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The structure of financial control, accountability and accounting in the Islamic Republic of Iran with an examination of the relevance to Iran of recent accounting reforms in the Australian government

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University of Wollongong

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THE STRUCTURE OF FINANCIAL CONTROL, ACCOUNTABILITY AND ACCOUNTING IN THE ISLAMIC REPUBLIC OF IRAN WITH AN EXAMINATION OF THE RELEVANCE TO IRAN OF RECENT ACCOUNTING REFORMS IN THE AUSTRALIAN GOVERNMENT

A thesis submitted in fulfilment of the requirements for the award of the degree of

DOCTOR OF PHILOSOPHY

From

THE UNIVERSITY OF WOLLONGONG
New South Wales, Australia

by

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DEPARTMENT OF ACCOUNTING AND FINANCE
1996
DECLARATION

I hereby certify that this thesis has not been submitted previously as part of the requirements of another degree and that it is the result of my own independent research.

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Gholamhossein Mahdavi
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ABSTRACT

Increased demands on governments, along with pressure from limited resources of most countries, including Britain, Australia and New Zealand, in recent decades have resulted in significant reforms to the management of public sector resources and to the mechanisms by which governments are held financially accountable. Commercialisation, corporatisation and privatisation in the public sector are part of this reform. Most of the reforms have yet to find their way to the Islamic Republic of Iran which has devoted most of its energies since the Revolution in 1979 to establishing structures of government.

These reforms, which have been guided by the principles of economic rationalism, have been projected as promoting more efficient and effective management of resources and therefore better government for all. Criticisms of the reforms have emphasised their tendency to reduce assessments of performance to economic measures to the detriment of the traditional concerns of equity, access and social equality.

This thesis examines the elements of government financial management and control in the Islamic Republic of Iran which determine the dimensions of accountability which the Executive must fulfil and the role of accounting in demonstrating accountability. The thesis then seeks to determine the extent to which present reforms in the Australian public sector which have been designed to enhance accountability and management are relevant to Iran. The study shows that public sector accounting in Iran has not developed to the extent that it has in the economically developed countries. It also shows that there is substantial need for change in accounting systems in the Islamic Republic of Iran. It indicates that the implementation of the present government accounting techniques and procedures in the financial management of the Iranian government cannot adequately accomplish the several goals of the public financial program of the nation.

The study shows that the Islamic Republic of Iran can benefit from adopting the public sector accounting systems in Australia. It suggests that the use of accrual accounting by the Iranian Government would enhance public financial accountability and provides better information to managers for decision making purposes.
CHAPTER 1

INTRODUCTION

1.1 BACKGROUND TO THE STUDY

Public sector accounting in the Islamic Republic of Iran has not developed to the extent that it has in the economically developed countries (Aghvami 1992a, 1992b; Babajani 1992a, 1992b, 1992c; Islamic Consultative Assembly 1995c; Rakhshandehrou 1995). The present accounting, budgeting, financial reporting and auditing practices of the Iranian Government are essentially those established many years before the Islamic Revolution in 1979. The Country's General Law of Accounts which determines accounting and reporting procedures in the public sector, is mainly that instituted in 1907. It has been amended four times since its establishment. The existing law emphasises compliance with legal provisions and budget allowances, with little or no regard to essential managerial uses of accounting information.
Chapter 1, Introduction

The present accounting system of the Iranian Government is cash based. According to this system, a governmental unit prepares, before the beginning of fiscal year, a budget or estimate of revenues and expenditure for the coming year. During the accounting period, cash receipts and expenditures are recorded in the appropriations-book and receipts and expenditure ledgers. These accounting practices are basically those of the traditional accountability-oriented, public sector accounting framework in which the accounting system is designed to satisfy the needs of accountability and administrative control of appropriated funds. Government officials responsible for expenditures have had to prepare proper accounts of their stewardship to show that the funds were expended in accordance with the authority received from the legislature.

In relation to present-day needs of the Iranian Government, this traditional concept of accountability is somewhat narrow in its scope since in budgeting and accounting it relies upon the exclusive use of a combined organisation-object classification in order to pinpoint control over expenditures (Aghalu 1992). Although these information needs are still essential today, public sector accounting is also being recognised increasingly as a tool of management by providing various types of financial information necessary for efficiency and effectiveness accountability purposes.

Increased demands on governments, along with pressure from limited resources of most countries, including Britain, Australia and New Zealand, in recent decades have resulted in significant reforms in developed countries to the management of public sector resources and to the mechanisms by which governments are held financially accountable. Commercialisation, corporatisation and privatisation in the public sector are part of these reforms. Most of the reforms have yet to find their way to the
Islamic Republic of Iran which has devoted most of its energies since the Islamic Revolution in 1979 to establishing structures of government.

Seventeen years after the ‘victorious’ Islamic Revolution in 1979, it would seem particularly appropriate and timely for a review of Iranian public sector accounting and budgeting systems and that suggestions for its improvement are made. Moreover, recently there is an increasing demand for fiscal discipline (Enzabat Agtsadi) among the senior officials in the Islamic Republic of Iran. Ayatollah Sayyed Ali Khamenei, the Leader of the Islamic Republic of Iran, in his messages to the Iranians on the occasion of Iranian new years, or Nowrouz, 21 March, 1995 and 20 March, 1996 (1 Farvardyn 1374 and 1375 according to the solar calendar)

1, requested that all Iranians, including government officials and employees, give serious attention to fiscal and economic discipline. In his message in 1996, he also requires all government officials and employees to use public resources efficiently and effectively (Khamenei 1995, p. 3 and 1996, p. 4).

The Iranian Government will need to improve its accounting system and procedures in order to serve accountability for efficiency and effectiveness and also help management more effectively in conducting the affairs of the government.

1.2 STATEMENT OF THE THESIS

This thesis will argue that recent accounting reforms by the Australian Commonwealth Government have the potential to enhance public sector

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1 The official calendar of the Islamic Republic of Iran takes as its point of departure the migration of the Prophet of Islam (Mohammad). Both the solar and the lunar Islamic calendars are recognised, but government offices will base their operations on the solar calendar. According to the solar and the lunar calendars the current year is 1375 and 1415 respectively.
Chapter 1, Introduction

accountability and management in the general government sector\(^2\) of Iran. Of particular concern to the thesis is the applicability of accrual accounting in the general government sector. The impact on the relevance of the accounting reforms of differences in culture and governance between the two countries is a key feature of this thesis. Where it is appropriate, the thesis will provide recommendations for the implementation of reforms.

The thesis will argue that existing accounting techniques and procedures used in the general government sector in Iran cannot meet the goals of the nation as expressed in government plans and policies\(^3\). A better system and supporting set of procedures of public sector accounting can be devised to serve more efficiently and effectively as guidelines for the proper utilisation of Iran's public resources. Thus, the overall objective of this dissertation is to suggest, for application in Iran, various accounting techniques and procedures that have proved useful in the general government sector in more economically developed countries, primarily Australia, and that can be expected to strengthen the effective financial management and accountability of government transactions.

Although Australia and other western nations, including New Zealand, Great Britain and the United States, are moving to consolidated or whole of government reporting on an accrual basis (see ED 62), this thesis will not examine this as an option.

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\(^2\) To be comparable and consistent, this study uses the definitions of Commonwealth government reporting entities prepared by the Commonwealth Department of Finance in Australia. According to the Department of Finance the General Government Sector provides public services which are non-commercial in nature. These services constitute the collective consumption of the community and involve a transfer or redistribution of income, and are financed mainly through taxes and other compulsory levies. This sector includes 'budget' entities and 'non-budget' entities. 'Budget' entities operate on the Commonwealth Public Account whereas 'non-budget' entities have separate ownership of moneys and other assets (Department of Finance 1996, p. 16).

\(^3\) These plans are examined in chapter 5.
available to Iran at its present stage of development. The use of accrual accounting in all government agencies is the prerequisite for whole of government accounting on an accrual accounting basis. Iranian general government sector accounting, however, is still at a very basic cash accounting level and thus does not provide the information for whole of government on an accrual basis. Whole of government accounting, which is only at a trial stage in Australia (see Department of Finance 1996), is unlikely to be operational much before the end of this century. In order for Australia to contemplate whole of government accrual accounting it firstly had to establish accrual accounting throughout its agencies. Now that this phase is nearing completion, although recent studies have shown that while management have generally understood the use of accrual accounting for external financial reporting most managers have not appreciated its use in management decision making, planning and control (JCPA 1995; Ernst and Young 1995), the Australian Government is now sufficiently confident to confront the difficult issues associated with whole of government reporting using accrual accounting. While whole of government reporting is accepted as desirable, it is seen as being outside the key concerns of this thesis.

It is important to note here that this thesis does not attempt to provide a descriptive, detailed, technical manual to assist in the implementation of the recommendations for accounting change in the Iranian General Government Sector. Upon the adoption of accrual accounting and other measures designed to improve financial management, the specifics of implementation will be the responsibility of the Ministry of Economic Affairs and Finance in co-operation with the Court of Accounts. This thesis is aimed at a higher systemic level of accounting rather than at a procedural level. Accordingly, the emphasis is on new structures for accounting and the benefits/results of accrual accounting for the Iranian nation.
The Iranian Government differs from the Australian Government in that it is a unitary system of government with one central bureaucracy. In contrast, Australia is a Federation that consists of three tiers of government-National, State, and Local. To enhance comparability, this thesis will be limited to comparing and contrasting the central government of Australia (Commonwealth) with the central Iranian government. Also already noted, in section 1.1 above, this is referred to as the general government sector throughout thesis.

Because of the unique political, social and economic situation of the Islamic Republic of Iran, as discussed in chapters 2 and 6, this study does not claim that the recommendations to the Iranian Government for accounting and budgetary reforms are applicable to other countries. However, there is no reason to believe that the recommendations cannot be adapted to suit other similar, if not identical, situations.

As an Islamic state any recommendations for accounting reforms in Iran will have to be consistent with Islamic criteria. Ultimately, discussions about the appropriateness of recommendations will have to be left to scholars in Islamic teaching.

1.3 IRANIAN CHALLENGES

Iran is an ancient country. According to Glover (1944) "[t]he Persians created the greatest Empire of antiquity before the Roman; and they held it for two centuries" (p. 89; see also Haerian Ardakani 1996, p. 22). Iran's history is punctuated with periods of great upheaval and social dislocation. In the 20th century it has experienced two revolutions: the Mashruteh Revolution in 1906 and the Islamic Revolution in 1979. These two revolutions changed the structure of governance in Iranian society through
new constitutions. Both the 1906 Constitution and the 1979 Constitution determined that, while ultimate sovereignty rests with God, the powers and sovereignty of the state are derived from the people (Higgins 1986, p. 172). For the first time in Iranian history the 1906 Revolution established a Parliament while the 1979 Revolution instituted an Islamic Republic under the supervision of the *Valyat-e Faqih* 4. The backbone of the present Iranian Constitution is based on the Imam Khomeini’s writings and speeches on the subject of "Islamic Government" pronounced many years before the Islamic Revolution in 1979 (Khomeini 1981; see also Algar 1980; Bazaei 1993, pp. 38-39, Firouzbakhch, 1994, pp. 139-140).

In the Islamic Republic of Iran, all the civil, penal, financial, economic, administrative, cultural, military, political, and other laws and regulations must be according to Islamic criteria (Article 4 of Iranian Constitution). The Constitution requires that the principle of Article 4 is applicable, absolutely and generally, to all articles of the Iranian Constitution (Article 4 of Iranian Constitution). Article 4 also adds that the *Faqaha* of the Guardian Council are responsible for implementing this criteria. Ayatollah Javadi Amoli (1992) has emphasised that the significant objectives of an Islamic government are:

a) Leading man towards being God’s substitute [*Khalifa*] on the earth;
b) Changing the Islamic communities into utopias by preparing real bases of genuine civilization and providing for real principles governing internal and external relations (p. 3).

To be God’s substitute, mankind should embody and possess all the traits of God. Thus, when the Constitution refers to justice and the like as the objectives of an

---

4 This and other terms uniquely pertaining to Iran are defined in chapter 2.
Islamic government it in fact refers to the components necessary for perfection, i.e. to be in the image of God (Javadi Amoli 1992, p. 3; see also Sadeghzadeh 1995, pp. 127 and 130). One of the examples that God provides to the Prophet Mohammad, the Great Messenger, as His substitute is found at the beginning of the sorah\(^5\) called Abraham, in the Glorious Quran:

\[
\text{Alif. Lam. Ra. This is a Scripture which we have revealed unto thee (Muhammad) that thereby thou may bring forth mankind from darkness unto light, by the permission of their Lord unto the path of the Mighty, the owner of praise (Javadi Amoli 1992, pp. 3-4).}
\]

Again, the aim of the establishment of an Islamic system based on revelation and prophethood is to convert man into God's substitute on earth. Ayaat\(^6\) 19 and 85 of the Family of Imran Sorah of the Quran says that “Religion with Allah is Islam” and those who seek a religion other than Islam will not be accepted by Him. Thus, the main objectives of the mission of all prophets has been to introduce Islam and to establish Islamic governments. For example the Quran says:

\[
\text{We verily sent our messengers with clear proofs, and revealed with them the Scripture and the Balance, that man-kind may observe right measure (Sorah Iron; Aya 25 in Javadi Amoli 1992, p. 5).}
\]

According to the above Aya, the general aim and objective of all messengers has been to establish peace and justice (Javadi Amoli 1992, p. 5; see also Sadeghzadeh 1995, p. 132). Javadi Amoli (1992) argues that these objectives of the leaders of divine governments are intermediate objectives and “not an ultimate of [sic] final

---

\(^5\) Some have used "chapter" as the equivalent of "sorah". However, a sorah does not contain a theme as is normally found in a chapter. The holy Quran is not organised on the basis of subjects. The whole Quran consists of 114 lengthy, intermediate and short Sowar (plural of Sorah).

\(^6\) Ayaat is plural of Aya. Aya may be translated as verse. It literally means “symptom of God's power”. Aya seems richer than verse, hence is preferred. The whole Quran consists of 6,666 Ayaat.
one, and as we said earlier, the main objective for man is to change into God's substitute [Khalifa]" (p. 6).

A consequence of the striving towards these objectives is a nation where all can enjoy a better standard of living. Therefore, it is important that those entrusted with governing do so with fairness, honesty and use resources wisely. This last concern in the past decade also occupied governments throughout the world as they sought to improve their management practices.

1.4 MANAGERIALISM IN THE LATE 20TH CENTURY

The 1980s witnessed the introduction of a new concept of "management" in the public sector in most developed countries. The purpose of the "new managerialism" was to make the public service more efficient and effective in managing public resources by "letting the managers manage". The aim has been to create a public sector "able to carry out policies with optimal economic efficiency, and one with well-designed and targeted policies to carry out" (Emy and Hughes 1988, p. 353). It is argued that managerialism will give more flexibility to the managers and it is also a move from the traditional focus on processes of bureaucratic-control to a focus on results (Helgeby 1990, p. 10). Thus, the major concern in managerialism is with efficiency, effectiveness and accountability, with the emphasis on outputs rather than inputs (this will be discussed in chapter 6). To achieve this, Deegan (1995) argues, requires increased devolution and delegation to lower organisational levels, consistent with a philosophy of "letting the managers manage" while holding them accountable for their performance and outcomes (p. 11).
The new managerialism, while receiving strong support from most western
governments, has also had its critics (Painter 1988; Sinclair 1989; Yeatman 1987;
Considine 1988). For example, Painter (1988) believes that there is a lack of solid
intellectual or philosophical basis for managerial reforms in Australia. According to
him there are also some dangers for the acceptance of private sector techniques in the
public sector without any critical consideration. Painter argues that middle managers
in the public sector should not just consider economic and technical matters, they
should also pay attention to political, ethical, social and other criteria in their
decision making (p. 2).

Sinclair (1989) echoes Pointer's concerns by arguing that the traditional values of
public administration have been destroyed by the importation of private sector
strategies and structures (p. 382). According to Yeatman (1987) the source of these
problems is the reliance of managerialism on Frederick Taylor's classic scientific
management model, with "its instrumental orientation to people as human resources
and a tendency to reduce the organisational entities involved to calculable and
389). As a consequence, Bryson and Yeatman are concerned about possible
consequence, of managerialism for the individual bureaucrat and voter. They have
also pointed to the potential for discrimination against women (in Barrett 1990, pp.
3-4). Considine (1988), another opponent of managerialism, also points out
inadequacies in the use of a corporate management framework in the public sector
where the government's aims are far broader, and somewhat more nebulous, than in
the private sector (p. 16).
Defenders of the new managerialism argue that although the emphasis is on managing for results the traditional values of public administration, such as fairness and probity, are also preserved (Keating 1989 in Parker and Guthrie 1993).

In response to increasingly loud voices of criticism, in an article called “Towards a fairer Australia-Social Justice and Program Management: A Guide”, the Departments of Finance and Prime Minister and Cabinet in 1989 have attempted to reassure that

[m]inisters are closely involved with their programs and with their constituency. Bureaucrats are closely involved with Ministers. Emphasis is very much on consultation and consensus. Ministers approve program objectives and strategies. Access and equity are important planks of the Government's policy approach (in Barrett 1990, p. 5).

In support of the methods and aims of managerialism Barrett (1990) argues that “there are examples of good management practice in the private sector which are applicable to the public sector” (p. 20). He refers to the commercialisation process, accrual accounting techniques, corporate management and planning, strategic approaches, flatter structures and devolved decision making as applicable to the public sector. He also commends what he sees as the successful implementation of a managerialist approach to government in countries such as Britain and New Zealand to support this argument (Barrett 1990, p. 20).

As one of the prime movers in managerial reforms in NSW and the Commonwealth Government, Wilenski (1988) affirmed that “the old methods of public administration were insufficient for the new tasks that the public sector was asked to perform” (p. 216). There was a reluctance among the traditional permanent heads of departments to plan or set goals on the grounds that he/she could not be responsive to
short term political change (Wilenski 1988, p. 216). Wilenski (1988) also believes that one of the elements needed to achieve greater equity is to use the available resources more efficiently, a core concern of managerialism. Thus, for Wilenski managerialism justified “the removal of many process-oriented rules and regulations” (p. 217).

1.5 THE NEED FOR COMPARATIVE STUDIES IN PUBLIC SECTOR ACCOUNTING AND THE SCOPE OF THIS STUDY

Many researchers have mentioned the need to study public sector accounting not only in the national arena but also to compare international public sector accounting throughout the world (Guthrie 1990b; Chan and Jones 1988; Babajani 1992b, 1992c; Chang and Khumawala 1994; Guthrie 1994). It is suggested that comparative research studies will help to find the similarities and differences in public sector accounting, provide examples of desirable reforms and provide an analysis of the development of the regulation of accounting in the public sector. Consistent with these suggestions, this study accepts Guthrie’s challenge for a “critical analysis of experiences with public sector accounting developments from an international perspective” (Guthrie 1994, p. 143e). There is an urgent need to study accounting, and chiefly public sector accounting, in the Islamic Republic of Iran at this time. Babajani (1992b) in his article “Government Accounting in Iran, A Comparative Survey (in Persian)” (hesabdari dolati dar Iran, yak barasia tadbighi) suggests that:

a board consisting of nominated persons of the Court of Accounts' experts and representatives of the Ministry of Economic Affairs and Finance be established to study and research public sector accounting in Iran. They should study and research public sector accounting systems in developed countries to design a modern public sector accounting system for Iran. After that if there is a need to do any amending to the existing Law and Legislation amendment
Babajani (1992c) again, in 1992, in another article emphasises the necessity of a comparative study in Iranian public sector accounting with advanced countries (p. 87). He argues that one of the ways to assess and recognise the efficiency of methods and policies or effectiveness of economic and social institutions is through comparative studies. He also mentions that if assessing the Iranian public sector accounting is not difficult, at least it is not easy (Babajani 1992b, p. 32).

Unfortunately his suggestions have not been taken up by the Iranian Government. Accordingly, the absence of any significant research in public sector accounting in the Islamic Republic of Iran and a lack of suitable standards for public sector accounting in Iran highlight the importance of the present study. It is also a preliminary step toward standards setting in the Iranian public sector and a stimulus to broaden the notion of public accountability from accountability for legality and regularity to include accountability for efficiency and effectiveness.

From the public sector accounting techniques and procedures that have been found useful in practices in Australia, a selection has been made of those that may be applicable to Iran. This selection was based on the following factors:

1. Information needs to be met by the Iranian general government sector accounting system.
2. Usefulness of the techniques and procedures under consideration.

7 Translated by author.
3. Compatibility with the social, cultural and political requirements of a system of government based upon the teachings of Islam.

The study of the existing accounting system and related financial management practices of the Iranian Government is based upon a study of the government accounting literature and upon a systematic investigation of available government data. Among the government documents that have been consulted are the budgets of the Iranian Government, the Five-Year Development Plans, the Constitution of the Islamic Republic of Iran, the Islamic Consultative Assembly Reports, the Law of the Court of Accounts, the Country's General Law of Accounts and other related financial regulations, Budget Settlements and many other government documents. Apart from relevant material available in government documents, the neglect of Iranian public sector accounting amongst researchers is reflected in the dearth of articles in the literature.

1.6 STRUCTURE OF THE THESIS

In chapter 2 the Iranian and Australian systems of government are examined in detail. The chapter consists of three sections, the first section details the structure and operation of the Iranian government. It is shown that Iranian government is composed of the Leader or Leadership Council, the Legislature, the Executive, and the Judiciary. It will be explained that the system of government in the Islamic Republic of Iran is unitary under the supervision of the Valayat-e Faqih which is elected by the Khobragan Assembly. The responsibilities and powers of the President, the Islamic Consultative Assembly and the Khobragan Assembly are clarified and the process by which they are elected will be also discussed. Section two details the nature of the Australian Commonwealth government. It refers to the
Parliament (Senate and House of Representatives), the Executive and the Judiciary in Australia. Chapter 2 also refers to the three levels of government in Australia; the Commonwealth, the States, and local government. The processes by which the Governor-General is appointed, and by which the Prime Minister and members of the Parliament are elected, along with their responsibilities and powers will be also highlighted.

The structures of government established in chapter 2 provide the foundations for chapter 3 which examines concepts of accountability which are followed in theory and practice in Iran and Australia. The importance of accountability in the public sector and its role in a changing modern society will be discussed in chapter 3. The nature of accountability also will be examined, followed by a discussion of how it functions now in the general government sector of the Islamic Republic of Iran and Australia. In recent years the dimensions of accountability given prominence in the public sector have been expanded in Australia, New Zealand and England to include efficiency and effectiveness rather than just emphasising the traditional dimensions of accountability, in particular accountability for legality and regularity. Interpretations of accountability, as found in theories of governance and in practice, are the primary determinants of the mechanisms used to ensure accountability. This chapter also will provide a historical overview of accountability as it has been understood in Australia and in the Islamic Republic of Iran.

Chapter 4 is concerned with the consideration of an accounting system as a provider of useful and adequate information for implementing accountability processes and enhancing management efficiency and effectiveness in the general government sector. Government performance is judged with a heavy reliance on financial information. Thus, accounting mechanisms are very important. Discussion of the
systems of public sector accounting in chapter 4 includes cash accounting, accrual accounting and fund accounting. Reference will be made to the benefits of cash accounting, accrual accounting and their differences. The chapter will also consider why accounting in the public sector was left untouched by many governments and little attention has been devoted to standards setting until recent years.

Some of the significant issues currently confronting public sector accounting, in particular determination of costs, depreciation, valuation and amortisation of fixed assets and financial reporting in the public sector also will be covered in chapter 4.

Little has been written about accounting, especially public sector accounting, in Iran by academics and practitioners. There is also no active organisation responsible for developing public sector accounting in Iran. Chapter 5 is devoted to the examination and consideration of the characteristics and the weaknesses in implementing accountability and efficient management of the existing budgeting and accounting practices of the Islamic Republic of Iran.

An examination of Australian public sector reforms in recent decades, emphasising changes in financial management and accountability and focusing on new accounting technologies as a means to perform accountability practices in the public sector is the theme of chapter 6. For the purpose of this study, the knowledge of these changes is needed as a source of reference in order to make suggestions for reform of the accounting system of the Islamic Republic of Iran in chapter 7. Problems and deficiencies in the implementation of accrual accounting in the general government sector are examined in the last part of chapter 6. In chapter 6, the relevancy of the Australian reforms to help meet these deficiencies and thereby assist in improving accountability, efficiency and effectiveness will be also considered. Conclusions and
specific recommendations for reforms applicable to the Islamic Republic of Iran, based on the discussions in chapters 2, 3, 4, 5 and 6, are provided in chapter 7.
CHAPTER 2

SYSTEMS OF GOVERNMENT: THE ISLAMIC REPUBLIC OF IRAN AND AUSTRALIA

2.1 INTRODUCTION

Government is the most important national entity. In a democracy, society gives power, authority and legitimacy to the state to direct the use of a country’s resources, either directly or through parties. To make sure that these resources are being used in the best interests of the electorate, the notion of accountability has been utilised by the government in its reporting to the people, together with the means to exercise this accountability. Therefore, responsible public accountability forms the significant function of government to Parliament and to society at large.

This chapter discusses systems of government in the Islamic Republic of Iran and Australia in order to provide a framework of public sector accountability in both countries. For this purpose the chapter is divided into three sections. The first section details the form of government in the Islamic Republic of Iran, with particular
attention directed to the conditions, qualifications, authority and responsibilities of the Leadership, the Legislature, the Executive and the Judiciary. Section two deals with the form of government in Australia, in particular its nature as a Federation, and its structure of government, including the Houses of Parliament, the role of the Governor-General and the High Court. The similarities and dissimilarities of these two systems of government are developed where appropriate throughout the thesis.

A discussion of the systems of governance in the Islamic Republic of Iran and Australia provides much of the theoretical foundation upon which the substantive conclusions of the thesis will rest. This discussion is particularly relevant as it forms the basis for a discussion about accountability in the two systems of government which will be developed in chapter 3.

2.2 MODERN HISTORICAL DEVELOPMENTS IN IRANIAN GOVERNMENT

2.2.1 Historical Perspective

Islam, and more specifically Twelver Ja'fari school, has existed since the 7th century in Iran (Sassani 1963, p. 3). It is deeply rooted in Iranian culture, social and individual life and has been, therefore, an important factor in Iranian politics. As a result, a study of the place of Islam in influencing government activities and attitudes is necessary for an understanding of the Iranian government. The office of the head

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1 Iran, although it was always called "Iran" by the Iranians, was called Persia by Westerners after the Greeks who called Iran by the name of one of its provinces, Fars or Persia. This tradition continued until 21 March 1935 when Reza Shah made "Iran" the official name of the country and requested that all countries follow his usage. In October 1949, his son, the Shah, who was deposed in 1979, allowed both names to be used. Before this change was made, Winston Churchill, in August 1941, had directed that the British use "Persia" in official correspondence to avoid confusing Iran with Iraq. Consequently, depending on the nationality of the author, and when he/she is writing, usage varies (Kuniholm 1980, p. 130).
of the state and the administrator of religious affairs in Islam politics and religion are intertwined. This was the case in the Prophet Mohammad's Caliphate.²

Two important Islamic Revolutions have occurred in Iran since the nineteenth century. The first one was the Mashruteh [Constitutional] Revolution³, in 1906, and the second one, referred to as the Islamic Revolution, occurred in 1979. The first Iranian Constitution was drafted by the first National Consultative Assembly [Majlis] in 1906 as a consequence of the Mashruteh Revolution (Kuniholm 1980, p. 131). Before this time Iran had no crucial laws, or even a constitution, to restrict the Shah's power (Ghods 1989, p.2). According to Algar (1980) this first constitution consisted of a preamble and 51 Articles to which 107 Supplementary Articles were added on October 7, 1907. The Constitution was later amended four times, in accordance with the dictates of the ruling Pahlavi family, in 1925, 1949, 1957, and 1967. Algar adds that, theoretically, the Constitution of 1906, with its later supplements and amendments, remained in force until the triumph of the Islamic Revolution in February 1979 (p. 7).

The Iranian Constitution asserted that the form of government was a monarchy and most political power reposed in the Shah. Under this constitutional monarchy the government consisted of three branches: legislative, executive and judicial. The legislative branch was vested in a Parliament of two chambers: the National Consultative Assembly (Majlis Shoray Meli), and the Senate or Upper House

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² For a more detailed discussion of Caliphate in Islam see Bazaei 1993, pp. 41-41.
³ The author believes that this is first time that the Mashruteh Revolution is referred to as an Islamic Revolution in Iranian literature. The reasons are mainly: the Ulama were the leaders of the Mashruteh Revolution and had an important role in the victorious outcome of the Revolution; the Mashruteh Constitution required Islam as the official religion of Iran and established the Twelver Ja'fari school.
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(Sassani 1963, pp. 3-4). With the Islamic Revolution in 1979 the form of government changed to an Islamic Republic.

2.2.1.1 Mashruteh Revolution

The Mashruteh Revolution was one of the most momentous Islamic Revolutions in Iranian modern history. Increasing political dictatorship, a lack of security of life and property, and the increasing influence of European countries in Iran have been proposed as some of the important reasons which led to the Mashruteh revolution in 1906 (Amjad 1989, p. 37). Apart from the influence of Islamic teaching, another important source of the Mashruteh Revolution was the Tobacco Movement.

A number of concessions had been granted to foreign economic interests in the 1890s. One of these concessions was the tobacco monopoly (Algar 1969, p. 206). In 1889, the then Shah (Naser al-Din Shah) granted an English Company, led by Major Talbot, a monopoly over the cultivation, sale, and export of tobacco for fifty years, in return for which he undertook to pay the Shah, or the Iranian Government, an annual rent of £15,000, in addition to one-quarter of the annual profits, after the payment of all working expenses and a five per cent dividend on the capital4 (Algar 1969, p. 206; Browne 1966, pp. 31-33; Abrahamian 1982; Moaddel 1986; Hiro 1985, p. 17). This contract put the Iranian merchants and shopkeepers at the mercy of a foreign company, ultimately leading them to protest against this Concession, which they felt was against the public interest and a capitulation to foreigners' interests. The tobacco merchants were clearly indignant at selling and buying at prices arbitrarily fixed by a foreign company (Algar 1969, p. 208). This feeling was shared by the majority of

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4 Abrahamian says that there was also a personal gift of £25,000 to the Shah on the contract (1982, p. 73).
the people who saw this contract as evidence of the corruption of the government and the government's disregard for national interests (Amjad 1989, p. 37). When the agents of Talbot's company arrived at Shiraz, the main tobacco-growing region, in April 1891, they were welcomed with the shutdown of the bazaar which spread into a general strike of the leading bazaars, particularly Tehran, Isfahan, Tabriz, Mashhad, Qazvin, Yazd, and Kermanshah (Abrahamian 1979; Abrahamian 1982).

The Iranian merchants and shopkeepers turned to the Ulama for support. Around the end of September 1891 the marja' taqlid, Ayatollah al-Ozma Hajj Mirza Hassan Shirazi wrote a long letter to the Shah (Naser al-Din Shah) to argue that the Concession granted by him to foreigners was contrary to the Quran and the spirit of Islam. When the Shah ignored Ayatollah al-Ozma Hajj Mirza Hassan Shirazi, the Ayatollah issued a Fatva which demanded that no tobacco be consumed because the consumption of the tobacco was pronounced Haram. This would stand until the Concession was repealed. The Fatva was supported by other Mujtaheds and Ulama (Browne 1966, pp. 51-54).

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5 The Ulama are those learned in the religious law and its sources.
6 The practices and pronouncements of the Mujtahed (see footnote No. 9) furnish a binding example for those unable to exert/clarify independent judgement in matters relating to the religious law (Algar 1969, p. 263).
7 A Fatva is a legal ruling, an expression of opinion, by one of the Ulama, on a point of religious law or on a legal case.
8 Everything which is prohibited by the law of Islam.
9 A Mujtahed is one who may act according to his own judgement in matters relating to religious law. Becoming a mojtahed requires a long process. Those who wish to gain this title begin by studying in the seminaries (Houzeh-e Elmieh or madreseh Elmieh) where the students are called Tullab. A majority of Tullab leave seminaries after a few years of education and become prayer leaders (Pishnemaz) or preachers (Rowz-e Khan) (Amjad 1989, p. 35). The remainder, by continuing their study, will become and get the title of Saqatolislam after some years. Those who extend their studies in the Houzeh-e Elmieh will become and get the title of Hojjatolislam (Manifestation of Islam). Hojjatolislams, although capable of interpreting the Quran, are not specialised in any branches of Islamic Jurisprudence [Fiqh]. After many years of education, a small group of Tullab reach the rank of mojtaheds. Mojtahees use their independent judgement for the interpretation of Islamic laws (Shari'a). The rest of the society are called moghalid or imitators. Yet a smaller group will reached the rank of Ayatollah (sign of the God) (Amjad 1989, p. 35), someone who is specialised in Islamic laws. Ayatollahs often write a book called Resaleh-e Touzihol Massael (Book of Explanation of the
In response to this pressure, on 28 December, a proclamation announcing the withdrawal of the Concession was published by the Shah (Browne 1966, pp. 51-54). The capitulation of the Shah in the face of such widespread unrest clearly demonstrated that "religion played a significant role in mobilizing the people against a concession granted by the Qajar Shah to a British company" (Moaddel 1992, p. 447-48).

Browne (1966) notes that "the Tobacco Concession was ended, but not its consequences" which proved to be momentous (p. 31). Most specifically, the active participation of Ulama in this movement had played a crucial role in the abrogation of the tobacco concession. The victory of the Tobacco Movement brought the Ulama and the people, notably the merchants, closer together and it showed how they could work together against tyranny and opened the way for the Mashruteh Revolution (Browne 1966, p. 37).

The Shah's actions during this period only served to further accentuate the resentment of the people towards an increasingly despotic government, culminating in his assassination by Mirza Rezay Karmani who was one of Sayyed Jamal al-Din Asadabadi's students and followers, before commencement of the celebration of the fifty-year's of Naser al-Din Shah's monarchy in 1896. After Naser al-Din Shah was

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Problems) in which answers are provided regarding the application of Shari' a to everyday life. The highest ranking mojtahes are called Ayatollah-e Ozma (Grand Ayatollah) or Marj'a-e Taghlid (Source of Imitation). A Marj'a-e Taghlid (pl. Maraje-a Taghlid) has many followers and is known for his piety and knowledge of Shari' a. The choice of a Marj'a-e Taghlid is not based on election or referendum but on the acceptance of each Marj'a-e Taghlid by the Moghalids. Marjayyat is decentralised, and no Marj'a-e Taghlid has the right to interference in the rulings of another Marj'a-e (Amjad 1989, pp. 35-36).

10 For more about Sayyed Jamal al-Din Asadabadi's role in the Mashruteh Revolution see Browne 1966, pp. 1-30.
killed, his forty-four year old son Muzaffar al-Din Shah ascended to the Peacock throne, subsequently appointing Ayn ud-Daula as his Sadre-azam (Grand Vazier or Prime Minister) in 1903 (Algar 1969, p. 240). Since Muzaffar al-Din Shah was plagued by illness he passed the governance of the country to Ayn ud-Daula who had not forgotten the insolence of the merchants in 1891. Algar (1969) is of the opinion that

[t]he beating given to some merchants of Tehran on shawval 14, 1323/December 12, 1905, started the chain of events that culminated in the issue of the decree granting the constitution. Various circumstances, notably the disruption of the Russian economy by war with Japan, had caused a rise in the price of sugar, and using this as pretext, Ayn ud-Daula decided to punish the merchants of Tehran for their protests against his policies, and at the same time to intimidate the ulama allied to them (p. 246).

Ala ud-Daula, governor of Tehran, summoned in his presence and bastinadoed a number of merchants, not all of whom were concerned with the sale of sugar. As the news of the bastinadoing became known, the people of Tehran, led by the Ulama, gathered in the Masjede Shah [Shah mosque] to protest (Abrahamian 1979, p. 405; Algar 1969, p. 246). While there was no important result of this meeting, the Ulama decided, at the suggestion of Sayyed [Ayatollah] Tabatabai, to leave Tehran for the security offered by the shrine of Shah Abdol Azim (Abrahamian 1979, p. 405; Algar 1969, pp. 246-47). There they formulated their demands, in the name of the Ulama, for the foundation of a "House of justice" (Adalatkhaneh)11 (Algar 1969, p. 247; see also Abrahamian 1985, p. 123). Muzaffar al-Din Shah when faced with concerted resentment accepted in principle the demand for an "Adalatkhaneh" on 14 January, 1906 and the Ulama decided to return to Tehran (Algar 1969, p. 248; Amjad, 1989, 11 According to Abrahamian (1979) their main demands were four: "replacement of the governor; dismissal of Naus [the Belgian customs director]; enforcement of the shari'ah and formation of a House of Justice" (Adalatkhaneh) (p. 405).
p. 38). Also at this time Ala ud-Daula was dismissed from the governorship of Tehran by Ayn ud-Daula. Ayn ud-Daula was prepared to accept the triumph of the Ulama.

When the Ulama and the people returned to Tehran, the Shah and his Sadre-azam did not honour their promises. As a result, opposition mounted against them. Matters were brought to a head on 10 July, 1906 when orders were given for the arrest of one of the Ulama prominent in preaching against the government, Shaykh Mohammad Va'az (Algar 1969, p. 250; see also Abrahamian 1985, p. 123). Before the Shaykh could be taken to prison, Tullab¹² and others attacked the soldiers escorting him and were able to set him free but not before the commander of the soldiers gave orders to fire upon the people. In the confusion which resulted Sayyed Abdol Hamid, a young Tallabeh¹³, was shot and suffered martyrdom (Algar 1969, p. 250; Abrahamian 1982).

The Ulama of the capital gathered in the mosque to express their outraged feelings. They announced that they would not leave until an "Adalatkhaneh" had been established, demanding the dismissal of Ayn ud-Daula. The Ulama then presented the government with three choices: either to accept their demands, to remove them from the mosque by force, or to permit them to leave the city in peace. The last one was accepted, and on 15 July, 1906 about a thousand of the Ulama set out for Qom (Algar 1969, p. 250; see also Abrahamian 1985, pp. 123-124).

The merchants of Tehran made a similar use of bast (strike) in the grounds of the British embassy in Tehran. Four days after the beginning of the exodus to Qom.

¹² Tullab are students at a religion school (madrese).
¹³ Singular of Tullab.
about thirty representatives of the clerical and mercantile classes sought refuge in the grounds of the British embassy. They asked Grant Duff, British charge d'affaires, to submit their demands to the Shah. The nature of their demands made clear the extent of cooperation between the Ulama and the merchants. They demanded that the Ulama be permitted to return to Tehran, that Ayn ud-Daula be dismissed, and that a Majlis be established (Algar 1969, p. 250-51).

Ayn ud-Daula attempted as before to resist the demands as long as possible, but on 29 July, 1906, he was obliged to resign, and a week later, a decree was issued for the calling of a Majlis (Algar 1969, p. 251). The government sent Abdol Malik to Qom to invite the Ulama back to Tehran, which they re-entered in triumph on 18 August. Thus, the grant of a constitution was obtained and the tyrannical government was changed to a monarchical Mashruteh government. The word "Mashruteh" was derived from mashriyat and mashrutiyat, both of which meant government according to the law of Islam and the incorporation of justice and equality (Algar 1969, p. 253). Algar (1969) says that “the purpose of the ‘adalatkhana[h]’ was to secure the application of Islamic law” (p. 253).

Eventually the first Majlis in Iranian history was established and opened on 7 October, 1906 (Abrahamian 1979; Browne 1966), composed of: the Ulama (29.2 percent), government officials/urban notables (22.3 percent), guilds people (18.0 percent), merchants (17.4 percent), and Qajar princesses (5.0 percent) (Foran 1991, p. 805). The Supplementary Fundamental Laws, which were ratified by Mohammad Ali Shah on 7 October, 1907, amounted to the first Iranian Constitution (Browne 1966).
The Mashruteh Constitution required Islam as the official religion of Iran and established the Twelver Ja'fari school (Article 1). A Committee composed of not less than five Mujtaheds or other devout theologians would be elected to determine whether proposals passed by the newly formed National Consultative Assembly were according to Islam (Article 2). The Constitution also provided for the annual Budget to be fixed and approved by a majority of the National Consultative Assembly (Article 96) and a Financial Commission, with its members appointed by the National Consultative Assembly, was made responsible for inspecting and analysing the accounts of the Department of Finance (Articles 101 and 102) (Browne 1966; Abrahamian 1979).

According to Abrahamian (1979), the Supplementary Fundamental Laws, which were passed by the first Iranian National Consultative Assembly, were divided into two main sections. The first section was a ‘bill of rights’ which guaranteed “each citizen equality before the law, protection of ‘life, property, and honor,’ safeguards from arbitrary arrest, and freedom to organize associations as well as publish newspapers” (Abrahamian 1979, p. 410). The second section was related to the separation of powers which “concentrated power in the Legislature at the expense of the Executive Branch” (Abrahamian 1979, p. 410). The Legislature obtained the power to appoint, investigate, and dismiss premiers, ministers, and cabinets. Ministers were responsible to Parliament (Abrahamian 1979, p. 410). The Mashruteh Revolution established a constitutional monarchy in Iran which was in force from 1906 to 1979. In this system the executive was headed by the Shah or the King. Administration of the government was carried out by the King and the Cabinet, with the Cabinet and the Prime Minister as its head primarily responsible to the National Consultative Assembly (Sassani 1963, p. 3-4).
The Mashruteh Revolution was the culmination of a long period of conflict between the state and the Ulama (Algar 1969) and, as Foran says, even though the Constitutional Revolution ended in a defeat “it stands out as a revolutionary movement that attempted to change the balance of power and nature of Iranian society” (Foran 1991, p. 817). Thus, theoretically, the Constitution of 1906, with its later supplements and amendments, remained in force until the triumph of the Islamic Revolution in February 1979, the subject of the next section.

2.2.1.2 Islamic Revolution

To clarify the importance of Islam in shaping the system of government in the Islamic Republic of Iran it is necessary to give a brief account of the Islamic Revolution in Iran in 1979. The Islamic Revolution in 1979 was led by the eminent marja’ taqlid, Ayatollah al-Ozma Imam Khomeini. With this Revolution the form of government dramatically changed. The referendum of March 29 and 30, 1979 (Farvardyn 9 and 10 in the year 1358 of the solar Islamic calendar, corresponding to Jamadi al-Awwal 1 and 2 in the year 1399 of the lunar Islamic calendar), with an affirmative vote of a majority of 98.2% of eligible voters, held after the victorious Islamic Revolution, confirmed that the people of Iran had endorsed a change to an Islamic Republic after centuries of monarchy.

The early years of Imam Khomeini's activity in Qom coincided with the establishment of the Pahlavi state by Reza Khan in 1921 after a coup d'etat. Algar (1981 in the introduction to Khomeini 1981) states that Reza Khan transformed the Iranian monarchy into a dictatorship of the modern, totalitarian kind and made its chief internal aim the elimination of Islam as a political, social, and cultural force (p. 14). Arjomand (1992) in this regard says “[o]nce he [Reza Khan] had become king
... the Majles rapidly lost its vigor, was packed with his hand-picked candidates and became a rubber stamp for his policies. The constitution was manipulated, and its Islamic provisions were ignored” (p. 57).

In October 1962 Mohammad Reza Shah, Reza Khan's son who was the Shah at that time, passed a Bill called *Layahe' Anjomanhaye Ayalati va Velayati* (the Bill of State and Provincial Associations) through the Board of Ministers. This Bill abolished the requirement that candidates for election to local assemblies had to be Muslim and male. For the first time Imam Khomeini, joined by religious leaders elsewhere in the country, protested vigorously against the measure, leading to its repeal (Arjomand 1992, p. 16; Amjad 1989, p. 40).

In 1963 the Shah, after his trip to America in March 1962, began to pronounce a series of measures for reshaping the political, social and economic life of Iran that were collectively designated the "White Revolution". The apparent popular approval of the proposal was obtained by what was alleged to be a fraudulent referendum held on 26 January, 1963 (Algar 1981 in the introduction to Khomeini 1981; Amjad 1989; see also Firouzbakhch 1994, p. 33). Imam Khomeini moved immediately to denounce the "revolution" as fraudulent and to expose the motives that underlay it, preaching a series of sermons from *Fieziarah Madreseh* in Qom that had a nationwide impact (Algar 1981 in the introduction to Khomeini 1981, p. 16). Imam Khomeini (1981), in a speech in 1963, warned the Shah that "you have carried out your White Revolution in the midst of all this Black Reaction! What do you mean, a White Revolution? Why do you try to deceive the people so? Why do you threaten the people so?" (p. 179). Despite the Shah's attempt to masquerade his reform, the measures in question were perceived by a large segment of Iranian society as being imposed on the country by the United States and designed to bring about
augmentation of the Shah's power and wealth, as well as intensification of United States dominance, which had been instituted with the CIA coup d'etat against Prime Minister Mohammad Mosaddeq in August 1953 (Algar 1981 in the introduction to Khomeini 1981, p. 16; see also Bazaei 1993, pp. 200-221; Parsa 1989, pp. 45 and 50; Pesaran 1985, pp. 19-20).

The Shah's regime responded to the mounting opposition to his actions by sending the army to attack Fiezhia Madreseh on 22 March, 1963. A number of students [Tullab] were killed and the madreseh was ransacked (Algar 1981 in the introduction to Khomeini 1981; see also Bazaei 1993, pp. 233-235; Amjad 1989). Far from intimidating Imam Khomeini, this event marked the beginning of a new period of determined struggle that was directed not only against the errors and excesses of the regime, but against its very existence. The attack on the madreseh had an almost symbolic value, exemplifying as it did both the hostility of the regime to Islam and Islamic institutions and the ruthless manner in which it expressed that hostility (Algar 1981 in the introduction to Khomeini 1981, p. 16).


The confrontation reached a new peak in June with the onset of Moharram. On the tenth day of the Moharram, the month in the Muslim calendar when the martyrdom of Imam Hossein, the third Imam of Shi’a Muslim and the grandson of the Prophet, is
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commemorated, Imam Khomeini delivered an historic speech in Qom, repeating his
denunciations of the Shah's regime and warning the Shah not to alienate the people
any further (Algar 1981 in the introduction to Khomeini 1981; Bazaei 1993, pp. 234-
35; Amjad 1989; see also Firouzbakhch 1994, pp. 33-34). He said “Mr. Shah! Dear
Mr. Shah, I advise you to desist in this policy and acts like this. I don't want the
people to offer up thanks if your masters should decide one day that you must leave.
I don't want you to become like your father” (Khomeini 1981, p. 178). Two days
later, Imam Khomeini was arrested at his residence and taken to accouchement in

The arrest of Imam Khomeini brought popular abhorrence with the Shah's regime to
a crisis resulting in a major uprising which shook the throne. In Qom, Tehran,
Shiraz, Mashhad, Isfahan, Kashan and other cities, unarmed demonstrations opposed
the Shah's U.S.-trained and equipped army, which, upon the command to shoot to
kill, slaughtered not less than 15,000 people in the space of a few days. The date on
which this uprising began, in June 1963, Khordad 15 according to the solar calendar
used in Iran, marked a turning point in the modern history of Iran (Algar 1981 in the
introduction to Khomeini 1981, p. 17; Bazaei 1993, pp. 235; Amjad 1989, p. 40-41;
see also Hiro 1985, pp. 46-47). Algar in his introduction to Imam Khomeini (1981),
Islam and the Revolution, says that “in all of these ways, the uprising of Khu[o]rdad
15 foreshadowed the Islamic Revolution of 1978-1979” (p. 17). Firouzbakhch
(1994) reinforces Algar's statement that

the most important event in the year 1963 was the June uprising
when [Imam] Khomeini was forced into exile in Iraq which in turn
created a new context of Islamic activism leading ultimately, to the
[Islamic] revolution in 1979 (p. 4).
The uprising was suppressed, but the general public and the religious scholars refused to tolerate the imprisonment of Imam Khomeini. Agitation persisted throughout the country, and numerous religious leaders converged on Tehran to press for Imam Khomeini's release. It finally came on 6 April, 1964, accompanied by a statement in the government-controlled press that Imam Khomeini had agreed to refrain from political activity as a condition for his release. This was immediately refuted by the Imam, who resumed his denunciations of the regime with undiminished vigour (Algar 1981 in the introduction to Khomeini 1981, pp. 17-18; Bazaei 1993, p. 236; see Hiro 1985, pp. 48-49).

In October 1964, the Shah granted legal immunity to American personnel for all offences committed in Iranian territory. This proved the Shah's tutelage to the U.S. After learning that the Iranian Majlis had agreed to this measure, Imam Khomeini on October 27 furiously denounced this open violation of Iranian sovereignty and independence (Algar 1981 in the introduction to Khomeini 1981, p. 18; Bazaei 1993, pp. 236-37; Amjad 1989, p. 41): “[t]he government has sold our independence, reduced us to the level of a colony ... They have reduced the Iranian people to a level lower than that of an American dog” (Khomeini 1981, p. 182). Accordingly, on 4 November, 1964, Imam Khomeini was arrested again and sent into exile in Turkey, accompanied by agents of the Shah's secret police (Algar 1981 in the introduction to Khomeini 1981, p. 18; Bazaei 1993, p. 237; Amjad 1989, p. 41; see also Hiro 1985, p. 49).

Unceasing pressure was brought on the Shah's regime to allow Imam Khomeini to leave Turkey for a more favourable place of exile in the holy city of Najaf, one of the Shi'i shrine cities of Iraq. In October 1965, permission was given, and Imam Khomeini proceeded to Najaf, which was to be his home for thirteen years (Algar
1981 in the introduction to Khomeini 1981, p. 18; Bazaeei 1993, p. 238; Amjad 1989, p. 41; see also Hiro 1985, p. 49). Despite his banishment, Imam Khomeini continued to maintain his influence and popularity in Iran. He issued periodic proclamations concerning developments in Iran that were copied into the country and clandestinely circulated at great risk. In addition, his messages addressed to the Muslim world at large were distributed several times in Mecca during the pilgrimage season of the year. He received visits during the long years of his exile in Najaf from a number of important Iranian and other Muslim personalities (Algar 1981 in the introduction to Khomeini 1981, p. 18; Bazaeei 1993, pp. 238-39; see also Hiro 1985, p. 56). During this period, the Shah hastened the secularisation and Westernisation of Iranian society by emphasising the pre-Islamic culture of Iran (in order to provide an ideological basis for the monarchy), and attempting to control the religious institutions (Amjad 1989).

On 23 November, 1977, the elder son of Imam Khomeini, Hajj Mostafa achieved martyrdom when in Najaf he was assassinated by the Shah's security police, SAVAK. The killing aroused the public in Iran, adding to the already universal discontent in Iran arising from massive social corruption and economic dislocation as well as continuing political repression (Algar 1981 in the introduction to Khomeini 1981, p. 19; Bazaeei 1993, p. 256; see also Hiro 1985, p. 69).

On 8 January, 1978 Attla'at (a government-controlled press) published an article, supplied by the Ministry of the Court attacking Imam Khomeini as an agent of foreign powers, only one week after President Carter had been in Tehran lauding the Shah as a wise statesman beloved of his people. The public reaction was immediate outrage. The following day in Qom, demonstrations broke out that were suppressed with heavy loss of life (Algar 1981 in the introduction to Khomeini 1981, p. 19;
Bazaei 1993, p. 256; Abrahamian 1982; see also Hiro 1985, pp. 70-71; Parsa 1989, p. 110). The demonstrators were shouting “we don't want the Yazid government,” “we want our constitution,” and “we demand the return of Ayatollah [Imam] Khomeini” (Abrahamian 1982, p. 505). This was the first of a series of demonstrations that progressively spread out across the country, until in the end, barely a single region remained untouched by revolutionary fervour (Algar 1981 in the introduction to Khomeini 1981, p. 19; Abrahamian 1982).

Throughout the spring and summer of 1978, Imam Khomeini issued a series of proclamations and directives congratulating the people on their steadfastness and encouraging them to persist until the attainment of the overthrow of the monarchy and the institution of an Islamic republic (Algar 1981 in the introduction to Khomeini 1981, p. 19; Abrahamian 1982).

In September 1978, the Shah's regime requested the Baathist government of Iraq to expel Imam Khomeini from its territory, in the hope of depriving him of his base of operations and robbing the Revolution of its leadership (Algar 1981 in the introduction to Khomeini 1981, p. 19; Bazaei 1993, pp. 266; Abrahamian 1982; see also Hiro 1985, p. 79). After his expulsion from Iraq in early October 1978, Imam Khomeini went to France to live at the hamlet of Neauphle-le-Chateau near Paris. Algar (1981) in this regard notes that “the move to France proved beneficial. Paradoxically, communication with Iran was easier from France than it had been from Iraq” (Algar in introduction to Khomeini 1981, p. 20; see also Bazaei 1993, pp. 267-68; Hiro 1985, p. 79-80).

The month of Moharram that coincided with December 1978 witnessed vast and repeated demonstrations in Tehran and other Iranian cities demanding the abolition
of the monarchy and the establishment of an Islamic Government under the leadership of Imam Khomeini. Despite all the savagery the Shah had employed, including the slaughter of thousands of unarmed demonstrators, the torture and abuse of detainees, and massacres of the wounded in their hospital beds, and despite the unstinting support he had received from the United States and other foreign powers, the rule of the Shah was approaching its end (Algar in introduction to Khomeini 1981, p. 20; see also Hiro 1985, pp. 84-89). On 16 January, 1979, when preparations had been made for the installation of a surrogate administration under Shahpour Bakhtiar, the Shah left Iran. The Shah's departure was a consummation of the prediction which Imam Khomeini had made sixteen years earlier.

When Imam Khomeini returned to Iran, on 1 February, he was met with a tumultuous welcome. With Imam Khomeini's renewed presence in Iran, the fate of the Bakhtiar government was sealed. After a final outburst of savagery on February 10 and 11, the old regime collapsed in disgrace, and the Islamic Republic of Iran was born. With the Islamic Revolution the form of government changed from a monarchy that had lasted for around 2500 years to an Islamic Republic. The features of the new system of government are discussed below.

2.3 THE FORM OF ISLAMIC GOVERNMENT IN IRAN

2.3.1 The Nature of Government in the Islamic Republic of Iran

According to the introduction of the Iranian Constitution the main aim of government in Islam is:

\[
\text{to foster the growth of man in such a way that he progresses toward the establishment of a divine order, in accordance with the Qur'anic}
\]
phrase “and to God is the journeying” (3:28)\textsuperscript{14}, and to create favorable conditions for the emergence and blossoming of man's innate capacities so that the theomorphic dimensions of man are manifested. This is in accordance with the injunction of the Prophet, upon whom be peace, “Acquire the divine characteristics” (Algar 1980, p. 20).\textsuperscript{15}

The Constitution also notes that the attainment of this goal depends on the broad and active participation of all segments of society in the process of social development (Algar 1980, p. 20).

The Islamic government is based upon the governance of the Faqih.\textsuperscript{16} Figure 2.1 below shows that in the Islamic Republic of Iran the powers of government are vested in the Legislature, the Executive, and the Judiciary, three arms of government common to most governments, functioning under the supervision of the absolute Velayat-e Faqih\textsuperscript{17} and the leadership of the Ummah [Islamic Society], in accordance with the [Articles of the] Constitution.\textsuperscript{18} These powers are independent of each other (Article 57).

According to the Iranian Constitution the main features of the form of government in Islam are:

1. Government does not derive from the interests of a certain class;
2. Government does not serve domination by an individual or a group (Introduction to the Constitution);

\textsuperscript{14} These numbers refer to chapter 3, verse 28 from the holy Quran.
\textsuperscript{15} Emphases in original.
\textsuperscript{16} A scholar of the Islamic religious sciences, especially jurisprudence. For more see section 2.3.2.
\textsuperscript{17} For more see section 2.3.2.
\textsuperscript{18} For a comprehensive discussion of forms of Islamic Government and Velayat-e Faqih see Bazaei 1993, pp. 54-80.
3. The purposes of Government in Islam are:
   
a. to aid the process of intellectual and ideological evolution toward the final goal, i.e., movement toward God.
Figure 2.1: System of Iranian Government

The Council of Experts (Majlis Khobragan)

The Leader or the Leadership Council

People Elect

President

The Executive

The Guardian Council

The Legislature

Nation's Exigency Council

Judiciary

Islamic Consultative Assembly

Court of Accounts
b. to establish an ideal and model society on the basis of Islamic criteria.

c. the rejection of all forms of intellectual and social tyranny and economic monopoly, and aims at entrusting the destinies of the people to the people themselves in order to break completely with the system of tyranny.¹⁹

To achieve these aims the exercise of meticulous and painstaking supervision by just, pious, and committed scholars of Islam ("just *Faqaha²⁰") is an absolute necessity (introduction to the Constitution).

### 2.3.2 The Leader or the Leadership Council

The most important feature of the Islamic Revolution compared with the *Mashruteh* Revolution involves the Leader or Leadership Council. Algar (1980) believes that the major significant difference between the 1979 Constitution and the 1907 Constitution is the introduction into the 1979 Constitution of the key concept of *Velayat-e Faqih*, "the governance of the *Faqih*". This doctrine, which Imam Khomeini had outlined at length in his celebrated lectures at Najaf in 1969, is the keystone of the new political structure, ensuring that the Republic will be Islamic in substance and daily functioning as well as designation (see Bazaei 1993, pp. 38-39). Algar (1980) also mentions that it is true that Article Two of the supplementary laws of 1907 had provided for a committee of five high-ranking scholars to ensure that no legislation passed by the *Majlis* would be contrary to Islam, but the Article was never implemented (Algar 1980, p. 10). According to Article 5 of the Iranian Constitution, "[d]uring the Occultation of the *Valia Asr*²¹, the *Valayah* and leadership of the

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¹⁹ This is in accordance with the Qur'anic verse "He removes from them their burdens and the fetters that had weighed upon them" (Chapter 7, verse 157).

²⁰ Plural of *Faqih*.

²¹ The most popular title which is used to call the twelfth and last Imam of Shi'a, Imam Mahdi.
Ummah devolve upon the just [`adel] and pious [muttaqi] Faqih, who is fully aware of the circumstances of his age”. He also must be courageous, resourceful, and possessed of administrative ability, and will assume the responsibilities of this office in accordance with Article 107.

Article 107 states that after the demise of the eminent marja' taqlid and great leader of the universal Islamic revolution, and founder of the Islamic Republic of Iran, Ayatollah al-Ozma Imam Khomeini, who was recognised and accepted as marja’ and Leader by a decisive majority of the people, the task of appointing the Leader shall be vested with the Experts elected by the people [The Council of Experts or Majlis' Khobragan]22. The Experts will review and consult among themselves concerning all the Foqaha possessing the qualifications specified in Articles 5 and 109. In the event they find one of the Foqaha better versed in Islamic regulations, the subjects of the faqih [jurisprudence], or in political and social issues, or possessing general popularity or special prominence for any of the qualifications mentioned in Article 109, they shall elect him as the Leader. Otherwise, in the absence of such superiority, the Experts shall elect and declare one of the Foqaha as the Leader. The Leader thus elected by the Assembly [Council] of Experts shall assume all the powers of the Valayate-amr and all the responsibilities arising therefrom. The Leader is equal with the rest of the people of the country in the eyes of the law.

Article 109 indicates three qualifications and conditions for the Leader. The Leader must be: (a) a scholar to enable him to perform the functions of mufti in different fields of faqih; (b) a man of Justice and piety, as required for the leadership of the Islamic Ummah; and (c) he must have a “right political and social perspicacity.

22 See section 2.3.3.
The Constitution adds that in the case of a number of persons fulfilling these qualifications and conditions, the person possessing the better jurisprudential and political perspicacity, according to the Experts, will be given preference. The qualifications and conditions for the Leader before revising the Constitution in 1989 (1368) were only (a) and (c) but, as noted above, they increased to three in the revised version.23

2.3.2.1 Duties and Powers of the Leadership

According to Article 110 of the Constitution the Leader or Leadership has the following duties and powers: (1) delineation of the general policies of the Islamic Republic of Iran after consultation with the Nation's Exigency Council24 and supervision of the proper execution of the general policies of the system of government; (2) issuing decrees for national referenda; (3) assuming supreme command of the armed forces; (4) making declarations of war and peace, and authorising the mobilisation of the armed forces; (5) appointment, dismissal, and acceptance of resignation of: the Foqaha on the Guardian Council25; the supreme judicial authority of the country; the head of the radio and television network of the Islamic Republic of Iran; the chief of the joint staff; the chief commander of the Islamic Revolution Guards Corps; the supreme commanders of the armed forces; (6) resolving differences between the three wings of the armed forces and regulation of their relations; (7) resolving problems which cannot be solved by conventional

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23 There were also minor changes in sections a and c of Article 109. Thus, in section "a" the phrase 'in different fields of faqih' was added and the word 'marja' was omitted. In section "c" the word 'prudence' was added. These changes made the situation more difficult to elect a person as the Leader than before.
24 See section 2.3.6.
25 See section 2.3.5.
methods through the Nation's Exigency Council; (8) signing the decree formalising the election of the President of the Republic by the people; (9) dismissal of the President of the Republic, with due regard for the interests of the country, after the Supreme Court holds him guilty of the violation of his constitutional duties, or after a vote of the Islamic Consultative Assembly (ICA) testifying to his incompetence on the basis of Article 89 of the Constitution; and (10) pardoning or reducing the sentences of convicts, within the framework of Islamic criteria, on a recommendation [to that effect] from the Head of judicial power. The Leader may delegate part of his duties and powers to another person. The suitability of candidates for the Presidency of the Republic, with respect to the qualifications specified in the Constitution, must be confirmed before elections take place by the Guardian Council and, in the case of the first term [of the Presidency], by the Leadership.

According to Article 111 whenever the Leader becomes incapable of fulfilling his constitutional duties, or loses one of the qualifications mentioned in Articles 5 and 109, or it becomes known that he did not possess some of the qualifications initially, he will be dismissed. The authority of determination in this matter is vested with the Experts specified in Article 108. It adds that in the event of the death, or resignation or dismissal of the Leader, the Experts shall take steps within the shortest possible time for the appointment of a new Leader. Till the appointment of the new Leader, a council consisting of the President, head of the judiciary, and a Faqih from the Guardian Council, upon the decision of the Nation's Exigency Council, shall temporarily take over all the duties of the Leader. In the event, during this period, if any one of them is unable to fulfil his duties for whatsoever reason, another person, upon the decision of a majority of Fqaha in the Nation's Exigency Council shall be elected in his place. Whenever the Leader becomes temporarily unable to perform
the duties of leadership owing to illness or any other incident, then during this period, the council mentioned in this Article shall assume his duties.

2.3.3 The Council of Experts (Majlis' Khobragan)

All members of the Council of Experts should be *Faqih*. Despite the importance of the Council of Experts the Constitution has little to say about the qualifications and conditions of its members. Article 108 of the Constitution in this regard notes

\[\text{the law setting out the number and qualifications of the Experts mentioned in the preceding Article, the mode of their election, and the code of procedure regulating the sessions during the first term must be drawn up by the Foqaha on the first Guardian Council, passed by a majority of votes and then finally approved by the Leader of the Revolution. The power to make any subsequent change or a review of this law, or approval of all the provisions concerning the duties of the experts is vested in themselves.}\]

According to Articles 107 and 111 of the Iranian Constitution, the Council of Experts will elect and dismiss the Leader and the Experts will be elected by the people (for more see section 2.3.2). It is worth noting here that the Iranian Constitution has been written by the first *Majlis' Khobragan* on the basis of the draft proposed by the government as well as all the proposals received from different groups of the people and was approved in a referendum held throughout Iran on December 2-3, 1979.

2.3.4 The Legislature

Article 58 of Iranian Constitution establishes that the functions of the legislature are exercised through the Islamic Consultative Assembly. Article 62 adds that the representatives of the Islamic Consultative Assembly are elected by direct and secret
ballot of the people. According to this Article "the qualifications of voters and candidates, as well as the nature of election, will be specified by law"\textsuperscript{26}. The term of membership in the Islamic Consultative Assembly is four years with elections for each term taking place before the end of the preceding term, so that the country is never without an Assembly (Article 63). The members of the Islamic Consultative Assembly are to number two hundred and seventy which may increase by not more than twenty for each ten-year period from the date of the national referendum in 1989 [1368 of the solar Islamic calendar], keeping in view human, political, geographic and other similar factors. The Zoroastrians and Jews will each elect one representative; Assyrian and Chaldean Christians will jointly elect one representative; and Armenian Christians in the north and those in the south of the country will each elect one representative. The limits of the electoral constituencies and the number of representatives will be determined by law (Article 64).

The presence of two-thirds of the total number of members of the Islamic Consultative Assembly is necessary for its sessions to be regarded as legal. Drafts\textsuperscript{27} and bills\textsuperscript{28} will be approved in accordance with the code of procedure approved by it, except in cases where the Constitution has specified a certain quorum. The consent of two-thirds of all members present is necessary to approve any changes to the code of procedure of the Assembly (Article 65). The code of procedure of the Assembly will determine the manner of election of the Speaker and the Presiding Board of the Assembly, the number of committees and their term of office, and matters related to

\textsuperscript{26} The Guardian Council has the responsibility of supervising the election of the Islamic Consultative Assembly (Article 99).
\textsuperscript{27} A Draft is a proposal which will be given to the Islamic Consultative Assembly (ICA) by at least 10 of its members.
\textsuperscript{28} A Bill is a proposal which will be given to the ICA by the Executive.
conducting the discussions and maintaining the discipline of the Assembly (Article 66).

According to Article 67 of the Iranian Constitution the members of the Assembly must take the following oath at the first session of the Assembly and affix their signatures to its text:

In the Name of God, the Compassionate, the Merciful. In the presence of the Glorious Qur'an, I swear by God, the Exalted and Almighty, and undertake, swearing by my own honor as a human being, to protect the sanctity of Islam and guard the accomplishments of the Islamic Revolution of the Iranian people and the foundations of the Islamic Republic; to protect, as a just trustee, the honor bestowed upon me by the people, to observe piety in fulfilling my duties as people's representative; to remain always committed to the independence and honor of the country; to fulfil my duties towards the nation and the service of the people; to defend the Constitution; and to bear in mind, both in speech and writing and in the expression of my views, the independence of the country, the freedom of the people, and the security of their interests.

Article 67 adds that members belonging to the religious minorities will swear by their own sacred books while taking this oath. In addition, members not attending the first session will perform the ceremony of taking the oath at the first session they attend.

In time of war and the military occupation of the country the President of the Republic may delay the elections in occupied areas or countrywide for a specified period but the proposal should be approved by three-fourths of the total members of the Islamic Consultative Assembly, with the endorsement of the Guardian Council. If a new Assembly is not formed, the previous one will continue to function (Article 68).
The deliberations of the Islamic Consultative Assembly must be open, and full minutes of them made available to the public by the radio and the official gazette. A closed session may be held in emergency conditions, if it is required for national security, upon the request of the President, one of the ministers, or ten members of the Assembly. Legislation passed at a closed session is valid only when approved by three-fourths of the members in the presence of the Guardian Council. After emergency conditions have ceased to exist, the minutes of such closed sessions, together with any legislation approved in them, must be made available to the public (Article 69).

The President, his deputies and the ministers have the right to participate in the open sessions of the Assembly either collectively or individually. They may also have their advisers accompany them. If the members of the Assembly deem it necessary, the ministers are obliged to attend. Conversely, whenever they request it, their statements are to be heard (Article 70).

As explained above, the functions of the legislature in the Islamic Republic of Iran are exercised through the Islamic Consultative Assembly but according to Articles 93 and 94 of the Iranian Constitution the Legislative process in the Islamic Republic of Iran has two parts. Article 94 says that all legislation passed by the Islamic Consultative Assembly must be sent to the Guardian Council. The Guardian Council must review it within a maximum of ten days from its receipt with a view to ensuring its compatibility with the criteria of Islam and the Constitution. If it finds the legislation incompatible, it will return it to the Assembly for review. Otherwise the legislation will be deemed enforceable. Article 93 also states that the Islamic Consultative Assembly does not hold any legal status if there is no Guardian Council
in existence, except for the purpose of approving the credentials of its members and the election of the six jurists on the Guardian Council.

Articles 52 and 53 of the Iranian Constitution empower the Islamic Consultative Assembly to make laws regarding collecting and allocating public money. In article 53 it states that "[a]ll sums collected by the government will be deposited into the government accounts at the central treasury, and all disbursements, within the limits of allocations approved, shall be made in accordance with law". Article 52 adds that "[t]he annual budget of the country will be drawn up by the government, in the manner specified by law, and submitted to the Islamic Consultative Assembly for discussion and approval. Any change in the figures contained in the budget will be in accordance with the procedures prescribed by law". These articles highlight how the framework of financial management and accountability in government should be exercised regarding using the public resources.

Some of the other important powers and authorities of the Islamic Consultative Assembly according to the Iranian Constitution, could be categorised as follows. Firstly, it has the authority to establish laws on all matters, within the limits of its competence as laid down in the Constitution, and also to interpret all the ordinary laws of the Islamic Republic of Iran. Some of the specific laws in this category are: the approval of international treaties, protocols, contracts, and agreements; the approval of minor amendments in the boundaries of the country in keeping with the interests of the country, on condition that they are not unilateral, do not encroach on the independence and territorial integrity of the country and receive the approval of four-fifths of the total members of the Islamic Consultative Assembly; the approval of taking and giving loans or grants-in-aid both domestic and foreign; the approval of the employment of foreign experts in cases of necessity; and the approval of
transferring government buildings and properties (Articles 71, 73, 77, 78, 80, 82 and 83).

Secondly, the Islamic Consultative Assembly has power to investigate and examine all the affairs of the country. This includes the power to pose a question to the President and each of the ministers on a subject relating to their duties and also to interpellate the Board of Ministers or an individual minister. Furthermore, it has authority to pose a vote of no confidence in the Board of Ministers or the Minister or pose a vote of no confidence in the President. It has not only the authority to investigate the work of the Executive Branch but also the authority to investigate complaints against the work of the Assembly itself and the work of the judicial power as well.29 The Islamic Consultative Assembly also has authority to give a vote of confidence in the Board of Ministers after being formed and before all other business. The President can also seek a vote of confidence from the Islamic Consultative Assembly on the Board of Ministers on important and controversial issues during his incumbency (Articles 76, 87, 88, 89 and 90).

The members of Islamic Consultative Assembly are responsible to the entire nation and are completely free in expressing their views on all internal and external affairs of the country and also can cast their votes in the course of performing their duties as representatives. Furthermore, they cannot be prosecuted or arrested for opinions expressed in the Assembly or votes cast in the course of performing their duties as representatives (Articles 84 and 86).

29 Whoever has a complaint concerning the work of the Assembly or the executive power, or the judicial power can forward his complaint in writing to the Assembly. The Assembly must investigate complaints and give a satisfactory reply. In cases where the complaint relates to the executive or the judiciary, the Assembly must demand proper investigation of the matter and an adequate explanation from the accused, and announce the results within a reasonable time. In cases where the subject of the complaint is of public interest, the reply must be made public (Article 90).
The Islamic Consultative Assembly has the authority to elect the six jurists on the Guardian Council and can delegate the power of legislating certain laws to its own committees, in accordance with Article 72, whenever it is necessary. Finally, the Islamic Consultative Assembly has power to agree with the government to impose temporarily certain necessary restrictions in case of war or emergency conditions akin to war (Articles 79, 85, 91 and 93).

There are circumstances in which the Islamic Consultative Assembly does not have authority to make laws. These include enactment of laws contrary to the usual and *ahkam* (commandments) of the official religion of the country or to the Constitution (see next section). Members' bills and proposals (see footnotes Nos. 26 and 27) and amendments to governments bills proposed by members that entail the reduction of the public income or the increase of public expenditure may be introduced in the Assembly only if the means for compensating for the decrease in income or for meeting the new expenditure are also specified.

The Islamic Consultative Assembly does not have authority to grant concessions to foreigners for the formation of companies or institutions dealing with commerce,

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30 In such a case, the laws will be implemented on a tentative basis for a period specified by the Assembly, and their final approval will rest with the Assembly. Article 85 adds likewise that the Assembly may, in accordance with Article 72, delegate to the relevant committees the responsibility for permanent approval of articles of association of organisations, companies, government institutions, or organisations affiliated with the government and or invest the authority in the government. In such a case, government approvals must not be inconsistent with the principles and commandments of the official religion in the country and or the Constitution. Any inconsistency shall be determined by the Guardian Council in accordance with what is stated in Article 96. In addition to this, government approvals shall not be against the laws and other general rules of the country and, while calling for implementation, the same shall be brought to the knowledge of the Speaker of the Islamic Consultative Assembly for his study and indication that the approvals in question are not inconsistent with the aforesaid rules (Article 85).

31 According to article 79, in no case can such restrictions last for more than thirty days. If the need for them persists beyond this limit the government must obtain new authorisation from the Assembly.
industry, agriculture, services or mineral extraction. And finally the Islamic Consultative Assembly cannot transfer the right of membership in the Islamic Consultative Assembly to others and cannot delegate the power of legislation to an individual or committee (Articles 72, 75, 81 and 85).

2.3.5 The Guardian Council

With a view to safeguarding Islamic ordinances and the Constitution, in order to examine the compatibility of the legislation passed by the Islamic Consultative Assembly with Islam, a council known as the Guardian Council must be constituted. It is to be composed of six ""adel"² Fiqaha" conscious of the present needs and the issues of the day", to be selected by the Leader, and six jurists, specialising in different areas of law, who in turn are to be elected by the Islamic Consultative Assembly from among the Muslim jurists nominated by the Head of the Judicial Power (Article 91). The term of the members of the Guardian Council is six years, although during the first term, after three years have passed, half of the members of each group must be changed by lot and new members elected in their place (Article 92).

As noted in section 2.3.4 above, according to Article 93 of the Iranian Constitution the Islamic Consultative Assembly does not hold any legal status if there is no Guardian Council in existence, except for the purpose of approving the credentials of the Islamic Consultative Assembly members and the election of the six jurists on the Guardian Council. All legislation passed by the Islamic Consultative Assembly must be sent to the Guardian Council. The Guardian Council must review it within a

³² Just; To put everything in its place; To be moderate in social life; Justice.
maximum of ten days from its receipt with a view to ensuring its compatibility with the criteria of Islam and the Constitution. If it finds the legislation incompatible, it will return it to the Assembly for review. Otherwise the legislation will be deemed enforceable (Article 94). In cases where the Guardian Council deems ten days inadequate for completing the process of review and delivering a definite opinion, it can request the Islamic Consultative Assembly to grant an extension of the time limit not exceeding ten days (Article 95).

The determination of compatibility of the legislation passed by the Islamic Consultative Assembly with the laws of Islam rests with the majority vote of the *Fogaha* on the Guardian Council; and the determination of its compatibility with the Constitution rests with the majority of all the members of the Guardian Council (Article 96). In order to expedite the work, the members of the Guardian Council may attend the Assembly and listen to its debates when a government bill or the Islamic Consultative Assembly members' draft is under discussion. When an urgent government bill or the Islamic Consultative Assembly members' draft is placed on the agenda of the Assembly, the members of the Guardian Council must attend the Assembly and make their views known (Article 97).

The Guardian Council has three other important functions: firstly, it is given authority to interpret the Constitution, which is to be done with the consent of three-fourths of its members (Article 98). Secondly, it has the responsibility of supervising the elections of the Assembly of Experts for Leadership, the President of the Republic, the Islamic Consultative Assembly, and the recourse to popular opinion and referenda (Article 99). In the event of a deadlock between the Islamic Consultative Assembly and the Guardian Council whereby the Guardian Council judges a proposed bill of the Islamic Consultative Assembly to be against the
principles of Shariah [the law of Islam] or the Constitution, and the Assembly is "unable" to meet the expectations of the Guardian Council, then the revised Constitution of 1989 provides that upon the order of the Leader the Nation's Exigency Council shall meet. It also adds that all the members of the Nation's Exigency Council, permanent and changeable, shall be appointed by the Leader. Finally, the rules for the Council shall be formulated and approved by the Council members subject to the confirmation by the Leader (Article 112).

2.3.6 The Executive

The President holds the highest office in the country after that of the Leadership. He is responsible for implementation of the Constitution and acts as the head of the Executive, except in matters directly concerned with (the office of) the Leadership. The President is elected for a term of four years by the direct vote of the people and can be re-elected only once. He should get an absolute majority of votes polled by the voters and he is responsible to the people, the Leader and the Islamic Consultative Assembly (Articles 113, 114, 117, and 122). According to Article 115 of the Iranian Constitution, the President must be elected from among religious and political personalities and he should possess the following qualifications: be of Iranian origin; Iranian citizenship; administrative capacity and resourcefulness; a good past-record; trustworthiness and piety; a firm belief in the fundamental principles of the Islamic Republic of Iran and the official school [madhhab, that is Twelver Ja'fari school] of thought of the country. The President must take the following oath and affix his signature to it at a session of the Islamic Consultative Assembly in the presence of the head of the judicial power and the members of the Guardian Council:
In the Name of God, the Compassionate, the Merciful, I, as President, swear, in the presence of the Noble Qur'an and the people of Iran, by God, the Exalted and Almighty, that I will guard the official religion of the country, the order of the Islamic Republic and the Constitution of the country; that I will devote all my capacities and abilities to the fulfillment of the responsibilities that I have assumed; that I will dedicate myself to the service of the people, the honor of the country, the propagation of religion and morality, and the support of truth and justice, refraining from every kind of arbitrary behavior; that I will protect the freedom and dignity of all citizens and the rights that the Constitution has accorded the people; that in guarding the frontiers and the political, economic, and cultural independence of the country I will not shirk any necessary measure; that, seeking help from God and following the Prophet of Islam and the infallible Imams (peace be upon them), I will guard, as a pious and selfless trustee, the authority vested in me by the people as a sacred trust, and transfer it to whomever the people may elect after me (Article 121).

The President may appoint deputies for the performance of some of his constitutional duties. With the approval of the President, the first deputy of the President shall be vested with the responsibilities of administering the affairs of the Board of Ministers and coordination of functions of other deputies (Article 124). If he wishes to resign his office, the President shall submit his resignation to the Leader and shall continue performing his duties until his resignation is accepted (Article 130). In the event of the death, dismissal, resignation, absence of the President or illness lasting longer than two months or when his term in office has ended and a new President has not been elected due to some impediments, or similar other circumstances, his first deputy shall assume, with the approval of the Leader, the powers and functions of the President. A Council, consisting of the Speaker of the Islamic Consultative Assembly, the head of the judicial power, and the first deputy of the President, is obliged to arrange for a new President to be elected within a maximum period of fifty days. In case of death of the first deputy of the President, or other matters which prevent him from performing his duties, or when the President does not have a first
deputy, the Leader shall appoint another person in his place (Article 131). Article 132 of the Constitution adds that during these periods the ministers can neither be interpellated nor can a vote of no-confidence be passed against them. Also, neither can any step be undertaken for a review of the Constitution, nor a national referendum be held.

Ministers, who at present number 23, will be appointed by the President and will be presented to the Assembly for a vote of confidence and they shall continue in office unless they are dismissed, or given a vote of no-confidence by the Assembly as a result of their interpellation, or a motion for a vote of no-confidence against them is made (Articles 133 and 135). The President is the head of the Board of Ministers. He supervises the work of the ministers and takes all necessary measures to coordinate the decisions of the government. With the cooperation of the ministers, he determines the programme and policies of the government and implements the laws. In the case of discrepancies, or interferences in the constitutional duties of government agencies, the decision of the Board of Ministers at the request of the President shall be binding provided it does not call for an interpretation or modification in the laws. The President is responsible to the Assembly for the actions of the Board of Ministers (Article 134). Under Article 136 of the Constitution the President can dismiss the ministers and in such a case he must obtain a vote of confidence for the new minister(s) from the Assembly. In the case where half of the members of the Board of Ministers are changed after the government has received its vote of confidence from the Assembly, the government must seek a fresh vote of confidence from the Assembly. The resignation of the Board of Ministers either as a group or individually shall be submitted to the President, and the Board of Ministers shall continue to function until such time as the new government is appointed (this period is at most three months). The President can appoint a
caretaker for a maximum period of three months for the ministries having no minister (Article 135). According to Article 126 of the Iranian Constitution the President is responsible for national planning and budgeting, state employment and may entrust the administration of these to others. The financial management and accountability of the government will be discussed in the next chapter.

Ministers are answerable to the President and the Assembly but, in matters approved by the Board of Ministers as a whole, each of the ministers is also responsible for the actions of the others (Article 137). Before revising the Constitution in 1989 there was a provision for a Prime Minister in the Islamic Republic of Iran. Responsibility for the supervision of the election of the President lies with the Guardian Council (Article 118).

2.3.7 The Judiciary

Article 156 establishes that the judiciary is an independent power, the protector of the rights of the individual and society, responsible for the implementation of justice and supervising the proper enforcement of laws. In the Islamic Republic of Iran the courts of justice are the official bodies to which all grievances and complaints are to be referred. The law determines the formation of courts and their jurisdiction (Article 159). The judiciary is also responsible for: investigating and passing judgement on grievances, violations of rights, and complaints; the resolving of litigation; the settling of disputes; the taking of all necessary decisions and measures in probate matters as the law may determine; restoring public rights and promoting justice and legitimate freedoms; supervising the proper enforcement of laws; uncovering crimes; prosecuting, punishing, and chastising criminals and enacting the
penalties and provisions of the Islamic penal code; taking suitable measures to prevent the occurrence of crime and to reform criminals.

The head of the judiciary, who is appointed by the Leader for a period of five years, should be a just Mujtahed who is well versed in judiciary affairs and possessing prudence and administrative abilities. He is also the highest judicial authority (Article 157). The head of the judiciary is responsible for the establishment of the organisational structure necessary for the administration of justice commensurate with the responsibilities mentioned under Article 156 (noted above) and drafting the judiciary bills appropriate for the Islamic Republic. He is to ensue the employment of just and worthy judges and to oversee their dismissal, appointment, transfer, assignment to particular duties, promotions and carrying out similar administrative duties in accordance with the law (Article 158).

A judge cannot be removed, whether temporarily or permanently, from the post he occupies except by trial and proof of his guilt, or in consequence of a violation entailing his dismissal. A judge cannot be transferred or redesignated without his consent, except in cases when the interest of society necessitates it. In these circumstances it must be with the approval of the head of the judiciary branch after consultation with the chief of the Supreme Court and the Prosecutor General. The periodic transfer and rotation of judges will be in accordance with general regulations to be laid down by law (Article 164).

The Iranian form of government can be described as unitary because it is composed of one, strong central government. It therefore differs in this regard to Australia which is a Federation composed of three levels of government. It is to the form of the Australian government that this thesis now turns.
2.4 AUSTRALIAN GOVERNMENT

The Federal form of government in Australia consists of three tiers of government: Commonwealth, State and Local. Each State has its own Parliament, Cabinet, Premier and ministers. For the purposes of this study, in the following section the central government of Australia (Commonwealth) only will be discussed and explained.

2.4.1 Commonwealth of Australia

The present form of government in Australia was established by the Commonwealth of Australia Constitution Act which was passed by the British Parliament in July 1900 and became effective on 1 January 1901 (Public Service Board 1986, p. 2). Emy and Hughes (1988) argue that the Australian Constitution is unusual because it derives almost equally from the two very different constitutional traditions of the United Kingdom and the United States (Emy and Hughes 1988, p. 226), although its description as a Westminster type of government suggests the stronger British influence. De Smith (1961) defines the Westminster model as

a constitutional system in which the head of state is not the effective head of government, in which the effective head of government is a Prime Minister presiding over a Cabinet composed of Ministers over whose appointment and removal he had at least a substantial measure of control; in which the effective executive branch of government is parliamentary inasmuch as Ministers must be members of the legislature; and in which Ministers are collectively and individually responsible to a freely elected and representative legislature (quoted in Emy, 1978, pp. 135-36).
In common with most major forms of governance, Australian federal governance is divided among three parts: the Legislature (the Parliament), the Executive and the Judiciary (Public Service Board 1986, pp. 2-4).

Mascarenhas (1990) argues that "the Westminster model of government works on the principle of elected ministers who are advised by the permanent civil servants and are responsible for implementing public policy" (Mascarenhas 1990, p. 76). Emy (1978) is of the opinion that Australia appears to follow orthodox Westminster practice by giving the lower house power to initiate supply in section 53 of the Australian Constitution (Emy 1978, p. 207). Although the Senate, the upper house, does not have this power it may deny or approve supply. As an another example of this orthodox model Emy adds that the model of responsible (or Westminster) government gives quite a different view of the Governor-General's office to that apparently provided by the Australian Constitution (Emy 1978, p. 135).

The Australian Constitution does not say much about the purpose of government in Australia. Instead, Aitkin et al (1989) note that it mainly provides a set of written rules determining the shape of the nation's government. Section 51 establishes that the purpose of Parliament, and therefore government, in Australia is "to make laws for the peace, order, and good government of the Commonwealth".

2.4.2 The Legislature

The legislative power of the Commonwealth in Australia is vested in a Federal Parliament which consists of the Queen, a Senate or Upper House, and a House of
Representatives or Lower House (Constitution, Section 1). Emy and Hughes (1988) note that with this definition the monarchical aspect is emphasised and because the then Queen was to remain in Britain Section 2 of the Constitution states that the Governor-General is appointed by the Queen to be Her Majesty's representative in the Commonwealth (Emy and Hughes 1988, p. 232).

Two of the most important sections of the Australian Constitution, like most countries, refer to the collection and spending of money. Section 81 stipulates that "all revenues or moneys raised or received by the Executive Government of the Commonwealth shall form one Consolidated Revenue Fund" while Section 83 states "no money shall be drawn from the Treasury of the Commonwealth except under appropriation made by law" (Commonwealth of Australia 1994, Section 83).

Section 51 of the Australian Constitution gives the Commonwealth Parliament the right to make laws relating to: trade and commerce with other countries, and among the States; foreign corporations, and trading or financial corporations formed within the limits of the Commonwealth; taxation; bounties on the production or export of goods; postal, telegraphic, telephonic, and other like services; insurance, other than State insurance, also State insurance extending beyond the limits of the State concerned; conciliation and arbitration for the prevention and settlement of industrial disputes extending beyond the limits of any one State; and fisheries in Australian waters beyond territorial limits.

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33 See figure 2.2.
34 See section 2.4.3
35 The taxation laws should not discriminate between States or parts of States.
36 Such bounties shall be uniform throughout the Commonwealth.
Chapter 2, Systems of Government...

Figure 2.2  Federal Parliament and Government [Australia]

(Source: Forell 1978, p. 26)
Chapter 2, Systems of Government ...

The Commonwealth government has also been conferred with the ability to make laws concerning: the borrowing of money on the public credit of the Commonwealth; currency, coinage, and legal tender; banking, other than State banking, also State banking extending beyond the limits of the State concerned, the incorporation of banks, and the issue of paper money; bills of exchange and promissory notes; and bankruptcy and insolvency (Section 51).

Authority is given to the Commonwealth to make laws concerning family matters such as marriage; divorce and matrimonial causes, and in relation to parental rights, and the custody and guardianship of infants; invalid and old-age pensions; the provision of maternity allowances, widows' pensions, child endowment, unemployment, pharmaceutical, sickness and hospital benefits, medical and dental services, benefits to students and family allowances and the acquisition of property on just terms from any State or person for any purpose in respect of which the Parliament has power to make laws (Section 51).

Making the laws associated with judicial themes is also one of the authorities of the Commonwealth Parliament. They include the service and execution throughout the Commonwealth of civil and criminal processes and the judgements of the courts of the States; the recognition throughout the Commonwealth of the laws, public acts and records, and the judicial proceedings of the States; the influx of criminals; and matters incidental to the execution of any power vested by this Constitution in the Parliament or in either House thereof, or in the Government of the Commonwealth, or in the Federal Judicature, or in any department or officer of the Commonwealth (Section 51).
The Australian Commonwealth Parliament has been given power to make laws which are related to external affairs such as the relations of the Commonwealth with the islands of the Pacific; immigration and emigration; the naval and military defence of the Commonwealth and of the several States, and the control of the forces to execute and maintain the laws of the Commonwealth (Section 51).

With one exception, to be discussed below, the Senate and the House of Representatives are co-equal in powers. In the following section the role of the Senate as determined by the Constitution will be examined.

2.4.2.1 Senate

The Senate consists of equal numbers of representatives from each of the six States. The senators shall be directly chosen by the people of each State as one electorate, otherwise the Parliament provides the form of election (Section 7). Under Section 9 of the Constitution if the Parliament of the Commonwealth makes laws prescribing the method of choosing senators the method shall be uniform for all the States. The purpose of the architects of federation in creating the Senate, or Upper House, was to protect the interests of the States. For this reason, the Constitution provides that each State should be represented by the same number of senators. The presence of at least one-third of the whole number of the senators is necessary to constitute a meeting of the Senate for the exercise of its powers (Section 22). From 1949, each of the six States had ten senators, this number being increased to twelve in 1983. In 1975, the Northern Territory and the Australian Capital Territory were allowed to elect two senators each, bringing the Senate's total to seventy-six at the present time (Public Service Board 1986, p. 7). The Senate cannot normally be dissolved during its six-year term. However, if a deadlock occurs between the Houses, then the Governor-
General may dissolve both Houses simultaneously (Section 28) (Sawer 1975, p. 30). Apart from safeguarding the interests of the States, one of the main roles of the Senate is to probe and check the administration of the laws, and to keep itself and the public informed, and to insist on ministerial accountability for the Government's administration (Public Service Board 1986, p. 8).

Senators are elected for a six-year term, with the exception of senators from the Territories whose terms coincide with those of the House of Representatives (Section 7). The election of senators is usually staggered (except following a double dissolution) by retiring half of the senators on 30th June every third year (Section 13) to coincide with the general election for the House of Representatives. Senate elections are usually held at the same time as elections for members of the House of Representatives. Senators are elected by universal suffrage under a system known as proportional representation. The Constitution does not declare what the qualifications of senators should be but in Sections 9 and 16 it says that "the qualification of a senator shall be the same as those of a member of the House of Representatives".

Bills may be introduced in either House of the Commonwealth Parliament and both Houses have the same power to legislate with the exception of money bills (Section 53). Under Section 53, Bills for appropriating revenue or moneys or imposing taxation must be introduced in the House of Representatives (Public Service Board 1986, pp. 6-8). According to the Australian Constitution, in order for a Bill to become an Act of the Parliament it is first necessary that it be passed by both Houses of Parliament and then receive the Royal assent. As the Senate can reject any proposed law (including money Bills) passed by the House of Representatives, deadlocks may arise between the two Houses. In this case, and in these
circumstances, both Houses may be dissolved and an immediate election held (Section 57).

2.4.2.2 The House of Representatives

The members of the House of Representatives (HR), or Lower House, are chosen directly by the people, with the number chosen in each State being in proportion to its population, provided that no original State returns less than five members (The Northern Territory now returns one member, and the Australian Capital Territory, two). The Constitution also provides that the House should be approximately twice the size of the Senate. At present, there are 148 members of the House of Representatives. Members of Parliament are elected for terms not exceeding three years and are elected by a preferential voting system (Public Service Board 1986, p. 8; Commonwealth of Australia 1989, p. 779). Sawer (1975) points out that the House of Representatives can be dissolved at any time by the Governor-General (Sawer 1975, p. 30). The term of the House of Representatives is three years from the first meeting of the House, and no longer, but may be dissolved sooner by the Governor-General. To constitute a meeting of the House of Representatives for the exercise of its powers the presence of at least one-third of the whole number of the members of the House of Representatives is necessary unless the Parliament otherwise provides (Section 39).

Under Section 59 of the Constitution the Queen has the authority to disallow any law within one year from the Governor-General's assent, and such disallowance on being made known by the Parliament, or by Proclamation, shall annul the law from the day when the disallowance is made known. When a proposed law is reserved for the Queen's pleasure it shall not have any force unless and until within two years from
the day on which it was presented the Governor-General makes known, by speech or message to each of the Houses of the Parliament, or by Proclamation, that it has received the Queen's assent (Sawer 1975, p. 21).

Section 57 further provides that if after a dissolution of Parliament as a result of a deadlock between the two Houses the House of Representatives again passes the proposed law and the Senate again rejects or fails to pass it, or passes it with amendments to which the House of Representatives will not agree, the Governor-General may convene a joint sitting of the members of the Senate and of the House of Representatives (Public Service Board 1986, p. 7).

2.4.3 The Governor-General

The Governor-General is the head of the Executive in the Australian Commonwealth. He is appointed by the Queen on the Prime Minister's recommendation and is Her Majesty's representative in the Commonwealth. He has and may exercise the Queen's powers and functions subject to the Constitution in the Commonwealth during the Queen's pleasure (Section 2). The Australian Constitution provides powers for the Governor-General: to represent the Crown in Australia and represent the executive authority of the Commonwealth; to preside over Federal Executive Council meetings and sign various government instruments approved by it; to be Commander-in-Chief of the Australian armed forces; to commission Prime Ministers; to appoint Ministers of State and administer oaths of office to them; to appoint and remove all officers of the Executive Government, unless the appointment is delegated by the Governor-General in Council or by a law of the Commonwealth to some other authority; to summon, prorogue, dissolve Parliament; grant a double dissolution in the event of an inter-House deadlock and summon a joint meeting of
the Houses if the ensuring election does not result in resolution of the deadlock; to recommend appropriations to Parliament (that is, the earmarking of government funds for specific purposes); to assent to Bills; to appoint judges to the High Court and other federal courts and remove them if asked to do so by both Houses of Parliament (Public Service Board 1986, p. 19).

2.4.4 The Executive

The Governor-General is responsible for the execution and maintenance of the Constitution and of the laws of the Commonwealth (Section 61). Sawer (1975) notes that this definition the Governor-General's powers includes a share in the legislative power (Sawer 1975, p. 33). To fulfil the Governor-General functions regarding firstly, the execution and maintenance of the Constitution and secondly, the execution and maintenance of the laws passed (by the Parliament) in accordance with the Constitution, drafters of the Australian Constitution anticipated that the Governor-General would need some advisers to assist in implementing his duties. Hence they made provision for the Federal Executive Council to advise the Governor-General in the government of the Commonwealth. The members of the Council are chosen and summoned by the Governor-General and sworn as Executive Councillors, and "hold office during his pleasure" (Section 62). The Governor-General may appoint any "citizens of merit and ability who are considered worthy of the honour" (Public Service Board 1986, p. 20) without reference to parliamentary qualifications. Executive Councillors are appointed for life unless their membership is completed. In the exercise of executive power, therefore, key roles are played by the Governor-General, the Federal Executive Council, the Ministers of State as the Cabinet, and their departments (Public Service Board 1986, pp. 19-20).
Spann (1979) notes that the major instruments of administrative control in Australia are the Commonwealth and State cabinets. He adds that the cabinet is, in Bagehot's words, "a hyphen which joins, a buckle which fastens politics and administration" (Spann 1979, p. 44). As Aitkin et al (1989) note:

In 1956 Prime Minister Menzies divided his ministry into cabinet, comprising twelve senior ministers, and a junior ministry which then numbered ten (more recently, as many as fifteen). Under the Whitlam Labor government from 1972 to 1975 all ministers were members of cabinet, but the division into two groups was re-introduced in the Fraser government and maintained by the Hawke Labour government, the first Labor administration to adopt this division (Aitkin et al 1989, p. 105).

In the Westminster system all cabinet members including the Prime Minister come from and sit in Parliament where they must be prepared, at appropriate times, to answer the questions of the Parliament. Westminster governance is therefore known as a 'responsible form of governance'. In countries like Australia in which parties have a mainstream role in politics, ministers are not merely members of Parliament; they are members of the political party or coalition of parties which commands a majority in the House of Representatives. In Australia it is not necessary for all ministers to be members of the cabinet. Aitkin et al (1989) argue that in the Westminster system "ministers, and the Prime Minister in particular, wield considerable power as decision-makers and party leaders, their presence in parliament has important political effects" (Aitkin et al 1989, p. 107). By convention, the Prime Minister is the leader of the party which holds the majority in the House of Representatives (Public Service Board 1986, p. 20) and is a member of the lower house (Aitkin et al 1989, p. 106). In Australia, Cabinet is composed of some or all of the Ministries, depending on the decision taken by the Government of the day. The Ministry is composed of members of Parliament, from the Senate or the
House of Representatives, who have been appointed to be responsible for a
department of State (Public Service Board 1986, p. 20).

In comparison to the Westminster system of government (such as in Australia), there
is at least another different system of government, which is called the Congressional
system. As noted before, in the Westminster system the executive and legislative
branches of government are not separate. In this system, the executive power is part
of the legislative power and the Prime Minister is not directly elected by the people.
(S)he depends directly upon the support of party colleagues to gain and retain office,
which can leave her or him with political debts. In the Congressional system the
head of executive power, the President, is elected directly by the people and (s)he is
not a member of Congress (Parliament). Aitkin et al (1989) show these differences
in figures 2.3 and 2.4 below.

Figure 2.3 The Westminster System

(Source: Aitkin et al 1989, p. 107)
Ministers in the Westminster system are responsible for the administration of their department and also have certain obligations to the Government. These obligations are, conventionally, the maintenance of the secrecy of the proceedings of Cabinet and the responsibility of Ministers for the policy of the Government as a whole (Public Service Board 1986, p. 21). The most popular definition of "Collective Responsibility" is that all ministers support a decision once it has been publicly announced (Emy 1978). Aitkin et al (1989) remark that Ministers should seek cabinet approval for policy before it is announced. They must publicly support cabinet decisions, if unable to do so they should resign. They also add that Ministers should not publicly criticise a colleague's actions and they should not express opinions on policy other than in an official manner; that is, ministers do not have "private" opinions on such matters (Aitkin et al 1989, p. 118).
2.4.5 The Judiciary

Under Section 71 of Australian Constitution the Judicial power of Commonwealth is vested in a Federal Supreme Court which is called the High Court of Australia, and in such other federal courts as the Parliament creates, and in such other courts as it invests with federal jurisdiction. The High Court shall consist of a Chief Justice, and so many other Justices (not less than two) as the Parliament prescribes. The Governor-General in Council appoints a Justice of the High Court and he can only be removed from his office on the grounds of proven misbehaviour or incapacity, and only then by the Governor-General in Council after addresses have been made in both Houses of Parliament in the same session. The Justice of the High Court and of any court created by the Parliament must retire at the age 70, and he may resign his office in writing under to the Governor-General (Section 72). According to Section 76 of the Commonwealth of Australia Constitution the duty of interpreting the Constitution has been given to the High Court (Public Service Board 1986, pp. 31-33).

2.5 CONCLUSION

The systems of government in the Islamic Republic of Iran and Australia were discussed in this chapter. These discussions showed that like most countries, both have three separate branches: the Legislature, the Executive and the Judiciary. It was explained that the form of government in the Islamic Republic of Iran is unitary and consists of the Leader or Leadership Council, the President, the Islamic Consultative Assembly, and the Judiciary. The structure of Federal government in Australia including the Governor-General, the Houses of Parliament and the High Court also
has been represented. It has been explained that in the Islamic Republic of Iran the head of the Executive branch, the President, is directly elected by the people and is responsible to the Leader, the Islamic Consultative Assembly, and people. This chapter also pointed out that the head of the Executive branch in Australia, the Prime Minister, came from the party that holds the majority of seats in the Lower House or House of Representatives and is responsible to the Parliament and through that to the people. The arguments in this chapter drew together the chain of responsibility and accountability in a form which will help to give a detailed discussion of accountability in next chapter. Chapter 3 examines the relationship of accountability that exists between the Legislature and the Executive in Australia and in the Islamic Republic of Iran.
CHAPTER 3

PUBLIC SECTOR ACCOUNTABILITY IN THE ISLAMIC REPUBLIC OF IRAN AND IN AUSTRALIA

Even if we do not think that we have to give an account of ourselves at the last judgement, by answering for our conduct or giving an explanation for what we have done, we may feel accountable for our daily actions either to others or to our own sense of what is right or appropriate: super-ego can take the place of super-God. ... [A]ccountability in the context of social life, it implies that our actions are open to inspection and can challenge scrutiny. ... [A]ccountability in a religious or ethical sense, it implies that our actions can be set against a certain set of rules or expectations about right conduct. ... [A]ccountability is about keeping our financial books in order ... (Day and Klein 1987, p. 4).

3.1 INTRODUCTION

In chapter 2 the structures of government (the Executive, the Legislature, and the Judiciary) of the Islamic Republic of Iran and Australia were examined in detail. It was explained that the system of government in the Islamic Republic of Iran is unitary under the supervision of the Valayat-e Faqih (see section 2.3.2) which is elected by the Khobragan Assembly. The responsibilities and powers of the
President, the Islamic Consultative Assembly and the Khobragan Assembly have been clarified and the process by which they are elected has also been discussed. Chapter 2 also referred to the three levels of government in Australia; the Commonwealth, the States, and local government. The processes by which the Governor-General is appointed, and by which the Prime Minister and members of the Parliament are elected, along with their responsibilities and powers have also been highlighted.

This chapter draws upon the structures of government established in chapter 2 to examine concepts of accountability which are followed in theory and practice. The importance of accountability in the public sector and its role in a changing modern society will be discussed in this chapter. In recent years the dimensions of accountability given prominence in the public sector were expanded in Australia, New Zealand and England to include efficiency and effectiveness rather than just emphasising the traditional dimensions of accountability, in particular accountability for legality and regularity. Interpretation of accountability, as found in theories of governance and in practice, are the primary determinations of the mechanisms used to ensure accountability. This chapter also will provide an historical overview of accountability as it has been understood in Australia and in the Islamic Republic of Iran. Finally, the nature of accountability will be examined, followed by a discussion of how it functions now in the Islamic Republic of Iran and in Australia.

3.2 AN HISTORICAL PERSPECTIVE OF ACCOUNTABILITY

The concept of accountability in the public sector has changed during recent decades, chiefly from the 1980s, with the emphasis shifting from a stewardship notion to a

Traditionally, the major emphasis in public accountability has revolved around a proper accounting of the collection of finances or inputs, rather than wise and effective spending of public funds or outputs (Guthrie 1991a; Broadbent and Guthrie 1992; Lourens 1993). This concept of financial accountability in the public sector has been common in both Western and Eastern systems of governments for many centuries (Lourens 1993, p. 180).

The input oriented concept of accountability includes checks on regularity and probity in using public resources. The aim was to ensure that money which Parliament permitted the Executive to raise and spend was spent according to the clauses in the Appropriation Acts and that fraudulent use of public sector revenues did not occur. This gave accountability a very narrow stewardship interpretation. In recent years, however, “the boundaries of accounting have been expanded beyond the traditional stewardship function to embrace the broader socio-economic and political concerns of society” (Ghartey 1993, p. 170; see also Stewart and Ranson 1988, p. 19). Consequently, the function of ‘new accounting’ is to create, measure and record the elements of efficiency, cost saving, productivity and performance (Guthrie 1991a, p. 4; Broadbent and Guthrie 1992, p. 15). Furthermore, according to Staats (1977) and INCOSAI XII (1987), the emphasis in accountability has moved to examining the purposes for public expenditures and the accompanying value for money aspects of such expenditures (in Lourens 1993, p. 41).
No specific time-frame has been given for the beginning of accountability (particularly public accountability) by researchers. Normanton (1966) is of the opinion that "the idea of accountability is perhaps as old as organized government" (p. 3). Taking it further, Normanton (1971) believes that "accountability is a device as old as civilised government itself; it is indispensable to regimes of every kind" (p. 312). Normanton (1966) believes that "it [accountability] was highly developed in classical Athens and was a matter of pride and principle" (p. 3; see also Dewar 1992, p. 5; Sinclair 1995, p. 223). Normanton (1966) also cautions that "accountability is not the same thing in all ages; it depends upon the nature of the state itself" (p. 3). However, the need for governments to be accountable has not changed even though the state might be a traditional monarchy hierarchy and all accountability is to the head (Normanton 1966).

Bird (1973) supports Normanton's position on accountability. He reveals that the idea of public accountability has its roots in the emergence of civilisation (Bird 1973). It is believed that the core of the modern concept of accountability or stewardship is in the practices and laws of the ancient civilised world and particularly in places such as Egypt, Babylon, India, Athens and Rome (Lourens 1993, p. 47). When Hammurabi, King of Babylonia, declared his legal code around 2000 BC, it appeared he had paid a good deal of attention to the accountability of those who were entrusted with resources belonging to others (Gray and Jenkins 1993, p. 53). Day and Klein (1987) discussed two different forms of accountability found in the ancient governments: political accountability and financial accountability. Political accountability was concerned with the delegation of responsibility to individuals for carrying out tasks on behalf of their fellow citizens. In the Athenian tradition, accountability was about explaining and justifying conduct. It was this form of
accountability of officials which was the key to responsible government. An absence of accountability meant lawlessness. Lack of political accountability caused a Persian autocrat like Xerxes to be called a despot by the Athenians (p. 6). Day and Klein (1987) described the Athenian's form of accountability as direct, continuous, and comprehensive. Ten times a year, the officials charged with carrying out the administration had to report on their conduct in office to the Assembly of the citizens. If they failed to carry a vote of confidence, if their explanation was judged to be inadequate, they faced a trial by jury of their fellow citizens (p. 6).

Financial accountability, refers to explaining performance through financial accounts. This includes checking "on whether the appropriate funds have come in and whether the outgoing money has been spent properly" (Day and Klein 1987, p. 6). Financial accountability has been not limited to democratic governments. Financial accountability has existed in autocratic governments and "even a tyrant like Xerxes called his servants to account for the way in which they raised the levies for his armies and how they spent the money" (Day and Klein 1987, p. 8). Lourens (1993) describes the form of financial accountability in ancient times as having an emphasis on the collection and proper custody of state revenues. Any accountability regarding public revenues revolved around collection on behalf of the ruler or state, rather than on the manner of subsequent disposal of such revenues (p. 45; see also Dewar 1992, p. 2).

Day and Klein (1987) have presented five different stages for accountability, progressing from Athenian, feudal, transitional, simple modern, and complex modern...
as shown in figure 3.1. In this section discussion of the stages of accountability makes considerable reference to England because Australia was an English colony and the principles of public sector management and accountability found in the Australian *1901 Audit Act* were mainly derived from the 1866 British *Audit Act* (Funnell 1990, p. 9).
Figure 3.1: Models of Accountability

A Athenian

- people
- audit

B feudal

- audit
- king
- God

C transitional

- parliament
- audit
- ministers
- officers
- king

D simple modern

- central government
  - people → parliament → ministers
  - audit → civil servants

E complex modern

- central government
  - people → parties → parliament → ministers
  - audit → civil servants
  - ombudsman
- local government
  - ministers
  - people → councillors
  - audit → officers
  - professional service-bodies → deliverers

Source: Day and Klein 1987, p. 11
As part A of figure 3.1 shows, the model of accountability in Athens was simple and direct. In this system the line of political accountability covered the whole body of citizens as the Assembly to those delegated with the authority to carry out civic functions. One thousand years later, in medieval England, the notion of financial or managerial accountability was separated from any idea of political democracy. The king (see part B of figure 3.1) was only accountable to God for his actions (Day and Klein 1987, p. 10; see also Hurwitz 1981, p. 10). The conventional principle in the West, like most other countries with a kingdom state, held that the king was the head of a social order whose hierarchy was one reflection of the great ‘Chain of Being’ which dominated the universe. The king ruled in accordance with the customary rights of his subjects and in the light of his responsibility before God for their well-being. The only effective sanction upon a king who ruled tyrannically was rebellion or the disapproval of the Church (Emy 1978, p. 52; Hurwitz 1981, p. 10).

When the division of labour and the specialisation of work or management developed in the twelfth century along with the emergence of a bureaucratic structure of government, a primary system of fiscal accountability began to appear (Day and Klein 1987, p. 10). Day and Klein (1987) highlight the main features and mechanisms of financial accountability in England between the twelfth and sixteenth centuries when

[accountability ... had two main characteristics. It represented an attempt by the king to achieve control over the way in which his estate, that is the realm, was managed. ... Equally accountability in this context was seen as a form of judicial adjudication. The treasurer was charged with keeping the accounts of income; the constable was responsible for keeping the accounts of the king's household expenditure. Barons, sitting in the Court of the
Exchequer, in turn held both officials and those who owed the king payments to account in what was, in effect, a judicial trial (p. 10).

Debate about the role of Parliament in usurping God’s traditional role by holding the king or his ministers accountable, was a feature of British constitutional history from the sixteenth century onwards (see part C of figure 3.1). Having Parliament assert control over expenditure in terms of spending money appropriately and properly, without waste and corruption, was an issue contention during this period (Day and Klein 1987, p. 10).

By the seventeenth century, the growth of centralised administrative systems and the decline in the authority of the Church increased the monarch’s effective power to do much as he pleased (Emy 1978, p. 52). In Britain and France, monarchs attempted to legitimise their increased power by appealing to the principle of the Divine Right of Kings. This principle held that kings were God’s agents on earth and gained their authority to rule directly from God. The appeal to God further implied that subjects were morally obliged to obey the king in all matters (Emy 1978). Funnell (1994) notes that “Parliament was not primarily concerned with making the executive accountable for its financial stewardship” (p. 181) in the 17th century. Lourens (1993) describes the form of public accountability in a monarchy as:

[t]he ultimate accountability ... due only to the monarch, through ministers appointed by him, and not to representatives elected by the people through universal suffrage. Under monarchical systems, broad issues concerning the merits for expenditures from the public purse were inconsequential to the major exercise of collections and disbursements of royal revenues. What was important was that the royal revenues were not defrauded, and emphasis was more on collecting the revenues and not on how they were spent (p. 9).
These notions of accountability were later developed in the 19th century by John Stuart Mill to form the modern notion of political accountability, in a representative democracy (see part D of figure 3.1). This resulted in a new concept referred to as ‘ministerial accountability’ which was “seen as the ability of parliament to call the executive to account for its actions” (Day and Klein 1987, p. 12).

A new era of public accountability to Parliament in Britain began around 1780 with the passing of an Act of Parliament appointing six Commissioners for Auditing the Public Accounts. Their powers included making recommendations on improvements in the system of issuing and accounting for public funds on an annual basis (Lourens 1993, p. 63; for more see Funnell 1994, p. 182; Dewar 1992, p. 10). Referring to Bird (1973), Lourens (1993) says that “the initial aim of the reforms between 1780 and 1787 was not to introduce new and different controls but rather to make the Exchequer controls effective again” (p. 65).

After 1832, a system was introduced for auditing departmental expenditures whereby they were compared to appropriation estimates voted by the House of Commons (Lourens 1993, p. 66; see also Funnell 1994, pp. 186-187). The new era which started in 1780 was reinforced by the Exchequer and Audit Departments Act of 1866. The former duties of the Comptroller General of the Exchequer and those of the Commissioners of Audit were combined and the new Office of Comptroller and Auditor General was created. Two main functions were given to the Office of Comptroller and Auditor General: responsibility for issuing the public funds to appropriate bodies and certifying the public accounts and reporting on these matters to Parliament (Lourens 1993, pp. 66-67; see also Funnell 1994, pp. 189-190; Johnson 1971, p. 286; Dewar 1992, p. 15 & pp. 17-19). Aitkin et al (1989) say that
[w]ith the shift of power from the Crown to parliament, and with ministers assuming greater responsibility, there was a tendency for attention, support and criticism to focus on a particular person, the most likely candidate being the minister in the Commons responsible for finance (the Exchequer) (p. 104).

The First World War and the post-war economic crisis provided a strong incentive for the examination of a new concept of accountability and administrative efficiency within government, and thus broadened the focus of accountability (Normanton 1966). This became necessary as enormous amounts of revenue had been spent by the Army, the Navy, and the Office of Works and Public Buildings during the First World War. It resulted in an expanded examination of public accounts beyond the strict financial compliance aspects of the regularity audit by the Office of Comptroller and Auditor General and encompassed administrative issues such as economy of expenditure in respect of the amount of resources purchased and their relevant prices in auditing by that office (Lourens 1993, p. 67). Normanton points out that the purpose of this examination was not just for efficient performance but also sought a reduction of public spending (Normanton 1966). It is worth noting here that the British Exchequer and Audit Departments Act of 1866 was modified and updated in three aspects in 1921. The major change to the Act of 1866 was found in the 1921 Act which allowed the preparation of income and appropriation accounts on an accrual basis instead of a cash basis wherever suitable (Lourens 1993, p. 68-69).

It has been suggested that the needs of modern government have changed the roles of parliament, minister and public service and, therefore, requires a completely new system of accountability (Aitkin et al 1989). For example, the public sector changes in the UK during the 1980s have been designed to replace traditional forms of
accounting and accountability (Hopwood 1984, 1990) with "a technical or managerialist accountability in terms of a dominant financial calculative regime" (Broadbent and Guthrie 1992, p. 15). The introduction of the new National Audit Act in 1983 brought new concepts of accountability such as value for money for public outlays (Lourens 1993, p. 69). To exercise these new concepts of accounting and accountability consisting of value for money, efficiency, true costs, and performance, accompanying changes in the character of certain public sector institutions and practices would be required (Broadbent and Guthrie 1992, p. 15).

Jones and Pendlebury (1988b) argue that the system of accountability in the public sector in modern times entails a synthesis of accounting and auditing procedures, along with the supporting financial reporting (in Lourens 1993). In recent years the emphasis in the public sector has changed from the allocation of state revenues to whether state funds and assets are being, or have been, expended so as to attain the greatest advantage at the lowest cost (Lourens 1993).

In referring to the public sector reforms in the New Zealand's Telecom, Pallot (1995) states that "both the ownership and the consumer relationships in the new public sector framework are now viewed as contractual" (p. 42). She argues that the new framework has resulted in a shifting of the focus from public accountability (ministers to parliament and the public at large) to managerial accountability (departments to ministers) in the case of State Owned Enterprises (SOEs) (Pallot 1995, p. 42). She also says that, while in traditional government accounting the most important underlying assumption has relied upon the public control over the use of resources, the managerial shift is in contrast to the traditional one (Pallot 1995, p.
42). In other words, according to a managerialist approach the emphasis is on outputs and outcomes not on inputs.

Definition of accountability and responsibility, to which this chapter is now turning, will give a better understanding of the importance of accountability in general (private and public) and particularly in the public sector. This also will help to establish an accounting system in line with requirements derived from definitions provided.

3.3 MEANING OF ACCOUNTABILITY AND RESPONSIBILITY

3.3.1 The Nature of Accountability

A wide variety of meaning has been given to the term "accountability" in the context of government, and can be defined in many ways. Lourens (1993) has recognised that “[p]roviding a concise and clearly understood definition of public sector accountability is not easy” (p. 38). Van Peursem (1990a) argues that accountability has different meanings in different contexts (in Lourens 1993) while Churchill (1992b) suggests “accountability means different things to different people. For government, accountability includes taking responsibility for people, the environment” (p. 36). Normanton (1971) is of the opinion that “the word ‘accountability’ is one of those terms employed in governmental studies which suffers from frequent use and imprecise or varying meaning” (p. 311). Normanton’s (1966) belief that accountability has been seen mainly as a matter of external control (p. 25), is followed by two different definitions for accountability with two different senses. In a limited sense, accountability means “to give a formal statement of money dealings” (Normanton 1966, p. 1). Later, in 1971, he expanded his definition
to "in its most general sense, accountability of course means a liability to reveal, to explain and to justify what one does; how one discharges responsibilities, financial or other" (Normanton 1971, p. 311). He also points out that the origins of accountability may be political, constitutional, hierarchical or contractual (Normanton 1971, p. 311). Normanton's definition of accountability (1971) is very close to that of Jackson's, who noted how:

basically, accountability involves explaining or justifying what has been done, what is currently being done and what has been planned. Accountability arises from a set of established procedures and relationships of varying formality. Thus, one party is accountable to another in the sense that one of the parties has the right to call upon the other to give an account of his activities. Accountability involves, therefore, the giving of information (Jackson 1982 quoted in Stewart 1984, p. 14; see also Roberts and Scapens 1985, p. 447).

Contributors to an Australian textbook argue that accountability "involves the fundamental [sic] of honesty, openness, adequate disclosure and careful, effective application of resources" (Greiner, 1990, p. 31 quoted in Sinclair 1995, p. 221). According to Jones and Pendlebury (1985) "accountability" in its widest sense is used to refer to the responsibility for your actions, which mirrors the recent definition of accountability by Gray and Jenkins (1993) as "an obligation to present an account of and answer for the execution of responsibilities to those who entrusted those responsibilities" (p. 55: see also Downey 1986, p. 35). According to Sinclair (1995), currently

accountability has discipline-specific meanings, for example, auditors discuss accountability as if it is a financial or numerical matter, political scientists view accountability as a political imperative and legal scholars as a constitutional arrangement, while philosophers treat accountability as a subset of ethics (p. 221).
Sinclair (1995) also believes that the definition of accountability is related to the ideologies, motifs and language of the time. Furthermore, social norms or aspirations towards order shapes accountability (p. 221).

Cutt (1982) has defined "accountability" in two broad categories: procedural and consequential accountability. Procedural accountability reflects the fact that users of resources cannot be assumed to be completely honest, and requires an examination - which can be called analysis, evaluation or audit-to attest to the propriety or integrity which has been demonstrated in discharging the stewardship of resources. This level of accountability is concerned to demonstrate that resources have been used, and their use reported, in the manner specified. It is not concerned with the consequences of the use of these resources, and is thus concerned exclusively with inputs, as distinct from outputs or consequences. Consequential accountability reflects the basic economic fact of unlimited ends and limited means. This second category of accountability thus relates to the use of scarce resources, and deals with performance as distinct from propriety. Performance must relate to both inputs and outputs (Cutt 1982, pp. 312-313).

The definitions provided for accountability show that public accountability can be defined in different ways and is much broader in coverage than private accountability.

3.3.2 Public Accountability

Two meanings of 'public' in a public accountability context were given by McCrae in 1991. First, it may be referred to as the accountability of public sector agents to
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the public at large. Secondly, it may be expressed as accountability to the ultimate source of the public sector resources which have been devoted to a particular activity (McCrae 1991, p. 9). Public accountability has been defined by Normanton (1966) as

consisting in a statutory obligation to provide, for independent and impartial observers holding the right of reporting their findings at the highest levels in the state, any available information about financial administration which they request (p. 2).

Van Peursem (1990) interpreted public accountability as including an obligation by "accountors" to report on executions and resource usages:

Public sector accountability is a state of being whereby one party (the accountor) responsible and subject to sanctions for the resources or policy implementation of another (the accountee) should report and submit to audit information on operations under their charge (p. 7; see also Barrett 1994a, p. 2).

Further, Van Peursem (1990) goes on and gives the following refined definition:

[public sector accountability is a state of being whereby one party (the accountor) responsible for the resources of or the policy established by another (the stakeholder) should report to the stakeholder on the economy of acquisition, on the efficiency of operation and the generation of outputs, on the effectiveness of the organisational outcomes in meeting its objectives, on the appropriateness of those objectives in meeting public policy and social equity requirements, and on the maintenance of organisational capital. The accountor is subject to sanction from the stakeholder for past performance under his/her charge and submits to outside review on the reported information (p. 22).]
Public sector accountability has been seen by Glynn (1985) as an obligation to give an explanation of actions to an electorate by those who are charged with drafting and/or carrying out policy (see also Funnell 1990, p. 12; Stewart and Ranson 1988, p. 14). In order to improve accountability mechanisms the Australian Government's Management Improvement Advisory Committee, in an exposure draft called "Accountability in the Commonwealth Public Sector" (1991), defined accountability as existing where there is a direct authority relationship within which one party accounts to a person or body for the performance of tasks or functions conferred, by that person or body. The consequences of the application of rewards and sanctions are seen as having a logical connection with the activation of accountability mechanisms (p. ix; see also Barrett 1994a, p. 1).

Heald (1983) says that the scope of public accountability includes political, legal and managerial accountability. Heald's definition, in comparison with private accountability, claims that there are two more elements for public accountability: political and legal (in Glynn 1985, pp. 143-144). Ghartey (1993) reinforces Heald's definition of accountability by stating that:

[accountability ensures that the nation's resources are utilized efficiently and effectively, and provides individuals and the society as a whole with the means of ensuring compliance with their rights and responsibilities in the development process (p. 184).]

According to Stewart and Ranson (1988):

[public accountability will not be achieved by reporting of simple performance measures. ... The main requirement is that those who
work in public service organisations should feel responsible and accountable to the public for whom they work (p. 19).

To some extent, the proper exercise of power depends on the degree of accountability in a state (Mackenzie 1966; Smith 1971; Stewart 1984; and Pallot 1992a). Pallot (1992a) is of the view that “greater power is balanced by greater accountability” (p. 60). In a foreword to Normanton, Mackenzie (1966) emphasises that “… without accountability no control; and if there is no control, where is the seat of power?” (Normanton, 1966, p. vii). Accountability has been seen as crucial in the case of governments (Pallot 1992a, p. 60). It is argued that the effective and efficient utilisation and management of public resources will fall within the domain of accountability (Ghartey 1993, p. 169). Another view refers to accountability in the broadest sense as the central objective of democratic government, asking the question “how can control be exercised over those to whom power is delegated [without accountability]?” (Smith 1971, pp. 26-27). Stewart (1984) in this regard believes that

[i]n our society the exercise of governmental powers is legitimated by the requirements of public accountability. Those who exercise the power of government have to be publicly accountable for their action. It is public accountability that is relied upon to transform arbitrary action into the legitimate exercise of governmental power (p. 13).

The Canadian Institute of Chartered Accountants and the Governmental Accounting Standards Board (GASB) in the USA consider accountability to be the cornerstone of public sector accounting (Pallot, 1992a, p. 60). Financial accountability, one of the most important forms of public accountability, will be referred to now.
According to Australian Statements of Accounting Concepts No. 1 (SAC 1) (1985) one of the two objectives of financial reporting by public sector entities is “to satisfy accountability” (Shand 1990a, p. 145; Carpenter 1990, pp. 166 & 222; Sharpe 1992, p. 19). The Australian Society of Accountants (ASA) and Institute of Chartered Accountants (ICA) suggested that “the accountability requirements of government companies should be more stringent than those of private companies” (Guthrie 1990a, p. 217). Finally, "accountability" has been seen by Ghartey in 1993 as one of the fundamental prerequisites of the development process for emerging economies.

From the above discussion it is clear that considerable attention has been paid to the public sector financial accountability in recent years. Regarding the importance of public sector accountability, Foley (1982a) reported that the Final Report of the Canadian Royal Commission on Financial Management and Accountability (Lambert Report) showed the “magnitude, seriousness and pervasive character of the ‘accountability problem’ in Western democracies” (p. 251). The Lambert Report concluded that

[a]fter two years of careful study and consideration, we have reached the deeply held conviction that the serious malaise pervading the management of government stems fundamentally from a grave weakening, and in some cases an almost total breakdown, in the chain of accountability, first within the government, and second in the accountability of government to parliament and ultimately to the Canadian people (quoted in Foley 1982a, p. 251).

Financial accountability is just one of the many things that governments are to be held accountable for. Governments are also accountable for matters such as justice and equity.
3.3.3 Social Accountability-Responsibility for Providing A Just/Fair Society

Governments are not just accountable for financial management to the electorate and to society but also they are mostly accountable for national security, education, justice and in some countries increasing the social and spiritual well-being of the people; notable in this regard is Iran. In the Islamic context, the economy is not an end in itself; it is a means only to contribute to the attainment of the ultimate goal. According to the introduction to the Iranian Constitution "[i]n strengthening the foundations of the economy, the fundamental consideration will be satisfying the material needs of man in the course of his overall growth and development" (Algar 1980, p. 21; see also Amin 1994, pp. 9-10). Therefore, the government is responsible for furnishing to all citizens equal and suitable opportunities, to provide them with work, and to satisfy their essential needs (Amin 1994, p. 10; see also Algar 1980, p. 21). Article 2 of the Iranian Constitution also says that the Islamic Republic is a system which secures equity, justice, political, economic, social, and cultural independence, and national solidarity (Amin 1994, pp. 18-19). Thus, this article requires the Government to be accountable for more than financial matters. The President in taking his oath, as noted in chapter 2, confirms that he is responsible for the propagation of religion and morality, and the support of truth and justice (Article 123).

3.3.4 Accountability and Responsibility

It seems that in almost all of the various definitions on accountability given above that there is a very close relationship between accountability and responsibility. Indeed, without responsibility there would be no accountability. In the view of the
[r]esponsibility and accountability are related concepts. They are used in this report to describe two aspects of the relationship between a person entrusted with a task and towards the authority which entrusts him with it. Thus a person is responsible for performing the task to the authority which entrust him with it. If there is a procedure by which he can be called upon to report and justify his performance, and can be rewarded or penalised according to judgement on it, then he is also accountable (emphasis added) (quoted in Glynn and McCrae 1986, p. 94).

The Australian Audit Office (AAO) (1986a) in this regard says that accountability in its simplest terms means the obligation to answer for a responsibility that has been awarded (in Lourens 1993, p. 32). The AAO also adds that with accountability the existence of at least two parties is necessary: one party for allocating the responsibility and the other one for accepting responsibility and the obligation for reporting his/her performance (Lourens 1993, pp. 32-33).

While, as shown above, there is no precise and constant meaning for accountability some researchers have seen responsibility as being a broader and vaguer notion of accountability (Spann 1979). McCandless (1993) points out that accountability and responsibility are not the same thing and by seeing ‘public accountability’ as an “obligation to answer publicly for the discharge of responsibilities that affect the public in important ways”, argues that “[t]he obligation to act is the responsibility, and the obligation to report is the accountability” (p. 14). According to Day and Klein (1987):
[t]o account is to answer for the discharge of a duty or for conduct. It is to provide a reckoning. It is to give a satisfactory reason for or to explain. It is to acknowledge responsibility for one's actions. Indeed accountability and responsibility are often held to be synonymous: a reminder that one cannot be accountable to anyone, unless one also has responsibility for doing something (p. 5; see also Chowdhury and Chowdhury 1995, p. 2).¹

In Spann’s view “responsibility is ‘to’ others ‘for’ certain activities” (1979, p. 493). He also argues that the two words responsibility and accountability are often encountered in discussions of administrative reform and all of us are in favour of them (Spann 1979, p. 493). A simple meaning of responsibility could be that a person is accountable to a superior if some result is not achieved, or some procedures are not followed or if there is a procedure which he/she should have controlled (Spann 1979, p. 494). Smith (1971) states that “accountability is impossible when initial responsibility for a decision is blurred; no one can share fully in the making of policy and still have the detachment to act as critic” (p. 49).

In summary, accountability is an obligation to answer for delegated authority and consequently to give an account and explanation of actions to providers of resources and powers in terms of some assessable measures for a specific period of time. With the meaning of accountability determined, it is necessary to define to whom accountability is directed and for what. These are discussed in the next section.

¹ Emphasis in original.
3.4 SOURCES AND SUBJECTS OF ACCOUNTABILITY

In talking about accountability in the public sector there are at least two problems: firstly, who is being held accountable, and secondly, to whom are they accountable. Is accountability limited to the people, to the Parliament, to superiors, or to subordinates? Mosher (1979) and Stewart (1984) have indicated the difficulties in ascertaining exactly who should be held accountable, and for that which they should be held accountable (in Lourens 1993, pp. 38-39; see also Downey 1986, p. 35; Gharaty 1993, pp. 170-171; Russell 1993, p. 1; Chowdhury and Chowdhury 1995, p. 2). The Management Improvement Advisory Committee (MIAC) (1991) in Australia reinforces Mosher and Stewart's concerns by saying that “[t]he issue [in the process of public accountability] is the need to clarify who is accountable to whom, for what, and when” (p. 1; see also Lourens 1993). The Committee continues that “[a]ny response to this issue requires a clear understanding of the basic relationship between the complementary concepts of authority, responsibility and accountability” (MIAC 1991, p. 1). In addition to these aspects of accountability needing clarification, as noted by MIAC, Mosher adds

- for what and according to what criteria is one accountable?
- at what stage of a program is one accountable?
- in what ways and to what extent is one accountable for the actions of subordinates?
- what is the recourse against persons who have misused their authority or who have failed in their endeavours? (Lourens 1993, p. 87).
In response to the question ‘who is being held accountable?’, the straightforward answer could be that the receiver(s), holder(s), user(s) and expender(s) of public resources should be held accountable for their decisions and actions with respect to those resources (Lourens 1993, p. 87; see also Cutt 1977, p. 33; Van Peursem 1990, p. 10). Therefore, everybody who has any relationship with the public resources should be held accountable and accordingly he/she is accountable for those public resources.

In a discussion regarding accountability, Spann (1979) argues that in practice accountability is not just a requirement imposed by a hierarchical superior, one may also in practice be brought to account by peer groups or ‘from below’, by customers or clients. For example, most people say that a permanent head has a responsibility to ‘the government’ as well as to his own minister (Spann 1979, p. 495). Governments and public officers as trustees have an obligation to be accountable to the citizens for the state powers and resources entrusted to them (Ghartey 1993, p. 171). Finally, Smith (1971) states that “[t]he bureaucracy is divided into coherent parts to accomplish specific tasks, and bureaucrats are accountable not to everybody but to their administrative superior” (p. 51). Chronological analysis of accountability in the previous section showed that until the twelfth century in Western Europe accountabilities were to God through monarchs, that is, public servants and officers were accountable to monarchs and monarchs were accountable to God as the agents of God. This form of accountability was replaced in sixteenth century by more democratic governments which required the king to be accountable to the parliament. Thus, Lourens (1993) notes:

[i]n democratic systems of government, all public sector organisations have a common feature regarding authority and
responsibility, namely that their authority and powers are ultimately derived from the legislature. Therefore, their responsibilities and accountability are ultimately back to the legislature, despite there being requirements to provide an accounting to intermediate authorities, like the executive. In turn, the legislature is held to be responsible to the citizens and electorate via the mechanisms of free elections held at determined intervals (pp. 122-123).

It is believed that the public accountability, which is one of the most important forms of accountability, to Parliament in democratic governments will cover the legality, the economy, the efficiency and the effectiveness of government spending (Lourens 1993, p. 86).

To operate with force, and therefore to be effective, public accountability needs the capacity for enforcement (Stewart 1984). Stewart (1984) says that the government's accountability to parliament includes this capacity (Stewart 1984). That is, parliament approves the money bills and gives authority over the appropriation to the government for using public resources. Consequently, parliament has the power to ask the government for disclosure regarding the delegated authorities on behalf of the electors and also ultimately, parliament's power (whenever it is necessary) involves the withdrawal and the renewal of confidence. In this chain, the parliament's accountability to the electors involves the possibility of non-election as well as re-election (Stewart 1984). Kropp (1989) states that "accountability to Parliament is a relative [sic] straightforward process, where the operations of Executive Government ... are conducted through an agency established under an Act of Parliament ... with a reporting responsibilities [sic] to the Parliament" (p. 6). Depending on the system of governance in the state, accountability to parliament could be posed in different ways and in different forms. The Parliament, the Executive Government and the Auditor
General are statutory links in the financial accountability chain of the Westminster System (Kropp 1989). Kropp (1989) points out that

[d]isclosure and accountability to the Parliament is the cornerstone of the Westminster System. It brings an added discipline to the management process of the Executive Government (p. 6).

In this system the heads of departments and agencies are directly accountable to a Minister who, in turn, is accountable to Parliament (Lourens 1993, p. 123; see also English and Guthrie 1991, p. 350). Emy (1978) posits that in the Westminster system of government

[w]hen we say that a minister is ‘responsible’ we mean (i) that parliament can call him to account for what he does; (ii) that he is personally capable of creditable and trustworthy actions. Therefore he should be a man of integrity as well as of intrinsic ability (p. 259).2

Emy (1978) further states that:

[r]esponsible government also means checking that those in power behave reasonably and fairly, i.e. that those who have the power to make society’s rules do not abuse or evade the rules to suit themselves. When we say a minister is ‘responsible’ we mean (i) that he is both answerable and accountable to parliament for actions done in his name; and (ii) that we are willing to trust him to make decisions on our behalf by reason of his personal integrity (p. 250).

The concept of direct ministerial responsibility has changed in recent times (Lourens 1993, p. 139) and the question of that for which a minister or a head of department is

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2 Emphasis in original.
accountable has also changed (MIAC 1991, p. 5). The Management Improvement Advisory Committee (MIAC) says that Ministerial Responsibility implies that “ministers accept two major responsibilities: first, for the overall management of their portfolios; and second, for carriage in the Parliament of their accountability obligations to that institution” (MIAC 1991, p. 2).

This is recognised to be a very narrow view of ministerial responsibility. According to reforms introduced in Australia in 1983 by the first Hawke Government

[t]he thrust ... was to ‘give Australians a public service that is more efficient, more responsive, more accountable to the elected representatives of the people, and more in harmony with the diverse needs of the community it serves’ [White Paper on Reforming the Australian Public Service, 1983] (MIAC 1991, pp. 5-6).³

This new form of accountability represents a departure from the traditional form of accountability. Australian public sector reforms over the past decade provide that ministers and secretaries are not directly accountable for each and every detailed administrative act within their departments. They are, however, responsible for poor performance and if this poor performance reflects systemic failure, then the minister or senior manager is responsible and accountable (MIAC 1991, pp. 2-3). Furthermore, they are accountable and responsible to the Parliament for using public resources with which they have been entrusted (Guthrie 1991b, p. 151). In this system

[t]he Parliament, representing the resource providers, has responsibility to ensure that the resources are wisely used and

³ Discussion about the nature of Australian Public Sector Reform is one of the subjects of chapter 6.
safeguarded. The parliamentary committees' scrutiny (e.g., Public Accounts Committees) of government activity and stewardship are one of the means of meeting this responsibility (Guthrie 1991b, pp. 151-152).

Recent reforms in the public sector have been a move towards giving more flexibility and authority to managers and removing constraints upon them as well as burdening them with increasing responsibilities and accountability (Keating 1990). The degree of independence or the extent to which administrators can be given freedom in the public sector to achieve program goals while remaining accountable to the parliament and public is a current issue. It has been accepted that there is a relationship between the values of independence and of accountability and that they should not be considered completely in opposition (Smith 1971). Smith (1971) states that “[i]n one sense to satisfy the need for accountability serves to protect independence” (p. 4). Hague (1971), however, questions the relationship between accountability and independence:

> [h]ow can the organisation ensure that the job done is the job required? That is the problem of Accountability. How can the person doing the job be given sufficient discretion to feel that his job is worth while? That is the problem of independence (p. 356).

It is claimed that the traditional forms of accountability, such as justice, legality and regularity are being lost under the new managerialism. Holmes (1990) believes that although there are many missing links in accountability based on program performance, the new standard of accountability which now includes accountability for performance in terms of outcomes rather than for inputs alone will increase the accountability of administrators (p. 48). The reforms to public sector administration in Australia over the recent decade have brought to prominence different elements of
public sector accountability. It has also pointed to the arrangement of these in hierarchies of accountability. In the next section the work of Cutt and Stewart on levels of accountability will form the basis of discussion.

3.5 HIERARCHIES OF ACCOUNTABILITY IN THE PUBLIC SECTOR

The bases of accountability must be properly defined within any kind of accountability web (Stewart 1984). The purpose of the account and hence the basis of accountability can vary and be defined according to the activities for which accounts have to be given. The bases of accountability have been given by Cutt in 1977 in terms of an increasing sophistication and potentially useful hierarchy for accountability. He has presented three definitions or bases for accountability in this regard. First, and at the lowest level of accountability, is fiscal or fiduciary accountability, which is called Efficiency I by Cutt. This is exclusively concerned "with the actual expenditure of funds and procedures by which that expenditures is accounted for" (Cutt 1977, p. 334). This level of accountability relates totally to inputs and does not deal with the outputs attributable to these inputs. The analysis of the use of funds will occur after the activity or program has been completed. Cutt argues that it is difficult to see any concern for efficiency in this first concept of accountability and that this notion is more related to regularity or financial propriety. However, he says that perhaps the objective of performance assessment which is carried on in the context of fiduciary accountability is the determination of Efficiency I. Efficiency I has been seen synonymous with "compliance audit, regularity audit, and traditional audit" (Cutt 1977, p. 335).
In Cutt's approach to accountability the second and more sophisticated form of accountability is *efficiency accountability*, which Cutt calls Efficiency II. At this level accountability will be “determined through efficiency auditing—synonyms and includes performance auditing, management auditing, and operational auditing” (1977, p. 335). Efficiency accountability (and thus Efficiency II) has been defined “in terms of the ratio of some physical measure of output from the activity or program to the costs of that activity or program” (1977, p. 335). Thus, up to now, the difference between accountability level one, or fiscal accountability, and the second level, or efficiency accountability, relates to the consideration of outcomes in the latter (Cutt 1977, p. 335).

The third and most sophisticated form of financial accountability in the accountability hierarchy is concerned with *effectiveness accountability*. Efficiency III4 as it is referred to by Cutt, will be “determined through effectiveness auditing—the most frequent synonym for which is program auditing” (Cutt 1977, p. 337). Cutt concludes that efficiency accountability and effectiveness accountability “are clearly related to but need not always coincide” (Cutt 1977, p. 337). He also says that “depending on the measures that are used, efficiency may be either complementary to, or in conflict with effectiveness” (Cutt 1977, p. 337; see also Van Peursem 1990; Guthrie 1989, pp. 63-64). He also states that higher levels of accountability subsume lower levels (Cutt 1977).

The bases of accountability have been classified by Robinson (1971) into three categories as: *fiscal accountability*, which is concerned with the regularity of public

4 According to Cutt “Efficiency III requires that the output measure used reflect the attainment of the objectives of the activity or program in question” (Cutt 1977, p. 338).
expenditures, that is “[f]unds should be spent according to appropriate procedures, in the manner designated by law and by the terms of the contract or agreement, and proper accounting standards should be observed” (in Smith 1971, p. 29), program accountability which is related to whether the government's proposed goals are achieved or not through its programs, and process accountability which “refers to the general procedures and method of operation by which a delegated assignment is carried out” (in Smith 1971, p. 29).

Stewart (1984) also has represented four different bases for accountability. First, accountability for probity which is concerned with the avoidance of malfeasance. Second, accountability for legality which is associated with using properly the powers which are given by the law. Third, accountability for efficiency which is directed at assuring that there is no waste in the use of resources. And finally, accountability for good administration which is designed “to ensure that there has been no maladministration and, in particular, maladministration leading to injustice” (Stewart 1984, pp. 16-17).

Stewart (1984) combines his bases for accountability with those of Robinson and then he outlines five alternative bases which, in Stewart's words, constitute "the ladder of accountability". Stewart's ladder of accountability consists of:

- Accountability for probity and legality
- Process accountability
- Performance Accountability
- Program accountability
- Policy accountability (Stewart 1984, pp. 17-18).
He states that this ladder leads accountability from accountability by standards, and is therefore more objective at this level, to accountability by judgement. Financial information as a measure of the use of resources, must remain in all bases of accountability (Stewart 1984, p. 31). Stewart (1984) also argues that "the account" and "the holding to account" are the significant elements which have been used to build a framework for the analysis of public accountability (p. 19).

In summary, in Stewart's ladder of accountability, accountability for probity and legality are concerned with inputs which is in line with Cutt's fiscal or fiduciary accountability. Process accountability in Stewart's ladder refers to outcomes which could be the same of Cutt's efficiency accountability. Finally, performance accountability, program accountability and policy accountability are probably concerned with the effectiveness accountability of Cutt.

3.6 ACCOUNTABILITY AND ACCOUNTING SYSTEMS IN THE PUBLIC SECTOR

The necessity for an accounting system in the public sector stems from two significant concepts: accountability and control. In fact, accounting systems provide a mechanism which is vital to the exercise of accountability. Aitkin et al (1989) argue that to be answerable and accountable “there should be a record of every action taken and every dollar that is spent, so that the minister can answer to parliament if necessary” (p. 212). Smith (1971) goes further and says that:

the government must have the assurance that public funds are spent for the purposes specified and without personal gain to any private individual beyond fair compensation for his services. Appropriate
fiscal records must be kept; a 'fair value' must be rendered the [sic] contracting government agency; some rules-of-thumb to measure performance are important (pp. 3-4).

Fitzgerald (1968) and Burke (1982) say that there are at least two distinct groups of purposes of accounting which are discernible over a large sector of government accounts. These two groups of purposes are: 'accountability or stewardship' and 'management control'. Fitzgerald (1968) brings four functions to accountability statements, or reports of stewardship. He represents the functions as:

(i) to show compliance with legal requirements;
(ii) to show receipts and disbursements of money in relation to budgets and appropriations;
(iii) to permit determination of the proper custody of moneys and other assets; and
(iv) to permit independent audit of all records and of all funds, securities and other property (Fitzgerald 1968, p. 176; see also Burke 1982, p. 18).5

To have an efficient and proper system of financial accountability requires an appropriate structure of financial planning, accounting, banking and auditing institutions, including a regular routine for all of them (Normanton 1966). Bird (1973) states that:

[accountability places two obligations upon a steward; he must render an 'account' of his dealings with the stewardship resources, and then he must submit to an examination (usually known as an 'audit') of that account by or on behalf of the person or body to whom he is accountable (p. 2).

5 Emphasis in original.
In analysing accountability two elements have to be recognised: the elements of accounts and of holding to account (Stewart 1984, p. 15). By the element of account, Stewart refers to the requirement for information that consists of the right to question and debate that information as a basis of judgement. The accounts have to be given in a understandable form and they can be given in different ‘languages’, depending on what has to be expressed and for whom the reports are to be produced. The accountant has an important role in describing the different processes in the organisation in a common language. By mounting the ladder of accountability, described in section 3.5, the financial account becomes less adequate by itself. The language of the accountant is still necessary to prepare accounts but there is a need for other languages as well. Preparing accounts for financial probity the language of the accountant is sufficient, but for other bases of accountability, represented by Stewart, other languages are required. In accounting for performance accountability output data must be added to financial data; the language of objectives is critical for program accountability and a range of languages becomes important for policy accountability. Financial information as a measure of the use of resources must remain in all bases of accountability (Stewart 1984, p. 31). Stewart goes further and says that “public accounting is concerned first and foremost with the account element in public accountability”. This element provides the financial information which is the basis of one form of that account (Stewart 1984, p. 25). This idea supports Dunsire’s argument that the common usage of accountability involves information (and not merely financial information) (Stewart 1984, p. 14).

According to Stewart, public accounting has been seen as an important, though not the sole, component in the building up of the account element. It is one component of the wider universe of information which provides one language for the expression
of that information (Stewart 1984, pp. 25-26). Stewart (1984) concludes that although financial information is of critical importance, it does not constitute the whole of accountability and the role of information within the wider concept of accountability depends on how to form the raw material (accounting system) for the account (p. 26). The accountant has a special role in the preparation of the account within the framework of public accountability. Stewart says that “the financial account is a necessary account, but the financial account is only one account, using but one language” (Stewart 1984, pp. 30-31). Learning more of the language of politics would be necessary for the accountants in order to express their accounts more clearly in the political process (Stewart 1984, p. 32).

Financial information is necessary to give an adequate set of reports for financial accountability purposes in the public sector and since the objectives in the public sector are largely non-financial there is also a requirement for measurement of performance in non-financial terms (Pallot 1992a, p. 60; see also Van Peursem 1990, p. 9). Pallot (1992a) argues that the belief, expressed by some people, that the accounting profession should just be concerned with everything measurable in monetary terms is considerable. Who has the responsibility to ensure that the information provided for accountability purposes is adequate and integrated? Thus, it seems that the most relevant body for preparing and providing the non-financial is the accounting system (Pallot 1992a, p. 60).

In this section it was shown that the necessity of an efficient accounting system to perform the accountability purpose in the public sector is inevitable. When there is a requirement to report on actions, there should be an effective system to record and report those actions.
Chapter 3, Public Sector...

3.7 PUBLIC SECTOR ACCOUNTABILITY IN AUSTRALIA

In the previous sections of this chapter the concern has been to establish meanings for accountability which are commonly found in practice and in the constitutional literature. In this section the concept of accountability in Australia is discussed and examined. Chapter 2 established that the form of government in Australia is described as a Westminster system. Emy (1978) says that public sector accountability, which in his words is generally referred to as ministerial responsibility in the Westminster system (such as Australia), has two propositions:

(i) ministers are individually responsible to parliament for the affairs of their departments;
(ii) cabinet is collectively responsible to parliament and the electorate for the conduct of government.

The first implies that parliament can call ministers to account for mistakes that occur in their department's policy area, i.e. parliament can question and if necessary censure ministers. The second implies that either parliament or the people may dismiss a government with whom they are dissatisfied (p. 246).

The Royal Commission on Australian Government Administration (RCAGA) reported that

[t]he theory of the Westminster system asserts that the minister is wholly responsible for all actions in matters within his department, but in fact responsibility lies with officials. It is important that this be acknowledged, the nature and extent of the responsibility be clarified as far as possible, and procedures established to assess performance and to provide that those responsible at all levels will be accountable for their performances. Unless this is done no-one
can justly be regarded as responsible and no-one can fairly be called to account for failure or poor performance (1976, p. 42).\textsuperscript{6}

These meanings were later reinforced by the Public Service Board (PSB) (1986) which stressed that

[m]inisters have responsibility for the administration of their department and have certain obligations to the Government as well. These obligations are conventionally the maintenance of the secrecy\textsuperscript{7} of the proceedings of Cabinet and the responsibility of Ministers for the policy of the Government as a whole [collective responsibility] (Public Service Board 1986, p. 21; see also Encel 1974, p. 124).\textsuperscript{8}

The responsibility of Ministers for the policy of the Government as a whole is a convention which has been developed by the British Parliament. This form of responsibility, which has been taken from the several unwritten rules, is called collective responsibility and defined as following:

- Ministers publicly support Cabinet decisions.
- Ministers resign if unable to give that public support.
- Ministers seek Cabinet approval for major policy before it is announced.
- Ministers do not publicly criticise the actions of a fellow Minister.

\textsuperscript{6} Emphases in original.

\textsuperscript{7} Two main reasons were given by the PSB for the conventional maintenance of the secrecy of Cabinet proceedings. Firstly, “Matters relating to defence and finance must be kept secret in the national interest”. And secondly, “Open Cabinet meetings might inhibit candid and unfettered discussion of the issues by the Ministers” (Public Service Board 1986, p. 22).

\textsuperscript{8} Emphases in original.
It is argued that the purpose of *collective responsibility* is ensuring that all ministers support a decision once it has been publicly announced (Emy 1978). Emy (1978) adds that this convention requires that

1. If a minister cannot accept a government decision he must resign; and
2. If parliament (or the electorate) cannot accept cabinet policy they may dismiss the government. These two requirements represent an attempt to enforce standards of democratic accountability (p. 277).

The chain of public accountability in the Australian context can be presented as:

Parliament is accountable to the public; government is accountable to Parliament (and thereby, indirectly, to the public) ministers are accountable to cabinet and to Parliament for the conduct of their portfolios; the heads of bureaucratic units are accountable to government through relevant ministers (including those overseeing co-ordinating departments); members of the bureaucracy are accountable to the heads of bureaucratic units; the office of Auditor-General supports the activities of Parliament in scrutinizing the activities of the bureaucracy and government in matters of fiscal propriety, in public view (Birkett 1988, p. 2; see also McPhee 1990, pp. 11-12).

Apart from these forms of politically oriented requirements for ministerial responsibility and accountability, which mostly involve the maintenance of secrecy and collective responsibility, there has been a strong concern regarding financial management and accountability in the Australian public sector among researchers and public bodies such as the Federal Parliament since the 1950s.

In 1951 the Joint Committee of Public Accounts (JCPA) was re-established by Act of Parliament to provide an effective parliamentary body to monitor, inquire into and
report on the adequacy of the financial administration of Commonwealth Departments and Authorities (Connolly 1982, p. 94). The Committee is composed of representatives elected by Government and Opposition, and drawn from both Houses of the Parliament. The duties of the Committee are wide ranging. It has the power to investigate all aspects of the accounting systems of Departments9 and the financial statements of all statutory authorities (Connolly 1982, p. 94).

Throughout Australia the adequacy and consistency of financial reporting as part of an accountability framework by public sector entities has been increasingly questioned by government agencies and parliamentary bodies including:

The Commonwealth Senate Standing Committee on Finance and Government Operations
The Commonwealth Joint Parliamentary Committee of Public Accounts.
The NSW. Parliamentary Public Accounts Committee
The Victorian Parliamentary Public Bodies Review Committee and
The Victorian Parliamentary Economic and Budget Review Committee (Sutcliffe 1985, p. 1).

In addition to ongoing bodies of review, in 1976 the Royal Commission on Australian Government Administration Report was established to examine the federal government administration and issues of accountability in the public sector10 (Sutcliffe 1985).

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9 Now they are all accrual based accounting.
10 For more see section 6.2.3.
When Premier of New South Wales in 1990, the largest state in Australia, Nick Greiner (1990) made it clear that

[a]ccountability is central to the Coalition government's approach to managing the State of New South Wales. It is part of our approach to a new openness, a new era in public accountability. It involves the fundamental [sic] of honesty, openness, adequate disclosure and careful, effective application of resources (p. 31).

He added that it was only through knowing the 'facts' that "the community and the Government can make rational decisions about spending, staffing, investment, taxation, pricing, borrowing and debt. Improved public accountability is the best way of ensuring both economic and just as importantly, social sensitivity" (Greiner 1990, p. 33).

These concerns and ad hoc reforms in the Australian public sector since the 1980s have resulted in increasing demands for a new form of financial accountability by the public sector to parliament (Guthrie 1991a, p. 1). As noted already, traditionally, financial accountability was associated with legality and regularity for using public resources. A new definition of financial accountability brought these traditional dimensions of accountability under challenge, to broaden the concept to efficiency and effectiveness. A NSW senior public servant (Dick Humphry) observed that

we need to consider whether we are prepared to compromise on our existing form of accountability ... we must be prepared to accept a different type of accountability. ... The bottom line is that we pay for traditional accountability by reducing the efficiency with which services are delivered (quoted in English 1989, p. 65)
The recent changes in Australian public sector accountability, as part of Australian public sector reform\textsuperscript{11}, attempt to remove constraints from managers in the public sector (Department of Finance 1988; Considine 1990; Helgeby 1990; Keating 1990; Mascarenhas 1990; Guthrie 1991a; Task Force on Management Improvement 1992; Parker and Guthrie 1993). A redefinition of public sector accountability, derived from the recent reforms, affirms that "financial discipline and efficiency are the central tenants" of a new accountability regime" (Guthrie 1991b, p. 149). This new interpretation by some writers is seen to be in conflict with one of the other features of the recent reforms, as providing more flexibility to the managers (or let the managers manage). A discussion of the relationship between accountability and the degree of independence was given in section 3.4. However, greater decision freedom for public sector managers must be accompanied by increased responsibility and accountability on the part of those managers (Keating 1990). The Auditor-General, John Taylor, noted that

[b]eing realistic and positive one must recognise that the balance between ‘letting the managers manage’ and accountability to parliament is not going to be an easy one to strike in practice (quoted in Barrett 1990, p. 110).

The RCAGA recommended that a reconciliation between the accountability and the freedom of public sector servants can be made through performing efficiency auditing. It suggested that

[i]f, as the Commission proposes, departmental managers are to be given a clearer responsibility for their managerial functions and greater freedom and discretion to perform them, it will be the more

\textsuperscript{11} Recent reform in Australian public sector will be discussed in chapter 6.
important that the quality of their performance should be subject to
critical review. The Commission proposes, therefore, that there
should be a regular program of efficiency audits in which
departmental performance will be assessed (RCAGA 1976, p. 46).

The traditional model of accountability for the public sector in which secretaries and
their staff would be accountable to the Parliament only through their ministers was
reiterated by the Management Improvement Advisory Committee in an exposure
draft on accountability in 1991 (MIAC 1991, p. ix). The draft also recognises
potential barriers to accountability arising from unclear and/or multiple objectives,
poor organisational structure arrangements and the risks associated with too many or

MIAC suggests that accountability has two roles which are not separate, but are
overlapping and complementary. The first role of accountability, seen by MIAC as a
backdrop and essential foundation to ministerial responsibility, is that ministers
should “see themselves as accountable and responsible and expect the public service,
which assists them, to reflect that” (MIAC 1991, p. 1). The second role of
accountability is referred to as a management tool for ministers and the public service
itself, which includes accountability arrangements within agencies (MIAC 1991, p. 1).

Public sector accountability in the Australian context, noted above, has changed
recently to include accountability for efficiency and effectiveness. Now the thesis
turns to explain the form public sector accountability in the Iranian context.
3.8 PUBLIC SECTOR ACCOUNTABILITY IN THE ISLAMIC REPUBLIC OF IRAN

3.8.1 Accountability Prior to the Mashruteh Revolution in 1906

In the previous chapter, the Islamic Republic of Iran's form of government was discussed and the relationship between the three parts of government was established. In this section, the Islamic Republic of Iran's form of accountability will be discussed. Before the Mashruteh Revolution in 1906, there was no constitution and consequently there were no financial laws for controlling and monitoring the Shah's power and the country's finances. This was possible because the Shahs were popularly considered to be the representatives or shadows of God and were to be obeyed and respected without question in all their decisions. All the accountability, if there was any, was to God and consequently, no one was accountable to the people, particularly when it came to using the resources of the country and financial management. This form of accountability was according to model B of Figure 3.1.

There was no separation of powers between the executive and legislature until 1906. It is worth noting that, in regards to financial management and accountability, there was a rather weak kind of financial reporting to the Shahs. Public servants were accountable to their ministers for their actions, and ministers were accountable to the Shahs. The central government did not handle all fiscal receipts and disbursements, allowing instead each province to have its own budget, the kitabcheh, which was prepared by financial officials known as Mustawfi. Mustawfis, in their reports, transferred the balance of a province's revenues and the amounts which were needed to keep for local expenditure, to the central government (Issawi 1971, p. 337). Khodadoust Foroughi Tehrani (1975) says that "[n]o serious attempt was made to
reform the undesirable financial system before the 1906 [Mashruteh] constitution” (p. 121).

3.8.2 Accountability Prior to the Islamic Revolution in 1979

The Mashruteh Revolution brought about a new system of administration and, accordingly, a much stronger regime of accountability, particularly in financial matters, than had previously been the case in Iranian history. The Supplementary Fundamental Laws of 7 October, 1907 provided that the powers of the Realm were derived from the people, and that the Fundamental Law regulated the employment of those powers. Government was divided into three categories: the Legislative power; the Judicial power; and the Executive power. Legislative power was derived from the King, the National Consultative Assembly, and the Senate. The Executive powers reposed in the King. Articles 26 and 27 of the Supplementary Fundamental Laws of 7 October, 1907 provided that the laws and ordinances were carried out by the Ministers and State officials in the august name of the King in the manner which the Law defined (Browne 1966, p. 376).

According to Article 46 of the Supplementary Fundamental Laws, the appointment and dismissal of Ministers was effected by virtue of the Royal Decree of the King (Browne 1966, p. 378). The King had the right to choose the officials who headed the various government departments, whether internal or foreign, subject to the approval of the responsible Minister, save in those cases which were specially exempted by the Law. The appointment of other officials did not lie with the King, save in such cases as were explicitly provided by the Law (Article 48 of the Supplementary Fundamental Laws of 7 October, 1907, Browne 1966, p. 378-379).
It seems that probably the weakest part of the Supplementary Fundamental Laws was that the Shah, with powers and authority as part of the Legislature along with the authority to appoint and dismiss his ministers, was exempted from any formal financial responsibility and accountability. However, the Ministers of State were responsible and accountable to both houses of Parliament in all matters, that is the Senate and the National Consultative Assembly (Article 44 of the Supplementary Fundamental Laws of 7 October, 1907, Browne 1966, p. 378). Article 60 of these Laws reinforced the responsibility and accountability of ministers to the National Consultative Assembly and the Senate. This article added that ministers must appear in case their presence was required by either Chamber and also they were required to observe the limitations of their responsibility in all such matters as were committed to their charge (Browne 1966, p. 380). Article 61 explained "ministerial collective responsibility" as "Ministers, besides being individually responsible for the affairs specially appertaining to their own Ministry, are also collectively responsible to the two Chambers for one another's actions in affairs of a more general character" (Browne 1966, p. 380).

According to article 27, of the Fundamental Laws of 30 December, 1906 "[w]herever the Assembly observes any defect in the laws, or any neglect in giving effect to them, it shall notify the same to the Minister responsible for that department, who shall furnish all necessary explanations" (Browne 1966, p. 366). Article 66 of the Supplementary Fundamental Laws of 7 October, 1907 provided that the Law shall determine the responsibility of Ministers and the punishments to which they were liable (Browne 1966, p. 380). The authority of asking the Cabinet or a Minister to resign was given to the National Consultative Assembly and the Senate. If one of
those Chambers, by an absolute majority, declared that it was dissatisfied with the Cabinet, or with one particular Minister, that Cabinet or Minister should resign their ministerial functions (Article 67 of the Supplementary Fundamental Laws of 7 October, 1907, Browne 1966, p. 380). Furthermore, according to article 65 of that Law the National Consultative Assembly, or the Senate, could call Ministers to account or bring them to trial (Browne 1966, p. 380). Article 33 of the Supplementary Fundamental Laws also gave the right of investigation and examination of every affair of state to the Senate and the National Consultative Assembly (Browne 1966, p. 377).

If the National Consultative Assembly demanded explanations on any matter from the responsible minister, the minister in question was required to answer. In this case the minister's answer must not have been postponed unnecessarily or without plausible reason, apart from secrecy measures, which, for a specified period, was to the advantage of the State and the People. In such cases, on the lapse of the specified period the responsible Minister was bound to answer to the Assembly (Article 42 of the Fundamental Laws of 30 December, 1906, Browne 1966, p. 369).

With the establishment of the National Consultative Assembly12 (one of the results of the Mashruteh Revolution in 1906) in Iran and considering the importance of finance in social, economic, and political affairs of the country and the emergence of stewardship and auditing of finances, for the first time in the Supplementary Fundamental Laws (SFL) of October 7, 1907, 10 articles regarding Finances were passed by the National Consultative Assembly (Majlis). The most important

12 For more see chapter 2.
requirement of this Law (for the first time in Iranian history) was the preparation of an annual national budget. The Shah, through the Department of Finance, had to present an annual budget to the Majlis. According to Article 94 of the Supplementary Fundamental Laws "[n]o tax shall be established save in accordance with the Law" (Browne 1966, p. 383). Article 96 of this Law provided that the annual Budget was to be fixed and approved by a majority of votes of the National Consultative Assembly. Finally, "[n]o order for the payment of any allowance or gratuity can be made on the Treasury save in accordance with the Law" (Browne 1966, p. 383). These two articles of the Iranian Constitution introduced to Iran the dimensions of accountability, including legality and regularity, which were present in Westminster countries such as Australia.

According to appropriation article 102, of the Supplementary Fundamental Laws, a financial commission which was to be called the Court of Accounts (Divan muhasabat) was set up to inspect and analyse the accounts of the Department of Finance and to prepare a settlement of the accounts of all debtors and creditors of the Treasury. It was especially deputed to see that no item of expenditure fixed in the Budget exceeded the amount specified, or was changed or altered, and that each item was expended in the proper manner. It was to likewise inspect and analyse the different accounts of all the departments of State, collect the documentary proof of the expenditure indicated in such accounts, and submit, to the National Consultative Assembly, a complete statement of the accounts of the Kingdom accompanied by its own observations (Browne 1966, pp. 383-384; Shahbazi 1995). It is worth noting here that, like most countries at the time, the form of accountability in Iran was input-orientated. These concerns of accountability were to ensure that the
appropriation of the budget was implemented properly. This form of accountability led to the traditional form of accountability including probity and regularity.

In referring to the requirements of Articles 101, 102, and 103 of the Supplementary Fundamental Laws for setting up the Law of Accounts, the first Law of Accounts was passed by the National Consultative Assembly in 1911 (Safar 23, 1329 corresponding to 1290 solar) with 141 Articles (Shahbazi 1995; Babajani 1992b). The members of the Court of Accounts were to be appointed by the National Consultative Assembly for a period as may be determined by the Law (Article 101 of Supplementary Fundamental Laws) while the institution and organisation of the Court of Accounts was also to be determined by the Law (Article 103 of Supplementary Fundamental Laws). Before the Islamic Revolution in Iran in 1979 this Article had been ignored by the Ministers for Finance who had appointed the president and the public prosecutor of the Court of Accounts solely with the signature and approval of the Shah. Thus, the primary purposes of the Court of Accounts did not come into force and the government did not have any significant financial responsibility and accountability, even at the basic level of probity and regularity, to the Majlis and through that to the people. This is because the Ministers of Finance were responsible for implementing the budget and also for appointing the head and the members of the Court of Accounts for auditing and reporting on executive expenditures.

The Law of Accounts was amended three times before the Islamic Revolution with the purpose of decreasing the authority of the National Consultative Assembly and increasing the power of the Executive or Shah in manipulating finances and the budget. For example, according to an amendment in 1973 (corresponding to 1352
solar) to the Law of the Court of Accounts the president of the Court of Accounts was appointed on the suggestion of the Ministry of Finance and on the command of the Shah (Shahbazi 1995). Thus, it can be seen how the Shahs had made the chain of financial accountability weak and insufficient.

3.8.3 Accountability after the Islamic Revolution in 1979

With the Islamic Revolution in 1979 in Iran, the form of government and relationships between the three branches changed. In chapter 2 it was shown how the new Constitution defined the scope of powers and authorities of government sectors. Under the new system of government the President, the Chief of the Executive, is responsible and accountable to the People, the Leader, and the Islamic Consultative Assembly (Article 122). According to Articles 126 and 134 of the Iranian Constitution the President is responsible for national planning and budget. He may entrust the administration of this to others. He is also responsible and accountable to the Islamic Consultative Assembly for the actions of the Board of Ministers. Each of the ministers is responsible and accountable for his duties to the President and the Islamic Consultative Assembly (Article 137). It is worth noting that ministers also have collective responsibility and accountability and are responsible and accountable for the actions of their fellow Ministers to the People and the Islamic Consultative Assembly for the matters approved by the Board of Ministers as a whole. Although the Islamic Revolution changed the relationships between the branches of government and a stronger form of political accountability came into force, the dimensions of financial and management accountability did not change. They continue to be overwhelmingly concerned with accountability for legality and
regularity. This form of accountability is similar to Cutt's Efficiency I discussed in section 3.5.

The form and the organisation of the Court of Accounts changed according to Articles 54 and 55 of the Islamic Republic of Iran's Constitution. Article 54 of the Constitution explains that the Court of Accounts is to be placed directly under the supervision of the Islamic Consultative Assembly and the organisation and the mode of its operation in Tehran and at the provincial capitals are to be determined by law.

The function of the Court of Accounts, as described by Article 55 of the Constitution is to inspect and audit, in the manner prescribed by law, all the accounts of ministries, government institutions and companies as well as other organisations that draw, in any way, on the general budget of the country. The purpose of this inspection and auditing is to ensure that no expenditure exceeds the appropriations approved by the Islamic Consultative Assembly and that all sums are spent for the specified purpose. The Court of Accounts will collect all relevant accounts, documents, and records, in accordance with law, and submit to the Islamic Consultative Assembly a report for the settlement of each year's budget together with its own comments. This Article also adds that the report must be made available to the public.

The function of the Court of Accounts since the 1979 Constitution is more precise and broader than that of Supplementary Fundamental Laws in 1907. As explained earlier, the function of the Court of Accounts was mainly limited to inspecting and analysing the accounts of the Department of Finance. It was not asked to submit a report for the settlement of each year's budget, together with the Court of Accounts
comments, to the Majlis and the people. The function of the Court of Accounts, according to the 1979 Constitution, is to inspect and also audit the public sector entities.

3.9 SUMMARY AND CONCLUSION

The meaning of accountability in general, and as it applies in the public sector, and its importance were discussed in this chapter. Accountability has different meanings in different contexts and it depends upon the nature of the state. According to one idea, the definition of accountability is related to the ideologies, motifs and language of time. The notion of public accountability in some countries such as Australia, Britain, and New Zealand has shifted in recent decades from an emphasis on inputs to outputs and a management concept orientation, which gives greater prominence to concepts such as value for money and letting the managers manage. Cutt (1977) is of the opinion that “to the traditional control-oriented or input-oriented stage in budgetary evolution ... accountability was related to the checking on the use of funds in the detailed manner prescribed” (p. 335).

Accountability is mainly a matter of external control. Financial Accountability means a liability to reveal, to explain, to justify and to give information. To implement financial accountability there is a requirement of an appropriate structure of financial planning, accounting and auditing institutions. There is an emergence of different forms of quantitative accountabilities such as efficiency and effectiveness in recent decades.
The Executive powers of the Islamic Republic of Iran and of Australia are responsible and accountable to the people for their actions; in the Islamic Republic of Iran through the Islamic Consultative Assembly and in Australia through Parliament. Before the *Mashruṭeh* Revolution there was a strong lack of accountability and, particularly, financial accountability in Iran.

Accounting systems are seen as one of the most important elements in the process of public accountability which provide a mechanism vital to the exercise of accountability. A general discussion of the roles and functions of accounting in the public sector accountability chain will be the theme of the following chapter.
CHAPTER 4

OBJECTIVES AND ROLE OF ACCOUNTING IN ENSURING ACCOUNTABILITY AND RESPONSIBILITY IN THE PUBLIC SECTOR

4.1 INTRODUCTION

In the two previous chapters the structures of government in the Islamic Republic of Iran and Australia were discussed, and conceptions of accountability were explored. Discussion included an explanation of the forms of accountability in Australia and the Islamic Republic of Iran.

This chapter is concerned with the consideration of an efficient and appropriate accounting system as a provider of useful and adequate information for implementing accountability processes in the public sector. Government performance is judged with a heavy reliance on financial information. Thus, accounting mechanisms are very important. Included in this chapter is a discussion of the systems of government accounting, including cash accounting, accrual
accounting and fund accounting. Reference will be made to the benefits of cash accounting, accrual accounting and their differences. It will also consider why calls for reform in accounting in the public sector have gone unheeded by many governments and little attention has been devoted to standards setting until recent years.

This chapter also covers some of the significant issues currently confronting public sector accounting, in particular determination and allocation of costs, measurement, depreciation and amortisation of fixed assets, financial reporting and development of a public sector conceptual framework. It shows accounting to be the most important mechanism to allow financial accountability to be exercised in the public sector.

Government accounting is an essential element of the financial management and accountability function of a government. A government accounting system exists to furnish complete and reliable financial information, in proper form and on a timely basis, to the several groups of persons responsible for and/or concerned with the conduct of government activities and operations. The selection of sufficient relevant information for a comparison of actual performance with the presumed objectives of government is the most important aspect of monitoring mechanisms in the process of accountability. According to Sherer and Kent (1983), even though the accountability of organisations to different participants requires the use of different information, the provision of financial information is the most important part of the accountability process (p. 7). Sherer and Kent (1983) argue that the process of accountability includes the two following elements:

- a description of the organization and its participants, and
- the identification of objectives and the provision of relevant information to monitor those objectives (p. 8).
Chapter 4, Objectives and Role ...

The first elements of Sherer and Kent's scheme of accountability, as applied to the public sector, were the subjects of chapters two and three of this study. Part of their second element, the provision of sufficient information, will be the theme of this chapter and chapters 5 and 6.

4.2 THE NEED FOR CHANGE IN PUBLIC SECTOR ACCOUNTING

In spite of increases in the size and significance of government activities in the twentieth century, government accounting was largely ignored throughout the world until the 1980s (Pallot 1991, p. 229). There was little or no attempt to set accounting standards for public sector entities. In the USA the reason for a lack of recognition of standards setting has been attributed to the right of the individual states to establish their own laws and related practice, including the accounting practices of state and local governments and the public organisations associated with these governments (Garner 1991). It is unlikely that a similar level of neglect will characterise the future. Apostolou et al (1992) believe that

[t]he next decade will witness changes in the practice of governmental accounting. Important strides will be made in updating governmental accounting, and increasingly, it will resemble business accounting. The full accrual basis will replace the modified accrual basis. As a result, governmental fund revenues will generally be recognized when earned, and most expenses will be recognized when they are incurred. These changes will result in governmental financial statements more closely resembling business financial statements (p. 1144).

The process referred to by Apostolou et al had started in the 1980's. Several reasons have been suggested for this sudden increase of interest in public sector accounting in the 1980s. These include pressure to expand the concept of accountability (Hopwood 1984, p. 174), the need for improved financial analysis in order to manage
cuts in public expenditures and the inadequacies in accounting practices revealed by the investigations of the financial collapse of New York and other American cities (Pallot 1991, p. 199). In New Zealand according to Pallot (1991),

[m]uch of the pressure for reform in public sector accounting in the early 1980s came from a cadre of senior managers and finance officers concerned about the inadequacies of the traditional accounting systems in government to measure financial performance for either management purposes or external reporting purposes (p. 198).

According to Henley et al (1986) the result was that “professional accountancy institutes, feeling that their members have remarkable skills to improve accounting and performance information, became interested in public sector practices” (quoted in Pallot 1991, p. 199). Consequently, as Hopwood (1984) points out, public sector accounting has become a major issue for both discussion and action (p. 167; see also Foley 1982a, pp. 31-32). He argues that

[i]n the last few years both the language and the practices of accounting have entered much more frequently and forcefully into debates about the efficiency, accountability and even scope of public sector activities. ... Although there is a long history of investing in accounting mechanisms for recording, planning, controlling and making visible public sector activities, within a very short period of time indeed recent pressures for change have succeeded in challenging the adequacy of existing public accounts and management accounting practices. ... The pressures for the expansion and reform of public sector accounting are numerous, diverse and even conflicting in nature (Hopwood 1984, pp. 167 and 170).
Many standard setting efforts in public sector accounting were made during the 1980s. In Australia\(^1\), Canada, New Zealand and the United States of America there has been an attempt to establish and develop a conceptual framework for public sector entities (Rutherford 1992, p. 266). In the United States, which has led the way, changes in government accounting started when in the 1970s New York, Chicago, Detroit and several other large cities were almost brought to the point of bankruptcy although their financial statements did not disclose the true state of their positions (Douglas and Anthony 1991, p. 25). As a result of these crises, and in response to widespread dissatisfaction with the financial accounting practices of state and municipal governments (Douglas and Anthony 1991, p. 25), a new era in government accounting in the United States commenced in April 1984 with the creation of the Governmental Accounting Standards Board (GASB) (Chan 1985; Douglas and Anthony 1991; Garner 1991) to succeed the National Council of Governmental Accounting (NCGA) (Garner 1991, p. 5). Like the Financial Accounting Standards Board (FASB), which is the standard-setting body for profit-seeking enterprises and the Federal Government (see FASAB News, Special Edition, June 1995, p.1; FASAB News, Issue No.39, December 1996), GASB is also a private-sector organisation established to set standards for not-for-profit entities. The difference is that now GASB pronouncements are primarily applicable to local and state government accounting. Thus, as Chan (1985) has observed, the GASB standards are intended to be applicable only to the fifty state governments and 80,000 local governments in the United States (p. 34; see also Jones 1992; Apostolou \textit{et al} 1992, p. 1144). The Financial Accounting Foundation is the parent of, and the source of funding for, both bodies (see figure 4.1) (Sutcliffe 1985; Chan 1985; Douglas and

\(^1\) Discussion about public sector accounting and particularly standard setting efforts in Australia will be part of chapter 6.

Since its creation GASB has made numerous improvements in accounting for not-for-profit entities. One statement of concept, the objectives of financial reporting, has been issued by GASB for non-profit entities and it also has issued several statements on government accounting practices (Douglas and Anthony 1991, p. 26). While the spheres of influence of the two standard-setting bodies now have been clarified (Bowsher 1996; Dyer 1996), until only recently there existed considerable ambiguity both amongst accounting practitioners and within the two standard setting bodies as to the relative standing of the two bodies at the different levels of government (Patten and Wambgsanss 1991, p.44).

Figure 4.1

FINANCIAL ACCOUNTING AND REPORTING
STANDARDS-SETTING STRUCTURE IN THE UNITED STATES OF AMERICA

Financial Accounting
Foundation (FAF)

Financial Accounting
Standards Advisory
Council (FASAC)

Financial Accounting
Standards Board (FASB)

Governmental Accounting
Standards Board (GASB)

Governmental Accounting
Standards Advisory
Council (GASAC)

(Source: Freeman and Shoulders 1993, p. 15)

Pressures for the introduction of new dimensions of public financial accountability, primarily efficiency and effectiveness, as indicated in the previous chapter, are the
main reasons for the need for change in public sector accounting. Scott and Gorringe (1989) refer to an information system helping to assess performance as one of the central features of the public sector reforms in the New Zealand context (p. 81). Providing the information necessary for assessing and improving performance requires change from cash accounting to accrual accounting (Shand 1990b, p. 143). According to Scott and Gorringe (1989), changing the system of financial accountability to accrual accounting was an essential element in the reform process of the public sector in New Zealand (p. 82). Financial statements were prepared on an accrual accounting basis for New Zealand government departments from the year ended 30 June 1992 (Bourn 1993). In Australia, as one the requirements of the recent reforms, accrual accounting has been progressively introduced in departments since 1992.2

The selection of the basis of accounting to be used in public sector accounting is a controversial issue. The most important suggested bases for government accounting are: cash accounting, accrual accounting, commitment accounting, budgetary accounting, fund accounting, partial cash accounting, and partial accrual accounting (see Jones and Pendlebury 1985, p. 156). Jones and Pendlebury (1985) state that different types of public sector organisations may adopt different accounting practices and bases. Depending upon the structure of an organisation and its needs, they believe that these bases of accounting are not mutually exclusive. For example, one institution might adopt budgetary accounting, cash accounting, and fund accounting. It is also possible that all five bases will be simultaneously adopted by an organisation (p. 156).

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2 For more see chapter 6.
In recent years, strong pressure has been placed on using accrual accounting in public sector accounting. In the sections which follow, firstly cash and then accrual accounting will be defined and their relative merits will be discussed.

4.3 CASH ACCOUNTING

Cash accounting means that an entity “reports on cash flows during a period and cash balances at the end of that period” (Sutcliffe et al 1991, p. 41). In other words, the entity records transactions with each receipt or payment of cash. In this system there is no record of future receipts or payments and accordingly in most cases no debt or commitment will be transferred to future accounting records. Cash accounting also does not attempt to allocate the costs of long lived assets or fixed costs, i.e. depreciation, to products or services provided. The elements of financial statements under cash accounting are “cash inflows, cash outflows and cash balances” (Sutcliffe et al 1991, p. 41). According to Churchill (1992a) cash accounting meant: “asset registers did not exist or were incomplete; debtors could not be properly reconciled to sales and cash receipts; aggregate creditor balances were unknown; departments often ‘acted differently’ in June each year” (p. 19). Until recently, cash accounting has been the system of recording of government transactions used by most countries, irrespective of their system of governance.

Cash accounting has been used by Westminster forms of government at least from the 17th century (Scullion 1993; see also Sutcliffe et al 1991, p. 21). According to the Commonwealth Joint Committee of Public Accounts (JCPA), Governments under the Westminster system have:

... historically operated on an annual cash basis because this is fundamental to democratic constitutional safeguards which have
been evolving since the days of King Charles I in England (Report 199: 1985, pp. 9-10 quoted in Sutcliffe et al 1991, pp. 43).

Churchill (1992c) states that "the Westminster system of government has effectively forced the public sector to report on a cash basis to reflect the budgeting process on cash (or 'funds') basis" (p. 39). Meanwhile, Carpenter (1986a) emphasises that "... the cash basis has been utilised in most Western democracies which have the legislature as the primary political institution" (quoted in Sutcliffe et al 1991, p. 21).

In Australia, the basic constitutional safeguard provided by cash accounting is that no moneys shall be collected or spent except in ways and amounts approved by the Parliament through budget appropriations (sections 81 and 83 of the Constitution). Thus, the Parliamentary appropriations process incorporates a primarily cash-based appropriations budget, which also has been, and remains, the major determinant of departmental accounting and reporting practice in Australia (Sutcliffe et al 1991, p. ix; see also Parker and Guthrie 1993, p. 70).

A desire to move from a cash system in the public sector can be seen early in this century. Shand (1987), commenting on the history of using cash accounting in the public sector, reported that "[t]he reputed failure of the British Army Cost Accounting experiment (1919-25) and the findings of the UK Crick Committee (1950) are often quoted in favour of the cash system" (Shand 1987, p. 3). The cost accounting experiment was the consequence of criticism of existing accounting arrangements by the influential Sir Charles Harris, Joint Secretary of the British War Office, with the support of the Comptroller and Auditor-General and some prominent members of Parliament, including the Chairman of the Public Accounts Committee, who submitted formally a memorandum, in October 1917, to a Select Committee on
Chapter 4, Objectives and Role ...

National Expenditure appointed by the House of Commons in 1917. Harris began his memorandum by pointing out that

[hirty years' experience of the actual working of the present system of external control of War Office expenditure, in peace and war, has convinced me that it fails to produce real economy (Reports of the Select Committee on National Expenditure (Sub-Committee on the Form of Public Accounts), Appendix 2; British Parliamentary Papers, 1918, Vol. iv, p. 391 quoted in Wright 1956, p. 464).

Harris suggested that administrative control in the army should be exercised through cost accounts showing the total cost incurred by each unit. He asked for “a change from accounting on a cash basis to accounting on a cost basis” (Wright 1956, p. 466). At that time a Sub-Committee of the Committee on National Expenditure, called, the Sub-Committee on the Form of Public Accounts, received a great deal of evidence favouring such a change. This included Major H. A. Young’s article on “Efficiency and Economy” in The Army Review in January, 1914, comments by Sir John Bradbury, Joint Permanent Secretary to the Treasury and by Mr S. Dannreuther, Accounting Officer of the Ministry of Munitions. Wright (1956) reported that the sub-committee asked Harris to prepare a draft showing the manner in which the Army Estimates and Accounts should be presented to Parliament (p. 466). “Eventually this draft was appended to the Seventh Report of the Committee on National Expenditure, in which the Committee recommended the early adoption of a new form of Estimates and Accounts by the War Office” (Wright 1956, p. 466). After a favourable reception by the government the changes were implemented on April 1, 1919. The new system proposed to show the full cost of every unit and establishment of the Army. To implement the changes a new corps of the Army, the Corps of Military Accountants, was introduced. During its introduction, uncertainty about the success of the new system meant that the old system of cash accounting
was allowed to carry on, exactly as before. Ultimately, using the two sets of accounts and two corps of accountants resulted in duplication of effort, high operating costs, and friction (Wright 1956, 466).

In 1922 the Secretary of State for War appointed a committee to investigate “the system of administration of, and accounting for, army expenditure, and to recommend any changes that might be desirable in the interests of economy and efficiency” (Wright 1956, pp. 466-467). The Committee report was finally issued in October 1923 and suggested amalgamation of the two systems. The Army Council accepted the Committee’s recommendation and set up a departmental committee to work out details. By the time the Committee’s report was received Sir Harris, the champion of the new system of cost accounting, had retired. Thus, difficulties in implementing the new system lead the Army Council to abandon the cost accounting system introduced in 1919, and to revert to the old form of Estimate and Account based on cash accounting (Wright 1956, p. 467). Little was to change in government accounting for the next 60 years.

4.3.1 Advantages of Cash Accounting

Cash accounting has been said to be an important method for preparing cash budgets. The function of the cash budget is to summarise the government's fiscal policies concerned with the macroeconomic management of the economy. Thus, the argument is that, irrespective of the form of governance, cash budgets will always be necessary for central governments (Mackintosh 1992). Scullion (1993) gives three reasons for the popularity of cash accounting:

- Simplicity
- Cheapness
He says that by a glance at the bank balance the financial position can be understood. Cash accounting "does not require a complicated accounting system ... therefore record keeping is relatively cheap" (Scullion 1993, p. 3). Scullion refers to the third reason as "a simple task to measure expenditure against the authority given by Parliament, so accountability for stewardship is readily established" (Scullion 1993, p. 3).

Governments need details of their cash budget receipts and payments and, like profit-seeking enterprises, need cash budget information (Robson 1987). Humphry (1992), referring to the relevance of cash accounting in the presence of accrual accounting, says that it "is not to say that cash records need be abandoned. Cash recording is an integral subset of accrual accounting. We still need to manage our cash and we need to maintain controls over expenditure" (p. 4; JCPA 1995). Information on cash accounting will be important for management purposes and for economic decision-making and will continue to be necessary to demonstrate compliance with the executive's spending mandate (Sutcliffe et al 1991, p. 45).

### 4.3.2 Criticisms of Cash Accounting

It has been argued that there are some problems with only using a cash accounting system in the public sector (Burke 1982; Robson 1987; Shand 1987; Sutcliffe et al 1991; Tisdall 1992, p. 32; Babajani 1992b; Islamia Bid Goli 1992; Scullion 1993). These problems, which mostly refer to difficulties in measuring asset costs and liabilities, have been presented as, firstly, the costs of operating programs are ambiguous and consequently the measurement of performance cannot be fully
accomplished. Secondly, there is an emergence of long-term liabilities or commitments arising from implementing some activities (Shand 1987, p. 3; see also Robson 1987, p. 9) which, using a cash accounting system, may not be adequately recorded (if at all). Scullion (1993) reinforces Shand's position and believes that cash accounting will create serious problems of cost control. He adds that even though cash accounting will tell the government what has been spent in a year it doesn't disclose the extent of commitments that the government has entered into; it doesn't tell the government what other resources have been consumed, especially those major infrastructure assets which are peculiar to the public sector; and it doesn't provide the government with information to manage its liabilities (p. 3; see also Robson 1987, p. 9). Entries in cash accounting are activated only when a cash movement occurs.

For Scullion, the most important problem with cash accounting is that it simply does not tell Parliamentarians (or the public) what are the full costs of the services which the Government is providing and “[t]he resources captured by the traditional cash approach reflect a mixture of cash operating costs and cash capital costs. There is a failure properly to distinguish capital and operating costs and an absence of a measure of the consumption of capital” (Scullion 1993, p. 3). Robson (1987) is of the opinion that the problem of measuring full costs in cash accounting will result in the incomplete reporting of activities and transactions and:

- lead to misallocation of resources;
- not adequately disclose the size of assets;
- impose burdens on future taxpayers by deferring the bringing to account of liabilities such as long service leave and employers' deferred superannuation contributions and

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3 For a detailed discussion of measuring performance see Wholey 1993.
• impose burdens on current taxpayers, by charging in full each year, the cost of assets purchased rather than capitalising such expenditure and spreading costs over their useful life to bring to account each year the cost of using the assets employed (p. 9).

It has been said that the significant problem with cash accounting is that it links receipts and payments without considering the time in which economic transactions have happened (Robson 1987). Sutcliffe et al (1991) point out that

[the cash basis is simple to apply and avoids the judgements involved in measuring and reporting many of the transactions and other events which have an impact on the financial characteristics of a department's performance. However, the cash basis will only report the full costs of providing services during the period where all costs have a cash-flow consequence during the period. Similarly, it will not report the assets (other than cash) which the department controls and which represent a capacity to provide services in the future, the liabilities which are to be settled by the department and the changes in those assets and liabilities as a result of operations during the period (p. 45).

Sutcliffe et al (1991) argue that although information on a cash accounting basis is important for management purposes, it provides information that is useful for economic decision-making purposes and also is necessary to demonstrate compliance with spending mandates, this information is only a subset of the information which is necessary for accountability purposes and informed economic decision-making by Parliaments. They add that, for example, the financial reports prepared on the basis of cash accounting prevent departments from reporting the economy and efficiency of service delivery and their performance in the management of assets and liabilities (pp. 45-46).

Thus, in summary there are at least two major problems with using only cash accounting. First, the impossibility of measuring full costs and in some cases
misallocation of resources. Second, there is the inadequacy of disclosures of assets and liabilities for both decision-making and accountability purposes. Using accrual accounting instead of cash accounting has been advocated as a solution to these problems.

4.4 ACCRUAL ACCOUNTING

In contrast to cash accounting, "[a]ccrual accounting records the full impact of transactions and events that have cash consequences ... in the periods in which the transactions and events take place, rather than in the period in which the cash is received or paid ..." (Barton 1982, p. 29 quoted in Sutcliffe 1985, p. 28). Recognition of "the financial effects of transactions and other events in the reporting period in which they occur, irrespective of whether cash has been received or paid" is the main feature of accrual accounting (Sutcliffe et al 1991, p. 41; see also Pallot 1991, p. 200; Scott and Gorringe 1989, p. 85). The economic resources (assets) and obligations (liabilities) of the entity, the cost of services (expenses) and cost recoveries and other revenues are reported by accrual accounting (Sutcliffe et al 1991, p. 41). Assets, liabilities, revenues, expenses, and equity (or net assets) are the primary elements of financial statements in accrual accounting (Sutcliffe et al 1991, p. 41; see also Parker and Guthrie 1993, p. 70).

Accrual accounting was seen as a superior method of accounting for the economic resources of any organisation by the National Council on Governmental Accounting in the USA several years ago (Robson 1987, p. 11). Robson (1987) states that using accrual accounting will result "in accounting measurements based on the substance of transactions and events rather than merely when cash is received and disbursed and thus enhances their relevance, neutrality, timeliness, completeness and
comparability” (p. 11). The next sections discuss and explore benefits and limitations of accrual accounting for the public sector.

4.4.1 Benefits of Accrual Accounting

There is general agreement that accrual accounting in the public sector has considerable advantages over a purely cash system of accounting. Shand (1987) believes that accrual accounting is fundamental for all government entities. However, he was not sure about the priority of accrual accounting in respect of the central accounts of government (p. 7). Harris and Carpenter (1990) went further and supported accrual accounting for all aspects of government activities including government as a whole (Harris 1990; Carpenter 1990). Sutcliffe et al (1991) point out that

[w]hether accrual accounting is appropriate for financial reporting by departments is dependent on whether information about the resources controlled (and changes therein) and costs of service-delivery (and cost recoveries) should be reported for accountability and economic decision-making purposes (p. 47).

They also state that

[i]t to argue that accrual accounting is not appropriate for departments is to argue that:

(i) the cost of services (and therefore efficiency of operations) is not relevant to financial report users;

(ii) the identification, control and management of economic resources is not a matter which is important to Parliaments and other financial report users; and,

(iii) the economic characteristics and consequences of particular transactions, say the acquisition of an item of capital equipment or the consumption of resources, will differ dependent on whether or not the reporting entity is a business entity (Sutcliffe et al 1991, pp. 47-48).
Mackintosh (1992) states that the benefits of accrual accounting are reflected in the usefulness of the information it produces (p. 41). The Commonwealth Department of Finance has listed the following benefits to be gained by moving to accrual accounting; it would:

- facilitate assessment of program performance by showing the \textit{full} cost of programs;
- facilitate assessment of financial position by showing all resources and obligations;
- enhance the accountability of management for their performance;
- act as a spur to better management performance;
- provide a wider range of information needed for day to day decision making;
- enable more effective use to be made of a given level of resources; and
- provide a more effective basis for decisions about such matters as user charging; identifying savings options to finance high priority objectives; and workplace bargaining (Department of Finance 1992b, pp. 2-3; see also Mackintosh 1992, p. 41; McPhee 1993, pp. 8-9; Robson 1987, pp. 9-10; Humphry 1992, p. 1; Churchill 1992a, p. 19).\textsuperscript{4}

Thus, the significant advantage or benefit of accrual accounting which is relevant to this study is that moving from cash accounting to accrual accounting will enable the 'full costs' of operations to be measured which will enhance accountability purposes in the public sector (Aiken and McCrae 1992, p. 13; Humphry 1992, p. 1; Scott and Gorringe 1989, p. 85; Robson 1987; Nobes 1988; Shand 1990a; Sutcliffe \textit{et al} 1991; Humphry 1992, p. 1; Mackintosh 1992; Scullion 1993; McPhee 1993, p. 2).

\textsuperscript{4} Emphasis in original.
In Australia the Public Sector Accounting Standards Board (PSASB) recognises that accrual accounting has widespread relevance throughout the public sector and that its adoption is consistent with the achievement of the objectives of financial reporting (Sutcliffe 1985). In referring to SAC 2, Sutcliffe et al (1991) state that disclosure of information about assets, liabilities, expenses, revenues, and equity are required in general purpose financial reports. These disclosures are necessary for economic decision-making purposes and also for accountability purposes of departments using public resources. Accrual accounting “is directed at the disclosure of such information” (Sutcliffe et al 1991, p. 46; see also Barrett 1994b, p. 2). Sutcliffe notes that the adoption of accrual accounting “enables an entity to prepare fund statements, operating or performance statements [profit and loss statements for business enterprises] and balance sheets as well as cash flow statements” (Sutcliffe 1985, p. 28). He adds that accrual accounting enables most entities to provide a more comprehensive disclosure of financial position, performance and resource flows than cash accounting. Sutcliffe also believes that the adoption of these principles will not have much effect on reporting by those entities which currently prepare financial statements using cash accounting and which do not "own" assets, incur liabilities or "accrue" revenues in any material sense (Sutcliffe 1985).

Accrual accounting provides a report of wholly held assets (whether they are being used for operations or not) and whether they are being used to the greatest advantage (Robson 1987, p. 12; see also Pallot 1991, p. 200). Harris (1990) also suggested that accrual accounting “would reduce the ill-informed, single-channelled concentration on the size of the deficit or the financing requirements as the current definition of the deficit should be known” (p. 183). Redburn (1993) believes that replacing the federal government's cash basis budgeting approach in the United States with an accrual budgeting system would improve budgeting for federal insurance programs
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(p. 228). He argues that accrual accounting records transactions when they occur which helps to assess the ongoing costs of various programs (Redburn 1993, p. 228).

The measurement and reporting, by accrual accounting techniques, of assets, liabilities and the cost of goods or services provided encourages proper accountability and asset maintenance and also results in the disclosure of the full extent of assets and liabilities (Robson 1987). In other words, without accrual accounting it is possible that assets will have no visibility. Robson (1987) strongly supports using accrual accounting when he suggests that "public sector activities should be reported to Parliament as far as possible in the same way as a private sector organisation is accountable to its shareholders" (p. 8). This is because taxpayers are similar to shareholders in that they provide resources to the organisation. Robson (1987) considers that financial statements prepared on a cash accounting or a receipts and payments basis do not always reveal the full cost of all the resources utilised by the organisation in the accounting period and "the usefulness of departmental financial accounts - which are not prepared on an accrual basis - is doubtful" (p. 10).

Scullion (1993) supports the change to accrual accounting by outlining specific benefits identifiable at four levels. First, it provides a financial framework for better economic and efficient resource management. The specific areas where accrual accounting and budgeting are of importance include: asset management and maintenance; liability management; inventory management; cash management; and costing of resources. Making effective decisions about the management of assets regarding the continuing public ownership, disposal and maintenance of those assets is strongly related to a comprehensive accounting framework. The budget sector is characterised by central management of the major categories of liabilities, namely debt and superannuation. Using accrual accounting provides information for
agencies to manage these and other liabilities such as trade creditors and long service leave. Accrual accounting helps an agency to identify the stock of goods that it maintains. It also provides the information for establishing an optimal policy that minimises the amount of working capital tied up in inventories (Scullion 1993, pp. 5-6; see also NSW Treasury 1993, pp. 19-20).

Although in the traditional public sector accounting system the prime emphasis is on cash there is still inadequate information to optimise the use of cash balances and cash flows. This system does not maintain information on accounts payable and accounts receivable. Therefore, it is possible for agencies to maintain adherence to cash budgets whilst building up substantial liabilities through increased creditors. Conversely, without information on accounts receivable it is possible for agencies to fail to optimise the flow of cash to the agency. Under accrual accounting a full resource cost can be identified for inputs including the use of capital but under cash accounting the only measure of a resource is a cash measure. It is also argued that the outputs of budget sector agencies can be costed fully by accrual accounting information. Without such information there is only incomplete material to assess whether a service should be provided by public service or an alternate service provider (Scullion 1993, pp. 5-6; see also NSW Treasury 1993, pp. 19-20).

Scullion's second level of benefits refers to accrual accounting's ability to improve accountability. Scullion (1993) believes that the narrow definition of accountability at present covers the use and application of cash. Accrual accounting and budgeting are capable of providing a financial framework which is able to assess financial management performance on a far broader basis. In terms of dimensions of accountability discussed in chapter 3, accrual accounting can provide information to assist in measuring the efficiency and effectiveness of management. In addition,
Robson (1987) argues that without introducing accrual accounting in departments, the performance indicators based on financial data will result in inaccurate decisions. On a third level, accrual accounting also facilitates improved macro or whole of budget sector financial policy and performance. ED 62 refers to this as "All of Government Reporting". Information on cash flows is not enough in itself to enable effective whole of government financial management. Accrual accounting provides an additional financial indicator, that of the level and change in the net worth of the budget sector. At the macro level the adoption of comprehensive accounting provides better guidance to strategic financial decision making. Scullion's fourth level refers to the ability of accrual accounting to provide the preconditions for a more competitive and open approach to the budget sector. Scullion (1993) says that the first three benefits apply to the traditional model of the budget sector while the fourth major benefit is relevant to alternative approaches to budget sector service provision. He concludes that although comprehensive accounting and budgeting is a necessary condition for the pursuit of increased competition and market creation in the budget sector, it is not sufficient (Scullion 1993, pp. 7-8; see also NSW Treasury 1993, pp. 19-20). Specifically

- contracting requires the public sector to evaluate private sector proposals relative to in-house provision or provision from another public sector agency. This requires an assessment of the full resource costs and hence is not possible without full financial reporting.

- application of user charges similarly needs to be based on proper product costing.

- the creation of internal markets and competition ... also requires full financial reporting (Scullion 1993, p. 8).
Ultimately the strong arguments in favour of accrual accounting convinced the Commonwealth Government to change its accounting system. Thus, as one of the results of the financial and management reforms introduced since 1983, which will be discussed in chapter 5, in 1991/92 the Commonwealth Department of Finance required all the departments to move to accrual reporting by the year ended 30 June 1995 (Department of Finance 1992c, p. 66; Department of Finance 1993, p. 20; McPhee 1993, p. 11). It is worth noting here that the effective date for the application of AAS 29, “Financial Reporting by Government Departments”, which requires government departments to prepare their financial statements using accrual accounting, is from the first reporting period that ends on or after 31 December 1996 (AAS 29 para 3). In New South Wales accrual accounting, after commencing in 1990-91, has been phased in for the budget sector (Lambert 1992, p. 9). Subsequently in NSW accounts have been produced as full accrual accounting together with a useful commentary and summary of financial results, comprising:

- operating statements;
- statement of assets and liabilities;
- program statement;
- statement of cash flows; and
- notes (Mackintosh 1992, p. 13).

Reflecting on the experiences primarily of Great Britain, and significantly for a key aim of this thesis, Nobes (1988) concludes that

Anglo-Saxon commercial accounting involving accruals-based annual financial statements is necessary for accountability, control and decision-making relating to government. ... [and] it might serve as a model for public sector accounting in the rest of the world (p. 198).

\[5\] For more see chapter 6.
4.4.2 Limitations of Accrual Accounting

Some problems have been associated with using solely accrual accounting (Jones and Pendlebury 1985; Robson 1987; Mackintosh 1992). Most importantly, Jones and Pendlebury (1985) argue that accrual accounting introduces more subjectivity into the accounts. Subjectivity here refers to the problem of “the recognition and measurement of assets and liabilities, rather than just cash, [which] requires a great deal of judgement .. and there is room for manipulation and interpretation with accrual accounting” (Mackintosh 1992, p. 25). Secondly, the relevance of accrual accounting is limited when it is linked with historic costs and during periods of rising prices. Thirdly, in comparison to cash flow accounting, accrual adjustments require a higher administrative and accounting cost. For example, Allan (1988) suggests that, accrual accounting to be implemented requires more sophisticated accounting skills of which there have been problems of supply in the past. In 1988, Allan, the Treasurer of NSW, pointed to the result of a report showing that “the demand for accountants has grown 7% a year in the past decade while the number accounting graduates has grown at below 5% a year” (p. 3). Finally, there is a problem which is related to financial control (Jones and Pendlebury 1985, p. 178). Mackintosh (1992) sees some difficulties which he believes “should not be underestimated” (p. 40) in preparing accrual accounts for the whole of government, including

- Measuring or putting a value on some government assets raises difficulties. For instance, what is the value of a national park or Parliament House?
- There are difficult conceptual questions involved in defining what are the assets and liabilities of a government. Is the ability to raise taxes an asset? Is the responsibility to pay aged pensions in the future a liability?
- When the figures are put together, what do they mean?
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- Is there a need to separate budget and non-budget sectors if you are going to accrual account?
- There is a lack of an existing information base to allow the figures to be put together. New systems will need to be implemented to put together information on the assets and liabilities which are not currently recorded in cash accounting systems (Mackintosh 1992, p. 40).

There are also problems of understandability. The public can understand a cash deficit but what does the corresponding result in accrual accounting mean. This could have political repercussions. Furthermore, Mackintosh (1992) says

> [t]wo sets of difficulties in the public sector cause problems encountered in applying full accrual accounting systems to government to be inherently much greater than those normally encountered in the business sector. Business assets are required to generate future cash flows which form the basis of their values whereas most government assets do not do so. ... Secondly, many of the markets in which governments own assets are not free and active (p. 69).

Moving governments to accrual accounting is not possible without incurring some cost and causing some pain (Mackintosh 1992).

Amidst expressions of enthusiasm for the adoption of accrual accounting in the public sector reservations have also been raised. In particular, less enthusiastic commentators refer to the significant differences between the public sector and the private sector, where accrual accounting is found in its most sophisticated form. It is said that the roles of these two sectors create inherent differences which have led to different systems of accounting. The differences are expanded in the following section.
4.5 DIFFERENCES BETWEEN COMMERCIAL AND GOVERNMENT ACCOUNTING

For some time researchers have been arguing whether public sector accounting and commercial accounting are different (Anthony 1978; Mautz 1981; Burke 1982; Hardman 1982; Goode 1984; Lapsley 1988; Douglas 1991; Douglas and Anthony 1991; Wilson 1991; Pallot 1992a). The issue has become increasingly more urgent recently with greater emphasise on managing in the public sector. The adoption of a managerial approach has led to the use of a more commercial-oriented accounting in public sector organisations. Managerialism requires assessment of performance in terms of some measurable factors and requires a full record of all transactions by the entity. Lapsley (1988) concludes that

> there are differences *between* the private and public sectors of the economy and *within* the public sector of the economy. Such differences apply to all aspects of the accounting function: the raising of finance; the decisions to spend (on revenue and capital expenditure); the basis of recording transactions and related economic events, and the assessment of the financial performance of such organisations and the means by which responsible persons are held accountable for the resources at their disposal (i.e. whether within organisations, by organisation, or indeed, entire branches of the public sector). Furthermore, there has been neither systematic academic investigation of many of these specific accounting issues, nor the construction of theories of how best to account for public expenditure, from first principles (p. 21).\(^6\)

Discussions about differences between government and commercial accounting systems have highlighted at least three aspects. First, researchers see differences between the two systems of accounting in terms of differences in practice (Burke 1982). Second, there are those who see differences in the nature of the accounting

\(^6\) Emphases in original.
systems in profit and non-profit organisations and the purpose of organisations in the
two sectors (Mautz 1981; Goode 1984; Wilson 1991; Douglas 1991). Finally, there
are researchers who argue that there are differences in terms of user needs, which
suggests that different users require different accounting systems.

Mautz (1981) discusses the differences between the two sectors in terms of preparing
a “balance sheet” and an “income statement”. He suggests that “many properties
owned by governments and considered by their citizens to be assets would not meet
the concept of asset used in business. On the contrary, they are more properly
viewed as liabilities” (Mautz 1981, pp. 53-54). He argues that in a business when the
probable cash flow of an asset reaches zero, any remaining carrying value is written
off as a loss. In government the case is different. For example, with some valuable
government properties such as a city park and memorials it is expected that
maintenance and operating costs will exceed any anticipated receipts from the
property. Thus, if the government continues to apply its commitments to keep these
facilities operational and open to the public, there are negative cash flows which are
called liabilities in business accounting, not assets. Further, it is argued that
government properties are not available to government management in the same way
that business assets are available to business management if there are circumstances
which require that some properties be converted into cash to meet business debts.
Mautz also says that the government's taxing power, which is the government's major
resource and which is expected to meet the government's obligations, is not included
in its balance sheet (Mautz 1981, pp. 54-55).

According to Mautz, the income statement in business is referred to as a reflection of
the purpose of profit-seeking in the business enterprise i.e. expenses are incurred to
earn revenues. Thus, revenues and expenses are very much related to each other
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(Mautz 1981, p. 56). He concludes that the purpose of government “is to provide a wide variety of services as economically as possible to beneficiaries who may or may not pay for the service and matching revenue with expenses reflects the market's reaction to a business while matching tax and other revenues with operating costs for a government represents no such market test” (Mautz 1981, p. 56). Wilson (1991) reinforces Mautz's idea that the generally recognised goal of companies in the private sector is the maximisation of Return on Investment (ROI) over the long term. This is not the same goal as that found in government. Instead, government exists to conduct legally mandated programs approved by the legislature in an effective and efficient manner (Wilson 1991, p. 97). Despite these differences, Robson (1987) believes that the lack of motivation in making profit in the public sector is not sufficient to call for different accounting treatments (p. 19).

User needs is another area of differences between cash and accrual accounting systems which has been referred to by some researchers. The first comprehensive study of government accounting and the applicability of private sector practices was conducted by Anthony in 1978 in order to provide the basis of accounting for nonbusiness organisations. As a result of his study he concluded that “there was nothing inherently different in accounting for business and nonbusiness organisations” (Jones 1992, pp. 252-253). FASB in its fourth statement of financial accounting concepts adopted the essence of Anthony's study. Consequently, FASB concluded that there was no need for an independent conceptual framework for any one group of entities and that the two sets of objectives that it had identified (for business and nonbusiness) would become part of an integrated conceptual framework for all entities (Jones 1992, p. 253). Two other studies were quickly conducted in 1980 and 1981 after Anthony's study, both commissioned by the NCGA in the United States. The first one by Holder (1980) concluded that “the commercial model
is the most appropriate one for governmental units because the user group with the most intense interest in accounting information and the least command over what is produced, is investors” (in Jones 1992, p. 254). Douglas and Anthony (1991) supported the conclusion of Holder's study and suggested that using the business model is easier for statement users to understand. They also emphasised that the business model will help the users to evaluate the whole entity instead of just its separate activities (p. 28). Douglas and Anthony (1991) were of the opinion that if the way in which fixed assets, and the related debt, are accounted for could be changed, the government model could be made entirely consistent with the business model (p. 32). The second study, which is referred to as the Drebin et al' study (1981), offered that government accounting is of necessity quite different from accounting systems used in business. It was this study which proved most influential on the deliberations of the NCGA when it developed its conceptual framework for public sector accounting (in Jones 1992, p. 254). Jones (1992) represented the reasons that caused the Drebin et al' study to reach a different conclusion from the Anthony and Holder's studies as:

Anthony's five users become ten [in Drebin et al]; his four user needs become twenty-two [in Drebin et al]; in Anthony, the relationship between the organisation and its financial information users is abstract whereas in Drebin et al. a complex flow chart is needed to show it (Jones 1992, p. 254).

The position taken in Australia with regard to the appropriateness of private sector accounting is addressed in chapter 5.

Assets, the recording of depreciation and liabilities have presented the most significant problems in applying accrual accounting to the public sector. These issues will be referred to in the next section.
4.6 ISSUES IN PUBLIC SECTOR ACCOUNTING

4.6.1 Assets and Depreciation

The definition, evaluation, recording, keeping and depreciation of long-lived or fixed assets has been a long standing controversial issue in public sector accounting, and has also been used to emphasise the differences between government and commercial accounting. Public sector long-lived assets include houses, schools, town halls, roads, sewers, dams, water-mains and sewage treatment works, hospitals, docks, airports, steel mills, coal mines, and railway lines and rolling stock (Perrin 1984, p. 61). Prior to the early eighties the concept of assets in the public sector was discussed little, mainly because government accounting was predominantly cash based and did not require the recognition of assets (Pallot 1992b). Pallot (1992b) has presented a number of reasons that have brought assets to the forefront of public policy discussion in recent years, including as a response to “[d]issatisfaction with cash accounting, a desire to increase managerial awareness of resources in times of fiscal restraint, concern over the deterioration of infrastructure ... and debate over the sale of governmental assets under ‘privatization’” (Pallot 1992b, p. 41).

Assets are defined by the Statement of Accounting Concepts (SAC) No. 4, Definition and Recognition of the Elements of Financial Statements, as possessing “service potential or future economic benefits controlled by the entity as a result of past transactions or other past events” (SAC 4, para 14). And, according to SAC 4 “[f]uture economic benefits” or service potential is the essence of assets” (SAC 4, para 18). This definition has been accepted by Australian Accounting Standard AAS

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7 For a more detailed discussion of “the definition and recognition of assets”, see Miller and Islam 1988.
27, *Financial Reporting by Local Governments*, and Australian Accounting Standard AAS 29, *Financial Reporting by Government Departments* (AAS 27, para 12; AAS 29, para 8). In addition, the same criteria have been established by AAS 29 and AAS 27 for the recognition of an asset of a government department or local government. The definition of an asset used in SAC 4 is composed of two elements. Firstly, "it is probable that the service potential or future economic benefits embodied in the asset will eventuate". Secondly "the asset possesses a cost or other value that can be measured reliably" (AAS 29, para 53; AAS 27, para 33). Consistent with the definitions in AAS 27 and AAS 29 the New South Wales (NSW) Treasury also classifies an item as an asset of a department if:

1. it has service potential or future economic benefits
2. the department controls the service potential or future economic benefits, and
3. the transaction or other event giving rise to the department's control over the service potential or future economic benefits has occurred (NSW Treasury 1991, p. 36; see also NSW Treasury 1989).

The definitions of assets included in Australian accounting pronouncements reflect the earlier work of the FASB in America. Assets are defined for profit-seeking enterprises by the FASB as "probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events" (FASB No. 3, December 1980, p. 19). The need for past exchanges created concerns about using this concept for non-profit organisations.

It is argued that the conceptions of control and the entity's ability to restrict access to the service potential or economic benefits derived from the asset provided in the definition of public sector assets are often different from those provided in the private sector. In a business enterprise, control over the service potential derived
from an asset is constantly obtained by restricting access to end products to those willing to pay for them. In the public sector, non-commercial public sector reporting entities are often unable to restrict individual access to the use of the service potential derived from an asset, eg roads, railroads, hospitals and other government buildings (NSW Treasury 1990, pp. 6-7).

Patten and Wambsganss (1991) have been critical of the FASB's reliance upon private sector conceptions of assets to define public sector assets. They believe that FASB "with its roots in the traditional business world, apparently does not recognize that fixed assets in the nonprofit arena differ from those of profit-driven organizations" (Patten and Wambsganss 1991, p. 46). They support Mautz's notion (1989) that

\[ \text{the fundamental difference \ldots is that whereas fixed assets for profit-oriented businesses exist to help produce cash inflows (revenues), fixed assets for nonprofits exist to allow the organizations to provide services. Nonprofit fixed assets are not, as a general rule, revenue producing, but in contrast are cash drains (Patten and Wambsganss 1991, p. 46).} \]

They also believe that

the objectives of financial reporting for nonprofit organizations support the use of some measure of accounting that identifies the productive status of the fixed assets belonging to the organization. Second, depreciation is not the appropriate measure (Patten and Wambsganss 1991, p. 46).

Patten and Wambsganss (1991) suggest that not-for-profit organisations should be reporting deferred capital maintenance instead of depreciation of assets. They argue that
Deferred capital maintenance represents the estimated charge for maintenance and rehabilitation costs needed to keep fixed assets operational that are put off or deferred to a future period. Similar to accumulated depreciation, it should be reported with the fixed assets as a contra account. However, we also believe that when costs that had been previously deferred are incurred, the deferred capital maintenance account should be correspondingly decreased. Because we believe the deferred capital maintenance amount should be reported with the fixed assets, the logical place to account for it would be in the General Fixed Asset Account Group (Patten and Wambsganss 1991, p. 46).

Assets in the public sector have been categorised as: infrastructure assets such as roads, bridges, railroads, sewerage systems; operatory assets such as computers, scientific and office equipment; and heritage assets such as museums and monuments. A similar classification of public sector fixed assets has been provided by McBride and Peirson in the Australian CPA's *Communique No. 66* where they identify infrastructure assets, such as roads and railway systems; heritage assets, such as historical buildings and monuments; and community assets, such as parks and recreation reserves (McBride and Peirson 1996; see also Pallot 1990).

In Australia, the depreciation of government department assets is recognised by Accounting Standard AAS 4 which requires the disclosure of information in relation to the depreciation of non-current assets in general purpose financial reports. According to this standard “[t]he depreciable amount of a depreciable asset shall be progressively recognised in the profit and loss or other operating statement by means of depreciation expenses” (AAS 4, para 13). AAS 4 is applicable to “each private sector reporting entity; each public sector reporting entity employing any accrual basis of accounting; and each other public sector reporting entity, to the extent practicable” (AAS 4, para 3). This standard is not applicable to the non-current
assets that are: “forests, livestock or similar regenerative natural resources; or investment properties” (AAS 4, para 3). This is because, according to para 6 of that standard, these assets are not depreciable assets (AAS 4, para 6).

Douglas and Anthony (1991) say that “[a]lthough GASB currently does not plan to include depreciation as an operating expense, government units will be allowed to show accumulated depreciation as a deduction from capital assets in whatever fund/account group configuration is adopted” (Douglas and Anthony 1991, pp. 31-32). They add that in the GASB model “depreciation” is not recorded “as an operating expense. It records the payment of debt service principal as a reduction of a liability with no net effect on the organisation’s equity as reflected in the total of its fund balances. Consequently, the cost of the asset is now recognized as an expense, and hence as a decrease in equity (i.e., "fund balance")” (Douglas and Anthony 1991, p. 32).

In the United States, FASB Statement No. 93 establishes standards of financial accounting and reporting for not-for-profit entities. This Statement requires all not-for-profit organisations to recognise the cost of using up long-lived tangible assets as depreciation in general purpose external financial statements and to disclose:

a. Depreciation expense for the period
b. Balances of major classes of depreciable assets, by nature or function, at the balance sheet date
c. Accumulated depreciation, either by major classes of depreciable assets or in total, at the balance sheet date
d. A general description of the method or methods used in computing depreciation for major classes of depreciable assets (FASB No. 93, paras 2 and 5, 1987).

Paragraph 6 of the same statement says that there is no need for depreciation recognition “on individual works of art or historical treasures whose economic
benefit or service potential is used up so slowly that their estimated useful lives are extraordinarily long" (FASB No. 93, 1987). It continues that

[a] work of art or historical treasure shall be deemed to have that characteristic only if verifiable evidence exists demonstrating that (a) the asset individually has cultural, aesthetic, or historical value that is worth preserving perpetually and (b) the holder has the technological and financial ability to protect and preserve essentially undiminished the service potential of the asset and is doing that (FASB No. 93, para 6, 1987; see also Pallot 1990).

Recording and valuation of heritage assets is one of the most controversial issues in dealing with public sector assets. Heritage assets have been defined by the NSW Treasury as “those non-current assets that a government intends to preserve indefinitely because of their unique historical, cultural or environmental attributes” (NSW Treasury 1989, p. 6). According to the Treasury's "Accounting Guidelines for Reporting Physical Assets in the Budget Sector", a common feature of heritage assets is that they cannot be replaced (NSW Treasury 1989, p. 6). The Commonwealth Department of Finance guidelines for “Financial Statements of Departments” and guidelines for “Financial Statements of Commonwealth Authorities” require heritage assets to be valued at “current replacement cost of the service potential utilised by the entity if the service potential would otherwise be acquired by the entity” (Department of Finance 1995b, p. 49; Department of Finance 1995c, p. 59). The guidelines suggest that where service potential would not be replaced if the entity was deprived of the asset the greater of NPV and current market value (selling price) should be used for valuation of heritage assets (Department of Finance 1995b, p. 49; Department of Finance 1995c, p. 59). In contrast, according to the NSW Treasury “[h]eritage assets are to be shown, for identification purposes, at nominal value of $1 on [sic] balance sheet of the reporting entity, with appropriate notes to the financial statements” (NSW Treasury 1989, p. 1). The reasons which has been given by the
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NSW Treasury for this valuation are: the absence of a realistic market for the heritage assets; ambiguity in recognising which valuation principles should be applied for evaluating heritage assets; inability of non-commercial public sector reporting entities to put a restriction on individual access to the use of the service potential derived from the heritage assets; the problem of assigning meaningful values to the heritage assets; and finally the problem of seeing those assets as the Government's representation to the people of the State and at the same time putting these assets on the balance sheet of a particular entity at replacement cost (NSW Treasury 1989, p. 9). The NSW Treasury suggests four methods of valuation for assets other than heritage assets and those with mixed attributes (heritage and non-heritage): market valuation (including expert appraisal), written down reproduction cost, written down replacement cost and net realisable value/net cash inflow (NSW Treasury 1989, pp. 10-11).

Apart from problems of measurement, there is also a concern about the applicability to heritage assets of the definition of assets expressed in SAC 4. Burritt et al (1994) recommend the use of alternative dimensions in the definition which would be more appropriate to heritage assets. They suggest the following dimensions:

- preservation
- protection, through non-degradation. - an 'existence' value
- a multi-generational view of asset lifespan
- a custodial view of ownership rather than 'service potential' based on exploitation
- a non-market based evaluation of 'service potential'. - the 'service' is a consequence of cultural, aesthetic, and personal factors
- a multi-faceted asset which cannot be defined in a 'general' sense eg. mining potential, real estate potential, aesthetic potential, cultural potential (Burritt et al 1994, pp. 12-13; see also Burritt et al 1996, pp. 26-27; Rowles 1991).
In light of recognition and measurement difficulties for some categories of public sector assets, Rowles (1991) warns that “[b]ecause infrastructure and heritage assets consume large amounts of any community’s scarce resources ... the consequences of incorrect accounting practices may be significant” (p. 48).

4.6.2 Liabilities and Commitments

Liabilities, particularly their measurement and reporting, have always been a major concern of government accounting systems. Like long-lived assets, another problem in public sector accounting lies in the recording and reporting of liabilities and commitments. SAC 4 defines liabilities as “the future sacrifices of economic benefits that the entity is presently obliged to make to other entities as a result of past transactions or other past events” (SAC 4, para 48). This definition is based on the research of Kerr, “The Definition and Recognition of Liabilities”, who defined liabilities as “the future sacrifice of economic benefits that an entity may be required to make in satisfaction of a present obligation to transfer assets or provide services to other entities as a result of past transactions or events.” (Kerr 1984, p. 25). A similar definition of liabilities is found in FASB Statement of Financial Accounting Concepts No. 3, “Elements of Financial Statements of Business Enterprises” (para 28 quoted in Kerr 1984, p. 14).

Almost the same definition, as provided by SAC 4, has been accepted by Australian Accounting Standard AAS 27, Financial Reporting by Local Governments, and Australian Accounting Standard AAS 29, Financial Reporting by Government Departments (AAS 27, para 46; AAS 29, para 72). In addition two criteria have been established by AAS 29 and AAS 27 for the recognition of a liability of a government department or a local government. Firstly, “it is probable that the future sacrifice of
service potential or future economic benefits will be required”. Secondly “the amount of the liability can be measured reliably” (AAS 29, para 72; AAS 27, para 46). The Guidelines on Financial Statements of Departments require Commonwealth Departments to prepare and include “a Statement of Assets and Liabilities” as part of their annual reports for the reporting period ended 30 June 1995 (Department of Finance 1995b).

Most governments' commitment for paying the retirement of current and former employees is a major long term liability of governments. This commitment normally appeared under the current year's budget and no recognition was made for the future or long term commitments that would have to be made (Leonard 1985, p. 125). It was argued that this treatment was required because there is a degree of uncertainty about the ability of current officials to commit future generations to pay for services enjoyed now.

The difference between financial commitments of public sector entities and private sector organisations is that the former entities, typically, have been given a guarantee by governments (Sutcliffe 1985, p. 44). According to Sutcliffe (1985)

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\text{[i]he ability of a public sector entity to meet its debts as they fall due therefore depends on the government's ability to raise revenues from taxes, user charges or other sources. In such circumstances, the disclosure of information on the liquidity and solvency of a public sector entity will be required by creditors and other users for such purposes as: predicting the likely timing of payments; the funds required to continue the provision of services; and, the impact such funding will have on taxes, rates, interest rates or user charges (pp. 44-45).}
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Mautz (1981) argues that
Liabilities are typically incurred to obtain assets that will then be used productively in the operations of the enterprise. Through such operations the assets are intended to produce positive cash flows which, over time, permit repayment of the liabilities. In one sense, then, the liabilities in a going business enterprise are incurred on a self-liquidating basis. Not so in government. Liabilities are incurred to acquire properties that in turn add to the unit's obligations to make cash payments in the future. There is little that is self-liquidating in the flotation of a bond issue to build a bridge or a new courthouse (p. 55).

At the close of the financial year recording decisions about assets and liabilities will be reflected in the financial reports of government agencies which are meant to contribute to their accountability, primarily to Parliament. The next section addresses the purpose and importance of financial reporting in the public sector.

4.7 FINANCIAL REPORTING IN THE PUBLIC SECTOR

Financial reporting in the public sector has been seen as a significant feature and a key element in the accountability process of public sector organisations (Sherer and Kent 1983, p. 184; Henley et al 1992, p. 10). So important is financial reporting in the public sector that Egoł (1988) believes that "[w]ithout sound financial reporting by nation-states, it is highly questionable whether a sound global economy can ever be achieved" (p. 183). Two objectives for financial reporting by public sector entities in Australian Statement of Accounting Concepts (SAC 1), "Objectives of Financial Reporting by Public Sector Entities", are: firstly, to disclose useful information for making economic decisions (including those relating public policy matters) and secondly, to satisfy accountability (Sutcliffe 1985, p. 40; Walker 1990a, p. 252). This reflects the Governmental Accounting Standards Board's Concepts Statement No. 1, Objectives of Financial Reporting, which establishes objectives of
external financial reporting by state and local governmental entities in the United States of America. This statement sees financial reporting as

a means of communicating financial information to users. It encompasses all reports that contain financial information based on data generally found in financial statements. Financial reports and financial statements are end products of the reporting process. Certain information is better provided by financial statements: other information is better provided, or can only be provided, by financial reporting outside the financial statements. But financial reporting is not the only source of financial information about government entities. In many cases, users of financial reports also need to consult other sources to completely satisfy their information needs (GASB No. 1, para 4, 1987; see also Patton 1992).

The GASB also sees financial statements as the core of financial reporting and as the principle means of communicating financial information to external users (GASB No. 1, para 6, 1987). According to paragraph 10 of GASB No. 1, Governmental activities have traditionally been divided into two categories—governmental-type activities and business-type activities. The first category is performed by general purpose governmental entities such as states, cities, counties, towns, and villages, as well as certain special purpose governmental entities. For the second it says that "Governmental entities perform business-type activities both through departments of general purpose governmental entities and through special purpose governmental entities created to perform these activities" (GASB No. 1, para 10, 1987). The GASB Concepts Statement No. 1, Objectives of Financial Reporting, is applicable to government activities which are included in both categories of activities (GASB No. 1, para 11, 1987).

The GASB in Concepts Statement No. 1 argues that financial reporting is intended to provide information useful for many purposes. It says that financial reporting helps:
(1) government to fulfil it’s duty to be publicly accountable; and (2) to satisfy the needs of users. In terms of users' needs the purpose of financial reporting is to help people who have limited authority, ability, or resources to obtain information and who therefore rely on the reports as an important source of information (GASB No. 1, para 1 and 3, 1987; see also Patton 1992).

According to FASB Statement of Financial Accounting Standards No. 117, Financial Statements of Not-for-Profit Organizations, “[t]he primary purpose of financial statements is to provide relevant information to meet the common interests of donors, members, creditors, and others who provide resources to not-for-profit organizations” (FASB No. 117, para 4, 1993). This FASB standard also establishes that the purpose of financial statements, including accompanying notes, is to provide information about:

a. The amount and nature of an organization’s assets, liabilities, and net assets
b. The effects of transactions and other events and circumstances that change the amount and nature of net assets
c. The amount and kinds of inflows and outflows of economic resources during a period and the relation between the inflows and outflows
d. How an organization obtains and spends cash, its borrowing and repayment of borrowing, and other factors that may affect its liquidity
e. The service efforts of an organization (FASB No. 117, para 5, 1993).

This information, noted above, can only be disclosed through using accrual accounting. FASB has recognised that the following statements with accompanying

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8 “This Statement shall be effective for annual financial statements issued for fiscal years beginning after December 15, 1994, except for organizations with less than $5 million in total assets and less than $1 million in annual reporting. For those organizations, the effective date shall be for fiscal year beginning after December 15, 1995” (FASB No. 117, para 31, 1993).
notes to financial statements are necessary to provide a complete set of financial statements for a not-for-profit organisation:

- a statement of financial position as of the end of the reporting period;
- a statement of activities;
- a statement of cash flows for the reporting period (FASB No. 117, para 6, 1993).

In Australia, one of the results of Sutcliffe's study in 1985 called "Financial Reporting in the Public Sector-A Framework for Analysis and Identification of Issues", was the Statement of Accounting Concepts No. 2 “Objectives of General Purpose Financial Reporting”. The purpose of Sutcliffe's study was to:

(i) identify a general framework within which Statements of Accounting Standards for the public sector can be developed in a logical and consistent manner; and,
(ii) highlight issues of relevance to public sector financial reporting that should be resolved within the context of that framework (Sutcliffe 1985, p. vii).

Sutcliffe (1985) reported that although the financial reports of public sector entities may be used by management, government departments, central agencies and other interested parties, these reports are prepared primarily for parliament as the custodians of community interest. According to him, the public sector entities' general purpose financial reports should disclose information needs for the following groups:

(i) recipients of services (or benefits) or their representatives (including consumers, taxpayers, rate-payers and their representatives);

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9 This will be discussed in detail in chapter 6.
(ii) providers of resources, or their representatives (including creditors, investors, customers, taxpayers, rate-payers, parliament, local government councils, central agencies, review bodies, donors and their representatives); and,

(iii) other parties performing a review service of relevance to all, or particular, sections of the community (including analysts, media, special interest community groups and their representatives) (Sutcliffe 1985, p. 15).

Each of these is reflected in the clauses of SAC 2 (paras 12-19). Sutcliffe (1985) argues that the objectives of general purpose financial reporting in the public sector are to disclose financial information which is:

(i) useful in making economic decisions (including those relating to matters of public policy); and,

(ii) for accountability purposes (p. 47).

SAC 2, noted above as one of the results of Sutcliffe's study, covers general purpose financial reporting by business and non-business entities in the public and private sectors (SAC 2, para 9). SAC 2 requires entities to include in their general purpose financial reports the disclosure of information relevant to the assessment of performance, financial position, and financing and investing and information about compliance (SAC 2, para 45).

To meet these requirements, Australian Department of Finance issued Guidelines for Commonwealth Departments and Statutory Authorities which will be discussed in detail in chapter 6.

FASB Statement No. 117 also affirms that the focus of the statement of financial position shall be on the organisation as a whole and shall report the amounts of its
total assets, liabilities, and net assets (FASB No. 117, para 10, 1993). The FASB Statement establishes further that

> [t]he primary purpose of a statement of activities is to provide relevant information about (a) the effects of transactions and other events and circumstances that change the amount and nature of net assets, (b) the relationships of those transactions and other events and circumstances to each other, and (c) how the organization's resources are used in providing various programs or services. The information provided in a statement of activities, used with related disclosures and information in the other financial statements, helps donors, creditors, and others to (1) evaluate the organization's performance during a period, (2) assess an organization's service efforts and its ability to continue to provide services, and (3) assess how an organization's managers have discharged their stewardship responsibilities and other aspects of their performance (FASB No. 117, para 17, 1993).

Jones (1992) argues that Trueblood in Chapter 11 of *Objectives of Financial Statements*, offers twelve objectives of which objective 11 relates specifically to not-for-profit business entities:

> [a]n objective of financial statements for governmental and not-for-profit organisations is to provide information useful for evaluating the effectiveness of the management of resources in achieving the organisation's goals. Performance measures should be quantified in terms of identified goals (p. 251).

To the majority of Western democracies the merits of accrual accounting have been very persuasive in bringing about accounting reforms. The process of the introduction of accrual accounting in Australia will be discussed in chapter 6.
4.8 SUMMARY AND CONCLUSION

This chapter explored the importance of accounting systems as one of the means of implementing the concepts of accountability and responsibility in the public sector. It discussed the application of a different basis of accounting in the public sector with more emphasis on accrual accounting. The benefits and limitations of the two popular bases, accrual and cash, were also discussed. It was shown that some researchers preferred using the cash and accrual basis of accounting simultaneously (Robson 1987; Shand 1987; Carpenter 1990; Mackintosh 1992; see also JCPA 1995), seeing them as parts of a comprehensive accounting information system (Mackintosh 1992). For example, Mackintosh (1992) says that cash flow reports must be seen as a subset of the financial reports which can be produced under a full accrual accounting system (Mackintosh 1992). Shand (1987) is of the opinion that

Both cash based and accrual information are required, but for different purposes: one to tell us something about accountability to parliament for funds received, and the other to tell us something about performance and financial position, and perhaps cost recovery for economic decision making. This move to accrual accounting was designed to enhance the external accountability of these organisations (p. 2; see also McPhee 1993, p. 2).10

Churchill (1992c) agrees that, "[i]n a perfect world, public sector organisations would be able to generate financial statements prepared on both a cash and an accruals basis to aid budgetary comparisons and to facilitate asset valuation and project evaluation" (p. 42).

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10 Emphases in original.
Efforts made to develop standard setting in public sector accounting have until recently been unheeded by governments and professional bodies. Some work has been done in standards setting but it needs the participation of most national governments. Since the 1980s some countries such as Australia, Britain, and New Zealand have been involved in public sector reforms and have introduced new management and financial techniques for accountability and reporting purposes.

As a consequence of these reforms, the new concept of "managerialism" or "let the managers manage" has been introduced to the public sector during the 1980s. Obviously, using the managerialism concept requires performance assessment for accountability purposes in terms of some measurable factors and needs the full recording of all transactions performed by the entity. Reforms in public sector financial management during the past decade in Australia, and other Western nations, have required the introduction of accrual accounting at all levels, whether departments, statutory authorities or companies. Without accrual accounting, moves to make the public sector more efficient and accountable for its performance would not have been possible. With the successful implementation of accrual accounting in developed nations, attention can now be turned to reforming public sector accounting in developing nations.

A description of the form of financial control and management in the Islamic Republic of Iran is the subject of the next chapter. This will complete the examination of the structure of control in Iran commenced in chapter 2. It will also demonstrate the interrelationship which has developed in practice between the structure of financial control, entrenched interpretations of accountability and accounting practices. This will provide the basis on which to adjudicate on the relevance to Iran of recent public sector reforms in the Australian Commonwealth
Government, with the emphasis on accounting reforms and to make a list of recommendations for improving the accounting systems in Iran in chapter 7.
CHAPTER 5

THE FINANCIAL CONTROL AND ACCOUNTING SYSTEM OF THE ISLAMIC REPUBLIC OF IRAN

5.1 INTRODUCTION

To understand the existing budgeting and accounting systems and practices of the Iranian Government and to identify the users and the kinds of financial information they need, the structure of the Iranian Government was explained in chapter 2 while chapter 3 examined the notion of accountability and the role of accounting in ensuring financial accountability. Chapter 4 provided a discussion of different systems of government accounting, including cash and accrual accounting. This chapter will be devoted to the explanation and consideration of the characteristics and the weaknesses of the existing budgeting and accounting practices of the Islamic Republic of Iran. This will lead to a consideration of the relevancy of Australian accounting reforms to help meet these deficiencies and thereby assist in improving accountability, efficiency and effectiveness.
In the public sector fiscal administration refers to the financial management and accountability of a government and normally includes the preparation of the budget, the collection of various revenues, the custody of public funds, the disbursement of government funds, keeping of accounts, rendering of financial reports, auditing and scrutinising of financial reports, and preparing the annual settlement in some cases. Every activity of the government in rendering services to the public has financial consequences. Therefore, finance and government are inseparable. The scope of activities and operations of a government is often limited by its ability to raise funds to finance a country's activities and operations. With the growth of activities, and accordingly the increase of expenditures of any modern government, effective financial management and accountability in the conduct of government affairs are assuming increasing importance.

Within a government, especially in developing countries, revenues are frequently limited and often smaller than expenditure demands. Therefore, careful budgetary planning and control are essential to the efficient utilisation of the available resources in providing required public services. In this environment, the accounting system must support the entire cycle of government financial management and operations, from the earliest planning stages through programming, budgeting, implementing, reporting, and controlling. It must meet both the management needs for program information and the executive and legislative needs for information with which to review and approve programs. In addition, it must also provide the accounting control of expenditures to ensure compliance with legal provisions and budget restrictions.
5.2 BUDGETING SYSTEM IN THE ISLAMIC REPUBLIC OF IRAN

5.2.1 Government Budgeting -- Its Rationale and Significance

One of the essential features of any government is the task that it performs in the generation and expenditure of public funds. A government must annually expend to provide necessary public services, such as national security, education, health, transportation, and communication (some governments). To finance these activities, the government must generate funds by taxation or by some other means. It is on the basis of a "budget system" that the government forecasts, allocates, and controls its revenues and expenditures.

In the Islamic Republic of Iran, after the Five Year Economic, Social and Cultural Development Plan, the country's annual budget is the basic planning document of public finance. The country's annual budget reflects the government's policy, and determines the direction and scope of its activities. The Budget Bill is designed to assist both the executive and the legislative branches in determining the best set of programs to be adopted, and the method of achieving the optimum level of efficiency in government operations.

According to Article 52 of the Iranian Constitution, the country's annual budget is drawn up by the government, in the manner specified by law², and then submitted to the Islamic Consultative Assembly for discussion and approval. This Article also

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¹ The term "general government sector" that was introduced in chapter 1, in the Iranian context for the purpose of this study refers to government departments and ministries which will be categorised in section 5.2.3.1 as local government institutions and national institutions.

² This law normally refers to the Country's General Law of Accounts, the Country's Law of Plan and Budget, the Government's Circulars, etc.
provides that any change in the figures contained in the budget should be in accordance with the procedures prescribed by law (Article 52).

In the Islamic Republic of Iran, the significance of the government's annual budget has recently been accentuated by the government's effort to accelerate economic development in order to build the economy's infrastructures and to improve the standard of living of the Iranian people. Since 1988, after the Islamic Revolution in 1979, the Government has used medium term plans in preparing its budget by introducing a series of Five Year Economic, Social and Cultural Development Plans. The First Five Year Development Plan, was prepared by the Prime Minister, Mir Hossein Mussavi, and approved by the Islamic Consultative Assembly in January 1990, covering the fiscal years 1989/1990 to 1993/1994. This Plan represented a significant development program for the whole economy, but especially for the government sector. The program was to be implemented in successive annual development budgets. Thus, before proceeding to a consideration of the budgetary process of the Iranian Government in the rest of this chapter, it is appropriate to discuss in the next section the relationship between the Development Plan and the annual budget.

5.2.2 Relationship Between the Five Year Economic, Social and Cultural Development Plans and the Annual Budget

The end of the war imposed by Iraq on Iran in 1988 signalled the beginning of a new era in the development of the Iranian economy. The First Plan introduced the Government's purposes for the reconstruction of the economy and provided an

3 Iran had Five-Year Plans also before the Islamic Revolution in 1979.
important framework within which the government's reform and liberalisation policies could be implemented for the fiscal years covered by the plan. The First Plan was implemented on behalf of the newly elected government in 1989 by President Rafsanjani.

The primary aims of the First Plan were: to regenerate the economy; the reconstruction of war-damaged regions; to advance public culture and education; to increase economic growth in order to decrease dependence on other countries, with priority given to agricultural products; controlling inflation; efforts to achieve Islamic social justice and reform of the structure and the management of the executive and legislature.

Liberalisation of the economy and, accordingly, privatisation have been emphasised throughout the First Plan in its different sections. It has included almost all sectors of the Iranian economy. Before explaining these changes and their impacts on sections of the economy a brief account of the structure of the Iranian economic sectors is referred to here. According to Article 43 of the Iranian Constitution the economy of the Islamic Republic of Iran has the objectives of achieving national economic independence, uprooting poverty and deprivation, and fulfilling the needs of individuals in their process of growth and advancement, while at same time preserving their liberty. Therefore, the economy is to be operated on the following criteria:

a. the provision of basic necessities to all citizens: accommodation, food, clothing, health care, medicine, education, and the necessary facilities for the establishment of a family;

b. assuring conditions and opportunities of employment for everyone, with a view to attaining full employment; placing the means of labor at the disposal of everyone who is able to work but lacks the means, in the form of cooperatives, through
granting interest-free loans or recourse to any other legitimate means that neither results in the concentration of wealth in the hands of a few individuals or its circulation among them nor turns the government into a major absolute employer. These steps must be taken with due regard for the necessities determining public planning of the national economy at each stage of its growth;

c. the drawing up of the economic plan for country in such a manner that the form, content, and hours of work of every individual will leave him, in addition to his labor, sufficient opportunity and strength to engage in intellectual, political, and social self-development, active participation in the leadership of the country, and the improvement of his skills and sense of initiative;

d. respect for the right to choose freely one's job; refraining from compelling anyone to engage in a particular job; and preventing the exploitation of another's labor;

e. forbidding the infliction of harm ... upon others, monopoly, hoarding, usury, and other evil and forbidden practices;

f. the prohibition of extravagance and wastefulness in all matters related to the economy, including consumption, investment, production, distribution, and services;

g. the utilization of science and technology, and the training of skilled individuals in accordance with ... [the needs of] ... development and progress of the country's economy;

h. prevention of foreign economic domination over the country's economy;

i. emphasis on the increase of agricultural, livestock, and industrial production in order to satisfy public needs and to make the country self-sufficient and independence [sic] (Article 43, translated by Algar 1980, pp. 43-44).

To implement these objectives, Article 44 of the Iranian Constitution establishes that the economy of the Islamic Republic of Iran consists of three sectors: state, cooperative, and private. According to this article, the state sector includes all large-scale and 'mother' industries, foreign trade, major minerals, banking, insurance, power generation, dams and large-scale irrigation networks, radio and television,
post, telegraph and telephone services, aviation, shipping, roads, railroads and the like. All of these are publicly owned and administered by the State (Article 44).

The cooperative sector includes cooperative companies and enterprises concerned with production and distribution, in urban and rural areas, in accordance with Islamic criteria. The private sector consists of those activities concerned with agriculture, animal husbandry, industry, trade, and services that supplement the economic activities of the state and cooperative sectors. The laws of the Islamic Republic protect ownership in each of these three sectors, in so far as this ownership is in conformity with the other articles of chapter 4 of the Iranian Constitution, "Economy and Financial Affairs", does not go beyond the bounds of Islamic law, contributes to economic growth and progress of the country and does not harm society. Article 44 adds that laws shall specify the [precise] scope of each of these sectors, as well as the regulations and conditions governing their operation (Article 44). Architects of the First Plan claimed that they attempted to establish a plan according to these requirements of the Constitution. The First Plan provided many changes for different sections of the Iranian society. Some of these changes relevant to this study are discussed below.

The significant changes introduced in the First Plan were part of section 4-37 and sections 8-1 to 8-3 of the strategies of the First Plan which give the State authority to privatise government industries which were nationalised during the Revolution in 1979. Accordingly, the Board of Ministers in their meetings on 24/4/1991 and 5/5/1991 approved the privatisation of some government business entities and companies and nationalised companies. They approved the privatisation of 391 government business entities and companies in the first stage of privatisation. The government also established a committee to consider suggestions for privatisation of
other government business entities, which might be made by government institutions to the committee, and asked the committee to consider those suggestions and report to the Board of Ministers for the final decision. Section 8-2 also introduces a suggestion for the centralisation of the structure of government.

In section 3 of the First Plan, "Budget and the State Finance Situation", which provides a macroeconomic perspective of the Plan, the general purposes of the First Plan are stated as:

1. Rationalisation of the structure of government in accordance with its regulatory duties and fiscal resources.
2. Establishing balance between receipts and payments of the general government budget.
3. Increasing government revenues by using existing capacities and facilities more efficiently.
4. Encouraging the people to contribute to the financing of public service expenditure.
5. Improving the taxation system in order to distribute revenue and wealth more equitably.

The government's fundamental policies in the Budget and the State Finance Situation of the First Plan consist of a reduction in the level of the government expenditure in education, reducing subsidies to loss making government business entities and institutions, reducing the expenses of profit making government institutions, the progressive decrease in the number of employees of the public sector and revision in the price of public service activities and products (The First Economic, Social and Cultural Development Plan Act 1990, p. 499). Unfortunately, in the First Plan little

5 Translated by the author.
attention was given to changing the form of public sector financial accountability and accounting procedures. After the completion of the First Plan there was a one year delay before the Second Five-Year Plan covering the period 1994/1995-1998/99 was approved by the Islamic Consultative Assembly in December 1994. It was started in March 1995. One of the reasons for the break between the two plans was the incompleteness of the programs of the First Plan. Some people, such as the Speaker of Islamic Consultative Assembly, said that there was a need for a one year delay to complete the First Plan⁶.

The second Five-Year Plan 1994/1995 had a number of qualitative aims, including:

1. Implementing social justice.
2. Promoting peoples' commitment to the merits (virtues or excellencies) of Islamic ethics and increasing the quality and quantity of society's general culture.
3. Guiding of the youth and teenagers towards the religious faith, indigenous culture, creativity, science, art, physical education, human relations, family and social matters, and encouraging them to participate in cultural, social, political and economic affairs of the country.
4. Increasing the productivity and efficiency of the country's economy.
5. Training the required human resources.
6. Increasing and developing economic stability by giving priority to the agricultural sector.
7. Improving the structure of the legislative, executive and judicial branches of the government, wherever it is necessary, in order to implement the purposes of the Plan.
8. Strengthening and encouraging all people to participate in the implementation of the Plan and establishing the necessary policies for appropriate and consistent control over the execution of the Plan.

⁶ The real reason for the delay, according to Astaneh (1994), a member of the Islamic Consultative Assembly, is that according to Article 36 of The First Economic, Social and Cultural Development Plan Act 1990 the government should have submitted the Second Plan to the Islamic Consultative Assembly in the middle of 1993 (solar calendar 1371) but it was handed down 15 months later (Astaneh 1994, p. 24).
9. Attempting to decrease the country's dependence upon oil revenues and increasing non-oil exports.
10. Sustaining the natural environment and optimising on the usage of the country's natural resources.
11. Strengthening the country's defence power in accordance with the framework of policies and discretions of the Commander-in-Chief.
12. Keeping in mind and protecting the country's principles of honour, wisdom and interests in foreign affairs politics.
13. Attempting to implement the Laws and maintaining security of the people in all aspects and encouraging them to respect the law, social order and to work conscientiously.
14. Systematisation of research and using it as a means for solving problems to enhance the development of the country.
15. Establishing equilibrium in different sectors of the economy (cooperative, private and state).
16. Strengthening of the values of the Islamic Revolution and giving priority to these values when the State's financial resources and facilities are provided (Plan and Budget Organisation 1996, The Second Economic, Social and Cultural Development Plan Act, p. 13).7

As noted above, government plans as embodied in the Economic, Social and Cultural Development Plans are exercised through the annual budgets. The study now turns to explain the budgeting process in the Iranian government.

5.2.3 Budgetary Process in the Islamic Republic of Iran

Government budgeting is one of the major processes by which the use of public resources is planned and controlled. The plan embodied in the budget is such a controlling factor in government operations that the term "budgetary process" has been used to describe the complete cycle of financial activities of a government. The budgetary process involves four different operations or stages: (1) preparation and submission of the budget by the executive, (2) consideration and enactment of the

7 Translated by the author.
budget by the legislature, (3) execution of the budget by the executive, and (4) auditing and scrutiny of the accounts by both the executive and legislature (Aghvami and Babajani 1988, pp. 118-121).

Before the Iranian Government budgetary process can be examined in detail, it is necessary to explain how the budget is organised and how the figures are put together to prepare the annual budget. As described in section 5.2.2, the budgetary system is to be in accordance with the Five-Year Plans. Iran has used a form of program budgeting for a long time which is a combination of the traditional object based budgeting and program budgeting with the emphasis increasingly on program budgeting. Thus, Iranian budgeting incorporates some of the negative aspects of traditional budgeting and the benefits of modern approaches (see also Islamic Consultative Assembly 1995c, p. 53).

The government budget is divided into Current Appropriations and Development Appropriations. Each of these two appropriations consists of four areas: General Affairs, National Defence Affairs, Social Affairs and Economic Affairs. Each of these in turn, have their own sub-sections. For example, the sub-sections of Economic Affairs for the Current Budget of the 1996/1997 budget are:

- Agriculture and Natural Resources
- Water Resources
- Electricity
- Industrial
- Petroleum
- Gas
- Mines
Chapters, The Accounting ...

- Commerce
- Transportation
- Telecommunication and Post
- Tourism (Plan and Budget Organisation 1995).

Routine expenditures are classified by organisational units and by object of expenditures, whereas the development expenditures are grouped by a classification system based on programs in the Five-Year Development Plan. Four Chapters and twenty Codes have been introduced for the classification of expenses in the Iranian budgeting and accounting system (Tabatabai 1983; Aghvami and Babajani 1988).

Like many other annual budgets which seldom start from scratch, the Iranian annual (current) budgetary process commences with the previous year's level of expenditures as the base for consideration. The first stage in the budgetary process is the budget preparation which will be described next.

5.2.3.1 Phase I—Preparation of the Budget

Sound financial planning requires that preparation of the budget be started soon enough to be adopted before the beginning of the fiscal year to which it applies. To insure that adequate time will be allowed, a modern government usually prepares a "budget calendar". The schedule is prepared by listing each step in the budgetary procedure and the time allowed for its completion. It should provide sufficient time for planning, for preparation of budget estimates, for review and analysis of the estimates, and for further review and approval of the budget. The budget steps and calendar for preparing the 1996/97 budget bill of the Iranian Government is shown in Figure 5.1.
Figure 5.1
Budget Calendar for Preparing and Regulating the 1996/1997 Budget Bill

Preparing and Regulating the Budget of Government Business Entities

- Preparing and Regulating their Budgets
  - LOIs
  - PPBO
  - MSPBO, PPBO & DRAPBO

- Approving the Province's Capital Budget
  - PPBS
  - PPBO

- Sectional Aggregation of the Provinces' Capital Budget
  - PPBO

- Considering the Province's Capital Budget
  - PPBO

- Considering the Province's Current Budget
  - PPBO

Preparing and Regulating the Nominal Notes of the Budget

- Preparing the Guidelines and Enclosures of the Budget
  - PBO

- Giving Notice to 29/8/95

- National Institutions
  - National Institutions
  - EC

- Considering and Regulating these Budgets
  - PPBO

- Suggesting the Oil and Taxation Revenues
  - MOEAF & MOO

- Considering the Notes of the Previous year's Budget
  - BNPPB

- Considering the New Notes for the next year Budget
  - BNPPB

Considering and Approving

- Considering those Budgets
  - Their General Meeting
  - 6/10/95

- Considering and Approving
  - 4/10/95

- Aggregating and Consolidating
  - 4/10/95

EC = Economic Council
PBO = Planning Board Organization
LOIs = Local Government Institutions
GBEAs = Government Business Entities
PPBS = Planning Boards of Provinces
PBO = Provincial Plan and Budget Organization
MSPPBO = Management of Sections of the Plan and Budget Organization
DRAPBO = Deputy of Rapid Analysis of the Plan and Budget Organization
SMPPBO = Sectional Management of the Plan and Budget Organization
EADPPBO = Economic Affairs Deputy of the Plan and Budget Organization
MOEAF = Ministry of Economic Affairs and Finance
MOO = Ministry of Oil
BNPPB = Board of Notes of the Plan and Budget Organization
SDPPBO = Sectional Deputy of the Plan and Budget Organization
EADPPBO = Economics Affairs Deputy of the Plan and Budget Organization
Budget ...-continued

17  18  19  20  21  22
11/10/95  18/10/95  27/10/95  6/11/95  13/11/95  30/11/95

Considering the Budgets of the Important and Key Government's Companies

Finalising and Printing the Budget Bill

Presenting the Budget Bill to the Islamic Consultative Assembly

The President

Report to the President

Considering the Sections' Budgets

Aggregating the Annual Budget

Considering and Approving

The Board of Ministers
The preparation of the country's annual budget is the responsibility of the Plan and Budget Organisation. The head of this organisation is one of the President's deputies. The budgetary process begins when the Plan and Budget Organisation prepares a draft of the Budget Circular. This draft, after consideration and confirmation by the Economics Council, is sent to the President to give notice to the ministries, government institutions, government business entities and non-government public institutions and authorities. For the preparation of the budget for the fiscal year 1996/1997, the head of the Plan and Budget Organisation transmitted a "budget circular" to ministries and government institutions at the beginning of August 1995 (the letter of the head of the Plan and Budget Organisation of 29 August, 1995) and asked the latter to submit their appropriation requests for the budget. Meanwhile, the Plan and Budget Organisation prepares the guidelines and enclosures of the Budget and sends these to the ministries, government institutions, government business entities, and non-government public institutions and authorities. There follows a lengthy process in finalising the budget after this stage.

The Budget divides into five categories. The first category is related to the process of preparation and regulation of the budget of local government institutions. Local government institutions prepare and regulate their own institutions budgets and give
a report to the Province's Plan and Budget Organisation.\textsuperscript{14} The Province's Plan and Budget Organisation considers and consolidates these reports and prepares the Province's Budget. This budget includes both current and capital expenditures of a province. The Province's Capital Budget is approved by the Planning Boards of each province and a report is given to the Plan and Budget Organisation. Simultaneously, the Province's Current Budget is aggregated in terms of different sections of the State's budget by the Provinces' Plan and Budget Organisations and a report is given to the Management of the Sections of the Plan and Budget Organisation, the Province's Plan and Budget Organisation and the Deputy for Regional Affairs of the Plan and Budget Organisation. The latter three consider the Province's Current Budgets. Turning to the Capital Budget of the Province, this budget is aggregated by the Plan and Budget Organisation and a report is given to the Management of the Sections of the Plan and Budget Organisation, the Province's Plan and Budget Organisation and the Deputy for Regional Affairs of the Plan and Budget Organisation which then consider these budgets.

The second category of the budget preparation process is associated with the preparation and regulation of the budget of government business entities. As noted already, these entities are owned and managed by the government. The government business entities prepare and regulate their own budgets. The government business entities' budgets should be considered and approved at their general meeting. After receiving these budgets they are scrutinised by the Plan and Budget Organisation. These budgets are aggregated finally and consolidated by the Plan and Budget Organisation for preparing the Country's Annual Budget.

\textsuperscript{14} The Plan and Budget Organisation has an office in each of the 25 provinces of the country. Those offices are called the Province's Plan and Budget Organisation.
The third category of the budget preparation process is related to the preparation and regulation of the nominal Notes (Clauses) of the budget by the National Institutions\textsuperscript{15}. This is followed by consideration of the national budgets by the Management of Sections of the Plan and Budget Organisation. Explanations are presented in a Financial Note which contains information concerning the fiscal and monetary policies as bases of the proposed budget. It also contains the analysis of the budget itself, and the predicted condition of the nation's economy during the fiscal year under consideration.

The forth category is concerned with the estimation of oil and taxation revenues. The Ministry of Economic Affairs and Finance and the Ministry of Oil suggest the taxation and oil revenues. The revenues are aggregated by the Economic Affairs Deputy of the Plan and Budget Organisation. Finally, The Plan and Budget Board considers and approves these revenues.

The final category is related to the consideration of the Notes of the previous year's budget by the Board of Notes of the Plan and Budget Organisation. They also consider the new Notes for the next year's budget. These new Notes are considered and approved by the Plan and Budget Board.

A report of the results of all these five above categories will be given to the President. At this stage the Deputies of the Sections of the Plan and Budget Organisation consider the budget of Sections of the Plan and Budget Organisation. The Economic Affairs' Deputy of the Plan and Budget Organisation aggregates the

\textsuperscript{15} National Institutions refer to the ministries and government institutions activities and operations which are not related to a specific city or town. In fact, these activities of the ministries and departments will affect the whole country and not a particular city or town.
annual budget. This budget is considered and approved by the Plan and Budget Board. Meantime, the budgets of important, key government companies are considered by the Plan and Budget Board. A report of these considerations is given to the President and the Board of Ministers. The Board of Ministers considers and approves this report. After this approval, the final consolidation is done and the Budget Bill will be printed by the Plan and Budget Organisation. This bill will be presented to the Islamic Consultative Assembly by the President. The 1996/1997 Budget Bill was submitted to the Islamic Consultative Assembly on 26 November, 1995.\(^\text{16}\)

The Budget Bill, as prescribed in the Country's General Law of Accounts, is to consist of the following three parts:

1. The Government General Budget which includes:
   a. the estimates of the Government's receipts and fiscal resources that directly or indirectly are collected by the institutions in the budget fiscal year through the Treasury Accounts.
   b. the estimates of payments that the authorities can carry out from the general revenues and or from the special revenues for the current, capital and special appropriations in the budget fiscal year.
2. The Budget of government business entities and banks, including the estimated revenues and the other fiscal resources.
3. The Budget of the institutions which will be put in the annual budget with a name other than the aforesaid names (the Country's General Law of Accounts, 1987, p. 31).\(^\text{17}\)

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\(^{16}\) This bill was presented to the Islamic Consultative Assembly four days earlier than the scheduled time provided in Figure 5.1.

\(^{17}\) Translated by the author.
5.2.3.2 Phase II—Authorisation of the Budget

Discussion of the Budget Bill in the Islamic Consultative Assembly is generally held in four stages. The first stage is the presentation of the Bill in open plenary session in which the President gives a speech explaining the general policies and the essentials of the budget under consideration. For example, the Budget Bill for the fiscal year 1996/1997 was submitted by President Hashemi Rafsanjani in the open plenary session of the Islamic Consultative Assembly held in Tehran on Sunday 26 November, 1995. In this meeting the President told the Islamic Consultative Assembly that he proposed expenditures in the budget to be equivalent to 138,113.4bn rials (US$78.8billion at the official exchange rate of 1,750 rials to the American dollar), which includes 60,742.3bn rials for the government's general budget. In pointing out the main features of the Iranian Budget for the fiscal year 1996/1997, the President noted:

- the increase in tax incomes for 1996/97 is mainly owing to a rise in taxes levied on non-governmental companies, on jobs and on imports which would be materialised through the improvement in the country's economic situation and expansion of trade and manufacturing activities inside the country.
- [a] 1,260bn rials credit has been allotted to promotion of cultural activities and encouraging [the] non-governmental sector to contribute to this goal.
- the government has paid special attention to the vulnerable strata of society, by increasing the budgets of organisations responsible for supporting this group of people.
- the government is to support and save job opportunities by removing obstacles in the way of production units, increasing output, classifying jobs and reducing the risk of labour accidents.
- the government would help set up 3,600 cooperatives with a membership of 319,600 to bring 850 projects into operation, thereby creating 45,460 jobs with an investment of 3,356bn rials, which in turn would enable the building of 70,000
residential houses (IRNA news agency, Tehran, in English 1116 gmt 26 November 1995).

The second stage involves giving suggestions, if there are any, to the Expert Committees (komeitehye takhasosei)\textsuperscript{18} of the Islamic Consultative Assembly. Each member of the Islamic Consultative Assembly can give his/her suggestion(s) to the Expert Committees within 10 days after the Budget Bill is presented and distributed among the representatives by the government (Islamic Consultative Assembly 1995b, p. 19).

The third stage in the budget authorisation is when it is reported to the Main Committee (komeitahe aslei) by the Expert Committees. The Expert Committees are charged to give their reports no later than 10 days after the respite granted to the representatives in the previous stage. The Main Committee consists of the members of the Committee of the Plan and Budget and one member of each of the other Committees of the Majles to be elected by those Committees except the Committees of the Internal Rules, Investigation and Laws before the Revolution (Islamic Consultative Assembly 1995b, p. 19).

The fourth stage in the budget authorisation is related to the duties of the Main Committee. This Committee should consider the reports of the Expert Committees within 15 days and prepare its final report which it will then give to an open plenary session of the Islamic Consultative Assembly at the end of this period (Islamic Consultative Assembly 1995b, p. 19).

\textsuperscript{18} These Committees, of the Islamic Consultative Assembly, are established in accordance with different functions of the government such as Culture and Higher Education Committee, Defence Committee, Plan and Budget Committee, etc.
The fifth stage in the budget authorisation is discussion in the open plenary session of the Islamic Consultative Assembly to make a final decision on the Budget Bill. The discussion is begun with a statement by the Main Committee in the Islamic Consultative Assembly on the proposed Budget Bill. This is followed by the speeches given by the opponents and proponents of the Budget Bill. Then the government is given an opportunity to reply on issues raised by the representatives of the Islamic Consultative Assembly (Islamic Consultative Assembly 1995b, p. 19). This type of discussion for the 1996/1997 budget was held on 26 January, 1996 and the reply was given by the head of the Plan and Budget Organisation on behalf of the Government on that day. After that the Islamic Consultative Assembly votes on the entire Budget Bill.

In the sixth stage, which is the final one, the discussion on suggestions related to revenues and other fiscal resources of the government general budget is started and ceilings for expenditure are approved. After this approval a session on the discussion of the Notes and Clauses is started. When this session is finished, the Budget Bill is sent to the Guardian Council for confirmation. If the Guardian Council confirms and returns the Budget Bill without asking for any amendment, the Budget Bill becomes the Budget Law and is in force and sent to the President for implementation. If there is a need for any change to the Budget Bill the Islamic Consultative Assembly should consider the amendments of the Guardian Council by discussion and take a new vote for amendments to satisfy the Guardian Council. The financial year of the Iranian Government is from 21 of March (1 Farvardyn, according to solar calendar) to 20 of March (29 or 30 Esfand, according to solar calendar) of the following year.
5.2.3.3 Phase III—Execution of the Budget

After the budget has been enacted, the Executive branch is authorised to incur obligations and to liquidate them by payments within the limitations of the appropriation resolutions.

The Islamic Consultative Assembly generally extends budget authorisation directly to the spending ministries and government institutions, not to the President. The Iranian Government budget is divided into 4 chapters and twenty objects. The appropriations are executed either under both the supervision of a specific Minister as head of a ministry and the Treasury Officer\(^\text{19}\) (Zeehasab) or under the supervision of a specific head of a non-ministerial institution such as the Islamic Propaganda Organisation. Since each ministry or government institution is not allowed to spend money for each budget item beyond its budget allowance, there is a need for keeping accounting records in order to maintain necessary control over appropriations and allotments. The Treasury Officer is responsible for keeping these records. There is no provision for a Treasury Officer in government business entities and non-government public institutions and authorities (for more see footnote 11).

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\(^{19}\) A Treasury Officer is a person who is appointed by the Minister for Economic Affairs and Finance among the qualified employees of a ministry or a government institution in order to control and arrange the government financial laws, rules and regulations in a government ministry, government institution and a government business entity. He/she also holds the following functions:

1. Controlling the fiscal affairs and the accounts, keeping and arranging the accounts according to related laws, rules and regulations and also control over using them properly and accurately.
2. Controlling documents and financial books.
3. Keeping, delivering and transferring cash and deposits and security papers.
4. Keeping the government properties and controlling them (Translated by the author).

This article also says that the Treasury Officer functions under the office of the head of the ministry or the government institution (the Country's General Law of Accounts, article 31).
5.2.3.3.1 The Allotments Procedures

The ministries' appropriations when voted are immediately available, but no payment can be made other than those for which the necessary allotments have been made. The allotments are issued by a committee consisting of the representatives of the Ministry of Economic Affairs and Finance and the Plan and Budget Organisation. Before giving such an approval, the Committee must determine:

(a) Whether the proposed expenditures are provided in the budget;
(b) Whether they are within the limits of the budgetary appropriations; and
(c) Whether the proposed report\(^{20}\) has been given for the requested amounts

\(\text{\cite{Aghvami1988}, p. 121.}\)

On the basis of the above considerations, the Committee can withhold approval of the allotments proposed. As a general rule, the allotments are issued on a quarterly basis.

5.2.3.3.2 The Disbursement Procedures

There is a uniform system for the spending of money approved in the budget. For those expenditures for which the allotments are issued on a quarterly basis, payments are made by the Treasury Officers of the ministries or government institutions. According to Articles 52 and 53 of the Country's General Law of Accounts the

\(^{20}\) In the case of development appropriations the Committee may ask the ministry or government institution to provide a progress report to the Committee.
payments of expenses has two stages. The first stage which includes recognition\textsuperscript{21}, obligation\textsuperscript{22}, confirmation\textsuperscript{23}, and warrant\textsuperscript{24} is the responsibility of the minister or the head of the institution. The second stage, which consists of financing and checking the conformity of payment with the rules and regulations, is the responsibility of the Treasury Officer.

In order to make easy payments of the expenses of the ministries, government institutions and their subsidiary units, in the capital, cities and abroad, the Ministry of Economic Affairs and Finance provides some funds as an imprest fund to the Treasury Officers and Treasury's representatives in the provinces (Article 54 of the Country's General Law of Accounts).

All the current and capital appropriations can be obligated and are payable until the end of the financial year, the 20 of March. The balance of the appropriations should be returned to the Treasury no later than 20 of April (the end of Farvardyn).

\textsuperscript{21} Recognition is defined as the choosing and determination of goods and services, including the other payments, which are necessary to implement the government institutions' programs (Article 17 of the Country's General Law of Accounts).

\textsuperscript{22} Obligation stems from: 1) receiving goods or service(s); 2) completing a contract(s) in accordance with the regulations; 3) orders given by the legal and competent referees; and 4) joining international conventions and membership in international organisations and societies with the permission of law (Article 19 of the Country's General Law of Accounts).

\textsuperscript{23} Confirmation is referred to as determination of the amount of payable debt by the government institution according to its documents (Article 20 of the Country's General Law of Accounts).

\textsuperscript{24} Warrant is a written permission which is issued by the authorised employee(s) of the ministry, government institution, government business entity, government local institution, non-government public institution and other executive institutions to pay their obligations and debts from the appropriations on the Treasury Officer (Article 21 of the Country's General Law of Accounts).
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5.2.3.3.3 The Receipts Procedures

All government receipts—from oil, taxation, customs duties, and other revenue sources, including government companies except the banks and credit institutions and insurance companies, are deposited to the General Treasury Accounts in the Central Bank of the Islamic Republic of Iran (Article 39 of the Country's General Law of Accounts).

All revenues collected by individual ministries and institutions of the Government belong to the State. The ministries and government institutions collecting the revenues are not allowed to use directly the money they collected to finance their operations. The revenues, therefore, should be fully deposited in the General Treasury Accounts in the Central Bank of the Islamic Republic of Iran.

5.2.3.4 Phase IV—The Closing and Audit of the Accounts

According to Article 90 of the Country's General Law of Accounts, the Ministry of Economic Affairs and Finance is responsible for the financial control of the ministries, government institutions and government business entities. This article adds that the operative control and evaluation of the activities and capital projects that are included in the Budget Law are the responsibility of the Plan and Budget Organisation. According to Rakhshandehrou (1995), the head of the Court of Accounts, this responsibility has not been carried out properly by the Plan and Budget Organisation in the past (Rakhshandehrou 1995, p. 12). As noted in section 5.2.3.3 above, in each ministry or government institution there is a representative of the Ministry of Economic Affairs and Finance called a Treasury Officer who controls the payments of expenditures of the ministry or the government institution. This
officer examines all evidences of expenditures and makes records of the transactions in the books of the agency.

At the end of the fiscal year, all Treasury Officers are required by the Country's General Law of Accounts (Article 95) to prepare a detailed statement of receipts and payments of each month along with the documents, broken down by budget item, by the end of next month and for the final account of the year no later than 21 of June of the next year (this means three months after the last fiscal year according to the Iranian fiscal year). These statements are then reported to the Court of Accounts. Article 95 also stipulates that a second copy of these statements, excluding the enclosed documents, be handed to the Ministry of Economic Affairs and Finance. The auditing or scrutiny procedure for these statements and documents by the Court of Accounts will be determined by the executive rules of the Law of the Court of Accounts.

According to article 96 of the Country's General Law of Accounts, the government institutions should give a report of their operations during the past year, according to proposed objectives in the Budget Law, to the Court of Accounts, the Budget and Plan Organisation and the Ministry of Economic Affairs and Finance no later than six months after the end of the fiscal year. Government companies are required by the Country's General Law of Accounts (Article 98) to prepare and report their balance sheets and statements of income immediately after being approved by their general meetings to be included in the performance statement of the country's annual budget to the Ministry of Economic Affairs and Finance.
The Country's General Law of Accounts also requires all the government public institutions and non-government public institutions and authorities, which have been established by the law to carry out functions and perform services that are considered public, to give a statement of their receipts and payments according to the procedures provided by the Ministry of Economic Affairs and Finance to be included in the performance statement of the country's annual budget to the Ministry of Economic Affairs and Finance (Article 100). The law provides that these reports of ministers and institutions be consolidated by the Ministry of Economic Affairs and Finance into an over-all report of budget execution for each budget. This over-all report represents a comparative statement of budgeted and actual revenues and expenditures. The report, which also represents the financial accountability of the executive to the legislature for each year's budget, should be submitted to the Board of Ministers for their approval. This report then should be given to the Court of Accounts to prepare the Budget Settlement.

The accounting records and the accounts of the ministries and government institutions, including government companies and public institutions, are examined by auditors of the Court of Accounts. The Ministry of Economic Affairs and Finance should give the performance statement of the country's annual budget, noted above, to the Court of Accounts no later than 21 December of the coming year (30 Azar according to solar calendar) (Article 103 of the Country's General Law of Accounts). Thus, the auditing stage is normally started after receiving this statement. This audit is generally exercised in accordance with provisions of Article 55 of the Iranian Constitution and Article 104 of the Country's General Law of Accounts, which aim to ascertain:

As noted in section 5.2.3.3, the difference between these institutions and local and national institutions is that there is no place for a Treasury Officer in the former institutions.
(a) That expenditures have not exceeded the amount of budget appropriations,
(b) That expenditures for the purposes specified in the budget have been charged against the proper budget item,
(c) That no mixtures have been made among the appropriations available for different fiscal years or different chapters of each budget, and
(d) That expenditure documents have met the requirements established in the regulations governing the accountability of the Treasury Officers.

These objectives of audit indicate that the budgeting and accounting systems in Iran provide the information necessary for a very traditional system of accountability meeting the requirements of legality and regularity.

The Court of Accounts prepares a report of the Budget Law of the previous year, including its audit report, and gives this to the Islamic Consultative Assembly for consideration and approval. This report is not normally up-to-date. For example, the settlement report for the fiscal year 1991/1992 was submitted to the Islamic Consultative Assembly in December 1994 (Court of Accounts 1994, p. 24) and for the fiscal year 1992/1993 in December 1995 (Court of Accounts 1995, p. 18). The major reason for this delay is because the Court of Accounts normally receives the ministries' and government institutions' reports late or incomplete and in some cases it never receives a ministry or government institution's report (Islamic Consultative Assembly 1995a, p. 22).

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26 See also section 5.5.2.2.
5.3 THE ACCOUNTING SYSTEM AND PRACTICES OF THE IRANIAN GOVERNMENT

5.3.1 Purposes To Be Served By A Government Accounting System

Chapter 4 has shown that a sound accounting system is essential for effective financial management and accountability in the public sector. Within the government financial management cycle, the accounts are the official source of financial data used from the earliest planning stage of government operations through programming, budgeting, funding, record keeping, reporting, and controlling. Such data must be classified and recorded in the accounts in a form that will support budget requests and provide for adequate control of budget execution and government financial accountability. To do this in a systematic manner, the programming, budgeting, accounting, and reporting should be integrated through the use of common classifications; that is, the primary classification used for preparing and presenting the budget should be identified in the accounting system and in the related reports. The use of such an integrated classification system will provide best the financial data needed for managerial decision making and for ensuring regularity and legality in expenditure.

Traditionally, accounting in government has been developed primarily to meet the information needs for accountability and control of public funds. Government officials responsible for expenditures have had to render proper accounts of their stewardship and show that the funds have been spent in accordance with the authorisations provided by the legislative body. In this conventional system, the government officials' accountability for appropriated funds was generally satisfied through the use of financial information classified in terms of the source of funds, the responsible organisation unit and the object of expenditures.
Within the context of today's management requirements in governmental operations, the traditional concept of accountability described above is somewhat narrow in its scope, since, in budgeting and accounting, it relies upon the almost exclusive use of classification by organisation unit and object of expenditures. While the need for this type of information is still relevant today, it was established in chapter 4 that accounting in government is being recognised increasingly as one of the most essential tools of management. As such, a government accounting system must be developed, not only to fulfil the traditional accountability requirements of legality and regularity, but also to provide various financial information needed for the new dimensions of accountability, such as the efficient and effective management of government operations. In addition, a government accounting system should provide financial information necessary for purposes of planning economic development and stabilisation policies, and evaluating their effects.

In the Islamic Republic of Iran today, as shown in section 5.2.3.3 above, the government accounting system and practices are essentially those of the traditional, narrow accountability-oriented government accounting framework, in which accounting is viewed as a means of assuring financial accountability of the executive officials, in accordance with legal provisions and budgetary restrictions. In addition, the Iranian government's accounting system is very complicated. As noted in section 5.2.3.1, according to the system, a government unit prepares, before the beginning of each fiscal year (or accounting period), a budget or estimate of revenues and expenditures for the coming year. During the accounting period, cash receipts and expenditures are recorded in the books and in revenue and expenditures ledgers (see also Islamic Consultative Assembly 1995c, p. 54). Financial data recorded in the accounts are classified by organisation unit, source of revenues, and object of
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expenditures. At the end of the accounting period, a statement comparing budgeted and actual amounts of each item of revenues and expenditures is prepared in order to evaluate the execution of the budget.

5.3.2 Provisions Concerning the Accounting System of the Iranian Government

The Iranian General Law of Accounts contains a large number of provisions concerning the accounting system of the Government. Detailed requirements within which the accounting system of the Government must be operated are outlined in the manual of the Ministry of Economic Affairs and Finance which should be ratified by the Court of Accounts.

A complete set of instructions on the maintenance and operation of the accounting systems in the Ministries and Government Institutions was published in the manual of the Ministry of Economic Affairs and Finance in accordance with article 93 of the 197027 (1349) Country's General Law of Accounts with the approval of the Court of Accounts. The manual is oriented to practice, emphasising how to record financial transactions by ministries and government institutions. The primary purpose of the publication of this regulation was to achieve uniformity among the budgetary accounting systems in the Ministries and Government Institutions. In addition, it was also intended to attain simplicity in their operation of accounting systems.

The manual for the accounting system in the ministries and government institutions is divided into two sections: a manual for the accounting of current appropriations;

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and a manual for the accounting of capital or development appropriations. The accounting system for the current appropriations consists of 54 accounts. In the case of capital or development appropriations these are 32 (Aghvami and Babajani 1988).

5.3.3 The Financial Management and Accounting System Within A Ministry or A Government Institution

In the Islamic Republic of Iran, the execution of a Ministry or a Government Institution’s budget is the responsibility of the Minister for that Ministry or the Head of a Government Institution or the Head of a non-Ministry Agency. The financial management within a ministry or government institution, however, is performed by officials designated for that purpose by the Ministry of Economic Affairs and Finance. These officials are known, as noted before, as Treasury Officers and are accountable to the Ministry of Economic Affairs and Finance for their performance. Therefore, all the financial management in the ministries is with the Treasury Officer.

As noted earlier, the accounting systems in the Ministries/Government Institutions are generally operated in accordance with the instructions prescribed in the Country’s General Law of Accounts and the manual of the Ministry of Economic Affairs and Finance.

In the ministries and government institutions two different groups of accounts are kept for recording ministry or government institution financial transactions: Governmental Funds and Trust Funds. Governmental Funds consist of a Current Fund, a Capital Projects Fund and a Special Revenue Fund. The Current Fund is used to record the financial transactions related to a ministry or a government
institution's current activities. In this account revenues are recorded on the basis of cash accounting while expenses are recorded using a modified form of cash accounting. The Capital Projects Fund is used to record the revenues and expenses which are associated with establishing or building a new fixed asset (long lived asset) by a ministry or a government institution. It is worth noting here that fixed assets will not be recorded in a ministry or a government institution accounting system when they are completed. This fund, therefore, is also kept on cash accounting principles. The Special Revenue Fund Account is kept to record the receipts and payments of funds from special sources which are allowed by a law.

Trust Funds, which include the Deposit Fund and Superannuation Fund, are devoted to recording the receipts and payments of funds which should be kept, according to a law or a regulation, by the Government for a specific time. A ministry or a government institution cannot use Trust Funds and they are payable to their owners after implementation of the required conditions.

5.3.3.1 Accounting for Appropriations and Allotments

Since each ministry or government institution is not allowed to spend money for each budget item beyond its budget allowance, there is a need for keeping accounting records in order to maintain necessary control over appropriations and allotments. This is performed in each Ministry/Government Institution by using an Appropriation Ledger where each page of this ledger represents an account for an appropriation of each budget item. Each page shows the fiscal year, the code number and explanation of the budget item, the amount originally appropriated, additional appropriation, the amount allocated as permanent charge, the amount allotted as provisional charge, unallotted balance, and other related information.
5.3.4 The Financial Management and Accounting System of the Treasury of Iran

The Treasury in Iran is responsible for recording the State receipts and payments of money during the fiscal year. The system of accounting in the Iranian Treasury is cash accounting which uses fund accounting for recording its financial transactions. Like accounting systems in the ministries and government institutions, the Treasury also uses Governmental Funds and Trust Funds in its accounting system. Governmental Funds consist of a General Fund and a Special Revenue Fund. All General Government Revenues such as tax, oil, sales and services should be deposited in the General Fund and all General Government Expenses should be paid from this account. Thus, the General Fund Account is used to record those financial transactions which are related to the current and capital appropriations provided in the Government General Budget section of the country's annual budget. The Special Revenue Fund is kept by the Treasury to record the receipts and payments of funds from special sources which are allowed by a law. Similar conditions to Trust Funds of Ministries (see section 5.3.3) govern the nature and operation of the Treasury's Trust Funds.

5.3.5 Accounting for Fixed Assets and Supplies

Government assets are divided into movable (operating assets) and immovable (capital or fixed assets) properties. According to articles 106 and 114 of the Country's General Law of Accounts, the responsibility for protection, guarding, keeping of and recording payments for a ministry's or a government institution's movable and immovable properties is with the ministry or the institution that uses
those properties and assets. Article 106 also adds that the Ministry of Economic Affairs and Finance is responsible for controlling and centralising the State's movable properties and assets. In addition, the sub-article 4 of the Article 31 of the Country's General Law of Accounts says that the Treasury Officer is responsible for recording the number of a ministry or a government institution's properties and also controlling them. Note 1 of Article 31 adds that a Treasury Officer performs his/her duties under the office of a minister or a head of a government institution. It can be concluded that the Treasury Officers are not only responsible for control of financial management within ministries or government institutions, but also for ministries or government institutions' properties. There is no provision for recording depreciation of fixed assets in the Iranian government accounting system (see also Islamic Consultative Assembly 1995c, p. 84).

The function of the Court of Accounts in connection with the ministries or government institutions properties is to check the inventory of properties and assets of the ministries and government institutions (Article 4 of the Country's Law of Court of Accounts). As to records of fixed assets, the Properties Trustee\(^28\) within each ministry and government institution, at the end of each six months, prepares a list of furniture and equipment of the institution under its supervision and submits the list to the State Properties Section. This list for the first six months should be provided by 21 of October and for the second six months by 20 of April next year (Article 11 of the State's Properties Regulations).

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\(^28\) A Properties Trustee is a person who is appointed with the agreement of the Treasury Officer and by order of the Ministry or Government Institution from those employees of a Ministry or a Government Institution who are considered to be qualified for the position and also considered trustworthy. He/she is responsible for protecting and transferring ministry or government institution properties and arranging the accounts of those properties (Article 34 of the Country's General Law of Accounts).
A consolidated number of the properties of the ministries and government institutions is not available in the Islamic Republic of Iran. The head of the Court of Accounts, Rakhshandehrou (1995) says that “there is no precise information about the volume of government properties”\(^{29}\) (p. 13). He adds that there are no ownership documents for most government properties. According to him, in one of the country's provinces 90% of the government's immovable properties do not have ownership documents (Rakhshandehrou 1995, p. 13).

Ministries and government institutions can sell their movable properties that they do not need or when they are no longer serviceable and other ministries and government institutions do not need them. These sales should be in accordance with the regulations for government transactions and also they need to be made with the permission of the relevant minister or the head of the government institution. Article 112 of the Country’s General Law of Accounts requires that the Ministry of Economic Affairs and Finance should be also informed in advance. Ministries and government institutions are prohibited by law from selling some immovable and movable properties (Article 112 of the Country's General Law of Accounts). These include:

1. Immovable properties which are considered to be national treasures.
2. Military plants and fortifications, weapons and missile factories.
3. Ancient and historical buildings.
4. Immovable properties which are of unique interest and provide national benefits.

\(^{29}\) Translated by the author.
In the case of non-government public institutions, the sale of their immovable properties is dependent upon the suggestion of the head of the non-government public institution. For the government business entities, the sale of their immovable properties is dependent upon approval at their general meeting (Article 114 of the Country's General Law of Accounts).

### 5.3.6 Financial Reporting

The Iranian General Law of Accounts provides that each Ministry/Government Institution must submit a detailed annual report of its receipts and expenditures by budget item to the Court of Accounts, the Plan and Budget Organisation and the Ministry of Economic Affairs and Finance (Article 96). The accounting records mentioned above are the source of the data needed to prepare this report.

As noted in section 5.2.3.4, these ministerial reports are consolidated by the Ministry of Economic Affairs and Finance into an overall report of receipts and expenditures for each budget. This report is submitted to the Court of Accounts for examination. The Court of Accounts, then, audits this report and prepares the "Budget Settlement", which is required by Article 55 of Iranian Constitution, and submits to the Islamic Consultative Assembly for ratification. The Budget Settlement bill is the Executive's presentation to the Legislative body to show the implementation of its duty regarding financial accountability and responsibility (Articles 103 and 104 of Country's General Law of Accounts). It is a comprehensive statement comparing budgeted and actual amounts of revenues and expenditures for each budget.

For management use within each ministry or government institution, such an annual report only is, of course, not sufficient. Various operating statements are needed for
use by management at different levels. Besides, more frequent reports on the status of appropriations, financial condition and results of operations of each ministry and government institution are needed by the Ministry of Economic Affairs and Finance in performing its responsibilities for state financial reporting.

5.3.7 The Country’s General Law of Accounts

The Iranian General Law of Accounts and its practical regulations governing financial management and accountability purposes of the Iranian Government are essentially those established in 1911 which have been amended four times. The Law emphasises both the accountability for budget execution at the end of the fiscal year and compliance with legal provisions and budget restrictions, with little or no regard to essential managerial use of accounting information. For example, the only reports required by the Law are the Statement of Annual Performance and the "Budget Settlement", which should be prepared at the close of the fiscal year as the Executive’s accountability of the execution of the budget each year. In addition, the Law requires the classification of budget expenditures by object. While such a classification provides control over the limits on the amounts the Government operating units may expend on specified items, it cannot furnish the ministerial management officials and the executive and legislative policy makers with essential information on Government programs and activities.

5.4 CONCLUSION

The existing accounting system and practices of the Iranian Government are basically those established many years before the Islamic Revolution in 1979 (see also Islamic Consultative Assembly 1995c, p. 53). This system and related practices are
essentially those in a legally-oriented, traditional government accounting framework, where accounting is viewed as a means of assuring accountability and compliance with legal provisions and budgetary restrictions. Therefore, the current budgetary system of Iran, in the context of the pressures of the move to a modern, advanced country, needs to be changed. Rakhshandehrou (1995), the head of the Court of Accounts, has warned that if the financial management of the Iranian Government does not change the Iranian's economy will continue to suffer (Rakhshandehrou 1995, p. 12). It means that the information provided by the current system of financial management is not sufficient for accountability and planning purposes. According to the current budgeting and accounting system in the Islamic Republic of Iran, it is impossible to control and evaluate government programs. This study confirms Rakhshandehrou's (1995) conclusion that the information which is provided by the Iranian's fiscal system is primary, inadequate and cannot be analysed for the purposes of achieving efficiency and effectiveness (Rakhshandehrou 1995, pp. 12-13; see also Islamic Consultative Assembly 1995c, p. 84-85).

As mentioned in early sections of this chapter, no specific objective has been given for accounting systems in the ministries and government institutions in the Islamic Republic of Iran. Reference to the Court of Accounts Law and the Country's General Law of Accounts, however, indicates that the objectives of the accounting systems in the ministries and government institutions could be twofold: (1) provision of information on revenues and expenditures made by individual ministries and government institutions so that the executive branch can prepare an overall "Budget Settlement" to be presented to the legislative body at the end of fiscal year as the executive's accountability for their yearly financial management, and (2) control over expenditures and revenues. These objectives are too narrow especially in view of the
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aims of the two five year plans; they give little or no concern for essential managerial uses of accounting information.

Overwhelmingly the accounting system of central government departments (Treasury, Plan and Budget Organisation) and ministries i.e. the general government sector, are cash based and designed to complement the categories of approved expenditure in the budgeting system. It has been demonstrated that the accounts are used for the purposes of establishing the legality and regularity of expenditures. These features of traditional public sector accounting, it has also been noted, are inadequate to meet the needs of governments in times of fiscal restraint. For Iran the weaknesses are all the more significant as it seeks to meet the objectives of its Five-Year Plans and thus raise the living standards of its people.

Recent Australian public sector reform, with the emphasis given to introduction of the new public sector accounting mechanisms and techniques, will be the theme of the next chapter. This will be followed by an examination of the relevance of the accounting and financial management reforms enacted in Australia for giving Iran an accounting system which will provide the necessary management tools and accountability mechanisms to achieve government goals as expanded in the Five Year Plans.
6.1 INTRODUCTION

In previous chapters systems of government in Australia and the Islamic Republic of Iran, the notion of accountability and the role of accounting in ensuring financial accountability were discussed. Chapter 4 provided a discussion of different systems of government accounting, including cash and accrual accounting. A detailed description of the accounting and budgeting systems of the Islamic Republic of Iran was given subsequently in the previous chapter. It was shown that the accounting system of central government departments (Treasury, Plan and Budget Organisation) and ministries i.e. the general government sector, are cash based and designed to complement the categories of approved expenditure in the budgeting system. It has also been discussed that the accounts are used for the purposes of establishing the legality and regularity of expenditures. These features of traditional public sector...
accounting, it has also been noted, are inadequate to meet the needs of governments in times of fiscal restraint. For Iran the weaknesses are all the more significant as it seeks to meet the objectives of its Five-Year Plans and thus raise the living standards of its people.

A redefinition of the concept of accountability to encompass the recent changes in the public sector in Westminster countries, including the new dimensions of accountability such as efficiency and effectiveness, reflects the level of attention that has been given to managerialism. Managerialism refers to the principle of "letting the managers manage". Eventually it involves allowing public sector managers greater freedom in their decision making and resource allocations.

The 1970s have been described as a decade of administrative reform inquiries in Australia, and the 1980s as a decade of Public Service reform (Task Force on Management Improvement 1992; see also Wanna, O'Faircheallaigh and Weller 1992, p. 99; Hood 1989, p. 349). Major financial management changes took place in the Australian Commonwealth Government during 1980s (Emy and Hughes 1988, p. 353; see also Halligan 1987, p. 40). Enhancing financial accountability in the public sector continues to be the significant reason for the reforms.

Recent reforms in the Australian Public Service have been grouped by the Task Force on Management Improvement (1992) into six areas: structural, industrial, human resource management, financial management, commercial, and planning and reporting reforms (p. 7; see also Sedgwick 1993, p. 25; Crompton 1994, p. 2). This chapter is concerned with changes in financial management and accountability, focusing on new accounting technologies as a means to perform accountability practices in the public sector. For the purpose of this study, the knowledge of these
changes is needed as a source of reference in order to make suggestions for the improvement of the accounting system of the general government sector of Iran. To provide a balanced assessment of the accounting reforms, an essential requirement for any discussion of the relevance of the reforms for Iran, problems experienced in the implementation of reforms in Australia are also examined.

6.2 REFORM OF THE COMMONWEALTH PUBLIC SECTOR

6.2.1 Pressures for Reforms

Public sector reform has a long history in many countries. Change in the public sector is not new with all public organisations undergoing change all the time. The 1980s witnessed a renewed emphasis on reforming the public sector in most developed countries. The election of conservative regimes led by Margaret Thatcher (1979) in Britain and Ronald Reagan (1980) in the United States is generally regarded as providing the impetus which led to the neoliberalism or conservatism of the 1980s (Mascarenhas 1993, p. 319; Gunn 1988, p. 21; Boston 1987; Broadbent and Guthrie 1992; Hood 1989; Gray and Jenkins 1986; Schick 1990). The World Bank, for example, reported a significant equity re-arrangement of at least 1,343 government enterprises in 83 countries in the 1980s (Guthrie 1993, p. 101). Reform in the public sector refers to changes in task design, structure, accountability, and objectives of political institutions and administrative agencies. These reforms reflect the changing values of societies like Australia, Britain and New Zealand where a range of public sector reforms, largely based on economic theories of organisation, were introduced in the last decade (Mascarenhas 1993; see also Hopwood 1984, p. 170; Goldman and Brashares 1991). It has been stated that

[occasionally ... a number of individually unexceptional changes occur simultaneously and in a manner capable of precipitating... ]
system-wide transformation. Such a process of generalized change is always externally driven and always creates new constraints and opportunities for policy-making (Considine 1990, p. 171).

The recent changes introduced in the Australian and New Zealand public sectors are examples of such a transformation (Considine 1990, p. 171). It is argued that some global factors have influenced recent changes in the public sector of most countries. Some of these widespread factors have been recognised and represented by Mascarenhas (1993) as follows. As a product of the post-Keynesian welfare state, public bureaucracies grew significantly and became increasingly complex. Consequently, governments have failed to deliver the goods which in turn led to public disenchantment. Taxation, which was seen as a substitute for private sector resources to fund expenditure on public services, was accused of crowding out the private sector. These factors contributed to pressure for reform of the public sector through the introduction of new management practices which are referred to by some as ‘the new public management’ (Mascarenhas 1993, p. 319; Gunn 1988, p. 21; Boston 1987; Broadbent and Guthrie 1992; Hood 1989; Gray and Jenkins 1986; Schick 1990). Mascarenhas (1993) states that

the globalization and internationalization of internal economies and the transformation following the oil shocks led to a chain of events that resulted in reform of the economy in most OECD countries, and were initiated in Australia and New Zealand by officials in the economic ministries who were influenced by the “new right” (p. 320).

As an example of recent reforms in the public sector, Guthrie (1991a) refers to Britain and Metcalfe and Richard’s (1988) examinations of the process of management reform in British central government (since Thatcher’s election victory in 1979) (p. 5). A series of related changes in New Zealand included a comprehensive program of commercialisation, corporatisation and liberalisation and
the introduction of a new system of financial management (Boston 1989, pp. 103-125 in Guthrie 1991a, p. 6; see also Goldman and Brashares 1991). However, it has been said that “Australia pioneered the world in the 1980s with public management and ownership” (Guthrie 1993, p. 103). According to a Department of Finance report “[t]he reforms have affected all levels of financial management and the roles of the Parliament, Ministers and managers of Commonwealth agencies” (Department of Finance 1992a, p. vii).

The oil crises of the early 1970s precipitated an economic recession in the mid-1970s which was followed by widespread severe external account problems in the 1980s (Considine 1990, p. 174; see also Department of Finance 1992a, p. 6). This resulted in slow economic growth and reductions in the growth of public expenditure which affected the quality and quantity of public services provided (Wilenski 1986, pp. 257-258; see also Department of Finance 1992a, p. 6). In response to the seemingly intractable problems facing government in Australia, solutions were offered by the major political parties (Labor and Liberal) while there was also increased pressure from other organised groups previously excluded from public policy-making (Wilenski 1986, pp. 257-258; Considine 1990, p. 174). Suggestions for cutting deficits and deregulating the economy by embracing civil service reform became increasingly popular. These were taken up with unprecedented enthusiasm by the Labor Party upon assuming power in 1983 (Considine 1990, p. 174). Coincident with the reforming zeal of the Labor Party there were increased demands for public sector accountability to parliament and government, and increased pressures for economy, efficiency and effectiveness in financial and human resource management (Guthrie 1991a, p. 1; see also Department of Finance 1992a, p. 6; Task Force on Management Improvement 1992, p. 113; Broadbent and Guthrie 1992, p. 3; Glynn and McCrae 1986, p. 101; Stevenson 1994, p. 1).
Wilenski (1986) believed that five factors appeared to be important in Australian public sector reform. First, pressure for reform came from the legal profession which pursued reform from a different perspective and a power base different from political and bureaucratic activists. Second, as a very effective method of change, all the suggested reforms were embodied in legislation.1 Third, a number of the reformers were placed in key positions to continue the reform process after the various committees had reported. Fourth, the establishment of the Administrative Review Council in 1976 along with the Ombudsman and the Administrative Appeals Tribunal have acted as continuing agencies promoting and supervising reform. Finally, the legislation which was longest in gestation and most modified in the process, the *Freedom of Information Act*, was passed (p. 268).

According to Considine (1990), there were two critical factors in Australian public service reform. The first refers to the leadership of the Labor Party. He believes that this was generally the case within the Australian states because “the most energetic public sector reformers have been those governments controlled by the Australian Labor Party” (p. 179). The second source of change emanated from the functional problems of bureaucracy itself. In this sense he believes that “[a]t an organizational level the need for reform was created by problems of overload, cost, demands for greater bureaucratic responsiveness to government policy and increasing pressure for the provision of new services” (Considine 1990, p. 180).

Parker and Guthrie (1993) argue that public sector reforms during the 1980s were dominated by two philosophies, ‘economic rationalism’ and ‘managerialism’. In

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1 For more see Wilenski 1986, pp. 264-265.
their opinion changes in the character of organisation, management, accounting, auditing, and accountability in the public sector have been profoundly influenced by these philosophies (p. 62; see also Broadbent and Guthrie 1992).

### 6.2.2 Objectives of Recent Public Sector Reforms in Australia

The purpose of many specific changes that have been introduced in Australian Commonwealth Government administration has been to improve management in the Australian Public Sector (Task Force on Management Improvement 1992, p. 52). The objectives of the Government's proposals in its White Paper, *Reforming the Australian Public Service* in 1983, were to develop an administration that would:

- be more responsive and accountable to Ministers and the Parliament
- be more efficient and effective
- give all Australian citizens an opportunity to compete on merit to join and advance within it, and to provide greater opportunities for disadvantaged groups, and

As noted earlier, the objectives of reforms were ultimately to give departmental heads greater autonomy and responsibility for managing departments and holding them accountable for performance (Dawkins 1985; Guthrie 1991a; Parker and Guthrie 1993; Mascarenhas 1993, p. 326; see also Humphry and Waters 1986, p. 49; Bartos 1994b, p. 9), including the pursuit of value-for-money (Parker and Guthrie 1990; Guthrie 1991a; English and Guthrie 1991; Parker and Guthrie 1993; see also MIAC 1991, p. 6; McPhee 1993). After nearly five years in power, in September
1987 the Australian Prime Minister reaffirmed that the objectives of reforms in the Public Service were twofold. Firstly, to enhance ministerial control over the public service and secondly, to give departmental managers more responsibility over day-to-day management (Emy and Hughes 1988, p. 353).

Implementation of the purposes of the reforms, indicated above, required a decentralisation of responsibility. "[L]ower level operatives [were to be] made aware of and accountable for the costs of their operations" (Gray and Jenkins 1986, p. 171; see also Guthrie 1991a, p. 3). There was also a requirement to sub-divide public sector organisations into commercial businesses and non-commercial organisations. The public also had to be defined as 'customers' (Gray and Jenkins 1986; see also Guthrie 1991a, p. 3; Parker and Guthrie 1990, p. 114; Weller 1991, p. 11). Simplification of statutory provisions and related guidelines, elimination of various steps in the administrative process, and devolution of responsibility for decisions to managers at the appropriate level were other measures of the reforms (Mascarenhas 1993, p. 324).

Similar objectives of reforms pertained in NSW:

- optimal resource allocation
- efficient and economic use of resources
- better, more responsive and effective provision of services
- improved accountability (NSW Treasury 1993, p. 5).

In budgeting, the Government's 1984 Budget Reform Paper focused on the need to

- develop better means of identifying and setting budgetary priorities, in order to ensure that the best overall result is achieved in terms of meeting the Government's objectives with the resources which can be made available;
focus attention more clearly on the goals and objectives of particular programs, in relation to the resources they use;
• develop and apply to the management of Commonwealth programs specific techniques aimed at improved performance and more efficient resource use; and
• set up machinery to ensure that the effectiveness and efficiency of programs are reviewed regularly, and that the results of such reviews are taken into account in the ongoing evaluation of budgetary priorities (Commonwealth of Australia, Budget Reform 1984, pp. 1-2; see also Stevenson 1994, p. 1)

6.2.3 Early Reforms of the Hawke Government

Reforms of the Australian public sector by the Hawke Government drew heavily upon the earlier work of the Royal Commission on Australian Government Administration (RCAGA). The RCAGA which had been established in June 1974 by the Labor Prime Minister, Gough Whitlam, under the chairmanship of Dr. H. C. Coombs, reported to the Fraser government in 1976. The duty of the Commission was to examine federal government administration (Weller and Smith 1977; Humphry and Waters 1986; Wilenski 1986; Weller 1991), and particularly issues of accountability and financial control within the Commonwealth public service (Glynn and McCrae 1986). The commission inspired the Reid Report (Review of Commonwealth Administration 1983), the report of the Parliamentary Joint Committee of Public Accounts on the selection and development of senior managers (the Connolly Report, 1982), and then Dawkins' policy paper on Budget Reform (1984) (Task Force on Management Improvement 1992, p. 52; see also Dawkins 1985, pp. 63-65; Weller 1991, p. 10; Barrett 1994a, p. 10).

The RCAGA report consisted of 337 recommendations in one volume of report and four volumes of appendices. According to Weller and Smith (1977) the RCAGA examination “was the first wide-ranging inquiry for over fifty years and its items of
reference required it to look into most aspects of the public service and other agencies of administration” (in Wilenski 1986, p. 5). As noted earlier, the most significant reason for this reassessment of the role of the public sector and its management was Australia’s (like many other countries’) poor economic performance during the 1970s (Department of Finance 1992a). The RCAGA found, in 1976, that the Commonwealth administration “needed significant adaptation to deal responsibly, effectively and efficiently with the tasks that confront it” (Task Force on Management Improvement 1992, p. 52). Parker and Guthrie (1990) argue that “[f]ollowing Fulton², the RCAGA (1976) report recommended a ‘system of accountable management’ to promote management efficiency and to achieve management accountability” (Self 1978 in Parker and Guthrie 1990, p. 116; see also Glynn and McCrae 1986, p. 93). They also added that,

the commission recommended that the government's objectives and priorities needed to be established to enable implementation of coherent work plans for individual ministers, departments and agencies, and therefore for subordinate levels of managerial responsibility (RCAGA 1976). This scheme would involve the establishment of a ‘patterning’ of institutional arrangements, organisational forms, management processes and various accounting and other technologies (Emy 1976). The commission also recommended that department heads be responsible for the management of programs, for efficiency and economic administration, and, as accounting officers for exercising their primary role in financial management (RCAGA 1976: R3, R14, R47, R48, R234-40) (Parker and Guthrie 1990, p. 116).

These recent reforms of the Australian public service were implemented in two broad stages. The first stage related to the reform of the public service following the 1983 election (Mascarenhas 1990; Task Force on Management Improvement 1992, p. 2). The second stage occurred with a restructuring of the machinery of government

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² The Fulton Committee (The Civil Service Committee) was established in England in 1968.
following the 1987 election (Task Force on Management Improvement 1992, p. 79; see also Wettenhall 1989, pp. 98-99). Parker and Guthrie (1993) believe that

[a] major change to the machinery of federal government was introduced in July 1987 (the Administrative Arrangements Act 1987), when the number of departments was reduced from 28 to 18. These were organized into 16 Cabinet portfolios. This followed the Block (1987) efficiency scrutiny. This was a move to a ‘portfolio approach’ to management in the public sector (pp. 61-62; see also McPhee 1990, p. 3).

Therefore, the practical changes began to be put into effect with the arrival of Bob Hawke's Labor government in March 1983. The new Labor government instituted a platform of changes to the machinery of government, the Public Service and other sectors of Commonwealth administration (Commonwealth Government, White Paper 1983, p. 1; Parker and Guthrie 1993; see also Halligan 1987, p. 40). This platform was set out in the document “Labor and Quality of Government”, released by the then Leader of the Opposition and the then shadow Attorney-General on February 9, 1983 (Commonwealth Government, White Paper 1983, p. 1). The White Paper of 1983, Reforming the Australian Public Service, set out the government's policy goals which in 1984 “were developed in a series of papers on the budget process and statutory authorities” (Task Force on Management Improvement 1992, p. 2; Parker and Guthrie 1993; Mascarenhas 1993). A summary of major reforms in Australian public sector has been given in figure 6.1.

According to Dawkins (1985), the desired outcomes of Australian public sector reform were to:
Figure 6.1
A Summary of Major Reforms in the Australian Public Sector

<table>
<thead>
<tr>
<th>Structural Reforms</th>
<th>Industrial Reforms</th>
<th>Human Resource Management Reforms</th>
<th>Financial Management Reforms</th>
<th>Commercial Reforms</th>
<th>Planning and Reporting Reforms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Changes in the machinery of government</td>
<td>• Formal consultative mechanisms</td>
<td>• Performance appraisal</td>
<td>• Forward estimates</td>
<td>• User charging</td>
<td>• Corporate Plans</td>
</tr>
<tr>
<td>Organisational reform</td>
<td>• Permanent part-time work</td>
<td>• Equal employment opportunity</td>
<td>• Running costs</td>
<td>• Contracting</td>
<td>Program performance statements</td>
</tr>
<tr>
<td>Devolution</td>
<td>• Streamlining of classifications</td>
<td>• Occupational health and safety</td>
<td>• Efficiency dividend</td>
<td>• Accrual accounting</td>
<td>Evaluations</td>
</tr>
<tr>
<td>Decentralisation</td>
<td>• Career planning</td>
<td>• Resource agreements</td>
<td>• Program management and budgeting</td>
<td>• Corporatisation</td>
<td>Management information systems</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Portfolio budgeting</td>
<td></td>
<td></td>
<td>Annual reports</td>
</tr>
</tbody>
</table>

(Adapted from Task Force on Management Improvement 1992, pp. 61-63)
(a) help ministers to be closely involved in the management of their departments and provide greater opportunities for them to take into account strategic issues with the help of ministerial consultants;

(b) provide a more open, competitive and flexible senior management with a service-wide orientation;

(c) improve processes of resource allocation by involving ministers and by a greater degree of co-ordination of financial and staffing decisions coupled with better opportunities for review of programmes and administration (Dawkins 1985 quoted in Mascarenhas 1990, pp. 82-83).

The RCAGA and the Review of Commonwealth Administration both paid considerable attention to a productive and responsive relationship between Governments and the Public Service in the formulation, implementation and administration of policies and programs. This was reinforced by the attention that the 202nd Report in 1982 of the Parliamentary Joint Committee of Public Accounts paid to the selection and development of senior managers. A key element for the reform of the Australian Public Service centred upon Department Heads and their senior managers (Commonwealth Government, White Paper 1983, p. 9; see also Guthrie 1994).

At the heart of the public sector reforms in the 1980's was a determination to enhance management performance. The Government's reform proposals suggested that management capacity could be improved by:

• providing it with improved opportunities for considering longer term goals
• streamlining the central system for organising human and financial resources to accommodate greater ministerial involvement and management flexibility
• requiring Department Heads to develop management improvement plans, and
• introducing a mechanism to ensure that programs are reviewed regularly in the most appropriate way (Commonwealth Government, White Paper 1983, p. 27).

The Government's 1983 White Paper established that there should be a much closer involvement of Ministers in decisions about the level, mix and distribution of resources. It was envisaged that this would include a greater degree of integration of decisions on financial and personnel resources and maintaining a reasonable level of central control and oversight of resources along with increasing the flexibility, responsibility and accountability of departmental managers (Commonwealth Government, White Paper 1983, p. 28; see also Task Force on Management Improvement 1992, p. 113; Crompton 1994, p. 2; Bartos 1994b, p. 1). Therefore, the White Paper suggested more flexibility for departments in the use of their staff resources. At the same time this would have to be accompanied by an increase in responsibility and accountability. Action also was taken to develop the Review of Commonwealth Administration recommendation for the creation of a financial management improvement program by the Public Service Board and the Department of Finance (Commonwealth Government, White Paper 1983, p. 30). This stage of the reforms was completed by introducing program budgeting.

In April 1984 the Australian Federal Government issued the “Budget Reform” paper which was concerned with reform of the budgetary system and with financial management within the Commonwealth sector. It promoted reforms directed towards

• improving the processes of decision-making on budget priorities by the Government itself;
• improving the information base and processes for public and parliamentary scrutiny of the budget and of the subsequent implementation of programs funded from the budget; and
The reforms heralded in the two White Papers were to occur within a tighter departmental structure. Accordingly, in 1987 the government set about concentrating activities and responsibilities by reducing the number of departments from 28 to 18. Codd (1988) has outlined six potential benefits of the 1987 restructuring of government as:

- enhanced ministerial control (sharing of ministerial workload within a two level ministerial structure would give increased scope for Cabinet ministers to attend to policy work and broad direction of the department's operations);

- better coordination and decision-making processes (coordination would be more easily achieved through a smaller number of units, each representing wider, related interests and with representation in Cabinet);

- broader perspectives and greater coherence in policy advice and program development (by bringing together policy and program areas that are linked, policy would be more integrated and would be beyond the perspective of individual interest groups);

- greater scope for delegation to portfolios (devolution to departments and increased flexibility of personnel and financial arrangements would assist in resource management flexibility and management improvement);

- reduction in duplication and overlap—with consequent savings (where any duplication of functions or economies of scale (for example, in corporate services programs) could be removed, cost savings would result); and

- greater flexibility in portfolio operations and potential stability in machinery of government (as long as the basic portfolio policy groupings—and thus the structure—remained relevant, considerable flexibility for varying the roles of non-Cabinet ministers over time could be achieved without costly and destabilising machinery of government reorganisations) (Codd 1988, pp. 26-
6.2.4 Commercialisation, Corporatisation and Privatisation

Reforms caused changes in the form of management and administration and, in some cases, the ownership of government departments and statutory authorities. These changes are referred to as commercialisation, corporatisation and privatisation and are defined as follows. According to the Department of Finance (1993b) it seems that there is not a precise and universally accepted definition of “commercialisation” in the public sector. It is argued that “[t]he term is widely used to describe what happens when governments decide to allow their agencies or entities to charge the public (or other agencies and entities) for the goods and services they produce, and to adopt ... other features of the commercial environment” (p. 1). Commercialisation is also defined by Pallot (1995) as “the adoption of private sector management practices in government” (p. 1, footnote) whereas corporatisation has been referred to as “the adoption of the company form of organization” (Pallot 1995, p. 1, footnote). This definition of corporatisation has been widened by the Commission of Audit to “the application of commercial principles to a public authority’s operations, including limiting the power of ministers to issue directions” (English 1989, p. 62). Privatisation has been defined by the Commission of Audit as “the transfer of activities or ownership of assets and operations from the public sector to the private sector” (English 1989, p. 62; see also Pallot 1995, p. 1, footnote).

In Australia, public sector changes have included both government departments and public business enterprises (PBEs) (Guthrie 1993, p. 101). By their reforms, “[g]overnments have been turning away from the traditional ‘statutory form’ and adopting instead a ‘corporate form’ for the corporate governance, legal, accounting,
auditing and accountability regimes" (Guthrie 1993, p. 101; see McPhee 1990, p. 6).

According to Guthrie (1993) "[t]hese processes are labelled 'corporatisation' and the resultant entities are known as Government Owned Corporations (GOCs)" (Guthrie 1993, p. 101).

As noted earlier, Australian public sector reforms were dominated by economic rationalisation and managerialism philosophies. These will be addressed in more detail in the next section.

6.3 MANAGERIALISM OR LET THE MANAGERS MANAGE

One of the features of the recent reforms in Australia is the emphasis placed on a new concept of administration for the public sector environment. The new concept is known as 'managerialism' and involves an approach which emphasises 'letting the managers manage'. In introducing this new concept a broad attempt has been made to move from a focus on the bureaucratic control of narrow processes to a system of management flexibility which will allow for greater adaptability to change and an effective focus on results. Helgeby (1990) states that recent reforms in the Australian Public Service since 1983 have been managerialist in a sense which has placed a very considerable emphasis on performance and managing for results. According to him, reforming the dimension of accountability for performance has also added to traditional accountability for due process and probity (p. 10; see also Sinclair 1989; Kerr 1990, pp. 7-8; Pollitt 1986). The new form of accountability which is referred to as 'accountable management', was supported by the Royal Commission on Australian Government Administration's (RCAGA 1976) recommendations regarding the structure, functioning and composition of public sector bureaucracies (Parker and Guthrie 1990, p. 116; see also Sinclair 1989; Mascarenhas 1990, p. 89).
According to accountable management concepts, organisational objectives, particularly government programs, explicitly can be determined and put into practice. It is possible to measure inputs and outputs and discover "that relevant performance indicators can be found for all public sector activities. It is assumed that the information produced will be relevant to decision-makers, and will assist them in making rational decisions" (Parker and Guthrie 1990, p. 116; see also Guthrie 1991a; Baker 1980, p. 551; Humphry and Waters 1986, pp. 48-49; Gray and Jenkins 1986; Weller 1991, p. 11; McPhee 1990, p. 3).

An earlier definition of accountable management presented to the British government by the Fulton Report (1968, p. 149) refers to

the means of holding individual and units responsible for performance measured as objectively as possible. Its achievement depends upon identifying or establishing accountable units within government departments - units where outputs can be measured against costs or other criteria, and where individuals can be held personally responsible for their performance (quoted in Parker and Guthrie 1990, p. 116; see also Glynn and McCrae 1986, p. 93).

The values of managerialism as a culture have been presented by Sinclair in 1989. Performance of the organisation should be measured according to measurable or quantifiable goals or outputs. The function of management is to establish corporate mission statements and goals and then break down these goals into progressively smaller and more realisable objectives and action plans. The process of corporate planning is essentially top down and centrally driven with hierarchical power and highly centralised control. The policy development process is a matter of applying criteria of efficiency and effectiveness to performance goals (Sinclair 1989, p. 383).
Setting the objectives, the measurement of performance and the redefinition of accountability are the three critical issues for implementing the managerialist philosophy which have been addressed by Guthrie in 1991 (Guthrie 1991a, p. 11). He argues that the important problems in objective setting are: a lack of clear objectives; problems in defining the 'public interest'; and the absence of physical measures of output. It was envisaged that “objectives are given, can be operationalised and can be measured” (Guthrie 1991a, p. 11). The problems of multiple objectives, conflicting objectives and interdependence, and more importantly the impact of political objectives on programs generally were ignored. Prior to the reforms of the past decade the basis of resource allocation and ex-post measurement of an organisation's (management) performance were not shaped by objective achievement. It has been suggested that objectives should be set with reference to the 'public interest'. However, several problems arise, such as, “who defines the public interest? Are all members of the public to be treated equally? And who determines trade-offs between one sector of the population and another?” (Guthrie 1991a, p. 11). Identification of outputs is another problem. “What is the ‘output’ of the education service, the police service, the defence department, foreign affairs or a hospital?” (Guthrie 1991a, p. 11).

The second critical issue is concerned with the measurement of performance. In theory, the gains and sacrifices resulting from each of the alternatives, along with outputs, have to be measured. It is assumed that measurement is objective in nature. Thus, measurement “becomes a meaningful and purposeful activity which is ‘scientific and accurate’” (Guthrie 1991a, p. 11). Guthrie states that the managerialism model “tends to ignore the difficulties in equating monetary and non-monetary costs and benefits as well as the variations in valuation and measurement...
within monetary units. In fact, much of the measurement rests upon subjective, normative and value laden assumptions” (Guthrie 1991a, p. 11).

Some risks have been attributed by researchers to the "new managerialist" philosophy in the public sector. While effectiveness, representativeness, and responsiveness are the major objectives in public organisations, some cost-control-focused notions of managerial efficiency may threaten these characteristics. Overestimation of the priority of private sector models over public sector operations, without modification, may result in a less open and responsive form of government. This is because private sector methods are unit-efficiency oriented while public managers also see themselves accountable for values such as equality and fairness in providing services. “[T]he tendency to emphasise the employment of “hard” quantitative performance data may result in insignificant factors being accorded undue managerial attention and zeal, while factors that are crucial to performance may go unattended due to their more qualitative nature” (Parker and Guthrie 1993, p. 64). Any attempt to impose an unmodified private sector management philosophy may bring with it an attendant focus on single-index measures of performance inspired by private sector bottom line thinking (Parker and Guthrie 1993, pp. 64-65; see also Deegan 1995, p. 14; Parker and Guthrie 1990, p. 120). Therefore, important qualitative features and assessments may be ignored and public sector effectiveness may once again be impaired.

Managers may resist the application of new accountability systems imposed by the managerialist framework. Opposition could be avoided by changing the design and implementation of new accountability systems and by including appropriate levels of consultation and participation (Parker and Guthrie 1993, pp. 64-65; see also Deegan 1995, p. 14; Parker and Guthrie 1990, p. 120).
The Financial Management Improvement Program (FMIP) and Program Budgeting have been the means by which managerialism concepts and, accordingly, the objectives of reforms have been introduced and exercised. The nature and functions of these mechanisms in Australian public sector reform are defined and explained next.

6.4 FINANCIAL MANAGEMENT IMPROVEMENT PROGRAM AND ACCOUNTABILITY

6.4.1 Objectives of the Financial Management Improvement Program

The Financial Management Improvement Program was the major vehicle for developing, implementing and assessing reforms introduced by the Commonwealth government in Australia during the 1980s (Schick 1990; Guthrie 1991a; Mascarenhas 1993, p. 324; see also Wanna, O'Faircheallaigh and Weller 1992, p. 101; Guthrie 1989, p. 56; Russell 1993, p. 2; Bartos 1994b, p. 5; Stevenson 1994, p. 2). Program budgeting was a significant component of the reforms which complemented the FMIP. The term Program Budgeting was replaced by Program Management and Budgeting (PMB) in 1987-1988. The intention of PMB was to encourage a wider approach to program management than primarily the derivation of budgets and management of financial information (Russell 1993, p. 3; see also Bartos 1994a, p. 5). Program Management and Budgeting has been seen as "a vehicle to promote a greater output focus of public administration and ... a powerful agent for cultural change" (Bartos 1994b, p. 5; see also Russell 1993, p. 2). Bartos (1994b) says that by using Program Management and Budgeting managers can be asked "to write down the objectives of a program and the criteria against which to judge their achievement, and the resources devoted to back programs and to publish all three" (p.
5). In Program Management and Budgeting the attention has been focused on program objectives and the cost effective achievement of outcomes. This has provided an important framework for reporting on accountability to Ministers and the Parliament (McPhee 1990, p. 6). Schick (1990) argues that

FMIP/PMB is shifting the focus of budgeting from the inputs used to the results achieved. It seeks to change the operating culture of Australian public management from one which places a premium on compliance with externally-imposed rules to one which spurs managers to do the best they can with the resources at hand (pp. 28-29; see also Stevenson 1994, p. 1).

Two fundamental goals have been predicted for the FMIP. First, developing more effective public services, geared to produce results consistent with government objectives. Second, developing more efficient public services, and awareness of the costs to achieve results (Department of Finance 1988, FMIP Report, p. 6). It is assumed that these aims will be best achieved by giving more authority and appropriate responsibility to managers who are most directly involved in providing services (Department of Finance 1988, FMIP Report, p. 6; see also Bartos 1994b, p. 1). The budget environment has been streamlined to remove many constraints on management. There has been a change in the procedures of budgeting to provide greater incentives to manage for results and to highlight the importance of resource costs. Performance monitoring and evaluation have been given more emphasis by the FMIP (Department of Finance 1988, FMIP Report, p. 6; see also Sedgwick 1993, pp. 15 and 19-20; Crompton 1994). Thus, the budget and regulatory framework for public sector management has been improved by the FMIP. In this connection, the FMIP developed a more flexible regulatory environment, developed a more stable, results-oriented budget process and introduced incentives for greater efficiency and effectiveness (Department of Finance 1988, FMIP Report, p. 7).
According to Parker and Guthrie (1990) "the FMIP has been seen as a direct reflection of the emergence of managerialist philosophy in the public sector" (p. 120). It has been defined as "a comprehensive approach to improving resource management in the Australian Public Service" (Department of Finance 1988, FMIP Report, p. 5; see also Stevenson 1994, p. 1). Humphry and Waters (1986) are of the opinion that

FMIP is a Government initiative which, similar at least in name to the UK Financial Management Initiative, seeks to integrate the major strands of management improvement. It differs from previous attempts to reform Government administration in that it emphasises the need for improved management practices to be developed, within a common framework, to suit the particular circumstances of individual departments and agencies (p. 47).

According to the Department of Finance, the FMIP was different from previous approaches to management reform in several respects. It says that the FMIP

does not just confine itself to trying to reform management practices, but is a systematic and integrated approach to the public sector's achievement of Government objectives (Department of Finance 1992a, p. 7).

Three main broad areas are covered and considered by the FMIP: the public sector environment, management systems, and standards and practices. FMIP sought to create a public sector which would allow the government to streamline the budget and regulatory process in order to reduce the need for central controls and encourage efficient and effective management practices in departments. Introducing techniques and systems that help departmental and agency managers focus on results would generate sophisticated management systems. Standards and practices, in the FMIP,
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were concerned with changing administrative procedures and practices to give managers more incentive to manage and greater awareness of resource costs (Department of Finance 1988, FMIP Report, p. 5; see also Department of Finance 1992a, p. 7; Crompton 1994, p. 2).

The creation and operation of the Management Improvement Advisory Committee (MIAC) has assisted greatly in recent years with implementing FMIP reforms throughout the public sector. MIAC was created in December 1989 as a subordinate body to the Management Advisory Board (MAB) to review significant management issues and initiatives taking place within the Australian Public Service. The MAB itself was established in 1987 under the Public Service Act 1922 to advise the Government on significant issues relating to the management of the public service. As well as playing a leading role in the implementation of the FMIP, the two committees also serve as a ‘link’ between that program and those presently being overseen by agencies, including the Public Service Commission and the Department of Industrial Relations (Department of Finance 1992a, p. 8).

Guthrie (1991a) believed that implementation of FMIP in the Commonwealth has been slow since its establishment in 1984. He referred to some of the critiques of the FMIP as follows. Assessment of the usefulness of FMIP is impossible, mainly because FMIP is incapable of establishing clear objectives for all organisations. The information provided by FMIP is assumed to be technical and neutral and ignores the political processes which are involved in selecting and prioritising information. There are also some problems with the establishment of performance measures. The emphasis of FMIP is upon economy (lower costs) with not enough attention paid to effectiveness. Finally, the FMIP systems are costly and should be more closely scrutinised (p. 6).
6.4.2 Significant Elements of the FMIP

In Australia the main regulatory framework for financial management for departments and budget dependent agencies is provided by the Constitution, the Audit Act and annual and standing Appropriation Acts (Department of Finance 1988, FMIP Report, p. 8). The Department of Finance in the FMIP Report issued in 1988 noted that

> both the process of appropriation and detailed regulation of financial administration have been streamlined over the past four years - whilst maintaining and strengthening the basic principle of accountability to Parliament through the provision of information on outputs and outcomes (Department of Finance 1988, FMIP Report, p. 8).

In the appropriation process, the following flexibilities have been given to the departments and agencies to administer their operating expenditures:

- all ‘administrative expenses’ (sometimes over 20 items) were consolidated into one item in 1984-85.
- a further consolidation to a one-item ‘running cost’ appropriation was introduced in 1987-88, giving managers some scope to shift resources between salary and ‘administrative expenses’.
- carryover of unspent salaries and administrative expenses to the following year is now permitted (up to 2 percent of total running costs appropriation).
- ‘negative’ carryover has been introduced with the 1988/89 budget-departments are allowed one year only borrowing against next year's appropriation, with the same overall 2 percent limit.
- cash limits apply to running cost appropriations, except for specified items such as national wage increases (Department of Finance 1988, FMIP Report, p. 8; see also Stevenson 1994, p. 2).
In the FMIP, regulatory reforms have concentrated on simplifying, clarifying and updating the body of detailed rules governing financial management. A review of the Finance Directions by inter-departmental teams was done and it showed that many of the recommended changes eg, interdepartmental charging, have been implemented. The main recommendations of the review were to:

- replace detailed prescriptions for departments with broad guidelines in each section of the Directions.
- devolve responsibilities for issue of specific directions to departmental Secretaries.
- issue specific directions primarily in areas where uniform standards of service promote efficiency (eg, payment of bills).
- vary levels of checking according to levels of risk to the Commonwealth
- increase individual responsibilities (eg, travel arrangements).
- modify processes and regulations in line with new technology or new policy (eg, introduction of credit cards) (Department of Finance 1988, FMIP Report, p. 9).

The implementation of program management and budgeting, integration of the forward estimates and annual estimates processes, and cohesion of staff and financial budgeting are the main measures that have been introduced to improve budget processes and link resource allocation decisions to results (Department of Finance 1988, FMIP Report, p. 10 ; see also Stevenson 1994, p. 2; Sedgwick 1993, p. 16; McPhee 1990, p. 4). The forward estimates of budget outlays provide detailed estimates for the three years following the current year. They provide a Finance-endorsed estimate of the future cost of carrying out existing policy. The forward estimates are the starting point for the subsequent years' budgets (Sedgwick 1993, p. 16; see also Rosalky 1990, pp. 3-4).

Running costs have been introduced as part of the program budgeting process. According to this concept, each agency is appropriated one bucket of money each
year for administrative expenses/operating costs. This results in a cash limitation for agencies and includes salaries, administration and property expenses. The purpose of introducing running costs is to enable program managers to spend their salaries and administration budget in the way which best meets their program objectives without further recourse to central agencies or Parliament. The previous cost arrangements included a number of separate appropriations for departmental inputs such as salaries, postage, travel etc. Moving from one input category to another required parliamentary approval. Running costs arrangements allow agencies to carry over underspends or borrow money from the future years and also the authority to carry forward to the next year up to 6% of those budgets. Program managers also can make money and keep it for running costs purposes. Agencies must pay an annual efficiency dividend (Stevenson 1994, p. 2; Barrett 1994a, p. 14; Bartos 1944b, pp. 2-3). According to the 1988 FMIP Report, the main vehicles through which departmental running costs are considered on a program basis are:

- explanatory Notes for Senate Estimates Committee's examination of the estimates
- consideration of all new policy proposals in relation to their parent programs
- a program presentation of the Budget in ‘Budget Paper No. 3 - Portfolio Program Estimates’ (Department of Finance 1988, FMIP Report, p. 11; see also Stevenson 1994, p. 2; Bartos 1994b, pp. 2-3 & 6; Rosalky 1990, pp. 4-5).

Making programs a central focus for strategic management by departments and agencies is the long-term aim of the reforms. To achieve this aim, it is suggested that different approaches to program management will be appropriate for different organisations, and agencies (Department of Finance 1988, FMIP Report, p. 11). Organisation structure, performance indicators, and evaluation of programs are some of the important issues in developing program management. According to the
Department of Finance (1988) "organisation structure may not always align program structure-operational and strategic management roles need to be carefully defined" (p. 11). Performance indicators, particularly those relating to effectiveness, are often of a qualitative nature. The evaluation of programs is a long-term task that requires an individual agency approach. The establishment of evaluation planning processes is intended to assist in upgrading evaluations (Department of Finance 1988, FMIP Report, p. 11; see also Crompton 1994, pp. 6-9).

To make the budget process more stable and predictable for departmental managers a number of steps have been taken:

1. forward estimates are considered as the basis of the next year's budget requests;
2. budget policies are seen as longer term and are put in place earlier;
3. portfolio targets devolve more budget decisions to Ministers; and
4. financial and staff budget controls are unified (Department of Finance 1988, FMIP Report, p. 12 ; see also Stevenson 1994, p. 2; McPhee 1990, p. 4; Rosalky 1990, p. 2).

It is believed that the creation of an environment in which good management performance is rewarded and poor performance penalised will secure the success of the program of management reform in the long-term (Department of Finance 1988, FMIP Report, p. 13). To create such an environment some measures have been introduced, namely: devolution of authority to departments, the efficiency dividend, revenue retention, and use of receipts from asset sales. Efficiency dividend refers to the payment of some of the gains which are achieved through improvements in management and technology by departments to the Commonwealth. Revenue retention considerations arise when new sources of revenues are created by agencies. Arrangements then have to be in place for agreeing on shares of new revenues
between the budget and such organisations as the Commonwealth Scientific and Industrial Research Organisation (CSIRO), ANSTO, AIMS and the Australian Bureau of Statistics (ABS) (Department of Finance 1988, FMIP Report, p. 13).

The Commonwealth government also instituted the FMIP to upgrade the management skills of those involved in financial management. The 1986 FMIP Report described management systems within agencies in terms of five elements of 'managing for results' including:

- corporate management
- program management
- organisation design
- management information
- evaluation (Department of Finance 1988, FMIP Report, p. 14; Department of Finance 1992a, pp. 9-10; Emy and Hughes 1988, p. 361; Crompton 1994, pp. 6-9).

Corporate management is concerned with “defining the mission and goals of an agency, determining strategy and priorities, and guiding allocation of resources to programs.” The determination of the precise objectives and targets for programs and activities is the purpose of second element, program management. It also includes the strategy for achieving results and the way in which programs are to be monitored and reviewed. Organisation design is concerned with “the subjects such as determination of the responsibilities and relationships between different levels of management and developing authority down the organisation as far as is practicable”.

The purpose of management information is to ensure “that managers have appropriate, accurate and timely information so they know whether or not their
programs are effective and efficient”. Reviewing regularly all aspects of the organisation's performance and assessing new policies, to make sure that the organisation is on the right track, are the aims of the evaluation element (Department of Finance 1988, FMIP Report, p. 14; see also Department of Finance 1992a, pp. 9-10; Bartos 1994b, p. 1; Crompton 1994, pp. 6-9).

According to the broad principles of FMIP, departments themselves are responsible for developing management systems appropriate to their needs (Department of Finance 1988, FMIP Report, p. 15). Charging for services, applying commercial practices to Government and developing new accountability standards are some of the government's other policies which have been introduced through the FMIP to reform Australian public sector management.

One of the key elements of the FMIP is charging for services. The introduction of charges for a variety of services has been adopted as a policy since the Hawke Government. Improving efficiency by ensuring that managers and users of public services are fully aware of the costs of public activities is a major objective of charges. “Providing users have the authority and flexibility to vary the level of service purchased, both users and providers of services will have a greater incentive to use resources efficiently” (Department of Finance 1988, FMIP Report, p. 23; see also Bartos 1994b, p. 4; Stevenson 1994, pp. 2-3; McPhee 1990, p. 5).

Charges for a number of services previously provided free to other departments were introduced by the Government in July 1987. These services included legal services, design and construction, property management, survey and mapping, workers' compensation insurance, printing services, transport storage and freight, and security services. In some cases, these services have also given the private sector the
opportunity for competition (Department of Finance 1988, FMIP Report, p. 23; see also Stevenson 1994, pp. 2-3; Sedgwick 1993, p. 18; McPhee 1990, p. 4). Finance Directions concerned with interdepartmental charging (section 29) have been radically changed. In the past, the general convention was that charges should not be made for goods and services provided between departments. But the new section 29 reverses that rule and now the general presumption is that charges should generally be made for interdepartmental services. The exception is “where a case can be made that the costs of administering charges are excessive or the service has a significant ‘public interest’ component” (Department of Finance 1988, FMIP Report, p. 23; Sedgwick 1993, p. 18).

As part of the machinery of government changes, the Department of Administrative Services was established for the purpose of consolidating most common services under a single portfolio. There was a mandate for the new department to introduce commercial principles throughout its operations (Department of Finance 1988, FMIP Report, p. 23).

Under FMIP, a range of measures which are commonly associated with the private sector are being applied to a number of government practices. In addition to the increased use of charges for services, some of the other commercial practices that have been adopted by government are:

- **accounts processing**
  Following an Efficiency Scrutiny, accounting procedures have been streamlined throughout the public service. Duplication of checking prior to certification has been reduced and the level of checking is varied according to the level of risk. Corporate credit cards have been introduced. These changes have brought about direct budget savings, but equally importantly they have improved efficiency and effectiveness by requiring more timely payment of bills and reducing the time taken for processing of accounts.
**procurement practices**

Similar principles have been used in a Review of Commonwealth-wide Procurement. As a result of this Review, the Commonwealth has decided to reduce central regulatory control over purchasing. Departments will be able to establish their own procedures and take responsibility for cost-effective purchasing within Service-wide guidelines.

**cash management**

Better cash management by government agencies reduces the cost of government's cash holdings by reducing total interest payments and the need for borrowing. Government agencies have improved their cash management by reducing the level of advances used to carry out operations and by obtaining commercial rates of interest on all accounts. Payment of receipts to the Commonwealth Public Account is now done in 24 hours (compared with 7 days previously) (Department of Finance 1988, FMIP Report, p. 24).

### 6.4.3 Developing New Accountability Standards

Making agencies more accountable for their performance rather than simply for compliance with appropriation and administrative and financial regulations was the eventual aim of the FMIP reforms. The establishment of such standards is a long-term task which will depend on progress in developing evaluation processes and systems of reporting on performance (Department of Finance 1988, FMIP Report, p. 25; Crompton 1994, pp. 6-9).

At the time of the first major review of the FMIP in 1988 the following initiatives had been implemented to help establish standards for performance evaluation:

**appraisal of new policy proposals**

New policy proposals are required to include a statement of objectives and to set out the key results areas that will provide the basis of monitoring performance of the new initiative. For the 1988-89 budget, departments were asked for the first time to explain fully
their strategy for evaluating the ultimate success or otherwise of each proposal.

- **Explanatory Notes for Parliament**
  The program format of Explanatory Notes to the Senate Estimates Committees (SECs) is being progressively developed to enable the Committees to focus more clearly on the performance of each program in departmental portfolios.

- **Financial Statements**
  For 1988-89 and subsequent years, departmental secretaries are required to prepare detailed financial statements and include them in Annual Reports tabled in Parliament. The new arrangements will provide for the disclosure of more comprehensive financial information with respect to departmental operations and improve accountability (Department of Finance 1988, FMIP Report, pp. 25-26).

This last aspect of the FMIP represented a key element in the success of the FMIP, for as well as “letting the managers manage” the FMIP had to ensure that the government could “make the managers manage”. To achieve this, deficiencies in existing accounting practices would have to be addressed. Accordingly, accounting mechanisms and practices are two of the areas which have been significantly affected by the recent reform in the Australian public sector. The most notable reform, to be discussed below, was the introduction of accrual accounting to all agencies of government.

### 6.5 ACCOUNTING AND BUDGETING SYSTEMS IN AUSTRALIA POST-REFORM

The basis of the Commonwealth Government accounting framework is embodied in the Australian Constitution and derives its substance from the *Audit Act 1901*. The

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3 See section 6.5.1.2 for a discussion of current procedures.
4 See footnote No. 3.
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former includes key provisions such as: the power which has been given to the Parliament to make laws for taxation and borrowing money on public credit and also the exclusive right to impose customs and excise duties under sections 51 and 90. The Constitution also requires that all revenue raised or money received by the Executive Government (that is, the Executive Council, consisting of all Ministers, acting through the Governor-General) has to form one Consolidated Revenue Fund to be appropriated for the Commonwealth's purposes (section 81) and no money can be drawn from the Treasury of the Commonwealth except under appropriation made by law (section 83). Last, but not the least, under section 56 the Executive has the sole right to present expenditure proposals to Parliament.

Parker and Guthrie (1990) argue that the adoption of new accounting technologies has been one of the main means by which the new managerialism has been introduced to Australia (p. 115). They state that the reforms' "impact is epitomised by the 'new' accounting technologies being pursued in the name of program management, including Program Management Budgeting, Financial Management Improvement Program, changes to performance measurement, enhanced annual reporting, and a greater emphasis on performance auditing" (Parker and Guthrie 1990, p. 114). Figure 6.2 shows a summary of the major changes relevant to public sector accounting in Australia.

6.5.1 Organisation of Public Sector Accounting in Australia

Prior to 1976 the form of government accounting in Australia was a modified form of the Westminster model of government accounting. The Westminster model of government accounting, which is derived from the powerful traditions and conventions of London's Great George Street, the home of Her Majesty's Treasury
(Hardman 1982, p. 25), is based on the assumption of centralised financial and economic authority. In this model, by convention one entity, usually the Treasury or
Figure 6.2
General Summary of Changes Relevant to Public Sector Accounting

I. Forward estimates and budgetary processes
- Budget estimates in program format;
- Forward estimates of outlays, on a three-forward-years basis;
- Increased expenditure review processes, linked to focus on cost recovery and evaluation of programs;
- Changes to appropriation and special appropriation procedures;
- Programme performance statements.

II. Financial management
- Introduction of the financial management improvement program;
- Financial directives (e.g., banking);
- Single running costs appropriation;
- Certain receipts generated within departments can be retained;
- Greater emphasis on asset management;
- Introduction of accrual information for identifying "true costs" and "user charges."

III. Expenditure and performance measurement
- Changes to the expenditure statements;
- Requirement for performance indicators for certain government entities;
- Introduction of capital accounting and depreciation;
- Recognition of outstanding liabilities (e.g., superannuation, other employee entitlements).

IV. Financial and annual reporting
- Minister of Finance Financial Statement Guidelines required a program statement, supplementary financial information, disclosure of fixed assets, and so forth;
- Explanatory notes and performance statements;
- Various annual reporting regulations and guidelines outlining the form and content for departments, SA, and PBEs;
- Department of Finance annual reports trial accrual accounts and the requirement that all departments will adopt an "accrual method" for financial reporting;\(^5\)
- Whole-of-government reporting.\(^6\)

V. Review and auditing
- Compulsory evaluation of government programs;
- Efficiency scrutiny (internal and external);
- Efficiency and performance audits.

(Source: Parker and Guthrie 1993, p. 76)

\(^5\) Accrual accounts are in place now (see section 6.6.2).
\(^6\) Whole of government reporting on an accrual basis is on trial now (see Department of Finance 1996).
Department of the Treasury, is responsible for the two functions of financial management and control, and economic policy and advice which are centralised (Hardman 1982, p. 24). The main functions of the Treasury at that time included:

- advising [sic] financial, monetary and general economic policy;
- controlling the public account, including the authorising of expenditure;
- the collection of revenue and the management of the public debt;
- preparing taxation and loan proposals;
- administrating financial legislation such as that on banking, foreign exchange, etc.;

The present Australian Commonwealth model of public sector finance is something akin to that which is referred to, after the Canadian approach, as the Ottawa model. In 1976 the second Fraser Liberal Country Party Government transferred some of the responsibilities of the Treasury to the new Department of Finance (Hardman 1982, p. 30; see also Glynn and McCrae 1986, pp. 91-92). Hardman (1982) says that

[under an Administrative Arrangements Order the functions of financial management and control at the Commonwealth level were vested in a newly-created Department of Finance, while the functions of economic policy analysis and advice to the Government remained with the existing Department of the Treasury. The Treasury also retained control over the revenue-but not the expenditure-side of the Budget (p. 30; see also Glynn and McCrae 1986, pp. 91-92).

According to the Department of Finance (1981, p. 1) the adoption of the Ottawa model of finance was designed to broaden and strengthen the sources of advice to the Government and to facilitate more effective budgetary management (in Hardman 1982, p. 30). Of particular relevance to this study, the Department of Finance, with the co-operation of the ANAO, was given responsibility for developing
Commonwealth Government accounting policy and practices and in coordinating and promoting accounting and financial management practices in all executive departments and agencies. The major functions of each of these two central agencies, and their interrelationships, are explained briefly in the following subsections.

6.5.1.1 The Australian National Audit Office

The Australian Audit Office was established by the Audit Act of 1901 as an Audit agency of the Commonwealth Government and came into operation on 1 January 1902 (Commonwealth of Australia 1993, Audit Act 1901, Section 2). The Office is under the control and direction of the Auditor-General of Australia who is appointed by the Governor-General (Commonwealth of Australia 1993, Audit Act 1901, Section 3).

In 1988, the name of the Australian Audit Office was changed to Australian National Audit Office (ANAO). Sharpe (1992) states that “[t]he aims of the ANAO are in its vision statement which sets down its role and purpose as to serve the community as independent auditor to the Parliament improving Commonwealth public sector administration and accountability” (p. 13). The ANAO has responsibility to audit the departments of the Commonwealth Government, departmental commercial undertakings, statutory authorities, and almost all Commonwealth owned or controlled companies (Commonwealth of Australia 1993, Audit Act 1901, Section 41). Section 41 of Audit Act 1901 provides that the Auditor-General has responsibility to audit the accounts and records of the ministries to:

(a) ascertain whether the moneys shown therein to have been disbursed were lawfully available for expenditure in respect of
the service or purpose to which they have been applied or charged; and

(b) ascertain whether the provisions of the Constitution and of this and any other Act and the regulations relating to public moneys have been in all respects complied with (Commonwealth of Australia 1993, Audit Act 1901, Section 41).

The responsibility of reporting on the financial stewardship and the economy and efficiency of the operation of Commonwealth entities to the Parliament is with the ANAO (Commonwealth of Australia 1993, Audit Act 1901, Section 11A; see also Australian National Audit Office 1995, p. 3).

The objectives of the ANAO as set out in the Corporate Plan 1991-92 to 1993-94 can be summarised as follows:

(a) **Performance audits.** To provide an independent evaluation to Parliament, to the Executive, to Boards, to management and to the public of the economy, efficiency and effectiveness of administration of Commonwealth public sector entities.

(b) **Financial Statement Audits.** To provide independent assurance to Parliament, to the Executive, to Boards, to management and to the public on the financial statements of Commonwealth Public Sector entities.

(c) **Audit Support.** To provide audit and management support services which facilitate the achievement of the corporate mission of the ANAO.

(d) **Executive Support.** To provide efficient and effective management support services which monitor and contribute to the achievement of the ANAO's corporate mission; to provide assistance to parliamentary committees; to effectively implement, maintain and monitor progress on public service wide initiatives; to provide a means for appropriately and effectively deterring fraud against the ANAO, safeguarding against it and detecting it promptly.

(e) **Information Technology.** To develop and implement computing systems and facilities to achieve improvement in the ANAO's effectiveness through the use of computer technology to support all aspects of the management and conduct of the audits (Sharpe 1992, pp. 13-14).
Concerning the settlement of accounts and claims, the ANAO has the responsibility for settling the accounts of disbursing and collecting officers who are accountable for public funds and for making settlements with certifying officers when there are improper certifications on vouchers.

Further, the Auditor-General is required by law to decide on the legality of expenditures of public funds. The decisions are forwarded to heads of executive departments and agencies, or disbursing or certifying officers, who are authorised to apply for a decision upon any question involving a payment to be made by or under them or pursuant to their certification. In addition, many legal questions arise in the audit and settlement work of the ANAO which require determination. The decisions of the Auditor-General are, by law, final and exclusive to the executive branch of the Government. The decisions establish the validity of the individual payments and, in some instances, the legality of entire programs.

Finally, the Australian National Audit Office also provides special assistance on request to the Parliament, its committees, or members and officers. This special assistance can be in the form of special audits, surveys, and investigations performed on the request of the committees, members or officers of Parliament; testimony before Parliamentary committees by the Auditor-General or his representatives on matters considered to be within the special competence of the Auditor-General Office; or comments or assistance in drafting proposed legislation or other advice in legal and legislative matters. The Auditor-General is also responsible to make recommendations for accounting reform (Audit Act 1901, Section 54).
6.5.1.2 The Department Of Finance

As noted earlier, the Department of Finance was created in December 1976 "to provide for more effective management of the business of government and to strengthen the Government's decision making process" (Department of Finance, Annual Report 1995a, p. 3). This department is a part of the executive branch of the Federal Government, and is headed by the Minister of Finance. Promoting value for money in the management of the Commonwealth public sector through quality advice and service to clients has been stated as the Department of Finance's mission. According to the Administrative Arrangements Order (AAO) of 6 June 1994 the following principal matters have been given to the Department of Finance:

- evaluation and review of governmental programs and associated expenditure and staffing proposals;
- expenditure and staffing estimates;
- governmental financial administration and accounts, including administration of the Public Account;
- Commonwealth superannuation schemes;
- general policy guidelines for Commonwealth statutory authorities and government business enterprises (GBE) and monitoring the financial performance of GBEs;
- oversight of Commonwealth public sector financial management policy development; and
- conduct of major asset sales (Department of Finance 1995a, Annual Report, p. 3).

The Financial Management Division of the Department of Finance is responsible for the development, operation and control of the central accounting systems. Its responsibility includes the provision of accounting policy and services to departments and selected statutory authorities. This Division is also responsible for the administration of the Audit Act 1901 and related financial legislation which provide the framework for Commonwealth financial administration. Co-ordination
and preparation of the annual supply and appropriation measures, and administration and advice on forward obligation procedures and the Advances to the Minister of Finance are other responsibilities of the Financial Management Division (Department of Finance 1995a, Annual Report, p. 7).

The Department of Finance provides Guidelines for preparing financial statements by Government Departments and Commonwealth Authorities, the latest being issued in 1995, in accordance with the requirements of section 50 of the *Audit Act 1901*. Consistent with SAC 2, AAS 27 and AAS 29 the objectives of these financial statements, which are general purpose financial reports, are to disclose information which is useful in making economic decisions and to satisfy accountability. Guidelines for preparing financial statements by both Government Departments and Commonwealth Authorities are based on Australian Accounting Standards and Statements of Accounting Concepts (Department of Finance 1995c, p. 1; Department of Finance 1995b, p. 3).

The following statements are required under the Guidelines, “Financial Statements of Departments”7, to be prepared and must be included in a department's annual report:

- an Operating Statement
- a Statement of Assets and Liabilities
- a Statement of Program Expenses and Revenues
- a Statement of Program Assets and Liabilities
- a Statement of Cash Flows
- a Statement of Transactions by Fund (Department of Finance 1995b, p. 4).

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7 The General Government Sector.
The *Guidelines on Financial Statements of Commonwealth Authorities* requires two different financial statements for commercial Commonwealth authorities and non-commercial Commonwealth authorities to be included in their annual reports. For commercial Commonwealth authorities, the following must be provided:

- a Profit and Loss Statement\(^8\);
- a Balance Sheet\(^9\); and

Under the Guidelines, non-commercial Commonwealth authorities must prepare the following statements and include them in their annual reports:

- for Statutory Marketing Authorities, Research and Development Corporations and Higher Education Institutions—a Statement of Revenues and Expenses;
- for other authorities—an Operating Statement;
- a Statement of Financial Position; and
- a Statement of Cash Flows (Department of Finance 1995c, p. 2).

### 6.5.2 AAS 29 and Financial Reporting in the Australian Public Sector

In 1983 in response to approaches from Parliamentarians the Public Sector Accounting Standards Board (PSASB) was established by the two Australian accounting bodies, the Australian Society of Certified Practising Accountants and the

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\(^8\) Commonwealth Authorities include both commercial Commonwealth authorities and non-commercial Commonwealth authorities (Department of Finance 1995c, pp. 1-2).

\(^9\) This statement is equivalent to the operating statement of departments.

\(^10\) This statement is equivalent to the statement of assets and liabilities of departments.
Institute of Chartered Accountants in Australia, State and Commonwealth Auditors-General and public servants. The primary objective of establishing the PSASB was to improve the quality of external financial reporting in the public sector (Sutcliffe et al 1991, p. 9; see also Humphry and Waters 1986, p. 48). Since 1983, the PSASB has issued a number of accounting concepts and accounting standards. These concepts and standards are based on the objectives, noted earlier in section 6.5.1.2, defined for financial reporting by public sector entities. According to these objectives, the purpose of financial reporting in public sector entities is to disclose information:

(a) useful in making economic decisions;

(b) to satisfy accountability (SAC 2, paras 43-45).

To date two accounting standards specifically applicable to the public sector, Australian Accounting Standard 27 “Financial Reporting by Local Governments” and Australian Accounting Standard 29 “Financial Reporting by Government Departments”, have been prepared by the PSASB. AAS 27 is not relevant to this study because it is not concerned with the Australian Commonwealth Government. The remainder of this section will be devoted to the main features of AAS 29.

Like other overseas countries, an extensive due process has been adopted by the PSASB for standard setting. In the case of AAS 29, discussion Paper No. 16 was prepared by AARF staff in conjunction with an external contractor and was issued in 1991. This discussion paper was followed by Exposure Draft ED 55 which was issued in January 1992 and the deadline for public comment was June 1992. During the period of exposure, seminars were conducted by the AARF and the PSASB in capital cities. Subsequently a draft Accounting Standard was provided to the ICAA
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and the ASCPA for 30-day comment and to the Standing Treasuries Liaison Committee (STLC) for comment. Finally, Australian Accounting Standard AAS 29 was issued in December 1993 for application by 1996/1997 (McPhee 1994a, p. 3; Micallef 1994, p. 33; see also Department of Finance 1994; D'Angelo 1992).

The purpose of AAS 29 is “to set out standards for the form and content of general purpose financial reports of government departments” (AAS 29, para 4) and to be consistent with SAC 2. SAC 2 requires the disclosure of information “relevant to the assessment of performance, financial position, and financing and investing, including information about compliance” (SAC 2, para 45). AAS 29 requires all the government's reporting entities to prepare general purpose financial reports (AAS 29, para 17). It also adds that these reports “shall disclose the identity of the legislation or other authority pursuant to which the general purpose financial report has been prepared” (AAS 29, para 12). Accrual accounting has been accepted by AAS 29 in the preparation of the general purpose financial reports of a government department. As Micallef (1994) notes, “[t]he PSASB believes that adoption of AAS 29 will improve significantly the quality of general purpose financial reporting by government departments in Australia” (p. 33). Although the intended coverage of AAS 29 is explicitly stated there was at one stage some uncertainty about the determination of particular government departments as reporting entities. According to Statement of Accounting Concepts SAC 1, “Definition of the Reporting Entity”, “most, if not all, government departments are reporting entities and should prepare general financial reports in respect of each reporting period” (AAS 29, para 19).

Two criteria have been given by AAS 29 for the materiality of the information in the general purpose financial reports of government departments. Information is
material if the omission, non-disclosure or misstatement of information about a
government has the potential to adversely affect:

(a) decisions about the allocation of scarce resources made by users
    of the government department's general purpose financial report;
    or
(b) the discharge of accountability by the government department
    (AAS 29, para 6)

Micallef (1994) in a paper, "A New Era in Reporting by Government Departments"
concludes that

[t]he concept of accountability reflected in AAS 29 is a broad one: it
is that departments should be accountable not only for the
expenditure of funds in accordance with appropriations or other
spending mandates, but also for the efficient management of
resources under their control and the achievement of their operating
objectives (p. 34).

Parliament has been recognised as the primary user of the general purpose financial
reports of government departments by AAS 29. Provider(s) of the resources that
departments control (taxpayers and creditors), receiver(s) of goods and services or
those who benefit from the activities of departments (customers), and overseer(s) or
reviewer(s) of the services on behalf of members of the community (regulators,
community groups and the media) are other potential users of the general purpose
financial reports of government departments (AAS 29, para 21).

Consistent with the Department of Finance "Guidelines on Financial Statements of
Departments" AAS 29 states that government departments shall report the assets,
liabilities, equity, revenues, expenses and cash flows in the financial statements
(AAS 29, para 35). Government departments are required to prepare an operating
statement, a statement of financial position and a statement of cash flows (AAS 29, para 40). The operating statement shall be prepared in accordance with Australian Accounting Standard AAS 1 “Profit and Loss or other Operating Statements” and the revenues and expenses of the government department for the operating period shall be disclosed (AAS 29, para 42). An example of a general purpose financial report for a government department has been provided in AAS 29.

6.5.3 Introduction of Accrual Accounting

A decision was announced by the Minister for Finance, in November 1992, that Commonwealth departments would progressively move to financial reporting on an accrual basis (Department of Finance 1993a, p. 20; see also McPhee 1993, p. 2; McPhee 1994b, p. 4; Barrett 1994b, p. 4; JCPA 1995). At the time of announcement the Minister said that

... the proposed new reporting arrangements build on a series of reforms introduced by the Government over the past 10 years aimed at improving the efficiency and effectiveness of the public sector, and its accountability to the Parliament (quoted in JCPA 1995, p. 10).11

The Commonwealth Government decided to introduce accrual reporting by Departments over a period of some three years (McPhee 1993, p. 11). This included a trial period in several government departments. Following this introduction, ten departments elected to report on an accrual basis in 1992-93. The number of agencies that reported on an accrual basis in 1993-94 was sixteen (Barrett 1994b, pp. 4-5). It was expected that 20 agencies would report on an accrual basis for 1993-

11 Emphases in original.
1994. The remaining agencies were to report on an accrual basis for 1994-95 (McPhee 1994b, p. 5). Therefore, the strategy was to move all Commonwealth departments to accrual reporting by the year ended 30 June 1995 (Department of Finance 1993a, p. 20; see also JCPA 1995; McPhee 1993, p. 11). Accrual accounting had been used for many years in some statutory authorities and all government owned companies.

As discussed already, to implement accrual accounting it is essential to keep a record of long-lived assets. Consequently, this requires valuation of assets to be recorded. The Department of Finance refers to four valuation methods for Commonwealth Departments and Authorities' long-lived assets in the “Guidelines on Financial Statements of Departments” and “Guidelines on Financial Statements of Commonwealth Authorities”: current market buying price, current replacement cost, market value and the greater of net present value (NPV) and current market value (selling price) (Department of Finance 1995b, p. 49, 1995c, p. 59).

6.5.3 An Evaluation of the Implementation of Accrual Accounting

As noted in the previous section, in 1992 the Department of Finance announced the movement towards using accrual accounting in Commonwealth departments. The adoption of accrual accounting in the general government sector is part of a broader public sector reform process and is seen as “one element of [public sector reform] which is to improve public sector efficiency and effectiveness by introducing aspects of commercial business practice” (JCPA 1995, pp. xi & 8). In August 1995 the JCPA prepared a report on the implementation of accrual accounting as a consequence of concerns expressed in two reports presented to the Parliament by the Auditor-General in 1994. The reports, Audit Report No. 32, 1993-94, Efficiency
Audit, Accrual Reporting—Are Agencies Ready? and Audit Report No. 16, 1994-94, Follow-up Audit, Accrual Reporting—Are Agencies Ready? (ANAO 1994a, 1994b; JCPA 1995), provided an assessment of whether agencies were adequately prepared to meet the then emerging requirements of accrual reporting obligations (ANAO 1994a, 1994b; JCPA 1995).

The JCPA reported that the value of accrual information had been recognised only by a few of agencies and that the full potential of accrual information had yet to be explored by most agencies (p. xii). Audit Report No. 32 found that “while most agencies saw benefit in moving to accrual accounting, many had not been well prepared for the accounting reforms ... and were not well prepared for the introduction of full accrual reporting” (JCPA 1995, p. 13). According to the JCPA report, at that time, only a few agencies implemented accrual accounting systems and used accrual information as a management tool (JCPA 1995, p. 38). The follow-up audit by the ANAO, Audit Report No. 16, 1994-95, found that only a small percentage of agencies indicated that their executive (16%) and program managers (8%) use accrual-based information in financial management decision-making and program administration ... [and] about 60% [of those surveyed] had not planned for its introduction in the next two financial years or had no intention to do so (ANAO 1994b, pp. 9-10; see also JCPA 1995, p. 53).

The JCPA (1995) concludes that, in light of the evidence that most managers have not prepared accrual reports and few understand that accrual information can be used for day to day management and decision making, the necessary cultural change has not yet happened (p. 53).
Contemporaneous with the investigations of the ANAO, the accounting firm Ernst and Young conducted a national survey of accrual accounting in the public sector in mid-1994. The survey was set against the recent issue of AAS 27 and AAS 29 which called for the adoption of accrual reporting at Local, State and Commonwealth levels. The purpose was to evaluate the process of implementation of accrual accounting, the nature of obstacles to effective implementation and to identify the costs and benefits that agencies had identified to date (Ernst and Young 1995, p. 1; JCPA 1995, p. 16).

The results of the survey showed that a high proportion, almost 83%, of respondents have or were currently implementing accrual accounting. A formal implementation plan had not been used by 30% of respondents in implementing accrual reporting. Audit Report No. 16, 1994-95's finding that over 30% of respondents saw that there was no other use for accrual financial statements in their organisation other than to satisfy a legislative reporting requirement noted earlier, was confirmed by Ernst and Young's survey results. Developing and implementing information systems, accounting policy directions and accounting procedures manuals were the most significant problems during the preparation of accrual based financial statements by agencies (Ernst and Young 1995, p. 2; JCPA 1995, pp. 16-17 & 53).

To overcome the problems disclosed by the JCPA, and Ernst and Young in implementing accrual accounting in the Commonwealth public sector agencies, the JCPA (1995) specified a number of remedies, categorised according to whether they would be the responsibility of the Department of Finance or the Government.

Recommendations relevant to the Department of Finance highlighted the need to market more effectively to managers the benefits of accrual accounting for decision
making, to institute new training programs for senior executive officers and to make available to a wider audience the Department of Finance's easy to read introduction to accounting reforms, *The New Financial Reports of Agencies*. In addition, the Department of Finance should encourage agencies to pool resources to reduce costs associated with the implementation process. At the same time, the Commonwealth Government was urged to provide clear and strong signals to agencies of the government's commitment to new management information systems based upon accrual accounting. This could be achieved, at least in part, by providing additional funding to assist managers to set up the financial management systems designed to get the best from accrual accounting (JCPA 1995, pp. xiv-xvii).

The Ernst and Young's survey supported some of the JCPA's recommendations. The survey gave particular importance to the need for agency managers to be more educated concerning the benefits which are achievable from the systematic use of accrual information, especially in terms of better resource management. The results also suggested that "management is not yet convinced of the benefits such as better resource management decisions and improved asset management including cash" (Ernst and Young 1995, p. 2). The findings of this study also recommended a need for investment in accounting systems in order to be able to provide relevant information regularly for management on both a cash and an accrual basis (Ernst and Young 1995, p. 2). To achieve the full returns from investments being made in implementing accrual reporting and accounting, Ernst and Young (1995) also suggested the full commitment by Government agencies to budgeting, accounting, managing and reporting on a full accrual basis. In addition, they believed that "continued control of annual budgets on a cash basis alone offers no incentives to agencies to pursue the efficiency gains made possible by the increased availability of
relevant information from the regular supply of accrual information” (Ernst and Young 1995, p. 2).

An essential requirement for countries contemplating reform which seeks to take advantage of the experiences of countries in the vanguard of reform is the early recognition of problems encountered by reformers. In the case of developing countries these difficulties may be far more accentuated as they seek to grapple with few resources, an inadequate pool of trained people and opposition from interested groups. Therefore, reformers of the Iranian public sector should be aware of the problems facing Australia even after a decade of reform.

A detailed description of the accounting and budgeting systems of the Islamic Republic of Iran was provided in chapter 5. It was shown how, overwhelmingly, the accounting system of the general government sector is cash based and designed to complement the categories of approved expenditure in the budgeting system. It has also been demonstrated that the accounts are used for the purposes of establishing the legality and regularity of expenditures. These features of traditional public sector accounting, it has also been noted, are inadequate to meet the needs of governments in times of fiscal restraint. For Iran the weaknesses of its accounting systems are all the more significant as it seeks to meet the objectives of its Five-Year Plans and thus raise the living standards of its people. Therefore, the remainder of this chapter will examine the relevance of the accounting and financial management reforms enacted in Australia, as covered above, for giving Iran an accounting system which will provide the necessary management tools and accountability mechanisms to achieve government goals as expanded in the Five Year Plans. This will then make possible a list of recommendations in chapter 7 for the reform of the Iranian government
accounting system. These recommendations will be considered with regard to Iran's unique social, historical and political context, as developed in chapters 2-4.

6.6 ACCOUNTING REFORM AND THE RELEVANCE OF CULTURE

Cultural factors have been seen to play an important role in forming accounting practices (Tomkins and Abdul Karim 1987; Perera 1989; Belkaoui and Picur 1991; Hamid, Craig and Clarke 1993; Baydoun and Willett 1994, 1995; Fechner and Kilgore 1994; Pourjalali and Meek 1995). It is also now well recognised that accounting "influences are more readily recognised when cultural differences are clear" (Baydoun and Willett 1994, p. 2). Baydoun and Willett (1994) have remarked that cultural differences are a key consideration in comparative studies between Christian Western societies and Islamic societies (p. 2).

Most of the cultural studies in the area of accounting, accountability and finance fall within the domain of harmonisation of accounting theories and practices internationally (for example see Tomkins and Abdul Karim 1987; Hamid, Craig and Clarke 1993; Baydoun & Willett 1994, 1995; Fechner and Kilgore 1994). The case is much more narrow when the area of study is limited to public sector or government accounting. An appraisal of research in public sector accounting in general in three English-speaking countries, Australia, the UK and the US, was conducted by Lapsley in 1988 (Lapsley 1988). The results of study, which covered 1980 to 1988, showed that no cultural study had been done in public sector accounting during that period (Lapsley 1988). Certainly at the time of Lapsley's research the government accounting systems of developing countries had received little attention, apart from organisations such as the United Nations (Craner and Jones 1990). One of the first surveys to consider the effects of culture on
government accounting systems, as preliminary research for harmonisation of government accounting standards internationally, was conducted by Chang and Khumawala in 1994 (Chang and Khumawala 1994). They compared three developing countries, India, Taiwan and Saudi Arabia in terms of “historical/political background”, “economic environment” and “government accounting system”. The results of the study show that cultural influences are ubiquitous in government accounting system development and also “[w]hile a national intervention process seemed common, cultural factors have lead to different implementation methods, thus affecting greatly the timing of various development stages” (Chang and Khumawala 1994, p. 332).

To provide the cultural dissimilarities or differences between two societies, in the present case Iran and Australia, with different systems of governance, economy, ideology, religion, language and many other differences is a great task and beyond the objectives of this study. Instead, this study will attempt a very brief review of the historical/political background, based on discussion provided in chapter 2, as the prelude to an examination of accounting reform for Iran.

Besides, what is important for the present study are the significant commonalities of Iran and Australia in governance. This study has established that the requirements of the Islamic teachings constitute significant cultural differences between the two countries. However, within these differences emerges a common concern of all responsible governments for the wise use of resources and accountability to the people through their elected representatives. Accrual accounting has been shown in studies not to be culturally specific as an accounting technology (Chang and Khumawala 1994). Implementation practices which may differ do not affect the key benefits of accrual accounting.
6.6.1 Historical/Political Background

Iran is an ancient country with a very old civilisation. The name of 'Iran' means the land of Aryans, referring to those who settled some four thousand years ago. Chapter 2 provided the main features of the form of government in the Islamic Republic of Iran established in 1979 by the Islamic Revolution while chapter 3 explored the implication of this for the accountability of the executive to parliament. As noted in chapter 2, the Iranian Constitution establishes a central government. The Executive branch is headed by the President, the Vice President, the President Deputies and Ministers-who collectively act as the effective source of executive power. Legislative power is independent from the Executive and consists of the Islamic Consultative Assembly and the Guardian Council. The executive is accountable to the legislature for the use of funds for the purposes stipulated, and at levels approved, when appropriated by the legislature.

In contrast to the very long history of government in Iran, the Australian Commonwealth Government is less than a century old. The Australian Constitution, as noted in chapter 2, provides that the Federal government includes the Governor-General, the Houses of Parliament and the High Court. The head of the Executive, the Prime Minister, comes from the party that holds the majority of seats in the Lower House or the House of Representatives. Thus, in effect the executive, while it is accountable to the legislature, has significant control over the process of accountability. The Legislative power is vested in a Federal Parliament which consists of the Queen, a Senate or Upper House, and a House of Representatives or Lower House.
Based on the above characteristics of the two systems of government, the main differences and similarities between Iranian and Australian systems of governance are: the system of government in Australia is Federal whereas the Iranian system is unitary and in Australia the Executive is part of Parliament while in Iran the Executive and the Legislative powers are completely separate from each other. The proclamation in 1979 of Iran as an Islamic State, however, probably provides the most significant differences in the nature of government between Australia and Iran. As shown in chapter 2, the Iranian Constitution requires that all civil, financial, economic, administrative, cultural, military, political, and other laws and regulations in the country are to be based on 'Islamic criteria'. This also includes the Country's General Law of Accounts. The Iranian Constitution notes:

- With a view to safeguard the Islamic ordinances and the Constitution, in order to examine the compatibility of the legislation passed by the Islamic Consultative Assembly with Islam, a council to be known as the Guardian Council is to be constituted (Article 91).

- The Islamic Consultative Assembly does not hold any legal status if there is no Guardian Council in existence, except for the purpose of approving the credentials of its members and the election of the six jurists on the Guardian Council (Article 93).

- All legislation passed by the Islamic Consultative Assembly must be sent to the Guardian Council (Article 94).

- The determination of compatibility of the legislation passed by the Islamic Consultative Assembly with the laws of Islam rests with the majority vote of the fuqaha' on the Guardian Council; and the determination of its compatibility with the Constitution rests with the majority of all the members of the Guardian Council (Article 96).

- The authority of the interpretation of the Constitution is vested with the Guardian Council, which is to be done with the consent of three-fourths of its members (Article 98).
The significant similarity between the two countries is that government financial accountability is exercised through the Legislature. Further similarities are the way in which the annual budget should be drawn up by the government in the manner specified by law and submitted to the legislature, in Iran the Islamic Consultative Assembly, for discussion and approval (Article 52) and the way in which government accounting and budgeting are dominated by the executive. It is worth noting here that not only government financial accountability is exercised through the Legislature in Iran and Australia but also the authority to make any law has been given to the Legislature in both countries. The only difference here is that in Iran the Islamic Consultative Assembly does not have authority to enact laws which are contrary to the *ahkam* (commandments) of the official religion of the country or to the Iranian Constitution. Thus, despite differences in the structure of governance and ideological frameworks, there are sufficient similarities in government roles and regimes of accountability (see chapters 2 and 3) which allow some Australian public sector reforms to be considered relevant to Iran.

In chapter 3 accountability is referred to in the broadest sense as the central objective of democratic government. It has been stated, in chapter 3, that since the public sector reforms of the last decade accountability has been emphasised which ensures that the nation's resources are utilised efficiently and effectively. In the section on sources and subjects of accountability in chapter 3 it was noted that receiver(s), holder(s), user(s) and expender(s) of public resources should be held accountable for their decisions and actions with respect to those resources. It is also noted that government and public officials as trustees have an obligation to be accountable to the citizens for the state powers and resources entrusted to them. Therefore, as indicated, in the two countries public officials (in Iran the President and Ministers,
and Australia the Prime Minister and Ministers) are accountable for using public resources.

As chapter 2 has shown, it was in the same decade in 20th century that both countries started to exercise their Constitutions; in Australia it was at the beginning of the establishment of the Federal Commonwealth Government in 1901 and in Iran after the Mashruteh Revolution in 1906. Public financial and management accountability in the two countries were to be according to the traditional form of public sector accountability. At the heart of this form of public accountability was an input oriented concept of accountability (see chapter 3) which included checks on regularity and probity in using public resources. The aim was to ensure that public money which Parliament, in Iran the National Consultative Assembly and after the 1979 Islamic Revolution the Consultative Assembly, permitted the Executive to raise and spend was spent according to the clauses in the Appropriation Acts and that fraudulent use of public sector revenues did not occur. This gave accountability a very narrow stewardship interpretation. Until the present time, Iran still exercises this older form of public sector accountability with its concerns for legality and regularity.

Thus, in both Iran and Australia, until the 1980's, the form of public financial accountability was the lowest level of accountability namely fiscal or fiduciary accountability, called Efficiency I by Cutt. Since 1992 Australia has moved to the third and most sophisticated form of public financial accountability in the accountability hierarchy by Cutt which is concerned with effectiveness.

As indicated in chapter 4, for any form of accountability there should be a record of every action taken and every dollar that is spent. Therefore, it requires a system of
accounting. Until recently, the accounting systems used for implementing fiduciary accountability in Iran and Australia had the similar essential features of a limited form of cash accounting. Since 1992, the boundaries of accountability and consequently accounting in Australia have been expanded beyond the traditional stewardship function to embrace accountability for efficiency and effectiveness.

In chapter 4 it was noted that a government accounting system exists to furnish complete and reliable financial information, in proper form on a timely basis, to the several groups of persons responsible for and/or concerned with the conduct of government activities and operations. It was also noted that even though the accountability of organisations to different participants requires the use of different information, the provision of financial information is the most important part of the accounting process.

Until recently government accounting and accordingly public sector financial reporting in Iran and Australia was according to the cash based accounting. The limitations of cash accounting were discussed in chapter 4. It was shown that there were difficulties in measuring asset costs and liabilities in cash accounting. It is also not possible to measure the full costs of goods and services using cash accounting. These weaknesses resulted in the inadequate disclosures of assets and liabilities for both decision-making and accountability purposes and, in the case of this study, accountability for efficiency and effectiveness. Iran still uses cash accounting for government and financial management. Australia moved to accrual accounting after 1992.

Thus, despite differences in the structure of governance and ideological framework, clear similarities in government roles and regimes of accountability (see chapter 3)
mean that some of the Australian public sector reforms can be seen to be relevant to the Islamic Republic of Iran. It is worth noting here that any changes to the government financial management and accountability will have to be approved by the Islamic Consultative Assembly and then the Guardian Council. Therefore, it is quite possible that some of changes which are recommended by this study will be rejected, or fail to pass through the legislation process, by the Islamic Consultative Assembly or the Guardian Council. The recommendations which are made, in next chapter, are those which are thought to be consistent with the cultural, social and political imperatives of Iran, as developed in chapters 2 and 3 and above in this chapter.

6.7 CONCLUSION

Australia, Britain, and New Zealand have been implementing a range of public sector reforms, largely based on economic theories of organisation since the 1980s (Mascarenhas 1993). The pursuit of efficiency, effectiveness, value-for-money and accountability has been said to be the main reason for change in the public sector (Guthrie 1991a; Parker and Guthrie 1993; see also Broadbent and Guthrie 1992, pp. 3-4). According to Mascarenhas (1993), bringing efficiency into the public sector by giving departmental heads greater autonomy and responsibility for managing departments and holding them accountable for performance were the main objectives of the reforms (p. 326).

Reform in the Australian federal government was achieved in two systematic phases. In the first phase of reform a manager class within the public service, which would both rationalise existing activities and accept direction concerning new government policy, was clearly defined and then strengthened (Considine 1990, p. 175). This
Chapter 6, Recent Reforms...

...phase came about by introducing the Public Service Reform Act 1984 which, _inter alia_, allowed for short-term appointments to senior positions and gave departmental heads greater responsibility for financial and other management decisions within their organisations (Considine 1990, p. 175).

The second major phase of federal reforms involved addressing the larger questions of structure. A major restructuring of all federal departments and of cabinet arrangements through which they answer to the government was announced in July 1987 (Considine 1990, p. 176).

Reform introduced the new concept of “managerialism” to the public sector. It asked for greater accountability and also introduced the new accountability dimensions of efficiency and effectiveness. These dimensions of accountability are much broader than the traditional legality and regularity. The Financial Management Improvement Program and Program Budgeting have been introduced in the public sector. As a result of reform, the Public Sector Accounting Standards Board was created and it issued a number of accounting concepts and accounting standards. Accrual accounting has been accepted by the Public Sector Accounting Standards Board for the general purpose financial reports of government departments.
CHAPTER 7

RECOMMENDATIONS AND CONCLUSIONS

7.1 INTRODUCTION

This thesis has endeavoured to explore the structure of financial control, accountability and accounting in the government of the Islamic Republic of Iran and to examine the extent to which the present reforms in Australian public sector accounting techniques, which have been designed to enhance accountability and management, are relevant to the Islamic Republic of Iran. To address this relevance, the thesis explored the structure of governance, financial management and accounting systems of the Iranian and Australian Governments.

Chapters 2, 3 and 5 considered the characteristics of the existing form of accountability, budgeting and accounting systems and practices of the Islamic Republic of Iran. One of the conclusions reached in chapter 3 was that the form of financial accountability in the Islamic Republic of Iran is traditional with an orientation towards monitoring the legality and regularity of transactions. This form
of accountability has been the major influence on the accounting and budgeting practices in the Islamic Republic of Iran. It was concluded, in chapter 5, that public sector accounting in the Islamic Republic of Iran has not been developed to the extent that it has in the economically developed countries. The study mentioned that the present accounting, budgeting, financial reporting and auditing practices of the Iranian Government are essentially those established many years before the Islamic Revolution in 1979. The Country's General Law of Accounts is also mainly that instituted in 1907 and has been amended four times since its establishment. The existing law emphasises compliance with legal provisions and budget allowances, with little or no regard to essential managerial uses of accounting information. The current accounting system is not capable of providing managers in the general government sector with information which, amongst other things, allows them to measure and provide the full cost of services and goods. Instead, the reports or financial statements prepared by the Iranian accounting system attempt to show compliance with parliamentary authorities. This form of reporting can only provide information which was required by traditional dimensions of accountability, as discussed in chapter 3.

Discussion in chapter 5 showed that in relation to present-day needs of the Iranian Government, a traditional concept of accountability is somewhat narrow in its scope, since in budgeting and accounting it relies upon the exclusive use of the combined organisation-object classification in order to pinpoint control over expenditures. Although these information needs are still essential today, accounting is also being recognised increasingly as a tool of management for efficiency and effectiveness accountability purposes. This study suggests that it would be to Iran's advantage as it endeavours to achieve the goals of its five year plans to broaden the area of accountability to include accountability for efficiency and effectiveness in a similar
manner to that accomplished by the Australian public sector reforms. It would be also in accordance with the requirements of section f. of Article 43 of the Iranian Constitution, provided in section 5.2.2 of chapter 5, which prohibits extravagance and wastefulness in the use of the country's resources. Improvement in the budgeting and accounting systems to include accrual accounting can provide financial data necessary for efficiency and effectiveness accountability.

It was explained that the present accounting system of the Iranian Government is cash based. According to cash accounting, a governmental unit prepares, before the beginning of a fiscal year, a budget or estimate of revenues and expenditure for the coming year. During the accounting period, cash receipts and expenditures are recorded in the appropriations-book and revenue and expenditure ledgers. Referring to chapter 3, these accounting practices are basically those of the traditional accountability-oriented public sector accounting framework, in which the accounting system is designed to satisfy the needs of accountability and administrative control of appropriated funds. Government officials responsible for expenditures have had to prepare proper accounts of their stewardship to show that the funds were expended in accordance with the authority received from the legislative body.

It was shown that increased demands on governments, along with pressure from limited resources for most countries, including Britain, Australia and New Zealand, in recent decades have resulted in significant reforms to the management of public sector resources and to the mechanisms by which governments are held financially accountable. Similar fiscal pressures in Iran recently prompted the Leader, Ayatollah Sayed Ali Khamenei, and senior government officials to call for an inquiry to bring about greater fiscal discipline (Enzebat Aqtesadi). Commercialisation, corporatisation and privatisation in the public sector have been part of public sector
Chapter 7, Recommendations and Conclusions

reform. It was argued that most of these reforms have yet to find their way to the Islamic Republic of Iran which has devoted most of its energies since the Islamic Revolution in 1979 to establishing structures of government. Seventeen years after the victorious Islamic Revolution, and in light of the experiences of other countries it is particularly appropriate and timely for a review of the Iranian public sector accounting and budgeting system and that suggestions for its improvement are made.

7.2 SUMMARY OF CHAPTERS

To understand the existing budgeting and accounting systems and practices of the Iranian Government and to identify the users and the kinds of financial information they need, the structure of the Iranian Government was explained in chapter 2. It showed that the Iranian government is composed of the Leader or Leadership Council, the Legislature, the Executive, and the Judiciary. In chapter 2 it was explained that the system of government in the Islamic Republic of Iran is under the supervision of the Valayat-e Faqih which is elected by the Khobragan Assembly. The responsibilities and powers of the President, the Islamic Consultative Assembly and the Khobragan Assembly were clarified and the process by which they are elected was also discussed. Following discussions of Iran, the nature of the Australian Commonwealth government was then explained. Reference was made to the Parliament (Senate and House of Representatives), the Executive and the Judiciary in Australia. The chapter also referred to the three levels of government in Australia; the Commonwealth, the States, and local government. The processes by which the Governor-General is appointed, and by which the Prime Minister and members of the Parliament are elected, along with their responsibilities and powers were also highlighted.
Chapter 7. Recommendations and Conclusions

It was shown that the Iranian Government differed from the Australian Government in that it is a unitary system of government with one Central Parliament (Majlis). Australia is a Federation that consists of three tiers of government. It was noted that the thesis was limited to comparing and contrasting the central government of Australia (Commonwealth) with the Iranian government.

The structures of government established in chapter 2 were drawn upon, in chapter 3, to examine concepts of accountability which followed in theory and practice. The importance of accountability in the public sector and its role in a changing modern society were discussed in chapter 3. Chapter 3 showed that in recent years the dimensions of accountability given prominence in the public sector were expanded in Australia, New Zealand and England to include efficiency and effectiveness rather than just emphasising the traditional dimensions of accountability, in particular accountability for legality and regularity. Interpretations of accountability, as found in theories of governance and in practice, are the primary determinates of the mechanisms used to ensure accountability. This chapter also provided a historical overview of accountability as it has been understood in Australia and in the Islamic Republic of Iran. Finally, the nature of accountability was examined, followed by a discussion of how it functions in the Islamic Republic of Iran and Australia.

Chapter 4 provided a comprehensive discussion of an efficient and appropriate accounting system as a provider of useful and adequate information for implementing accountability processes in the public sector. It was explained that government performance is judged with a heavy reliance on financial information provided by accounting systems. Chapter 4 also included a discussion of the systems of public sector accounting, including cash accounting, accrual accounting and fund accounting. Reference was made to the benefits of cash accounting and accrual
accounting and their differences. It also considered why accounting in the public sector has been neglected by many governments and why little attention has been devoted to standards setting until recent years.

Some of the significant issues currently confronting public sector accounting, in particular determination and allocation of costs, depreciation and amortisation of fixed assets, financial reporting and development of a public sector conceptual framework were covered in chapter 4. It showed how a system of accounting is the most important mechanism to allow financial accountability to be exercised in the public sector. Chapter 4 concluded that accrual accounting is an appropriate basis of accounting for both management and accountability purposes. Further, without the implementation of accrual accounting it is not possible to give the full costs of services provided which are necessary for management decision making and accountability reporting.

Chapter 5 was devoted to the examination and consideration of the characteristics and the weaknesses of the existing budgeting and accounting practices of the Islamic Republic of Iran. It was concluded in chapter 5 that the Iranian accounting system is cash based and that, although information provided by this system met some external financial reporting needs, it was not sufficient for management decision making purposes. It was established in chapter 5 that little has been written about accounting, especially public sector accounting, in Iran by academics and practitioners. It also stated that there is no active organisation, outside government departments, responsible for developing public sector accounting in Iran. Chapter 5 also noted that the Iranian accounting systems do not require the Ministries and Government Institutions to report fixed assets at the end of fiscal years nor are they expected to depreciate long lived assets.
An examination of the Australian public sector reforms in recent decades, emphasising changes in financial management and accountability and focusing on new accounting technologies as a means to perform accountability practices in the public sector, was the theme of chapter 6. This was followed by a discussion of the relevancy of the Australian reforms to help meet accounting and accountability deficiencies in the Islamic Republic of Iran. It was found that, despite the cultural differences between the two countries, the similarities in the form of governance and accountability make it possible for Iran to benefit from Australian experiences and to implement accrual accounting in the general government sector in order to enhance accountability for efficiency and effectiveness. For the purposes of this study, the knowledge of these changes was needed as a source of reference in order to make suggestions in the current chapter for the reform of the accounting system of the Islamic Republic of Iran. This study suggests that, based on the discussion provided in chapter 6, some of the Australian public sector accounting reforms are applicable to the Iranian Government. Following is a list of recommendations applicable to the Islamic Republic of Iran based on the discussions in chapters 2, 3, 4, 5 and 6.

7.3 RECOMMENDATIONS

The following recommendations can be offered in light of the comparison obtained from this study:

1. Considering that the situation in the Islamic Republic of Iran has recently improved greatly, compared to the situation in 1979, with the implementation of First and Second Five-Year Plans, more political and economic stability, and increased demands for the efficient and effective use of public resources, it is appropriate that
the Iranian General Government Sector give careful consideration to adopting accrual accounting. As discussed in the section on the benefits of accrual accounting in chapter 4, an accrual accounting system will provide better disclosure of both the activities that have been performed and the costs of works and services that have been incurred by government operating units during each fiscal year. In addition, accrual accounting would provide more useful information for planning and accountability for legality, regularity, efficiency and effectiveness purposes. It would also enhance decision making in a ministry's management as well as contribute to legislative review and evaluation of government activities.

2. The Iranian Government should establish a set of government accounting objectives which are broader in scope than those operating and which are more suitable to the present day needs of modern government administration. The Objectives of General Purpose Financial Reporting presented by SAC 2, and discussed in chapters 4 and 6, which the writer considers more comprehensive than the present objectives of Iranian government accounting, should be adopted. Providing mandated information in accordance with the objectives contained in SAC 2 will allow not only the adequate provision of information on, and effective control over, Government revenues, expenditures and property, but also the adequate provision of financial information necessary for management of government resources and operations, and effective control over accountability. These also will help to broaden the dimensions of accountability to include concepts of efficiency and effectiveness.

3. It would be appropriate if the Iranian Government maintained financial records of fixed assets as a part of its accounting system, instead of leaving it to each ministry or government institution to protect the fixed assets under its jurisdiction. More
importantly, as discussed in chapters 3 and 4, recording assets meets the preliminary requirements for using accrual accounting which is necessary for the implementation of efficiency and effectiveness accountability.

4. It is recommended that a complete set of accounts, comprising both budgetary and property accounts, be established and maintained in each ministry or government institution in Iran. These sets of accounts can provide the information needed for preparing the Operating Statement, the Statement of Financial Position and Cash Flow Statement at the end of each fiscal year. Then the Ministry of Economic Affairs and Finance can consolidate the accounts to prepare the financial statements for the State. The necessary accounts for ministerial accounting systems could follow the principles provided in AAS 29 and Commonwealth Department of Finance Guidelines discussed in chapter 6.

5. If the Iranian Government were to establish and maintain an accounting system similar to that now used in Australia (discussed in chapter 6), the system would be able to produce accounting data necessary for the preparation of both reports on budget execution and State balance sheets. In this connection, it is recommended that the Ministry of Economic Affairs and Finance prepare the following reports as well as the reports required by AAS 29:

1. Reports on Government cash balances at the end of each month,
2. Monthly and quarterly reports on the execution of the State budget,
3. Annual report ("Budget Settlement") on the execution of the State budget, and
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6. To meet the needs for ministerial financial and operating reports, it is recommended that each ministry and government institution prepare and submit the following reports to the Ministry of Economic Affairs and Finance as well as the reports required by AAS 29:

1. Quarterly and annual balance sheets,
2. Quarterly and annual statements showing the status of appropriations,
3. Quarterly and annual statements showing the actual and estimated receipts classified by source,
4. Quarterly and annual reports showing comparisons between budgeted and actual costs for each ministerial program, and
5. Annual inventory reports on supplies and fixed assets.

For management use within each ministry and government institution the preparation of the following monthly reports is recommended:

1. Individual project cost reports,
2. Activity cost reports (consolidation of project reports under each activity),
3. Division cost reports (consolidation of activity cost reports in each division of the ministry or government institution), and
4. A cost summary for all activities and programs of the ministry or government institution.

7. It is recommended that a new Country’s General Law of Accounts be established to meet the present-day needs of financial management. The new law should contain the important basic principles and requirements governing the custody of and accounting for the Government’s funds and property. It should leave the details for
regulations and procedures to be prescribed by the Ministry of Economic Affairs and Finance, possibly after consultation with the Court of Accounts about the more important regulations. Changes to the Country's General Law of Accounts also should replace a Treasury Officer in the ministries and government institutions by an accounting officer to be appointed by the ministers or the head of government institutions. The accounting officer should be accountable to the minister or the head of a government institution and the Court of Accounts.

8. The study recommends using single running costs appropriation which will give managers more flexibility. It may also create an environment for implementing the other features of the Australian Financial Management Improvement Program in the long-term.

Implementation of these suggestions for reform to the accounting system of the general government of Iran should:

- give managers greater flexibility in the management of their resources
- give greater visibility to assets and their use
- facilitate assessment of financial position by reporting all assets and liabilities
- provide information for management decision making
- measure the cost of services provided.

7.4 CONCLUSION

This study showed that there is substantial need for change in accounting systems in the Islamic Republic of Iran. The results also indicated that the implementation of the present government accounting techniques and procedures in the financial
management of the Iranian Government cannot adequately accomplish the several goals of the public financial program of the nation. For example, the existing accounting system in each administrative ministry or government institution does not provide necessary information for economical management of the resources and operations within the ministry or government institution concerned. In addition, the existing government accounting system does not provide adequate information necessary for effective control over and accountability for all government funds and property. The author believes that if the Iranian Government accepted the recommendations presented in this chapter, improvements in its accounting practices would be realised and its accounting system would be able to serve more efficiently and effectively the management of Iran's public resources.

The study showed that the Islamic Republic of Iran can benefit from the public sector accounting techniques and practices introduced in Australia since 1983. It suggested the use of accrual accounting by the Iranian Government to broaden public financial accountability from regularity and legality to include accountability for efficiency and effectiveness. In this connection, it was recommended that it would be appropriate to maintain financial records of fixed assets as a part of the accounting system maintained by the Iranian Government.

An accounting system, according to the recommendations above, would meet various information needed of the executive and legislative authorities, such as, the information needs for evaluating ministries programs and operations, for determining compliance with legal provisions and budgetary restrictions, for determining stewardship, efficiency and effectiveness accountability of the various administrative ministries and government institutions, and for analysing the economic impact of government revenues and expenditures. The recommended accounting techniques
and procedures selected from those that have proved useful in Australian Commonwealth accounting practices can be maintained either manually or by appropriate electronic application. Finally, a set of uniform accounts and procedures should be employed in the administrative ministries and government institutions in order to achieve simplicity and to facilitate the provision of government financial information needed for national income accounting.

Any consideration of the relevance of accrual accounting for the general government sector of Iran should be aware of the criticisms of its introduction into the Australian public sector. The survey of accrual accounting by the JCPA and the Auditor-General pointed to its limited use in management planning and decision making. To avoid this problem and the other problems facing implementation of accrual accounting in Australia, Iran should run adequate training courses for public sector accountants. This should also include preparing some training courses for managers to train them in the use of accrual information. To ensure the successful adoption of accrual accounting its introduction should be strongly supported and encouraged by the Iranian government.

This study is the first and only comprehensive examination of Iranian general government sector accounting since the introduction of budgeting and accounting in Iran 1907. One avenue of research for future researchers is to conduct comparative studies between the Iranian public sector financial management and control and other developed countries such as America, Britain, Canada, Japan.

A brief discussion of the cultural differences between Islamic Republic of Iran and Australia was made in section 6.6 of chapter 6. In this connection, it is suggested that future studies could be a pure survey of the public sector cultural differences
between Western, particularly Westminster, societies and Islamic societies in general.

There is a lack of accounting standards for the public sector accounting practices in the Islamic Republic of Iran. Further research to find out the required process for public sector accounting standards setting could be another future research project. Research of the application of performance program budgeting to Iranian public sector accounting is also suggested for the future.
GLOSSARY

Adala  
Justice.

Adalatkhaneh/adalatkhana  
House of justice.

Adel/Adl  
Just; To put every things in its place; to be moderate in social life; Justice.

Ahkam  
Commandments.

Alem/Alam  
One who is most learned.

Amin  
Trustee.

Bast  
Strike; Sanctuary.

Faqih  
A jurisprudent.

Fatwa  
A legal ruling; an expression of opinion, by one of the ulama, on a point of religious law or on a legal case.

Fiqh  
Jurisprudence.

Foqaha/Fuqaha  
Plural of Faqih.

Halal  
Lawful, Permitted.

Haram  
That which is prohibited by the law of Islam, Unlawful, Prohibited.

Ijtihad  
Exegesis of divine law on matters of theology and law.

Imam  
Religious Leader.

Iqtisad/Ightadad  
Literally means "to be moderate". It is used as equivalent to economics.

Ithn' ashairi  
‘Twelver’ Shiism branch of Islam.

Khalifa  
Vicegerency.

Khobragan  
Experts.

Maddaress  
Plural of Madreseh.

Madhhab  
Religion.
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Madrese/Madreseh</td>
<td>Islamic teaching institution.</td>
</tr>
<tr>
<td>Majede/Masjid</td>
<td>Mosque.</td>
</tr>
<tr>
<td>Majlis/Majles</td>
<td>Parliament.</td>
</tr>
<tr>
<td>Marja</td>
<td>Source.</td>
</tr>
<tr>
<td>Marja’ taqlid</td>
<td>A source of imitation.</td>
</tr>
<tr>
<td>Marjeyeh taqlid</td>
<td>A religious leader chosen by believers as 'a source of imitation' wisest and ultimate authority for interpreting quranic laws.</td>
</tr>
<tr>
<td>Mashruiyat/Mashrutiyaat/Mashruteh</td>
<td>government according to the law of Islam, justice and equality, or according to science and civilisation.</td>
</tr>
<tr>
<td>Mujtahed/Mujtahid</td>
<td>Islamic scholar who does Ijihad.</td>
</tr>
<tr>
<td>Mujtaheds/Mujtahids</td>
<td>Plural of Mujtahed/Mujtahid.</td>
</tr>
<tr>
<td>Muttaqi</td>
<td>Virtuous; Pious.</td>
</tr>
<tr>
<td>Ozma</td>
<td>Grand.</td>
</tr>
<tr>
<td>Quran</td>
<td>The Holy book of Islam.</td>
</tr>
<tr>
<td>Sadre-azam</td>
<td>The Prime Minister.</td>
</tr>
<tr>
<td>Sayyed</td>
<td>Descendant of the Prophet Mohammad.</td>
</tr>
<tr>
<td>Shahid</td>
<td>Martyr.</td>
</tr>
<tr>
<td>Shari'a/Shariah</td>
<td>Islamic Teachings.</td>
</tr>
<tr>
<td>Tallabeh</td>
<td>A student at a madrese.</td>
</tr>
<tr>
<td>Taqlid</td>
<td>The process of following the practices and pronouncements of a scholar more learned than oneself in matters relating to the religious law, with faith in his correctness and without independent investigation of his reasons.</td>
</tr>
<tr>
<td>Tullab</td>
<td>The students at a madrese.</td>
</tr>
<tr>
<td>Ulama</td>
<td>Those learned in the religious law.</td>
</tr>
<tr>
<td>Ummah</td>
<td>Muslim nation.</td>
</tr>
<tr>
<td>Vazier</td>
<td>A Minister.</td>
</tr>
</tbody>
</table>
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