



Are public sector accounting & auditing standards discouraging progressive taxation and public investment in developing countries?

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OVERVIEW

- Progressive taxation?
- Public investment?
- Public sector accounting & auditing standards?
- What is being demanded?
- What are the alternatives?



Progressive taxation?

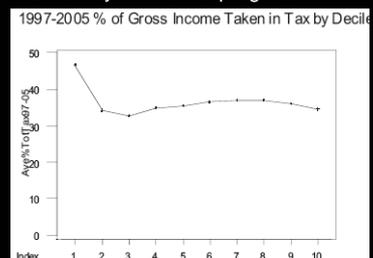
- poverty reduction will only take place with redistribution of income and wealth
- we do not have a progressive tax system in the UK
- the IMF & World Bank have spread VAT across the world
- but this can be stopped, eg the Nigerian general strike last June

“One-fifth of humanity live in countries where many people think nothing of spending \$2 a day on a cappuccino. Another fifth of humanity survive on less than \$1 a day”

United Nation's Human Development Report 2005

The UK tax system

The UK tax system is not progressive:



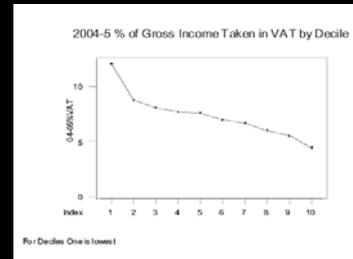
VAT

- the richest fifth of the population pay six times as much income tax - proportionately

But:

- the poorest quintile pay twice as much VAT as the richest quintile

VAT



In Nigeria

- 2007 Budget doubled the rate of VAT from 5 to 10%
- General strike in June 2007 stopped the increase
- But income tax also starts at a very low level
- 70% of the population exist on \$1 a day or less, so should not pay tax



What is public investment?

- Infrastructure – roads, utilities, hospitals & schools
- But also most spending on education, health, water etc could be defined as investment in the next generation of workers

Investment to achieve the MDGs

Achievement of the MDGs will need investment of around \$100bn a year, or about \$50bn more than currently spent

Selim Jahan, Senior UNDP Advisor, 2003

Investment to achieve the MDGs

Lagos Needs assessment ₦800bn (\$8bn)
over three years 2005-2007

Investment budget of the state in 2007
₦114bn (total budget of ₦240bn)

Defining and Emphasising Deficits

A balanced budget is considered key

- Gordon Brown's prudent rules
- European Maastricht Treaty
- World Bank emphasis on fiscal discipline

What are deficits?

- Accounting standards and World Bank encourage comprehensive budgets and consolidated financial reporting
- Capital is narrowly defined to exclude, for example, education

The Cash Basis IPSAS

Comparison with budget or financial statements?

- Comparison with budget does not highlight the fiscal balance
- Consolidated financial statements show the overall fiscal balance for the public sector

Consolidated financial statements

RECEIPTS

- taxation xxx
- aid xxx
- capital receipts xxx
- Total receipts XXX

Consolidated financial statements

PAYMENTS

- Operations xxx
- capital expenditures xxx
- loan & interest xxx
- Total payments XXX
- Increase in cash XXX

An alternative view

Ordinary revenue

- taxation
 - statutory allocations
- TOTAL ORDINARY REVENUE

Recurrent expenditure

- personnel
 - overheads
 - Subventions
- TOTAL RECURRENT EXPENDITURE

RECURRENT SURPLUS

An alternative view - continued

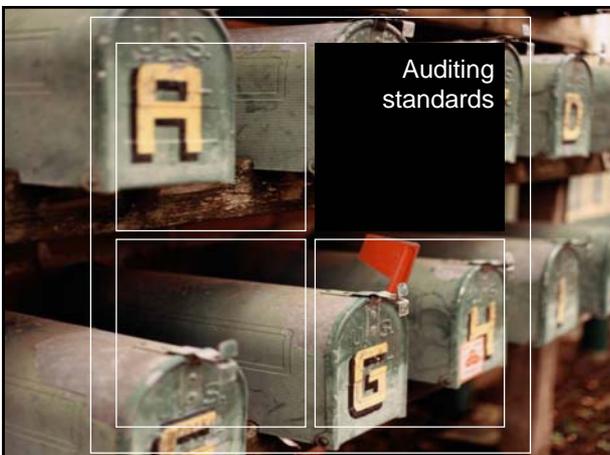
Capital receipts

- internal loans/ external loans
 - VAT
 - donor grants & loans
- EXPECTED CAPITAL RECEIPTS

Capital expenditure

- core capital
 - donor agencies
- TOTAL CAPITAL EXPENDITURE

NET SURPLUS

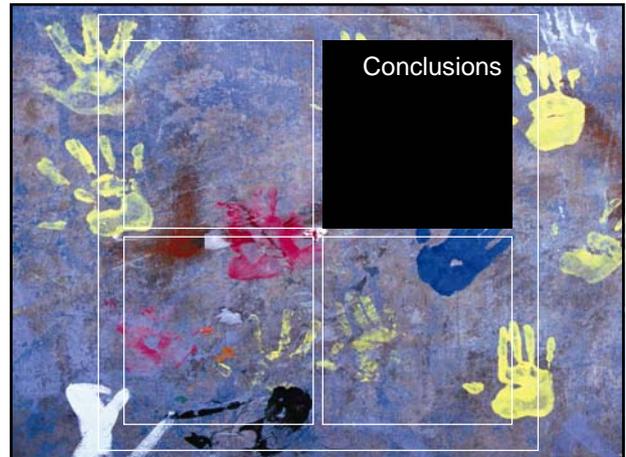


Encouraging value for money

- Auditors traditionally ensure that public money is spent properly
- Recent emphasis on value for money – economy, efficiency and effectiveness
- But economy (spending less) is much easier than providing quality public services

Auditing standards encourage VFM & financial statements

- Auditing standards say compliance and VFM audit or equal importance
- Recent adoption/adaption of private sector audit standards for the public sector



Conclusions

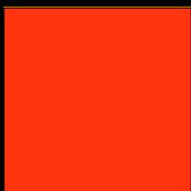
- Accounting and auditing standards are being used to strengthen neoliberalism
- We need to fight these as political attacks, not just technical developments
- Another world is possible

Conclusions

This will include arguing against:

- accrual accounting
- VAT
- the fixation with balanced budgets
- VFM auditing

And for public investment funded from taxing the rich



Thank you

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