

# Financial Analysis Role in Evaluating the Performance of Government Units under the Application of the Traditional Accounting System and Government Finance Statistics System

Haider Abdulhussein Hameed Al Mustawfi<sup>a</sup>, <sup>a</sup>al-Mustansiriyah Center for Arab and International Studies, Mustansiriyah University, Iraq, Email: [dr.haider.almustawfi@uomustansiriyah.edu.iq](mailto:dr.haider.almustawfi@uomustansiriyah.edu.iq)

The application of the government financial statistics system in government units is to support the reform and improvement of the financial position of government units and the efficient management of their resources, as well as it conforming to intergovernmental accounting standards in order to gain economic benefits. Hence, the importance of the research in its being able to develop the government account system for the government units by applying the government's finance statistics system, which provides methods and indicators for measuring the performance. The research has found that the full implementation of the government's finance statistics system is necessary to develop the accounting and supervisory work environment, since it replaces financial reports and statements that currently are prepared, with other statements and records that are compatible with the government's finance statistics system. These are more expressive and visible to the current financial situation and performance for the government units, because they provide more appropriate and useful information that meets as much of the needs of different beneficiaries of information and assessing their financial performance.

**Key words:** *Financial Analysis, Performance Evaluation, Government Finance Statistics (GFS) System.*

## Introduction

Financial analysis is one of the most important tasks of the financial functions. Financial analysis is the way to read, study and translate the information contained in the financial statements, then analyse them to understand their contents and give an image that helps to understand the financial structure and policies adopted by the unit as well as highlighting the targeted objectives and the decisions related to the financial flows. It also highlights the strengths and weaknesses, i.e. diagnosing the financial position of the unit, in order to formulate plans and guide the future fiscal policies.

Considering the changes and developments that have taken place in the economic and social life in different countries of the world, it was necessary to change and develop the concept of government accounting according to the development of government activities, which varied and increased in size. As a result of this development in government functions, the importance of government activity has increased with them. Government activities began to take other directions, such as comprehensive economic and social planning, which was accompanied by an increase in public services, quantitatively and qualifiedly. This necessarily leads to the development of government accounting systems to keep pace with this large shift in government functions and what is resulted from them as the significant increase in the volume of expenditures and diversity in the areas of revenue and sources. The government accounting systems have become very interested in providing reports and financial lists that reveal the level of adequacy of the completion of government programs and activities. This issue has provoked the attempt of most countries to develop accounting systems in centrally funded units in order to increase the efficiency of these units to respond to these economic and social variables as well as to respond to the public's desire for better services.

Therefore, the international organisations, notably the International Monetary Fund (IMF), have realised the importance of raising the efficiency and effectiveness of the government accounting system as a prerequisite for improving government accounting systems and the transparency of their operations through the creation of a modern accounting approach; this is a system of Government Finance Statistics (GFS) that prepares and provides all useful accounting information for government units based on its use as a comprehensive conceptual accounting framework that is internationally transparent and appropriate for the analysis of the country's financial policy. This is so that it can be used to achieve the objectives of reports and financial statements and increase the level of accounting disclosure for all elements of the financial statements, which reflect the reality of the situation and the financial performance of the state in a fair way, and help to evaluate the efficiency and effectiveness of performance in government activities and programs.

## **Research Methodology**

### ***Research Problem***

The problem of the research is based on the inadequacy of the current government accounting system that is applied in centrally funded units. This system provides financial reports and statements that reveal only how the funds are disposed (resources - expenditures), without providing appropriate accounting information to achieve performance control for centrally funded government units; this requires adoption of a system of government finance statistics that provides detailed information about the performance of government activities and programs. Hence, the problem of the research is to answer the following question:

Will the transition from the adopted government accounting system to the government financial statistics system wholly contribute in reforming the government units' performance?

### ***Research Goals***

Generally, the objectives of the research are as follows:

1. Identifying the reasons that were the cause to turn the attention to the government's financial statistics system as an alternative to the government accounting system that is currently applied in the Iraqi environment.
2. Identify the financial analysis of the accounting system in government units.
3. Reforming the financial performance of government units under the application of the traditional financial system and the government's financial statistics system.

### ***Research Hypothesis***

The traditional accounting system suffers from several shortcomings that prevent the effective use of financial analysis in evaluating the performance in government units. In order to overcome these shortcomings, the application of the government's financial statistics system will help to apply financial analysis effectively in evaluating the financial performance of government units.

### ***Previous Studies***

**A. Barton Study** (Barton: 2005) The research aims to use the basis of accounting benefit, which is one of the most important developments and reforms undertaken by the Australian government for the purpose of preparing financial statements for 1990. There was controversy over the appropriateness of using this basis in the public sector after the

use of the monetary basis in the preparation of financial statements prevailed. Afterwards, it was followed by the transition from maturity accounting to a system of government finance statistics, which was initiated by the Commonwealth government; this represented the public finance policy framework in Australia in 1999 and the establishment of balance sheets based on this system, which was not known to the accounting circles in Australia as a global government system. The research has found that it is necessary to adopt this system for the purpose of developing the government accounting system as a high capacity system and superior to all alternative systems, and that most countries did not talk about their uses. Hence, this system discloses the required information about the public sector and represents an effective tool for the management and analysis of macroeconomics, because it represents a comprehensive and accurate analytical framework through its conformity with accounting international standards in government units.

- B. Adhikari and Mellemrik Study (Adhikari & Mellemrik, 2008) :** the goal of this research is to reverse international trends in government accounting by describing the continuous efforts to coordinate the accounting and statistical methods for preparing the financial statements via presenting the similarities and differences between the two methods and highlighting the progress achieved to converge them. The study resulted in several conclusions, the most important of which are: the differences between the system of government finance statistics and other statistical rules and accounting bases have led to confusion among the users of financial statements and that the reorientation of accounting via a shift from the cash basis to maturity basis is one of the most prominent features to reform the new public administration. The study has reached some recommendations such as to work to achieve convergence between the accounting method and statistical method and the various statistical rules where coordination between them is an important issue for the accounting at the level of the public sector. This has made it a new issue in the international arena that needs more research. Moreover, it has adopted of the maturity basis instead of the monetary basis for achieving convergence and coordination between the accounting and statistical method and the various statistical rules as an integral part of the new public administration and of the reforms to be achieved in this area.

After reviewing previous studies, the researcher found that some of them have focused on the shortcomings of the government accounting system and the need to resort to develop and reform it through the process of transition from the monetary basis to the basis of maturity to provide a more informed accounting system and more comprehensive than the monetary basis; thus this provides ideal government financial statements and reports that provide all users with sufficient information about the real financial situation of the government unit, while other studies confirmed the development of the government accounting system by applying the government finance statistics system approved by the International Monetary Fund. This system is of great importance in re-tabulation and encoding the government

accounts for the purpose of controlling state property. There is no doubt that the researcher benefited from these studies where this research deals with financial analysis and its role in evaluating performance in government units under the application of the traditional accounting system and the government finance statistics (GFS) system.

## **Theoretical Framework**

### ***Financial Analysis and Performance Evaluation Indicators***

#### ***Financial Analysis (Concept, Importance, Purposes and Objectives)***

***Financial Analysis Concept:*** The concept of financial analysis is strongly related to the need of different parties that have to do with a particular project for the purpose of knowing the variables that have occurred in the steps of his work during a given period and what are the trends of its future development; for the purpose of knowing which historical variables and predictions of the future are used with financial analysis in order to study what happened in the past, compare it to what is happening in the present and what will happen in the future. In this sense a science specialised in the information industry helps the stakeholders to make decisions related to the unit. Based on the above, there are several definitions of financial analysis that can be briefed as follows:

Financial analysis is an organised processing of available data aimed at obtaining information used in the decision-making process, assessing the performance of the unit in the past and present and predicting what it will be like in the future (Al-Shammari, 2010:21). Financial analysis is also defined as the group of processes that study and understand financial data and information in the available statements in the financial statements of the establishment and analyse and interpret them so that they can be used to judge the status of the financial establishment; this is also to form information that helps in making decisions and in evaluating the performance of the establishment, detecting its deviations and predicting the future (Al-Mahini, 2009:24).

#### ***Performance Evaluation (Concept, Importance and Requirements)***

Some believe that performance evaluation is to measure the actual performance and compare the results achieved with the results to be achieved or that can be reached in order to form a realistic vision of what has happened, what is actually happening, and how the process is successful in achieving these goals and implementing the plans that developed to ensure the appropriateness of taken measures to improve the performance. Therefore, the performance evaluation is based on two basic rules:

- The rule of performance effectiveness of the unit in achieving the established goals.
- The rule of performance efficiency of government units in implementing the tasks and works.

***The Concept of Performance Evaluation:*** can be viewed from several angles (Al-Zubair, 2008: 71):

- The performance evaluation process is an important part of the overall monitoring process and the purpose of the performance evaluation is to identify the problem that stands in the performance of the unit.
- Performance evaluation is one of the basic elements of the administrative business when it provides the administration with information, data and indicators used to express the extent of achieving the objectives of the unit, and to identify the trends of performance in it, in addition to determining its progress, success and future.
- The performance evaluation process is one of the basic administrative processes required at all levels of the management of the unit, and is necessary in order to verify that the unit is actually accomplishing the planned objectives, and the essence of the evaluation process depends on comparing the actual performance with the desired results and objectives that are to be achieved.

The importance of evaluating the performance of government units is manifested in reaching the following objectives:

- Checking that the programs of government units meet their functions in the best possible efficiency and following up the implementation of programs to ensure the achievement of the planned goals.
- Detecting the quantitative and qualitative value and temporal deviations that occur in the performance of government programs and investigate their causes and those who are responsible for these deviations and the ways to treat them.
- Providing performance standards that must be developed in advance to help modify or approve those standards, and to highlight the most efficient and effective management levels in the performance of government services.

**A. Evaluation Objectives:** Performance evaluation objectives can generally be limited to the following aspects:

- Studying the viability of the unit to continue working, evaluate for the purpose of integration, and evaluate for the purpose of liquidation.
- Helping the administration to make decisions related to planning and supervision and the future prospects, evaluate for the purpose of developing the unit and making it more efficient, doing evaluation for the purpose of obtaining loans from financial institutions,

and evaluating for the purpose of privatisation or ceding these units (Al-Zubaidi, 2000: 22).

**B. Steps and Types of Evaluation:** The evaluation process is based on a series of successive steps, which form a scientific method of evaluation. The evaluation steps are as follows (Al-Tayeb, 2007: 77):

- Determining the purpose, or the objective of evaluation, and collecting data that are directly related to the objective of the evaluation.
- Identifying, as fast as possible, the appropriate evaluation tools to reach the best results. This step depends primarily on the technical and scientific level of the evaluator and the amount of knowledge of the different methods of the evaluation process.
- Operating the data that are related to the purpose of evaluation based on the tools that have been identified in advance to reach some indicators related to the purpose of evaluation.
- Analysing the indicators that have been reached to determine their future direction.
- Writing the final conclusions and recommendations regarding the overall evaluation of the unit in the form of a report that contains indicators and alternatives that serve the decision makers and considering the recommendation of what the assessor sees as the best alternative.

### ***The Government Accounting System and the Justifications for its Development in Iraq***

The accounting practice in government units faces difficulties and criticisms in applying many concepts, standards and accounting foundations as a result of changes and developments in the government business environment. This has led to an increase in the volume of the tasks exercised by the state and the expansion of its scope and the diversity of its activities and thus increasing the size of its spending and the complexity of its tasks. This imposed a great challenge on the government's work and constituted an important incentive to develop its accounting system to be able to help in performing of the tasks, by providing data and information that help it in making various decisions, especially those related to the planning, control process and performance evaluation. Government accounting has received the attention of the government administration and international and professional bodies in applying many modern concepts, rules and foundations in order to keep up with the changes and developments that have taken in the government's non-profit business environment.

### ***Government Accounting System (Definition, Characteristics, Users)***

The changes and developments that have taken effect in the environment of government units have led to an increase in the size of the functions exercised by the state and the expansion of its activities, which affected the size of its spending and the complexity of its tasks. These

tasks have prompted the need to develop the government accounting system to suit these functions as this system specialises in monitoring all financial operations related to government activity and extracting the necessary reports and submitting them to the relevant authorities, as well as an important tool in the field of planning, implementation, supervision and evaluation.

The government accounting system is defined as "the collection of technical elements and methods used in collecting, tabulating and summarising data related to government activity, and displaying and analysing data for planning, follow-up and performance evaluation purposes." This is in order to rationalise the decisions of the preparation of the state budget and thus play a very important role in the evaluation of government units. It is also a financial management tool that provides the necessary data for the development of policies, analysis and implementation of the state's financial plans as well as providing information on the legitimacy of spending and collection (Al-Sabari, Al-Husseini, 2012: 63). Therefore, we note that the government accounting system is a specialised accounting information system that processes government data and provides appropriate information through the production of reports and financial statements for various users for the purpose of helping them rationalise their decisions and efficiently\effectively manage the economic resources of the state.

In order for the government accounting system to be an effective system for measuring performance efficiency, providing information for decision-making and policy-making, for the purposes of analysis and evaluation and as a tool to serve other management purposes, it has to be characterised by a set of characteristics (Al-Sabari, Hawra, 2012: 23):

- The government accounting system should comply with the constitutional and legal requirements of the state.
- The budget is linked to the government accounting system in a way that integrates them together to show the extent of compliance with the balance sheet (general budget) as a financial plan that reflects the government's activities and policies.
- Designing the accounts in a way that enables diagnosing the objectives and purposes for which the funds are allocated and clarified, and identifying those parties who are responsible for securing resources and using them to implement the programs and activities.
- Helps in facilitating the processes of monitoring and auditing the financial conducts, whether they were internal or external.
- Provides clear information about the implementation compared to the plan and shows the amount of savings and deficits for the competent year.
- The system is applied in all centrally funded units and includes the standardisation of statements, books, accounting manuals and technical methods used in registration, classification, tabulation and presentation.

- The system usually applies the monetary basis in the treatment of revenues and expenses according to the principle of fiscal independence in relation to the implementation of the state budget.

Accounting users and decision makers vary greatly in the types of decisions they make, the decision-making methods they use, the information they have or what they can obtain from other sources; they also vary in their ability to run this information and the multiplicity of categories of users who care about the outputs of the government accounting system and seek to use them in rationalising the performance of their work, whether in the field of planning, implementation, supervision or performance evaluation. The most important categories of users of government accounting information are:

- Legislative authority to control the activities of the government (executive authority).
- The executive authority or administrative bodies for planning, monitoring, evaluating performance and making decisions.
- Investors and creditors.
- Researchers and scholars in the field of public finance as well as citizens (Al-Khatib, Al-Maheini, 2010: 69).

### ***Justifications of Developing the Government Accounting System in Iraq***

The development of the government accounting system in Iraq must be accompanied by the most important economic, political and social transformations that this country has witnessed. So, it is not possible to discuss the development of the government accounting system independently without pointing to the extent to which it meets the needs of the outputs of the accounting system. So, the government accounting system should be developed in keeping with the developments and environmental changes of the country and its impact on accounting in government units; it also needs to keep up with developments in the field of government accounting and its international standards by moving from the application of the monetary base to the basis of maturity for the purpose of enabling government units to improve its performance and its ability to evaluate the performance of its employees. It also needs to measure the cost of government activities and programs that it implements. Hence, the accounting department in the Ministry of Finance seeks to prepare monthly and annual accounts in accordance with the accounting system that the state seeks to develop in accordance with the rules and standards of the international accounting and in accordance with the law of financial management and the public debt.

The reliance of government units on international accounting standards requires a move towards using the basis of accounting redemption in developing the efficiency of the government accounting system and increasing its effectiveness in government units. The

Australian National Audit Committee has assured that the accounting maturity basis represents the structural and civilized changes that aim to make the public sector more efficient and competitive to the private sector, which is also necessary to reach the objectives of accountability required for government units by parliament, taxpayers and others. There are also those who believe that the adoption of the law of international accounting standards issued by the International Accounting Standards Board, is a major development of the government accounting system because reliance on the monetary basis is a step backwards and does not contribute to the development of the government accounting system of the country; this is because recent trends in government accounting encourage reliance on the basis of maturity which reflects the result of financial performance and cash flow, thus increasing the ability of the government accounting system in centrally funded units to provide necessary information that meets the needs of the system's users.

The government accounting system's outputs based on international accounting standards according to the basis of maturity also contribute to the achievement of the following benefits (Al-Jazrawi, Saleh, 2012: 132):

- Improving internal control and transparency regarding assets and liabilities in general.
- Compatibility with best accounting practices through reasonable application of accounting standards on the basis of maturity.
- Providing comprehensive cost information that will support improved management based on results.
- Improving consistency and comparability of financial disclosures as a result of the detailed requirements and guidelines contained in each standard.

We note that the purpose of using international accounting standards in the development of the government accounting system was in response to the requirements and needs of the government for transparency and financial and legal accountability for the management of the public funds of the state and how to dispose of them. The researcher sees the importance of developing the government accounting system to keep pace with developments and events that have taken over various governmental accounting fields around the world by applying international accounting standards based on accounting maturity; this is so that the state can know its financial conditions and obligations and determine the cost of providing services or the effectiveness of using the resources available to different entities, as well as verifying the feasibility of allocating some projects or state services.

Since the currently adopted government accounting system in Iraq suffers from the lack of ability to track successive developments in government activity and cannot provide the data and information needed by the Financial Department to carry out its various functions, there has been a need for significant and sustained efforts to develop this accounting system. This

is achieved by identifying the shortcomings and proposing appropriate solutions to correct them and transforming it from a culturally-poor accounting system to a sophisticated and broad-based accounting system that takes into account the recent changes in accounting. Moreover, in order for the accounting system to be able to issue financial reports in the required manner that suits these changes and then can present and deliver information to a wide range of system users in decision-making and allocating resources, the accounting system should develop its effectiveness at the level of the government unit; this is done by granting government units accountable independence, not only in the preparation of the balance of audit but to go beyond its responsibility in preparing a set of financial statements that give a clear picture of the financial performance of government units. In order to give these financial statements a clear picture of the financial position of the government unit, they must follow the international accounting standards set by the International Accounting Standards Board in the public sector in standard No. (1) financial statements presentation. The purpose of financial statements with a general purpose in centrally funded units, conditioned the availability of useful information to make appropriate decisions; the preparation of such financial statements in accordance with international accounting standards prepared on the basis of maturity, are useful for the purposes of accountability, they realize the credibility and help to make financial and economic decision-making and enhance the international community's confidence in financial statements (Al-Musawi, 2015: 91).

Therefore, government units must choose and implement accounting policies so that the financial statements meet the conditions and requirements of the Intergovernmental Accounting Standards and the Interpretations of the Standing Committee for Interpretations; so it is necessary to develop accounting policies that ensure that the financial statements as an important and effective source that can provide the government unit with the required and useful financial information.

## **Government Finance System (GFS)**

### ***The Concept of Government Finance Statistics System***

The IMF's Government Finance Statistics Manual of 2001 is a fully specialised economic statistical system that is designed to support financial analysis, provide an integrated framework through which it describes the process of covering accounting concepts, definitions, classifications and rules, as well as providing a framework for a comprehensive analysis through which statistics can be summarised and presented appropriately for planning, analysis and determination of all accounting policies. The government's finance statistics system is a global system and its most important advantages are that it does not accept inflation in budgets and depends on real information in revenues until it is financially verified, realistically, logically and dependable on the expense side. This system enhances

transparency in dealing with the public system and defines the terms of the budget stages where all revenues and expenses are clear in all their details (Hassan, 2013: 21).

So, the system of government finance statistics is defined (known) as a statistical accounting system which is connected to the Internet to meet the needs of government units for information in accordance with the international tabulation of government financial statistics and includes the definitions contained in the evidence of economic justifications and principles accepted globally (Shakara, 2011: 111). It is also defined as a package of financial statistics, accounting concepts and accounting procedures under which the general activity of the state is classified by its various sectors of government through homogeneous groups to reach indicators of the overall performance of the government sector and make comparisons and matches between those different levels and the performance of other countries (Fyder, 2012: 201). It is also defined as a conceptual and analytical framework for the preparation of internationally recognised statistical reports, where it provides a sound basis for supporting financial analysis, and also plays an important role in strengthening the analytical basis for monitoring the support of the fund (Yusuf, Ghada, 2014:49). It is a statistical accounting economic system designed to support public finances; its basic concepts, classifications and definitions used in this guide are based on the justifications and economic principles accepted globally and can be applied to all kinds of economies regardless of the circumstances under which they are applied and the institutional and legal structure of the government of the country (Al-Sabari, Kadhim, 2014: 163).

It is clear to us that the Government Financial Statistics Manual is a statistical macroeconomic system that mainly aims to provide a comprehensive conceptual and accounting framework that is appropriate for the analysis and evaluation of public finance policy, especially in the public government sector; the public sector in its broadest sense in any country provides principles and concepts in an economical manner that is universally accepted for use in the preparation of statistics of the government finances, as it came with a set of rules and accounting foundations. These in turn provide a lot of information that meet the requirements of financial management in general and government accounting systems in particular, through its contribution to the development of accounting foundations in the management of government resources and their optimal exploitation.

### ***Government Finance System Goals***

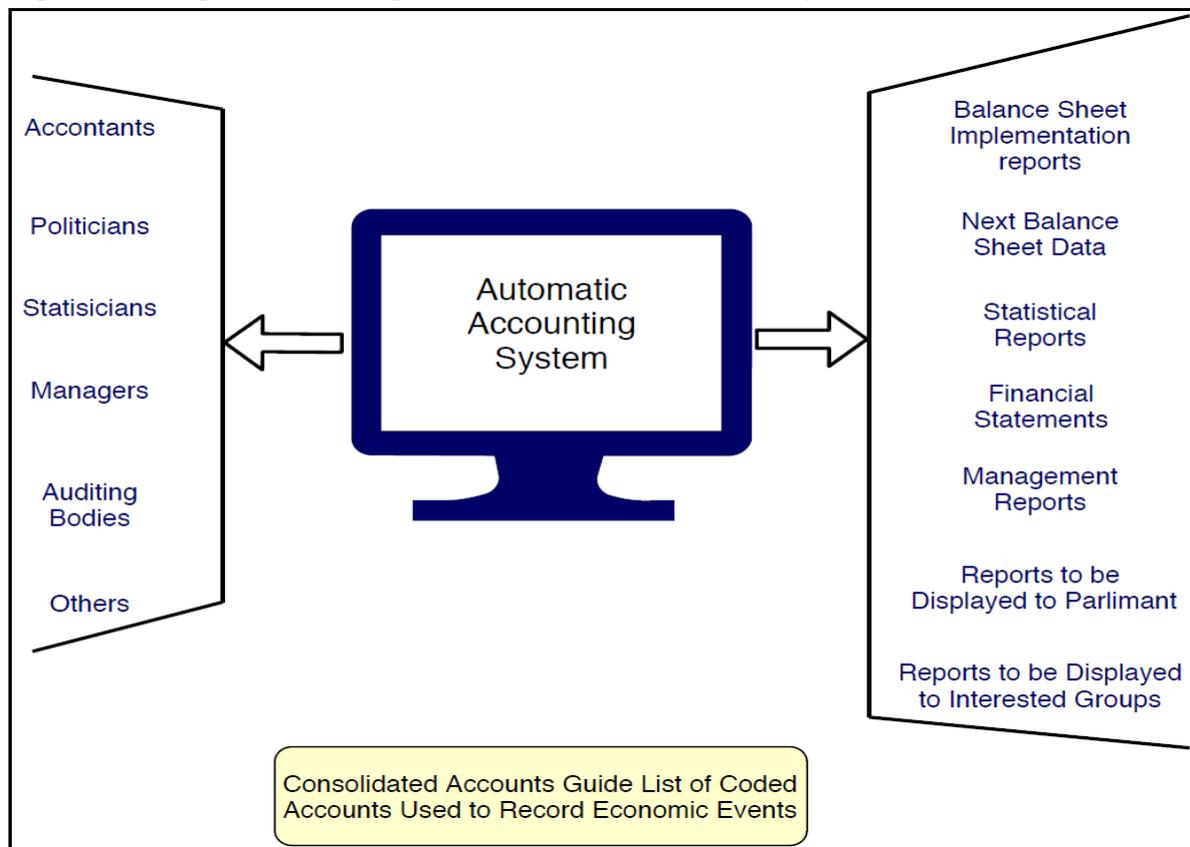
Through its application, this system seeks to achieve the following objectives (Shakara, 2011: 19):

- Providing a comprehensive conceptual and accounting framework to be appropriate for the analysis and evaluation of public finance policy in the government sector that consists of executive entities of public economic policy.
- Analysing the size of the public sector and its contribution to demand, investment and total savings and the impact of fiscal policies on the economy, including the use of resources, monetary policy, public indebtedness, tax burden, customs protection and the social security network.
- Providing statistics that enable policymakers and analysts to study the developments in financial operations, financial position and the liquidity situation in the government and public sector in a coordinated and methodological way.
- Permit establishing the internationally recognised standards to use government financial statistics in comparative analyses between government operations and other countries, such as comparing the ratio of taxes or expenditures to GDP.
- Aiming to provide information that meets the requirements of transparency for operations, programs, and government financial activities.
- Providing all users with the necessary data and information that should have qualitative characteristics based on objective methodology and is supposed to serve as a reference that is used to access the information readily available.

### ***Government Finance Statistics System Components***

The system consists of users (accountants, politicians, statisticians, managers, regulatory bodies, others). and the outputs produced by the system are: budget execution reports, subsequent budget statements, financial statements, statistical reports, management reports, special reports for presentation to the House of Representatives, reports to be presented to groups of special interests, and the figure (1) below shows the components of the government's finance statistics system (Al-Awad, 2012: 172):

**Figure 1.** Components of the government's finance statistics system.



We note that the Consolidated Accounts Manual of the Government's Finance Statistics System (GFS) is an effective tool in reconciling budget reports, financial accounts, statistics and private management reports. Information collection, standardisation and presentation can be adapted to the specific needs of users, such as the need to prepare financial statements, analyse the continuity of public finances, and provide statistical reports. Moreover, the accounting system can comply with recognised international accounting standards to comply with international requirements for reporting statistical data so that accounts can be used as a source for the data in the preparation of government finance statistics.

### ***General Purpose Financial Statements According to the Government Finance Statistics System***

The government accounting system is one of the most important tools of the state in providing the information necessary to multiple users through reports and financial statements. It is seen as a summary of the performance of the government and its ability in the field of management, development and use of public funds. The financial reports are the outputs of the accounting system, which represent the summary of the results of the activity and the reality of the financial centre to help in making and evaluating decisions about the

user and the allocation of resources and for the purpose of these financial reports prepared by the government; to be able to meet the needs of users, they must provide two conditions, namely (Al-Musawi, 2016 : 61 ):

1. The information provided by the financial statements must be reasonably credible for the purpose of relying on them and trusting them in planning, oversight and decision-making processes.
2. The information provided by the financial statements must be comparable, in order for the indicators derived from them to achieve a general acceptance that can be used mainly to assess performance and identify the financial position of the state, and to make comparisons with a great deal of objectivity.

Because of the importance of these reports and financial statements used by centrally funded units at the end of the fiscal year, they aim to show the results of operations carried out by government units and compare this to what was implemented during the year with the general budget. Hence, the IMF was interested in adopting the government finance statistics system in its application in all government units because it includes types of financial reports and each report has its importance in giving adequate information to the competent authorities; these statements are one of the most important means or tools of accountability because they represent the disclosure of what the government units have done over a specified period of time. They aim to achieve a basic goal, which is to explain how the work in these units works, indicate its activity and achievements and the problems it suffers, propose appropriate solutions for the purpose of serving the management of government units and beneficiaries within them and to achieve control over the operations they carry out. These include reports and financial statements provided by the government's finance statistics system, which are represented by the financial position statement or financial performance, the cash flows statement. The latter statement is used to provide basic information on cash flow and the net worth.

***Financial Centre Statement:*** This is defined as a statement of assets owned and liabilities on the unit at the end of the specified accounting period. It shows the monetary position of the government unit within a certain date and its ability to meet its obligations on the due dates, as in this statement, the net value is included, which can be considered as a balance resulting from transactions and other economic flows in all previous periods. This statement is usually prepared at the end of each accounting period and at the beginning of the next accounting period, where the financial centre statement is an important step in the application of comprehensive government finance statistics. This list is used as a key tool by policy makers as it has a general framework for policy implementation and contains most of the data and information that is used as a basis in conducting economic analyses of the level of financial performance of the state; so government units must be classified into assets and liabilities

according to their nature and relative liquidity. The statement of disclosure in table (1) indicates the financial centre statement according to the government finance statistics system and the items are described within it.

**Table 1:** Statement 1. Financial centre statement according to GFS as in 31/12 (reference: GFS Guide, 2001:112).

Statement	Current year \ sums	Previous year \ sums
Assets	X	X
Financial assets	X	X
Nonfinancial assets	X	X
Total assets	X	X
Liabilities	X	X
Financial liabilities	X	X
Nonfinancial liabilities	X	X
Total liabilities	X	X
Property rights	X	X
Reserves	X	X
Surplus / deficit	X	X
Net value	X	X

The net value shown in the above disclosure is the sum of assets minus the sum of liabilities; the change in positive net value is the preferred measure to assess the viability of public finance activities as it is an important indicator of wealth because it can be seen as the accumulation of transactions and other economic flows for all previous periods.

**Government Operations Statement List (Financial Performance List):** This is a list that provides financial statements and demonstrations of actual expenses and revenues collected for the fiscal year ended compared to the budget appropriations and this list discloses all transactions that are of great importance in evaluating the financial performance of the government unit. The government finance statistics system discloses, according to the financial performance list, all transactions that increase the net value as revenues and all transactions that reduce the net value as expenses, where the disclosure of information is done according to this list through the use of a standard basis using the accounting maturity. Two important analytical balances are derived from this list: the income minus expenses equals the net operating balance and is resulted from subtracting the net acquisition of non-financial assets then the net lending (+) / lending (-) which is also equal to the net result of transactions in financial assets and liabilities. Table (2) represents the disclosure statement of the financial performance list of the government unit, which can be prepared according to the government finance statistics system which shows all transactions affecting the net value.

The net operating balance equals incomes minus expenses, net lending/borrowing equals net operating balance minus net acquisition of non-financial assets, and is also equal to the acquisition of financial assets minus net liability.

**Table 2:** Disclosure statement of the financial performance list of the government unit according to GFS (reference: GFS Guide, 2001:38).

Statement	Current year \ sums	Previous year \ sums
Total revenues.	x	x
Net expenses	(x)	(x)
	X	X
	(x)	(x)
Net Lending \ Net borrowing	X	X

Cash Flow List: This list shows the government's cash inflows and cash outflows in a certain accounting period. When the flows are recorded on the basis of maturity, the information on the flows remains important for assessing liquidity in the government sector, as well as explaining the total amounts of cash gained or due through the following: current operations, transactions in non-financial assets, transactions involving financial assets and other monetary liabilities themselves. The net change in the government's cash position is the sum of net cash received from these three sources. Table (3) represents disclosure statement that shows the list of cash flows according to operational activities (ongoing operations) investment activities (transactions in non-financial assets) and financing activities.

**Table 3:** Disclosure statement that shows the list of cash flow according to GFS in 31/12 (reference: GFS guide, 2001:42).

Statement	Current year/ sums
Cash flow from operations.	X
Cash inflows from operations.	X
Cash outflows for operations.	X
Net cash flow from operations.	X
Net cash flow from investment activities.	X
Surplus/ Cash deficit	X
Net cash flows from Financing Activities.	X

By preparing this list according to the government's finance statistics system, the special measure can be inferred to analyse the ability of the government unit to evaluate its performance through the following equation:

Surplus / Cash deficit = net cash inflows from operating activities - net cash outflows from investments in non-financial assets.

This list is very important for its role in assessing the extent of cash flow in the public government sector by its ability for disclosing the net change in the cash balance due to the forced combination of net cash flows from the three activities carried out by the government unit. This disclosure of all cash flows, in accordance with the application of the government's finance statistics system in any government unit, is more reflective and clear regarding the financial situation and performance of the government and all operations carried out during the ending fiscal year; it is also clearer that some of the expected operations in the future in a way helps to provide useful information to users of the financial statements of the government finance statistics system with an essential base to measure the capacity of the government unit in generating the cash or its equivalent. It also measures the needs of the unit for the use of the cash flows, as economic decisions require users to assess the capacity of the unit to generate cash and its equivalent, as well as the degree of certainty related to this generation of such flows; the economic decisions also require users to build a new stage of transparency about the operations carried out by the government unit responsible for managing the state public resources, and assessing its performance from all stakeholders.

## Conclusions

1. The negative effects of the current government accounting system on the surrounding environment are shown by its continued adoption of weak financial and accounting procedures, rules and policies that have led to the production of information that lacks the required quality characteristics and does not meet all the needs of users of government financial reports; the system has lost its supposed role in providing information that helps its users make appropriate decisions and work to reduce the misuse of available resources and the inability to evaluate government performance objectively to identify and remedy the areas of imbalance.
2. Attention to government financial reports has increased significantly as a result of the increase in the number and diversity of their users, and the increased interest in them is due to the increasing complexity of public administration activities in the modern era; these reports are the means of official disclosure of the results of the work of government units and fiscal policy followed by the government units in the spending of public money and the procedures for collecting public revenues and any new items that have emerged as a result of the development of events in government activity.
3. The government accounting system represents the applied aspect of the concepts and the foundations of government accounting. It is a collection of documents and records as well as methods, procedures and instructions for organising and analysing the financial operations and to make the preparation of financial reports in government units that aim

to evaluate the performance, planning and control of public funds and the implementation of government financial policies. Hence, a good government accounting system creates confidence in the accounting information contained in its records and outputs.

4. One of the tools of evaluating the efficiency of the financial performance of any government unit is through financial analysis tools so that the evaluator can evaluate the financial position of the unit efficiently and identify through these tools weaknesses and strengths through which the decision-maker can make her\his decisions by relying on the efficiency of this analysis.
5. The government accounting system, as a major financial information system, should communicate with other information systems such as the government's finance statistics system through channels that are linked between sources of information and users; this is in order to form a comprehensive information system and getting an integrated image that would be used by the Public Financial Department to direct financial resources towards the most appropriate use and help them to correctly predict future events.
6. The government's finance statistics system is characterised by the wide range of tabulation and coding and its coordination in the tabulation works to provide better opportunities in identifying the activity of government units, and providing opportunities to move from balancing items to balancing programs and performance for the purpose of providing more appropriate opportunities to achieve the possibility of strengthening performance evaluation control.

## REFERENCES

- Al-Awad, A. M. A. (2012) Government Accounting Basics, First Edition, Al-Ba'asyir Printing, Publishing, Distribution and Media Library, Karbala,.
- Al-Jazrawi, Ibrahim Mohammed Ali, Saleh, Abdul Hadi. (2010) intergovernmental accounting standards and their importance in the development of the government accounting system in Iraq, research published in the journal Muthanna For Administrative and Economic Sciences, Vol. II, No. 3, pp. 159-168.
- AL-Khatib, Khaled Shehadeh, Al Mahaini, Mohammed Khalid. (2010) Government Accounting, Second Edition, Wael Publishing and Distribution House, Amman,.
- Al-Mahayni, Mohammed Khaled. (2009) Financial Analysis and Performance Evaluation Indicators, Syrian Accountants Association, Damascus.
- Al-Musawi, Suad Jalil. (2015). adapting the financial statements in government units to international accounting standards, research submitted to the trustees of the Arab Institute of Chartered Accountants General Center, Baghdad.
- Al-Saabari, Ibrahim Mohammed Ali, al-Husseini, Abdul Hadi. (2012). intergovernmental accounting standards and their importance in the development of the government accounting system in Iraq, research published in the journal Muthanna For Administrative and Economic Sciences, Vol. II, No. 3, pp. 159-178.
- Al-Sabari, Ibrahim Musa, and Kazem, Tayseer Jawad. (2014). the role of the government's financial statistics manual in providing the requirements of the internal control system and performance evaluation, research published in the Journal of Management and Economics, Kufa University, Iraq,.
- Al-Sabari, Ibrahim Musa, Hawra, Ahsan Khalil. (2012). The Impact of The Antosai Standards on the Government Accounting System in Iraq, Research published in the Journal of Economic Sciences, Technical College of Administration, Kufa University, Vol. 27, No. 4, pp. 147-156. Iraq,.
- Al-Shammari, Khalid Tawfiq. (2010). Financial Analysis and Economics in Project Evaluation and Feasibility Studies, Wael Publishing and Distribution House, Amman,.
- Al-Tayeb, Mohamed Haroun. (2007) Financial Performance Evaluation of Public Joint Stock Companies in Sudan, Unpublished Master's Degree in Business Administration, Graduate School, Omdurman Islamic University, Sudan,.



- Al-Zubaidi, Hamza Mahmoud. (2000). Financial Analysis Performance Evaluation and Failure Prediction, First Edition, Al-Warraaq Publishing and Distribution Corporation, Amman,.
- Al-Zubair, Hatem Abdullah. (2008). Contemporary Accounting Trends and Its Role in Evaluating Performance in the Banking Sector in Sudan, Unpublished PhD Thesis in Accounting, Graduate School, Omdurman Islamic University, Sudan,.
- Barton, Allan. (2005). Adoption of the Government Financial Statistics Accounting system by Austration, Candra. (Australia).
- Feuder, Qurain Hajj. (2012). following the application of the government's financial statistics system on the cost of quality accounting information under technology, research published in the journal Researcher, University of Shalq in Algeria, First Issue, Algeria,.
- Hassan, Anwar Mustafa. (2013). design of the system of coding fixed assets in accordance with the system of government financial statistics, research edited in the journal of Baghdad College of Economics University, Vol. 35, No. 5, pp. 146-158. Baghdad,.
- IMF. (2001) Government Finance Statistics Manual, Second Arab Edition, Print Indexing Data at the Library of Congress.
- IMF. (2008).Government Finance Statistics Computation Guide for Developing Counties, Joint Bank – Fund Library, Washington D.C.
- IMF. (2013) Public Sector Debt Statistics Manual, Guide to Its Preparers and Users, Amended Second Edition,.
- IMF. (2014) Government Finance Statistics Compilation Guide for Developing Countries, Joint Bank – Fund library, Washington D.C.
- Shakara, Muwaffaq Abbas. (2011). government accounting system compatible with the government's financial statistics system, unpublished research submitted to a workshop at the Financial Supervisory Office, Baghdad.
- Shakra, Muwaffaq Abbas. (2011). Accounting Measurement of Government Wealth under the Government Financial Statistics System, research published in the Journal of the Faculty of Management and Economics, Karbala University.



Youssef, Abdul Sayed, Ghada, Baker. (2014). following the application of the government's financial statistics system on financial performance in government units, research published in the Journal of Graduate Studies at Nilein University, Faculty of Commerce, Vol. 9, No. 4, pp. 1456-158. Sudan.