

Government Revenues - Accountability and Audit in Iraq

Talal A Al-Kassar, Zarqa University, Jordan.
talal_kassar@yahoo.com

Abstract

This study covers both the theoretical and empirical aspects of the audit of government revenue. The theory includes defining accountability, audit of revenues, performance audit, taxation policy and types of government income. While the empirical aspects include a review of government revenues in Iraq and the auditing procedures used by the Supreme Auditing Board.

The study shows that the Iraqi Government depends almost totally on oil revenues (about 99% in 2008). The situation has deteriorated since 2003, when Iraq was first occupied, in spite of increased revenue receipts from taxation.

Keywords: Government, Revenues, Accountability, Audit.

Introduction

Revenue audit, as an important domain of public auditing, has been engaging the attention of the Supreme Audit Board of Iraq (the Supreme Audit Institution in Iraq) for some time. Government income is derived from two main sources: tax receipts and non-tax receipts. The major source of national revenues is usually tax receipts. However, in Iraq the main source is non-tax revenue from oil exports.

Government taxation policy should seek to apply the following desirable fiscal principles (ASOSAI report, 2010, p.2):

- (a) Citizens should contribute to the Government in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the State.
- (b) The tax which each individual has to pay should be certain. The time of payment, the manner of payment, and the quantity to be paid should all to be clear to the tax payer.
- (c) Each tax should be levied at the time, or in the manner, in which it is most likely to be convenient for the contributor to pay.
- (d) Each tax should be arranged so that the administrative overheads of the collection authorities are kept to as a small a proportion of the tax collected as possible.

Most developing countries are interested in government revenues, because they have an important role to play in constructing the economic base of the country. They are looking to expand and diversify their revenue base in order to fund the development of their countries.

Accountability

Accountability is the current mantra both for non-profit organizations and for governments (Beechy, 2007). There is a wide range of different definitions of accountability, some include the following: (more are mentioned by Beechy, 2007, page 3):

1. Accountability has several meanings and is the subject of a broad debate in American governance. Some of the simpler definitions include: responsibility or capable of being held responsible for something: capable of being explained: being held to count, scrutinized, and being required to give an account or explanation - en.wikipedia.org/wiki/Accountability
2. Accountability is the capacity to account for one's action; or as a representative of one's organization, to account for either your actions or the actions of your organization. The term is usually used in the voluntary sector to refer to the responsibility a non-profit organization has to inform donors of the manner in which their gifts were used - envision.ca/templates/profile.asp?ID=56
3. The responsibility of program managers and staff to provide evidence to stakeholders and funding agencies that a program is effective and in conformance with this coverage, service, legal, and fiscal requirements - www.crc.gov/tobacco/evaluation_manual/glossary.html
4. The obligation to demonstrate and take responsibility for performance in light of agreed expectations. There is a difference between responsibility and accountability: responsibility is the obligation to act; accountability is the obligation to answer for action - www.hrsdc.gc.ca/en/cs/fas/as/sds/appd_sds03.shtml

Although the context and wording of these definitions vary, their overall sense is that managers are responsible for explaining their actions to outsiders, whether to funders, donors, clients, or the community at large.

A traditional definition of accountability is the obligation to answer for a responsibility conferred. This definition is often interpreted as implying two distinct and often unequal partners: one who confers and the other who is obliged to answer. In so doing, it does not adequately address several realities of today's public management. These include (OAG Canada, 2005, page 16):

1. The emergence of alternative delivery approaches, such as arrangements between the federal and provincial governments, where responsibilities may not be conferred from a senior party to a junior one, but agreements nonetheless assume accounting for results;
2. The call for an increased focus on performance-based management; and
3. The importance of transparency as an essential feature of public sector accountability.

As a result, a restatement of the underlying principles, practices and tools of accountability, which incorporate the traditional definition, could be:

a relationship based on obligation to demonstrate and take responsibility for performance in light of agreed expectations.

Earl (2005) has highlighted that “accountability and data are the heart of contemporary reform efforts worldwide. Accountability has become the watchword of education, with data holding a central place in the current wave of large-scale reform”. The statutory role of the auditors is to provide management with independent and objective assurance on the reliability of financial statements and of certain other information provided by the organization. However, the audit of government revenues also plays an important role in decision making. Thus accountability is the conversation about what the financial information means, how it fits with other information about the organization, and how it can be used to bring about further positive change (Earl & LeMahieu, 1997).

Types of government revenues

Iraqi government revenues can be classified as follows:

- i) Oil related revenues
- ii) Taxes:
 - a- Direct taxes (income tax, corporation tax, wealth tax, agriculture income and estates taxes)
 - b- Indirect taxes (like commodity taxes, customs and other dues).
- iii) Revenues of state enterprises.

The table below indicates tax revenues as a percentage of GDP including broad revenue sources:

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 (including Oil revenue)
Developing countries (average) *	19	30	28	28	14
Iraq (1993)*	2	40	10	0	50
Iraq (2008)**	7	1	0.5	0	98.5

Sources: Prepared by the author,

*ASOSAI report 2010, * Supreme Audit Board report 1994,

** Sites of Ministry of Finance & Ministry of Planning, Baghdad, Iraq (2009).

The above table indicates that taxes are not a significant source of income for the Iraqi Government. Taxes are mainly used to tackle disparities in income levels between citizens which is the objective of the tax laws in Iraq.

The importance of taxation as a source of government revenue reduced, especially in the decade after the imposition of economic sanction in 1990. In addition, exemptions increased, for example, all Iraqi state employees were exempt from income tax until 2005.

Table (2) Tax revenue 1966 to 2011

Years	Tax revenue (I.D. million)	Expenditure budget of state (I.D. million)	Tax as a percentage of expenditure	G.D.P. (I.D. million)	Tax revenue as a percentage of GDP
1966	70	160	40	860	10
1976	180	1,390	15	4,700	5
1986	990	3,850	25	13,100	8
1993	2,590	6,880	40	128,300	2
2008	728,800	56,256,000	1.5	10,411,400	7
2011	5,963,800	64,022,600	10	84,136,000	7

Source: Prepared by the author.

Ministry of Finance, Annual Reports, 1967, 1977, 1987, 1994, and 2009

2011 Draft Budget, Baghdad, Iraq.

US\$1 = 1,180 Iraqi Dinar (2008) (before 1993, US\$1 = 0.3 Iraqi Dinar)

Since 1982, state economic enterprises have increased their share in government revenues due to regulations like the Law of Distributing the Profits of Public Economic Enterprises No. 56 of 1982.

Audit Mandate

Auditing of government revenue aims to review and evaluate the results of the implementation of revenue policies and plans.

Government revenues are generally audited with reference to the revenue laws. However, auditors have to keep abreast of the following developments:

- emergence of new sources of revenue and the decline of old ones
- associated changes to different revenue sources as a result of economic and political changes.

In Iraq, government revenues are controlled by the following laws:

- 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.

In addition, revenue auditing in Iraq is subject to the Supreme Audit Board, law no. 6 of 1990.

Audit is undertaken in accordance with auditing standards and principles. Bodies in charge of auditing are authorized to have access to all files concerned with revenues including taxes.

Audit Planning

The Supreme Audit Board of Iraq prepares an annual general plan of its work and also particular plans for different sectors, for example, revenue. Finally, 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.

Audit Procedures and Methodologies in Revenue Audit

The financial control of public revenue is a great concern of the Supreme Audit Board. Accordingly, procedures for checking, auditing and reviewing revenue are developed. These aim to examine the procedures followed by the various administrative units to achieve their aims. As a result, auditors suggest appropriate measures to overcome deficiencies that prevent the achievement of these aims. They also point out weaknesses in the systems and individual errors or irregularities.

The methodologies and techniques of revenue audit have evolved over time in Iraq. The object of revenue audit is to seek evidence that revenue is assessed and collected according to law and errors of omission and commission are avoided. It also seeks assurance that pre and post control systems (which are mentioned later) operate efficiently and in accordance with the agreed objectives.

The government revenue collection and accounting systems are also checked to assess whether internal procedures and controls adequately provide for regular accounting of collection, allocation and credit to government bank accounts.

The Supreme Audit Board of Iraq follows a comprehensive revenue auditing approach. This includes both compliance audit and operational audit.

A) Compliance Audit:

This audit approach examines compliance with laws and instructions covering the estimation, realization, collection and deposit of revenues (regularity auditing). Compliance with the relevant accountancy standards and principles is also checked (financial auditing).

B) Operational or Performance Auditing:

This is the most important type of auditing practiced by the Supreme Audit Board. This includes reviewing all financial and non-financial aspects to assess the extent to which the objectives of each revenue raising institution are being achieved.

Article 3 of the law of the Supreme Audit Board provides for an annual plan for performance audit. Studies were undertaken to evaluate the performance of tax systems in Iraq during the last three years (2009-2011).

Performance auditing consists of many audit procedures to examine:

- (i) the efficiency of internal control systems
- (ii) the effectiveness of other systems and financial procedures, the extent to which employees understand them and their capabilities to achieve the objectives
- (iii) the efficiency, adequacy and comprehensiveness of the accounting system in the administrative unit.

The Supreme Audit Board follows several methods of audit check according to the nature of the audit work such as:

i) Pre-control:

This is undertaken in line with the law and prior agreement with the higher authority in Iraq. Audit controls are undertaken before the associated revenue is collected.

ii) Periodic (immediate) control:

The control institutions check the accounts in the same year.

iii) Post- control:

Checking after the end of the financial year is termed the post-control process. This focuses on two operational stages:

A- The estimation stage; this task is done by the technical tax departments to check and determine tax assessments.

B- The implementation, levying and collection stage; this is done by the department responsible for levying and collection of tax.

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

A. The following procedures are undertaken by audit to check the technical tax departments:

- To realize the efficiency of internal control systems.
- To ascertain how far the tax estimates are accurate.
- To ensure that tax estimates are fair and based on sound assumptions and on adequate data.
- To ensure the soundness of tax procedures.
- To ensure that procedures are being followed properly.

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

- To ensure that revenues collected during the financial period represent all the revenues which are due for collection during the period.
- To compare the actual collections with the budget estimate.
- To analyze the reasons for arrears in collection.
- To ensure that all revenues are deposited in the banks accounts.
- To ensure that all records (journal, ledgers) have been properly completed.

- To ensure that the system for collection of revenues is working efficiently.
- To ensure that demand notices have been issued to tax payers.
- To ensure that proceedings have been initiated against tax defaulters.

C. Questionnaire on Internal Control:

This method is used for obtaining accurate information related to the soundness of financial procedures to check 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 estimate the size of the sample of audit.
- The procedures related to collection of revenues and other procedures are accurate.

Human Resource Management:

The staff of the Supreme Auditing Board exceeds 1,500 auditors.

Revenue audit is a specialized area requiring adequate skills and training. The Supreme Auditing Board has developed strong task forces to undertake effective missions in this branch of audit.

The Supreme Auditing Board organizes various internal and external training courses and workshops. These include courses provided by the University of Baghdad including its higher auditing diploma which is a three-year course.

Audit Reporting:

The main duty of the Supreme Audit Board is to prepare a report to explain its opinion about the financial management of the state's affairs.

The auditors are divided into groups to audit each government office. Members of each group provide notes to the head of the group. The head of the group then writes a management report from these notes.

The initial audit findings, arising during the audit fieldwork, are typically communicated to the revenue administration in the form of a management report. The views of the department are obtained before finalizing each audit observation.

Significant audit observations or findings involving large transactions, leakages and fraud are reported to Parliament in formal audit reports. These ensure legislative accountability of the revenue administration.

Audit reports fall into one of three categories:

- i) Normal financial control reports covering the classification or accounting treatment of revenues and the extent to which revenue entities have followed the laws, instructions and standards.

- ii) Comprehensive performance evaluation reports which are submitted to the specialized ministry.
- iii) The general annual report which is submitted to the president of the Parliament. This report consists of specialized notes and an evaluation on the implementation of the policies and plans of each ministry.

The audit reports are reviewed to ensure appropriate action is taken on audit findings. If the administration of an entity does not respond to the audit report the matter is reported to the relevant minister. If the minister fails to respond, the matter is reported to the Prime Minister.

References:

Accountability, Wikipedia.

<http://en.wikipedia.org/wiki/Accountability> (21 March 2011)

The Asian Organization of Supreme Audit Institution (ASOSAI) report 2010

<http://www.raa.gov.bt/contents/whats-new/gov-revenue.php> (21 March 2011)

Beechy, T. H. (2007). Does full accrual accounting enhance accountability? The innovation journal: The public sector innovation journal, 12(3), article 4.

Supreme Audit Board, Law No. (6) 1990, Baghdad, Iraq.

The Supreme Audit Board, Annual Report, Baghdad, Iraq, 1994-2002, 2007-2008.

Earl, L. (2005), From accounting to accountability: Harnessing data for school improvement, research conference 'Using Data to Support Learning'.

Earl, L., & LeMahieu, P. (1997). Rethinking assessment and accountability. In A Hargreaves (Ed.), Rethinking Educational Change with Heart and Mind. 1997 ASCD Yearbook. Alexandria VA.

Ministry of Finance, Annual reports, 1967, 1977, 1987, 1994, 2008 and 2011 (Estimated Budget), Ministry publications, Baghdad, Iraq.

Ministry of Planning, Annual statistics reports, 1994-2000, Ministry publications, Central Library, Baghdad, Iraq,

Office of the Auditor General of Canada (OAG), (2005). Performance audit manual, Minister of Public Work and Government Services, Canada, June.

Other Sites of interest, Baghdad, Iraq:

- 1- www.iraqcustoms.org
- 2- www.iraqtax.gov
- 3- www.mof.gov.iq
- 4- www.oil.gov.iq