

Transparency of Government Financial Reporting: A Case Study of Local Government Financial Reporting in Iraq

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Local governments are the cornerstone of providing services to their citizens, who undertake the planning and implementation of projects to meet the urgent local needs of their communities. These should reflect their strategies to make use of the resources allocated to them and use them optimally. The accounting system of these governments should play a role in providing transparent and high-quality information that meets the requirements of monitoring the performance of their activities and making decisions that will best serve the public interest. Accounting bodies and organisations have consistently issued accounting standards for government transparency and reporting in order to enhance the transparency and quality of financial statements. This research aims to demonstrate the transparency of the financial reporting of local governments in Iraq, or to examine what accounting standards are adopted by the local governments in the provinces to report their operational and investment financial activities. Large budgets have been allocated in Iraq from 2003 until now without having tangible outputs on the ground, and without the government accounting system having a role in providing the necessary information to make these governments accountable and to achieve reforms. A practical research approach resulted in an analytical study of the reality of financial reporting of local governments and explored the availability of transparency requirements in the laws and regulations governing the accounting system in Iraq, or in the extent of compliance with these laws by studying the financial statements of three local governments In the Iraqi provinces, obtained from the Federal Board of Supreme Audit.

Key words: *Transparency, government financial reporting, government accounting system, local government.*

Introduction

The role of government units is no longer confined to performing the traditional functions of the state; their function has now diversified to include the implementation of economic and social development activities and programs. They therefore need an accounting information system able to provide reliable and transparent information to achieve control and accountability, and decision-making by those government units. As a result, the reform of government units starts with the reform of the accounting information systems of the various government units to increase their efficiency and responsiveness to changes in the economic, social and political environment.

The environment in which government units operate has characteristics, objectives and functions that differ from the environment of business units in the private sector, and this significantly affects the conceptual framework of accounting and financial reporting in terms of objectives, elements and the implementation's concepts and standards. Thus there is extensive interest among competent bodies in developing accounting standards for the public sector that will enhance the process of measurement and disclosure in the public sector and the allocation of resources in an optimal manner, as well as improving the quality and transparency of information and the level of reports and financial statements of government units.

There is no doubt that the financial reports produced by the government have a significant role in monitoring the performance of government units and detecting errors and abuses of public funds. They also facilitate the process of accountability to prevent corruption and protect the interests of society. However, the weakness of transparency and credibility, and the obscure and minimal information provided by Iraqi government units to beneficiaries, stakeholders and the public contribute to both the weakness of these units to monitor performance and the spread of financial corruption and the deterioration of the situation in the country.

The most prominent government units that bear a heavy burden in terms of providing services to citizens are local governments in Iraq's provincial councils that plan and monitor the implementation of projects and budgets, and the provincial departments that handle implementation and spending.

Accordingly, this article begins by discussing the concepts of transparency and disclosure in accounting to extract the most important elements or requirements that should be provided in local government financial reporting through reviewing the literature that will form the basis for a practical analysis and interpretation of the government accounting system in Iraq and the financial statements produced by local governments. This analysis was based on the laws and instructions governing the government accounting system in Iraq and on the financial statements of three local governments in the Iraqi provinces. This will be followed by a

discussion of the results related to the transparency of the financial reporting of Iraqi local governments before summary insights and conclusions are provided.

Theoretical Framework: Concepts of Transparency and Disclosure in Accounting

In relation to organisations and their activities, the *Oxford Dictionary* defines transparency as ‘openness to public scrutiny’. In the public service media sector, transparency is one of the principles of governance. It is closely related to another of those principles – accountability – since ‘better accountability is accomplished through higher transparency’. As a principle, transparency is also associated with openness and responsiveness (Armstrong, 2005; MIS, 2015).

In this context, INTOSAI emphasises that the notion of transparency refers to the SAI’s timely, reliable, clear and relevant public reporting on its status, mandate, strategy, activities, financial management, operations and performance. In addition, it includes the obligation of public reporting on audit findings and conclusions and public access to information about the SAI (INTOSAI, 2010).

From the above definitions it can be concluded that transparency is not just about granting the right to beneficiaries to obtain information, but also involves providing the information in a clear, systematic, timely manner by means of public and open communication, in order to enable the beneficiaries and stakeholders of legislators, media, civil society and the public to monitor the performance and accountability of executives for all activities in planning and implementation to prevent corruption and protect the interests of society. This concept applies when disclosing information about political, economic, social, public and private units and institutions.

Disclosure is adequate and timely financial information about a company’s activity; this means the published financial statements and related notes should contain any economic information that is sufficiently important to impact users’ aware and careful decisions (Abadi & Janani, 2013). This may require the disclosure of information on policies, procedures, methods and all information that stops the financial reports misleading the user and providing useful data for economic decision-making. This is achieved through the annual reports of the companies or disclosures across different communication channels, such as the media or regulators of the capital market. Therefore, accounting transparency requires the creation of an environment that enables the production of understandable and easily accessible information to all parties that need the information to make rational decisions (Al-Jabali & Bni Ata, 2014).

In this context, Perez et al. (2014) state that, ‘The disclosure of financial documents can be extremely significant for improving information transparency as part of the management of

financial resources to render public sector services and as a traditional way of responding to the need for public accountability about public sector activities and their contribution to social and economic development.’ It is therefore expected that improved financial reporting will enhance the accountability of governmental agencies and will assist the internal and external decision-makers whose decisions will be based on the financial reports (Mir & Sutiyo, 2013).

On this basis, accounting transparency requires the efficient use of an accounting information system through all its basic components of input, processing and output of financial and accounting information, and tracking through feedback. With regard to the transparency of accounting information in government units, it is first necessary to address the accounting information that should be produced from the accounting system of government units. To improve the transparency of information, a detailed assessment of the components of the system is required, including identification of the strengths and weaknesses. The information cannot be disclosed as outputs of the system. The system inputs or processes, and the environment in which the operations were carried out, need to be transparent and clear so feedback can play its proper role in the assessment and development of solutions to reform the process under a system that can diagnose the strength and weakness of all its components.

The determination of the reporting entity is a basic requirement for transparency of financial reporting; however, as Granof and Khumawala (2011) state, ‘the composition of the reporting entity has proven one of the most stubborn issues facing business, government, and not for profit standard setters’.

Understanding what makes up a government’s financial reporting entity is important because it establishes the criteria for determining which organisations are part of a particular government and how those organisations are accounted for in that government’s financial statements. This aspect of government financial statements helps users to understand the size of government and provides the necessary accountability reporting that users expect (Public Sector Accounting Board (PSAB), 2003).

In relation to this, the Public Sector Committee (PSC) of the International Federation of Accountants (IFAC) defined the reporting entity in its Study 8 The Government Financial Reporting Entity as (IFAC, 1996):

Financial reporting entities’ mean entities in respect of which it is reasonable to expect the existence of users dependent on financial reports for information which will be useful to them for accountability and decision making purposes.

The committee stresses that the government reporting entity should be determined in a manner that enables the financial reports to provide a comprehensive yet understandable overview of government and its activities. It is also recognised that inappropriate delineation of the boundaries of the government financial reporting entity would have adverse consequences for the messages communicated by the financial report and the discharge of the accountability obligations of a government.

GASB Statement No. 14, 'The Financial Reporting Entity', explains that the financial reporting entity is made up of the primary government and its component units. Each state government and each general-purpose local government (city, town, county, and so on) is a primary government, whereas a special-purpose government (a water district, hospital or transit authority, for example) is a primary government if it has a separately elected governing body, is legally separate and is fiscally independent of other state or local governments. (Beams et al., 2012).

The component units are governmental units that are legally independent of the reporting government but within the reporting unit's control. The control means either appointing a majority of the unit's governing body members or being fiscally dependent (e.g. the budget is approved by the primary government). An example of a component unit is a school district that receives funding from the county. Because the school district is financially accountable to the county, it is considered a component unit (Jeter & Chaney, 2012).

For the purposes of external financial reporting, a reporting entity is an organisation that is obliged to prepare general purpose financial reports. This obligation arises when users of financial information depend on those reports for the information they need to make financial decisions but are unable to ask directly for specific information from the reporting organisation (PSAB, 2003) – that is, the emphasis is on another requirement of transparency, which is the *users of accounting information*.

Unlike most private sector organisations, governmental entities must be responsive to a number of different groups and organisations, including elected officials, other units of governments, investors, creditors and citizens who are focused on monitoring their activities. All forms of monitoring include collecting and interpreting data, and this oversight function is often performed through information provided in governmental reports (NCES, 2003).

In Concepts Statement No. 1, 'Objectives of Financial Reporting', GASB identifies three groups of primary users of external state and local government financial reports: the citizenry; legislative and oversight bodies; and creditors and investors. It then described the needs and interests of each of these groups (Hoyle, Schaefer & Douppnik, 2011):

- *Citizenry*: want to evaluate the likelihood of tax or service fee increases, to determine the sources and uses of resources, to forecast revenues in order to influence spending decisions, to ensure that resources were used in accordance with appropriations, to assess the financial condition and to compare budgeted to actual results.
- *Legislative and oversight bodies*: want to assess the overall financial condition when developing budgets and program recommendations, to monitor operating results to assure compliance with mandates, to determine the reasonableness of fees and the need for tax changes and to ascertain the ability to finance new programs and capital needs.
- *Investors and creditors*: want to know the amount of available and likely future financial resources, to measure the debt position and the ability to service that debt and to review operating results and cash flow data.

User needs are so broad that no one set of financial statements or accounting principles can possibly satisfy all expectations. All efforts by the GASB to encourage more effective communication of financial statement information is aimed at facilitating better understanding and decision-making by those who use the financial statements (Fischer et al., 2005). That is, the financial statements, which are the main source of accounting information, have value only to the extent that they serve the needs of users. Defining the *purposes for which the accounting information will be used* is another requirement of disclosure and transparency.

Having considered the characteristics of government and not-for-profit entities, the general purposes for which external financial statements – those included in an annual report – are employed vary from user to user and facilitate a combination of functions. For the most part, they should allow users to do the following (Granof & Khumawala, 2011):

- *Assess financial condition*: Users need to analyse past results and current financial conditions in order to determine the ability of the entity to meet its obligations and to continue to provide expected services. By establishing trends, users are better able to predict future fiscal developments and to foresee the need for changes in revenue sources, resource allocations and capital requirements.
- *Compare actual results with the budget*. In light of the importance of the adopted budget, users want assurance that the entity has adhered to it. Significant variations from the budget may signify either poor management or unforeseen circumstances that require an explanation.
- *Determine compliance with appropriate laws, regulations, and restrictions on the use of the funds*. Users want evidence that the organisation has complied with legal and contractual requirements, such as bond covenants, donor and grantor

- restrictions, taxing and debt limitations, and applicable laws. Violations can not only have serious financial repercussions but can jeopardise the entity's viability.
- *Evaluate efficiency and effectiveness.* Users want to know whether the entity is achieving its objectives and if so, whether it is doing so efficiently and effectively. Hence, they need to compare accomplishments (outcomes) with service efforts and costs (resource inputs).

Freeman et. al. (2006) note that one of the unique characteristics of government and non-profit organisations is that decisions usually must be made 'in the sunshine' – in meetings open to the public, including the news media. The emphasis here is on one of the important requirements of transparency and accounting disclosure, which is the *means and methods of accounting information disclosure*.

Freeman et al. (2006) also note that government and non-profit organisations are similar in many ways to profit-seeking enterprises, as both must have viable information systems, including excellent accounting systems, so that managers, governing bodies and others receive relevant and timely information for planning, directing, controlling and evaluating the sources, uses and balances of their scarce resources. Cost analysis and other control and evaluation techniques are essential to ensure that resources are utilised economically, effectively and efficiently.

IPSAS 22 prescribes disclosure requirements for governments that elect to present information about the general government sector (GGS) in their consolidated financial statements, where the standard mentions that the disclosure of appropriate information about the GGS of a government can enhance the transparency of financial reports, and provide for a better understanding of the relationship between the market and non-market activities of the government and between financial statements and statistical bases of financial reporting (IPSASB, 2006).

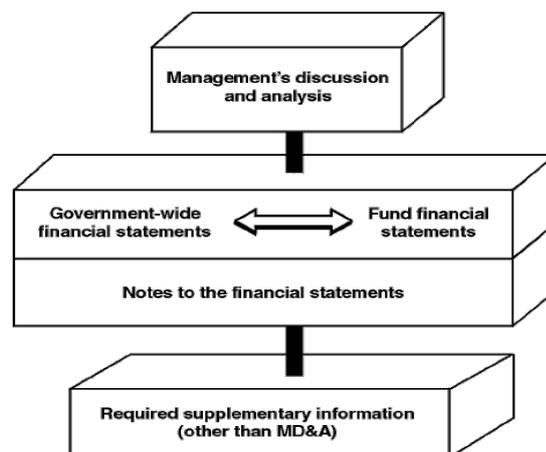
With regard to GASB, after a decade of research and analysis, it was concluded that to meet the varied needs of a wide range of users, governmental reports must provide information regarding the public entity as a whole in addition to the traditional fund financial statements. Accordingly, in June 1999 GASB introduced a new financial reporting model in Statement 34, 'Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments'. The model integrates the traditional focus of governmental fund financial statements relating to fiscal accountability (and the modified accrual basis of accounting) with new forms of reporting (e.g. government-wide financial statements) (NCES, 2003).

It is expected that this reporting model will (a) expand the scope of governmental financial reporting to include long-term economic resources as well as short-term financial resources,

(b) facilitate the assessment of the governmental operation as a whole, (c) help to preserve infrastructures, (d) improve the readability and accountability of financial reports, (e) enhance analysability, and horizontal and vertical comparability of financial statements, and (f) be a step toward measuring government performance on efficiency, effectiveness and inter-period equity (Lu, 2007).

Therefore, to enable the users of financial statements to achieve general purposes, GASB Statement 34 requires state and local governments to prepare and publish the following minimum requirements for general-purpose external financial statements as illustrated in Figure 1 (GASB, 1999):

- a management's discussion and analysis (MD&A)
- b basic financial statements, which should include:
 - government-wide financial statements.
 - fund financial statements.
 - notes to the financial statements.
- c required supplementary information other than MD&A.



Source: GASB Statement No. 34 Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments

Figure 1. Minimum requirements for general-purpose external financial statements

As illustrated in Figure 1, management's discussion and analysis are complementary to the basic financial statements, which in turn, however comprehensive and detailed they may be, cannot provide sufficient information as a financial position to the government. The government should provide statistical information and data that complement the basic financial statements (Granof & Khumawala, 2011).

Similarly, IPSAS22 points out that although the objectives of the financial statements prepared in accordance with IPSASs and those prepared in accordance with statistical bases of financial reporting differ in some respects, they also have many similarities regarding the treatment of transactions and events. For example, they adopt an accrual accounting basis, deal with similar transactions and events, and in some respects require a similar type of report structure (IPSASB, 2006). The GASB provided general guidance for the sections of a comprehensive annual financial report (Fischer, Taylor & Cheng, 2005; Freeman et al., 2006; Hoyle, Schaefer & Doupnik, 2011; Jeter and Chaney, 2012; Larsen, 2006).

From the above it can be seen that transparency should be a feature of government financial reporting in order to reach sound decisions – whether decisions of internal government parties (internal users) regarding optimal utilisation of limited government resources, or decisions of external parties in the field of monitoring and evaluating the good direction of these resources towards the objectives set in the service the society (Al-Hashimi, 2017).

Government Accounting System in Iraq

The government's accounting in Iraq was based on the Public Accounts Law No. 28 of 1940, amended by Law No. 13 of 1942. This law was repealed after April 2003 and replaced by the Financial Management and Public Debt Law No. 95 of 2004. The government accounting system is subject to legislation and regulations issued by the executive authority, which regulates the application and implementation of the principles, rules and procedures of government accounting, the most important of which (in addition to Law No. 95) is the annual general budget law and its implementation instructions, the accounting instructions and publications issued by the Ministry of Finance and all instructions issued by the Council of Ministers, the Ministry of Planning and the Federal Board of Supreme Audit. The Law on Financial Management and Public Debt was issued pursuant to CPA Order No. 95 of 2004, which affirmed on the concept of transparency when determining the purpose of issuing the law (CPA, 2004):

This Order promulgates the Financial Management Law, which establishes a comprehensive framework for the conduct of fiscal and budgetary policy in line with international best practices, by setting a structured process for the formulation of the federal budget and a number of reporting requirements aimed at increasing the accountability and transparency of the budgeting process.

The principle of transparency in the Financial Management Law was reaffirmed once it was stated within the purpose that (CPA), 2004):

The principles of transparency, comprehensiveness, and unity shall be of fundamental importance in the preparation and execution of the federal budget of Iraq, and in related issues.

The principle of transparency within the law was clarified as ‘requiring that the budget information be classified according to accepted international standards and presented in a way that facilitates policy analysis and promotes accountability’ (CPA, 2004).

Practical Results of the Iraqi Local Governments’ Financial Reporting Transparency

To investigate the reasons for this decline in the reality of transparency of the financial reporting of local governments in Iraq, whether in the shortcomings of the laws and regulations governing the government accounting system or the lack of commitment or unwillingness of officials of those Governments to change the rules and comply with what contained therein to evade accountability, the following analysis illustrates the most important reasons:

1 Determine the Financial Reporting Entity

As mentioned previously, determining the boundaries of a government financial reporting entity determines which entities, transactions and activities are encompassed by a government’s general purpose financial report. A financial reporting entity is made up of the primary government and its component units, which are legally independent but under the reporting unit’s control.

In Iraq, the definition of a government financial reporting entity is based on a legislation rules approach that generally relates to the government’s implementation of stewardship in managing public funds, wherein the definitions listed for the purposes of the Financial Management Law refer to the financial reporting entities as spending units:

‘Spending units’ are the ministries of the federal government and the administrative bodies of the federal and regional governments, governorates, and municipal and local governments, to which funding is allocated in the annual budget law. (CPA, 2004)

From this definition, it is clear that the law is focused on spending without taking care of other transactions or activities. The budget indicated by this definition is a traditional items budget based on the expenditure estimate for each primary government to be legally responsible for the distribution and use of the funds within its component units. The law in the budget execution section points out that the spending units will use the funds determined in the federal budget in

accordance with a spending plan, and the budget executors are responsible for ensuring that allocated funds within their spending units are used for lawful purposes (CPA, 2004).

The Law has also confirmed this concept in internal control and accounting mentions that “Budget executors shall be responsible for the accounting and internal control of transactions related to receipts, commitments, and payments of spending units and sub-units falling within their jurisdiction” (CPA), 2004). Thus the law implies that the sub-units are component units, which are fiscally dependent within the jurisdiction of the primary government. However, the financial statements for local government are prepared in accordance with the requirements of the Federal Board of Supreme Audit and on the basis of the Government Finance Statistics (GFS) System for the purpose of preparing the final accounts and the statement of financial position. Table 1 shows the form of the Financial Position Statement according to these requirements.

Table 1: Karbala Governorate statement of financial position as of 31 December 2013

Accounting guide				Items	2013		2012	
Section	Sub-section 1	Sub-section 2	Sub-section 3		(Million dinars)	Iraqi	(Million dinars)	Iraqi
				Assets				
22	1	2	2	Cash	36592		5148	
32	1	8	1	Advances	<u>3851</u>		<u>3851</u>	
				Total assets	<u>40443</u>		<u>8740</u>	
				Debt opposite Accounts				
98	1	19	4	Fixed assets	19464		17597	
				Liabilities				
33	1	8	1	Deposit	48233		3839	
99	1	23		Creditors	1144		1153	
				Fund current Account				
				Beginning balance	3748		8586	
99	1	27	2	+ Fund during the year	28872		44294	
	1			+ Revenues	<u>2580</u>		<u>1247</u>	
	2			- Expenses	(44134)		(50379)	
				Ending balance	<u>(8934)</u>		<u>3748</u>	
				Total liabilities	<u>40443</u>		<u>8740</u>	
				Credit opposite Accounts				
99	1	19		Fixed assets	19464		17597	

Note that Table 1 is a summary display of a financial position that focuses only on the classification according to the accounts charts and comparison with the previous year, and does not include a disclosure of any information about the reporting government as a whole or a distinction between the total primary government and its discretely presented component units. Because the cash basis was used, the fixed assets are present in a separate account from the total assets on the right side and at the opposite amount at the left side for balance purposes only. Rather than being part of the financial position, these assets are out of control and accountability because they are considered expenditures in the year of acquisition. In the report on the financial report of Karbala province directorate, the form of this statement is the same as statements for the other local governments in Babil and Al-Najaf Al-Ashraf – for example, the statement of financial position of Najaf Provincial Council does not include a column to show the balances of the district councils, which are legally independent of the reporting government but within the reporting unit's control; this is because the provincial council appoints a majority of the district councils' governing body members.

The financial position of Babil Governorate Directorate does not include a column to show the balances of its component units that are being fiscally dependent, such as education, health or municipal. This is despite the fact that the Financial Management Law provides that the final accounts of the federal budget must be in accordance with the content and classifications of the budget and international accounting standards (CPA, 2004).

2 Identify Users of Accounting Information

As mentioned previously, it is reasonable to expect the existence of users dependent on financial reports for information that will be useful for accountability and decision-making purposes. However, a comprehensive law such as the Financial Management Law regulates the arrangements governing the preparation, adoption, recording, management, execution and reporting of the federal budget of Iraq and related issues, including public borrowing and guarantees, internal control, accounting and auditing (CPA, 2004), and suspends any provision of Iraqi law that was enacted prior to the effective date of this Order and did not specify clearly who had the right to access information and accountable the government reporting units, except for indicating this to the public according to the following paragraphs:

The approved federal annual and supplementary budgets shall be published in the Official Gazette and made publicly available in other media, as appropriate. (CPA, 2004)

Following approval of the final accounts of the annual federal budget by the body vested with national legislative authority, the final account shall be published in the Official Gazette and made publicly available. (CPA, 2004)

This may be justified by the fact that the law refers to increasing accountability and transparency in line with international best practices, and therefore the recognised categories of users as the citizenry, legislative and oversight bodies, and investors and creditors are those intended by term ‘public’.

Since no international standards have been applied, neither in the area of transparency nor in the area of the accounting system, from the issuance of this law in 2004 until now, and because the definition of the government reporting unit is based on the rules approach, as mentioned in the previous paragraph, the right to access information is not possible where only the law determines to whom the information should be directed and the purpose of providing it.

3 Determine General Purposes for Which the Accounting Information will be Used

Because the boundaries of financial reporting are affected by the users’ desire for the information, it is important for any government accounting law or system to define the general purposes of the financial statements for most of the beneficiary parties. However, the Financial Management Law does not specifically determine who the beneficiaries are, and does not specify directly what general purposes for the information would provide to the public. The law gives the Minister of Finance the authority to determine the accounting standards and procedures. The law in the section of the Ministry of Finance Functions indicates that ‘developing and managing the federal government’s accounting and financial information system’ is the responsibility of the Minister of Finance (CPA, 2004).

The Law also indicates in the section on Internal Control and Accounting that:

The Minister of Finance shall prescribe internal control arrangements, accounting procedures and standards, submission of reports on the usage of budget funds, and the manner of recording receipts, payments, and commitments. (CPA, 2004)

As mentioned previously, the general purposes of financial statements for the most parties should allow users to assess the financial condition, compare actual results with the budget, comply with legal and contractual requirements, and evaluate efficiency and effectiveness. The law includes hints about these purposes – for example, when determining the type of reports to be issued, the law refers to the purpose of comparing actual results with the budget:

The final accounts of the federal budget must be in accordance with the content and classifications of the budget and international accounting standards and shall include ... (c) A report on differences between budgeted and executed receipts and payments and on the financing of any deficit or the use of any surplus. (CPA, 2004)

The law also includes a reference to the purpose of evaluating efficiency and effectiveness within the internal audit performance:

Reviewing the efficiency and effectiveness of the use of existing services and proposing more efficient ways of providing these services. (CPA, 2004)

So far, no instructions have been issued to adopt any of the international accounting standards that could represent best practice and adapt to the nature of the new Iraqi federal system, as well as the purposes that should be served by the government accounting system in line with the development in the field of government accounting and international standards (Abdullah, 2010; Aljazrawi and Saleh, 2013).

Currently, the government in general and local government units are preparing financial reports in accordance with the requirements of the Federal Board of Supreme Audit, which is a presentation of the financial position of the government unit. Table 1 includes a comparison of past results and current financial conditions. Table 2 shows the budget execution account. Yet these reports do not sufficiently meet the requirements for accountability and appropriate decision-making purposes.

Note that Table 2 displays the revenues without including the budget estimates. This is because the government units are not concerned with estimating revenues as much as the budget allocations for expenditures, where the budget column includes estimates for expenses only. The statement also does not include matching between revenues and expenses because this would be meaningless. Revenues are paid to the Ministry of Finance and government units are financed only from the general budget allocations. Consequently, the measure of achievement for a government unit is a comparison of actual spending with the budget, and it is not clear whether the variances are due to random estimates or inaccuracies in implementation. In its report to management, the Federal Board of Supreme Audit recommended preparing an estimated budget for revenues.

Table 2: Najaf Provincial Council budget execution statement for the year ended 31 December 2011

Accounting chart			Items	2011 (Million Iraqi dinars)			2010 (Million Iraqi dinars)		
Section	Sub-section 2	Sub-section 1		Budget	Actual	%	Budget	Actual	%
			Revenues						
1	1	1	Salaries tax		45			32	
1	1	2	Restaurants and shops Rent		3			-	
1	4	2	Fees		5			2	
1	4	3	Fines		2			14	
1	4	5	Miscellaneous income		104			39	
1	31	1	Sale nonfinancial assets		6			113	
			Total Revenues		165			200	
			Expenditures						
2	1	1	Employees compensation	8710	7677	88	8294	6967	84
2	2	1	Commodities supplies	678	667	98	664	629	95
2	2	2	Service supplies	1096	1096	100	1089	1089	100
2	2	3	Asset maintenance	209	209	100	247	247	100
2	8	2	Other expenses	50	50	100	50	50	100
31	1	1	Purchase nonfinancial assets	400	286	72	1000	962	96
			Total expenditures	11144	9985	90	11344	9944	88

Methods or Manners of Disclosure of Accounting Information

As mentioned previously, the definition of transparency in various international bodies and organisations and academics was associated with terms such as: ‘openness to public scrutiny’, ‘openness and responsiveness’, ‘free flow of information in its broadest sense’, ‘unfettered access by the public to timely and reliable information’, ‘decisions must be made in the sunshine’, ‘starting point for the reporting process’ and ‘central to any type of reporting’. The Financial Management Law affirmed on increasing degree of reporting transparency in line with international best practice, but it confines the terms of transparency with the phrase ‘shall

be made publicly available’, defining publicly available as meaning that information is available for ready access by any member of the public. This includes, but is not limited to, publication in the Official Gazette, on an unrestricted website or in widely available public newspapers (CPA, 2004).

Although the law is somewhat compatible with openness, the flow of information and ready access, we find Iraqi local governments non-responsive and timely and reliable information difficult for the public to access. Few of its decisions are made ‘in the sunshine’. The Iraqi government accounting system continues to follow the same policies as before the Financial Management Law, including

reporting procedures designed to serve the information needs within the government as well as relative service for the purposes of the legislative authority, as well as the absence of a clearly defined national policy for the release of accounting information on the performance of the government and its financial position provided that formulated at the top levels of government and with the participation of concerned parties within the Iraqi society (Al-Shammari, 2003).

The Quality of the Accounting Information to be Disclosed

The Financial Management Law authorises the Minister of Finance to issue special orders to spending units, governorates, municipal and local governments and other budget entities for their submission of financial reports, and shall prescribe the submission of the final accounts of spending units, including regional governments, governorates, municipal and local governments and other budget entities (CPA 2004).

In another section, the law mentions that, ‘The final accounts of the federal budget must be in accordance with international accounting standards’ (CPA, 2004). However, the government accounting system in Iraq still relies on the traditional system based on cash, and an items budget, which is no longer able to provide the information required by an efficient and effective government – that is, information that can prove the government’s accountability of resources entrusted to them and be useful for decision-making. The financial reports produced by the Iraqi government accounting system are limited in their ability to reveal the types of government funds; there is also an inability to show the true and fair financial position of the government as a whole, or to provide information on the type of activities and costs of services provided compared with outcomes and performed objectives, as well as the fact that they are not submitted in a delimited time and therefore lack a significant degree of qualitative characteristics that are required in any general-purpose financial reports.

Iraqi local governments are financed through a current account for operating budget expenditures and another for investment budget expenditures. Other government units adopt a monetary basis for accounts. The financial statements include the following statements according to the financial statements of the Al-Najaf Al-Ashraf, Karbala and Babil local governorates: statement of financial position, statement of budget execution, cash flow statement and statement of investment budget accounts balances. This compares with the theoretical framework and with Statement No. 34 of the GASB Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments.

Management’s discussion and analysis: MD&A

The administration report was not included in any of financial statements obtained for the purposes of this research for the Directorate of Babil Province, the Directorate of Karbala Province or the Council of Najaf Province. Nor was it possible to see whether the administration was conducting any analyses and discussions to analyse the existing reality and to present the government’s financial position in a way that could be understandable to the average citizen, enabling them to determine the unit’s ability to meet its obligations and continue to deliver the expected services.

Basic financial statements

- The financial statements include one type of government statement focused on comparing the previous results with the current financial conditions, the actual results with the budget and the percentage of achievement of both the operations and investment budget without any analysis and interpretation of the results and differences from the budget. It is not clear whether the budget allocations were made at the level of the primary local government or were within the allocations and responsibilities of their component units.
- The financial statements do not distinguish between the primary government and its component units. They do not show the assets, liabilities and net assets separately for the primary government unit and its component units, nor distinguish between the activities provided by these governments if they are within public government activities such as public security, public works, health or within business activities such as water, sanitation, parking or within component units such as municipal, education system and public schools.
- Table 3 shows the form of statement of the amounts spent on the investment budget projects prepared by local governments, where it is limited to the estimated cost of projects on certain sectors, with the amounts of annual allocations and the actual amounts spent without specifying what those projects are, or what projects were completed and what projects are still under completion and when they will actually be completed. Some projects are ongoing from 2006 and have not yet been completed.

- The analytical statements presented separate statements for each of the revenues and expenses. An activity statement is not prepared to compare the achievements (results) with service efforts and costs (resource inputs) for efficiency and effectiveness evaluation and for each type of government activity. The resources related to the activities, contributions, governmental capital and operational grants are not compared with the actual expenses of each activity, in order to diagnose the net increase in expenses or revenues or both, and to establish its impact on public revenues such as taxes on ownership and fees for changes to net assets.
- Where the monetary basis of measurement is used, the Statement of Budget execution does not reflect the revenues and expenses for the year of the statement's preparation. Accordingly, the statement of financial position does not reflect the actual financial situation, as the entire rights and liabilities of the unit are not shown, as they would be if the accrual basis were used for measurement.
- The financial statements do not include any additional notes to describe the nature and size of government activities, its business-type activities, major funds and non-major funds.

Required supplementary information other than MD&A

The financial statements do not include any statistics or supplementary information to provide more appropriate information that enhances the understanding of users and leads to greater accountability. Except for the above analytical statements, which did not include more than details of the amounts for each statement classified according to the government accounting guide.

Table 3: Babil Governorate (partial) statement of the amounts spent on the investment budget projects for the year ended 31 December 2011

Projects	Total estimated cost	Total allocations, 2006–11	Estimated cost for 2012	Allocations for 2012	Actual expenditure 2012
Education	170089	30161	94920	53079	25905
Higher education	26219	26421	8100	3272	1353
Telecommunications	11293	9019	2871	2263	1918
Water	132869	72847	58576	32975	16075
Municipalities	458163	154187	327348	75798	14180
Electricity	236670	101949	80000	87363	28112
Water resources	21981	8654	14085	3559	1700
Roads and bridges	369938	60545	266973	106176	58610
Sewer	99309	96511	1500	10460	4620
Health	57407	31963	28827	13184	6137



Summary insights and conclusions

Despite the issuance of the Financial Management and Public Debt Law No. 95 of 2004 in Iraq and its emphasis on the adoption of the transparency principle in government work and the preparation of budget and financial reports in accordance with best international practices, the financial reporting of local governments suffers from a significant failure to meet the needs of users. Information in the reports of these governments lacks the basic requirements of transparency. The adoption of the monetary base for the government accounting system does not provide comprehensive accounting information and is not appropriate to meet the minimum requirements for general-purpose external financial statements.

In light of the existence of a traditional government accounting system, all its accounting information outputs are based on comparing expenditure with budget allocations without paying attention to the estimation of revenues and comparing them to the achievements, with poor attention paid to preparing and publishing financial reports in a proper time and making them available to the media and the public in an easy manner. This makes it very difficult for the public, civil society and other beneficiaries to play their role in the accountability and community control on public funds; if the accounting information is obtainable from such a system, what will be the user's level of understanding? Which government unit will be accountable?

The first problem regarding the transparency of government financial reporting in Iraq is the determination of the reporting entity. Local government in any Iraqi province as a reporting entity is supposed to prepare consolidated financial reports that include its component units under the control of the reporting unit. Yet the distribution of control between local governments and ministries in the federal government has hindered the implementation of many projects, meaning the possibility of accountability for lagging projects or for wasting resources during the implementation of several projects has been lost.



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