounting Policies and Procedures Manual
8) Public Procurement Code, 2004 amended up to 15.5.2020
9) Public Finance Management Act, 2019 (amended up to 30th June, 2020)
10) Cash Management & Treasury Single Account Policy 2019-2029,
11) Cash Management and Treasury Single Account Rules, 2020, issued on 24.07.2020

12 Grover Cleveland: Second Inaugural Address available at https://avalon.law.yale.edu/19th_century/cleve2.asp
13 Thomas Paine, https://www.forbes.com/quotes/author/thomas-paine/
14 http://www.finance.gov.pk/budget/Recurrent_08072020.pdf
15 http://www.finance.gov.pk/circulars/circular_21082019.pdf
16 Para 9, Public Procurement Rules, 2004, https://www.ppra.org.pk/
17 http://www.finance.gov.pk/publications/SFCB_updated_Oct_2018_1.pdf
18 Pakistan is implementing a World Bank financed Program-For-Results (Public Financial Management and Accountability to Support Service Delivery). Its Program Appraisal Document (Report No: 121796-PK dated November 28, 2017, declared approval of PFM law and adoption of accounting framework for daily consolidation of all government cash balances as part of the TSA to be prior results for the program. For more details, please visit https://projects.worldbank.org/en/projects-operations/project-detail/P157507?lang=ar

ey”[19] and thus will improve the liquidity position of the government by providing deterrence to the deposit of public money in commercial banks. The accounts already opened shall be closed and balance therein shall be transferred to the Federal Consolidated Fund.[20] All these macro-level controls operate at various levels within the government and watch adherence to the compliance regimes and efforts put in to achieve value for the public money spent. As a control over these controls, federal and provincial legislatures have made elaborate arrangements for accountability of the resources spent or not spent through their respective Public Accounts Committees by requiring the Auditor-General of Pakistan to present reports[21] on regular basis and provide, inter alia, this assurance as to “whether the moneys shown in the accounts as having been disbursed were legally available for, and applicable to the service or purpose to which they have been applied or charged and whether the expenditure conforms to the authority which governs it.”[22]

4.0 Leadership Controls at Micro Level

It is sometimes said and most of the time thought about the public functionaries that, in general or at times, they may not have any incentives be cost effective or efficient. This is unlike a common person of ordinary or reasonable prudence who knows what is right and wrong, good or bad, beneficial or disadvantageous for him. This person knows his limited purchasing powers and being quality conscious, keeps himself abreast of the market conditions and the moment discounts are offered at his favorite outlets, tries to grab his desired items at the first available opportunity. This is economy and effectiveness in action. This kind of normal and rational behavior may not be forthcoming during the proverbial ‘exigencies’ of the public sector. Resultantly, number of, rather plethora of expectations from the public functionaries have developed over a period enshrined in laws, rules and regulations providing sets of controls to be observed by all. These expect a very high level of financial management, prudence and propriety from each public functionary. Every functionary is a leader and is expected to exercise same vigilance in respect of expenditure incurred from public money as a *person of ordinary prudence* would exercise in respect of expenditure of his own money.[23] While incurring expenditure from public exchequer, this person of ordinary prudence should take pains to make certain that the ‘expenditure should not be prima facie more than the occasion demands’ and in the scenario that he looked the other way while public money was being wasted and squandered, he should have no doubts that the law would hold him ‘personally responsible for any loss sustained by Government through fraud or negligence on his part.’[24] What is, however, made everyone’s responsibility may well be construed as no one’s responsibility. The governments at federal and provincial levels therefore have specified leadership entrusted with implementation of these controls for bettering the financial management of the ministries and departments.

5.0 Principal Accounting Officer

A typical government Ministry/Division in Pakistan is headed by its top most official who is the Secretary to the Government and acts as its Principal Accounting Officer. The PAO, being the financial management leader, is responsible for “exercising financial propriety in management of public funds and having accountability to Parliament for the economic, efficient and effective use of resources.”[25] We can safely say that it is the PAO who has the edifice of financial

19 TSA Strategy: Focus on Cash Consolidation, Cash Management & Treasury Single Account Policy 2019-2029, page-12; available at http://www.finance.gov.pk
20 Rule 4(3) of Cash Management and Treasury Single Account Rules 2020, issued on 24th July, 2020
21 Article 171 of the Constitution of the Islamic Republic of Pakistan, 1973
22 Section 8, Auditor General’s (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001
23 Para 10, Compilation of General Financial Rules (GFR) – Vol. I, www.finance.gov.pk
24 Para 21, Compilation of General Financial Rules (GFR) – Vol. I, www.finance.gov.pk
25 Section 2 (q), Public Finance Management Act, 2019

> **BOX-II**
> **PAO & Public Money**
> *The Government's New System of Financial Control and Budgeting, 2018 has explicitly made several expectations from PAO in safeguarding the public money. He is expected to run his organization with efficiency, economy, effectiveness and consider financial considerations at all stages in framing and implementing decisions. It is the PAO who approves budgetary proposals for his ministry/division and after the legislature makes budget available to him, he ensures effective control over expenditure and plans for realization of receipts. He needs to ensure adherence to the regulatory and propriety regimes and consider public advantage and watch the interest of the government. He is expected to observe canons of prudence and reasonableness. Last but not the least, he must respond and be answerable to Public Accounts Committee (PAC) of the legislature.*

management system placed on his shoulders. The whole organization banks on his financial stewardship. He is the guardian of public money and has been empowered to incur expenditure within budget allocated for his Ministry/Division.[26] Consider this illustration. Suppose there are 100 hospitals controlled by the Ministry of Health. These are headed by their respective administrators. However, as far as the parliament is concerned, the Secretary of the Ministry must assume financial leadership of these hospitals while acting as their PAO. He[27] will be answerable to the legislature for their actions and/or inactions. Of course, he will hold these administrators answerable, responsible and accountable to him but as far as the parliament is concerned, it is the PAO's neck that will be at the altar of Public Accounts Committee of the legislature. Since the parliament has put many stakes on the leadership of the PAO to protect public money, elaborate duties and functions have been assigned to him. These have been summarized in Box-II. As can be seen, the expectations from him encompass the financial management cycle prevalent in the government that begins with budgetary proposals, allocation of resources through budget, realization of government receipts and spending of the budgetary grants to achieve desired socio-economic objectives and ultimately accountability to the parliament for these functions.

6.0 Chief Finance & Accounts Officer

The functions and tasks assigned to the PAO are overwhelming and daunting. One has this queer feeling that the person has to be a Superman or a Spiderman to be able to discharge these duties. At least he should have their assistance! Instead, he has been provided with a Chief Finance & Accounts Officer (CF&AO). This is a second-tier financial management leadership control within ministry/division providing support to the PAO on an on-going basis. The functions performed by the CF&AOs are directly linked with the financial responsibilities of the PAO. For instance, while it is the responsibility of the PAO to consider and approve budgetary proposals, the duties of the CF &AO pertain to internal monitoring of budgetary estimates. Similarly, while the PAO has over-all responsibility for maintenance and reconciliation of accounts, the job will be performed by the CF&AO at the operational level. Primarily, the CF&AO is to assist the PAO in matters relating to risk management, asset protection, internal control and audit, reconciliation of accounts, monitoring and coordination with Departmental Accounts Committee, Public Accounts Committees and financial proprieties of expenditure and receipts.[28] The government has delegated many of the financial powers to the PAOs. These are called delegated fields. The CF&AO provides advice to the PAO in these delegated fields in all matters concerning propriety and regularity of transactions. The advice of the CF&AO

26 Para 8 read with Annexure-I, System of Financial Control and Budgeting, 2006, www. mof.gov.pk
27 Wherever the word 'he' is used in this article, the same may be construed as 'he/she'.
28 Para 6, System of Financial Control and Budgeting, 2006.

however is not binding on the PAO and neither is the latter bound under law to solicit advice from the CF&AO. At best the rules envisage that he may "be consulted, where considered necessary or advisable." [29]This arrangement may indicate a weak internal control environment. In fact, this is an intended control to help us understand that it is the PAO who has to assume full responsibility of public money before the legislature and not the CF&AO. The organization of the CF&AO operates within the federal ministries/divisions only as the provincial PAOs do not have this type of institutional specialized support available.

7.0 Drawing & Disbursing Officer

Another category of personalized controls is the institution of the Drawing & Disbursing Officer (DDO) and here there is no difference between federal and provincial entities. In the example that we gave in the foregoing paragraphs, the 100 administrators are the DDOs of their respective hospitals. These are primarily the cost centers of the government and are the smallest tier where public money is spent, recorded, reconciled and reported. The basic duty of this functionary is to draw public money from the exchequer for disbursement. This is done, of course, against allocated budget and after obtaining required sanction of the PAO or other delegated authority and after exercise of controls by the Accounts Offices, working under the Controller General of Accounts. The accounting procedures in the country discourage payments made in favor of the DDO and prefer direct payments to the vendor or supplier. Lately, therefore, the functions performed by the DDOs have considerably diminished but he remains a formidable financial control within the government exercising documented controls over receipt and utilization of public money through maintenance of several registers and cash books. It is also his duty to prepare expenditure reports and get these reconciled from the Accounts offices on monthly basis.

8.0 Accounts Offices

We now have a valid claim on public money and are just at the gate of the public exchequer and any time public money will be pulled out of it to settle our claim. Several controls have been exercised over this claim on public money. The PAO, with the assistance of CF&AO has approved it after due diligence. DDO has recorded it in the cash book. Documentary evidence is meticulous. However, one final control is left before public money is disbursed and this control is exercised by the Accounts offices. These are federal establishments that work under the Controller General of Accounts and their jurisdiction covers virtually all the government organizations. As an internal control, government entities are not allowed direct interface with the government banks and that interface is provided by Accounts Offices.

BOX-III

Accounts Offices & Public Money

Controller General of Accounts is appointed by the President under the Controller General of Accounts Ordinance, 2001. Under him, works the accounts establishment of the country entrusted with implementation of several controls over public money through budget monitoring, payments, receipts and financial reporting.

The Accounts offices prepare and maintain the accounts of the federation, the provinces and district governments and authorize payments and withdrawals from the Consolidated Fund and Public Accounts of the Federal and Provincial Governments against approved budgetary provisions after applying pre-audited checks.

They also prepare and maintain accounts of such organizations and authorities established, set up or controlled by the Federation or Provinces as may be assigned to them by the President or the Governor of a Province. It is to be noted that, for most of the functions performed by the accounts offices, basic parameters and guiding principles are set by the Auditor General of Pakistan.

29 Para 8, System of Financial Control and Budgeting, 2006

Their duties are summarized in Box-III. Whereas the PAO, CF&AO and the DDO are primarily internal to the organization, the accounts offices, strictly speaking are an example of external controls. However, since these work under the MoF, it would be more appropriate to consider these as collaborative controls that augment and support the internal controls of the ministries and departments. Payments are processed and made after a due diligence process known as 'pre-audit' which involves certification of the genuineness of expenditure leading to its authorization by leadership controls within the Accounts Office. In addition, these offices prepare financial statements for the respective levels of government-federation, provinces and districts.[30]

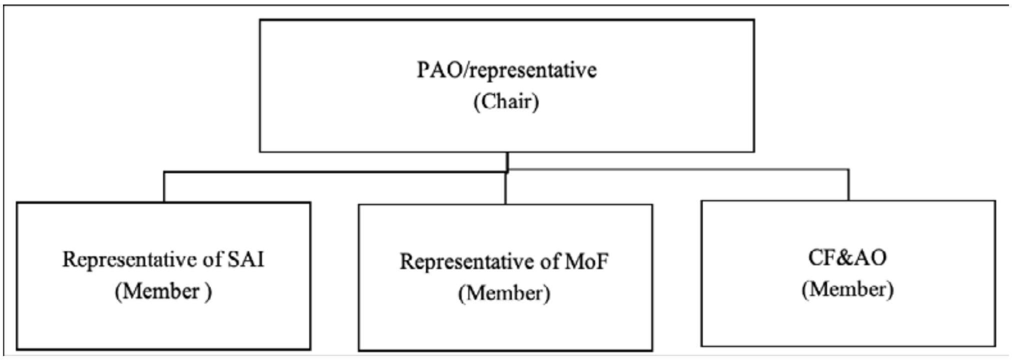
9.0 Here Comes the SAI

As one can see these are some very elaborate arrangements, put in place at several levels, to ensure that public money remains in its alcove and is allowed to come out at the 'payment counter' only when considerations of propriety, prudence, compliance with authority, economy, efficiency, effectiveness, transparency and accountability have been duly taken care of by the relevant leadership. Parliament, being its custodian, however, seeks an independent assurance that the public money was spent as budgeted and as intended and that these controls actually worked on ground. This assurance is provided by the Supreme Audit Institution. The SAI audits the Ministry and its various establishments as well as the accounts offices through its relevant field audit office as per the strategic and annual audit plans. Audit is usually from regularity and/or performance perspective and audit report may contain instances of misuse of public money because of non-existent or inadequate controls or on account of deviation from intended application of controls leading to violation of regularity and performance criteria. However, before the parliament is informed of these issues surrounding the public money, the ball is again sent in the court of PAO.[31]

10.0 Departmental Accounts Committee (DAC)

After the PAO has got the report from the SAI, a joint control comes into play in the form of a committee called the Departmental Accounts Committee (DAC). Since audit has presented the report, things have moved beyond the Ministry and that explains why the MoF comes into picture at this juncture and its representative participates in the meetings of the DAC. Other members are the head of the concerned field audit office and the CF&AO. The meeting is chaired by the PAO or an officer just one or two steps below the PAO in the hierarchy. This can be explained through Figure-A. Audit findings are discussed one by one and decisions are taken by consensus. The outcome of these meetings may trigger other controls in the SAI as audit issues not resolved by the leadership of DAC may be sent to parliament.

Figure A



30 Section 5 of the Controller General of Accounts Ordinance, 2001 highlights these functions. The ambitious reader may find help on www.cga.gov.pk for a detailed understanding of the role and functions of the Controller-General of Accounts.
31 http://pac.na.gov.pk/sites/default/files/latest-update/pac-notice-11-nov-2013-.pdf

11.0 Public Accounts Committee (PAC)

"The Public Accounts Committee (PAC) signifies one of the essential constituents of Parliamentary Dominion which is the culpability of Public money. The examination of Auditor General's Reports for the Ministries, Divisions, Corporations and other Independent and Semi-Autonomous bodies, is one of the main functions of the PAC."[32] The system of financial institutional leadership controls comes full circle here as it was the legislature that placed public money in the form of grants at the disposal of the PAO at the start of financial year and now after the end of financial year, its Committee, the PAC, is seeking explanation from the PAO for deviations from rules and regulations, from performance standards, instances of wastages and lavishness, non-achievement of desired objectives, failure to spend the allocated funds, etc.

12.0 Case Study: Institutional Leadership Controls in Action

The Secretary to the Government for Ministry ABC is the PAO of the Ministry, its Attached Departments and its Subordinate Offices. It is February and the PAO, a seasoned government functionary, is reviewing the consolidated expenditure report of the Ministry for the period July- January and notices that an amount of PKR 3.0 Million (roughly USD 20 K) is available under the budget head, "procurement of computer hardware". The PAO understands that the amount is to be utilized within the financial year or it will lapse to the government on 30th June when the financial year ends. One option is to surrender this amount to the government right now so that the same may be utilized by the MoF at its end. However, in that case, the Ministry ABC will have to justify reasons for non-spending and why did it include this amount in the budget estimates in the first place. The PAO therefore decides that non-spending is not an option available to him and therefore he decides in favor of spending the amount. He constitutes a Procurement Committee (PC) comprising three senior officers of the Ministry to deliberate and come up with proposals to utilize this budget. Alive to the new norms set by the Covid-19 pandemic, the PC comes up with a proposal to procure 25 new laptops for the Ministry to facilitate on-line meetings, webinars and e-trainings. The existing laptops were procured 5 years back and their specifications are incompatible with system requirements of the new computer programs and applications.

The proposal is placed before the PAO for consideration at his level. The PAO weighs its merits from the point of view of *propriety*. This is done by asking questions like: Should the expenditure be incurred in the first place? Is it necessary? Can we do without it? Is it appropriate? Is it right or just? Based upon the available data and the need analysis, he decides that it would be in the broader public interest that his Ministry's objectives are achieved and since new laptops are expected to help achieve that, let us go for that. At the start of financial year, government usually sets the general proprietary levels for the ministries by issuing 'austerity measures'[33] that may altogether prohibit or limit the use of public money on various types of expenditure items. The PAO could not find any restriction there and therefore approves the budgetary proposal. *The proprietary stage is over now and sets the compliance regimes into motion*. The PC is now tasked to prepare specifications/detailed requirements for laptops and initiate the procurement process. Invitation to Bid document is placed on the website of the Ministry and of the Public Procurement Authority as required under the procurement rules of the Government. In view of the nature of procurement, the bidding method specified is 'single stage-two envelope'. Two Committees are now formed, again with the approval of the PAO: Technical Evaluation Committee (TEC) and Financial Evaluation Committee (FEC). *The PAO may require the CF&AO to be part of any of the committees.* TEC scrutinizes the received bids on purely technical grounds and rejects the non-compliant ones. Bids of technically qualified

32 http://www.pac.na.gov.pk/?q=about.html
33 http://www.finance.gov.pk/circulars/circular21082019.pdf

suppliers are now evaluated by the FEC. A comparative statement is prepared with recommendations to the PAO to accept the most advantageous offer.

The PAO makes a review of the whole procurement process i.e. whether the bid preparation, its publicity, bid opening and evaluation adhered to the compliance and transparency regimes applicable on the procurement and if the terms of the proposed contract are in the interest of the government. *At this stage, he may again seek expert opinion of the CF&AO if he so desires.* The award of contract is now approved, contract made, delivery time specified, etc. An 'Inspection Committee' (IC) is formed that makes inspection of the laptops supplied by the firm in the light of approved specifications. Assets procured are entered in the Assets Register. The case is now again sent to the PAO to sanction the allocated amount in favor of the firm against the supplier invoice as requirements of the compliance regime (*codal formalities, in the colloquial*) have been fulfilled. The PAO may deem it appropriate to refer the case to CF&AO for his opinion or he may have issued a standing order that all cases for sanction are be routed through the CF&AO office.

After the sanction, the DDO prepares a voucher, attaches documentary evidence of procurement made e.g. approvals of the PAO, minutes of meetings of the PC,TEC,FEC,IC, advertisement made on the website, tax compliance status of the approved firm, supplier's invoice, work order, etc. and the case is now sent to the Accounts office, operating under the Controller General of Accounts, with the request that payment of PKR 3.0 million may be made to the firm XYZ against supplies made to the Ministry ABC. The case is now pre-audited at appropriate level in the Accounts Office, against standard pre-auditing checks, and if satisfied, payment through Account Payee check is processed in favor of the Vendor or firm after withholding taxes payable by the supplier to the government. The expenditure accounts of the Ministry of ABC are updated and the budget allocation of PKR 3.0 million is shown utilized against purchase of computer hardware.

Audit of ministry ABC is conducted and the transaction is selected by the external auditors of the SAI for detailed examination. Guided by the audit objectives, audit findings may relate to defective need assessment as auditors might observe that more two- thirds of the laptops procured remained in stores despite lapse of considerable time and were not put to any use. While these remained in stores, their warranty period had expired. Procurement was made at significantly higher than market prices or compared with similar procurements made by similar entities in the similar period. The specifications determined by the PC were in fact far below the ones that were available in the market. Based on audit criteria, the transaction may be labeled 'infructuous', 'wasteful,' 'haphazard' and 'irregular' concluding that pubic money should not have been spent and that the expenditure incurred was avoidable.

13.0 Conclusion

This completes the accountability cycle meant to ensure the sanctity of public money. The raison d'être for these controls is the fact that public money does not belong to the PAO, CF&AO, DDO, PC, TEC, FEC, IC. It does not belong to the Accounts offices or to the SAI either. You remember! It belonged to that salaried person and to that grocery consumer! Let us also remember that public money is made available to the government ministries and departments through budgets approved by the legislature. Expectations from public functionaries relating to the use of public money are many. Institutional financial management leadership controls within the government organizations make sure that it is spent with regard to propriety, prudence, reasonableness, compliance and that it brings to the stakeholders desired value for money. SAI provides independent assurance to the legislature on the effectiveness of these controls through its audit reports. The buck then stops at the PAC!

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- http://icgfm.blogspot.com (6 September 2008).

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