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Accounting Challenges for Semi-Autonomous Revenue Agencies (SARAs) in Developing Countries

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Accounting Challenges for Semi-Autonomous Revenue Agencies in Developing Countries

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Abstract

The paper discusses the improvements which a semi-autonomous revenue agency must make to its records to meet fiscal and financial accounting obligations. Semi-Autonomous Revenue Agencies are legal entities, such as a service or a department, which are required to prepare accrual records that may diverge from a treasury's cash accounting records. Their records reflect revenues generated; budget funds for generating the revenues; and material programs administered for other agencies. The accounting records and financial statements (income statement, balance sheet and cash flow statement) must conform to generally-accepted accounting principles or standards such as the International Public Sector Accounting Standards of the International Federation of Accountants—and to the treatment of operating, investment and financing activities in the Government Finance Statistics Manual.

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I. Introduction

The paper discusses improvements which semi-autonomous revenue agencies (SARAs) must make to meet fiscal and financial accounting responsibilities more efficiently under autonomy laws. Autonomy laws grant varying degrees of operational independence from civil service rules to SARAs. In return, these laws require SARAs to prepare records that conform to public sector generally-accepted accounting principles (GAAPs), often as the treasury continues to apply cash accounting rules.

Tax administration reforms stress that taxpayers should keep proper books and records but tax agencies also need good records to improve operations and fiscal management. In general, the purpose of tax office accounting is to record, analyze and report tax and non-tax transactions to improve fiscal and operational management. These records are also crucial for managing the effective and prompt flow of revenues to meet public expenditure needs. The autonomy laws require SARAs to present audited financial statements to ministries, revenue boards or committees, legislatures and supreme audit institutions.

SARA records and financial statements cover (a) revenues generated; (b) budget funding for generating those revenues; and (c) material programs which a SARA may administer on behalf of other agencies. As fiscal institutions, the obligation to apply *public sector* GAAPs adds to a SARA's obligations under budget and financial administration laws (BFALs). SARA records also enable a treasury to comply with statistical or fiscal reporting standards such as the IMF's Government Finance Statistics (GFS 2001).

The shift to accrual rules under GAAP is a significant departure from preparing simple cash or incomplete reports for the treasury. In principle, while both tax and treasury records can follow accrual rules, this is only feasible under mature treasury or fiscal systems. The main risks in making a quick switch to accrual accounting while a treasury remains on cash accounting—or fails to issue sufficient SARA guidelines—include inconsistent and inaccurate recording, coding and reporting of SARA operating (including revenue), investing and financing transactions. Hence, these problems worsen existing bridging or mapping difficulties and require complex harmonization or reconciliation rules to explain divergences in reporting to the treasury.

On the other hand, there are significant potential benefits in improving SARA records under accrual rules. These include transparent reporting of revenues and budget resources, use of tax systems as models in executive agency programs, improvements in control and performance measurement, and setting a good example for taxpayers.

Part II summarizes the SARA regulatory and institutional framework. It provides a background for discussing the nature of tax or revenue accounting in Part III and of specific recording and reporting rules in Parts IV and V. Part VI concludes the paper.

II. Institutional and Regulatory Framework

The quality and effectiveness of a tax agency's accounting methods depends on several factors, including the maturity of a country's financial and fiscal systems, general acceptance and application of the GAAPs, the self-accounting nature of tax agencies, and differences in the capacity of tax and treasury offices.

A. Nature of Semi-Autonomy

A SARA is a legal entity which fits the description of an executive agency or government unit in a GFS and public finance management (PFM) context. A SARA's governing structure and operations are more self-contained than ministries, departments, and agencies (MDAs) in the core civil service. Many SARAs have the following common features.

- *institutional status:* a SARA is a legal and accounting entity with many characteristics that are similar to a public corporation but it is also not a private entity (as often viewed) or a government business enterprise (GBE) in a public sector accounting context;

- *executive management and control:* while the formulation of tax policy remains with the Ministry of Finance (MOF), operations are delegated to a SARA chief executive and management who are directly accountable for their implementation;

- *supervision:* the majority of SARAs require the executive management team to report to a board of directors—in some cases, with representatives from the private and public sectors (including the MOF)—appointed by the MOF;

- *accountability:* as a legal entity and going concern, a SARA can sue and be sued, own assets and borrow (with some limitations), prepare accounting records for auditing,[2] and report to a supervisory board (as well as the MOF and legislature); and

- *budget flexibility:* SARAs enjoy flexible budget rules in terms of allocation (including retention policies), bulk and prompt cash releases, and enhanced *virement* powers.

The paper is limited to financial accounting and does not evaluate the performance or effectiveness of SARAs with respect to the foregoing features (see Crandall & Kidd (2005), Taliercio (2004), Mann (2004) and Terkper (2003). In summary, SARAs fall on a continuum of civil service and public sector bodies such as corporations—a spectrum that includes traditional tax *departments* and *services* that keep separate records. SARAs are provided extra budget funds and often recruit qualified staff to prepare the GAAP-based records.

The accounting requirements may be in the SARA law or in other laws such as the Public Finance Management Act (PFMA), 1999 which the South African Revenue Service (SARS) uses to prepare the current mix of cash and accrual records and statements (Section C). These

[2] The accounts must be audited in line with the generally accepted auditing standards (GAAS) by the Auditor General—directly or indirectly by an audit firm appointed the Auditor General. A discussion of the use of external and internal audits to attest to the "true and fair" nature of accounting records is outside the scope of this paper. The paper also does not cover the potential of linking the accounting records to budget and management accounting systems to improve management and decision-making.

are viewed as a transition to full accrual accounting. Box 1 shows a summary of the PFMA requirements (similar to the repealed provisions of the SARS Act 34, 1997).[3]

Box 1. South African Revenue Service (SARS) Accounting Requirements

Section 54 of the PFMA requires that an accounting authority (i.e., the Chief Executive) for a public entity (with characteristics as those discussed above) must:

(a) keep full and proper records of the financial affairs of the public entity;
(b) prepare audited financial statements, defined in Section 1as

- a balance sheet, an income statement, and a cash flow statement; and
- any other statements that may be prescribed and any notes to these statements;

in accordance with *generally accepted accounting practice or GAAP* (unless the Accounting Standards Board approves the use of generally recognized accounting practice or GRAP);

(c) submit those financial statements within two months after the end of the financial year to the auditors and the treasury.

The financial statements must fairly represent the state of affairs of the public entity and financial results for the financial year. The annual report and statements must be tabled in Parliament.

B. Potential Benefits in Keeping Separate SARA Records

The main challenge in separate SARA accrual records is the likely divergence from a treasury's cash accounting methods for all MDAs. Moreover, SARA accrual accounting may be viewed as perpetuating "enclave" policies (Taliercio 2005) and demanding expectations which a SARA may not meet—as the perception with other performance goals (Crandall and Kidd, 2005). Thus, self-accounting can worsen a poor recording and reporting culture rather than improve it.

However, these risks and drawbacks are worth balancing against the rationale and potential benefits of SARA accrual accounting.

Legal requirement: As noted in Section A, SARAs have a legal obligation to keep accrual records and, in this regard, need assistance to achieve this goal. Any improvements in SARA accounting methods would be positive because of their enormous responsibility in generating revenues for the budget. SARAs control substantial government, taxpayer and public assets and they are guaranteed more budget funds than most non-SARAs for investment and operations.

[3] The paper also uses a UK HMRC (Her Majesty's Revenue and Customs) report as an example for discussion (see Department of Inland Revenue (DIR) 2004-05 Annual Accounts and Report, October 2005). It describes HMRC as a legal entity (established on April 18, 2005) with a CEO, Board (executive and non-executive), and Executive Committee. It prepares independent financial records and statements that are audited externally. While somewhat more sophisticated, HMRC's accounting and legal status are similar to those of many SARAs.

Model for public finance reforms: SARAs can be used as model for executive agency (including automated) accrual accounting programs. They are semi-independent but not operationally distant from treasuries as some executive agencies and corporate bodies. Moreover, a SARA's improved work conditions can enable it recruit qualified staff and automate its systems.

Improved fiscal reporting: The cash statements and reports by tax agencies do not reflect items such as tax and refund arrears, cash-in-transit, fixed assets, and liens on those assets—except in memoranda form. A transparent accrual reporting of non-cash items helps the treasury prepare better public records and allocate funds more efficiently for tax programs. It also improves the understanding of fiscal policies such as the tax gap due to non-compliance by taxpayers.

Improved accounting framework: The framework for public sector accrual accounting has improved since the initial SARAs were established in the late 1980s and 1990s. As noted in Section C, the International Federation of Accountants (IFAC) now publishes detailed public sector standards for SARA-type transactions.

Example for taxpayers: Tax laws require taxpayers to keep proper records and SARAs also implement assistance and enforcement programs to help them achieve this goal. SARAs are obliged to keep good records as both a fiscal responsibility and an example for taxpayers.

These benefits present a strong case for SARAs to implement reform measures to enable them maintain more advanced and proper accounting systems, procedures and records, especially in an environment where the treasury is switching or expected to switch to accrual accounting.

C. Regulatory Framework

Budget and financial accounting laws (BFALs), such as South Africa's PFMA, are the original basis for recording and reporting MDA transactions. Treasuries link the BFAL procedures to *fiscal or statistical* standards such as the IMF's GFS2001.[4] In terms of procedures, the MDA records are linked to centralized treasury *cash accounting* systems that use charts of accounts (COA) to classify the revenue and non-revenue transactions. As fiscal bodies, tax agencies are required to comply with these basic laws and rules in accounting for their operating (including revenues), financing and investing activities (Part III).

As noted earlier, however, autonomy laws require SARAs to comply with the *public sector GAAPs* which, in principle, shift the basis of accounting from cash to accrual accounting. The GAAPs are discretionary and mandatory standards which were originally issued by professional accounting bodies for the private sector. Hence, there was significant potential for divergence between the GAAP and BFAL records.[5] However, several public sector accounting standards

[4] Other classification standards include European System of Accounts (ESA) and the UN System of National Accounts (SNA), which is described in the GFSM as overarching.

[5] The GAAPs are frequently associated with large private entities but they include standards for governments, non-profit entities, and small and medium entities (SMEs). The accounting bodies maintain the view that *profit and non-profit* entities in the *private* and *public sectors* should apply the GAAPs. Some advanced countries use both standards. As an example, HMRC's annual reports state that it complies with private and public sector GAAPs and

(continued)

are now available, notably, IFAC's International Public Sector Accounting Standards (IPSAS). Furthermore, IFAC and the international financial institutions (IFIs) have been harmonizing the accounting and fiscal or statistical rules.[6]

Many developing countries are using IPSAS to formulate their national accounting standards, which accounts for SARAs using IPSAS to meet their accrual accounting requirements.[7] The most relevant for SARAs revenue transactions is IPSAS 23 (Revenue from Non-Exchange Transactions—Taxes and Transfers)—due to come into effect in January 2008 (with a 5-year transition period from cash to accrual accounting). However, as noted later, the preparation of financial statements on accrual basis will also require compliance with other IPSASs.

It would not be prudent to adopt full IPSAS at a rapid rate, should they diverge significantly from the treasury's cash procedures. This would make fiscal reporting difficult since the use of different recording, classification, and IT methods would require complex bridging or mapping rules and programs to reconcile and consolidate the tax and treasury records. SARAs can also undermine their fiscal responsibility by not switching smoothly and quickly to accrual accounting. In this regard, the paper discusses some intermediate steps later Part III.

D. Basic Tax and Treasury Accounting Systems

SARAs alter a tax agency's traditional relationship with the treasury with respect to the three main categories of transactions (see first vertical column in Table 1). These are:

Tax revenues—collected on behalf of the government from taxpayers, called *administered* and *trust* funds in South Africa and the UK respectively (SARAs should account separately for special material programs, such as social security, administered on behalf of other agencies).

Operating incomes and expenses—incomes allocated from the budget and other sources (and which are disbursed as operating expenses) to support revenue generation and program activities (called *resource* or *own* records in the UK and South Africa respectively).

Financing and investment activities—these are capital and operating funds, mainly from the budget and other sources (e.g., donors), used to pay for current and fixed assets (elements of which may be attributed to taxpayers on account of measures such seizures and liens).

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with UK Government Resources and Accounts Act 2000 (also requiring compliance with the GAAPs, where necessary). SARAs must also adhere to *judicial decisions* on the measurement, recognition, and timing of transactions.

[6] In 2003, IFAC, IMF/World Bank, and UN started a convergence program to reconcile the public sector standards such as IFAC's IPSAS with the GFS/UN standards (Dupuis, 2006).

[7] In January 2007, IFAC's Public Sector Board issued eleven (11) revised IPSAS in a convergence program to align them with its International Financial Reporting Standards (IFRSs) that are more appropriate for business entities. While SARAs are not private entities (or Government Business Enterprise (GBE)) in an IFAC and PFM context, they would have applied the IFRSs in the past. The treasury and tax accrual accounting guidelines in some advanced countries that are now using IPSAS used to be based on private sector GAAPs (IFAC 1996).

The horizontal items in Table 1 show three partial and integrated options for keeping these transactions under most treasury accounting systems.

Table 1. Summary of records kept by tax agencies

Types of Transactions	Full Integration	Partial Integration or Interface	Self-Accounting
Operating (tax revenues)	Tax offices keep detailed individual taxpayer records; treasury keeps total records.	SARAs and tax "departments" keep detailed individual taxpayer and control (or total revenue) records on cash or accrual basis	
Operating (incomes & expenses)	Treasury keeps operating records and prepares the income statement	Tax offices keep records and transfers them to the treasury for completion and consolidation	SARAs keep detailed income & expenditure records and prepares operating statement
Investment & financing	Treasury keeps most of the records and, typically pool asset and liability records for MDAs. However, tax offices may keep detailed memo or ledger records (e.g., asset register) under partial accounting regimes		SARAs keep detailed ledger records for assets & liabilities and prepares a balance sheet

Full integration: Under this traditional method (e.g., as in Dominica or St. Vincent), the tax agency's budget and accounting records and procedures form part of the core treasury system. The treasury records the allocation of budget funds, to the tax agency, as operating or capital incomes and their disbursement as operating expenses and investments.[8] Even under these procedures, tax agencies keep detailed records for individual taxpayers to facilitate self-assessment and compliance.

Partial integration/interface: This intermediate option (e.g., Jamaica and Trinidad) allows tax departments to keep more detailed records under full treasury classification and recording rules. The treasury delegates substantial responsibilities for revenues and operating incomes—but to a limited extent for investing and financing activities (since assets are usually pooled). All manual or electronic records are integrated with the treasury's consolidated records for all MDAs. In essence, the tax agency's records mirror those of the treasury at departmental level.

Self-accounting: Under this option, tax agencies keep separate operating (revenue, income and expense), investing, and financing records within broad treasury rules or guidelines. In a PFM, this approach is consistent with the records for an accounting or government reporting entity (Section D). Autonomy laws give more operational powers to a tax agency over budget resources in return for higher accounting and reporting standards, including the publication of audited financial statements. Countries with autonomy laws and explicit or implicit GAAP requirements include South Africa, Ghana and Kenya.

These three options, including automation (Part E), do not automatically improve a tax agency's accounting records. As noted in Section B, while there are advantages to keeping separate accrual records, there are risks that can make it difficult to realize them.

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[8] Some treasuries may even assign staff to tax offices to perform the accounting function, including aspects of the records for taxpayers (e.g., tax arrears).

E. Automated Accounting Systems

Treasuries and tax offices embark on major automation programs to improve their accounting and budget systems. Accounting software can also be used to improve the application of accrual accounting systems and integrate SARA and treasury records more successfully. In practice, however, the results can be mixed.

Fiscal reforms often classify legacy and off-the-shelf (OTS) automated tax systems as modules of **I**ntegrated **F**inancial **M**anagement **I**nformation **S**ystems (IFMIS or FMIS). A discussion of IFMIS is outside the scope of the paper but, in general, the goal is to improve fiscal controls by integrating procedures for MDAs closely linked to the budget (Khemani and Diamond 2005; Petersen, 2006). IFMIS systems vary in complexity but they are mostly based on two models: (a) ***common***, centralized or integrated treasury systems; or (b) ***standard*** decentralized platforms for linking inter-agency or interdependent systems (Shiaro-Campo and Tomasi, 1999). Hashim and Allan (1999) also describe IFMIS configurations as (a) ***core*** and (b) ancillary ***non-core*** systems (that provide data to the core systems).

Some non-core IFMIS systems are said to cover *revenue* systems or *modules* which "... would generally be set up as separate subsystems of the Accounting System". However, this seems to refer to cash management modules because the interface between the full tax and treasury systems is usually very weak. While this weakness seems to improve, most legacy or OTS *tax systems* (e.g., TRIPS and ASYCUDA)[9] were not originally coordinated with IFMIS in countries such as Ghana and Guyana. The integration tends to fail and, in summary, tax and treasury systems tend to have the following operational features:[10]

- *weak or no linkage:* many tax and customs software process tax returns or customs entries, with limited or no capacity to support the treasury's fiscal needs;

- *cash management:* some countries use standalone *ad hoc* cash management and reporting modules to bridge the treasury and tax systems; and

- *full or partial integration:* some IFMIS aims to integrate tax systems (e.g., SIGTAS and SIGFIS {Standard Integrated Government Financial System} in the Caribbean).

SARAs also have internal interface and compatibility problems since most tax systems have only revenue modules and do not support all the operating, financing, and investing activities.

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[9] Others systems include PCTrade, SIGTAS, and TRIPS. ASYCUDA and PCTrade are UNTAD and NzAid (Pacific Islands) customs systems respectively. SIGTAS (Standard Integrated Tax Accounting System) is owned by SOGEMA (Canada) and is widely used in the Caribbean. TRIPS (Total Revenue Information Processing System) is a Crown Agents (UK) tax and customs revenue management system.

[10] "Big bang" IFMIS approaches seem to fail most and there is a view that the term "integrated" may be overrated for some programs (Peterson, 2006; Khemani and Diamond, 2006). Peterson argues that a gradual (process change) may be better than big bang (innovative changes) solutions involving complete reengineering of the entire systems.

Hence, SARAs tend to install separate *finance* systems for incomes and expenses while the *revenue* modules cater for assessments, penalties and interest (including arrears and bad debts). Most of the finance systems are adapted from OTS private software and are not compatible with revenue and treasury systems.

III. Nature of Tax Office Accounting

Part III summarizes the nature of tax office transactions and records as an introduction to Part IV, which covers specific issues that should be covered in SARA regulations and guidelines.

A. Nature of Tax Transactions

The common terminology used in the GAAPs and the GFS means that SARAs and treasuries can view their accounting activities from a common perspective. Both of them classify transactions as *operating, investing and financing* activities.

Operating activities: The main operating or *current flows* are (a) *tax and non-tax revenues*, which are collected on behalf of the government paid directly into consolidated funds; and (b) the *operating incomes* from a separate budget allocation process, which are disbursed as *operating expenses* in generating the revenues. The GFS classifies *tax refunds* as negative revenues but some treasuries classify the refunds with interests and penalties as expenses.

Investing activities: The *investing activities* are *capital* or *stock items* that span multiple fiscal or financial periods—unlike the operating items with a fiscal or financial year span. The main investing items are *fixed assets* (e.g., equipment or premises) for supporting operations into the medium-to-long term. Upon establishment, and to improve operational efficiency, SARAs take over or acquire significant values of assets through direct transfers and budget allocations.

Financing activities: The *financing activities* are also *long-term funds* for supporting both operating and investing activities. The financing of SARAs is mainly from the budget since even SARAs do not have external shareholders and they also have very limited powers to contract loans. The operating activities may result in temporary *stock* items called current assets which are financed from current liabilities and equity or other long-term sources.

These broad categories set the capital or stock (i.e., investing and financing) items apart from the current or flow (i.e., operating) items. This is useful in preparing full accrual records and financial statements (Sections C and D). It is necessary to note that *tax revenues* do not SARA operating income—even if it retains a ratio to meet operating and capital expenses. Operating incomes and expenses are subject to separate budget appropriation and allocation processes.

B. Meaning of Full Accrual Accounting

Accrual accounting means that SARAs must record transactions upon their *recognition* and not when they receive or pay cash—which is the basis of *cash accounting* under most treasury rules. The accrual records form the basis for recording the operating, investment and financing activities and for preparing the financial statements discussed later. The records must conform to the matching, double-entry, entity and other GAAP rules to make the conversion from single entry or incomplete records to full accrual accounting effective. A detailed review of these accounting rules (or concepts, principles and conventions) is beyond the scope of this paper.[11]

SARAs use several *documents* as basis for making the accounting entries in subsidiary books, cashbooks, and ledgers—the cashbook being the key record under cash accounting systems.[12] These initial entries are based on detailed *charts of accounts (COAs)* and, for example, the GFS classification of transactions under function and economic codes.[13] Finally, SARAs use the ledger records to prepare *financial statements* that comprise (a) an *operating statement* summarizing incomes and expenses; (b) a *balance sheet* summarizing assets, liabilities and equity; and (c) a *cash flow statement* for sources and applications of funds (Part V).

An intermediate or *modified* approach requires a SARA to prepare "own" accrual records and "administered" records on cash basis (e.g., South Africa[14]). This is a necessary first step to full accrual accounting, which would require SARAs to augment the cash records incrementally with accrual data (see Reed and Swain, 1997; Shiavo-Campo and Tomasi, 1999).[15] While Shiavo-Campo and Tomasi argue that full or modified accrual accounting may be too advanced for developing countries, this need not be the case for single entities such as a SARAs.

C. SARA Accounting Records

SARAs must prepare proper and, and if necessary, separate records in three main categories, namely (a) *revenue or trust records* for tax and non-tax revenues collected and held in *trust* for the government before being transferred to the consolidated or general funds; (b) *operating income and expense records* for budget funds used to generate the revenues; and (c) *program records* for material activities which a SARA performs on behalf of other government agencies.

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[11] *Accrual* accounting requires an adjustment of all cash items with amounts owing or prepaid to *recognize* incomes and expenses and *match* these for an accounting period. *Double entry* requires debit and credit entries to uphold the *accounting equation* (assets = equity + liabilities). The *entity* rules view a SARA separately from the treasury and other parties in a financial transaction. It is a notional concept that does not require physically or legally separating a SARA from the treasury. See also IFAC (www.IFAC.org) for publications on the merits of public sector accrual and cash accounting, including rules for maintaining or switching from cash to accrual accounting.

[12] The revenue documents include *tax return* (or customs *declaration* or *entry)*, and assessment *notices*. The documents common to revenues, incomes, and expense include *invoices, debit notes, credit notes, pay-in slips, treasury warrants or vouchers, and cash receipts*.

[13] The GFS *function* codes describe the purpose of an expenditure while the *economic* codes describe the economic nature of the expenditure. The function codes for tax {701123} and customs {701124}) agencies are similar to *organizational* code.

[14] See SARS Annual Report [Financial Statement], 2007. The accounts also include programs or functions performed on behalf of the South African Customs Union (SACU) Secretariat.

[15] These authors suggest that the modified cash accounting basis should recognize "transactions and events which have occurred by year-end and are normally expected to result in a cash receipt and/or disbursement within a specified period after year-end" (e.g., 3 months). The modified accrual basis "recognizes transactions and events when they occur, irrespective of when cash is paid or received ... however, there is no deferral of costs that will be consumed in future periods" (including physical assets that must be written off).

These programs include student loans and social security—which may involve multiple activities such as receipts, recovery of arrears or debts, and disbursement of funds.

These specific accounting requirements may be enshrined in SARA laws. For example, Ghana's autonomy laws require "separate records and accounts for (a) taxes, penalties and interest collected and paid into the consolidated fund; (b) funds provided for the administration of the Service; and (c) the special refund account described in Part IV[b]."[16] As noted earlier, South Africa prepares separate "own" and "administered" financial records and statements (SARS, March 2007) while UK's HMRC prepares separate resource, trust and program records and statements—which are consolidated in comprehensive financial statements (Box 2).

Box 2. HMRC's Resource, Trust and Program Records

HMRC prepares separate resource, trust, and program records as follows (simplified):

- *Resource or (general) records:* These cover the budget incomes and expenses used to discharge HMRC's core revenue generating responsibilities. They include actual or provision for refunds (strictly a negative revenue), interest and penalties as operating expenses.

- *Trust records:* These represent revenues collected (and some disbursements) on behalf of other government agencies. While refunds or negative revenues are shown in this account, there are no operating expenses because the resource records relate to this primary responsibility.

- *Program records*: These cover budget allocations, benefits/disbursements, and expenses for programs such as Child Benefit/Trust Funds, national insurance, and student loans.

HMRC *consolidates* these records into a single financial statement and report (with appropriate notes) to show the full scope of its responsibilities.

The revenue and program activities may be in (a) *sub-accounts* (i.e., total or control accounts) in the general ledger—to mirror the individual accounts; or (b) *separate trust fund and program records*. To reiterate, tax revenues are not operating incomes for SARAs, in the sense in which a treasury considers them for the economy. The consolidated records are needed to show a SARA's overall responsibility for revenues, programs, and budget resources.

IV. Recording and Reporting Rules

Part IV reviews the recognition and other accounting rules which SARAs use to keep revenue, operating (income and expense), investing and financing records. The rules facilitate the preparation of the financial statements (Part V). The main operating activity is generating

[16] VAT Act, Act 546 (1998)—as discussed in Part IV(c), Ghana has a retention account for refunds. The VAT law has also been amended to give *program* responsibilities for a National Health Insurance Scheme and Education Trust Fund to the VAT Service. Other earmarked revenues under the revenue agencies are include the Road Fund and Strategic Stock (Fuel) Levy, which are allocations of tax revenue.

revenues, which IPSAS 23 and the GFS define in income terms (from the treasury perspective, not SARA) as an increase in net worth (net assets or equity) from tax and non-tax sources.[17]

A. Revenue Transactions

SARAs generate and record most tax (e.g., income tax, VAT, tariffs, and other levies) and non-tax (i.e., income and fees) revenues through similar receipts or payments processes comprising assessment, sanctions (penalties and interest), tax credits and refunds. These processes cater for voluntary compliance or self-assessment by taxpayers and official assessment and enforcement by tax offices. Traditionally, SARAs keep accrual records for *individual taxpayers* for these items while usually reporting *in total* to the treasury on *net cash basis*.

Tax assessments: The main factors in switching to account to accrual accounting include:

- *Accruing tax revenues:* Individual tax liabilities accrue when taxpayers self-assess or tax offices issue official (administrative or presumptive) assessments. Under strict accrual rules, the *total* or *control accounts* reflecting amounts due to the treasury would include potential revenues and adjustments from tax arrears and receivables for a period. On the other hand, they would exclude advance payments relating to other periods. The GFS and IPSAS require SARAs to be prudent in reporting tax revenues on accrual basis, hence the need for the actual and provision for bad debt rules discussed below.

- *Bad debts (arrears):* Both IPSAS and GFS endorse accrual accounting for revenues but require SARAs to recognize only revenues that have a realistic chance of being realized. This is often interpreted to mean *cash flows* but the appropriate accrual perspective is to have sound actual and provision for bad debts as well as remissions policies. These will cater for a range of tax activities such as non-payments, insolvencies or bankruptcies, and fraud. In essence, *recoverable* taxes are reported as revenues in the year they fell due while *irrecoverable* arrears are excluded.

- *Advance and late payments:* Taxpayers are required to pay estimates of income tax due for the year in advance—typically, in monthly or quarterly installments. Consequently, tax offices adjust the individual taxpayer accounts to reflect receivables (which could culminate into arrears), credits or refunds after the final or net liability is determined. Under accrual accounting, the reports to the treasury should also reflect the adjustments.

Tax offices should immediately write off the *actual bad debts* against the individual taxpayer accounts and control or total accounts. On the other hand, they should only offset the *provision for bad debts* account against the total arrears in the balance sheet (Part V). SARAs should also

[17] The main IFAC revenue accounting standard is IPSAS 23, which covers the recognition, recording and reporting of revenue or non-exchange transactions. The terminology in this paper is not fully consistent with IPSAS because of the need to distinguish tax "revenues" on behalf of the government from the operating incomes allocated from the budget and other sources (Sections B and C).

provide for *contingencies* (in the form of notes to the financial statements) for further doubtful cases not shown as a provision (e.g., estimates of arrears to be written off upon appeals).[18] Tax agencies need effective powers (e.g., recovery, write-off and installment) to make the bad debt policies meaningful in order to report realistic accrued amounts as revenues. The accrual of revenues may help explain issues such as the tax gap attributed to delinquencies more clearly.

Refunds and tax credits: Refunds are cash payments of negative balances on individual taxpayer accounts, instead of being carried forward as credit. The tax law may also include powers to grant credit against—or complete waiver or remittance of—a tax liability. As noted in Part III, some treasuries treat *tax refunds* as expenses but the GFS and IPSAS classify them as *negative* revenue to be offset against the amount due to the treasury. HMRC follows OECD rules in classifying automatic *tax credits* as negative revenues but as expenses when disbursed in cash. It is prudent to recognize all tax refunds and credits due to taxpayers in the form of a liability, provision or contingency.

Penalties and interest receivable: Penalties and interest receivable are imposed by the courts or administratively by SARAs on tax liabilities and other delinquencies. In general, interest and penalties are non-tax revenues which should be kept in separate accounts. However, the GFS allows interest and penalties assessed with infringement of particular taxes to be recorded with those taxes. While SARAs can anticipate interest and penalties due in reporting on accrual basis, as with assessments, they should adopt prudent policies that write-off or make provision for actual and potential irrecoverable amounts that may never be paid.

Non-netting of revenues: The GFS and IPSAS state that tax offices should not net out multiple or composite transactions. This may easily impair analysis and decision-making. Transactions that are susceptible to netting include—

- *Revenue retained as expenses:* Where SARAs retain or withhold a percentage of tax or non-tax revenues (e.g., customs service or overtime charge) to meet operating costs—including tax refunds (e.g., Ghana)—they should show all the activities that could flow from this single event. They should make cash or accrual entries for all elements such as revenues, operating income, expenses, and refunds.

- *Liability and refund/credit offsets:* Tax laws often allow tax offices to offset credits and refunds due to taxpayers against arrears of other taxes. Again, the records should have separate entries for all the elements such as the settlement of arrears and refunds.

- *Treasury credit notes (TCN) and offsets.* Where *treasury credit notes* (TCN) or *vouchers* are issued to settle tax liabilities (especially import VAT and duties) on behalf of MDAs, the treasury and tax office should show separate entries for the revenues and expenses involved. It is not sufficient under accrual rules for a SARA to report the net cash

[18] Liabilities are more certain than provisions and contingencies (which are the most uncertain). Unlike liabilities and provisions, contingencies are disclosed as notes to the financial statements, not recorded in the accounts.

amount only. This rule also applies where refunds or credits (e.g., VAT refunds) are used to settle a liability, often in another tax category (e.g., income tax).

Cash management: SARAs collect and hold tax revenues in "trust" for governments and transfer them promptly to the central bank. The paper does not cover cash management rules or principles in detail but the following points are worth noting:

- *cashiering:* the use of tax or treasury offices to receive cash, make lodgments, and pay refunds and expenses can lead to delays as well as safety, reconciliation and liquidity risks, mainly as a result of handling and holding large amounts tax offices;[19]

- *cut-off and reconciliation*: SARAs and treasuries should have clear rules for dates or periods used to report and reconcile receipts, payments and transfers among taxpayers, tax offices, commercial banks, and central banks—first, to minimize retentions (see below), suspense items, and unregulated or unlawful use of funds; and, second, to establish theamounts to be accrued in preparing the financial statements;

- *retention and investment policies*: as noted earlier, tax offices may not invest trust funds and their use of operating funds for this purpose should also be regulated, for example, through application of treasury single account (TSA) rules discussed blow.

Proper banking and cut-off rules can eliminate the handling of large cash amounts in tax offices and minimize most cash and liquidity risks. Treasuries should impose strict time limits (e.g., 24-48 hours) for tax offices and banks to transfer tax revenues to the central bank.

Some countries designate the SARA bank accounts as TSAs to minimize the risks. In general, TSA policies designate MDA bank accounts as treasury accounts that must be "swept" daily or frequently to maintain zero balances on the bank account. In general, therefore, MDAs cannot open an account without treasury permission. These measures facilitate forecasting as well as liquidity and debt management through better analysis of trends and deviations. Banks can also not invest or on-lend tax revenues to the government.

B. Operating Income Rules

Sections B and C discuss the operating income and expense rules for preparing relatively complex operating statements (Part V). The main issue is augmenting the cash receipts and payments rules with the recognition of arrears and prepayments that may become liabilities and assets. A crucial question is whether SARAs should accrue budget incomes from year to year.

Sources for operating income: Tax agencies get the bulk of operating income from the budget and, with a few exceptions, not automatically or directly from the revenues they generate.

[19] These practices are cumbersome for taxpayers, especially in urban areas with improved banking facilities. Taxpayers can file and pay at designated banks or the banks could collect the revenue from major offices.

- *Budget funding:* Budget funds are allocated periodically (e.g., monthly) by the treasury, which may also record their disbursements as line items for most non-SARAs. SARAs keep their own records and, the process involving approval, allocation, commitment, and disbursement, has some exceptions for SARAs under autonomy laws (Box 3).

Box 3. Some SARA Budget Issues

SARAs often receive more budget funds to improve their work and employment conditions. They also benefit from more flexible budget rules to enhance executive control over budget resources and to remove operational constraints such as cash shortages.

- *Allocation and controls:* SARAs often benefit from periodical bulk allocations (e.g., quarterly instead of monthly), quick cash disbursements, and less stringent line-item or *virement* rules.

- *Retention policies:* Some autonomy laws (e.g., Ghana and Peru) allow SARAs to retain a portion (e.g., 2–3 percent) of total or part of the revenues generated to finance operating expenses and refunds (e.g., Ghana and Malawi).

In general, some retentions are limited to specific revenues (e.g., customs service or overtime charges, penalties and interest) and for specific expenses (e.g., staff bonus). Others are broader and cover capital expenditures and refunds (e.g., Ghana). Retentions should be well regulated since the amount is part of the consolidated funds. In this regard, some countries (Ghana) require that the amount retained should be held in a TSA account only.

- *Project and donor funds:* Donors may provide funds directly in cash or in kind to tax agencies to support their operations and investment. In principle, these funds should go through the budget, at a minimum, as contra entries in the treasury and SARA records. Some donations in kind (e.g., vehicles and equipment) should be recorded at market value as capital, not operating, items under a streamlined accrual accounting process.

- *Investment incomes:* SARAs need detailed regulations on investment incomes. As a general rule, SARAs cannot invest trust funds but the guidelines are often less certain with respect to operating cash balances. SARAs may also generate significant income from staff activities (e.g., sporting, canteen or entertainment clubs). While some of these may be managed directly by the staff, it is important to have clear guidelines for the proper treatment of assets and incomes (e.g., interest and rentals).

- *Fees, commissions and other incomes:* SARA may receive direct budget allocations to manage programs or earn incomes, fees or commissions from the beneficiary agencies for providing those services (Section E). This latter category may be retained directly from the revenue generated. SARAs may also earn income from taxpayers (e.g., customs service charge) and they should also account for gains (or losses) on the realization of fixed assets reflected in the financial statements (Part V).

Outstanding budget funds: Under strict accrual accounting, SARAs would record *operating incomes* upon budget approval or appropriation. In practice, however, it may not be prudent to show the treasury as a debtor for amounts that would never be received. Some SARAs may attempt to track operating incomes due as accounts receivable against the treasury. A more conservative approach is to recognize the income when a treasury issues a warrant or similar liquid form of commitment. In contrast, it may be prudent to accrue fees which can be recovered directly from programs administered by SARAs (e.g., student loans).

C. Operating Expense Rules

The bulk of a SARA's incomes are spent on its revenue generating activities, making it necessary to maintain only one set of expense records and to keep separate records for only *material* program expenses (Section E). SARAs should classify the expense items, in particular, in detailed COA and GFS format for management and fiscal purposes.

Nature of operating costs: While the classification may differ, autonomy laws have significant implications for administration (including staffing), maintenance and development costs. As noted earlier, refunds and penalties payable should also be given proper treatment.

- *Staff costs*—SARA employees cease to be part of the civil service and so a SARA's obligations include income tax (PAYE) and contributory or non-contributory pensions and social security withholding and management. These raise funding, investment and operating issues and transition periods that often prolong because the old staff can remain on previous civil service schemes, including welfare and loan programs.

- *Non-staff costs*—Rental, maintenance and development costs increase with the taking over of significant assets that are no longer pooled with those of other MDAs. SARAs also devote more resources to taxpayer services (e.g., publicity) and enforcement (e.g., audit) to improve performance. The accounting policies must include non-cash items such as the provisions for depreciation and bad debts discussed earlier.

- *Refunds, penalties, interest and tax credits:* SARAs should classify these items properly as negative revenues (e.g., refunds and credits) or expenses (e.g., penalties and interest) and in relation to their core and non-core activities. It may be necessary to include some of these items in the specific programs administered for other agencies.

Accrual and prepayment of expenses: The shift to accrual accounting will increase the records for arrears, prepayments and provisions. Most accruals are the result of delays in disbursing budget funds. The relationship between expenses and some capital items would also become important as SARAs stop immediate expensing of capital items and set rules for pooling and writing off costs that may not be deemed to be material enough to be added to fixed assets.

D. Investing and Financing Activities

SARAs usually control significant fixed and current assets for managing the revenues or trust funds and program activities. The assets may be financed from budget and non-budget sources as equity (capital and operating grants) and from liabilities such as loans and creditors. Both categories include assets belonging to taxpayers (e.g., held as lien). The remaining paragraphs use a balance sheet format to discuss these items, which must conform to several GFS rules and IPSAS standards such as IPSAS 23, 9, 12-13 and 16–17.[20]

Current assets (CA): These are temporary investing items that fall due within a year, including non-conventional items such as taxpayers' assets held by a SARA. They are initially operating and derived from balances on various accounts after preparing the income statement (Part V). The details include:

- *cash (in tax offices and banks)*: these represent operating (unspent)[21] as well as trust and program funds (not transferred) held in tax offices, banks and in-transit—and due to be utilized or transferred/remitted to the central bank in the ensuing year;

- *tax arrears and receivables (less bad debts)*: tax arrears are due to actual default or lags in statutory and actual payment dates and should be shown net of bad debts;

- *inventories or stocks*: these include items such as consumables that a SARA may not have exhausted but expect to use within an ensuing accounting period or year; and

- *taxpayers' properties*: these are mainly seized assets, liens and sureties that may mature as revenues or returned within one-year (and, therefore, not classified as a fixed asset).

Where a SARA deems it prudent to accrue approved budget funds, they must be part of current asset. Secondly, given the large number of individual taxpayer accounts, both IPSAS and GFS allow a SARA to use statistical methods to determine arrears (liabilities) and provisions (and, therefore, contingencies). This means that a SARAs risk management methods (e.g., profiling and aging) may be used to satisfy some accrual accounting needs (SARS 2007, Annex 1 of unaudited annexures). Finally, as noted, some assets reflect as contra liabilities (e.g., liens).

Current liabilities (CL): These are balances of short-term *liabilities, accruals and credits* that fall due in one year. The main conventional and *non-conventional* items include—

- *creditors and loans*—these include arrears owing to suppliers (e.g., consumables) and banks (e.g., bridging loans and overdrafts); these may also include guarantees;

- *arrears of tax refunds/credits, and interest and penalties*—these are unpaid balances due to taxpayers include arrears (due budget shortfalls and cut-off policies) and *advance payments* ("on account", due to lags in statutory and actual payment dates);

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[20] IPSAS 9 (revenue from exchange transactions); 12 (inventories); 13 (leases); 16 (investment property); and 17 (property, plant and equipment); and 19 (provisions, contingent liabilities/assets). IPSAS 23 includes rules for assets, liabilities and contingencies that crystallize into revenues or which may be written off.

[21] Some rules require that these amounts should be cleared or transferred to the treasury at the end of the year.

- *unremitted funds*—these are balances on total or control accounts not remitted to the treasury (again, *contra* for cash-in-transit on the asset side); and

- *taxpayers' liabilities*—contra items for assets which a tax agency may have to return to taxpayers (e.g., after a court decides) or realize as revenues.

It is prudent to disclose the full extent of liabilities and contingencies for all claims to avoid overstating revenues and assets. Even though most *provisions* (e.g., bad debts and depreciation) are liabilities, they are shown as offsets against relevant assets in a balance sheet (Part V).

Fixed assets (FA): SARAs hold substantial FAs independently to support their operations and they are required to keep proper records of these items, including their disclosure in financial statements (Part V). The main categories include:

- *tangible FAs*: these are physical items (e.g., land and buildings, equipment, furniture and vehicles) held over relatively long periods at headquarters and regional/local offices;

- *intangible FAs*: these cover items such as the acquisition or development cost of software and licenses that are deemed to be substantial enough to be capitalized;

- *property, bonds, security deposits etc*: these tangible and intangible assets belonging to taxapayers are held for more than a year against liabilities, provisions and reserves (or contingencies) until they crystallize as revenues or they are returned.

The IPSAS standards favor historical or replacement cost in valuing FAs, with periodical revaluations and recognition of realized capital gains. These costs are shown net of accumulated depreciation over the estimated useful life (EUL) of the FA (Box 4).[22] The historical cost rules and policies may diverge from the GFS market-based rules.[23] On the other hand, the IPSAS and GFS are consistent on other FA issues, such as the rules for financial and operating leases.

Investments: As noted in Section B, countries forbid SARAs from investing trust, program or operating funds, often through stringent TSA rules. Where SARAs invest, however, the assets should be classified properly in terms material or portfolio short-term and long-term items. SARAs may also be in control of significant funds from independent employee activities such as staff pensions and welfare schemes (e.g., staff canteen or sports club). The operating, investing and financing items may even warrant separate records or segmentation (IPSAS 18).

[22] Upon establishment, a SARA may take several years to determine the initial value of all fixed assets they take over and acquire, including refurbishment costs. The goal is of this initial exercise is to capitalize all material assets, estimate liabilities, and create reserve and capital funds to prepare the initial balance sheet. The list of assets and liabilities is used to derive the opening capital fund through the accounting equation (E=A-L). The exercise may require the assistance of other professionals such as architects and valuation experts.

[23] Tangible FAs are often shown at historical (or replacement and recovery) costs while intangible FAs are valued at development or acquisition costs. Depreciation or the annual amount by which a FA is written down over its estimated useful life depends on factors such as rate and method (e.g., straight-line/reducing balance).

Box 4. Some Key Fixed Asset (FA) Issues

The key policy areas for including fixed assets in the records and financial statements include:

Cost of asset: FAs are shown at historical cost, which is the amount paid at the time of acquisition. However, SARA are allowed to revalue the assets to reflect upward or downward market and other conditions (e.g., accidents and damages).

Estimated useful life (EUL): This is the number of years the asset is expected to be in use and over which it will be depreciated. It is useful in determining the depreciation amount.

Depreciation: This is the amount representing the annual "use" of the asset. It is accumulated and deducted from the cost of the asset to show the book value of FA (which is often not the same as the market value).

Financing activities: SARAs may finance the fixed assets and working capital (discussed later) from a variety of sources whose broad IPSAS and GFS classifications seem consistent:

- *equity (net worth or capital/general funds)*: these are accumulated capital and surplus (or deficits) funds from budget and non-budget (e.g., grants from donors) sources;

- *reserves*—these may be general or special funds set aside by the management to meet specific needs (e.g., pensions, contra for taxpayers' assets etc.); and

- *long-term liabilities*—these may not be significant since, as noted, SARAs have limited borrowing powers (Part II) and do not incur substantial long-term or even short-term *liabilities* such as loans and overdrafts.

In general, while SARAs may not borrow and, therefore, not have material long-term loans, they may have substantial mortgage arrears from transactions such as financial leases (itself an FA) that should be recognized properly as assets and liabilities in the records.

Working capital (WC): The working or operating capital is the difference between current assets (CA) and current liabilities (CL) in conventional accounting terms. It is a temporary financing item or a rough measure of the adequacy of short-term funds to finance the current year's operating activities. As rule of thumb, a SARA may view a 2.1 or more working capital ratio as evidence of sufficient annual budget allocation for its operations.

E. Program Activities

T *material* programs which SARAs administer on behalf of other agencies may be shown as (a) sub-accounts in the ledger; or (b) a separate records. In both cases, there should be clear rules for the operating (including revenues), investing and financing elements.

Revenues: A SARA may collect tax (e.g., levies or payroll taxes) and non-tax (e.g., fees and loan recoveries) under a variety of programs (e.g., social security and student loan schemes). The accounting treatment depends on factors such as whether (a) it is directly responsible for the scheme (including enforcement action); and (b) it has to transfer the revenues directly into the consolidated fund.

Operating income and expenses: The funds for managing the program may be derived from the budget and estimated by the SARA or the SARA may earn a commission or fee for the service (e.g, based on a flat-sum or percentage). Similarly, the accounting for expenses (including bad debts) depends on the program arrangements discussed earlier. The non-cash items such as depreciation will also depend on the SARA investing and financing activities discussed below)

Investing and financing items: Except for large programs, which a SARA may run as a separate operation, the assets—and the liabilities arising from its operation—would not be separated from the mainstream records. This means that SARAs would normally have a single balance sheet to reflect all capital investments and financing activities. Some programs may be organized separately, even be physically from the mainstream revenue operations.

The expenses should be matched in an income statement against the budget or fees for specific programs (Part V). Where SARAs do not receive specific budget funds or do not make a separate charge for the special programs, they should allocate or apportion certain common expenses from the general fund to improve accountability.

V. SARA Reporting Obligations

Autonomy laws require SARAs to prepare relatively complex financial statements from the accrual records, in line with standards such as IPSAS 1 to 3.[24] However, simple forms of statements are still prevalent, including their use as an intermediate step to full accrual accounting. The more complex requirements include accounting policies and explanatory notes to support the financial statements (Box 1). These detailed financial statements serve both reporting and public accountability needs in a SARA's relationship with stakeholders such as MOF, the board, audit institution, legislature and taxpayers or the general public.

SARAs may prepare a composite or combined statement to summarize the *trust fund, and program* records or, alternatively, prepare separate financial statements prior to consolidation.

A. Simple Cash Statements

Where the fiscal systems are not developed sufficiently, tax agencies prepare simple cash reports for revenue and operating activities.[25] They should support the cash statements with

[24] IPSAS 1 (Presentation of Financial Statements); 2 (Cash Flow Statements); 3 (Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies); 18 (Segment Reporting).

[25] See Cash Basis IPSAS—Financial Reporting Under Cash Basis of Accounting.

memoranda records for selected current capital, investing and financing items to improve accountability. The cash statements must also conform to IPSAS cash accounting rules.

Revenue statement: These are periodical (e.g, daily, weekly, monthly or annual) summaries of tax receipts, refunds, and transfers to the general or consolidated fund. The statement reflects the revenue control account and, in principle, the balance represents cash in transit, tax offices and banks. The statement must show summaries of different revenue and program items separately, preferably in GFS format.

Operating statement: This is a summary of cash receipts and their disbursement as expenses to support the revenue and program activities. The receipts do not include revenues. The simple cash statements may not distinguish between capital and current items and, therefore, represent a simple cash flow statement and not an operating statement. The net amount implies a shortfall in funding or cash held (in tax offices and banks, subject to TSA and other fiscal rules).

Memoranda records: The main drawback of the cash statements is that they do not show accrued items. Hence a tax agency that does not prepare a conventional income statement and balance sheet (Section B) should support the cash statement with memoranda records or registers for items such as fixed assets, debtors (including tax arrears), cash (office, bank and transit) and creditors (including tax refunds).

The summary statements are mostly derived from the cashbook and, in some cases, central bank records. While the revenue and operating statements may be useful for cash management, they are not sufficient for making critical decisions on debts and assets without detailed memo records. SARAs may prepare separate simplified statements for material program activities.

B. Complex Financial Statements

The more complex financial statements are based on the SARA full or modified accrual records and consist of the operating statement, balance sheet, and cash flow statement for a period (usually one year). They are end-products in strict accrual accounting terms and, among others, must conform to IPSAS 3, 22, 24 and 18.[26]

Operating statement: This statement matches operating incomes and expenses and the balance shows the surplus or deficit for the period. In principle, it is part of the ledger records and is prepared by "closing" all flow or current items in the ledger, after adjusting for accruals and prepayments (Part IV). It expresses the adequacy of budget funds for a SARA's activities.

Balance sheet: This statement shows the *investing, financing* and *working capital* items held at the beginning or end of the period. It is a list (not an account) that expresses the accounting equation (equity/general fund = assets less liabilities). In broad terms, the balance sheet shows the sources from which SARAs finance their current and fixed assets.

[26] IPSAS 22 (Disclosure of Financial Information About the General Government Sector) and 24 (Presentation of Budget Information in Financial Statements).

Cash or funds flow statement: This statement shows the net increase or decrease in cash or near-cash by matching the source and application of funds between the beginning and end of the period. The main elements are the net operating income (after adjusting for all non-cash items such as depreciation) and changes in the investing and financing items.

The IPSAS rules cover the disclosure of accounting policies, accounting conventions and significant changes, which form part of complex financials.[27] The SARA statements are useful for managing funds internally in addition to using them to fulfill various requirements under autonomy laws, in reporting to revenue boards, MOFs, legislatures, and the general public.

C. Program Statements

A SARA may decide to prepare separate complex program statements, which must also conform to the relevant standards discussed earlier (e.g., IPSAS 22 and 23 as well as GFS). This means that the statements discussed in Section B would refer to only trust or revenue activities.

Program operating statements: The revenue and operating statements for material *programs* should include:

- a revenues statement covering fees, interest and penalties receivable from beneficiaries (classified as non-tax *revenue*) and payable into the consolidated fund or payable into a separate account on behalf of the government agency; and

- an operating statement comprising incomes (i.e., budget allocation or commissions) and their disbursement as operating expenses to support the program activities—with the balance representing a surplus or deficit.

Where a tax agency is in charge of paying entitlements or benefits from the revenues generated or budget allocation, the revenue statement would have a disbursement component—or the disbursements could be treated expenditure items in the operating statement. The operating statement may also show administrative charges instead of direct expenses payable from budget allocations and fees or commissions.

Balance sheet: SARAs tend to prepare a single Balance Sheet to support both revenue and program activities. However, for some material programs which are often operated from a different location, it may be feasible to prepare a balance sheet. Besides the conventional items, the *current and fixed assets* include unremitted revenues, arrears (less bad debts), and taxpayers' property (seizures and liens). The *liabilities* include arrears of refunds and credits, penalties and interest. It may be necessary to make bad debt provision for some of these items. The difference between assets and liabilities is a *reserve or special fund*.

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[27] A SARA may prepare a taxpayers' statement to summarize assets and liabilities. SARAs should have policies on trust or special reserves to support assets such as security property, deposits and liens.

D. Consolidated Financial Statements

These are more complex statements which may not be found in many countries. In principle, a SARA's consolidated statement groups the revenue and program statements to show its overall responsibilities. The treasury may also prepare a consolidated statement to combine the SARA financial statements with those of other MDAs.

SARA consolidation—The SARA's consolidated financial statement comprises the mainstream (i.e., resource or general), trust fund, and program statements. Where a SARA has domestic tax (i.e., VAT and income tax) and customs responsibilities, it may prepare departmental statements for two or more units or sections to improve accountability.

Treasury consolidation—The SARA financial reports are combined with other statements to prepare a single consolidated statement for all MDAs under the treasury. As noted earlier, however, the treasury and other MDA cash statements may not be compatible with the SARA accrual statements. The SARA may be required to prepare a cash statement for reporting purposes or follow specific guidelines to minimize the divergences in the statements.

A full discussion of consolidated statements is beyond the scope of the paper. In summary, they follow the similar basic rules for preparing group accounts, between parents and subsidiary companies (see IPSAS 6, 18 and 22).[28] To avoid duplication, a consolidated statement should include assets, equity and liabilities that do not involve offsets or internal transfers. Any lump sum item in the treasury records should be replaced with individual assets and liabilities from the SARA financial statements in order not to inflate the reserves or equity.

VI. Conclusion

It is apparent that the success of SARA financial administration depends on proper guidelines and effective interaction between tax and treasury offices. No level of independence would eliminate the need for fiscal reporting and integrating procedures should also not prevent a SARAs from exercising sufficient executive control over operations. The difficulties which SARAs experience in implementing autonomy laws, especially in switching to accrual accounting, are often due to inadequate guidelines and agreements, weak coordination of reforms efforts, and non-compatible automated systems.

SARAs and treasuries must improve the level of coordination to avoid complex and expensive bridging or reconciliation of their records. The goal is to minimize the extent to which the two systems diverge, especially as SARAs increasingly adopt IPSAS under autonomy laws—ahead of a similar requirement in public finance management. The lack of coordination and agreement only serves to exacerbate existing manual and electronic accounting problems.

[28] IPSAS 6 (Consolidated Financial Statements and Accounting for Controlled Entities); 18 (Segment Reporting) and 22 (Disclosure of Financial Information About the General Government Sector).

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