

Government Revenues – Accountability and Audit

(In Iraq)

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ملخص:

أظهرت الدراسة أن إجراءات التدقيق كانت كافية وأن البرلمان العراقي استحدث دوائر رقابية جديدة إضافة إلى ديوان الرقابة المالية الموجودة سابقاً (مثل هيئة النزاهة) لمحاربة الفساد المالي والإداري. والدراسة أشارت أن العراق يعتمد حالياً على إيرادات النفط وقد بلغت نسبة 99% تقريباً في سنة 2008. وهذا يعني أن الحالة أصبحت أكثر سوءاً مما كان عليه الوضع قبل 2003 (قبل الاحتلال) بالرغم من زيادة الإيرادات للضرائب بمبالغ كبيرة. وهذا يتطلب من الدولة أن تطور قطاعات الاقتصاد كافة لكي يعود الوضع إلى ما كان عليه كدولة نامية. أبرزت الدراسة أن على الدولة زيادة دورها في مجالات عدة لرقابة المصاريف وتطوير الإيرادات في قطاعات غير النفط. وأخيراً الاستفادة من الاستثمارات الأجنبية وزيادة الإيرادات الحكومية في كل القطاعات. الكلمات المفتاحية: الإيرادات الحكومية، مسائلة وتدقيق، العراق.

Abstract:

The study shows that auditing procedures are sufficient and enough and the parliament create new control bodies in addition to the Board of Supreme Audit (such as Integrity Board) to fight financial and managerial corruption.

The study shows that Iraq depend totally an oil revenues (about 99%) of its revenue in 2008. This means that the situation become worse than 2003, when Iraq was occupied in spite of increasing its revenue from taxes. This might need from the State to develop all economic sectors to return the situation to the normal level as a developing country.

The Study highlights that the State should increase its role from different parties to control all expenditures and developing revenues in other sectors. Finally, the usefulness from foreign investment and increase governmental revenues in all sectors..

Words keys: Government Revenues, Accountability and Audit, Iraq.

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Introduction:

Research Objectives:

The research seeks to realize the following objectives:

1. To measure the State's dependence on oil revenues than others.
2. To develop and increase depending on other revenues.
3. To highlight and to ensure that the role of auditing in Iraq on governmental revenue is sufficient.

Research Problem:

The research problem focuses on how can measure the contribution of oil revenue and tax revenues in government revenues in Iraq.

Also the accountability and audit to governmental revenues and their percentage of total revenues.

Most developing countries are interested in governmental revenues, because they have a great role to build right economic base in current periods. This was reflected to most developing countries, which are looking forward to increase their revenues from different sites. Therefore, it should find a best method to control these revenues and achieve the aimed development in different fields.

A new direction has been shown in the end of the twentieth century, which related to the privatization of public projects in developing countries.

This might increase their revenues, but this situation it still required more attention from the high auditing institutions to continue their control (accountability and audit) because of their ratio in tax revenues.

Therefore, the main concern of a modern state is to provide services to its citizens and take the country to the path of development. The state can discharge its duties only if sufficient resources are at the command of the state. These resources are generated through various government revenues.

Perks of Glendinning (1981) have shown in their paper that: "Accountability in the private sector is based on conventional financial accounts with emphasis on profit, while, public concern with aspects other than profitability alone such as social performance".

Therefore, performance indicators can play an important role in government revenue namely protection of the public.

Types of government revenues

The State does not depend on a single source of revenue, there are several and various sources which the State exploits to raise revenues. Such sources are developed over time under the influence of political and economic forces in operation.

The governmental revenues in Iraq can be classified as follows:

Oil revenues: makes a large contribution to the state budget

Taxes:

Direct taxes (like income tax, wealth tax, agriculture income and estates taxes including corporations and companies taxes).

Indirect taxes (like commodity taxes, customs and other dues).

Revenues of the state enterprises (like the governmental enterprises revenues, capital revenues, revenues of selling and renting state properties, and other revenues).

The table (1) below indicates tax revenues as a percentage of G.D.P with indication in regard to the revenue sources as a percentage of total revenue (for 2008).

Table (1) Tax revenue as a percentage of total revenue

	Tax revenue as percentage of G.D.P.	Revenue sources as percentage of total revenue			
		Direct taxes	Indirect taxes	Trade taxes	Others
Developing countries (average)	18.5	29.7	28.1	27.6	14.6
Iraq (1993)	2.3	40.5	9.7	0	49.8
Iraq (2008)	7	.66	.37	0	98.97

Sources	Sites of Ministry of finance & Ministry of Planning, Baghdad, Iraq, prepared by the researchers.
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This table indicates taxes do not play a significant role in providing the financial sources to the state and are mainly used as an effective method to

tackle disparities in the income levels of the citizens which is the objective of the tax laws in Iraq.

The decrease of taxes especially in the last decade preceding the economic sanction imposed on Iraq since 1990 is basically due to dependence on oil revenues and is also because of exemptions especially in income taxes.

The percentage of the tax revenues to the general state budget and G.D.P. shows a deadline as indicated in the following table (2).

Table (2) Percentage of tax revenue to Expenditure and GDP

Years	Tax revenue (I.D.million)	Expenditure budget of state (I.D. million)	Percentage of (2) to (3)	G.D.P. (I.D. million)	Percentage of (2) to (5)
(1)	(2)	(3)	(4)	(5)	(6)
1966	68.1	158.6	42.9	864.4	8
1976	179.8	1387.7	13	4696.8	3.8
1986	985	3854	25.6	13086	7.5
1993	2594	6877	37.7	128300	2.3
2008	728800	56256000	13	10411429	7

Sources Ministry of finance. Annual Reports also site of the Ministry, Baghdad, Iraq, prepared by the researchers.

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Since 1982, the state economical enterprises have increased their share in government revenues as a result of central decisions governed by regulations like the law of distributing the Profit of the Public Economical No. 56 of 1982.

In 2008, in spite of the figures are increased but the contribution of tax revenues to expenditure (which also increased) is reduced. This means that the State totally depends on oil revenues.

Audit mandate

Auditing of government revenues basically aims to review and evaluate of results of implementing revenue policies and plans.

Governmental revenues are audited with reference to the revenues laws. However, audit has to keep itself tuned to the following factors:

Emergence of new sources of revenue and decline/ abandonment of old ones.

Inter se change of different revenue resources in keeping with the economic and political changes.

Generally revenues are raised through legislatures such as

The State General Budget Law.

The General Accounting Law.

Taxation Laws.

Customs Law.

Companies Law.

The Distribution of Profits of Public Economic Enterprises Law.

Other Laws.

Revenue auditing in Iraq, basically, is subject to the law of the Board of Supreme Audit no. 6 in 1990 and other laws like the General Accounting Law and the General State Budget Law.

Audit is done in accordance with accountancy standards and principles. Bodies in charge of auditing are authorized to have access to all files concerned with revenues including taxes and check them out and issue the financial statements on them.

In fact the financial control of public revenue is very much a concern of the Board of Supreme Audit. Accordingly procedures of checking, auditing and reviewing are devised to examine the procedures followed by the various administrative units to achieve their aims and suggest appropriate measures to avoid deficiencies that might stand against achieving these aims and also to point out the weaknesses in the system and individual errors.

Audit Procedures and methodologies in revenue audit

Despite the variation in the nature and extent of different government revenues, the Board of Supreme Audit in Iraq follows a comprehensive auditing system in revenue audit which could be summarized as follows:

System Audit:

This kind of audit control examines the compliance to laws and instructions to estimate, realize, collect and deposit the revenues and also checks out that revenues are accounted, recorded, obtained and classified in accordance with accountancy standards and principles. This audit has two facets:

Legitimacy auditing – determines the compliance with law and instructions.

Financial auditing – determines the compliance with known accounting principles followed in applying classifying and summarizing financial procedures to be explained within the financial data.

Performance Auditing:

It is the most important type of auditing practiced by the Board of Supreme Audit. This includes all financial and non - financial aspects to assure the soundness of statements and the extent of achieving the desired objects of institutions and their laws. Article 3 of the law of the Board of Supreme Audit provides for an annual plan for performance audit. There was a study under way to evaluate the performance of tax system in Iraq under the annual audit plan of 2009.

Performance auditing consists of many procedures which seek to examine:

The extent of efficiency of the internal control systems, and the effectiveness of other systems and the financial procedures and how far the employees understand them and their capabilities to achieve the task.

The extent of Efficiency, adequacy and comprehensiveness of the accounting system in the administrative unit.

The extent of efficiency of data which are produced by the system to meet the user needs in different administrative levels related to planning, implementation, follow up and control.

The extent of efficiency of the laws and legislations, whether the objects and financial policies are clear.

Audit Planning

Board of Supreme Audit prepares an annual general plan of its work and also particular plans for different sectors. The Board has specific plans for offices such as Income tax, Customs etc.

These plans are prepared according to scientific norms depending on the available audit resources. While implementing the audit plans the Board ensures that the objects of the plan are carried out in sound way in addition to routine activities related to the checking up, auditing, follow up etc. The Board seeks assurance:

That the auditees have achieved the policy and programme objectives.

That treatment and classification of the revenues were done according to the established accounting standards.

That the related instruction, systems and laws have been applied to the fullest extent.

Audit Reporting

Through the audit reports the Board of Supreme Audit informs the auditee about the shortcomings noticed in control of government revenues. These reports are of following categories:

Normal financial control reports which include the discovery notes related to the classification or accounting treatment of revenues and the extent to which the concerned entities have followed the laws/ instructions and standards.

Comprehensive performance evaluation reports which are submitted to the specialized ministry.

The general annual report which are submitted to the president of the Parliament. This report consists of specialized note with the evaluation results concerning implementation of the policies and plans of ministries.

The reports are followed up for action taken by the administration on audit findings. If the administration does not respond to the audit report the matter is reported to the concerned Minister and if the Minister also fails to respond, the matter is reported to the Prime Minister. The follow up procedure of audit report is very strict (such as invite the Minister to the Parliament).

Auditing Methods of Government Revenues

The main duty of Board of Supreme Audit is preparing a report in which it explains its opinion about the results of the statements through checking up and auditing according to the produced facts and data. The Board follows several methods of audit checks according to the nature of work such as:

The pre-control:

This task is achieved according to the law and a previous agreement of higher authority in Iraq.

The periodic (immediate) control:

The control institutions check the accounts in the same year.

The post- control:

The Board's checking during the post – control process focuses on the two operational stages:

The estimation stage. This task is done by the technical departments to check and determine tax.

The implementation, levying and collection stage. This is done by department responsible for levying and collection of tax.

Stages of auditing process of the Specialized Departments in the Tax Offices:

A. The following parameters are followed in audit checking of the technical department:

To realize the efficiency of internal control systems.

To ascertain how far the tax estimates are accurate.

To insure that tax estimates are fair and based on a sound footing and on adequate data.

To ensure the soundness of tax procedures.

To ensure that procedures are being followed properly.

B. for departments engaged in collection of revenues, the following checks are applied:

To ensure that all revenues are collected during the financial period in fact represents all the revenues which are due for collection during the period under the laws.

The compare the actual collections with the budget estimate.

To analyse the reasons for arrears in collection.

To assure the all revenues are deposited in the banks accounts.

To ensure that all records (journal, ledgers) have been fixed by law.

To ensure that the system for collection of revenues is working efficiently.

To ensure that demand notices have been issued to the tax payers.

To ensure that proceedings have been initiated against tax defaulter.

C. Questionnaire on Internal Control:

This method is used or obtaining accurate information related to the soundness of financial procedures to chick the following points:-

The extent of soundness of the accounting and financial systems and the adequacy of the records used by tax offices.

The soundness of the internal control systems which help determination of the size of the sample of audit.

To ensure that the procedures related to collection of revenues and other procedures are accurate.

Conclusions and Recommendations

At the end of the study, we can highlight the main conclusions related to government revenues in Iraq, and refer to the important recommendations:

Government revenues depend totally on oil revenues in spite of the increasing of tax revenues.

It can seem from the table (1) that government revenues in Iraq are not reflected the situation as in developing countries.

The auditing roles are sufficient, enough and there is more needing to improvement in the different kinds of government revenues.

We recommended increasing the Parliament role to ensure that most government expenses are legally and far a way from financial and managerial corruption.

The Parliament should create and support new control bodies for activation the new revenues and expenditures and should activate the taxes role in the State and reduce exemptions.

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