Public Sector Assets and Liabilities: Accounting and Governance
PUBLIC SECTOR ASSETS AND LIABILITIES: ACCOUNTING AND GOVERNANCE

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Abstract

Accounting and governance of public sector assets and liabilities is getting increasing attention around the world. Our various government service charges are much lower compared to even our neighbors. International Federation of Accountants has issued international public sector accounting standards (IPSAS) in 2004 for national, regional, local governments and related government agencies. In UK and other advanced countries, these organizations prepare balance sheet and other corporate sector like financial statements. Our government agencies like NBR and CAG do not prepare balance sheet and other financial statements. There are worldwide cries for increasing tax revenue for increasing government assets but our tax revenue is one of the lowest in the world. Contributory provident fund is replacing free employer-provided defined benefit pension benefits around the world but our government pension is one of the highest in the world. There had been increasing privatization and reform of loss-making SOEs for decreasing government deficit. Our ministries do not publish annual reports regularly and can be improved in line with the corporate sector. Similarly, the Secretary’s report unlike his counterpart in the corporate sector is just a thanks giving seven lines statement giving no information about his ministry. And finally, independent nonexecutives in the Boards help better protection and efficient utilization of organization resources around the world but our ministries and government agencies do not have a single nonexecutive.

Key Words: Accounting, Assets, Governance, Liabilities, Public Sector, Reporting.

1. INTRODUCTION

Government has land, natural resources such as oil and minerals, forests, ports, lakes, rivers and oceans, infrastructure like roads, motor ways, high ways, and bridges, public firms (SOEs) like airlines, railways, numerous service organizations like post office, police, fire service, passport office, financial assets such as pension funds, national parks, government guest houses, and numerous other assets. Its liabilities are salaries and benefits to government employees, pension to retired employees, vulnerable and old-age benefits, public health care, government bonds, and borrowings. An IMF

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estimate in 31 countries put the value of such assets as $101 trillion or 219% of GDP (The Economist, October 20, 2018, p. 67). If public assets are managed better, government coffers would enjoy a much-needed boost. Assets and liabilities can be more specifically identified as follows. Assets are fixed assets, financial assets, and current assets. Liabilities are debt and other financial liabilities, current liabilities, and pension liabilities. Fixed assets include infrastructure like highways, bridges, rail and roads; property like land buildings; plant and equipment like machinery, vehicles and equipment, heritage assets like art and museum collections, defense assets like military hardware, community assets like parks and historic buildings, natural resources like forests and mineral deposits. Current assets include taxes and other receivables, inventories, and prepaid expenses. Financial assets include loans to banks, investments in equity, foreign currency reserves, cash, and gold holdings. Debt includes bank deposits and borrowing, other financial liabilities include pension, treasury bills, litigation expenses, and compensation. Current liabilities include taxes refundable, trade and other payables and accrued expenses.

The paper would explore various ways how government-owned assets and liabilities could be better governed and accounted for. It will (1) cover how government service charges can be market-based, (2) how tax and nontax revenue can be the biggest assets of the government, (3) how profit tax exemptions can hamper accountability and nontax revenue in government organizations, (4) losses in SOEs and need for their reform, (5) how subsidies weaken balance sheet of the government, (6) how contributory provident fund rather than pension can strengthen government financial health, (7) how balance sheet can be prepared in CAG, NBR and other government organizations, (8) the state of ministerial annual reports, (9) a comparison of the Secretary’s report and corporate Chairman’s report, and finally (10) the need for independent nonexecutive members in the board of government organizations.

2. PREVIOUS STUDIES

There has been plenty of work around the world on government revenue and expenditure. IMF (2018) has done a survey on assets of 31 countries and valued these to be $101 trillion or 219% of GDP. This study will try to find how these assets could be increased in Bangladesh by increasing the price of government services in line with our neighbors. Nguyen and Freeman (2009) and Xu and Yan (2014) found SOEs are ‘crowding out’ private companies in Vietnam and China respectively. This study will see the performance of some major public sector organizations under various ministries and also that of major SOEs. There are studies on board members in SOEs (OECD 2018). Chowdhury (2015) looked at the board composition of our ministries and government agencies. The biggest source of revenue of the government is tax revenue but many public sector agencies are exempt from profit-tax which is causing further damage to the already poor state of revenue and
assets of the government. Chowdhury (2017) has shown that the government is subsidizing elite institutions but failed to provide minimum public provisions. Tax revenue is one of the lowest in the world and that caused increasing debt. External Debt in Bangladesh increased to 33.11 USD Billion in 2018 from 28.34 USD Billion in 2017. External Debt in Bangladesh averaged 21.55 USD Billion from 2001 until 2018, reaching an all-time high of 33.11 USD Billion in 2018. Domestic borrowing is also increasing in recent time (Bangladesh Bank, July 2019).

This paper will try to highlight other loopholes in government accounting and governance that caused increasing liabilities and borrowing of the government. There are studies on accounting in the public sector organizations dealing with the debate of cash versus accrual system of accounting but ignoring how to prepare a balance sheet for these organizations. This article will attempt to cover it up. To my knowledge, there is not a study on ministerial annual reports in Bangladesh. Ridley (1995) views that the key in bureaucratic accountability and responsibility is the publication of performance indicators: cost, output and quality measures, including public satisfaction surveys. Eisenberg (1984) explores how people in organizations use ambiguity strategically to accomplish their goals. Skilled executives develop the ability to vary their language along the spectrum from explicitness to indirection depending upon their reading of the other person and the situation. Bureaucratic administration always tends to be an administration of secret sessions in so far as it can, it hides its knowledge and action from criticism (Gerth and Mills, 1997: 28). This paper will analyze the ministerial annual reports. It will also compare the ministerial Secretary’s report and corporate Chairman’s report. World Bank (2010) has studied civil servant pension in South Asia including Bangladesh and argued for controlling costs and replacing defined benefit pension (free pension by employer) with contributory pension (employer and employee provided).

International Federation of Accountants (IFAC) has private sector like public sector accounting standards. IFAC in 2004 has issued international public sector accounting standards (IPSAS) for national, regional, local governments and related government agencies. IPSASs aim to improve the quality of general purpose financial reporting by public sector entities, leading to better informed assessments of the resource allocation decisions made by governments, thereby increasing transparency and accountability. IPSAS are similar to IAS and IFRS in the private sector. Like in the private sector, IPSAS 1 requires statement of financial position (balance sheet), statement of financial performance (income statement), cash flow statement, and changes in net assets or equity. IPSAS 17 Property, Plant and Equipment recognizes separate asset classes such as land, operational buildings, roads, machinery, electricity transmission networks, motor vehicles, office equipment, furniture and fixtures, etc. Valuation and revaluation of assets is necessary to keep the value of
public assets comparable with similar assets in private ownership and to ensure their fair valuation from a cost-benefit stance. It could help ensure transparent, standardized, accountable and long-term public asset management. One key difference with IFRS is that one standard, IPSAS 24, requires a public sector entity to present the comparison between budgeted amounts and the actual amounts that arise from executing the said budget, in the public entity’s financial statements, as long as the said entity makes public its approved budget. Additional disclosures are also required to explain the reasons behind the significant differences between these two amounts. In showing such a comparison and making the required disclosures, the public entity can demonstrate how well it manages public funds and provides services, for which it is publicly accountable. There is no equivalent standard under IFRS. Second, accounting for share-based payments and the requirement to disclose earnings per share are private sector phenomena and have no equivalents in the public sector.

3. METHOD

Public sector includes (i) ministries, (ii) government agencies, (iii) utility services, and (iv) SOEs. Currently there are 55 ministries and divisions. These include two divisions in Education, four in Finance, two in Health, two in Home, and three in Law. This study could cover only forty ministries. The four large government agencies included in the study are Bangladesh Securities and Exchange Commission (BSEC), National Board of Revenue (NBR), Bangladesh Institute of Capital Market (BICM), and Bangladesh Telecommunication Regulatory Commission (BTRC). Utility services included are WASA, Petrobangla, Chittagong Port, and BAPEX. State owned enterprises (SOEs) are BJMC, Bangladesh Railway, BIWTC, and BSCIC. Annual reports of public sector organizations covering 2000 to 2018 are the sources of data. The Secretary’s report is available in the ministries’ annual report. Comptroller and Auditor General (CAG)’s latest report is available for 2016. Ministries and divisions’ data of 2013-2014 were available. Thus public sector reports are three years behind time on average. Government documents and regulations like budget, the Secretariat Instructions 1996, Parliamentary Rules of Procedure, Income Tax Ordinance 1984, VAT and SD Act 2012, Customs Act 1969, Labor Law 2006 are available online. Government service charges for different countries are available from the internet. Where comparison is needed, it was done with the South Asian countries like Vietnam, India, Pakistan, Indonesia and Nepal. Ministries’ governance-related data is available for UK and therefore it is taken as a reference point. The objectives of the study are (i) survey of existing literature, (ii) innovate new literature and (iii) find empirical evidence in support of the existing and new literature.

It should be noted here that sample organizations were not selected on a random sampling basis. Rather the larger and popular organizations were selected. Further the
sample selection was restricted by the availability of annual reports and required data in the website of the sample organizations. The entire public sector is too big to be taken in a single article. Thus the conclusion of the article has to be taken with caution.

4. THEORY AND EVIDENCE

4.1 Government Service Charges: Increase Government Assets and Decrease Liabilities

Government service charges (non tax revenue) includes sale of government land, charges for economic services, profit and dividend from SOEs and other government organizations, fines and penalties, and stamp duties. There are royalties from oil and gas companies, tolls from roads and bridges, fees from museums, import and export processing fees, visa fees, broadcasting license fees, revenue from forestry. These can be categorized into three: general services such as fire service, jails, defense, police, PSC, BG Press, Public Works Department, Judiciary, CAG; social services like education, sports and culture, family welfare, housing, medical, cemeteries, assistance to aged, assistance to children, library, parks and recreation, water and sanitation, urban development, information and publicity; economic services like parking, street lighting, garbage collection and disposal, pollution control, fisheries, forestry and wild life, industries, oil and gas, roads and bridges, tourism, ports, interest on loans, and stamps, area development.

Principles of charging charges and fees

i. A rational basis for determining the rate of a user charge or fee should be laid down. The best principle is to follow the marginal cost (excluding fixed cost) at least or the average cost (including fixed cost) of providing a particular service. The minimum is the marginal or variable or relevant cost excluding fixed cost because fixed cost is sunk cost and is not relevant for marginal customers. The basic principle is that public services should be charged rather than given away with a view to make the public provisions and government services sustainable.

ii. It may be a good idea to charge on the basis of service receivers’ income or high value service, for example, travel tax may vary between SARC countries and European countries. Similarly, electricity, gas and many other services beyond a certain minimum level may be charged at cost plus profit. Differential charges can be based on priority for use or on the basis of type of users to lighten the burden on certain sections of the society. Tuition fee for secondary and above levels can be based on parents’ income. This is called right prices for right services for right persons.
iii. It is more efficient to provide these services and collect revenues at the regional and local level. Also, there is bound to be cost variation across regions, so a uniform and single system is not likely to be efficient. It is worthwhile to analyze all the different types of services and to allocate them to the central, provincial, and municipal levels of government, both for legislation and implementation. This will also make the administration more effective.

iv. By their very nature, rates for most charges and fees are fixed in amount and not as a percentage of the price. With a given level of inflation, the government or the agency providing the service will begin to lose revenue unless there is a well-established system of revising the rates on a regular basis, in keeping with the inflation rate.

v. If subsidies are essential these should be given to the targeted ones but not universal. Prices and user charges shall be based on income level of the users.

**Scopes for increasing service charges in Bangladesh**

i) Circuit house room rent a day for government officers is around TK. 100, market price of similar facilities is around TK. 2000.

ii) Stamp duty is between TK. 10 and TK. 5000; for bank loan it is 0.12% to 0.25% of the loan amount. It is 0.5% to 15% in Vietnam, 3% to 12.5% in India.

iii) Penalties for concealment of income are 15% of the amount tax evasion (u/s 128 of the I.T.O. 1984). It is 100 to 300% in India (271C of I.T.A., 1961), 200% of tax payable in Indonesia, 300% in Vietnam (Numbeo, 2019).

iv) Property registration TK. 500 to TK. 2000. It is 1% of the value or Rs. 30000 in Chennai and Delhi.

v) Car registration charge is TK. 1000 to TK. 3000. It is 10% to 12% of the value in Vietnam, Rs. 30000 to Rs. 176000 in Chandigarh.

vi) Gas, electricity per month for a small house is TK. 1800 or $22. It is $36 in India, $75 in Indonesia, $54 in Vietnam (Numbeo, 2019).

vii) A Bachelor degree in a public university costs around $200 in Bangladesh whereas $350 in India, $800 in Vietnam.

viii) Foreign travel tax: $10 in Bangladesh, Nepal and Indonesia, $17 in India, $22 in Thailand, $14 in Vietnam.
4.2 Tax and Nontax Revenue (receivable) are the Highest Assets.

Government and its agencies must keep keen eye on liabilities (debt to GDP ratio). Then they will have extra pressure on revenue generation and repay liabilities. Tax received and tax receivable is the biggest asset of the government. Other nontax revenue like sale of its unused properties through competitive bidding, and market-based charging of various services will strengthen the balance sheet of the government and various departments and agencies. Bangladesh’s general government revenue to GDP estimated up to 2035 (around 10.7%) is above only Nigeria, Sudan and Somalia among the low-income developing countries where the average is 20% (IMF). Tax-related lawsuits covering many years are very common in our companies (Annual reports of DSE-listed companies). There are rooms for increase in personal top income tax from 30% to 40% if not 45% as in the most advanced countries. There is a higher VAT rate of 20% in many advanced countries that can be introduced in Bangladesh for luxury goods and services. The Bangladesh Financial Intelligence Unit of Bangladesh Bank estimates around 7% of letter of credit that have no bill of entry. World Integrated Trade Solution (WITS) records show Bangladesh’s total imports of $48 billion in 2015 but BBS data shows $40 billion, a difference of $8 billion. In addition to money laundering there is evasion of tax. If average total tariff index (TTI) of 50% (VAT 15%, tariff 12% and supplementary duty 23%) is considered then duties evaded will be $8 billion ($8 billion x 0.5). This is 2.05% of GDP ($4 billion/$195 billion) and is significant if compared to total tax to GDP ratio of around 10% (Chowdhury, 2018). Similar is the situation with local government revenue. Per capita own revenue in Dhaka City Corporation was TK. 2196 or BPS 18.9 (1BPS = TK. 116 and population 4.5m). Per capita development expenditure from own source is TK. 1551 or BPS 13.4. Mott (2011) found average per capita revenue of TK. 1930 of which own revenue is TK. 580 (BPS 4.8) during 2007-8 in 30 pourashavas. In UK it is BPS 1900 including grants during 2008-9. Own local government revenue per capita is $15 in Africa, $245 in Asia, $2763 in industrialized countries during 1993 (Mott, 2011). In Kolkata, own revenue during 2016-2017 was INR 16843m, government grants INR 11774m, total expenditure INR 30217, population 4.5m. Per capita own revenue is INR 3743 (TK. 4678) which is more than double of Dhaka (TK. 2196).

Thomas Pickety in his Capital and Wealth Taxation, 2015 argues that most of the inequality is due to growth in rent (land) and rent arising from the monopoly power and political influence. Inequality increases when r, the rate return on capital, is greater than the rate of growth of the economy (GDP). If those at the top save their income, their wealth grows further than income as a whole, and so too their income (if r does not diminish). Increase in the wealth-income ratio is essentially an increase
in the capital-income ratio - capital deepening. And this inequality becomes acute when wages are low particularly in the developing countries. Rental income of house property was exempt in different amounts in different periods for five years (Source: Para 14 and 38, Part A of the Sixth Schedule, I.T.O. 1984). Income from house property is determined by deducting 25 to 30 per cent of rental value. This is too high a rate because the house does not require repair every year. If we take repair is done after every three years on average then repair and maintenance allowance should not exceed 10%. Capital gain on shares is virtually exempt.

4.3 **Commercial SOEs and Losses: Loss of Non-Tax Revenue, Decrease in Government Assets and Increase in Government Deficit**

Government’s main business is to provide pure public goods such as law and order, national defense, public infrastructure, and stable macroeconomic environment through appropriate coordination of fiscal, monetary and exchange rate policies. Government ownership is also logical in natural resources, infrastructure, culture, equality and health issues. Government intervenes only in cases of clearly established market failures, i.e. in cases where private sector operations do not correspond to social interests. USA and UK has no commercial SOE that works for profit only. Federal government owns some banks, insurance companies, and commuter rail, and post office. Municipalities also own and run transport services. The world evidence shows better business performance after privatization (Meggison and Netter, 2001). Lack of individual ownership in public enterprises is associated with little economic incentive for monitoring performance and profit. Firms may be pressured to hire politically connected people rather than those best qualified to perform desired tasks. Most of our manufacturing SOEs have losses; the government incurs subsidies, loses tax, and dividend-a nontax revenue. None of the SOEs in Bangladesh is strategically important so, they can be privatized or sold. Even in EU, profitability of manufacturing SOEs is lower than in the private sector (European Union, 2016). Substantial reform of these SOEs including privatization, competition, and governance will create avenues for further tax and non-tax revenue, reduce subsidies and government borrowing and the savings will be used for further infrastructural development of the country.

Nguyen and Freeman (2009) assesses on a province-by-province basis, whether state-owned enterprises (SOEs) are constraining the development of private firms in Vietnam. The analysis suggests the greater the density of SOEs present in a province, the more they enjoy favouritism, the lower is the proportion of bank loans that go to private companies, and the longer it takes for private firms to get access to land. There is also a negative correlation between SOE growth and private sector growth. But most importantly, the greater the density of SOEs in a particular province, the lower the GDP (and GDP per capita) growth recorded by that province. This
evidence suggests that SOEs are indeed 'crowding out' private companies in Vietnam. SOEs have debt of $50 billion (at 7% interest rate, 13.1% rate of profit before tax while market lending rate being 15%) compared to $39 billion of own capital in 2011. SOEs contribute 35% of GDP in Communist Vietnam. However, number of SOEs reduced from 12000 in 1990 to 700 in 2017. Return on assets is 2% in SOEs, 1.4% in domestic private firms and 5.5% in FDI firms. Furceni and Sousa (2009) found similar results in 145 countries from 1960 to 2007. In China, Xu and Yan (2014) concluded that government spending on public goods and infrastructure crowd in private investment, while spending them through Chinese SOEs crowd out private investment significantly.

Reforms in SOEs will increase non tax revenue and assets and decrease deficits. Continuous losses in SOEs weaken government’s balance sheet, decrease assets, increase borrowing and deficit. There are rooms for reforms in this sector. In China, The Company Law incorporates the standard corporate governance issues in SOEs. In India, The Companies Act 2013 has a separate section on corporate governance compliance issues for SOEs. OECD and World Bank has standard corporate governance rules for SOEs such as, the Board will have independent non-executive directors, chairman and the CEO will be two different persons, there will be an audit committee headed by non-executives. Outside independent directors are nominated by the government agencies and in India approved by the cabinet. In China, the SASAC (State owned Asset Supervision and Administration Commission) has a pool of external directors which is subject to review by Professional Qualification Review Committee. The board of directors also can make suggestions to the SASAC on selection of externals. In Korea, Malaysia, and Thailand the vacancy of non-executive director position is advertised, in Bangladesh not. Officers of various ministries are also put in the board of SOEs as non-executive members in all these countries. In Sweden and Vietnam 80% of SOE board can be made up of independent or non-executive directors. It is more than 50% in Korea and one-third in Thailand (OECD 2018). In India, there are 838 state SOEs and 249 central SOEs. Number of profit making central SOEs increased from 123 in 2000 to 158 in 2010 and the number of loss making central SOEs decreased from 110 to 59 the same period. Central and state SOEs together account for 30% of corporate sector investment, and central SOEs account for 7% of gross capital formation. Government controlled companies now in 2018 account for 11% of the profits in the BSE 500 stock market index, down from 56% in 2005 (Source: The Economist, May 25, 2019, p. 64). Profitability is higher in manufacturing but lower in service sector (airlines) in the SOEs compared to private sector. There were reforms in the public sector like allowing entry of private sector in most industries reserved for SOEs, disinvestment of a small part of government’s shareholding and listing SOEs in the stock market, loss –making SOEs were encouraged to lay off workers for commercial viability or
closed down, greater autonomy and corporate governance. National and international
advisors however suggested for privatization or at least divest 74% shares. During
1998-2004, central government privatized 12 SOEs and realized Rs. 63.5 billion
(Khanna 2012).

4.4 Subsidies to the Elites, Low Non Tax Revenue and Low Social
Expenditure: Decrease in Assets, Increase in Liabilities and Deficit

According to IMF (2015), subsidies in electricity are 1.22% in Bangladesh (even when 70% people did not have access to this resource), 0% in Europe, China, India, Philippines, Sri Lanka, Thailand; and 0.53% in Indonesia. Only Vietnam’s subsidy (2.35%) in electricity was higher than Bangladesh’s in South East Asia. Cash subsidies are given to some exporters at a rate of 2% to 20% of the price of exports. There are no records of such cash incentives for exporters around the world except in Nepal. There are subsidies to other elite institutions like stock market, ICAB, ICMAB, and Bangladesh Institute of Capital Market (Chowdhury, 2017). WTO does not allow cash incentives. There is also prohibition on export subsidies on non-agricultural goods (Source: WTO World Trade Report, 2006: Exploring the Linkage between Subsidies, Trade and the WTO). Other than in agriculture, subsidies are given for public provisions and social protection where private sector has lesser comparative advantage. And there are alternative incentives for exporters like duty drawback, lower income taxes, set off and carry forward of losses, and accelerated depreciation. There are theories of priorities (Sen, 2009: 210). Where tax and non tax collection is one of the lowest in the world, where public provisions and social protection are the lowest in South Asia, these subsidies to the rich and wealthy are not justified. Social protection services like police service, roads, per capita health expenditure, all are at the lowest level compared to others. Road distance is only 24 km per 100 square kilometer of area compared to 174 in Sri Lanka, 172 in India, 35 in Thailand, 61 in Vietnam, 73 in Philippines, 26 in Indonesia, 30 in Pakistan and 12 in Nepal. Our health expenditure per head is $31 compared to $228 in Thailand, $142 in Vietnam, $135 in Philippines, $127 in Sri Lanka, $99 in Indonesia, $175 in India, $40 in Nepal and $36 in Pakistan (Chowdhury, 2016).

Petrobangla 2016 and 2017 annual reports show sale proceeds from IOCs at TK. 46 billion but cost of sale (purchase from IOCs at market price according to PSC) at TK. 66 billion. It means Petrobangla sells at subsidized prices. The beneficiaries are mainly urban elites and industries. The reports do not have Notes to financial statements. BAPEX incurred losses partly because of its huge employment expenses of TK. 1134 million (total TK. 1231 less casual labor’s TK. 97 million) for 716 employees (352 officers and 364 staffs) or per head TK. 15,83,800 which appears to be much higher than average employment cost in any government organization. It is TK. 9,15,358 for WASA (total employees 3249 and total salary and benefits TK.
2974 million), TK. 4,570,444 for BTRC (total employees 291 and total salary and benefits were TK. 133 million), and TK. 9,969,320 for Petrobangla (employment cost TK. 650 million and employees 652).

Subsidies to 11 SOEs (BJMC, BIWTC, RDA, BIWTA, BSCIC, BSB, EPB, BADC, BWDB, NHA, BSRTI) were TK. 21.9 billion during 2016-2017. Dividend from 112 SOEs was TK. 12.3 billion in 2014-2015 and TK. 18.4 billion (provisional) in 2015-2016. BCIC incurred losses (TK. 2.2 billion) from its 8 enterprises during 2014-2015. None of the companies’ annual reports are available online. Bangladesh Jute Mills Corporation incurred a loss of TK. 4.8 billion during 2016-2017 from its 23 enterprises. BSFIC incurred TK. 4.6 billion in 15 enterprises. Bangladesh Shipping Corporation incurred losses TK. 1 billion (and accumulated losses TK. 23.4 billion). Bangladesh Biman Airlines has made yearly average profit of TK. 13 billion from year 2015 to 2017 but still has 80.7 billion accumulated losses. Air India made yearly losses of Rs. 36 billion on average from 2015 to 2017. Bangladesh Railway made losses of TK. 8.7 billion in 2016. Indian Railway made yearly average profit of Rs. 120 billion from 2015 to 2017 (Annual Report).

It should however be noted that drastically increasing rates or charges or withdrawing subsidies may not be advisable as they will have negative effect on the social welfare and on poor section of people. And when subsidies are essential these should be targeted to the poorest sections of the society and not available on universal basis.

4.5. Profit-Tax Exemptions in Government Organizations Can Hamper Management Accountability and Non-Tax Revenue

Bangladesh Securities Exchange Commission and Grameen Phone are exempt from corporate tax for some years. If corporate tax is exempt there will be a tendency from management to take excess perquisites resulting decrease in profits and dividends for the government. Bangladesh Institute of Bank Management has a revenue of TK. 162 million including government grants and expenditures of TK. 143 million and a surplus of TK. 9 million but there is no mention of profit tax nor there is any balance sheet (Annual Report, 2017-2018). All organizations (with very few exceptions) business or non-business, public or private must operate at least at break-even (no profit and no loss basis). This will increase accountability of management for sustainable development as well as will contribute non tax revenue to the government. Here management has two responsibilities: (i) pay profit tax (tax revenue) and (ii) pay profit or dividend (non tax revenue). Bangladesh Telecommunications and Regulatory Commission has an income statement and it shows a surplus of TK. 34 billion transferred to government consolidated fund but no profit tax shown (utilities like WASA, BTRC, RAJUK, CAAB are taxable at 25% as
per Budget Brief. Both tax payment and non-tax payment must be separately disclosed and accounted for.

4.6 Reforms in Pension and Contributory Provident Fund: Decrease Government Liabilities

Government can no longer afford free pension. Like in other developed countries government should rather encourage contributory provident fund both in the public and private sector. Provident fund in most of the South Asian countries, not to speak of the OECD countries, is contributory that is contributed by the employers and employees. Provident fund is mandatory by government regulation in South Asia except in Bangladesh. There is no pension and even almost no contributory provident fund in the private sector (Chowdhury, 2016). Government employees were historically exempt from personal income tax but recently this unjustified privilege has been discontinued. Accrual rate of civil servant pension in Bangladesh (3.2%) is the second highest in the world after Iran (3.3%). In OECD countries it is less than 2% (World Bank, 2006). State pensions (defined benefit pension) were being transformed into privately owned pensions in the early 1980s, especially in Latin America and Eastern Europe and recently in South Asian countries. The aims of these pension reforms were, on one hand, to signal that states were becoming vulnerable to the rising pension liabilities and could not support these financial burdens and, on the other hand, to ensure that private sector provision of old age security be expanded, and the individual responsibility for old-age pensioners is strengthened (Muller, 1999; Lindeman et al., 2000: 34). The idea of reforms in state pension sprang from breaking up of extended family system, increasing old age group and lower fertility rate, and the skeptical view towards the ability of the state to honor its promises. Public sector pension expenditure changes in the OECD countries were 1.6% to 6.5% during 1960-1980, 0.1% to 1.4% during 1995-2010, 0.2% to 1.5% (forecast) during 2030-2050 (OECD, 1998). The Adam Smith Institute thinks public sector pension is too costly and immoral. Institute’s director Eamonn Butler said “government keeps taking on new liabilities with schemes that buy votes but mortgage the future of our children and grandchildren. This is just not wildly reckless, it is deeply immoral too.” World Bank (2010) has studied civil servant pension in South Asia including Bangladesh and argued for controlling costs and replacing defined benefit pension with contributory pension. The actuarial analysis of the government pension revealed a ballooning fiscal burden of unfunded pension liabilities that could lead to a major fiscal crisis in the future (Asian Development Bank, 2003).

4.7 National Board of Revenue (NBR), Comptroller General of Accounts (CAG) and Missing Financial Statements

NBR does not prepare its financial statements such as income statement, balance sheet and cash flow statement. CAG however, prepares income and expenditure
account, receipts and payments account and appropriation account (Annual Report, 2016) but not balance sheet and cash flow statement. NBR prepares statistics for budgeted and actual tax collection. Their UK counterparts HMRC and NAO (national audit office) prepare the above financial statements like in the corporate sector. In corporate sector assets minus liabilities is called equity and in the government it is called consolidated fund. Like HMRC and NAO, NBR and CAG have revenue receipts and expenses and assets and liabilities and therefore preparation of financial statements is essential. HMRC in its annual report 2016 showed statement of revenue and expenditure, total taxes, duties and other revenue BPS 536b, total expenditure including appropriation accounts of BPS 146b and net revenue for the consolidated fund of BPS 390b. Its balance sheet (statement of financial position) showed total assets including revenue receivable BPS 116b, liabilities BPS 61b and ending consolidated fund of BPS 55b. NAO’s 2017-2018 balance sheet shows current assets of BPS 8m, noncurrent assets of BPS 91m, current liabilities of BPS 8m, noncurrent liabilities of BPS 0.018, general fund of BPS 31m and revaluation reserve of BPS 60m. HMRC and NAO also disclose remuneration of executive leaders in detail like in the corporate sector. Detailed disclosure of remuneration of executives is a basic requirement of governance all over the world both in the public and private sector. But our NBR and CAG office do not disclose any information on this vital public resource.

### 4.8 Ministerial Annual Reports

According to the Rules of Business 1996 (section 325), every ministry has to submit a copy of its annual report to the Cabinet. The Cabinet in turn publishes an annual report in a summary form containing the annual activities of all the ministries and divisions. Annual reports of ministries mainly list the various activities that each wing under the division undertook during the year. The lists however, seem to be the objectives of the wings rather than actual activities performed. The report did not say anything specific about the actual activities of the wings. 'The matter is under discussion', 'the decision is under process', 'the relevant departments or sections have been requested' are the typical ways of expressing the activities. The report in the Rural Development and Cooperative Division contains some information, which appear to be unnecessary for an annual report, for example, the profile of staffs and officers, which took away 12 pages out of a total of 167 pages. The Ministry of Social Welfare has published its annual report (103 pages) for the first time in 1999 although it was established in 1989. Only three lines have been provided on audit. The report described the objective of various divisions and directorates, which took away 10 pages. The ministries and divisions publish annual reports irregularly. They publish activities mostly in text form without specific data in the tabular format. Comparative performance data with previous year(s) is absent. Audit related data and Public Service Committee (PSC) related data are absent. Ministries or divisions such
as Education, Defense, Textile, Shipping, Cultural Affairs, Energy and Mineral Resources, Establishment, and Post and Telecommunications did not publish their annual reports.

Table 1: Financial Disclosure in Various Ministries' Annual Reports

<table>
<thead>
<tr>
<th>Ministry/Division</th>
<th>Published yes, no</th>
<th>irregular</th>
<th>#of pages</th>
<th>Tabular format</th>
<th>Last year Data</th>
<th>Five years' data</th>
<th>Audit related data</th>
<th>PSC related data</th>
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<td>completely</td>
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<td>61</td>
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<tr>
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<td>28</td>
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<td>partly</td>
<td>no</td>
<td>no</td>
<td>no</td>
<td>no</td>
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<tr>
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<td>Partly</td>
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<td>no</td>
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4.9. The Secretary’s Report vs. Corporate Chairman's Report

An annual report starts with the report of the Secretary. This report is a counterpart of the Chairman’s report in the corporate sector. The Chairman’s report usually covers a short review of current activities, salient features of organization performance, strength of the organization and potential threats that may hamper the organization’s future. A well-designed report can help investors and other stakeholders in their investment decisions. A good report is one, which can capture the past, present, and the future. It contains not only the achievements of the organization but also its weaknesses and opportunities lost. It also contains the policies and strategies under consideration to sustain the strengths and remove the barriers in the way of targeting the future opportunities. Chowdhury (1993) studied the largest 300 British companies’ annual reports and observed that the usual size of the chairman’s report ranged from 2 to 5 pages. Even in Bangladesh, the reports of chairmen and directors extend to 2 to 4 pages. The director’s report of IDLC (the largest private sector leasing company) is 3 pages long and covered general overview, economic review, market review, company activities, financial results, composition of the board, profile of auditors, and finally future prospects. The director’s report of Delta Life Insurance Company and the chairman’s report of Shinepukur Ltd., are 4 and 6 pages long respectively describing the state of company affairs, operations, salient features of operating results, and dividend distribution. But Square Pharmaceuticals Ltd., one of the largest companies has a Chairman’s and CEO’s report of only one page in the annual report 2013-2014. Their reports however are supplemented by directors’ report of seven pages. Similar is the case with Pran-RFL, another nonfinancial successful PLC.
The Secretary's report in our public sector, on the other hand, is usually very short, which is just a brief description of the objectives of the ministry or division. None of the reports studied contained any information on the organization's past and future, and its strengths and weaknesses. The Secretary's report in the Ministry of Jute, Science and Technology, and Women and Children Affairs mentioned just the importance of their various programs and projects but with lack of specificity. Also, none of the reports contained the features of present activities in specific terms rather the reports were short descriptions of the organizations' objectives in general terms. Although all of the reports describe the objectives in appreciable terms, none of these recognized failures or weaknesses. Only one Secretary termed the annual report as 'the report of success and failures'. On an overall basis, the Secretary's report seems to be the fulfillment of formalities but not for presenting the organization before the stakeholders. This small nature of Secretary’s statement still continues in the recent time. In 2013-2014 annual report, important and big ministries like MOF, Ministry of Local Government have a Secretary’s report of just one page.

Average expenditure of a ministry is TK17855m (Budget, Government) in 2013-2014. If big ministries like defense, education, finance and agriculture are excluded, average is TK4500m. In the corporate sector the average revenue is TK18085m and if banks are excluded (big) then the average revenue of a PLC is TK6753m. Thus a ministry’s volume of activities and a PLC’s volume of activities in monetary terms are similar.

<table>
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<tr>
<th>Ministry/Division</th>
<th># of Pages</th>
<th># of Past sentence</th>
<th>Present</th>
<th>Future</th>
<th>Strengths</th>
<th>Weakness</th>
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<td>15</td>
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<td>yes</td>
<td>no</td>
<td>yes</td>
</tr>
</tbody>
</table>

| Fishery & Livestock | 1 | 14 | no | no | no | no |

*Table 2: Structure of the Secretaries’ Report, 2000-2014*

4.10 Independent Nonexecutives in the Board of Governance: Knowledge-Based Efficient Utilization of Government Resources

Nowadays strategic institutions both in the public and private sector around the world are governed by executives (insiders) and independent nonexecutives (outsiders) who are celebrated citizens of the countries (in USA they are coined as ‘idea men’). Importantly, chairman of the institutions is a nonexecutive. This governance is absent in most of our government organizations. And where there are nonexecutives they are not independent rather are strongly affiliated with the ruling party. If celebrated experts are not present in the board then efficient utilization of assets and liabilities, their valuation, pricing, and records are at stake. Our strategic government organizations like NBR, CAG, BSEC, and ports do not have a single nonexecutive in their board whereas their counterparts in the developed countries have majority members as independent nonexecutives. Even in South Asian countries, there are nonexecutives. In Chittagong Port, the largest in Bangladesh, there is not a single independent nonexecutive in the board; money laundering by over-invoicing through the ports and resulting leakage of government revenue and assets is one of the highest in the world (Chowdhury, 2018).

In UK there are 11 executives and 6 nonexecutives in HM Revenue and Customs, 5 and 7 in Competition and Markets Authority, 5 and 4 in National Audit Office, and 5 and 7 in Water Services Regulation Authority. For central government, the HM Treasury and the Cabinet Office has designed a code of good practice called corporate governance in central government departments in July 2011 (originally 2005). Each department board (ministry) must have at least 4 nonexecutive members appointed by the Secretary of State with Cabinet Office guidelines. Nonexecutives must have experience in managing complex organizations with strong commercial expertise. They look at the accountability of permanent secretaries, mechanisms for assessing their performance, strategy and deliverability of policies, reporting from the department on performance and how well the department is achieving its performance, financial management, internal control, annual report, allocation of resources, give support and guidance for operational business plan and recruitment of senior executives. As a last resort, if nonexecutive board members judge that the permanent secretary is an obstacle to effective delivery, they will be able to recommend to the Prime Minister and Secretary of State and Head of the Home Civil Service that the permanent Secretary should be removed from his or her post.

In some non-ministerial (autonomous) boards, such as Bangladesh Bank, Dhaka WASA, BSTI, there are instances of nonexecutives but in the core organizations like the NBR, C&AG, SEC do not have a single nonexecutive. All 13 members of NBR, all 25 members of C&AG, and all 4 members of SEC are executives. Although there are parliamentary rules (section 213) for accepting expert citizens in various standing committees, the practice does not show any such evidence. There is no evidence of independent expert in the public accounts committee as indicated in various reports.
of the committee. The Secretariat instructions, 1996 revised up to 2012 does not have any provision on this and no ministry has a nonexecutive. The City Corporations Ordinance 1983 (section 34) has provision for inclusion of nonexecutives in various committees but without compliance. We could not yet establish a check and balance neither in the public sector nor in the private sector. And, where there are nonexecutives, in government non-ministerial departments such as WASA, BSTI, and some SOEs, they are party activists. Almost all did election under the banner of party in power. Unlike in the developed countries, no public advertisement is in use for selecting nonexecutives.

The inclusion of independent outside experts in various committees is more important in the public sector compared to private corporate sector. In the corporate sector, there are institutional shareholders who have large stakes in the companies and therefore, have higher incentives to monitor the management. But in the public sector, such an incentive for monitoring is largely absent. Also, shareholders in the corporate sector can simply ‘exit’ by selling their shares if the share prices are not satisfactory. Thus unlike the corporate sector, ministries and other government organizations do not have many control mechanisms available for pursuing the management for working in the citizens’ best interests. Therefore, inclusion of independent outside experts is a little hope left for good governance in the public sector.

5. CONCLUSION

There had been enough studies on SOEs around the world but not much work on ministries and their agencies. This paper therefore mainly deals with the ministries and government agencies. The results of this paper relating to SOEs and government pensions are consistent with the previous studies (Khanna, 2012; Nguyen and Freeman, 2009; World Bank, 2006). This paper adds new knowledge on financial reporting of government agencies like NBR and CAG. It also shows how to prepare a balance sheet for these organizations. It also gives first time knowledge on ministries’ annual reports and the Secretaries’ reports. To the best of knowledge, there were no previous studies in these areas in Bangladesh. The results are consistent with the literature in the Western context (Gerth and Mills, 1997) which documented how bureaucratic organizations hide knowledge and actions from criticism. It shows how government assets can be better protected and enhanced by including celebrated nonexecutives in the Boards of the organizations. The paper does not only deal with data it also deals with the process aspect of accounting and governance in the public sector. The study however, could not include government borrowing (for infrastructure and development), parliamentary system, and budgetary system that have bearing on accounting and governance of assets and liabilities of the public sector. Further, the paper included only selected public sector organizations from ministries, agencies, utilities, and SOEs. Thus the conclusion should not be generalized. The entire public sector is too big to be taken in a single study, so future studies will focus on individual public sector like ministries or agencies or utilities.
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