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The Evolution and Status of Accounting in Libya

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by

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In the name of God, Most Gracious, Most Merciful

Dedicated to my late father and to my mother

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LIST OF ABBREVIATIONS

AG	The auditor General
AGO	The Auditor General Office
AICPA	American Institute of Certified Public Accountants
APB	Accounting Principles Board
ASU	Arab Socialist Union
BPCs	Basic People 's Committees
CAA	Central Accounting Administration
CFM	Commodity Flow Methode
CIPFA	Charterd Institute of Public Finance and Accountancy in England and Wales
CPA	Certified Public Accountant
CVA	Current Value Accounting
FAO	The Food and Agriculture orgnisation
FASB	Financial Accounting Standared Board
GDP	Gross Domestic Product
GNP	Gross National Product
GPC	General People's Congress
GPC-1	General Peopl's Committee
GST	General Secretariat of Treasury
HCA	Historical Cost Accounting
IC	International Committee
ILO	International Labour Orgnisation
IMF	International Monetary Fund
IUAS	Iraqi Uniform Accounting System
LAA	Libyan Arab Airline

LAAA	Libyan Accountants and Auditors Association
LAR	Libyan Arab Republic
LARC	The Libyan American Reconstruction Commission
LCC	Libyan Commercal Code
LD	Libyan Dinar
LNIA	Libyan National Accounts
LPDSA	The Libyan Public Development and Stabilisation Agency
LPEs	Libyan Public Enterprises
NA	National Accounting
NAD	National Accounts Department
NFO	Not-For Profit Organisation
NIAS	National Income Accounts
OCAM	Orgnisation CommuneAfrican Malagache et Mauritiene
OPEC	Organisation of Petroleum Exporting Countries
PCS	People 's Committees
PHD	Doctor of Philosophy
PPBS	Planning Programming Budgeting System
PTT	Post Telegraph and Telephon
Rcc	Revolution Command Council
SFACI	Statment of Financial Accounting Concept No.1
SGPA	Specific People 's Committee of Agriculture
SGPCs	Specic General People 's Committees
SNA	System of National Accounts
SPC	Specific People 's Committee
SPCT	Specific People's committee of treasury
SPLAJ	Socialist People's Arab Jamahiriya

UK	United Kingdome
UN	United Nation
UNESCO	United Nation Education,Sientific and Cultural Organisation
UNTAM	United Nation Technical Assistance Mission
USA	United States of America
USOM	United States Operation Mission
WHO	World Healt Organisation

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ABSTRACT

The main purposes of this study were to ascertain whether Libya's Accounting Systems (enterprise, Government, social) provide the necessary information for its socio-economic development planning and to suggest means by which to improve accounting in the country.

Thus, this study is divided into three parts; namely, the evolution and state of Accounting in Libya, the Accounting information needs of Libya, and the potential improvement of Accounting in Libya. In the first part, attempts were made to describe the Libyan environment and to determine the possible orientation of accounting in Libya. It is shown that Libya is a developing country, which in former years was subject to pressure from Foreign powers both politically and economically. This pressure has created a bias towards the UK/USA accounting systems. Laws and regulations, accounting education and the accounting profession, are all oriented towards the Accounting of these two countries.

Because of this bias, it is argued that accounting in Libya is in fact more related to the UK/USA environments than to the Libyan environment. This argument has been investigated empirically, to determine the relationship of accounting systems in Libya to diversity, capital market and to Anglo-American classical accounting theory in general in the case of Libyan public enterprises (LPEs), government, and national accounting as opposing to their relation to socio-economic development planning. It was found that LPEs are following the diversity accounting concept, and that the emphasis is upon external Financial reporting, while managerial accounting and public sector needs are virtually excluded. In regard to Government accounting, it was found that Libya applies the U.N. traditional system of government accounting, with its traditional budget and cash base accounts. In regard to National accounting, it was found that due to unavailability of basic data, Libya prepares only two elements out of five known elements of National accounts, namely national income accounts, according to the UN system of National Accounts (SNA) of 1968, and the balance of payments according to International Monetary Fund (IMF) manual.

All in all, accounting systems in Libya are more suited to providing information relevant to capital market, public accountability and setting of economic policies of developed environments, than to the needs of a developing country.

In the second part, it is argued theoretically, that Libya needs accounting information which is related to economic decision making and to socio-economic development planning.

Based on the above findings and arguments of this study, it is reasonable to suggest that the current accounting systems in Libya do not provide information relevant to the Libyan environment, and improvement of these systems by introducing uniformity is urgently needed. A uniform accounting system along the lines of the Iraqi uniform accounting system is recommended,as well as other area of improvement including PPBS, value for money audit, flow of funds statement, National Balance sheet, and input-output tables.

The general characteristics of an appropriate new framework of accounting are discussed. All the above improvements should be based on societal accounting rather than on the Classical Accounting Theory.

CHAPTER ONE

Introduction

1.1. Background to the Problem

Libya, as a socialist developing country, needs accounting information which is based on an integrated body of accounting, including enterprise accounting, government accounting and social (national) accounting, which shows both the financial and social costs and benefits generated by economic activities. As Enthoven argued:-

> "Accountancy as a measurement and reporting information system covers both micro and macro economic activities;it is composed of various sub systems which relate to the planning and control of economic events and conditions. Therefore, accountancy concerns itself not only with the enterprise, but also with government administration and national economic accounts. These three systems or branches of accountancy are closely related and to some extent interdependent. Accountancy then can be conceived and practised as the identification, selection and analysis, measurement, prediction, processing, evaluation and communication of information in the form of costs and benefits, both of a direct and indirect nature, to facilitate economically justified decisions regarding activities and resources." [Enthoven, 1977, p.7].

Accounting information in Libya should be relevant to the country's social and economic development planning, micro and macro decision making, and planning and control at both micro and macro levels. The lack of such information could lead to sub-optimal planning and decision - making, as a result, of which, social and economic development plans in Libya may be prevented from achieving their objectives.

The following quotation from Mirghani, will better summarise the effect of poor information on development plans:

> "One of the major road blocks for effective development planning in developing countries is the unavailability of reliable information or the unreliability of available information. The term "lack of information" will be used from this point to denote both unavailability of reliable information and unreliability of available information. Lack of information for development planning could have a number of adverse effects upon exerted developmental efforts. First, selection of a development model would be made on no realistic basis, and the selected development model could very well be one which is completely incompatible with the economic realities of the particular developing country. Second, lack of information could lead to the selection of a development model that covers certain parts of the economy, not because of their importance for future development but because information about them was available. Third, lack of information concerning the interdependencies of the major economic sectors could lead to an internally inconsistent development plan and, therefore, is rather impossible to make operational. Fourth, lack of information regarding the relative scarcity of the resources available for development would misguide the resource allocation process in the economy. Fifth, lack of information about the progress being made toward the achievement of developmental objectives would make it impossible to revise the plan in view of changing conditions. The net effect of such adverse effects is that by the end of a development plan period, no material tangible benefits would accrue to the particular developing country, or, if any were to materialise, they would be at an exorbitant cost." [Mirghani, M.A. 1982 p.60]

It has been argued that the role of accounting in development planning and other decision making processes would be enhanced, and the problems alleviated, by the adoption of a uniform approach. Enthoven, A. J, one of the earliest advocates of accountancy for social and economic development argued that:

> "accounting covers the entire administration or management of information for all socio-economic activities and conditions in the micro and macro economic sector, covering internal and external needs of various groups. It may be classified in broad terms as: (i) the development of economic facts - based on real world phenomena - involving measurements and their further appraisal and supply - in the form of costs and benefits - to enable effective evaluations and decisions about activities and the allocation of resources; for present and prospective purposes. Such an orientation involves greater focus of micro and macro managerial decision making and economic planning and control content, rather than on the micro entity accountability or stewardship content... The broader scope as we conceive it makes the separation between micro and macro accounting somewhat artificial as the two show a high degree of co-ordination and unity. Micro data are used for macro accounting, while the latter is used for evaluation and decision at the enterprise and governmental accounting level. Consequently, our concept is far broader than the scope of the traditional micro entity and its quantification, recording and verification of largely historical financial events." [Enthoven, 1973, pp 112-13]

Briston [1978] has interpreted the above definition to mean in practice

1. that the term 'accounting' includes enterprise accounting, government accounting and social accounting, and these three branches of accounting should be integrated into a single accounting framework,

2. that American and British accounting does not begin to satisfy this role and;

3. that by this definition Enthoven has advocated the adoption of uniform accounting techniques. [Briston 1978, pp 105-106].

Gambling has also criticise the traditional anglo-american accounting, for that it only considers monetary transactions, without any consideration for their social effects. Accordingly, he exhorted developing countries to adopt a uniform accounting approach, arguing that they may gain by the adoption of Russian style accounting. [Gambling, 1974, p. 87].

Indeed a number of countries, both developed and developing, and with free or centrally planned economies, have established their own uniform accounting systems, in order to enhance social and economic planning and control (e.g. France, Russian, West Germany (until 1945) Egypt, Iraq) The success of the uniform approach in these countries suggests that Libya might also benefit from such an approach, enhancing the role of accounting in constructing successful social and economic development plans, and improving the quality of decision making at both the micro and macro levels.

1.2 Objectives of the Study

The main objectives of this study are twofold:-

1. To determine whether users of accounting information at micro and macro levels in Libya receive relevant accounting information. To this end, an answer is sought to the following questions:

   Do enterprise, government and social accounting in

Libya provide information which is relevant to the country's environment and;

what type of accounting information is actually needed by users of accounting information in Libya?

2. To determine how accounting in Libya could be improved; for example would the uniform approach be of greater value to Libya than a flexible approach?

To answer the above major questions it is also necessary to consider the following sub-questions.

1. What are the characteristics of the Libyan socio-economic, political and regulatory environment?

2. How have environmental factors, such as accounting education, the accounting profession, and external influences, influenced the evolution of accounting in Libya?

1.3 Significance of the Study:-

The significance of this study is derived from the following three sources:

1 - Uniqueness;

2 - Relevance; and

3 - Contribution to knowledge.

1.3.1. <u>Uniqueness:</u>

Accounting literature in respect of developing countries is limited. Except for the work of a few Western accounting writers, such as Enthoven, A., Briston, R. and Samuels, J., little has been written about the real needs of developing countries. Enthoven has repeatedly urged the need for an improvement of accounting elements in developing countries, including accounting education, the accounting profession, accounting manpower, and the socio-economic and political environment, while Briston has voiced concern over the pressure on developing countries to adopt the UK/USA accounting style.

Most of those who have written about accounting in developing countries apart from those who were mentioned above, have limited their writing to the accounting profession and enterprise accounting, particularly external financial reporting, and have generally recommended the adoption of the UK/USA approach. In the author's view, there has been a general failure to appreciate the specific accounting information needs of developing countries.

In the case of Libya, of around thirty Ph.D. theses by Libyan students, only four have dealt with certain accounting problems in Libya. El-Sharif [1978] examined the services rendered by accounting offices to their clients in Libya, El-Arabi, A. [1977] considered the influence of accounting policies on credit decisions by commercial banks in Libya, Badi, M [1979] advocated the adoption of input - output models for planning and control in Libyan oil refineries and El- Jehawe, A.[1980] examined auditing in the public sector in Libya. Bait-El- Mal, M.M. et al have also written on the development of enterprise accounting in Libya [1973].

All of the above writers recommended the improvement of accounting in Libya, but along the lines of the UK/USA approach.

Therefore the uniqueness of this study lies in the fact that no previous study has dealt simultaneously with all of the following:

1. The socio-economic, political and regulatory environment of developing country;

2. Factors such as laws, regulations, education, and the accounting profession, which have influenced the evolution of accounting in a developing country

3. Enterprise, government, and social accounting;

4. The recommendation of a different accounting system for potential improvement.

Although this study has specific relevance to the needs of the Libyan environment, it is believed that many other developing countries have similar problems and needs, and could therefore benefit from such a study.

1.3.2. Relevance:

Currently there is a wide belief that the American and British accounting approaches are the best, not only for developed, but also for developing countries. As a result, this system has become predominant in many developing countries [Briston, R.J. 1978, p.107]. In addition, it appears that the authorities in Libya are not aware of the role of accounting in constructing better development plans, and making better decisions at the micro and macro levels. Those who are aware of this role tend to be ignorant of the concept of a uniform accounting system, and its ability to provide more relevant information. This study, however, argues that the current orientation of accounting in developing countries, and specifically in Libya, towards UK/USA accounting is doing more harm than good to those countries and that they should establish their own national uniform accounting systems.

In effect, this study gives empirical support to the views of Briston and others who have argued that UK/USA accounting does not satisfy the current needs of their own environment, let alone the modern social and economic needs of developing countries.

1.3.3. Contribution to Knowledge:-

It is generally accepted that the success of any plan depends on the information upon which it is based upon.

Therefore the need of Libya for reliable and relevant information in order to construct a successful social and economic development plans is not a matter of argument. One of the objectives of this study is to suggest an accounting system which would, if implemented, alleviate the problem of inadequate or unreliable information for the country's development planning, and other decision making.

1.4 Methodology of the Study:

The aims of this research have been achieved by:

1. Studying and describing the Libyan environment, in order to establish whether it is developed or developing, socialist or capitalist, poor or rich, a collective or individually-based society, and whether it has potential for development;

2. Examining the extent to which the evolution and status of accounting in Libya may have been influenced by the UK/USA accounting system, and the effect of any such bias on the relevance of the system to Libya's needs;

3. Analysing empirically the type of information actually provided by accounting (enterprise, government, social) in Libya;

4. Determining, empirically and theoretically, the type of information actually needed in the Libyan environment;

5. Suggesting a possible plan for improvement.

In order to achieve the above objectives , data about the social environment, including the history of the country, its physical features, its religion, language and customs, were collected. In addition, data were obtained regarding Libya's past and present political and economic systems, its economic and natural resources, and its stage of development. Furthermore, information regarding past and current laws and regulations, accounting education, the accounting profession, and outside involvement in the country, was also collected. The researcher gathered data concerning the management, finance, and accounting systems of Libyan public enterprises (LPEs), the budgets, accounts, and control system of the state, the use, source and construction of social accounts in Libya, and finally the feasibility of implementing a uniform accounting system in Libya.

The above data were gathered in part from a review of existing Arabic literature. However, much of the information on accounting education and the accounting profession was acquitted from primary sources, and from the researchers's own experience as a Libyan national, lecturing in accounting at the University of Garyounis.

Data related to enterprise accounting was gathered from close-end questionnaires submitted to fifty LPEs, (see appendix3). Documentary evidence was also examined, in the form of the financial statements of fifty L.P.Es, lodged with the public enterprise section at the Secretariat of

Industry in Tripoli - Libya. In addition, in-depth interviews were conducted with officials at several LPEs, the Auditor-General, and officials from the Secretariats of the Economy, the Treasury, and Planning, whose names and positions are listed in Appendix H.

Some of the data related to government accounting was gathered from government publications and laws, but for the most part it was obtained through in-depth interviews with authorities from the Secretariat of the Treasury, and the Auditor General's Office.

Finally data about national accounting was collected from authorities at the Secretariat of Planning, by means of interview and questionnaires.

In order to collect the above data, the researcher made two visits to Libya in the summers of 1985 and 1986.

Names and locations of enterprises and information regarding their activities, were taken from the commercial registrar at the Secretariat of the Economy.

1.5 Plan of the Study:-

The study is organised as follows:

VOLUME ONE:-

Chapter Two: THE SOCIO-ECONOMIC ENVIRONMENT IN LIBYA.

The aim of this chapter is to explain the nature of the

Libyan environment. To this end the history of Libya, its physical features, population, religion, language, and customs are discussed in detail.

The economic environment is also discussed, with particular reference to economic conditions, before and after the discovery of oil in 1959, social and economic development plans, and the economic resources of the country.

Chapter Three: A HISTORICAL REVIEW OF LAWS AND REGULATIONS.

The purpose of this chapter is to investigate those laws and regulations which are related to accounting in Libya, in order to assess how they have influenced the evolution and status of accounting. Tax laws, the Libyan Commercial Code (LCC) and the petroleum law, as well as the influence of foreign companies on accounting in Libya, are all discussed.

Chapter Four: ACCOUNTING EDUCATION IN LIBYA:

The purpose of this chapter is to determine the nature of accounting manpower. Thus accounting programmes, text books, teachers and administration, were all investigated.

Chapter Five: THE ACCOUNTING PROFESSION IN LIBYA:

This chapter aims to assess the stage of development, of the accounting profession in Libya and its relation to the environment.

Thus, the above group of chapters examines the Libyan environment and its needs, and the possible orientation of accounting in Libya.

Chapter Six: ACCOUNTING IN LPEs:

The purpose of this chapter is to shed light on the type of accounting information provided by the accounting systems of LPEs.

Chapter Seven: GOVERNMENT ACCOUNTING IN LIBYA.

The purpose of this chapter is to examine the type of information provided by the government accounting system in Libya.

Chapter Eight: NATIONAL ACCOUNTING IN LIBYA:

The emphasis in this chapter is on the type of information provided by national accounting in Libya and its source and methods.

VOLUME TWO:-

This second group of chapters considers whether or not the information provided by accounting systems in Libya is relevant to socio-economic decision-making, and examines the relationship between micro and macro accounting in Libya.

Chapter Nine: ACCOUNTING INFORMATION NEEDS OF LIBYA:

This chapter aims to show what type of accounting information is actually needed in Libya and considers whether or not the information currently provided by accounting systems in Libya is suited to its environment.

Chapter Ten: SOCIO-ECONOMIC DEVELOPMENT PLANNING AND THE CHOICE BETWEEN ACCOUNTING FLEXIBILITY AND ACCOUNTING UNIFORMITY.

The purpose of this chapter is to assess which of the available accounting approaches is the more capable of providing accounting information relevant to a development environment.

Chapter Eleven: THE LIBYAN SOCIO - ECONOMIC DEVELOPMENT NEEDS AND THE UNIFORM ACCOUNTING SYSTEM.

The purpose of this chapter is to explain how a uniform accounting system can provide the accounting information needed for social and economic development planning. The chapter also considers other means by which Libyan accounting may be improved.

Chapter Twelve: The PROPOSED GENERAL FRAMEWORK OF ACCOUNTING IN Libya.

This chapter constitutes an attempt to put into perspective the arguments presented so far in the study, and to specify the general characteristics of an accounting framework for Libya. The feasibility of implementing such an accounting framework is discussed, and a blueprint for the system is outlined.

Chapter Thirteen: THE UTILISATION OF OTHER COUNTRIES UNIFORM ACCOUNTING SYSTEMS AND THEIR EXPERIENCE.

The purpose of this chapter is to recommend one or a combination of some of the uniform accounting systems in use to be implemented in Libya as a short time solution for the shortage of relevant accounting information.

Thus the main features of some of the uniform accounting systems will be analysed ,and one of them will be recommended for adoption in the short term.

Chapter Fourteen: OUTLINES OF PRINCIPAL CONCLUSION AND RECOMMENDATIONS.

CHAPTER TWO

The Socio-Economic & Political Environment in Libya

2.1 Introduction

The word "environment" describes the conditions, both natural and man-made, under which people carry out their activities [McGuire, JW, 1964, p 226]. This is too broad a definition to cover in detail, so, except for a quick survey, the discussion will focus on the prevailing social, political, legal and economic conditions in Libya under which accounting and accountants perform their functions. Accounting does not exist in a vacuum, but interacts with the existing environment. Many factors (economic, institutional, legal, political, sociological and technological) have influenced the development of accounting. Thus, to understand its evolution, it is essential to study both the natural and man-made environment in any society.

The condition of Libya is no exception. The scope and role of accounting is expected to be developed in response to changes in the socioeco-political environment in Libya and an examination of this environment should precede the study of any aspect of accounting systems in Libya. The purpose of this chapter is to provide information about the Libyan environment, while the influence of this environment upon the accounting system will be dealt with in the following chapters.

2.2 Physical Features

The current formal name of Libya is "The Socialist

People's Libyan Arab Jamahiriya" (SPLAJ). SPLAJ is bounded on the north by the Mediterranean Sea, on the east by Egypt and the Sudan, on the south and south-west by Chad and the Niger, on the west by Algeria and on the north-west by Tunisia. The three component areas of Libya are Tripolitania (renamed the Western Region) with an area of 285,000 square kilometres; Cyrenaica (renamed the Eastern Region) with an area of 905,000 square kilometres; and the Fezzan (renamed the Southern Region) with an area of 570,000 square kilometres. The independence of Libya was proclaimed on 24th December, 1951. Before that date, following the defeat of the Italians, Tripolitania and Cyrenaica had been ruled by a British administration, first military, then civil; and the Fezzan had been administered by France.

The whole of Libya forms part of the vast plateau of North Africa, which extends from the Atlantic Ocean to the Red Sea; but there are certain geographical features which give individuality to the three component areas of Libya. Tripolitania consists of a series of regions of different levels, rising in the main towards the south, and thus broadly comparable with a flight of steps. In the extreme north, along the Mediterranean coast, there is a low lying coastal plain called the Jefera. This is succeeded inland by a line of hills, or a scarp edge, that has several distinguishing local names, but is usually alluded to merely as the Jebel. Here and there in the Jebel, evidence occurs of former volcanic activity - old craters and sheets of lava.

South of the Jebel, there is an upland plateau - a drear desert landscape of sand, scrub and scattered irregular masses of stones. After several hundred kilometres, the plateau gives way to a series of east-west running depressions, where artesian wells, and hence oases, are found. This depression makes up the region of Fezzan. In the extreme south, the land rises considerably to form the mountains of the Central Sahara, where some peaks reach 3,500 metres in height. Cyrenaica has a slightly different physical pattern. In the north, along the Mediterranean, there is an upland plateau that rises 600 metres in two very narrow steps, each only a few kilometres wide. The northern upland in Cyrenaica is called the Jebel el Akhdar (Green Mountain); on its western side, the Jebel el Akhdar drops fairly steeply to the shore of the Gulf of Sirte; but in the east it falls more gradually.

The climate of Libya is characterised mainly by its aridity and by its wide variations in temperature. Lacking mountain barriers, the country is open to the influence of both the Sahara and the Mediterranean Sea, and as a result, there can be an abrupt transition from one kind of weather to another. In winter, it can be raw and cold in the north, with sleet and even light snow in the hills. In summer, it is extremely hot in the Jefara in the western province, reaching temperatures of 40 C - 45 C. In the southern province, conditions are hotter still. Northern Cyrenaica has a markedly cooler summer of 27 C - 32 C. A special feature is ghubli - a very dry wind of hot air from the south that can raise temperatures in the north by 15 C or even 20 C in a few hours. This wind usually blows in the spring and autumn. The hills of the western province and the eastern province annually receive as much as 400 mm to 500 mm rainfall, but in the remainder of the country the amount is 200 mm or less. A special difficulty is that once in every five years there is a pronounced drought. Actual rainfall can also be unreliable and erratic [NYROP, R . F. 1973, p. 11].

2.2.1 History

2.2.1.1 Pre-Islamic Libya:

In earliest historical times, two races inhabited Libya the Libyans and the Ethiopians. For a period of about 3,000 years, Libya was subjected to wave after wave of military invasion. Phoenician sailors began to visit Libya from Lebanon in about 1,000 BC for trade purposes [Farley, R, 1971, p 32]. In 600 BC, the Greeks had colonised "Cyrene" - the city of Shahhat today - and raised it to become a powerful city. Cyrene later fell under the domination of Alexander the Great, came under Ptolemis in about 322 BC and was ceded to Rome in 96 BC. Libya then enjoyed several centuries of prosperous Roman rule [McGuire, p 13]. In 731, the Vandals under Genseric conquered the country, but one hundred years later, Justinian's general Belisarius reconquered the country for the Byzantine Empire. Repeated rebellions by Berber tribes, however, soon reduced the country to anarchy [Ibid, p 17].

2.2.1.2 Arabian Influence:

During the first half of the seventh century (in 643 AC), Libya turned away from the European world to the culture and influence of Islam and the Arab east [Ibid, p 17]. The two dominant elements in Libyan culture originated in this period and spread throughout the area: Muslim religion and the Arabic language. These two elements laid the foundation for the social homogeneity of the Libyans [Farley, p. 44].

By the sixteenth century, the northern coast of Africa had become infested with pirates and was attracting the crusading and imperialistic designs of Christian Spain. Ferdinand, the Catholic sent an expedition which took Tripoli in 1551 [Fisher, W B, 1985, p. 530].

2.2.1.3 The Period Of Turkish Administration:

As the two dominant elements in Libya had become the Islamic religion and the Arabic language, the people of Libya asked the Ottoman Empire to rescue them from the Catholic king of Spain. Thus, in 1551, the Ottoman fleet bombarded and captured Tripoli. Turkish domination over Libya lasted 360 years until the Italians wrested Libya from Turkey in 1911.

2.2.1.4 Italian Occupation:

On 29th September 1911, Italy declared war on Turkey. After a short bombardment, Italian troops landed at Tripoli on 3rd October 1911. The country was colonised for over 30 years by the Italians until the Second World War. In 1942, following the occupation of Cyrenaica and Tripolitania by the Allies, the British established their administration in these two provinces, while France established its administration in Fezzan. Libya stayed under these two administrations until it was granted its independence by the United Nations on 24th December, 1951.

2.2.1.5 Independence:

On 24th December, 1951, Libya was declared an independent united kingdom, with a federal constitution. According to the constitution promulgated in October 1951, the state of Libya was a federal monarchy ruled by King Al-Sanusi and the country was divided into the three provinces of Tripolitania, Cyrenaica and Fezzan. The federal government consisted of a bicameral legislature. The constitution also provided that provincial legislatures should be created for the subordinate provinces of the new realm. In April 1963, the federal government introduced legislation designed to transform Libya from a federal into a unitary state. The government presented a bill to the Chamber of Deputies, which decreed that the kingdom of Libya would cease to be a federal state comprising three provinces

(Tripolitania, Cyrenaica and Fezzan), becoming instead a unitary realm divided into ten administrative areas. Libya thus became a unitary state by royal proclamation on 27th April 1963.

2.2.1.6 The 1969 Revolution:

On 1st September 1969, a military revolution was staged in Libya. Within a few days, the new revolution gained complete control of the entire country. The revolution was remarkable for the absence of any opposition, with virtually no fighting. A revolutionary command council (RCC) took power and proclaimed the Libyan Arab Republic. The provisional constitution, announced in November 1969, stated that supreme power would remain in the hands of the RCC. The principal force underlying the revolution's policies was Arab nationalism. This led to strict laws requiring businesses operating in Libya to be controlled by Libyans, with banks being particularly affected, and most of the European and American specialists were replaced by Arabs. Freedom, socialism and unity were declared to be the principles of the revolution.

2.2.1.7 The Creation Of The Socialist People's Libyan Arab Jamahiriya (SPLAJ)

Under a decree promulgated by the RCC in November 1976, provision was made for the creation of the General National Congress of the Arab Socialist Union (ASU), the country's only permitted political party. Subsequently, the General National Congress of the ASU became the General People's Congress (GPC). Then the leader of the revolution announced plans for radical constitutional changes, and these were endorsed by the GPC in 1977. The official name of the country was changed to the Socialist People's Libyan Arab Jamahiriya and the power was vested in the people through the GPC. The RCC disappeared and a General Secretariat of the GPC was established. The Council of Ministers was replaced by the General People's Committee, whose members were secretaries of departments. People's Committees were set up at a local level.

2.2.2 Population

There is an inescapable circularity in economic development. On the one hand, the character and skills of the population determine the character and the success of development, on the other hand, the economic status of the country determines the material quality of life, other things being equal. In Libya, there is a striking imbalance. The human resource situation is frustratingly weak, whereas the financial situation is exceptional because of oil [Farley,R. 1971, p 44].

According to the population census taken by the Italians in 1936, Libya's total population was 848,610 [Quin R, 1961, p.20]. The first population census after independence was undertaken with the help of the United

ty

Nations in 1954. This indicated that Libya's population was under 1.1 million, of which 738,000 were living in Tripolitania, 291,000 in Cyrenaica and 59,000 in the Fezzan. About 74 per cent of the population was classified as "settled", 18 per cent as "semi-nomads" and 8 per cent as "nomads". About 18 per cent of the population was concentrated in the two main cities, Tripoli and Benghazi. About 25 - 30 per cent were settled in the rural areas [International Bank for reconstruction and development, 1960, p 28].

Within a decade, according to the 1964 population census, the total Libyan population was about 1,564,369, of whom 813,386 were males and 750,983 were females [Ministry of National Economy, 1964, p. 12].

The population in the census of 1973 was 2,257,037, of which 1,200,246 were males and 1,056,791 were females [Ministry of Planning, 1973, pp 1-111]. In 1975, it was estimated that the total population was 2,804,100 [Secretariat of Planning, 1980, p.42], while in 1980 it was estimated at 2,683,600, with 1,438,100 males and 1,366,500 females. Finally, according to the second five-year development plan, the population of Libya in 1985 was 3,411,200, with 1,747,300 males and 1,663,900 females [Ibid, pp. 125-127].

2.3 The Socio-Cultural Environment

Economists, sociologists, anthropologists and others have emphasised the significance of the socio-cultural environment for economic development. Large families still prevail in Libya, and the members of a family usually feel strong ties to each other. The large family system has been blamed for inhibiting factors important in economic development, such as "mobility, saving, risk-taking, even willingness to work more for a high price". Labour mobility is important for efficient allocation of the labour force. Although the people of Libya cannot be described as being "on wheels", labour mobility is on the increase. Examples are cited in the movement of people from rural areas to cities and between cities after the discovery of oil, to find work. It is worthwhile mentioning here that, following the widespread development projects, people who originated from rural areas started to move back from the big cities to rural areas.

The make-up of the population suggested that the middle-class base was not broad, under the census of 1954. However, with equal opportunities for education and advancement, more and more people are moving up to middle-class status. It now constitutes businessmen, professionals and high-ranking public servants.

Expressing the importance of social mobility, Kindleberger stated that "economic development depends upon an open class structure and is particularly helped by the existence of a strong middle class" [Kindleberger,P. 1965 p.18].

Allegiance to Islamic teaching is also strong. Traditionally, Islamic teaching supports integration and social harmony. It is against segregation whether it is based on colour or ancestry. Islam encourages thrift, though not hoarding, and also induces hard work. It has no religious taboo against innovation or betterment. Islam permits trade, but prohibits usury.

Economic development requires socio-cultural conditions favourable to saving, innovation, hard work and breaking away from tradition. Islam is thus largely compatible with economic development.

2.4 Economic Environment

The accounting function, as defined by A J H Enthoven, is a tool of measurement and a reporting information system, which covers both micro and macro economic activities. It is composed of various sub-systems which relate to the planning and control of economic events and conditions [Enthoven, 1973, p 113]. These economic events and conditions are the product of the whole economic environment in any society. Hence it is essential that any study of accountancy systems should investigate the economic environment where the accounting system is to be implemented.

Thus, our investigation is best started with the general question of the ability of the Libyan economy to be developed, then examining the specific question of how Libyans pursue economic development.

With the vastness of the deserts, the shortage of water, the hot temperatures, the make-up of the population and the persistence of centuries-long traditions, it is difficult for the people of Libya to adapt to their natural habitat and to achieve economic development. While animals change physically to cope with their environment, "culture is man's unique way of adapting to environment" [Arnesberg, M and Nuhoff, A. F, 1965, p. 25], and if the national goal is really economic development, then this "is associated with social changes which pervade the relationship of man to his environment and to his fellows" [Kindleperger,P. p. 39].

What, however, is economic development? "Economic development implies both more output and changes in the technical and institutional arrangements by which it is produced" [Ibid, p. 8]. In spite of its drawbacks, per capita income is used as a measurement of development or underdevelopment. Though income per capita reached about 3,133 Libyan dinars in 1980 (LD1 = $3.338), Libya is still considered a developing country. This is because the majority of the population do not contribute to the relatively high national income. Oil is the most important source of income, and oil revenues represented 22,392,000,000 Libyan pounds from a total of 24,796,000,000 Libyan pounds of exports in 1980 [Secretariat of Planning, 1980, p. 3] and contributed about 70 per cent of the total national product in 1980 [Ibid, p. 115]. Associated with these high percentages is the risk of dependence on a single product as the major source of income. Even subsequent to the implementation of about 80 per cent of the 1981-85 development plan, the economy was still considered to be a one commodity economy. By the end of 1984, it was estimated that the gross domestic product is about L.D. 7651 million or 15,000 million pounds oil revenue was counted for L.D. 3889 million or about 45.5 per cent, while the revenue from other sectors accounted for L.D. 3,762 million, or about 54.5 per cent [see Table 2.1].

It should be noted that the increase of other sectors which contributed to the gross domestic product in 1984 was not a result of real growth in such sectors; it was rather a result of the decline in the oil production and revenue, due to the decline in oil prices.

Hirchman argues that:

> "Economic development depends not so much on finding optimal combinations of given resources and factors of productions as on calling forth and enlisting for development purposes, resources and abilities that are hidden, scattered or badly utilised" [Hirchman, A O, 1965, p. 5].

On the other hand, Kindleberger suggested that "the social factors are in many ways the strategic elements" in economic development. He argues that where private enterprise bears the responsibility of development, the socio-cultural conditions are determining factors of capital formation and technical change:

Table 2.1

The gross domestic product according to economic activities 1980 -1984

Economic Activity	1980	1981	1982	1983	1984	actual compound growth % 1980/84	planned growth rate %
Agricultural, Forestry & Fisheries	164.9	186.0	190.1	222.4	214.1	6.7	7.4
Mining of Oil & Natural Gas	6571.9	4171.7	4018.3	3889.0	3480.0	-14.7	5.9
Other Mining and Quarrying	48.8	55.1	47.8	41.9	39.3	- 5.3	9.0
Manufacturing Industries	202.0	216.1	248.6	262.7	315.7	11.8	22.4
Electricity and Water	49.7	54.1	64.2	77.3	87.8	15.3	14.8
Construction		1085.5	945.8	822.7	755.5	- 5.2	11.5
Wholesale and Retail Trade Restaurants & Hotels	481.7	580.2	517.6	509.6	513.2	1.6	8.0
Transport, Storage and Communications	335.3	403.8	387.0	370.7	372.7	2.7	8.1
Finance, Insurance, Real Estate (Excluding Houses) & Business Services	230.9	257.5	230.0	241.5	254.5	2.5	10.0
Ownership of Houses	210.4	215.9	221.2	232.0	236.5	3.0	7.1
Public Services (Excluding Education and Health)	611.1	670.2	718.6	786.4	857.3	8.8	5.0
Educational Services	220.8	229.5	243.8	259.4	272.4	5.4	8.1
Health Services	114.7	128.9	141.9	158.9	174.3	11.0	10.0
Other Services	47.4	52.7	61.7	70.0	77.7	13.1	8.1
Real Gross Domestic Product	10225.3	8307.2	8036.6	7944.5	7651.0	- 7.0	1.0
Distributed between : Oil and Natural Gas Mining. Total Non-oil Activities - Distributed between : Non-oil Activities (Excluding Public Services, Education and Health)							
Public Services, Education and Health							

Source : The table was compiled by the author from Records of Secretariat of Planning, Summer 1986.

> "The Open Society, with social mobility, opportunities for workers with energy to rise to the middle class and for the upper classes to achieve distinction in ways which are socially productive, provided incentives for savings and for innovation" [Kindleberger,P. p. 385].

Even where governments take the initiative of development, hard work, austerity and acceptance of change are vital for development, so, he concluded that:

> "... transport, communication and education are therefore general investment priorities" [Ibid, p. 385].

It seems that the differences between the foregoing viewpoints are more apparent than real, for the process of economic development implies changes both economic and social.

Behind all of this, there must be a decision to develop which is voluntary, positive and significant.

Whatever their type, these decisions need reliable, accurate, relevant and up to date information, most of which should be provided by accountancy.

The second question must now be considered - how does Libya endeavour to achieve economic development? The evolution of Libyan economic development can be discussed under two historical stages:

1. Economic development before the discovery of oil.
2. Economic development after the discovery of oil.

Further, the second period can be divided into:

a) Mixed economy, where the private and public sectors operate side by side, and
b) purely public sector, where the private sector was totally taken over by the public sector.

2.4.1 Prior To The Discovery Of Oil

Before the discovery of oil in 1959, prospects for economic development were very bleak. Benjamin Higgins, a well-known economist who worked as an economic adviser to Libya during the 1950's, had this to say about the Libyan economy and its prospects for development in 1959:

> "Libya's great merit as a case study is as a prototype of a poor country. We need not construct abstract models of an economy where the bulk of the people live on a subsistence level, where per capita income is well below $50 per year, where there are no sources of power and no mineral resources, where agricultural expansion is severely limited by climatic conditions, where capital formation is zero or less, where there is no skilled labour supply and no indigenous entrepreneurship ... Libya is at the bottom of the range in income and resources and provides a reference point for comparison with all other countries." [Higgins, B, 1959, p 26].

About 80 per cent of the population was engaged in agriculture and animal husbandry [Ibid, p. 27]. The agriculture sector was primitive and had been in a stagnating condition for hundreds of years. The rest of the population lived in a number of towns scattered around the country, such as Tripoli, Benghazi, Sebha, etc. Even in these major towns, the degree of urbanisation and modernity was minimal, and there was little industrialisation or economic development. The fact that Libya experienced so many wars and so many colonial administrations - besides its natural conditions with no sources of power or mineral resources, and with agricultural expansion severely limited by climatic conditions - left it in utter poverty at the time of independence (1951). The national income was estimated at no more than 15 million Libyan pounds in 1951 [Ibid, p.27]. The back-bone of the Libyan economy consisted of primitive agriculture, animal husbandry and a few small industries. The agriculture sector was handicapped by extraordinary difficulties, for most of the land of Libya is desert. Even in coastal plain areas such as Tripolitania and Cyrenaica, the soil is not good, and the rainfall is inadequate and unreliable. Fezzan has virtually no rainfall, but has underground water near the surface.

The condition of the other economic sectors offered little hope of economic development. Benjamin Higgins concluded that:

> "The Libyan economy offers discouragingly little with which to work. For decades to come economic development of Libya must consist largely of raising productivity of agriculture, including animal husbandry." [Ibid, p 27].

Nevertheless, it could be argued that during the years of Italian colonisation (1911-1942), there was some expansion of the economy. It was estimated that between

1911 and 1942, the Italian administration spent over 50 million Libyan pounds on public works, utilities and agricultural development, most of the expenditure being devoted to agricultural development and land reclamation. However, this expenditure was spent on the improvement of the Italian settlers' welfare and not for the Libyan people. During that period, there were about 4,000 Italian families settled in Libya, and by 1941, the Italian population of Libya numbered 11,000 [Farley,R. 1971, p. 27].

The World Bank Mission to Libya in 1959 stated that the Italian administration had contributed to the growth of the Libyan economy as a whole and provided a useful base for future expansion. However, the Mission also noted that:

> "It must be recognised that the Libyans paid heavily for what the Italians achieved. They were pushed from some of the best farming land in the country, large numbers of their livestock were lost in the fighting (especially in Cyrenaica) and their traditional industries suffered severely from competition from Italian products. Moreover, the Italians did nothing to prepare the Libyan people for self-government; education and technical training were neglected and Libyans were virtually excluded from the administration. As a result, through no fault of its own, Libya has remained heavily dependent on foreign administrative and technical personnel, and the training of Libyans to replace them is still the most difficult of all the problems associated with economic development." [Ibid, p. 27].

It was common for observers of Libyan affairs to describe the economy as "deficitary". [Higgins,B.1959 p 29]. The purchasing power of the country before the discovery of oil was low and foreign trade was limited and in deficit, requiring foreign aid to come to the rescue to cover the deficits in all economic sectors. There were deficits in the budget of all three provinces, foreign trade, agriculture, etc. In 1954, for instance, the total value of Libya's exports FOB amounted to only 3,500,000 Libyan Pounds.

For four decades before the discovery of oil, these deficits were offset only by foreign aid: by the Italian government for the period 1911-1942, and by the administrative powers of the United Kingdom and France from 1945-1952, and, since independence, by foreign aid from the United Nations and leases of military bases to the United Kingdom and the United States [See Table 2.2].

Although the turning point of the Libyan economy was the discovery of oil in 1959, the economy started to pick up gradually after independence in 1952. The national income of the country had improved between 1950 and 1958 from an estimated 15 million Libyan pounds to an estimated 52.4 million Libyan pounds [See Table 2.3], and imports more than doubled in value between 1952 and 1958. However, these were accounted for largely by extraneous forces, such as oil explorations, foreign military operations, external assistance and the expansion of activities such as construction, wholesale and retail trade and a variety of other services associated therewith.

Thus, the Libyan economy during this period was in deficit and the same conclusion applies if one takes the

Table 2.2 Public Revenues and Expenditures in Libya

(£L '000 : fiscal years beginning April)

	1954/55	1955/56	1956/57	1957/58	1958/59
Domestic Revenues					
Federal Government	2,561	3,565	4,100	5,090	6,532
Tripolitania	1,784	2,243	2,605	2,986	3,709
Cyrenaica	726	774	932	943	1,189
Fezzan	40	51	64	94	119
Municipalities	438	428	446	482	500
Total domestic	5,549	7,061	8,147	9,595	12,049
External Assistance					
Grants from United Kingdom	3,750	3,750	4,000	4,250	3,250
Grants from United States	1,786	2,500	3,214	6,099	6,785
Loans from United States	-	-	-	1,250	-
Other	105	20	20	470	1,010
Total external	5,641	6,270	7,234	12,069	11,045
TOTAL REVENUES	11,190	13,331	15,381	21,664	23,094
Expenditures					
Federal Government	1,501	2,120	2,719	3,589	4,948
Tripolitania	3,652	3,805	3,992	4,614	5,008
Cyrenaica	2,062	2,340	2,646	2,751	3,178
Fezzan	398	404	504	635	892
Municipalities	431	408	452	464	500
LARC	-	2,485	4,038	3,851	3,938
LPDSA	753	1,416	1,082	1,127	715
TOTAL EXPENDITURES	8,797	12,978	15,433	17,031	19,179
Surplus or deficit of revenues over expenditures	+ 2,393	+ 353	- 52	+ 4,633	+ 3,915

Source : Report of international bank for reconstruction and development.
The economic development of Libya.
The Johny Hoptkins press. 1960 p.347

Table 2 ..3 Industrial Origin of Gross Domestic Product at Factors Cost in 1958

Economic Activity	£L millions	Percent
1 Agriculture, forestry and fishing	13.6	26.1
2 Petroleum prospecting and quarrying	3.6	6.9
3 Manufacturing and repairing	6.0	11.5
4 Construction	1.8	3.4
5 Electricity and gas	0.8	1.5
6 Transportation, storage and communication	2.9	5.6
7 Wholesale and retail trade	7.3	14.0
8 Banking, insurance, ownership of dwellings, other services	9.5	18.2
9 Public administration and defense	6.7	12.8
Gross domestic product at factor cost	52.2	100.0

Source : The international bank of reconstruction and development. The economic development of Libya. 1960 p.371

economy sector by sector. However, it seems sensible to refer to at least two or three main sectors in detail.

2.4.1.1 Industry

With about 80 per cent of the population of Libya confined to primitive agriculture, it is not surprising that industry was rare. However, a wide range of small factory industries had been established during the 25 years before the discovery of oil. These were based mainly on the processing of local agricultural products, and included flour milling, olive oil refining, tobacco and salt manufacture, textiles, footwear and clothing, vehicle repairs and printing. Altogether, factory industries in Libya at that time, employed around 15,000 to 20,000 people and contributed about 10 per cent of the national output. [International Bank for Reconstruction and Development, 1960, p.48].

2.4.1.2 Public Finance

There were two main sources of finance for public expenditure in Libya: domestic revenues and foreign grants and aid. The breakdown between the two sources was about 50/50. The main foreign grants and aid in 1952 were from the United Kingdom and the United states. Between these two countries, the Libyan government received about 14 million Libyan Pounds a year. The United Kingdom's contribution was about 3.25 million Libyan Pounds annually for direct support of the Libyan government budget, while American aid and loans amounted to between 8 and 10 million Libyan pounds a year.

Domestic revenues were derived mainly from customs duties, which contributed about 1.5 million Libyan pounds to the federal budget in 1957/58 and about 6.4 million Libyan pounds in 1958/59.

The other sources of domestic revenues were miscellaneous fees and duties and profits from public services such as the post office and electricity.

Taxes on businesses and individuals were the other sources of domestic revenues: for instance, Tripoli province gained about one third of its revenue from taxes, at about 1,138,000 Libyan pounds in 1957/58 and 1,468,000 in 1958/59, with the other two thirds mainly coming from the profits of tobacco and salt and sugar monopolies operating in Tripoli port, and miscellaneous indirect taxes. Cyrenaica and Fezzan raised their revenues in broadly similar ways, but on a smaller scale.

Public expenditures in Libya were the responsibility of both the federal government, which was responsible for rather less than one third, and the provincial governments, which were responsible for the remainder. In 1958/59, for instance, the federal government was responsible for about 5 million Libyan pounds, and the provincial governments for about 10 million Libyan pounds [International Bank of Reconstruction and Development, 1960,p.16]

Furthermore, there were two development and reconstruction agencies, which spent almost as much as the federal government. The Libyan American Reconstruction Commission (LARC) and the Libyan Public Development and Stabilisation Agency (LPDSA) spent about 4.6 million Libyan pounds in 1958/59. All three provincial governments were heavily dependent on grants from the federal government, which were allocated annually on an ad hoc basis. Despite the lack of public revenues available to the government, they exceeded public expenditure, thanks to foreign aid and grants.

Both the federal government and the provincial governments deposited their cash with the National Bank of Libya. Their reserves amounted to 4.5 million Libyan pounds, in March 1958. In addition, foreign aid agencies had cash reserves of about 5.5 million Libyan pounds. The Libyan government had no internal public debt, and the only external debt was to the US government, which was about 13 million Libyan pounds at the beginning of 1960.*

Besides the National Bank of Libya, there were eight regular commercial banks in Libya, all of them controlled from outside the country. These banks were largely tied up with financing foreign businesses in the two commercial centres of Tripoli and Benghazi.

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* All figures about industry and public finance were taken from the International Bank of Reconstruction Study, pp25-42.

2.4.1.3 Costs And Prices

The lack of qualified Libyan administrators left the country with no reliable data: no data about prices or costs, no official cost of living index, and no official price level or employment figures. However, it was generally known that the prices kept rising through the years, as a result of the rapid expansion of demands associated with the flow of foreign aids. The cost of living and housing also shot up noticeably, but perhaps the most noticeable rise was in the price of labour, as more oil companies started oil exploration in the late 1950's.

2.4.1.4 Economic Development Planning

The first development programme for Libya was based on reports of two United Nations Missions to Libya. The first programme covered the period 1952-1958 and it was basically financed by foreign aid from the UK, and the USA and other nations. Total foreign aid for the period 1952-1960 was estimated at 73,970,000 Libyan pounds [Bank of Libya, September 1965, p. 27].

This amount was large only in relation to the very low national income. However, the lack of natural resources, technical and managerial skills and the absence of big industrial firms was even then a much more serious bottleneck than the lack of capital. The first development programme was administered by LPDSA, which started operations in 1954. The Chairman of the Board of Directors was Libyan (Under-Secretary of Finance), while the General Manager was British and his deputies were Libyan. The programme was prepared along the lines recommended by the UN Missions, but was never fully carried out. The fact that American aid and grants became the largest single contribution (4.055 million pounds) in 1955/56 lay behind the establishment of the LARC. The LARC had a Libyan as Chairman the Board of Directors (Under-Secretary of Finance). Its director was Libyan and a US government official acted as adviser.

In 1956, it was decided that the first development plan was out of date and a new programme was put forward by the new International Committee (IC) early in 1956. The IC consisted of representatives of the Libyan government, the United States Operation Mission (USOM) and the UN Technical Assistance Mission (UNTAM). A large number of projects was included, but the programme lacked balance and cohesion. In fact, although many of the projects were taken on by LARC and the LPDA, the programme as such has never been carried out.

Despite the unsatisfactory results of the first development programme, the economy of Libya underwent a slow change after independence. For instance, the cultivation of groundnuts, which were almost unknown before independence, became, in the 1950's, the country's largest single export;

the growth of olive oil production and cultivation of new potatoes for export also increased. Moreover, the formation of capital in the economy stood by 1957/58 at some 19 per cent [Farley,R. p 170]. The United Nations' contribution to the Libyan economic development took the form of technical, professional and managerial assistance.

UN technical assistance has supplemented Libya's meagre resources of professional and administrative skills in many ways. For instance, experts in public administration carried out a survey for the federal and provincial governments and made recommendations regarding increasing the efficiency of the public services. A school of public administration was opened by the UN in Tripoli, and for a number of years the UN provided the services of development economists who acted as economic advisers to the government and as directors of the development council for some time.

Other UN agencies have been very active in Libya. The Food and Agriculture Organisation (FAO) provided a number of experts and the United Nations Education, Scientific and Cultural Organisation (UNESCO) and the World Health Organisation (WHO) also maintained permanent missions in Libya. Finally, the International Labour Organisation (ILO) co-operated with the Libyan government in drafting and implementing a social insurance law. An important factor of UN technical assistance in Libya was the awards of fellowships and scholarships to Libyans for overseas studies [Ibid, pp. 170-178].

2.4.2.1 Post-Oil Discovery (The Transitional Years)

When oil was discovered, the country was lacking in terms of skilled human resources and in terms of planning administration and organisation. It was in this context that all previous development agencies were abolished and superseded by a new planning agency in 1960, when the council of ministers enacted the law of development council which was published in the Libyan Official Gazette of 1st July 1960 [Ministry of Justice, 1960, p 58].

Under this law, the LPDSA and LARC were liquidated and their property rights were transferred to the development council, which consisted of the Under-Secretary of the ministry of finance serving as chairman, a representative of the federal government named by the council and one one representative of each of the three provinces. Thus, the Libyans came to be fully in charge of planning for their own economic development.

The development council was specifically empowered to:

a) Study and investigate the country's economic and social conditions, its potential and natural and productive resources.

b) Examine economic and social projects which were intended to develop the potential of the country, raise the standards of living, exploit natural resources and increase natural production.

c) On the basis of its studies and investigations, to establish a long-term overall development programme, taking into consideration the economic and social significance of the projects included therein, their effects on increasing national income and ensuring supplies of food and other materials essential for the country and their bearing on the implementation of other projects [Farley,R. 1971 p. 190].

Despite the oil prospects, Libya remained sensitive to the importance of continuing foreign aid in terms both of finance and of personnel, and previous agreements were maintained, whereby the development council could formulate its technical assistance requirements and negotiate with external agencies and international organisations for technical and financial assistance.

One important outcome of the discovery of oil in 1959 was the increasing interest on the part of businessmen from many parts of the world to establish various enterprises in Libya. [US Departement of Commerce, Bureau of International Commerce ,1970, pp. 100-109]

2.4.2.2 Some Financial and Administrative Changes

During the three years after the discovery of oil in 1959/60, the financial base of the Libyan economy changed dramatically. The production and export of oil increased more than ten times in 1963, and oil revenues climbed from 4,097,000 Libyan pounds to 116,861,000 Libyan pounds. The

Libyan economy had become, by 1963, a capital surplus economy [Ministry of Planning , 1963, p. 10].

Now that the country became assured of its future wealth, it introduced several profound changes into the evolving planning arrangements. Two new ministries were established in 1961: the ministries of industry and petroleum. Then, in 1962, Libya joined the Organisation of Petroleum Exporting Countries (OPEC). In 1963, the Libyan constitution was amended, the provisional governments and their residual powers under the federation were swept aside, and the unitary state proclaimed. The Development Council was abolished and a national planning council was established under Law No 5 of 1963. The new national planning council was to decide upon matters of policy for planning and development, and a ministry of planning and development was set up to act as the administrative and executive agency for planning and development affairs [Ibid, p. 12].

By the establishment of the new council, the Libyanisation of the control of planning was completed. The council consisted of the Prime Minister as chairman and the ministers of planning and development, finance, national economy, petroleum affairs, agriculture and animal wealth and industry. The council itself was required under the law to submit to the council of ministers an overall long-term plan for development and an annual estimate of financial requirements for approval by the council of ministers and of parliament [Farley,R. 1971, p 200].

2.4.2.3 The First Five-Year Plan

The first comprehensive and long-term development plan was introduced on 20th August 1963, and covered economic and social development for the years 1963 to 1968, with actual expenditure of 336,000,000 Libyan pounds. Table 2.4 summarises the actual expenditure of the plan, which encouraged foreign capital to operate freely in the country for the purpose of economic development.

The general aims of the first five-year plan was to build up the Libyan economy and to remedy the vital deficiencies which affected the economic and social life of the country. Specifically, the plan spelt out seven major objectives:

1. To ensure the early improvement of the standards of living of the people, particularly those of limited income who did not benefit from economic prosperity.
2. To give special consideration to the agricultural sector, as the source of supply of most of the essential consumer goods besides being the source of income and employment for the majority of the people; to pay attention to industry; to improve the productive efficiency of the farmer and labourer; and to encourage the private sector to make investments in these fields.
3. To permit the public sector to continue its investments in such services as education, health, communications

Table 2.4 Economic development plans of Libya, selected years, 1963-75 (in millions of dinars)

Ministry of Purpose	1963/68	1969/70	1970/71	1971/72	1972/73	1973/75
Public Works	76	25	18	-	-	-
Transport and Communications	70	23	27	40	47	190
Agriculture and Agrarian Reform	32	16	50	50	52	138
Agricultural Development	-	-	-	-	-	278
Housing and State Property	37	22	33	40	52	278
Education	29	15	11	30	40	189
Municipalities (local government)	-	13	26	32	30	130
Administration Development	-	-	-	-	-	3
Industry and Mineral Wealth	17	8	21	32	48	228
Public Health	12	7	6	17	14	71
Information and Culture	4	3	2	-	6	29
Labour and Social Affairs	20	2	1	5	8	24*
Interior	16	2	1	-	-	-
Tourism	-	1	1	7	3	-
Youth and Sports	-	5	-	-	-	-
Youth and Social Affairs	-	-	-	-	-	14
Planning and Development	18	1	-	1	2	4
Civil Service	-	-	-	1	-	-
Economy and Trade	4	-	-	-	-	-
Economy and Tourism	-	-	-	-	-	9
Petroleum	-	-	-	22	32	165
Reserves	-	2	2	2	1	24
Electrification	-	-	-	21	32	191
Other	1	-	-	-	-	-
Total[1]	336	145	200	300	367	1965

- Indicates no allocation of funds. * Indicates labour only. 1 Indicates columns may not add to totals because of rounding.

Source : Richard F. Nyrop et al., Area Handbook for Libya (Washington D.C.: U.S. Government Printing Office, 1973), p.207: Libyan Ministry of Planning, The Plan of Economic and Social Transformation, 1973 - 1975, p.89.)

and housing, together with other sectors as required to consolidate the basic elements for rapid economic growth.

4. To develop rural areas by establishing productive and public service projects, thus ensuring regular employment for the rural population, utilising their productive facilities and raising their incomes in such a way as to achieve justice in the distribution of national income, and to discourage their migration to the cities.
5. To organise imports policy so as to avoid the import of goods which can be produced in the country on the one hand, and to ensure the protection from the danger of inflation and the provision of sufficient supplies of the capital goods needed for development on the other, at the same time, striving to step up local production and to adopt an appropriate customs policy for its protection, and in this way, gradually and continuously to substitute local production for the bulk of such imports.
6. To take such monetary, financial and commercial measures, all in a co-ordinated effort, as may be necessary to ensure increased revenues and to enforce control on expenditures.
7. To take steps to meet the lack of information and statistical data which are necessary for planning, by strengthening the existing statistical organs, by studies and research work. By the end of the first five

year plan, the actual expenditure was almost double the original estimate of 169 million pounds. However, the rate of development expenditure fell below the planned targets.

Many problems faced the country during the implementation of the first plan, making the achievement of the planned targets more difficult.

Rawle Farley, in his description of these problems, said:

> "Popular expectations of planning were aroused, but not popular understanding or popular participation. Planning institutionalisation was there, but not the minimum number of planning administrators, technicians, and expertise. Under the prevailing ideology the key role of private enterprise was recognised. But the private sector was weak in terms of experience and entrepreneurship demanded in the new context. The oil resources were there, but quantified data to determine financial and other strategy were absent. 'There is no evidence', the national planning council complained, 'that the ministries concerned are making serious efforts for the collection and use of data in planning and implementation. Planning co-operation between ministers was weak, project execution frequently costly; project maintenance negligent in many areas; planning follow-up weak. The development allocation for the first plan totalled 336 million pounds. But the plan had to be extended for one year to complete important but unfinished projects". [Ibid, p 229].

2.4.2.4 Libyan Economic Planning after the Revolution of 1969.

On 1st September, 1969, the Libyan army, under the leadership of the Libyan Revolutionary Command Council, announced the ending of the monarchy in Libya and the establishment of the Libyan Arab Republic.

The establishment of the new republic implied a fundamental change in management and in the ideological framework which governed the formulation and implementation of development planning in Libya. The new administration of the country and the economy adopted "Freedom, socialism and unity" as the basic principles of the revolution. The announced aims of the revolution were to correct misallocation of resources to maximise available manpower resources, giving chances to more entrepreneurs and ending distributional inequalities, to limit demand, to accelerate investment in the infrastructure, to develop education at a more rapid rate, to widen public participation in planning, and to complete the Libyanisation of all financial institutions according to the new proclamations.

The overall objectives were to accelerate the rate of growth, to break stagnation outside of the oil industry and to maximise social welfare in the shortest possible time.

The new Libyan revolution adopted socialism as the prevailing ideological framework. Socialism, according to the new leadership, would involve not only full participation in production, but the sharing of prosperity rather then poverty among all. The achievement of social justice and the spread of economic abundance would come about by the alliance of working forces.

Private ownership none the less remains an entrenched institution, although it should conform with defined "ethical" expectations [News from the Libyan Arab Republic, Vol.1, 5th October 1969]. However, privately owned businesses were nationalised in early 1980.

2.4.2.5 Development Plans after 1969

After the end of the first five-year development plan, a second plan was approved by the Libyan National Planning Council, in May 1967. About 1,000,000,000 Libyan dinars [US Department of Commerce, July 1970, p 21] was allocated to this plan to cover the period 1969 to 1974. The new plan provided for the completion of ten unfinished projects from the first plan, and for an industrialisation programme with emphasis on petroleum refining and other light industries. The plan was, however, rejected by the new revolutionary government in 1969, and replaced by yearly development plans until 1973.

The first full development plan after the revolution was a three-year plan, for the period 1973 to 1975, which called for expenditure of 1,965 million Libyan dinars, allocated between economic activities as shown in Table 2.5. By the end of this plan, actual expenditures ware raised to 2.6 billion Libyan dinars [Ministry of Planning, 1975, p. 12].

Table 2.5 Economic Structure at the beginning and at the end of Economic and Social Transformation Plan 1973/1975

(Percentage on the basis of constant prices of 1975)

Economic Activity	Fixed Capital Formation	Financial Formation	Other Development Expences	Total	Allocation Rate
Agriculture, Forestry and Fisheries	286.3	14.0	27.5	327.8	16.0
Mining of Oil & Nateral Gas	45.4	0.0	3.5	48.9	2.5
Other Mining & Quarrying	2.3	0.0	0.6	2.9	0.2
Manufacturing Industries	266.7	6.0	18.9	231.6	11.8
Electricty and Water	245.6	0.6	2.2	257.4	13.1
Construction	3.0	1.7	1.5	6.2	0.3
Wholesale & Retail Trade, Restaurants & Hotels	0.9	0.0	0.1	1.0	0.1
Transport, Storage and Communications	245.0	5.6	3.2	253.8	12.9
Finance, Insurance, Real Estate (Excluding Houses) and Business Services	0.0	0.4	0.0	0.4	0.0
Ownership of Houses	295.3	66.0	0.0	361.3	18.4
Public Services (Excluding Education and Health)	163.9	4.3	18.5	186.7	9.5
Educational Services	180.9	0.1	11.1	192.1	9.8
Health Services	70.1	0.0	0.9	71.0	3.6
Other Services	0.0	0.0	0.0	0.0	0.0
Reserve	20.6	2.3	1.0	23.9	1.2
TOTAL	1775.0	101.0	89.0	1965.0	100.0
Allocation Rate %	90.3	5.1	4.6	100.0	0.0

Source : Ministry of planning, the three year economic and social development plan 1973 - 1975. p.90

In 1976, a five-year development plan was approved. It was entitled "the economic and social transformation plan" and called for expenditure of 7.84 billion Libyan dinars [Ministry of Planning, 1975, p. 48]. This amount was subsequently raised to 9.2 billion Libyan dinars. The next five-year plan initially called for expenditures of 18.5 billion Libyan dinars [Secretariat if Planning, 1980, p 57].

The growth in development expenditure reflects the increase in income that Libya has received from oil during the 1970's. In 1973/74, oil income increased almost threefold, and from 1974 to 1979, it rose at a rate of 17 per cent annually. (see Table 2.6).

2.4.2.5.1 <u>The Objectives Of The Development Plans</u>

The last four development plans (1973/75, 1976/80, 1981/85 and 1986/90) have had objectives in line with the ideology of socialism. Conditions changed dramatically after the three-year plan and the first five-year transformation plan. Trade was completely taken over by popular committees, all importing and exporting businesses were transferred to 62 public corporations, and the issuing of licences was stopped completely by the end of 1979. In addition, large numbers of private companies were taken over by workers' committees. In March 1981, it was announced that all retail activities would be controlled by state-administered and state-owned supermarkets. The whole private sector was to be completely abolished by the end of

Table 2.6 Libya : Oil Poduction, Revenue, Take per Barrel and Gross National Product, 1962 - 1981

	Oil Production (thousand b/d)	Oil Revenue (LD million)	Average take per barrel LD	GNP million LD
1962	182.3	14.2	0.4	164
1963	441.8	38.5	0.5	241
1964	862.4	75.2	0.5	307
1965	1,218.8	125.4	0.6	436
1966	1,501.1	186.7	0.8	559
1967	1,740.5	223.3	0.8	649
1968	2,602.1	357.8	0.9	883
1969	3,109.1	419.7	0.8	1,144
1970	3,318.0	482.6	0.9	1,210
1971	2,760.8	593.7	1.4	1,416
1972	2,239.4	514.0	1.4	1,519
1973	2,174.9	663.6	1.9	1,928
1974	1,521.3	1,776.0	7.4	3,534
1975	1,479.8	1,510.3	6.4	3,380
1976	1,932.6	2,220.4	7.2	4,389
1977	2,063.4	2,620.0	8.0	5,182
1978	1,982.5	2,486.8	7.9	5,407
1979	2,090.1	3,848.7	11.7	n.a
1980	1,700.0	n.a	n.a	n.a
1981	1,600.0	n.a	n.a	n.a

Source : Richard Lawless and Alan Findlay ; North Africa. Contemporary Politics and Economic Development. Croom Helm. 1984. p.240

1981, to be replaced by people's economic committees. Indeed, the private sector is being dismantled progressively and inexorably, and progress has now reached the point where private bakeries, butchers and barber shops have been taken over by the public sector.

In all the plans, the main stated objective has been the diversification of the economy. Specifically, the four plans stated the following objectives:

1. To achieve a high degree of self-sufficiency and self-reliance as well as to give priority to increasing the efficiency of production factors.
2. To reduce crude oil production to the level necessary for financing the transformation programmes and projects.
3. To intensify development of human resources and increase the contribution of Libyans to the transformation process.
4. Further improvement of the pattern of individual consumption, raising the standard of living, equitable distribution of income and achieving more balanced regional development.
5. Adoption of an effective policy for the development of science and technology in the future, together with the protection and improvement of the environment [Ministry of Planning, 1972, pp 34-46, and 1975, pp 20-21, and Secretariat of Planning, 1980, p 55, and 1985, p 68].

2.4.2.6 Economic Growth

In an assessment of an oil-based economy, it seems essential to differentiate between those elements of general domestic production (GDP) and economic growth which derive from oil and those which do not. The Libyan economy is sustained by oil and the wealth it has brought to Libya has influenced development profoundly. Oil will continue to be crucial to the economy for the foreseeable future, but the criterion by which the economy should now be measured is essentially the extent of growth of non-oil GDP. Naturally, much of Libya's industrial development is linked to oil and natural gas; but in the long run, it will be the capacity of the economy to earn a living from activities other than oil sales and directly related income which will determine whether or not Libya will continue to enjoy its present standard of living.

The authors of the second five-year plan, faced with these facts, have emphasised the necessity for the expansion of the non-oil sector, the development of human and physical resources and self-sufficiency in food. The objectives of the second five-year plan were that the non-oil sector's growth rate would be 10.3 per cent annually, while the growth rate for the oil sector would be 5.9 per cent. The total growth rate for the whole economy was targeted at 17.2 per cent [Secretariat of Planning, 1980, p 57]. The actual result, however, was far short of this expectation. In fact the actual growth rate from 1980-1984 was (-7) per cent (see

Table 2.1).

2.4.2.7 National Income

Despite the efforts by the various development plans to diversify the Libyan economy, national income remains wholly dependent on oil revenues. Since the discovery of oil, national income has tended to be about two times as great as oil revenues. A major preoccupation amongst Libyan planners now is to break this link and to create a high volume of non-oil GDP.

Table 2.7 shows the structure of Libya's national income measured by the expenditure method for the period 1980 to 1985.

Government expenditure, investment and private consumption all contribute in roughly equal proportions to national income.

In the second five-year plan (1981/85), national income has fallen, as oil output and prices are constrained by the objectives of the plan and by the oil market, from 10,225.3 million dinars to 7,651 million dinars.

In 1984, the petroleum mining and quarrying sector accounted for about 46 per cent of the GDP (Table 2.1). The other large contributor was the public services sector, which includes government administration, education, health and other budgets, such as military expenditures. The

Table 2.7 Libya : Gross Fixed Capital Formation in 1975 and 1980 (Constant 1975 prices) and Cumulative Gross Fixed Capital Formation 1981 - 1985 (1979 prices)

Economic Sector	1975* LD million	%	1980** LD million	%	1980-85 LD million	%
Agriculture	149.9	14.2	205	14.2	1,400	12.5
Manufacturing	121.5	11.5	218	15.0	2,000	17.9
Electricity and Water	135.1	12.8	223	15.4	1,600	14.3
Transport and Communication	157.8	15.0	241	16.6	1,800	16.1
Housing	235.5	22.3	158	10.9	1,500	13.4
Public Services	91.4	8.7	150	10.3	1,000	8.9
Education and Health	99.3	9.4	135	9.3	1,000	8.9
Other (Oil, Trade etc)	64.2	6.1	121	8.4	900	8.0
TOTAL	1,054.7	100.0	1,451	100.0	11,200	100.0

* Constant 1975 prices

** Constant 1979 prices

Source : Second Five Year Plan, Secretariat of Planning, Tripoli.

agriculture and manufacturing sectors made particularly small contributions. A comparison between GNP of 1970 and that of 1986 is given in (Table 2.8).

2.4.2.8 Domestic Investment

The emphasis in the early 1970's on infrastructure and agriculture is borne out by the pattern of investment shown in Table 2.4. Social services and infrastructure absorbed large proportions of the total investment in 1975. This is not surprising, since there was an acute absence of infrastructure which became particularly obvious when domestic expenditure rose in line with oil income. The limited provision of social services in the early 1970's also occasioned substantial investment in government services in such areas as education and health.

Agriculture received a substantial share of investment expenditure both in 1975 and 1980 (Table 2.9) it absorbed about 17.3 per cent of the period 1970-1986 development expenditure.

In 1980, the share of industrial investment was planned to increase to the point where it almost absorbs the highest share of investment. This trend is echoed in the second five-year development plan, to the point where it absorbs 18 per cent of all investment and transport and communications comprise 30 per cent of the total investment. Infrastructure will thus continue to be a major component of

Table 2.8

Gross National product according to economic ativity.

[By current income Factors L.D.M.]

Economic Activity	1970	1986	Compound annual growth rate	Structure % 1970	Structure % 1986
Agriculture, Forestry & Fisheries	33.1	310.0	15.0	2.6	5.2
Mining of Oil & Natural Gas	812.6	1540.0	4.1	63.1	26.1
Other Mining and Quarrying	1.7	41.5	22.0	0.1	0.7
Manufacturing Industries	22.5	401.6	17.8	1.7	6.8
Electricity & Water	6.2	112.0	19.8	0.5	1.9
Construction	87.8	795.0	14.8	6.8	13.5
Wholesale and Retail Trade, Restuarants & Hotels	47.0	485.5	15.7	3.7	8.2
Transport, Storage & Communications	43.2	390.5	14.7	3.4	6.6
Finance, Insurance, Real Estate (Excluding Houses) & Business Services	13.0	280.4	21.0	1.0	4.7
Ownership of Houses	59.6	253.0	9.4	4.6	4.3
Public Services (Excluding Education & Health)	98.1	750.0	13.6	7.6	12.7
Educational Services	39.7	310.5	13.7	3.1	5.3
Health Services	15.8	165.0	15.8	1.2	2.8
Other Services	8.0	68.5	14.3	0.6	1.2
Real Gross Domestic Product	1288.3	5903.5	10.0	100.0	100.0
Distributed between:					
Oil and Natural Gas Mining	812.6	1540.0	4.0	63.1	26.1
Total Non-oil Activities -	475.7	4363.5	14.9	36.9	73.9
Distributed between:					
Non-oil Activities (Excluding Public Services, Education, Health)					
Public Services, Education and Health					

Table 2-9

Comparison between allocated development funds and actual development (million dinar) expenditures.

Sectors	Allocations 1970-86	%	Expenditures 1970-86	%	% of Exp. To Allocations
Agriculture	4,456.7	17.3	4,037.3	17.3	90.6
Light Industry	2,088.6	8.1	1,725.4	7.4	82.6
Heavy Industry	2,430.0	9.4	2,234.4	9.6	92.0
Oil & Natural Gas	1,033.5	4.0	902.4	3.9	87.3
Electricity	2,451.5	9.5	2,510.3	10.8	102.4
Nuclear Energy	208.1	0.8	41.3	0.2	19.9
Education	1,863.2	7.2	1,466.9	6.3	78.7
Information	280.8	1.1	237.4	1.0	84.6
Manpower	162.9	0.6	124.2	0.5	76.3
Health	882.3	3.4	747.5	3.2	84.7
Social Security	126.8	0.5	73.9	0.3	58.3
Housing	2,798.0	10.9	2,547.5	10.9	91.1
Public Services	2,448.1	9.5	2,443.8	10.5	99.8
Transportation	3,488.0	13.6	3,411.9	14.7	97.8
Public Sport	177.1	0.7	135.6	0.6	76.6
Economy	605.9	2.4	552.4	2.4	91.2
Planning	90.8	0.4	65.5	0.3	72.1
Projects Reserve	145.6	0.6	-	-	-
Total	25,737.9	100.0	23,257.7	100.0	90.4

Source: Compiled by the author from development plans and their follow up reports for 1970-86.

Libyan planning and domestic expenditure. Table 2.1 shows the evolution of Libya's non-oil income and the growing significance of manufacturing industries is clear. Its actual growth rate for the period 1980-1984 was 11.8 per cent. For more details see Table 2-8.

2.4.2.9 Balance Of Payments

Despite some short-term concern, Libya's balance of payments has been generally in surplus since 1965, as exports have exceeded imports by a considerable margin. Libya's only export of any significance is oil and the real price of oil rose steeply during the 1970's on two occasions: in 1973 and in 1979. On both occasions, Libya's surplus rose sharply, from about 500 Libyan pounds in 1973 to about 1.3 billion LD in 1974, and from about 3.2 billion LD in 1979 to about 4 billion LD in 1980 (Table 2.10). However, the period after 1980 brought a decline in both the quantity of oil production and in international market oil prices, as a direct result of the surplus.

The balance of payments surplus declined from about 4 billion LD in 1980 to 1.7 billion in 1985 (Table 2.11).

Libya's exports of oil are sold mainly to OECD countries. Despite the ban by the US government on the purchase of Libyan oil since 1981, it is widely believed that American purchases still counted for a large part of the Libyan oil sales. Italy and West Germany are the other

Table 2.10 Libya : Balance of Payments 1970 - 1980 (US dollars million)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Merchandise Exports (fob)	2,379	2,714	2,470	3,528	7,803	6,418	8,748	10,405	9,900	15,915	22,579
Oil Sector	2,389	2,709	2,458	3,509	7,796	6,410	8,737	10,393	9,888	15,904	22,561
Other Sectors	8	5	12	19	7	8	11	12	12	11	18
Merchandise Imports (fob)	- 674	- 930	-1,290	-2,011	-3,746	-4,424	-4,277	-4,929	-5,764	-6,160	-8,851
Trade Balance	1,723	1,784	1,180	1,517	4,057	1,994	4,471	5,476	4,136	9,755	13,728

Source : Compiled from International Financial Statistics, various years, (International Monetary Fund, Washington).

Table 2.11 Balance of Payments 1980 ; 1985 (Index numbers 1980 = 100, in millions of Libyan Dinars)

	1980	1985
Merchandise Exports (fob)	6,492.0	3,235.5
Oil Sector	6,054.8	3,234.2
Other Sectors	437.2	1.3
Merchandise Imports (fob)	2,658.5	1,444.8
Trade Balance	3,833.5	1,790.7

Source : The figures were compiled by the author from Records of Secretariat of economy, Tripoli, Libya, summer, 1986 main buyers of Libyan oil. Libya's imports come mainly from Italy and West Germany. Lately, the Eastern European countries, such as Poland and Yugoslavia, have become active trade partners.

2.4.2.10 Agriculture And Oil

The development of Libyan agriculture since independence has been erratic. Initially the agriculture sector was a principal means of livelihood for the majority of Libyans. With oil came the opportunity of an easier life in towns and adjacent areas. The resultant internal migration affected the agriculture sector, and the number of people who worked in the sector fell dramatically. Before the discovery of oil, it was estimated that 80 per cent of the population was working in the agriculture sector. By 1980, it was estimated that only 18.9 per cent of the population was working in agriculture, and the proportion fell in 1985 to 16.8 per cent [El-Sherif A, 1986].

The aim of Libyan development plans concerning the agriculture sector has been to maximise output and to support the income of individual farmers. All development plans have stated that a major objective has been self-sufficiency in food. As a result, the agriculture sector has absorbed about 17.3 per cent of all development expenditures in the last twenty years: from 1963-1986 the gross fixed capital formation in agriculture was LD 4.1 billion. In spite of the money poured into the sector, results in terms of production have been well below the targeted levels. According to the second five-year plan, with the exception of barley, all agricultural products growth rates were far below those targeted for the first five-year plan. The overall value added was 6.2 per cent, compared with about 20 per cent of all development plans' expenditure.

2.4.2.11 Current Developments In Agriculture

Libya is currently engaged in a wide range of schemes to promote the agriculture sector to greater levels of efficiency and production. Perhaps the most impressive projects are in water and in wheat production.

2.4.2.11.1 Water

The development planners of the country have realised that if the country wants to continue its ambitious agricultural development, then it must solve the problem of water shortage. Therefore, they have now started the construction of what is called the "great man-made river", at a cost of around 1 billion Libyan dinars. The project will transfer underground water through pipelines from Tazerbo and Sarir to Sirte, Ajedabya and west of Benghazi.

2.4.2.11.2 Schemes for Wheat Production

Libya's second most ambitious farming venture has been the cultivation of wheat and fodder crops in the deserts of Almaknoussa, Sarir and Kufra. Using water from underground water reservoirs, crops are cultivated on land irrigated by mechanically-powered rotating sprinklers.

The technology used to irrigate these projects is highly advanced, and in the case of Al-Maknoussa, is based on a computer in the USA.

2.4.2.12 Oil and Industry

As stated before, Libya discovered oil in 1959 and started exporting in 1961. Production rose quickly from 6,642 b/d in 1961 to 2.6 million b/d in 1968 and oil revenues rose from 4.097 million Libyan pounds to 6.637 billion Libyan dinars in 1980.

According to the objectives of economic policy, oil production should decrease to a suitable level to finance the development plans. Hence it was estimated that oil revenue should decline to 4.902 billion Libyan dinars [Ben-Saud, 1985]. However, the international market factors may cause oil revenue to be even less than was planned.

In 1980, the Libyan oil reserves were stated by OPEC as being about 25 million barrels. Since then, however, new discoveries have been announced and Libyan planners have estimated that oil reserves may continue for the next 20 years [Yehia H, 1986].

The factors of the limited life of oil and the fluctuation of oil prices have forced the Libyan planners to seek urgently for a non-oil base to the economy and to set a policy to limit oil production to the level required by internal development.

In addition to oil, Libya has huge natural gas reserves; in 1979 these were estimated at the equivalent of some 4 billion barrels of oil.

The first promising industrial sector in the creation of a non-oil economy is investment in petro-chemicals, where the general objectives are to produce levels for the country's domestic development using more of her natural gas and transforming crude oil into a more valuable end product, thus enhancing Libya's revenues.

The biggest four non-oil projects are: the Abu Kammash Chemical Complex, which was opened in 1980; Mersa Brega Petro- Chemical Complex; Ras Lanouf Petro-Chemical Complex and the massive steel mill in Misurata. In addition, the country has several oil refineries.

Apart from these investments in heavy industries, other industries are planned, including a car assembly plant, further development of food processing and the manufacture of electrical goods. Plans were made and implemented several years ago for a range of factories to make such diverse articles as prefabricated construction materials, cables, glass, pharmaceuticals, woollen and synthetic textiles, etc. Most of these factories did not get past the tendering stage, and others were opened, only to be closed a short time after. The second and following development plans, however, have shifted the emphasis from the agriculture sector to the Industrial sector. The capital formation for oil and industry sectors from 1963-1986 was about LD 4.1 billion [see table 2.8]. As a result there are about 415 industrial projects in Libya of which 161 projects are the heavy industry projects and 254 projects are light industry projects (see Table 2.12).

2.5 The Influence of the Socio-Economic Environment Upon accounting In Libya

2.5.1 Social Environment

The social changes as discussed earlier in this chapter have certainly influenced accounting in Libya throughout the years. Since the growth of Islamic influence, Arabic has become the official language and all signs and legal documents in Libya have to be written in Arabic. This has made it very difficult for non-Arabic accountants to practise accounting in Libya, and Libyans must be partners with foreign non-Arab accountants who wish to practise accounting in Libya. However, the colonisation of Libya by the Italians undermined this and the Italian language superseded the Arabic language during the period 1911 to 1945. Hence, many accounting documents, rules and procedures have derived from those originally in Italian. Since

Table 2.12

Finished and Under Construction Industrial Projects for 1970-1986

Industry	Heavy		Light	
	Finished	In Process	Finished	In Process
Food industries	52	8	26	54
Textile industries	16	1	34	27
Wood and paper industries	7	1	3	16
Petro chemical and chemical industries	24	3	13	21
Construction materials industries	23	2	9	19
Metal and engineering industries	18	6	10	22
Totals	140	21	95	159
Grand Total	415			

Source: Secretariat of industry 1987

independence, however, the Arabic language has again become dominant and accounting records, rules and procedures are all in Arabic. This has given the chance for Egyptian books, teachers and accountants to influence accounting in Libya a great deal. Another social change which has influenced accounting in Libya is Islam, and Zakat (wealth tax) and the distribution of inheritance must be carried out in accordance with Islamic teaching. Thus, accountants have had to incorporate such rules in their accounting practices.

The recent social change which has given the Libyans the chance to study accounting abroad (mainly in the UK and USA) as well as the spread of accounting education and training in Libya have also influenced accounting improvements whereby British and American accounting techniques have been adopted in Libya.

Furthermore, the discovery of oil has released new forces which did not previously exist. The willingness of Libyans to become mobile and the entry of women into the labour market have created a new source of accounting manpower. Meanwhile, the introduction by oil companies and other foreign companies of new technological innovations, such as accounting machines and computers, has helped Libyan accountants to improve their practices.

2.5.2 Economic Environmental Influence

The process of economic environmental change has certainly left its mark on the evolution of accounting in Libya. During the Ottoman Khelapha and under Italian colonisation, the Libyan economy was primitive, mainly dependent on primitive agriculture and animal husbandry. Thus, accounting was confined to simple book-keeping in order to compute Zakat, or income tax, during the Italian colonisation. Accordingly, accounting was very weak and based on enterprise accounting rather than government or national accounting.

The rapid growth of the Libyan economy following the discovery of oil has made important demands upon accounting in Libya. Consumption, investment, savings, income, import, export, development planning, expansion of industry, agriculture and other services have all increased as a result of income generated by oil exports, and all of these activities need better accounting (enterprise, government and national). However, Libyans have not been able to provide an improved level of accounting and have had to rely on foreign help to provide accounting services and to train Libyans to provide these by themselves. Accordingly, foreign accountants, accounting firms and teachers have been needed to fill the vacuum. Companies and individual traders were required to keep proper accounting records and to prepare financial statements. The government has begun to prepare administrative as well as development budgets. National income accounts and balance of payments have also been required. Accounting firms have started auditing business companies, and the Auditor General's Office was established to audit government departments and enterprises. Accounting education has started, and students are being sent abroad to learn accounting. All in all, the economic environmental change has led to the development of the accounting discipline in Libya.

2.6 Summary And Conclusion

This chapter has shown that Libya is one of the Third World countries with a small population and a vast area which is mostly desert. A very small area of land is irrigated and many natural factors have to be overcome in order for the country to be developed.

Arabic is the only language, and Islam is the only religion. The country has been subject to a number of foreign powers and independence was granted only as recently as 1952. Economically, the country has been one of the poorest nations on the earth, and therefore the development of the country seemed like a day-dream.

Economic and social development is a very recent phenomenon, due to the very recent discovery of oil. Development planning has been chosen as the country's path to development and there have been a number of successive development plans, the latest plan covering the period 1986 to 1990. The development plans of the country are prepared centrally and the public sector is the sector responsible for implementing such planning. Socialism is currently the only economic system.

In conclusion, the country is still a developing country, and it will stay so for some time. Despite the billions of dinars which have been invested in the country, up until now, the main objective of diversifying the economy has not been achieved. Neither has the acceleration of the growth rate of the economy. In 1985, crude oil exports still formed the majority of Libyan exports (3.234.2 billion Libyan dinars out of 3.235.5 billion Libyan dinars - Table 2.11), while the gross domestic product has fallen from 10.535 billion Libyan dinars in 1980 to 6.473 billion Libyan dinars in 1986 [Zenny, 1987].

It seems that for some time to come, socio-economic development planning is the only way for Libya to emerge from its socio-economic stagnation. Such development, to be successful, has to depend on an effective system of comprehensive and integrated information, an important part of which is accounting information. Such an accounting information system should be oriented towards the information needs of socio-economic development planning of Libya.

CHAPTER THREE

A Historical Review of the Evolution of the Regulatory Environment and its Influence on Accounting in Libya

3.1 Introduction

Accounting, as dealt with in this study, includes enterprise accounting, government accounting and national accounting. This chapter will cover the historical development of accounting in Libya from the early days of the Ottoman Khelapha (State) to the mid-1970's. The Ottoman Khelapha was chosen as the starting point, because Libya was recognised as a State only after the establishment of the Khelapha. On the other hand, the mid 1970's were chosen as the closing point because it was around that period that the change of the economy from a mixed economy to a public sector economy began. Since then, all regulations in respect of accounting have related particularly to public enterprises (state owned and controlled) and to government accounting.

By contrast, regulations during the above-mentioned period (Ottoman Khelapha to the mid-1970's) related mostly to private sector enterprise accounting, and very few of them related to government accounting or national accounting. Accordingly, the discussion of the evolution of the regulatory environment in this chapter will be in the context of private enterprises. This chapter will thus deal with:

1. Enterprise accounting during the Ottoman Khelapha in Libya.
2. Enterprise accounting during Italian colonisation.

3. Enterprise accounting from independence in 1952 to the mid 1970's.

Accounting relating to public enterprises and governmental departments, as well as national accounting, will be discussed separately in subsequent chapters.

The period from 1952 to the mid-1970's witnessed the involvement of foreign enterprises in the Libyan economy and this certainly influenced the evolution of accounting during that period. Hence, this chapter will also include a section on the influence of foreign enterprises upon the evolution of accounting in Libya.

3.2 Enterprise Accounting In Libya During The Ottoman Khelapha

Libya, as mentioned before, was under the rule of the Ottoman Khelapha from 1551 to 1911. During that period, the country was too poor to have any meaningful form of enterprise or accounting as it is recognised nowadays or even as was recognised from the beginning of the twentieth century. The economy was a primitive one and most of the people lived on animal husbandry and small family farms.

Turkey itself, which was ruling Libya, did not have any kind of legal accounting requirement until 1850, when the first commercial code was adopted. This was a literal translation of the French commercial code of 1807 [Gokton, E, 1968, p 72].

However, even after 1850, there was little sign of any commercial or industrial enterprises in Libya. The only commercial activity was that Libya was a commercial route for the rest of Africa. Other economic activities were those relating to the army. Hence one should not expect that the Turkish commercial code had any relevance to Libya.

The fact that no enterprises or industrial or manufacturing activities existed, suggests that no managerial accounting or cost accounting was practised in Libya during the rule of the Ottoman Khelapha. The same applies to governmental accounting, for there were no government departments such as education, health, agriculture, etc. One may thus conclude that the only accounting practice in Libya during the Ottoman Khelapha rule was some primitive financial accounting practice to administrate Zakat collection from Libyans and its transfer to the central government in Istanbul.

Late in the nineteenth century, the Ottoman Khelapha began to lose its central power over the provinces and its military power was weakened. Thus in 1911, Libya was captured by the Italians, and became an Italian colony from 1911 to 1945.

As the people of Libya were mainly Muslims and the Ottoman Khelapha was the last form of the Islamic Khelapha (state), the only law that influenced Libyan economic affairs was the teaching of the Islamic religion.

Accordingly, for Libyan Muslims, all wealth, including land, is owned by God. The human owner is merely seen as an agent trusted with the wealth; and he is accountable for the way he uses it. The reward of property cannot be earned without the owner utilising his resources in a socially beneficial way. Not all individuals are equally endowed with resources. For believers, an uneven distribution of property can be justified only as long as those with the greater property rights are aware of their obligations to the poorer members of society.

There are, however, two major checks on the accumulation of property: a wealth tax (Zakat) and the inheritance laws. Under the Islamic inheritance system, the will of the deceased is enforceable only on one third of his estate. For the remaining two thirds, or even all the estate, if the individual does not exercise his discretionary powers, Islamic law provides for distribution according to a fixed formula. This decrees that all sons and daughters are entitled to a share in their parents' estate, with sons receiving twice as much as daughters. What a daughter inherits remains her own even after she marries, and there is no pooling of funds between husbands and wives. Islam also states that a widower or a widow should inherit one quarter of his or her spouse's estate, in the case of death, the remainder going to the children, unless the grandparents (from their mother in the first case or from the father for the latter) are alive, in which case they inherit one sixth of the estate each [The Holy Qua'ran].

The second major check on accumulation of property is the wealth tax (Zakat). According to Islamic law, a Muslim, as part of his religious obligations, has to contribute two and a half percent of his net worth each year to the Zakat, or social security fund (Ibid). This tax is collected by the state. The Ottoman empire collected these taxes from its different provinces and they were sent to Istanbul. Libya had no other tax system beside the Zakat system.

3.2.1 Zakat:Its Meaning And Objectives

Zakat is one of the five "Pillars of Islam". It means purification and growth. It is purification of the Zakat payer himself, as anyone who gives away part of his wealth generously to others cannot but be purified. Zakat is also the purification of property because it means paying what is due on the property, after which its possession is legal.

What Zakat thus amounts to, is tax due to and paid to people in need, as decreed by the Quran. When Zakat is fitted into the framework of modern objectives of taxation, it is for promoting a degree of equality in income and wealth distribution as well as consumption.

Zakat also means growth, for it imposes tax on wealth held for a full year without investing it in one way or another, thereby discouraging hoarding. Idle wealth does not contribute to growth of the economy, and it is only when wealth is put to productive investment that new jobs are created and there are increases in production and the economy.

According to the teaching of the Quran, Zakat is divided into two types: Zakat on wealth and Zakat on income:

(a) Zakat On Wealth

This is levied against wealth, whether monetary or in kind:

1. Zakat on money, gold and silver, etc is two and a half percent after deduction of all debts. The wealth must have been held for a full year;
2. Zakat on kind, which includes holdings such as livestock, is fixed at two and a half percent.

(b) Zakat On Income

This includes Zakat on produce and trade:

1. The levy is 10 percent of agricultural production such as crops and fruit produced using irrigation (from rain). It is assessed on gross agricultural produce and can be paid in cash or in kind. However, if land is irrigated by machine or labour, the Zakat is five percent. The difference between the two rates is to meet the expenses of operation.
2. Trade Zakat can be classified into two groups: first, Zakat on income from using assets to make goods to be

sold and to generate revenue, which is at two and a half percent of the realised income, according to the accounting definition of income, and secondly, Zakat on income, from buying assets to resell them for the purpose of generating income. This is also set at two and a half percent of the said income.

Zakat is a proportionate rather than a progressive tax, and as its rate is modest, Muslims are encouraged to give aims in addition to their Zakat payments.

3.3 <u>Enterprise Accounting During The Italian Colonisation</u>

On 3rd October 1911, the Italians took over the occupation of Libya from Turkey. They colonised Libya from 1911 to 1945, but Italian settlers stayed in Libya until the 1970's. During the period of occupation, Italians established businesses in Libya, which ranged from farming to light manufacturing and industry. The Italian government was also involved in economic activities. It was estimated that during the period 1911 to 1945, the Italian government spent about fifty million Libyan pounds on public works, utilities and agricultural development [Farley, 1971, p 26], though this spending was related to the Italian settlements only. During this period, Libya witnessed the start of the evolution of accounting at some meaningful level.

In 1932, Libya was subject for the first time to the Italian tax law. Also, Italian enterprises had brought with them Italian accountants. However, there is no evidence that Libyans practiced accounting during that period, as the Italians kept their accounting practices for themselves.

Nevertheless, the Italian accounting profession and the Italian tax law clearly influenced the evolution of enterprise accounting in Libya. Many Italians worked with government departments and private companies as accountants long after independence in 1951. Furthermore, the Italian tax law of 1923 stayed in effect until 1968, when the first Libyan tax law was enacted. The first established bank in Libya was an Italian Bank, the Bank of Roma, which was opened in Libya to help Italian settlers to finance their businesses.

During the period of Italian occupation, however, and long after, the Libyan economy was offered discouragingly little with which to work. Per capital income was below 50 where 80 percent of the population was engaged in primitive farming and animal husbandry [Higgins,B .1959, p 26]. The supply of monetary capital was restricted by the extreme poverty of the people. Furthermore, Islam takes an old-fashioned form in Libya and still observes the ban on usury which, in Libya, is often interpreted to mean any kind of interest. All in all, then, enterprises in Libya have remained poor and rare.

In conclusion, therefore, the most dominant factor which may have influenced accounting evolution was the

Italian tax law of 1923. There were no big enterprises or manufacturing companies to enhance the development of managerial accounting or even financial accounting; and the government's activities were not extensive to enhance government accounting, as most government activities were dealt with in Italy.

Even the 1923 tax law was not related to the Libyan environment as it was a complete transfer of the Italian tax law as applied in Italy. The fact that the 1923 tax law was not designed specifically for Libya was stated in one of the Bank of Libya Bulletins:

> " ... The income tax system was first introduced in Libya by the Italian government. This was in 1923. The regulations of this system covered only Tripolitania and Cyrenaica; Fessan did not know of the income tax law then. These income tax regulations were not designed specifically for Libya; they were the same regulations which were in effect in Italy then" [Bank of Libya, 1961, p 10].

Two of the three categories of income (A and B - See Table 3.1) dealt with income from investment interest on financial activities and commercial or industrial activities which do not exist in Libya. They also dealt with shares, bonds and insurance policies, whereas no stock exchange or insurance companies existed. Indeed, very few people knew any of the law in detail, and even those few were trained in Italy [Bait-El-mal, M. A,1982, p 90]. However,the law was in effect until 1968 and was used to levy taxes on oil companies and other companies, even though it did not have

Table 3.1

Tax Law of 1923 (tax rates)

Type	Description	Tax Rate
A	Income from loans and bank deposits, or capital investments excluding investment in commercial and industrial projects	15%
B (1)	Income from interest, profits, etc. on shares, bonds of commercial and industrial companies, and insurance policies	10%
B (2)	Income from commercial and industrial business	10%
B (3)	Income from agriculture which is not subject to agricultural tax	10%
C	Income from wages and salaries:	
C (1)	Income from professions	10%
C (2a)	Income from salaries in public and private companies	8%
C (2b)	Income from wages in public sector agencies	4%
D (1)	Income from salaries in governmental agencies	8%
D (2)	Income from wages in non-governmental agencies	4%

Source: The above table was compiled by the author from the Italian Tax Law of 1923, pp.7 - 49, lodged with tax department in Sebha, Libya.

any provision for corporate tax.

All tax payers, whether individuals or companies, were required to submit to the tax department an annual report of their income, prepared according to the 1923 tax law. Even after independence, Libyans and foreigners still prepared their tax forms according to the 1923 tax law [Ibid, p. 96].

Evidence of book-keeping, double entry and some financial statements (mainly profit and loss accounts) has been found, and the tax department at Tripoli is still holding some tax reports dating back to the 1930's and 1940's [Nyhoom,A. 1976 p. 77].

As the most influential factor in the evolution of accounting in Libya during the Italian occupation was the 1923 tax law, financial accounting was the only branch of accounting that existed, and there is no evidence of any auditing practices or professional activities, possibly because the Italians themselves did not have an organised accounting profession. This lack of an auditing and accounting profession may be explained by the shape of industrial development in Italy. The growth of Italian industry was not accompanied by extensive use of certified financial statements or firms' profit potential. Italian banks neither required certification of financial statements nor considered the earning potential of firms as a basis for granting loans, which were made solely on the basis of collateral. This same policy was followed by the Bank of Roma in granting loans for Italian and Libyan businesses.

Furthermore no law required Italian firms to submit an audited statement as a condition of listing on the Italian stock exchange. Libya did not (and still does not) have a stock exchange.

Finally, the fact that the Italian commercial code required the establishment of a board of statuary auditors, without defining the audit (Ibid), may have confined the audit to counting the cash and making social visits with the board of directors. In both countries (Italy and Libya) the family-held company was the dominant form, so that an audit was of little interest.

3.4 The Evolution Of Enterprise Accounting In Libya After Independence

After the end of World War II, Libya came under the joint control of Britain and France, which continued until independence on 24th December 1951. During this short transitional period, most of the time was given over to preparing the country for independence and to repair the severe damage of the war. Hence, there was no major development of accounting during this period. However, since 1952, Libya has experienced political and economic changes which might have been expected to influence accounting.

On the political front, the country became a federal kingdom, divided into three provinces; Tripolitania, Cyranaica and Fezzan, from 1952 to 1963. In 1964, the country became a unitary kingdom, divided into ten administrative areas (Mahaphazat), with a central government run by a council of ministers. On 1st September 1969, a military revolution was staged and a Revolutionary Command Council (RCC) took control and proclaimed the Libyan Arab Republic (LAR). In 1977, the Peoples' Authority was proclaimed and the General Peoples Congress (GPC) was established to replace the RCC.

On the economic front, Libya was one of the poorest nations in the world before the discovery of oil in 1959. During this period, its economy was a deficit economy, balanced only by American, British, United Nations and other nations' economic aid. The second period lasted from 1960 to 1969 and was characterised by the transformation of the country from stagnation to rapid growth, with the discovery of oil. Surprisingly, within a few years, Libya moved from a capital deficit nation to a capital surplus nation, from an aid recipient to an aid granter.

During this period, the economy was mainly a capitalist economy, in which the government took on the responsibility of free education and health care, building roads and houses and running all public utility services, while the private sector was left with a free hand to run its own business. It was also a period when foreign companies and businesses flooded into the country, especially American and British companies and foreign banks.

The third period (1969 until now) is associated with the present state, and has seen the end of government "laissez-faire" in economic activities. It has also witnessed the establishment of public sector enterprises, the rapid disappearance of the private sector, the rapid growth of the economy, the creation of a wide range of public enterprises and finally the take-over of the private sector by the public sector.

It is against this introductory background that we should look at the evolution of enterprise accounting in Libya during this period.

3.4.1 Libyan Commercial Code (LCC)

3.4.1.1 Enterprise Organisation In Libya

Several types of business organisation have existed in Libya. Those organisations as specified by the LCC and the companies act and according to the commercial register were:

1. General partnership
2. Simple limited partnership
3. Limited partnership with shares
4. Joint stock company
5. Limited company by shares
6. Limited liability company.

In 1963, there were only 152 registered companies and 492 individual merchants [Ministry of the Economy, 1970, pp.1-740]. In 1980 the number of registered companies were 3,782 and registered merchants were 16,378, according to the commercial register [Ibid, 1980, pp. 1-1185].

One of the main dogmas of the People's Authority is that the wealth of the country should be under the control of the people. This principle was translated operationally into the take-over of all private sector businesses by the public sector. All companies and other private businesses were superseded by 60 large establishments, owned and fully controlled by the state.

Besides these, there are large multinational corporations doing business in Libya. As early as the 1950's, American and British companies were involved in implementing aid programmes provided by their respective governments. Nowadays, there is a wide range of companies: American, British, French, Japanese, Italian, German, Greek, East European, South and North Korean, Turkish, etc, and in 1985 there were 1.007 foreign corporations operating in Libya, representing fifty-five different nationalities. Of these, 526 were registered and 481 did not appear on the commercial register [Ibid,1986, pp.1-368].

The LCC and Law no 65 of 1970 for commercial companies have specified which foreign companies may be permitted to set up branches or operate in Libya for a renewable period of five years. These companies must be engaged in the following activities:

(a) consulting engineering
(b) technical activities supporting oil and gas producing companies
(c) other sectors that may be determined by the decisions of the General People's Committee (formerly the council of Ministers).

3.4.1.1.1 <u>General Partnership</u>

This type of business is similar to its counterpart in other countries in that it is operated jointly by partners who are jointly liable for their business debts, according to articles 445 and 451 of the LCC. The name of at least one partner must be included in the firm's name, and when only one partner's name is included, the name should disclose the relationship between the partners (article 446).

The partnership agreement must contain:

1. The names and addresses of all partners;
2. The firm's name;
3. The names of the managers;
4. The firm's headquarters and its branches, if any;
5. The purpose of the firm;
6. The total capital and the share of each partner;
7. The type of service offered by each partner;
8. The rules of profit distribution;

9. The proposed duration of the business.

Under article 448 of the commercial code, the partners may be either (1) capitalists, contributing capital, or (2) industrialists, contributing services.

3.4.1.1.2 <u>Simple Limited Partnership</u>

This type of business possesses characteristics of both the general partnership and the limited liability partnership. According to article 466 of the LCC, a company may be formed by one or more active partners who have unlimited liability for business debts and by one of more sleeping partners whose obligations are limited to their capital contributions. The article also prevents the capital from being divided into shares.

The name of at least one active partner must appear in the company's name and if any of the sleeping partners agree to include their names in the title of the company, they shall be liable for the company's debts, jointly with the active partners (article 467, LCC).

3.4.1.1.3 <u>Limited Partnership With Shares</u>

These are organised in accordance with the same requirements indicated in the LCC for general partnerships and law no 65 of 1970 for Commercial Companies, Article 3, paragraphs 1, 2, 3 (see additional conditions for corporations by the same law, 4,5, 7 and 13).

3.4.1.1.4 Corporations

These correspond very closely to American and British corporations and are formed by shareholders, whose liability is limited to the full payment of their shares (article 478}. The name of the corporation must always indicate the type of business in which it is engaged and must always be followed by a statement that it is a corporation.

No corporation may be formed without a formal contract. The contract of incorporation must contain:

1. The name and address of the corporation and its branches, if any;
2. The purpose of the corporation;
3. The names and addresses of the original sub-scribers, their nationalities and the number of shares held;
4. The amount of the subscribed capital and the paid-up capital;
5. The actual value of the shares and their number;
6. The value and rights of any subscription paid in any form other than money and the basis for valuation;
7. The profit distribution rules;
8. The founders' share in profit, if any.
9. The number and names of the managers, their authority and who has the right of representing the corporation;
10. The number and names of the management board;
11. The duration of the corporation.

For any corporation, for any type of joint stock to be valid, the following conditions must be met:

1. The capital of the company shall be fully subscribed.
2. At least three-tenths of the capital must be paid in cash to the managers soon after the registration of the company in the commercial register, and if the company is not registered within one year of depositing capital, amounts should be returned to subscribers [Seidler L,1967, pp.43-44].

In addition to these conditions, the commercial companies law No. 65 of 1970 has added the following conditions:

1. The founders shall be fully qualified and include not less than five Libyans.
2. The capital of the company shall be sufficient to realise its objectives.
3. Compatibility of purpose.
4. The paid-up capital at the time of incorporation of the company shall be not less than 30,000 Libyan pounds.
5. The provisions of articles 4, 5 and 7 shall be observed at the time of incorporation.

Articles 4, 5 and 7 state that: (1) the percentage of capital of joint stock companies owned by Libyans must not be less than 51 percent; (2) on the formation of the company the capital may include shares paid in kind when increasing the capital, its amount must be fully paid up; and (3) the shares of the company shall be registered and existing companies shall modify their practice in conformity with this within one year from the date that the law came into force. The shares of any person shall not exceed 10 percent of the capital; also, his shares taken with those of relatives shall not exceed 30 percent of the capital

In addition to the above forms of business organisation, the LCC and the Law of Commercial Companies provide for limited liability companies According to these laws, the number of partners shall not exceed 25 and must not be less than 3 where the capital is not less than 130,000 Libyan pounds and the shares of Libyans must not be less than 51 percent. Capital shall be divided into equal shares with a value of not less than 120 Libyan pounds each.

3.4.1.2 Influence Of Commercial Code upon Accounting

3.4.1.2.1 Business Records Required By Law

Articles 58 to 64 of the LCC concern merchants' accounting records, which are prescribed by law as follows:

1. The journal, which should include all transactions related in any way to the merchant's day to day business activities and should also include a monthly total of the amounts spent on personal or family expenses.
2. The inventory and balance sheet book, which must include a copy of the inventory statement, balance sheet and profit and loss account at least once a year. Article 59 states that every merchant must maintain in special files copies of letters and telegrams received or sent in relation

to his business activities, in addition to records mentioned in paragraphs 1 and 2.

All of these books and files must be kept free from blank spaces, marginal notes, erasures and insertions between the lines [article 60].

The law also requires that the records must be bound, have numbered pages, and, before being used, must be presented to be signed by an official from the court. This involves stamping all pages of the books regarding its content [article 60]. All books must be kept for five years.

The law has given these records the power to be used as evidence in court as long as they have been kept according to the conditions stated by law [article 62].

In addition to maintaining these books and files, corporations must keep the following records according to the LCC:

1. Register of shareholders, which should contain the name and family name of the shareholders, the number of shares for each shareholder and all charges to which the shares may be subject.
2. Register of bonds, which should contain issued bonds, liquidation bonds, the name and the family name of holders and all charges to which the bonds may be subject.
3. Register of minutes of general meetings, which should contain the details of the shareholders' general meetings

and their resolutions.

4. Register of the minutes of the board of directors' meetings and their resolutions.

5. Register of the minutes of the committee of controllers and their resolutions.

6. Register of the minutes of executive committee meetings (if such exists).

7. Register of the minutes of loan bonds board meetings and its resolutions, if the company has issued loan bonds [Encyclopaedia of Modern Libyan's Laws, 1972 .articles 57o,643]

In addition to the above records, the LCC states that it is the responsibility of the board of directors to keep registers numbers 1, 2, 3 and 4, while the Controllers' Committee* shall be responsible for keeping register NO. 5 -

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*Controllers Committee consists of three or five working or non-working members (LCC article 575). Its responsibility is to observe the Company's management and to ensure that such management is carrying out its activities in accordance with the law, that the accounting system is kept in accordance with accounting rules and procedures as specified by law, that the balance sheet and profit and loss account agree with the results enclosed in the Company's records.

register NO.6 Register NO.7 shall be the responsibility of the loan boards.

According to both laws, all of these registers must have serial numbers and should be approved annually.

Neither the LCC nor the tax laws define the methods of recording in these registers or books.

3.4.1.2.2 Financial Statements

Both laws (LCC and the tax laws) require businesses to prepare a balance sheet and a profit and loss account at least once a year. Few small businesses, however, meet these requirements because of the lack of adequate staff to implement the requirements of the laws.

Article 572 of the LCC and the tax laws of 1923, 1968 and 1973 state that it is the responsibility of the managers to prepare the balance sheet and profit and loss account at least once a year. The balance sheet should represent the financial position of the business on a specific date, while the profit and loss account should state the income during the financial period.

3.4.1.2.2.1 Balance Sheet

The second paragraph of article 572 also requires the managers to attach to the balance sheet an annual report explaining their business operations.

The LCC has required that the balance sheet should be prepared with two sides, ie in an account form. One side should include assets and other, liabilities and capital, all stated at historical cost. On the assets side, the balance sheet should include:

1. Unpaid amount due from shareholders.
2. Real estate.
3. Fixed assets and plant.
4. Industrial patent and licences.
5. Concessions, recorded trade marks and goodwill.
6. Raw materials and finished goods.
7. Cash and securities in hand.
8. Fixed profit financial bonds.
9. Partnership with disclosure of any re-purchases by the company of its shares.
10. Accounts receivable.
11. Any bank accounts.
12. Any debt due from any related companies.
13. Other debts due from others.

On the liabilities and capital side, the LCC requires the following items to be stated:

1. Normal value of capital with disclosure of ordinary shares separate from other types of shares.
2. Legal reserve balances.
3. Reserve specified in the company contract and

discretionary reserves.

4. Amounts of depreciation, renewal and guarantees against assets.

5. Amounts of pension funds.

6. Debts restricted by guarantees in kind.

7. Accounts payable.

8. Company's debts to banks and other suppliers.

9. Debts to related companies.

10. Outstanding bonds.

11. Other debts due by the company.

The LCC also requires certain items to be placed on both sides of the balance sheet, such as guarantees offered by managers and company employees.

The law also states that no set-off should take place between balance sheet items.

3.4.1.2.2.2 Valuation Rules

The LCC requires businesses to follow certain rules when evaluating balance sheet items:

1. Real estate and fixed assets should not be valued higher than their cost and they should be reduced by the depreciation provision stated under the liabilities section. The LCC specifies neither the depreciation method nor the annual depreciation rate. However, the tax law NO.64 of 1973 does define these as they should be shown in the profit and loss account. 2. Raw materials and goods shall be valued

at cost or market price, whichever is lower.

3. Industrial patents, concessions and recorded trade marks must not be valued higher than their purchase price or their cost, which shall be reduced by the percentage of the elapsed time.

4. Shares and securities with fixed revenue value should be valued by managers according to stock market conditions and they should inform the board of directors of the method of valuation and the board of directors should mention these rules in their report.

5. Partnerships which take a form other than shares must not be valued higher than their value at the time of the last balance sheet.

6. Receivable accounts should be valued at their realisable value.

7. Bonds premiums may be recorded as special items on the balance sheet, and in this case, premiums must be depreciation methods.

If, for any reason, the company cannot apply the above rules, managers and the board of directors should explain the reasons in their annual report to the general assembly.

3.4.1.2.2.3 <u>Legal Reserve</u>

Article 577 of the LCC stipulates that one-twentieth of the annual profits before tax must be set aside as a "legal reserve" until it reaches one fifth of the paid-in capital. While the LCC requires corporations to establish legal reserves, tax laws do not recognize them as deductible from revenues for the purpose of taxes. Libyan corporations may not distribute any premium unless legal reserves have reached the required level.

3.4.1.2.2.4 Discretionary Reserves

The legal reserve is sometimes referred to as the general reserve. In addition to this, corporations may include in their characters provisions stipulating setting aside more than one-twentieth of the annual net profits and these reserves may exceed one-fifth of the capital. This reserve is called a "discretionary reserve", and these funds may be used for any purpose specifically stated in the charter of the corporation.

The use of this provision by the LCC differs widely between corporations. In many instances these reserves reached such high amounts that they outweigh the paid-in capitals of corporations.

3.4.1.2.2.5 Capital Stock

The most important feature of the provisions in the LCC concerning capital stock is that Libyan corporations must have a definite capital at the time of formation . However, capital may be increased if the original capital has been paid in full. It can also be increased if reserves balances reach a level higher than that required by law. In such cases new shares must be issued free of charge to the old shareholders, according to their share of the corporation's capital. Capital may also be increased by raising the face value of the shares.

The LCC has restricted any decrease of capital to two cases: (1) in the case of capital being more than is needed, and (2) in the case of persistent losses where capital has fallen by more than one-third.

In the former case capital may be decreased by shareholders being exempt from paying any unpaid instalments of shares or by repayment of part of the capital to shareholders within the limitations of the law. Such a decrease shall be valid only after three months of recording it in the commercial register and by the consent of all creditors of the corporation.

In the latter case managers should invite shareholders to a general meeting to approve the decision. If, however, losses still represent one-third or more of the paid-in capital for the second year, managers should ask the authorised court to issue an order for the required decrease to be made. The court's decision and that of the general assembly should be recorded in the commercial register by the managers .

In accordance with the provisions of article 486 of the LCC and article 5 of law NO.65 of 1970 of commercial companies, the issue of the shares for value in kind in companies established by public subscriptions shall not be final until accepted by a numerical majority of subscribers who hold at least two-thirds of the cash value of the shares, with the exception of shares owned by those subscribing in kind. The holders of the latter shares are not entitled to vote in respect of such an issue even if they hold shares in cash.

Either registered or bearer shares can be issued, but all shares must be registered until they are fully paid . However, law NO.65 of 1970 restricts the issue of shares to registered shares and requires existing companies at the time of enacting the said law to modify their practice in conformity with this within one year from the date of the law coming into force .

An interesting practice in Libya is that corporations are prohibited from buying their own shares without the consent of the general assembly and the price should be paid from net profit and paid in full .

3.4.2 Income Tax Laws And The Evolution Of Accounting In Libya

3.4.2.1 Introduction

When income tax was first introduced in 1923, accounting was at its starting point in Libya. That put a heavier burden on tax laws and provisions in terms of devising forms and designing guidelines to help tax payers (especially small ones, who have represented the vast majority of tax payers in Libya until very recently) in book keeping and preparation of tax returns. Later, in the 1960s - when Libyan economic conditions improved rapidly by the discovery of oil and by the introduction of big foreign companies into the country - the accounting profession grew and more reliance was placed on available accounting skills to design and maintain proper accounting records, which catered for taxpayers individual needs, as a necessary step towards compliance with the tax laws. However, the maintenance of accounting records is only prevalent in big corporations in Libya.

The various income tax laws were an attempt to encourage taxpayers to keep proper accounting records and at the same time to promote the tax services offered by accountants. It is a common rule in Libya that tax returns are considered correct when a chartered accountant certifies the correctness of the accounting records, from which returns are prepared.

Many accounting writers have expressed their concern over the fact that tax laws may overide accounting principles and thus distort financial reporting. Such distortion comes about where tax provisions utilize certain techniques to determine taxable income which are different from the accounting concept of income. It is common in Libya that some companies prepare two different sets of financial statements: one for the purpose of tax and another for the company's own purposes.

The argument against such distorted financial reporting may have a strong appeal in developed countries, but in developing countries (of which Libya is still one), the introduction of income tax may be considered as a blessing rather than a distortion of income reported by accountants.

Lee J. Seidler once stated:

> " That the tax requirements will 'distort' reported income assumes then that income would be determined on some fair basis in the absence of taxation requirements. But for under-developed countries such an assumption, i.e. that the concept of income already exists, may not be valid. If there is no widespread concept of income, the introduction of taxation requirements may be an incentive to produce one" [Seidler L J. 1967, pp 43, 44].

All in all, then, income tax laws have played a vital role in the evolution of accounting in Libya, and have been one of the most influential factors in shaping the accounting profession during the early stages. Accordingly, it is the opinion of the writer that a general discussion of all income tax laws is necessary at this point of the study.

3.4.2.2 Income Tax Laws

The Libyan tax laws may be categorized historically into: 1) Income tax law before World War II; 2) Income tax law from the end of the war to 1968; 3) Income tax law NO.21 of 1968; and 4) Income tax law NO64.of 1973.

3.4.2.2.1 Income Tax Law Before World War II (Italian Tax Law of 1923)

This law was discussed earlier in this chapter in relation to the evolution of accounting in Libya during the Italian occupation, but some further points may be relevant at this stage.

The law of 1923 stated nine different sources of taxable income (see Table3.1)with different tax rates.

Under this law, the tax year is 12 months commencing from the first of January of each year. All persons and companies who fall under the provisions of this law are required to submit a temporary tax declaration showing their expected income for the coming year. However, registered companies, on condition that they submit their balance sheet, profit and loss account and their other accounts at the end of the year, and those individuals whose salaries and wages are their only source of income are exempted from submitting such tax declarations. The Italian government appointed special agents to collect tax revenues from tax payers in return for 4.85 percent from the gross collected taxes, but the collection of taxes on salaries and wages was the responsibility of employers.

The law allowed tax payers to pay their assessed tax in a maximum of six instalments. As a control device against any tax evasion, the Italian government appointed a number of tax collectors to visit tax payers in person to remind them to pay taxes. Another device applied by the Italian government was that no commercial licence could be renewed unless the licensee proved that he had paid all his tax liabilities.

Some of the important features included in this law were:

a) Different tax rates for different sources of income;
b) Very low rates for new industries for the first ten years (1.5 percent); then 10 percent starting from the eleventh year. This was to encourage Italians to settle in Libya;
c) Tax refund for those with low income from salaries and wages;
d) Fixed tax rates for all incomes, no matter how large or small;

3.4.2.2.2 Income Tax For The Period From The End Of The War To 1968

After the end of World War II Libya was under the joint supervision of British and French administrations. The British administration suspended the Italian tax law of 1923 in Cyrenaica because of the destruction caused by the war in 1943, but the law continued to be applied in Tripolitania.

In 1952 after independence, the new Libyan government asked for technical help from the UN to improve its economy.

Amongst other UN recommendations was the continuation of the 1923 law. Following the UN Mission, the Libyan government issued a new tax law for Cyrenaica and Fezzan (in 1959), which had the same provisions as those of the 1923 tax law.

Again, the tax year was twelve months commencing on the first of January of each year, and the government sent tax forms at the beginning of each year to every tax payer who earned income from trade, industry or by profession. These forms included detailed questions about the previous year's net income and the estimated net incomes for the present year. Big companies which were required to keep formal accounting records paid their taxes according to their approved financial statements. The law allowed companies to pay their taxes either at once or in four instalments at the beginning of March, June, September and December of each year. All employees who were of foreign nationality or who worked with foreign embassies were exempt from paying taxes.

All revenues from trade or industry were subject to income tax, but some expenses were defined as deductible from those revenues for the purpose of income tax. These expenses were:

a) Bad debts;
b) Rent of buildings used for the purpose of business;
c) Depreciation on fixed assets, subject to approval by the tax authority.

On the other hand, the law listed certain expenses which were not deductible from revenues for the purpose of income tax. These expenses were:

a) All non-business related expenses;
b) Owners' salaries, interest on capital or withdrawals;
c) Any family or personal expenses;
d) Any amount paid for the improvement of buildings;
e) Any amount paid for life insurance payments by the owner or his family;
f) Any non-business related losses;
g) Any losses which may be compensated by insurance companies;
h) Any depreciation expenses in excess of 10 percent of the cost of these assets.

As a concession to persons with a low income, the law exempted people whose annual income was less than eighty pounds (or which became less as a result of complying with this law) from income tax. However, following the discovery of oil, the government raised the exempted income to 250 Libyan pounds for income from trade or industry or by profession or from real estate. The exempted income from salaries and wages was 360 Libyan pounds. The law also made income from salaries or wages subject to 4 percent tax if it was less than 720 Libyan pounds, and 8 percent if it was in excess of 720 Libyan pounds. These two changes were made in the year 1964.

3.4.2.2.3 Tax Law No 21 Of 1968

During the period between 1952 and 1968 different tax laws were experienced in Tripolitania, Cyrenaica, and Fezzan and in many cases tax payers found themselves subject to different tax treatment, depending on which part of the country they were in. Different tax rates for the same source of income and different tax treatments for the same type of revenue or expenses were a common practice, even after the change in constitution in 1963 when Libya became one unified state. Hence, the abolition of these unco-ordinated tax laws and the establishment of one unified code of taxation for the whole of Libya became a necessity in order to implement social and economic justice.

The first unified Libyan tax law was enacted on 14 April 1968 and came into force on 1 January 1969. The law of 1968 was divided into six main parts:

a) General provisions;
b) Specific taxes;
c) General tax on income;
d) Tax on corporations
e) Penalties;
f) Final provisions.

a) General Provisions

All incomes generated inside Libya were subject to the provisions of this law, while incomes generated outside

Libya were subject to special treatment.

Under article NO.2 of the law, some types of income were exempt from tax, depending on their source. For example, non-profit making organisations, charity and religious organisations were exempt from income tax, as were students grants and educational organisations.

Article NO. 3 of the law stated that in those cases where tax payers had to submit their tax declarations, taxes should be assessed according to those declarations, except where tax payers failed to submit those declarations or where the tax authorities were not satisfied that the information in those declarations was true, when the tax authorities had the right to assess and levy taxes in a way that they believed to be fair.

b) <u>Specific Taxes</u>

Different types of income were subjected to different tax rates, according to their source. The law categorized income as follows:

1. Income from real estate;
2. Income from agriculture;
3. Income from trade and industry;
4. Income from professions;
5. Income from salaries and wages;
6. Foreign income for residents of Libya.

Exemption of 480 Libyan pounds for bachelors and 720

Libyan pounds for married couples was granted on income from 1, 2, 3, 4 and 5 above. The following is a general review of these specific taxes:

1. Tax On Income From Real Estate.

All income from investment in established real-estate was subject to the provision of the law. Tax payers were allowed to deduct 15 percent of their income from the following real estate from tax:

a) The tax payer's own residence, on condition that it did not exceed one house;
b) The place of the tax payer's business;
c) Real estate used for agriculture or for the tax payer's employees who worked in return for salaries or wages.

The tax payer was required to submit his tax declaration annually on the basis of specific forms supplied by the tax department.

The rate of tax on real estate was 15 percent.

2. Tax On Income From Agriculture

The law required the establishment of local special committees to asses and levy tax on agricultural income. Tax payers would be informed by the tax department concerning their tax liabilities. The tax on agricultural income was postponed for ten years from 1 January of 1969. The rate of tax on agricultural income was set at 5 percent.

3. Tax On Income From Trade And Industry

This was imposed on all incomes from trade, industry and business, and all expenses paid to generate this income could be deducted from total income to determine the taxable income. The law also permitted any business losses to be carried forward for five years. Specifically the law named the following expenses as deductible from income:

a) Depreciation expenses for fixed assets used in the business;
b) Bad debts;
c) Employers' contributions to employees' social security;
d) Taxes and fees paid for the purposes of the business;
e) Donations to charities, being not more than 2 percent of net income.

On the other hand, the law also listed some of the expenses which were not deductible from income:

a) Expenses for the improvement of assets;
b) Personal or family expenses;
c) Salaries or compensation for the tax payer, his wife or his children;
d) Amounts kept as reserves.

The tax rate on income from trade and industry was 13 percent.

4. <u>Tax On Income For Profession</u>

This tax was imposed on all incomes from independent professions. For any business to be an independent profession it had to satisfy the following conditions:

a) The profession had to be on a permanent basis rather than on a temporary basis;

b) The tax payer had to be self-employed rather than working for someone else, and he was exempt from this tax for the first two years from starting his business.

The tax rate of this type of income was 10 percent of the net income after deducting all related business expenses.

5.Tax on income from salaries and wages:

Article 69 made all incomes from employment subject to tax. However, article 70 of this law exempted the following items:

a) Any amount paid by an employee according to the social security law;

b) Any amount received by the employee to pay expenses related to his job;

c) Any amount paid by the employee from his salary or wage as a penalty, e.g as for absence or damages caused by the employee.

The tax rate on such income was 8 percent

6. Tax on foreign income for residents of Libya:

Under the law no 21 of 1968, all income generated outside Libya by persons who were residents of Libya was made subject to tax. The law defined a residently of Libya as being any person who had been in the country for six months or more in any given tax year.

The rate of the tax was 10 percent.

c) <u>General tax on income</u>

The tax authority introduced this type of tax for the first time in the 1968 tax law. Its purpose was to be an additional tax imposed on gross income regardless of its source.

According to article no 85 of the law, the tax was to be progressive, ranging from 5 to 15 percent as follows:

(In libyan pounds)

First 4,000	exempt
Next 2,000	5 percent
Next 2,000	7.5 percent
Next 2,000	10 percent
Next 2,000	12 percent

Any amount in excess of 12,000 was subject to 15 percent tax.

This tax was only imposed on private individuals.

d) <u>Tax on corporations' income</u>

The tax authority introduced this type of tax on for the first time in 1968. Companies were not subject to tax under previous tax laws; instead it was individuals who had to pay taxes on their income from shares and bonds. Perhaps the reasons behind this were as follows:

1. Most companies were owned by Italians or other foreigners or were branches of foreign companies; accordingly the absence of this tax or the payment of a low rate of tax served their purposes best;
2. The lack of tax knowledge on the part of the Libyan tax authorities;
3. The discovery of oil which made the Libyan authorities think that they had no need of -additional revenues besides oil revenues.

Under article 93 of law NO.21 of 1968, the net income which was made subject to tax was the income which resulted from companies' operations inside Libya after deducting all expenses related to generating this income. Article 94 defined the income of a branch of a foreign company as being that part of the companies' gross income which was generated by operations inside Libya. Knowing that foreign companies had ability and skills in tax evasion, the law prohibited foreign companies from deducting any salaries or compensation of the board of directors (article 98) from the said income. Yet in 1985 it was estimated that a sample of twenty-seven foreign companies succeeded in avoiding paying tax of L.D 5,664,306. [Al-Zahef Al- Akhadet Newspaper, 19 August, 1985, P.8]

The tax rates imposed on companies were progressive and ranged from 15 to 25 percent as follows:

(In libyan pounds)

First 1,000	15 percent
Next 4,000	18 percent
Next L.£5,000	20 percent

Any amount in excess of 10,000 was subject to 25 percent tax.

e) <u>Penalties</u>

Penalties ranged from 5 to 500 Libyan pounds and/or from 3 months' to 12 months' imprisonment.

f) <u>Final provisions</u>

This part of the law included provisions to achieve the following purposes:

a) To enable the tax department to execute its job according to the law;
b) To simplify the procedures of tax assessment;
c) To control any cases of tax evasion.

To achieve more control, articles 112 and 114 granted tax officers the right to examine all records and documents which they believed to be essential in order to implement the law. Accordingly, article 112 required all governmental agencies and public organisations to offer tax officers all the co-operation they asked for. In addition, the article required all public notaries and people who specialized in certifying documents to notify the tax department immediately of any transaction or document which might include taxable income.

Finally, then, one can conclude that law NO.21 of 1968 was notable for the following features:

1. It covered all sources of income;
2. It achieved some social and economic goals by applying progressive taxes for the first time;
3. It tried to achieve various economic goals by categorizing income according to its source;
4. It exempted dividends of companies to its shareholders from the general tax income.*

3.4.2.2.4. Tax Law No. 64 of 1973

Because the new law is not much different from the old law, only the main features and the changes will be presented here. These may be summarised as follows:

1. The law includes six parts and 130 articles divided as follows:

   Part 1: consists of 34 articles concerned with general provisions:

   Part 2: consists of 51 articles concerned with specific taxes;

   Part 3: consists of 7 articles concerned with

* This section is entirely based on law No. 21 of 1968.

general tax on income;

Part 4: consists of 12 articles concerned with tax on companies;

Part 5: consists of 10 articles concerned with penalties;

Part 6 : consists of 16 articles concerned with final provisions.

2. Three more articles have been added concerning tax on interest from bank deposits and savings. The tax is 15 percent.
3. Article 83 has been adjusted to include dividends of companies to the partners and shareholders to be subject to such tax according to law NO. 21 of 1973.
4. Article 39 has made insurance expenses tax deductible. These include:

   a) Life insurance instalments paid by the tax payer for the benefit of his wife or his children, not exceeding 10 percent of taxable net income or L.D.25, whichever is lower.

   b) Insurance instalments paid against general risks, such as fire risk, theft risk and the like, not exceeding 5 percent of taxable net income or L.D.200, whichever is lower.
5. Under article 44 of law NO. 64 of 1973 the allowance for maintenance of real estate becomes 20 percent rather than 15 percent.
6. The law contains a new article (article 71) which

exempts all non-Libyan residents from taxes, given that they entered Libya on a temporary entry visa for work and on condition that their stay does not exceed one month in any one tax year.

7. Personal exemption has been adjusted to become L.D.480 for bachelors, L.D.720 for married couples with no children, and L.D.900 for married couples with children, widowers, widows, and divorcees with children.

8. The law allows a 30 percent discount of outstanding taxes on Libyan corporations, on condition that they satisfy all the provisions of the said law.

9. Penalties have been adjusted to 6-12 months and/or L.D.20-100.

10. All specific taxes, except taxes on income from agriculture, foreign income and income from interest on bank deposits and savings, become progressive taxes, as well as the general tax on income and tax on companies. (See appendix .1)

3.4.2.2.4.1 Accounting Records And Forms Required By Law No.64 of 1973

Some business records have been required by the LCC. In addition to these, both tax law NO.21 of 1968 and tax law No.64 of 1973 required further forms and records.

According to the second paragraph of article 104 of the 1973 law:

> "all tax payers should submit annually a tax declaration concerning their income according to

> specific forms supplied by the tax department. These forms must be completed according to specific rules, as laid down by this law. These declarations shall be handed in to the tax department no later than one month from the approval of the tax payer's financial statements, and in all cases submission of the tax payer's declaration should not be later than seven months from the end of the tax payer's financial year."

The submission of this declaration is essential, whether the tax payer has systematic accounts or not and whether the result of operations was a profit or a loss. The law rigourously requires all information in any way related to revenue and expenses to be included in the said declaration. Revenues, whether they are operational, extraordinary, ordinary, capital or non capital, should be reported, as should expenses, whether they are manager's or director's salaries, salaries of employees, compensations or any other expenses given that those expenses are paid in order to seek the reported income.

In the case of tax on foreign income and tax on branches of foreign companies operating in Libya, the law requires them to send a copy of the financial statement of the main company with their declaration.

The law did not specifically require that tax declarations or other supporting documents should be certified by a chartered accountant, but it does require that a legal representative perhaps a chartered accountant or a lawyer, should certify them - in practice most of these declarations and documents are certified by a chartered accountant.

Documents that should support the said declaration have been defined by the law to be:

1. Balance sheet;
2. Operation and trade account;
3. Profit and loss account;
4. Schedule of depreciation;
5. Detailed statement of all expenses included in the profit and loss account.

Articles Nos.17 and 48 of the law have also defined the accounting records that tax payers should keep to be:

1. Journal record;
2. Inventory and balance sheet;
3. Inventory cards.

For accounting records to be considered systematic, in addition to the records required by the law, the tax payer should also keep all other records as required by articles No. 570 and 634 of the LCC. But neither the LCC nor tax law No. 64 of 1973 have defined the recording procedures for those records. Nor do they require financial statements for them.

3.4.2.2.4.2 Profit And Loss Account

During the discussion of the LCC earlier in this chapter it was stated that it is the LCC which deals with some aspects of the balance sheet, while it is the tax law which deals with some aspects of the profit and loss account.

Accordingly, article 97 of law NO.64 of 1973 states that tax shall be assessed on the net income of any given year. Though the law does not define which income theory should be followed in calculating net income, article 97 states that: "Tax should be assessed annually on the basis of net income realized during any given tax year, resulting from all different types of operation during the year after deducting all costs which have been spent to generate income." However, article 65 states that profit from sale of a business or any one of its assets shall be considered as income for the purpose of calculating taxable net income. Profit should be calculated by deducting the cost price from the sale price after taking depreciation expenses into consideration.

These definitions of taxable income are not necessarily the same as those adopted in normal accounting practice. As a result, many Libyan tax payers prepare two sets of accounts - one for tax purposes and the other for business purposes.

a) <u>Revenues</u>

Articles 55, 57, 65 and 97 state that taxable income consists of:

1. Profits from ordinary operations;

2. Profits from extraordinary operations;

3. Profits from selling a business of any one of its assets.

1) <u>Ordinary income:-</u>

Despite the fact that the tax law does not define what is considered normal income and what is not, by looking into Libyan tax declarations one finds that these include items which are considered to be normal revenue or cost elements, according to normal accounting practice, such as opening inventory, purchases, sales and closing inventory.

2)<u>Extraordinary income and other revenues:-</u>

The Libyan tax law has followed the Egyptian tax law in broadening the meaning of income. However, many of the extraordinary items might be regarded as genuine revenue items - e.g. collected bad debts, insurance companies' compensation, other revenues such as interest and dividends, gifts and assistance and revenues from hiring out equipment or employees to others.

3 <u>Capital income:-</u>

Similarly, the Libyan tax law has not defined what is to be considered as capital income. However, some items included in the Libyan tax declaration as part of the tax payer's taxable income are considered to be capital gains in general accounting practices. Items such as profits from sale of business or some or all business assets were explicitly mentioned by the said law to be considered as income for such purposes (article 65). Again, the Libyan tax law has followed the Egyptian tax law in this respect. Other such items are profit from the operations before starting the business officially, share premiums and profit from revaluation of assets, all of which are included as part of the tax payer's taxable income.

b) <u>Costs</u>

1) <u>Deductible costs</u>

Article 55 of law No. 64 of 1973 refers to ".... deducting all costs which have been proved to have been spent to generate the said income". These include:

a) Depreciation on equipment, machinery, buildings and all other assets used to generate the income. Depreciation should be based on the straight-line method and on the historical cost of the asset. The executive referendum of law NO. 64 of 1973 stated that depreciation should be calculated in accordance with the given schedule. (See Appendix .2)
b) Bad debts, on condition that it is proved they are uncollectable during the tax year and that they are related to the business. The debts shall be considered as income if they are collected at any time in the future.
c) Amounts paid on behalf of employees according to the social security law or any other law, not exceeding 10 percent of the total salaries or

wages of the said employees.

d) Taxes and fees paid by the tax payer for his business, except those paid as tax on income.

h) Donations to charities, not exceeding 2 percent of the taxpayer's net income.

2) <u>Un Deductible costs</u>

Article 57 of the said law states that "no cost should be deducted from taxable income if such cost does not contribute to the generation of such income". In particular:

a) Any other depreciation charge not mentioned in item (a) of article 55 of the said law concerning depreciation costs;

b) Any amounts spent to increase assets or to improve them permanently. However, these costs may be added to the original cost of the asset;

c) Personal and family expenses;

d) Any amounts kept by the taxpayer as a salary or compensation for himself, his wife or his children;

e) Any amounts allocated as reserve to meet losses, price decline, doubtful debts or any expenses allocated to contingencies.

3) <u>Other deductible costs</u>

The costs mentioned in (1) and (2) are not meant to be exclusive; but are merely examples of deductible and undeductible items to eliminate any possible dispute between taxpayers and the tax department. Reading through other articles of the law shows that other expenses may be deducted from revenue for the purpose of calculating taxable income.

i) <u>Establishment costs:</u> Article 56 states that establishment costs may be depreciated against revenues over three to five years in equal instalments. Even though establishment costs have not been defined by law, the tax department and tax payers are generally agreed that they include all legal and other expenses necessary to establish the business. In this respect Libyan law has followed the French law which allows the deduction of capital expenses from revenues and even permits the deduction to be made in one amount.

ii) <u>Losses:</u> Article 59 allows taxpayers to carry over any business losses for a maximum of five years from the year of the loss. One should bear in mind that it is taxable losses, rather than accounting losses, which may be carried over.

iii) <u>Headquarters' expenses allocated to foreign companies' branches in Libya:</u> At the time of the law, most companies operating in Libya were either branches of foreign companies or established by foreign capital. In both cases headquarters were located outside Libya. Accordingly, the law states in the last paragraph of article 97 that:

"...expenses to meet general purpose, services, interest or commission, which have been allocated

> by foreign companies to their branches in Libya, shall not be recognized, except for those considered to be necessary by the tax department."

Even though the law did not open the door widely to such expenses, foreign companies are usually able to convince the tax department that most of their expenses are within the limits of the law. The vagueness of the law causes many problems to tax department employees, according to one comment by the manager of the tax department in Benghazi City.

It should be noted that oil companies' taxes are treated differently and are assessed according to the petroleum law NO. 25 of 1955. However tax law NO. 64 of 1973 is the general law, while petroleum law NO. 25 of 1955 is the special law. Nevertheless there are several contradictions between the two laws.

3.4.2.3. Difference Between Tax Law No. 64 Of 1973 And Petroleum Law No. 25 of 1955

The first Libyan petroleum law was promulgated on 21 April 1955, and is known as law NO.25 of 1955.

The first article of the law states that all petroleum in Libya in its natural state is the property of the Libyan state. Hence no person shall explore or prospect for, mine or produce, petroleum in any part of Libya, unless authorised by a permit or concession issued under this law.

[Organisation of the Petroleum Exporting Countries (OPEC), 1977, p.9]

Before the revolution of 1969 all petroleum companies operating in Libya were foreign companies, but since then, companies operating in Libya have been either Libyan companies owned and run by the Libyan National Oil Corporation or companies in which the Libyan state owns at least 51 percent of the shares.

All oil companies which hold concessions in Libya are required to pay such income tax and other taxes as are specified by Libyan law. Accordingly, all oil companies holding concessions in Libya are subject to the provisions of tax law No.64 of 1973, as are any other commercial companies. In case of any conflict between the two laws, it is the provisions of petroleum law No.25 of 1955 which should apply. The above rule is supported by article No.3 of law No. 64 of 1973 which stated that:

> "The provisions of this law should not cancel the provisions of petroleum law no 25 of 1955."

The main difference between the two laws can be discussed under the following headings:

1. Oil companies' income
2. Expenses that may be deducted from revenue
3. Expenses that may not be deducted from income
4. Losses carried forward
5. Tax declarations by oil companies

1. Oil companies' income

Under law NO.25 of 1955, the gross income of an oil company is all income realized from all operations by this law, and articles 1, 2, and 12 that the gross income of any oil company operating in Libya consists of:

a) Revenues from selling crude oil produced from all granted concession areas;
b) Revenues from selling natural gas and natural gasoline, produced from the above concessions;
c) Rents of pipelines used by other concession holders;
d) Revenues from ports and cargo-services.

Accordingly, the gross income of any oil company consists of two parts: that which results from the normal operations of the company, such as exploration, production and exporting of crude oil; and that which results from extraordinary operations permitted by the law, such as services rendered to others.

2. Deductible expenses from gross income

The law specifies the expenses that may be deducted by oil companies to calculate net income:

a) Operational and administrative expenses

The petroleum memorandum No.6 in its article No.8 has specified seventeen items as operational and administrative expenses, on condition that the expenses were not incurred to acquire or install physical assets, i.e. they should be current expenses, not capital. These expenses include:

1) Salaries, wages and retirements funds of employees;
2) Costs of goods consumed by employees in a period of less than one year. This includes all catering equipment;
3) Costs of all services rendered by others on behalf of the concession holder;
4) Any fees or taxes, except those specified in article No. 6 of this memorandum as direct taxes;
5) Costs of repair, service and maintenance of all fixed assets in Libya, regardless of where it was paid;
6) Costs of rents paid to use laboratories, buildings, land and other holdings in Libya;
7) Insurance instalments;
8) Costs of oil marketing commercials;
9) Employees' travelling expenses;
10) Losses resulting from leakage, breaking or evaporation of assets in Libya not compensated by insurance or by other means. In addition, bad debts and other legal compensation, except those fines imposed by the petroleum committee or amounts confiscated by the said committee.
11) Expenses of managing the concession;
12) Costs of cultural and entertainment activities performed by the concession holder, agreed upon by the said committee;
13) Costs of health and other services supplied by the concession holder.
14) Costs of education and training for Libyan citizens,

agreed upon by the said committee;

15) Costs of employees' housing in Libya;

16) Any expenses or costs chosen by the concession holder to be deducted in the year of realisation, according to paragraph 3 of article NO.14 of law No.25 of 1955, which states exploration and prospecting expenses, intangible drilling costs as defined by regulations (but only to the extent that such expenses and costs are not incidental to the procurement of installation of physical assets) and the costs or drilling wells not producing petroleum in commercial quantities, in respect of which expenditure incurred after the effective date, may be deducted in the year in which the expenditure is incurred under paragraph 2(a) of this article, or may be capitalised and amortized as provided in paragraph 2(b) of this article. The concession holder may either deduct or capitalize each such classification of expenditure. The election, once made, is final and binding for all time unless the ministry of petroleum in special cases agrees otherwise. Expenditure capitalized under this paragraph and attributable to areas surrendered under paragraph (1) of article 10 of this law may be deducted in the year of surrender insofar as not already amortized.

17) Any other operational or administrative expenses, as accepted in the petroleum industry as practiced in any large oil producing country in the Middle East.

b) <u>Expenses of asset depreciation and capital expenses.</u>

Under article 14, paragraph 2, of law No.25 of 1955, oil companies are permitted to deduct depreciation of all physical assets in Libya at the rate of 10.5 percent per annum and amortisation of all other capital expenditure in Libya at the rate of 5.5 percent per annum until such assets and expenditure are fully written off. The law does not leave it to the oil companies to choose between the different depreciation methods, but specifies the straight line method. Oil companies can write off all their physical assets in about nine and a half years, while capital assets can be written off in about nineteen years. However the unamortised balance of the costs of physical assets permanently put out may be deducted in the year when those assets are scrapped or sold.

The difference between tax law No. 64 of 1973 and petroleum law No.25 of 1955 regarding depreciation expenses are a result of the special nature of the oil industry. According to the law of 1955, capital expenses are the capital expenses which were incurred before the point of production and not after that point. In addition, Capital expenses according to that law are defined differently from such expenses in normal accounting practice, and include all expenses paid before the point of production, whether those expenses were current or capital ones. Accordingly, the differences between law No.64 of 1973 and law No.25 of 1955 may be summarised as follows:

i) In regard to the depreciation of physical assets, article 55 of law No.64 of 1973 lays down depreciation rates of physical assets, between 3 and 30 percent, whereas law No.25 of 1955 specifies the depreciation rate of physical assets as 10.5 percent.

ii) In regard to capital expenses, law NO. 64 of 1973 differentiates between current expenses, capital expenses and establishment expenses, and permits the writing off of the first of the expenses in the same year in which they have been incurred, but does not permit the second of these expenses to be written off at all, requiring them to be added to the cost of assets. The third category of expenses, however, are required by article No. 56 of the said law to be amortized between 3 and 5 years.

On the other hand, law No.25 of 1955 has a different definition of capital expenses, different amortisation rate; and gives a choice to oil companies of amortising these expenses in the first year of production or over a maximum of ten years.

iii) Law No.25 of 1955 permits concession holders to deduct from their revenue, in order to calculate their net income, an amount equal to 12 .5 percent of the value of exported crude oil during any full year. This royalty is in addition to the other operational and administrative expenses mentioned above. This allowance is given only to oil companies, because of the special nature of the oil industry.

iv) Law No. 25 of 1955, in article no 14, also allow concession holders to deduct from their revenue, after the beginning of the production period, the following expenses: exploration and prospecting expenses, intangible drilling costs (as defined by regulations but only to the extent that such expenses and costs are not incidental to the procurement or installation of physical assets) and the costs of drilling wells not producing petroleum in commercial quantities may be deducted in the year in which the expenditure is incurred.

Concession holders may choose whether these expenses are to be deducted from the income of the same year in which the expenditure is incurred, or to be considered as capital expenditure and amortized over twenty years.

Once the concession holder has chosen between the two methods, he has to continue applying the same method.

3. Expenses which are not allowed to be deducted

Similar to law No.64 of 1973, law No.25 of 1955 has specified some expenses which are nondeductible from income.

These expenses are stated in paragraph four of article 14 of law No.25 of 1955 as follows:

a) Penalties paid under article 22 of this law. These are defined as those imposed in the case of exploration or the drilling of oil in Libya without licence; or those financial penalties imposed according to article 95 of the customs law, when the concession holder uses those exempted imported goods for a different purpose from that defined by the custom law; also, transfer of ownership to another person does not give entitlement to the exemption.

b) Amounts forfeited to the secretariat of petroleum under article 11, which specifies the amounts that oil companies are required to spend in each concession area in order to continue exploring and drilling for oil. The law also gives the right to the secretariat of petroleum to ask oil companies to deposit insurance in respect of what remains of this sum, and the secretariat has the right to confiscate from that deposit an amount equal to that not spent by a company. The law does not consider this amount as deductible for the purpose of taxable income.

c) Foreign tax paid on income operations in Libya. The law considers all such taxes as representing the use of income rather than a burden on income. Hence paragraph 4 of article 14 states that foreign taxation paid on income determined from sources within Libya shall not be deducted from oil companies' revenue for the purpose of calculating taxable income. Tax law No. 64 of 1973 does not mention this type of tax, but it is understood that it is not deductible.

d) Interest or other consideration paid or suffered by the concession holder in respect of the financing of his operations in Libya. Law No.25 of 1955 does not permit oil companies to deduct such expenses. The fact that most financial sources are from outside Libya and that all oil companies' headquarters are outside Libya would increase the chance that oil companies might use this as a means of transferring money abroad. Another factor is the difficulty of verifying these expenses.

Expenditure incurred in relation to the establishment of petroleum operations in Libya. This is expenditure incurred before the date granting concession to the concession holder. [Organisation of Petroleum Exporting Countries, 1977, p.13.] It is different from capital expenditure incurred before the production point and after the granting of the concession, which are deductible according to the law.

4. <u>Losses carried forward</u>

For an oil company to be considered as a producing company by the secretariat of petroleum it has first to discover oil in commercial quantities.

The classification of an oil company as a producing company has a considerable effect on its accounting, for all the company's accounts before the production point will show expenses with no revenues. These expenses are not losses, but are capital expenditure which may be amortized by the company according to the law.

Losses, however, are the excess of the company's expenses in any one year over the revenues of that year. These losses are treated by paragraph 6 of article 14 as carry-forward losses. Where, in respect of any year, the total of the deductions allowed under paragraph 2 of this article for the determination of profits exceeds the income in respect of that year making the said deductions, the resulting excess shall be carried forward and as far as possible be deducted from the profits of subsequent complete years up to a maximum of ten years [Ibid, p.15]

Under tax law No. 64 of 1973, the taxpayer is allowed to carry forward his taxable losses up to a maximum of five years.

5. <u>Tax declaration by oil companies</u>

Oil companies are regarded by law No.25 of 1955 as commercial companies and are subject to tax on companies as specified by tax law No.4 of 1973. But law No.64 of 1973 is overruled by law No.25 of 1955 in cases where differences between the two laws do exist. Hence the tax declaration of oil companies is based on provisions of petroleum law No. 25 of 1955 which specified the following:

a) Date of submission of the tax declaration Paragraph 9 of article 14 states:

> "As soon as practicable after the end of each complete year referred to above, and in any event not later than four months after the end of each

complete year, the concession holder shall submit to the ministry of petroleum accounts showing that year's profits as defined in this article." [Ibid p.16]

This is the only provision concerning the submission of oil companies' accounts in accordance with the petroleum law. Hence in respect of tax declarations submitted to the tax department, one should refer back to tax law no 64 of 1973 which states that all taxpayers should submit their tax declaration to the tax department not later than one month after the approval of the taxpayers' financial statements or seven months after the end of the taxpayers' financial year [Law NO. 64 article 104].

b) Conditions to be satisfied by the declaration and its content.

Because the petroleum law does not refer to the tax declarations of oil companies, it does not include any explanation of their content. Accordingly, oil companies follow the same rules as stated in tax law No.64 of 1973.

However, because of the special nature of the oil industry and the provisions of the petroleum law concerning the relation between oil companies and the state of Libya there are some special items which are unique to oil companies and which should accompany the tax declaration:

1. Disclosure of whether the company amortises its post-production capital expenditure in the year of payment or whether it is deducted at the rate of 5 percent per

year;

2. Statement of expenditure on petroleum; such as training of Libyan nationals.
3. Statement of revenue from crude oil, particularly exports;
4. Summary of deductable expenses as permitted by article 14 of law No.25 of 1955;
5. Statement of concessions;
6. Statement of extraordinary income from services and rent of its assets to others.

c) To whom tax declaration should be submitted.

The petroleum law did not refer to whom the declaration should be submitted. Hence, according to the tax law, oil companies should submit their declarations to the tax department. It is the tax department which has the right to examine these declarations, but its job is merely to examine the declarations and assess tax in order that it may be collected by the secretariat of petroleum, under law No.25 of 1955.

d) To whom fees, rents, royalties, surtaxes and income tax are payable

According to article 15 of law No. 25 of 1955, all fees, surface rents, royalties, surtax and income tax imposed by the law shall be paid to the public treasury through the secretariat of petroleum .

3.4.2.4 State Revenue

Libya's revenue from oil consists of:

1. Revenue from selling oil produced by Libyan oil companies;
2. Its share of revenue from selling oil and natural gas by companies owned partially by the state of Libya;
3. Fees, rents and royalties paid by concession holders, as stated in paragraph 1 of article 13, which stated that concession holders shall, in respect of each concession granted, pay the following fees, rents and royalties:

a) An initial fee of 100 Libyan pounds Per 100 square kilometers or pro rata for any part thereof of the concession area upon the granting of the concession;

b) An annual rent per 100 square kilometers or pro rata for any part of the concession area calculated as follows:

(i) For concessions located within the first and second zones (as defined by the law), L.£10 for each of the first eight years and L.£20 for each of the next seven years, provided that if at any time during this period of fifteen years petroleum is found in commercial quantities the annual rent shall immediately be increased to 2,500 Libyan for the remainder of the said period and a pro rata proportion of this increased rent shall be payable in respect of the year in which the find occurs;

(ii) For concessions located within the third and fourth zones,5 Libyan pounds for each of the first eight years and L.£10 for each of the next seven years, provided that if at any time during this period of fifteen years petroleum is found in commercial quantities the annual rent shall be payable in respect of the year in which the find occurs;

(iii) 3,500 Libyan pounds for each of the five years from the expiry of fifteen years after the granting of the concession;

(iv) 5,000 Libyan pounds for each year thereafter.

c) A royalty of 12.5 percent of the total field production of all natural gasoline recovered by the concession holder from the concession area;

d) A royalty of 12.5 percent of the sale price less any cost of transport from the well head paid by the concession holder and not recovered from the purchaser;

e) A royalty of 12 percent of the value of all natural gas derived from the concession area and exported by the concession holder. The value of the natural gas is the sale price after deducting any handling charges, duties and import costs and the cost of transport from the well head paid by the concession holder and not recovered from the purchaser.

In addition to these fees, royalties and rents, the state of Libya is entitled to surtax, which is the difference between the said fees, rent and royalties (except 12 percent of the value of crude oil exported) and what is equal to 55 percent of the concession holder's profits. However, if the said fees rents and royalties (except the 12 percent of the value of crude oil exported) exceed 55 percent of the concession holder's profit, then the concession holder shall be entitled to deduct such excess from the income tax, surtax and other direct taxes payable in that year or in following years .

3.5 Legal And Regulatory Influences Upon The Evolution Of Accounting In Libya

Accounting practices may vary from one country to another according to each country's social expectations. These expectations influence corporate objectives and thus their accounting and financial reporting.

Differences in social expectations may lead to differences- in legal systems and financial institutions, which again will have an impact upon accounting. Desmond McComb argued that:

> "...for whatever reason diversity of legal systems or financial institutions may exist, it is incontrovertible that it can exercise an immense influence upon accounting; not only is this influence felt in respect of its effect upon the quality of financial reporting, but it is also to be seen in the way in which the organization of the accounting profession has responded to the demands of the legal and institutional framework of the countries concerned." [McComb,D . 1979,p.16]

The influence of legal and institutional requirements on accounting is even more obvious in developing countries, of which Libya is one. The earlier discussion in this chapter provides a very detailed survey of the legal regulations (tax laws, commercial code, companies' act, petroleum law), which, during the last fifty years or so have influenced the evolution of accounting in Libya by making specific requirements for certain purposes. As Scott has stated, taxation and other related legislation have given accounting in some nations an internal orientation towards reporting to governments and other users.[Scott,G . 1970, p.91]

In 1923 businesses in Libya were required to estimate their income and pay taxes in conformity with the Italian tax law of 1923. Early in the 1950's due to changes in the tax law, they were required to prepare profit and loss accounts and to pay their taxes accordingly. Despite the fact that the law did not specify the contents of the profit and loss account, except for a few items as examples of deductible expenses, it was a major step forward in the evolution of accounting in Libya. It could be argued that Libyan business started preparing such statements for the first time ever to comply with the tax law. Moreover, they began to charge depreciation against revenues according to tax law guidelines. The fact that the law did not specify the methods and rate of depreciation until 1973 does not negate its significant, in that many libyan businesses, especially the smaller ones, did not have any systematic accounts or financial statements until these were required by the tax law.

The income tax law was, and still is the only formal instrument which states the financial and accounting information to be included in specific accounts and financial statements, especially the profit and loss account, and was probably the only accounting reference for many Libyan businesses for a long time when accounting education was non-existent. Despite the fact that the tax law does nor mention what accounting principles or standards should be followed or any requirements for audit, the law does require that some accounting records should be kept, that profit and loss account should be prepared and that some kind of certification of these by a legal representative of the taxpayer should be obtained. These requirements have forced Libyan businesses either to keep and prepare such records and accounts themselves or to hire accountants to do it for them mainly from single entry records. Consequently, accounting records and information have improved considerably.

As the tax law mainly relates to financial accounting, the attention of most Libyan businesses was confined to financial accounting records and to external reporting, and other branches of enterprise accounting, such as managerial accounting and auditing, received little attention.

Another piece of legislation which influenced the evolution of accounting in Libya was the commercial code

(LCC) of 1953, which was the first such law to organize trading activities in Libya, and to require merchants and companies to prepare and keep some accounting records, and to prepare a balance sheet for their business. In the past, business in Libya had a tendency to disclose minimal information in their accounts, but the law required businesses for the first time to lodge their financial statements with the commercial registrar's office and to establish a controlling committee which should certify to the General Assembly that all accounts, records and financial statements are correct. The LCC went a step further by specifying items to be included in the balance sheet, though not in any sophisticated form. Nevertheless, it was the only formal guidance for Libyan businesses, especially small ones, in the preparation of a balance sheet. Before the LCC and the tax law, it was possible to prepare financial statements in which the amount of depreciation was unstated so that the reader of the statements did not know whether any provision had been made.

In conclusion, then, the LCC has had considerable influence upon the evolution of accounting in Libya, especially during the early 1950's and 1960's when accounting education had just begun and foreign companies were confined to American and British economic aid programmes. However, the LCC did not give detailed guidelines on how to prepare accounting records or financial statements, nor did it specify what accounting principles should be followed. Due to the lack of qualified accountants who could understand and implement the requirements of the law, on one hand, and due to the generality of the law, on the other, the LCC was not as effective as it should have been in improving the status of accounting in Libya. Nevertheless, it contributed considerably to the evolution of accounting in Libya.

Finally, another law which has influenced the evolution of accounting in Libya, at least in the oil sector, is petroleum law No. 25 of 1955, which was limited only to oil accounts and financial statements. It specified almost all allowable and unallowable expenditures for the purpose of computing oil companies' profits, and defined what should be considered as revenue for oil companies. It was the first and only law to require consistency of principles over the years, and it also specified the form and contents of oil companies' financial statements. This is not surprising given that oil revenues represent more than 90 percent of the country's national income. Another noticeable influence of the law upon accounting is that it explicitly opens the door for international accounting practices to be adopted by oil companies operating in Libya. In many instances, the law stated that oil companies might use the oil accounting practices applied in other oil exporting countries, which in effect means American oil accounting practices, since most (if not all) of the oil companies operating in the area were American.

However, although the law has specified most of the accounting records and financial statements and their format and contents, the fact remains that oil companies have the will and the ability to adopt those accounting practices which best suit their interests. The complexity of oil accounting practices, the absence of well-qualified accountants who can audit their accounts and the favourable treatment given to oil companies, all make the verifications of their conformity with the law very difficult. According to law No.79 of 1975 all companies of which the Libyan state owns 25 percent or more are subject to the control of the auditor general's office. Despite this, the auditor general's office did not start examining oil companies accounts and records until very late in the 1970's, and even then it is very questionable whether the office could draw any fair conclusion about them.

In conclusion, then, legal and regulatory influences upon the evolution of accounting in Libya can be summarized in two ways. In the first place, the Libyan tax laws, the LCC and law No.25 of 1955 stipulate that taxable income and financial statements should be based on the actual books of the business, with the exception of a few big companies. In general, then, any accounting methods or practices used in the preparation of tax returns and balance sheets must also be used in the books of accounts, for financial accounting purposes. Indeed, the close connection in Libya between tax and other regulations on one hand and accounting rules on the other hand has resulted in the development of the two along parallel lines with tax and other rules exerting an important influence on accounting rules [Nyhoom,A. April 1976, p.79].

This, in effect, forces accounting practices into a strait-jacket, because the objectives of taxation are at odds in many cases with the general objectives of accounting.In that accounting objectives are mostly different from those of the tax system, and secondly that accounting practices must "follow suit" whenever laws and regulations are changed.

In the second place, the application of fairly liberal laws and regulations and the absence of professional accounting principles and standards led to considerable diversity in the calculation of income and the formulation of financial statements.

3.6 The Influence Of Foreign Enterprises Upon The Evolution Of Accounting In Libya

The influence of foreign enterprises upon the evolution of accounting in Libya is based on two factors:

1. Foreign companies (or their subsidiaries) doing business in Libya;
2. Accountancy training of Libyan nationals by such companies.

Foreign companies entered Libya for the first time during the Italian colonization (1911-1945). During this period most businesses were conducted by Italian nationals and by Italian companies, who brought with them their tax law and their accounting practices. The preparation of systematic accounts and financial statements (especially the profit and loss account) started for the first time in Libya during this time, as a result both of the activities of Italian companies and of the requirements of the tax law. All accounting records were written in the Italian language, for all accountants and businesses were Italian, and even after independence in 1951 and until late in the 1960's, many accounting records were written in Italian,because they were either records of Italian companies or records of Libyan companies managed by Italian personnel. Meanwhile there were some Libyan businesses and retailers who had been dealing with Italian companies either as distributors or as partners. Examples of such businesses were car dealers and electronic appliance manufacturers.

Despite the fact that the Italians themselves had no well established accounting profession, Italian accounting practices influenced the evolution of accounting in Libya during that period of time. consequently, accounting practices in Libya were confined to simple book-keeping sufficient to compute profits for tax purposes. Double entry book-keeping was followed only by big companies, while small businesses used single entry to be sorted out later by outside accountants for the purpose of calculating profit and the payment of tax [Bait El-mal, M.M.,Charles, and Tylor, 1973, p.89].

In the early years of independence British and American firms started to do business in Libya. These companies entered Libya as contractors with their respective governments who were helping Libyans to develop their economy, and later on as contractors with the Libyan government. Many big British and American companies have subsidiaries in Libya, and statistics show that there were 1,007 foreign companies doing business in Libya in 1985. [Al-Zahef Al-Akhader Newspaper No. 306, 19, 1985 p.8]

These companies follow the same accounting policies standards and procedures as applied by their home office. Even those Libyan companies which were foreign companies before nationalisation still use the same accounting records and accounting system and is still hire British accountancy firms to design accounting systems for them. [El-Arabi, H, 1986]

Evidence of accounting practices originated by foreign companies is found clearly in banking in Libya. Four out of five commercial banks in Libya are subsidiaries of foreign banks, and each of them follows the same accounting practices as followed by this original part. Umma bank, for instance, uses the same accounting practices as those followed by the Bank of Roma, while Jamahiria Bank follows the accounting practices of Barclays bank.

An important shift has taken place in foreign companies' influence upon accounting in Libya since the discovery of oil in the 1960's. Since then American companies have outnumbered their British counterparts and American accounting practices have become predominant. Even today, despite American economic sanctions against Libya since 1980, American companies are still very heavily involved in Libyan businesses through their subsidiaries in Europe and elsewhere. It follows that American accounting practices are still very influential.

The other channel of influence by foreign companies upon the evolution of accounting in Libya has been through accountancy training. As academic accounting education did not begin until the mid 1950's and did not gain momentum until the early 1970's, the only means of practical accountancy training was through the training programmes of foreign companies, either abroad or inside Libya. In both cases Libyan nationals were trained according to accounting practices which prevailed in the home countries of those foreign companies.

Perhaps the most influential foreign companies who have directly dealt with accounting practices, even within Libyan companies, were the international accounting firms. Most of the big eight accounting firms had subsidiaries in Libya until 1974. Even now some of those firms are still doing business in Libya as external auditors for foreign companies operating in Libya.

Foreign accounting firms influenced the evolution of accounting in Libya in two ways:

1. The performance of audit work for both Libyan and foreign companies;
2. The employment of Libyan nationals as auditors and hence their training to be auditors according to American and British accounting practices.

Mr. Robin Peters of the accounting firm, Touche Rosse, who was recently auditing a British company's operations in Libya, stated that:

> "generally speaking, British and American accounting practices are still widely followed by companies working in Libya and most of the time tax authorities accept those financial statements which were prepared and certified according to American and British accounting practices as valid statements for tax purposes." [Peters R. Seminar, given at the University of Hull, 1986]

A clear example of the influence of foreign accounting firms upon the evolution of accounting in Libya is cited in the following Libyan auditor's report for one of the Libyan companies:

> "I certify that I have examined the balance sheet of National Company for Medical Supplies as of 31 December, 1984 and statements of trading, profit and loss and retained profits for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of all accounting records and such other auditing procedures as we considered necessary in the circumstances.
> In my opinion, the company balance sheet and the

> statements of trading, profit and loss and retained profits present fairly the financial position of the company at 31 December, 1984 and the result of its operations for the year then ended, in conformity with generally accepted accounting principles." [National Company for medical supplies 1984]

The terminology is very much that of a typical US report. One might ask to whose auditing standards and accounting principles and what set of professional standards the above audit report refer to, Clearly they are not Libyan since Libya did not have such standards or procedures and still does not have any. The only logical interpretation is that they are the American principles and professional standards.

As a matter of fact, evidence suggests that the influence of American and British accounting firms upon the evolution of accounting in Libya started as early as the 1950's when they served as auditors of economic aid projects financed by the World Bank and by the American and British Governments. The World Bank and other development institutions usually insist upon the use of an international firm of accountants to audit the projects which they finance [Briston, 1978, p. 110].

Evidence also suggests that international accounting firms had to follow the American GAAP in their audit of such projects. An example of such practice was given recently by Mr. Maurice C. Mould, a financial adviser to the World Bank, who stated that:

> "the World Bank spent five years trying to convince the general manager and the board of directors of a certain authority in a developing country that they should revalue the assets. "... and in the end they established a new asset value. One day the project officer arrived at my office and said, "Now look what we have done! We have got a qualified audit report . . ." The auditor was a foreign firm who stated that the presentation of the value of the assets was not in accordance with generally accepted accounting principles' and therefore they had qualified the report. We asked them what the generally accepted accounting principles were, and they said, "Well, there really aren't any for the country concerned - we used the United states GAAP." Therefore, the financial statements are not acceptable as far as we are concerned [Mould,M. 1983, p.80]

All in all, foreign companies, whether business companies or accounting firms, have strongly influenced the evolution of accounting in Libya. Their influence started as early as the 1950's and has continued through the years up to the present day, and has been exercised through their accounting practices and through their accountancy training for Libyan nationals.

3.7 Summary And Conclusion

Since the period of Islamic influence, Libya has seen various types of laws and regulations which have influenced the evolution of accounting in Libya. Zakat and the inheritance laws were the first of these. They were followed by the Italian Tax Law of 1923 which remained in effect until 1968, when a new Libyan tax law was promulgated, and by the commercial code of 1953 which organized trading and traders' activities. Tax Law No.21 of 1968, was the first Libyan tax law. It was more comprehensive than the earlier one and it was applied throughout the country. In 1973 Law No.64 of 1973 was enacted and progressive tax was introduced to Libya for the first time. The only special tax law was the petroleum law No. 25 of 1955 which was confined to oil companies. Finally came, law No.79 of 1975 which gave power to the Auditor General to audit all government departments as well as all Libyan public enterprises and those in which Libya owns 25 percent or more of the capital; and Law No.116 of 1973 of the Libyan accountants and auditors association. (Laws Nos.79 of 1975, and 116 of 1973 will be discussed in chapters 7 and 4 respectively.)

These laws and regulations have certainly influenced the evolution of accounting in Libya. Due to the absence of any formal or informal body responsible for organizing accounting matters, laws and regulations were the only Libyan influence upon accounting. Simple book-keeping began with the introduction of Zakat, while the preparation of various financial statements and keeping of various accounting rules and procedures where the product of Libyan Commercial Code, the Petroleum Law and various tax laws and regulations.

However, due to the simplicity of these laws and regulations, the majority of accounting matters were not been considered or standardised. As a result, foreign companies, accounting firms, and accountants have been left free to practice their own countries' accounting rules and standards which in time have influenced the evolution of accounting in Libya.

Due to this orientation (regulatory and foreign) there has been a wide gap between the accounting information needs of the Libyan environment and the accounting information provided by accounting in Libya. Whilst the emphasis was on enterprise accounting regulations, government and national accounting were mostly neglected, for all of the regulations and laws were concerned with financial accounting and external reporting.

The importance of the socio-economic development of the country should be recognized and laws and regulations should be adjusted accordingly, to reflect economic and social reality rather than compliance and control of various economic units.

CHAPTER FOUR

Accounting Education in Libya

4.1 Introduction

For any economic development plan to be successful, it has to be based, among other things, on information which is adequate, accurate and relevant. Such information has to be provided through a system of information flows. Accounting education is the means by which such a system can be establishing, according to Norton Bedford:

> "The notion that an economic society operates no better than the information it has available to guide and control the actions of the economic entities which direct that society is not without merit. But, as we have seen, it is the role of accounting education to select, adopt and apply the elements of the basic accounting information system to the needs of particular countries. Nevertheless, next to the natural resources of an economic society, relevant economic information is probably the most important requirement for economic development, and the accounting role in that process has been and is expanding rapidly." [Bedford,M. 1976, pp. 75-77].

Accordingly, the importance of accounting education for economic development is evident. But, for such education to be useful, it has to be related to socio-economic and political environment for any given country, as the appropriate procedures are, according to the theory of social relativity, relevant to that particular social and economic environment [Enthoven,A. 1981, p.65].

Furthermore, if an education system is to be relevant, then its components have to be relevant also.

Consequently, the components of Libyan accounting education will be briefly discussed in this chapter. Those components are: accounting programmes and curricula, accounting teachers and teaching methods, accounting textbooks, accounting students and accounting research.

4.2 Historical Background

Accounting education in Libya started in 1953, when the School of Public Administration was established to train government employees in the field of accounting [SPLAJ. Secretariat of Work and Civil Service, 1977, p.171].

In 1957, in co-ordination with the UN, the School of Public Administration was renamed the Institute of Public Administration, and included a new section for administrative training. Finally, in 1968 the Institute was upgraded and renamed the National Institute of Public Administration; this includes nine different academic departments, including the department of accounting.

For the first fifteen years since accounting education started in the School of Public Administration in 1953, the number of accountants who have graduated from these schools, and later from institutes, has reached 271 students (see Table 4.1). A university degree from the Faculty of Economics (or the equivalent) is required for teaching at this level of accounting education.

The text books are mainly accounting books written in Arabic, but these are translations from text books written in English.

Accounting education at university level started in Libya in 1957, when the Faculty of Economics and Commerce was established. The accounting department was one of the three departments in that Faculty. In 1985 a Faculty of Accounting was opened in Gharyan.

The higher level of accounting education in Libya is taught at two of the Higher Institutes of Financial and Banking studies in Tripoli and Benghazi, the Faculty of Accounting in Gharyan and in the accounting departments of the university of Gargyounis and of El-Fateh University. Accounting text books, accounting teachers and accounting curriculum are mostly similar since accounting teachers at both levels (higher institutes and universities) have the same accounting education background. However, the accounting at the higher institutes is a three-year programme, whereas at the universities it is a four-year one.

The lower level of accounting education requires primary school education and prepares students to be accounting clerks and book-keepers. It is a four-year programme. The intermediate level is also a four-year programme, but it requires preparatory school education.

Table 4.1

Number of Graduate Students in Accounting 1953-1968

Year	No. of graduates in acctg.	No. of graduates in admin.	Total
1953/54	30	-	30
1954/55	38	-	38
1955/56	30	-	30
1956/57	-	29	29
1958	9	9	18
1959	10	10	20
1960	14	11	25
1961	16	17	33
1962	16	15	31
1963	18	15	33
1964	17	17	34
1965	17	14	31
1966	15	19	34
1967	20	29	49
1968	21	36	57
Total	271	221	492

Source: SPLAJ, Secretariat of Work and Civil Service, 1977, p.172.

Its purpose is to prepare students for clerical, commercial and book-keeping jobs and to five some degree of financial statements. At this level there is the National Institute of Public Administration in Tripoli and its two branches in Benghazi and Sebha.

Accordingly, accounting education in Libya operates at three levels: the preparatory level (which includes the Commercial Institute); the secondary, or intermediate level (which includes the National Institute of Public Administration and the Secondary Commercial Institute); and finally, the higher level (which includes the Faculty of Economics at Gargyounis University, the Department of Accounting at El-Fateh University, the Faculty of Accounting in Gharyan and the Higher Institute of Financial and Banking Studies).

The accounting department of the Faculty of Economics at the University of Gargyounis is the most influential factor in accounting education in Libya, due to the fact that it was established about thirty years ago. Hence the rest of this chapter will be devoted to the accounting education provided by that department.

4.3 Accounting Education (the old system)

The old system of accounting education in Libya started in 1957 with the opening of the Faculty of Economics and Commerce of the Libyan University at Benghazi. It was a four-year programme and students had to complete 31 courses, of which 12 were accounting courses and the rest were a mixture of economics, management and other courses. For a student to be admitted to the Faculty of Economics and Commerce, he had to have a secondary school diploma [The Libyan University , 1972, p.19].

The old system was greatly influenced by the British education system. The academic year was a nine-month year. The first two years of the four years were called general years, where a student gained general background knowledge of accounting and related subjects such as economics, management, statistics and so on. In the last two years the student specialized in one of three main departments: economics, management or accounting. For any student to pass the course, at least 50 percent of the course must be attained. The grading system was as below: [Ibid p.180].

Excellent	85 - 100 %
Very Good	75 - 84 %
Good	65 - 74 %
Pass	50 - 64 %
Weak	35 - 49 %
Very Weak	Below 35

Perhaps the two most influential factors upon accounting education in Libya are the structure and content of the accounting courses and the education and background of the teaching staff. Both of these two factors were clearly British orientated, as will be shown below.

4.3.1 The Make-Up Of Accounting Courses

The accounting courses taken by students over four years were British orientated. Students had to take about 31 courses, divided between accounting courses and other related fields (see Table 4.2).

Twelve courses, or 40 percent of that total, were accounting courses, whereas six courses, or about 20 percent, were economics courses; three courses, or about 10 percent, were management courses. The rest of the courses (ten) were divided between statistics, Mathematics, Law, English Language and Geography.

Thus, a heavy load was given to accounting courses (40 percent) as compared with other related subjects. This proportion was far higher than the 27 percent recommended by the American Accounting Association [Enthoven, A. 1981, p.83].

Twenty-three in-class hours out of 35 in-class hours

Table 4.2

The Make-up of Accounting Courses
in the Department of Accounting According
To the Old System

Year	Course	No. of hours	Percent
1	Accounting principles	5	14.2
2	Partnership and company accounting	5	14.2
3	Applied Accounting (branches, co-operative accounts)	3	8.5
	Cost accounting	3	8.5
	Tax legislation and taxation accounting	2	8.5
4	Applied accounting (banking and insurance)	3	8.5
	Petroleum accounting	3	8.5
	Auditing	3	8.5
	Managerial accounting	2	5.8
	Financial statements analysis	2	5.8
	Governmental accounting	2	5.8
	Research project	2	5.8
Total		35	100

Source: The Libyan University Prospectus 1971/1972, pp. 181-184.

about 66 percent) in accounting were financial accounting subjects dealing with external reporting (see Table 4.2).

Cost, managerial and governmental accounting were at the bottom of the scale with 8.5 percent, 5.8 percent and 5.8 percent respectively. In fact, governmental accounting appeared in the accounting programme in 1975 for the first time as well as micro and macro economics.

A closer look at the programme contents reveals that most of the emphasis was on financial accounting, (see Table 4.3) , where most of the subjects were related to external reporting and external auditing. Very limited weight was given to managerial accounting, or internal auditing and control, public sector accounting and economic accounting (i.e. macro accounting).

4.3.2 Text Books

Accounting text books at the Faculty of Economics and Commerce were mostly British, or were Arabic books either translated from English or written by Arabian writers who graduated from British universities.

Most (if not all) of the accounting courses had two types of references: those written in the Arabic language and those written in English. Due to the fact that most of the accounting students knew little English, the were mostly using books written in Arabic. However, accounting instructors often used English references for the purpose of

Table 4.3

The Make-up of the Accounting Programme in the Department of Accounting according to the Old System

Year	Course	No. of hours	%
1	Accounting principles	3	15
	Economic principles	3	15
	Management principles	3	15
	Pure and financial mathematics (I)	3	15
	Statistics and research methods (I)	2	15
	Geographical economics	2	15
	English language	4	15
	Total	20	
2	Corporate accounting (partnership and financial)	3	15
	Production management	2	15
	Micro economics	2	15
	Statistics (II)	2	15
	Pure mathematics (II)	3	15
	Principles of civil law	2	15
	Money and banking	2	15
	English language	4	15
	Total	20	
3	Cost accounting	2	33
	Taxation accounting	2	33
	Applied accounting	2	33

	Commercial law	2	33
	Macro economics	2	33
	Public finance	2	33
	Personnel management	2	33
	Libyan economy	2	33
	Total	16	
4	Accounting (banking & insurance)	2	70
	Petroleum accounting	2	70
	Auditing	2	70
	Managerial accouting	2	70
	Insurance	2	70
	Financial statements analysis	2	70
	Government accounting	2	70
	Financial Management	2	70
	Research project	2	70
	Total	18	

Source: The Libyan University Prospectus, 1971/1972, pp. 181-184.

establishing course syllabuses and for preparing lectures.

Examples of British text books which were listed as references for accounting courses in the Faculty of Economics' catalogue were:

1. Bigg, N. W., Wilson, H. A. R. J. and Langton; Book-keeping and accounts , London, H.F.L.
2. Bigg, W. W., Cost Accounting, London, MacDonalds Evans.
3. Sheldon, H. P., and Drove, C. B., The Practice and Law of Banking, London .
4. Batty, J., Management Accounting, London, MacDonald and Evans Ltd [For a comprehensive list of British text books being used, see The Libyan University, Faculty of Economics' Catalogue 1972, pp. 60-77].

All of these books had apparently been used in British universities where most of the accounting instructors had their education, and were written to serve the British environment, where the accounting function was to prepare and audit financial statements for the purpose of external reporting. Consequently, very little emphasis was given to public sector accounting or to macro accounting. However, the fact that the vast majority of graduate accounting students are allocated to various governmental departments made it very difficult for them to apply their accounting knowledge to their job requirements. Newly graduated students were unable to participate in budget preparations or in the appraisal of public projects. It was for that reason that the Auditor General proposed to the Libyan authorities in 1972 that all newly graduated accounting students should first be allocated to the Auditor General's office for at least two years as a training programme before they would be allocated to various governmental departments [The Auditor General's Office, 1972, p.383].

4.3.3. Accounting Teachers

The minimum requirement for teaching at the Faculty of Economics was a Masters Degree from any accredited university around the world. Hence most of the accounting teachers until the early 1970s were Egyptians or Syrians while a few were British, Canadian or American. The formal language of teaching was Arabic. However, due to the shortage of accounting teachers during the early years of the Faculty, the rule was relaxed [The Libyan University 1973, p.90].

The first three Libyan accounting teachers joined the accounting department staff in 1967, ten years after the opening of the Faculty of Economics and Commerce in 1957. All three had their Masters Degree from American Universities. The rest of the staff in the same year were Egyptian nationals who had their degrees from British Universities. Due to the fact that these Egyptian nationals had seniority over the Libyan nationals, the accounting education system was British orientated.

By the early 1970s most of the Libyan nationals who had been sent to the US for their graduate studies had returned to join the teaching staff, and soon formed the majority of the teaching staff. In 1972 there were nine teaching staff, of whom seven were Libyan nationals and only two were Egyptian nationals. Accordingly, accounting education witnessed some changes from the British orientated education system to an American orientated education system.

4.4 The New Accounting Education System

With the return of Libyan nationals from the US, the Faculty of Economics started planning changes in its education system. The author of Gargyounis University's Guide Book has stated:

> "Hence, by the beginning of its academic year 1976/77 the Faculty has adopted the American education system instead of the British education system. The new system is based on two sixteen-week semesters instead of a full nine-monthly academic year. Students are evaluated according to earned hours rather than the full academic year.
>
> Under the new system students are required to earn at least 120 credit hours in order to be graduated." [Garyounis University, 1982. p.148].

On average, students are expected to graduate after eight semesters. However, the minimum period of study is six semesters, while the maximum is ten semesters. Student performance is evaluated according to a points scale, ranging from F (fail) - zero points, to A (outstanding) - four points. For any student to graduate he has to earn at least a D grade, or one point, for each course taken and an overall average of at least C, or two points.

Grade	Points
A	4
B	3
C	2
D	1
E	0
F	Incomplete
W	Withdrawal

The new system has granted a degree of freedom of choice between a wide variety of alternative courses. However, the vast majority of these courses are designed to prepare the student for preparing, auditing and analysing financial statements for the purpose of private sector external reporting. The only difference between the old system and the new is that the old system was British orientated, while the new one is American orientated. A detailed study of the three main components of the new system (curriculum, text books and teaching) will explain this fact.

4.4.1 Accounting Programme Make-Up

The new system offers a wide variety of accounting and non-accounting courses for students to choose from. The total content of the accounting programme is 152 credit in-class hours. 107 credit hours, or about 70 percent, out of that total are compulsory accounting and non-accounting hours, while the remaining 45 credit hours, of which the student should take at least 13 credit hours or about 29 percent are accounting and non-accounting optional credit hours (see Table 4.4).

The new programme has followed the old one in requiring that students should take a high load of accounting courses compared with non-accounting courses. 50 credit hours out of 120 credit hours needed for graduation have to be accounting credit hours, which represent about 42 percent (see Table 4.4). 44 hours out of those 50 hours are compulsory, while the remaining 6 hours are chosen from a pool of 13 accounting hours.

Looking more closely at the make-up of the 50 accounting hours reveals that 80 percent of the financial accounting hours dealing with preparation, analysis and auditing of private firms' financial statements. Cost and managerial accounting count only for 15 percent, and governmental accounting for merely 5 percent. The case of governmental accounting is even more alarming since these hours are optional, which means that there is a high chance that an accounting student will graduate with no experience of governmental accounting.

The private sector orientation of accounting is also emphasized in the non-accounting courses, where accounting

Table 4.4:

Accounting programmme at the Department of Accounting of the Faculty of Economics/University of Garqyounis.

[New System]

I) Compulsory Courses.

A. Fundamental courses:

Course No.	Name of the Course	No. of Hours
100	Arabic language	3
101	Islamic studies	3
102	Civil law	4
103	English language	3
104	English language	3
110	Econonic Principles	3
111	Economic Principles	3
120	Business administration principles	4
130	Accounting Principles	3
131	Accounting Principles	3
140	Fundamentals of statistics	3
141	Fundamentals of statistics	3
142	Fundamentals of mathematical analysis	3
143	Fundamentals of mathematical analysis	3
150	Political science	3
151	Public administration	3
	Total of Hours	50

B. Major Courses:

230	Intermediate accounting	3
231	Intermediate accounting	3
330	Advanced accounting	2
331	Advanced accounting	2
333	Cost accounting	3
334	Cost accounting	3
335	Taxation accounting	4
336	Applied accounting	3
337	Applied accounting	3
431	Auditing	3
432	Auditing	3
433	Research methodology	3
	Total of Hours	38

C. Non major courses (elective):

202	Commercial law	3
210	Micro economics	4
220	Production Management	3
235	Introduction to computing	3
320	Financial management	3
322	Operations research	3
	Total Hours	19

II) Optional courses.
(Student should choose not less than 6 hours)

A. Accounting courses

338	Financial statements analysis	2
339	Accounting for public funds (gvt)	3
435	Design of Accounting systems	3
436	Field study	2
533	Studies in Accounting (Independent Studies)	3
	Total Hours	13

B. Non-Accounting Courses.
(Students should choose not less than seven hours)

211	Macro economics	3
222	Behavioural Science	3
233	Principles of marketing	3
224	Advertising	2
225	Personnel management	3
313	Money and Banking	3
318	Public Finance	3
321	Human relations	3
324	Management policy	3
410	Libyan economy	3
	Total hours	32
Grand Total		152
No. of Hours required for graduation		120

Source: Guide Book, University of Garyounis.
1985/1986 pp. 132-167.

dealing with private firms' affairs, while being denied the chance to choose national income accounts. They are also required to take a micro economics course, but are given no chance to take courses in macro economics, economic development or public finance.

The contents of both accounting and non-accounting courses have been taken directly from similar courses at the American universities, except for a few subjects which were meant to be related to Libya, so that the bulk of the subjects have no direct relation to the Libyan, social, economic, and political environment.

A committee of the American Accounting Association, in considering educational needs related to governmental accounting and financial management, found two sets of urgent needs:

1) The need for a general educational effort directed at improving the capacity of individuals, as citizens, to take part intelligently in the governmental process, and
2) The need for an effective inter-disciplinary effort to cross-fertilise accounting education and public administration education with the core of knowledge needed by both [American Accounting Association, 1974,p. 254].

Other American accounting writers have greater complaints about the bias of American accounting education in some other fields of accounting. Specifically, Decoster, in regard to management accounting, has noticed:

> "... definite lack of emphasis in the Common Body of Knowledge's study on management accounting courses. The CBK recommends a three-semester one hour's course in cost accounting. In my opinion this is grossly inadequate" [Decoster, Don T., 1975, p. 97].

Sawyer noted the absence of coverage for many internal auditing requirements in American accounting education and wrote:

> " It is becoming increasingly apparent that an unfortunate vacuum exists in the current curriculum for many accounting students. Most accounting courses in colleges and universities are directed toward CPA preparation" [Sawyer, L. B, 1975, pp. 176-178].

Freeman has written concerning the tremendous growth in "Not for Profit" (NFP) accounting areas in recent years and the almost total absence of accounting courses in these areas [Freeman, R. J., 1975, pp.175-194].

Perhaps the most noticeable weakness of American accounting education is its donimation by the accounting profession and its uniform CPA examination. In the words of Steve Zeff, accounting education, accounting profession, and accounting text books publishers are all moving in a "Vicious Circle". The accounting profession issues financial accounting pronouncements, publishers of text books print those pronouncements, education institutes teach those texts, and the accounting profession consults with accounting curriculum before forming CPA exams as a result, Zeff stated:

> "The proliferation of pronouncements has served to exacerbate the problems, as the time devoted in the past to the contextual issues so essential to a well-grounded understanding of accounting is largely pre-ompted by the detailed study of the welter of pronouncements of one kind or another which must be learned. Disquisitions on proactice have driven discussion of theory, history, social relevance, and the institutional homework out of financial accounting. Instruction has become more of an exercise in digesting the details of authorative recommended practice, and less of a quest for the conceptual understandings of the field with few exceptions, the knowledge acquired by students is descriptive. Arguments for accounting reform are perfunctorily presented, if they are presented at all." [Zeff. s, 1988 pp.8-9]

Dr. Dau, K. the first Libyan to complete his Ph.D. in Accounting in the US and who has great experience of accounting education in Libya, once wrote:

> "Within the accounting segment of the curriculum described in Exhibit 1 less emphasis is put on cost and managerial accounting as compared with financial accounting - 7 percent to 30 percent. Cost accounting is a field that has not been fully explored, nor appreciated by developing countries in general, and Libya is no exception. Good cost accounting systems are needed in order to improve the decision-making process as well as the cost control" [Dau. K. A., 1981, p. 343].

Dau went on to suggest that more emphasis should be placed upon cost accounting and that some financial accounting courses should be taken out to make room for this. Meanwhile, the Libyan Accounting education programme also lacks a great deal in computing, for it includes only one 3 hour course, namely, Introduction to Computing. The material and teaching methods of this course are limited and out of date, and include material related to the preparation of financial statements, while its teaching methods are centered around the use of card punching machines.

The fact that there are no professional institutes where students can get pre-job training after graduation (as is the case in the UK and the US) makes evident the need for the widest possible practical curriculum to be adopted within the accounting programme, even if it means a programme of five years.

All in all, the Libyan accounting education programme has to strike a balance between the short-term need for persons who are capable of making independent and informed professional judgements, and the long-term need for graduates with potential to advance to more responsible positions and to adjust to the demands of the country.

4.4.2 Text Books

Accounting text books in Libya were at first wither British text books translated into ARABIC or text books written by Arab writers who had their education in Britain. The main publishing houses for these books are located in Egypt and in Lebanon. However, since the early 1970s, for political reasons, text books from these publishing houses have become unobtainable. Added to this is the fact that most of the accounting teachers since then have had their education at American universities. These two factors, together with the change in the accounting education system, caused a total shift from British orientated text books to American orientated books, for it is the accounting instructors who usually recommend the required text books, as they had been using American text books, they usually recommended these. In many cases instructors have to translate such texts into Arabic in order that students can use them.

Books such as "Fundamentals of Financial Accounting" by Glen Wellsh and Robert Anthony, and "Principle of Auditing" by Walter B Meigs, O. Ray Whittington and Robert F. Meigs and "Financial Statements Analysis" by George Foster and many other American text books in various areas, are very popular in Accounting libraries of the Faculty of Economics.

In many cases syllabuses of courses are taken item by item from the contents of those text books. American text books have also influenced the method of accounting teaching in Libya. For example, first-year students according to the old system were introduced to accounting double entry through what is called in Arabic "theory of taker and giver", which is mostly used by British books. Nowadays, first semester students are introduced to accounting double entry through what is called "the balance sheet equation". Another example of the influence of American text books on accounting teaching is found in the naming and classification of accounting courses. Under the old accounting education system, the second-year accounting course was called "Partnership and Company Accounting", and dealt with the establishment, opening balance sheet, recording of business operations, preparation of financial statements, and liquidation of partnerships and companies [The Libyan University, 1972, p. 62]. This arrangement followed the contents of the British orientated text books. Nowadays, under the new system, these topics have been integrated with other topics and spread between four-semester courses which cover intermediate and advanced accounting [Garyounis University 1983, p. 148-149].

So far there are only two accounting text books written by Libyan teachers, namely, "Accounting Principles" and "Cost Accounting", written by the same author, Dr. Khalifa Dau, and even these two books are American orientated.

4.4.3 Problems With Text Books

Text books represent a very serious problem area in Libyan accounting education. One of the critical problems is their scarcity, in quality as well as quantity. If accounting education in Libya is to be relevant to its environment, then the development of text books and teaching materials should have a very high priority. Despite the fact that there are many problems concerning the publishing of books written in Arabic, the accounting academicians in Libya must start thinking seriously about this.

Arabic accounting text books used up to the 1970s dealt mostly with elementary and intermediate financial accounting problems and elementary cost accounting areas. Analytical, discussion, advanced and quantitative accounting areas were not dealt with, and other specialised accounting areas such as public sector accounting, national income accounts and other macro level areas were totally ignored.

However, some progress towards quantitative analysis, and current accounting issues (such as current cost accounting, multinational enterprise accounting and so on) has been made since the return of Libyan teachers educated in America. Nevertheless, with the commencement of a Masters programme in accounting, and the existence of ambitious economic development plans, both Libyan managers and students need more advanced, specialized and relevant knowledge of accounting. To meet the new demands, there must be a strong effort to develop relevant text books and teaching materials.

The current teaching method of classroom lectures, mechanical exercises and text book reading is only a spoon-feeding method which makes the student totally dependent on memorizing written material, with no sense of creativity or analysis. Hence, case studies, seminars field trips, on-job training, real business problems and research-orientated courses should all be integrated into accounting education, if accounting students are to contribute to their country's development. Libyan cases must be written by Libyan authors, for American cases are written for the American environment, and should not be used for Libyan classes. [Briston,R . 1978,p.113.] Libyan accounting books should also be written on an original basis, with reference to American and European books in the areas of quantitative techniques, but not in areas of a problemistic nature. The blind import of foreign concepts, theories and problems may cause more difficulties rather than solving them in real situations.

4.4.4 Accounting Teachers And Teaching Methods

It is the policy of Libyan universities to send their top graduate students abroad for completion of their higher degrees. Until 1981, students have been sent mostly to the United States and a few to the United Kingdom and other European countries, such as Italy and France. However, accounting students have been sent mainly to the United States and very few to the United Kingdom. Since 1981, because of political difficulties with the United States, accounting students have been sent mostly to the United Kingdom. Since 1961, when the first accounting students were sent to the United States, and up to 1985, the university of Gargyounis sponsored about 37 accounting graduate students, of whom thirty had accounting degrees from the United States, while seven had a Masters Degree from the United States. Three of the seven obtained a Ph.D. in the United Kingdom, and the remaining four are currently studying for their Ph.D. in Britain.

In total, 19 out of the 37 students have completed their Ph.D. and the remaining 18 students have completed only their Masters Degree of whom four are currently studying for Ph.D. in the U.K.

The minimum requirement for teaching at Libyan universities is a Masters Degree; no professional qualification is required, as it is not accepted as a basis for appointing lecturers. [The Libyan University , 1972, p. 90.] It must be stated, however, that among the accountants in Libya who do not have a Masters Degree there are several whose competence, experience, natural gifts and devotion to duty more than compensate for their lack of academic credentials. Moreover, there are those who believe that for advanced accounting courses meaningful experience may be a more important qualification than an advanced degree. [Casino, C. A. 1981, p. 285.]

The development of teaching staff has been somewhat slow in recent years. Opportunity to Facilities for attend conferences abroad is restricted by a long red-tape process and opportunities to obtaining higher degrees for those who already have a Masters Degree are limited. Since 1983 no further scholarships have been provided for advanced studies abroad, which may well result in a very critical problem in the near future. Already almost 30 percent of those with Ph.D. Degrees have either been transferred elsewhere or have been appointed as managers in public enterprises and offices. Moreover, if the State is to be successful in opening new accounting departments at other Libyan universities and at higher institutes, and in requiring students to pursue their specialized areas as early as secondary school level, then more students and teachers should be encouraged to continue their training and higher education. Certainly, the current number of qualified accounting teachers is nowhere near the required number.

At present, most accounting teachers are full-time, with a minimum level of eight hours' class teaching. However, because of the large number of accounting students, all the staff members of accounting departments have to carry an extra teaching load, and are compensated for their minimum and extra hours according to the universities' executive regulations. It may be better for the universities to expand their base of recruitment of accounting teachers so that they will only be asked to carry a minimum load, and to allowing their staff to be hired as part-time consultants to Libyan public enterprises and to co-ordinate with the Auditor General's office. With such an arrangement, accounting teachers would be familiar with real life situations which could be adapted to accounting education while public enterprises and the Auditor General's office would have better qualified manpower.

Because of the excess teaching load and the average number of students per teacher, accounting teachers do not have enough time for study and research, or even for class preparation. In 1978 the ratio of Faculty members to students in the accounting department was 1 to 55. [Dau, K. A.1981 p.273] The situation is now even worse, since the increase in the number of Faculty students has not been matched by a rise in the number of Faculty staff. Since 1983, four new teachers have joined the department, while about 370 new students have joined the department in September 1983, 84 and 87. The Faculty was not able to receive new students in September 1985, and 1986, due to shortage of staff and places. [Faculty of Economics, 1987]

As a result, accounting teaching is dependent on text book assignments and lectures combined with blackboard demonstration. There is too much emphasis on preparing students for class examinations through memorization and not enough on developing critical analysis and reasoning, reflective thinking and independent judgement. Students tend to be spoon-fed and over-dependent on the instructors, so that, the newly graduated accounting students usually lack the ability to make real life independent decisions; and lack creative mentality and overall competence in dealing with problems. Hence it is widely believed that accounting education in Libya should adopt more innovative teaching techniques and approaches so that students are motivated to think for themselves and to continue their education beyond the termination of their formal work. Managers both in different State departments and in public sector enterprises have noticed these deficiencies in most newly graduated Libyan students, [Turkey A. 1985] as has the

Auditor General's office, which has recommended that these students should be asked to spend at least two years after their graduation in the Auditor General's office in order to achieve practical experience [El-Besharie 1985].

4.4.5 Students And Standards

Libyan students of accounting more often than not come from a small town environment with an education characterised by memorized learning, for the standard of pre-college education is very much spoon-feeding, with little independent thought or creativity.

Between its establishment in 1957 and 1982 the Faculty of Economics has graduated 2,689 students, of whom 1,222 were accounting students (about 45 percent) (see Table 4.5).

Accounting is a very popular course with Libyan students due to the fact that there is a greater demand for accounting students than for students graduating in other departments. This has become very clear since the 1970s when public enterprises began to appear. The demand for accounting students is still growing faster and faster, especially since 1985 when foreign accountants were not allowed to work any more in Libya.

However, a mere 1,222 students graduating in accounting during a period of 21 years (1961-1982) - or an annual average of 58 students - is less than acceptable for a

Table 4.5

Number of Students graduated From Faculty of Economic and Commerce for the period 1961-1986.

	Departments			
Year	Accounting	Business Administration	Economics	Total
1960/61	10	5	14	29
1961/62	14	11	12	37
1962/63	21	-	21	41
1963/64	38	-	28	66
1964/65	37	-	17	54
1965/66	35	-	15	50
1966/67	28	10	14	52
1967/68	13	17	18	48
1968/69	21	14	10	45
1969/70	26	16	14	56
1970/71	31	24	30	85
1971/72	47	23	20	90
1972/73	72	27	25	124
1973/74	93	30	17	140
1974/75	119	30	21	170
1975/76	133	65	12	210
1976/77	94	51	9	154
1977/78	86	41	16	143
1978/79	103	43	20	166
1979/80	20	19	12	51
1980/81	63	61	25	149
1981/82	56	73	35	164
1982/83	62	66	31	159
Total	1222	727	436	2285
1983-86	242			
Grand total	1464			

Source: Compiled by The author from records of examinations and Statistics Department, Faculty of economics. 1986.

country which has a population of about four million and which is in the middle of the process of development. Even if one adds to this the average number of graduated students from the new Department of Accounting of El-Fateh University and from the other intermediate institutes, the average would still be far below the number necessary to meet the demand. [Faculty of Economics, 1986 pp.1-30]

A close look at Table 4.5 shows that the number of students graduating in accounting can be classified into three main periods of time: 1) 1961-1970; 2) 1970-1980; and 3) 1980-1982.

In the first period, the annual growth of students graduating in accounting is very much in line with the growth of students in other departments and is an average of 30-33 percent of the total number of graduated students. In the second period, the growth of the number of students graduating in accounting has increased dramatically in absolute numbers and in relation to the average in other departments (50-60 Percent). Finally, in the third period, the number of students graduating in accounting has slowed down in terms of absolute numbers and in terms of the average number of students graduating in other departments.

These changes may have been caused by a combination of factors related to the administrative system, to the curriculum and structure of the accounting programme and to accounting teachers. In the first period the administrative system was British orientated with a full nine-month academic year and a curriculum influenced mainly by British practical and professional requirements. For these reasons the pass standard was very high and consequently the number of graduating accounting students was low. In the second period the situation was a mixture of the first and third periods. The administrative system and programme was the same as that for the old period, whilst the curriculum and teaching were influenced by the American system. As a result, American text books and American curriculum became dominant and students became more dependent on classroom lectures, text book memorization and more quantitative subjects. Resulting from this combination of factors - the full nine-month academic year, mostly spoon-feeding teaching methods and easier material to remember - the number and average of students graduating in accounting jumped up. Furthermore, accounting students of that period enjoyed the advantage of a lower pass mark (50 percent) under the British system, and of greater spoon-feeding under the American curriculum and teaching methods. However, a 40 percent pass mark under the British system is more difficult to achieve than a 50 or 60 percent pass mark under the American system.

Finally, in the third period, Libyan accounting students have been caught between two contrasting environments. The new education system with a sixteen-week long semester, continuous assessment during the semester, and fairer distribution of grades throughout the semester, together with unfamiliarity with the semester system through the past school years, and finally the demands of the social environment (when students may miss classes for a number of weeks because of the illness or death of a member of his family) - have caused the drop in the number and average of graduating accounting students. Indeed, the requirements of the new education system states that any student whose overall average is less than 2 points or Grade C for five consecutive semesters shall be dismissed from the school altogether. At one point of time, there was a list of about 500 students to be dismissed from the Faculty of Economics. This caused deep concern to the university authorities, the students and their families, and the education authorities, but finally the regulation had to be applied, and the students were dismissed. Such a waste of scarce human resources, as well as the declining standard at the grass-roots level of the Libyan education, system should be taken into consideration when a revaluation of accounting education in Libya takes place.

4.5. Vocational_Education:-

The foregoing discussion of accounting education in Libya was based on the system at the Faculty of Economics of the University of Gargyounis. Below the University level, there are vocational education institutes in different cities around the country. However, the accounting education systems in these institutes are dominated by the University. Their staff members are mainly graduates of Gargyounis University, and their text books are mostly written by staff members of The Faculty of Economics, but the number of subjects taught is far less than at the University

Tables 4.6 - 4.9 show the number of students, teachers, graduates, and structure of the accounting programme of these institutes. The Tables demonstrate that the number of enrolled and graduated students is far greater than at the University, and that the emphasis of the accounting programme is to provide accounting clerks, and book-keepers.

4.6. Accounting Research And Development

Research is generally acknowledged to be one of the basic functions of academic departments at universities. However, accounting research in Libya is hampered by lack of recognition on the part of the authorities, lack of time on the part of Faculty staff, lack of facilities and lack of encouragement from other parties.

In Libya there are three main institutions through which accounting research can be conducted: the research centre at Gargyounis University, the National Agency of Scientific Research (Economic and Social Studies Division) and the Arabic Institute for Development.

Table 4.6

Number of students and Teachers of Institutes of Financial and Economic Studies [1985/86].

Series	Name of Institute	No. of Students	No. of Teachers	
			Libyan	Non Libyan
1	Haiti for Financial Studies	1285	6	23
2	El-Feteh-male	730	2	20
3	El-Zawiah	430	5	10
4	El-Ayelat	27	7	9
5	Teeji	315	1	11
6	Terhouna	184	3	5
7	El-Khemis	334	2	8
8	Zeliten	300	7	19
9	Musrateh	225	7	5
10	Benghazi	466	N.A.*	N.A.
11	El-Beida	696	N.A.	N.A.
12	El-Gebba	183	N.A.	N.A.
13	Derma	186	N.A.	N.A.
14	Taubrequ	58	N.A.	N.A.
Total		5813	41	118

Source: Secretariat of education, Vocational Education Section, Human Science Department.

* Not available.

Table 4.7

Number of students and teachers of Financial and Management Institutes for the Year 1985/86.

Series	Name of Institute	No. of Students	No. of Teachers: Libyan	No. of Teachers: Non Libyan
1	El-Fateh/Tripoli	743	19	9
2	The Great River	471	7	10
3	Jenzoor	305	1	7
4	Tajoora	58	4	2
5	Kasser Ben-Ghasheer	42	2	3
6	Terhoona	34	1	6
7	Zawia	204	2	4
8	Yefren	28	1	1
9	El-Khomis	60	-	3
10	Zeliten	13	-	3
11	Benghazi	326	-	N.A.
12	El-Fateh/El-Fateh	147	N.A.	N.A.
13	El-Beida	516	N.A.	7
Total		3226	36	55

Source: Secretariat of Education, Vocational Education, Human Sciences Department.

Table 4.8:

Number of Graduated Students

from Technical and Vocational institutes

for the Period 1980-1985.

Year	Institute: Financial and Banking Studies	Financial and Management Studies	Higher institute For Banking and Financial Studies	Total
1980	484	78	NA	562
1981	405	199	10	614
1982	710	25	27	762
1983	486	610	16	1112
1984	850	656	25	1531
1985	536	567	18	5481
Total	3328	2135	96	5559

Source: Compiled by the author from recordes of Technical and Vocational Education section, Secretariat of Education, Tripoli . Summer 1986.

Table 4.9

Accounting Programme of Institutes of Financial and Banking Studies and Financial and Management Studies

Year	Financial & Banking Studies	Financial & Management Studies
1	Accounting & Book-keeping Principles (1)	Accounting & Book-Keeping Principles (1)
2	Accounting & Book-keeping Principles (2)	Accounting & Book-Keeping Principles (2)
3	Cost Accounting Applied Accounting	Cost Accounting
4	Tax Accounting Banking & Issurance Accounting . Internal Control	None

Source: Ibid.

A number of research projects have been conducted through the research centre of the university of Gargyounis since its establishment in 1973. However, accounting research has been confined mainly to the designing of financial and cost accounting systems for a number of Libyan public enterprises. In 1983/84 alone, the staff of the accounting department were conducting ten research projects concerning systems for public enterprises. [Garyounis University, 1984, p. 30.]. However, most of those systems were taken directly from American text books and American-designed systems which had been prepared to serve American interests.

The second institute through which accounting research is conducted is the National Agency of Scientific Research. This was established in 1982 and among its objectives is the initiation and organisation of research projects which it believes are essential for development. However, the agency has recommended only one accounting research project since its establishment.

The third institute where accounting research can be conducted is the Arabian Institute for Development, which was established by a resolution of the Arab League in 1972. However, it has not conducted any research related to accounting, apart from some accounting articles in its journal.

Accounting research may be conducted through scientific journals. In Libya there are two scientific journals which include accounting articles. The first one is "Dirassat", the Libyan Economic and Business Review, and the second the Financial and Economic Studies Review. The former review is published by the Centre of Economic and Business Research of the Faculty of Economics, and was established in 1965. Most of the writers of articles in this review are Faculty staff of the Faculty of Economics of Garyounis University, and most of the accounting papers written in this review are on financial accounting and auditing. A sample of accounting articles written in this journal over seven years has revealed that only twelve accounting articles were published, nine of which dealt with financial accounting subjects, which have a very limited relevance to the Libyan environment, while two articles have dealt with cost accounting subjects and only one with the subject of governmental accounting.

The Financial and Economic Studies Review, is issued by the Higher Institute of Financial and Banking Studies in Tripoli and was first published in 1984. Evidence suggests that it will follow the same path as "Dirassat", since all accounting teachers at that institute are American and British educated.

The third way in which accounting research in Libya is conducted is through the research project which is one of the requirements for an accounting degree - at the department of accounting in relation to a Bachelors Degree, and at American and British universities in relation to a Ph.D. Degree. All final Year students, under the old accounting system were required to complete research projects in which they chose an accounting topic and investigated it. Most of the topics involved library research based on American, British and Arabic books. Very few of the projects had any empirical data and most were descriptive studies. However, since the introduction of the new education system at the Faculty of Economics, the project has become optional rather than compulsory.

The other means of research are the dissertations and theses which are required for Ph.D. degrees for Libyan students at British and American Universities. Since 1971 when the first Libyan was awarded his degree there have been sixteen Ph.D. dissertations and theses. All but four were conducted as partial fulfillment of Ph.D. degrees at American universities. A survey of "Dissertation Abstracts International" (University Micro Film) regarding American and British Ph.D. Dissertations has shown that the breakdown of those sixteen Ph.D. dissertations between different areas of accounting is as follows:

Financial accounting topics	10
Auditing	2
Taxation	2
Cost and managerial accounting	1
Governmental accounting	1

The survey also showed that only three dissertations dealt with topics related to the Libyan environment, namely: planning and control functions at the Libyan oil refinery, effectiveness auditing for governmental programmes in Libya, and services provided by Libyan accounting firms to their clients. All in all, then, the vast majority of these dissertations have dealt with topics relevant only to the American and British environment, with an almost total neglect of Libyan topics. Moreover, about 66 percent of those topics have dealt with one accounting area - namely, financial accounting - to the virtual exclusion of national macro accounting and to the neglect of cost and governmental accounting.

If Libyan nationals are to continue their research and independent studies when they go back to their country, and if the objective of sending them abroad is to be achieved, then Libyan students abroad should do their best to choose topics which relate to the Libyan environment, so that they can contribute to the tackling of the many accounting economic and managerial problems which are faced by their country.

In conclusion, then, accounting research in Libya has been quite insignificant. Only the staff members of the Department of Accounting have been active in that field and then on a small scale. Accounting research in Libya has not been strong, mostly because accounting principles and standards referred to have been taken from British and

American text books and journals, and because accounting information was not considered to be important by the various authorities. Even the limited research attempts that have been made have been scarcely relevant to Libyan needs. However, this must be changed if Libyan economic growth is to be based on relevant information.

The topics of accounting research should be related to current Libyan accounting problems, such as current cost accounting, foreign exchange treatment, accounting for multinational firms, comparative accounting, national income accounts, governmental accounting, internal auditing, managerial accounting, and integration between micro and macro financial accounting.

Researchers should be given more financial and moral support from both inside and outside the universities, such as a reduced teaching load, and research facilities such as up-to-date periodicals, ability to attend national and international accounting conferences, financial compensation, the freedom of access to the necessary data, etc.

4.7. SUMMARY AND CONCLUSION

The socialist economic system of Libya is at the other end of the scale from the capitalist economic system of the United States and the United Kingdom, and it follows that their traditional accounting text books, training materials and professional examinations may not be a great help to the Libyan environment. As a result, the Libyan accounting programme and curricula (old and new) have not and will not best serve the real needs of the Libyan socialist economic structure.

The programme and curriculum of the old accounting education system was based on accounting courses, text books and materials which were taken from British courses aimed at qualifications of British professional bodies which serve the private sector.

Briston, in evaluating the relevance of British and American accounting systems to the improving of quality of accounting in developing countries, has this to say:

> "The fundamental failure in the attempt to improve the quality of accounting in developing countries is the assumption that the UK/US system is not only the best system for developed countries, but also the most appropriate for other countries, whatever their stage of development. But that system suffers from two major defects. In the first place it takes a very narrow view of accounting, emphasizing as it does financial reporting and external auditing to the virtual exclusion of public sector accounting, national accounting, internal auditing and accounting for decision making.
>
> In the second place it evolved in the environment of a free market, capitalist society in which the stock exchange was seen as a major allocator of capital resources. This environment has persisted in the UK and certainly bears little relevance to that found in developing countries where there tends to be more government ownership and far less reliance upon the stock exchange." [Briston,R.1985, pp. 30.31.]

All in all, then, the old Libyan accounting education was highly influenced by British accounting education which itself was biased towards the British accounting profession. Accordingly, the system was out of touch with the needs of the Libyan economic environment.

The new Libyan accounting education system is American orientated in all of its elements - teachers, text books, curriculum, evaluation, and the administrative system. Undoubtedly the real needs of accounting education and training in Libya nowadays differ significantly from the content of American accounting education, with which Libyan teaching staff have rushed to introduce into the classroom, and on which they have built the syllabus for accounting education. As a result the Libyan accounting programme and curricula is biased towards financial accounting and external reporting, with more than eighty percent of the programme devoted to those subjects.

However, the American Accounting Association (AAA), at its 70th annual meeting in 1985, recommended a revolutionary change in the American education in accounting. Their recommendation was as follows:

> "There is reason to think that the foundation of accounting education should be shifted from the preparation of financial statements based to a more inclusive base of an information development system, of which financial statement preparation is only one system." [American Accounting Association, 1986, p.30]

The committee recommended the following changes which are closely relevant to Libyan accounting education:

1. To orientate accounting education towards a comprehensive economic information development and distribution function. The orientation should be so structured that it fosters a systems approach to the organisation of information for decision making of various types at different levels.
2. To expand the scope of the application of the enlarged content of the accounting discipline into parts of the organization - marketing, finance, personnel, projects and programmes - towards the objective of developing an integral comprehensive information system for the entire organization.
3. To teach students by a more active mode of teaching; for example, independent study, case material, better evaluation methods, and separating relevant and non-relevant knowledge. [Ibid, p. 30]

If these changes are seen as important for American accounting education, they are even more crucial in the Libyan context.

CHAPTER FIVE

Accounting Profession in Libya

5.1 Introduction

Eric L. Kohler has defined "profession" as a "vocation" a) generally recognised by universities and colleges as requiring special training leading to a degree distinct from the usual degrees in arts and sciences; b) requiring principally mental rather than manual or artistic labour and skill for its successful prosecution; c) recognising the obligations of public service and of the public interest; and, d) having a code of ethics generally accepted as binding upon its members. [Kohler,E.L. 1983 p 399]

In broader terms, Morris Cogan has provided the following definition:

> "A profession is a vocation whose practice is founded upon an understanding of the theoretical structure of some department of learning or science and upon the abilities attending such understanding. This understanding and these abilities are applied to the vital practical affairs of man. The practices of the profession are modified by knowledge of a generalised nature and by the accumulated wisdom and experience of mankind which serve to correct the errors of specialism. The profession, serving the vital needs of man, considers its first ethical imperative to be altruistic service to the client. [Cogan,M. L .1953 pp 35-50]

Meanwhile, the accounting profession has been defined by Buckly and Buckly as follows:

> "Accounting is a multi-disciplinary profession defined in terms of the problems it addresses. At the broadest level the profession addresses the problem of achieving effective resource ;allocation. Other problems stem from this focus and include: a) technical assistance in policy formulation; b) the design and

> management of the information system; c) the evaluation of results, personnel, operations, financial systems, social goals; d) assessing performance in relation to standards, competing systems and changing conditions; and, e) assisting in design and evaluating the effectiveness of planning and control activities.[Buckly,J. and Buckly,M. 1974 p 15]

Buckly and Buckly also argued that four characteristics are indisputable, as illustrated in the following figure:

```
        Causative                        Effective

(Profession offers)   ( Profession Receives) (The outcome is)

 I Expertise --------->
 I                     <----- AutonomyI------->Authority
 I                                    I
 I Altruism--------->
 I
 I__(A service ideal)
```

Figure 5.1 Four essential Characteristics of the Accounting Profession

Source: Buckly,J.W & Buckly,M.H. 1974 p. 89.

In seeking professional recognition, aspirants offer a unique set of knowledge and affirm that it will be used in the public interest. The public responds by granting autonomy to the profession. This exchange leads to authority in which the state or government grants privileges, such as the need for licensing, to the profession. [Ibid, p.89]

It is against this background of the definition of a profession in general and the accounting profession specifically that this chapter considers the accounting profession in Libya.

5.2 Historical Background

The definition of the accounting profession as stated in the last section, is the product of social and economic changes in the western world and the U.S.A. during the industrial revolution. While the same definition is generally applied in Libya, it is not a product of changes that have occurred in Libya, but is the product of the UK/USA accounting influence upon accounting.

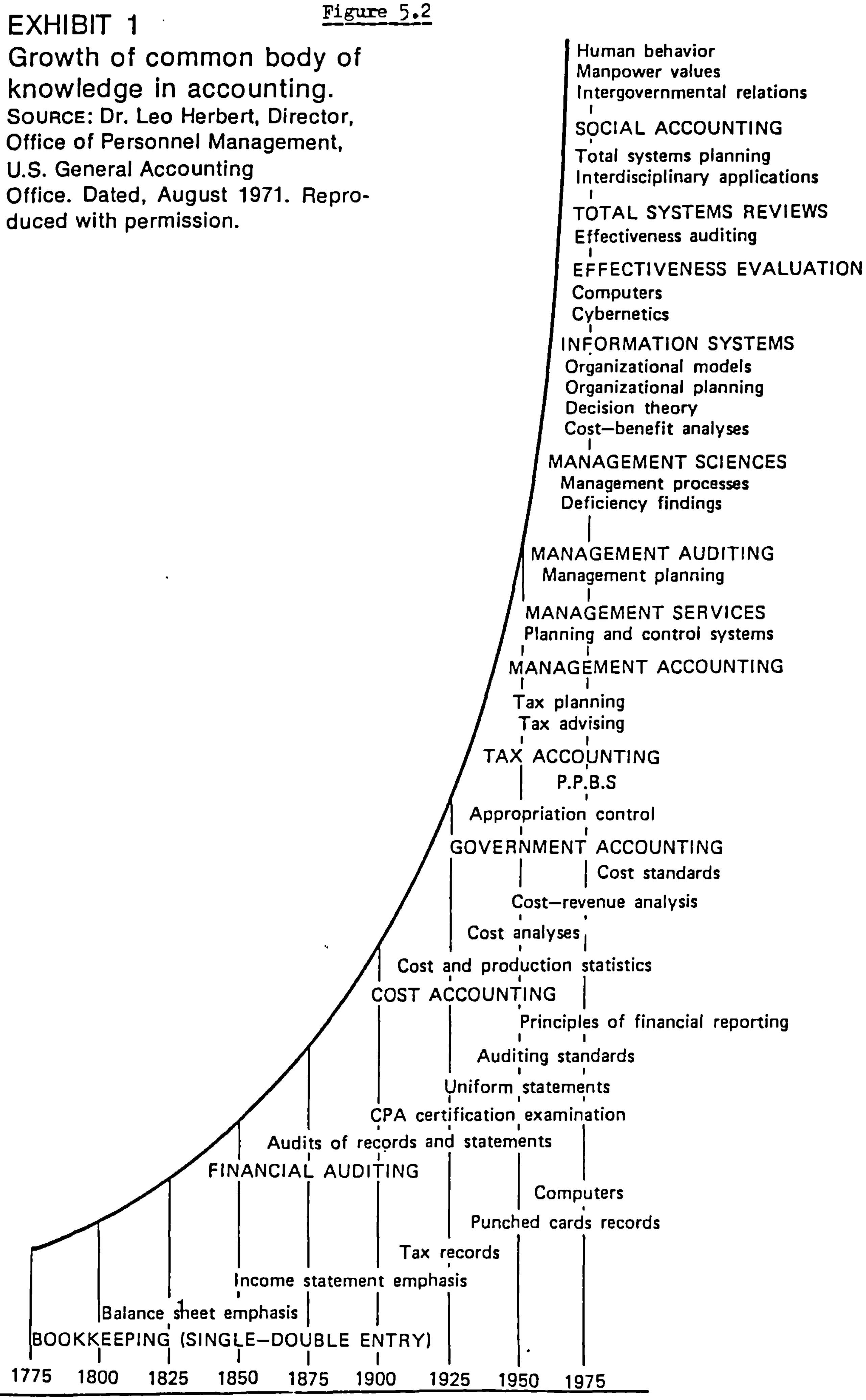
The move towards mass production during the industrial revolution led to the separation of the ownership and management of businesses. Consequently, the need for meaningful accounts to be presented by the management to the owners became a necessity. Furthermore, the new situation has led governments to enact legislation, which required the audit of accounts of these businesses by public accountants in order to protect the public, and to assess taxes. Thus, both the UK, and the USA require public-owned companies to publish audited financial statements. As a result accounting professions have become gradually organised in the USA and Europe, and have laid down rules of conduct for their members and issued pronouncements on technical questions.

The late nineteenth century and early twentieth century witnessed the birth of scientific management, whose pioneers recognised the important role that accounting can play in cost measurement and the evaluation of management performance. Management accounting tools such as standard costing, ratio analysis, and discriminate analysis were a noticeable product of this new phenomenon. Furthermore the outside pressure created by external users such as shareholders, creditors, potential investors, and tax authorities has taken a major part of accounting resources. [Most,K. 1982 p.9].

The late twentieth century has also witnessed the interaction between accounting profession and other professions and disciplines such as law, statistics, marketing, fiance and economics. To summarise the evolution of accounting knowledge and the profession, the U.S. General Accounting office has drawn a figure which represent the growth of accounting knowledge 1775-1975 . (see Figure 5.2)

By contrast, the historical development of accounting knowledge and the profession in Libya is the product of the intervention of foreign countries and companies in its internal affairs, for the history of Libya has been one of about 3,000 years of colonisation, through which Phoenicians, vandals, Byzantines, Spanish, Turkish, Italian and finally the British and French established their commercial centres in Libya.

It is possible that accounting as a formal practice



Source: - John W. Buckley, and Marlene H. Buckley " The Accounting Profession" 1974 , P. 7.

started during the Ottoman Khelafa. As the Zakat tax was assessed, collected and delivered to the central government in Turkey by its provincial local governments, the central government needed the means to check its accuracy. There is no evidence of any regulation or laws which organised accounting as such but the Zakat law certainly includes clauses for measurement, which implies accounting. Following the collapse of the Ottoman Khelafa, the Italians occupied Libya between 1911 and 1945 and established businesses in Libya. These businesses brought wit them Italian accountants and Italian accounting practices. But, despite the fact that it was the first country to give birth to accounting. Italy itself does not have a well established accounting profession. [Zappala, F. 1973 P. 111]. Some of the reasons which hampered the establishment of the accounting profession in Italy are:

1. Most of the accounting firms in Italy were international firms rendering a management consulting service where they believed that such services would be the avenue of growth in auditing engagements;
2. Italian banks did not consider potential profit or certified financial statements as a major factor in granting loans to their clients; collateral was the major factor for granting loans;
3. Family businesses were the dominant type of business in Italy and in Libya; hence no audit was required;
4. The Industrial Revolution did not take place until late

after the Second World War. [Ibid p.112]

During the period of the Italian colonisation the Italians kept their knowledge and business practices to themselves. In the words of the International Bank for Development's report:

> "The Italians did little or nothing to prepare the Libyan people for self government". [International Bank of Reconstruction and development, 1960 p.27] .

Consequently, only primitive accounting practices existed in Libya during the early period after independence. The only exceptions were the accounting practices of international companies, mainly British and American, operating in Libya. these firms had to appoint international accounting firms to certify their financial statements as required by their respective countries' laws.

Since independence, the development of the accounting profession has been widely influenced by several factors: accounting education, accountants coming from other countries, Libyan students returning from abroad (mainly the United States and the United Kingdom), and the rapid change in the Libyan social, economic, political and legal environment.

The influence of most of these factors has caused the Libyan accounting profession to follow the same path as its counterparts in the United States and the United Kingdom. Despite this, the Libyan accounting profession for most of the 1950's had no regulation whatsoever, and accountants could practise with no formal permission or license. At the same time, there was no uniformity or consistency in the presentation of financial reports or certificates.

Since the early 1960's Libya has become an oil exporting country and economic development plans have begun and businesses in both the private and public sectors had developed. Accordingly, investors, creditors and management, as well as government agencies, need much more reliable information (in theory at least) in order to make vital decisions relating to their economic activities. By virtue of this fact the role of the accounting profession has had to be recognised, and, since the early 1960's, it has become necessary to get a licence from Ministry of Finance to practise as an accountant in Libya. [Tantouch, M. 1986]. Any individual with a university degree in commerce and two years' experience in accounting has the right to become a public accountant. With the rapid growth of the Libyan economy, more and more accounting services were needed, and as a result more international accounting firms (American, British, Egyptian, Italian) as well as Libyans have started business in Libya.

Because of the easy requirement for granting a licence no control, no standards and no code of ethics - most of the licensees practised the profession on a commercial basis rather than on an ethical professional basis. Accordingly, since the early 1970's every Auditor General's Annual Report emphasised the need to organise the accounting profession in Libya. As a result, Law No. 116 of 1973 was enacted on 20 December 1973 to organise the Libyan accounting profession and established the Libyan Accountants and Auditors Association (LAAA). Before this law there was no specific law which required the financial statements of businesses to be certified by an independent auditor. Different tax laws have only required financial statements from the taxpayer as well as other attached documents to be signed by the legal representative of the taxpayer, who could be a public accountant. [Law No. 64 of 1973].

Meanwhile, the L.C.C. of 1953 required all Libyan corporations to appoint a controlling Committee of five persons, of whom at least one person should have accounting experience. This committee should present an annual report to the Annual General Assembly's meeting, expressing its opinion concerning the results of the corporation's operations and the accuracy of its accounts and its balance sheet (which should be certified by the committee).

These different tax laws and the Libyan Commercial Code of 1953 remain the only legal pronouncements which require any kind of certification of the financial statements of Libyan corporations. However, in 1970 Libyan corporations were required to form audit committees by Law No. 65 of 1970. Nevertheless it was not required that all members of such committees should be qualified accountants; the law merely stated that at least one of the members should be experienced in financial affairs and accounting. [law No 65 of 1970 article 13]

However, because of the establishment of branches of some foreign banks in Libya, it became necessary for Libyan corporations to provide financial statements certified by independent auditors if they wanted to take out a loan from those banks.

5.3 Law NO. 116 of 1973

After repeated recommendations from the Auditor General, the Libyan government finally enacted Law No. 116 of 1973 to develop the public accounting profession on 20 December 1973. The LAAA was established to achieve the following objectives:

a) To organise and improve the conditions of the accounting profession and to raise the standards of accountants and auditors professionally, academically, culturally and socially;
b) To organises conference, seminars and to participate in such conferences and seminars internally and externally and to keep in touch with new events, scientific periodicals, lectures, and so on;
c) To establish assistance and pension funds for its members;
d) To achieve consensus between accountants and auditors

and to protect their rights;

e) To penalise those who violate the traditions and ethics of profession. [Law No. 116 of 1973 article 3]

The law was divided into eight chapters:

1. The establishment of the LAAA.
2. Registration of accountants
3. Exercise of the profession
4. Fees
5. Pension and contribution fund
6. Obligations of accountants and auditors
7. Penalties
8. General and transitional provisions

A general review of the law reveals the following main features:

1. Citisenship: applicants for the membership of the LAAA must be citisens of Libya;
2. Residence: applicants should reside in Libya;
3. Education experience: applicants should have an accounting degree from the Faculty of Economics and Commerce of the Libyan University, or any other recognised university or higher institute.

For applicants to be registered in the accountants' register they must have at least five years experience of accounting work in an accounting office after graduation. Those who have a degree higher than a bachelors degree are exempt from the experience, requirement provided that the higher degree required four or more years training.

Those who are already practising the profession and have no university or higher institute degree could be registered as working accountants and auditors on condition that they may only be considered as accountants' or auditors' assistants, if they only have two years experience. If they have five years experience in a full-time accounting job and pass a special examination designed by the LAAA, they may be registered as accountants and auditors.

However, those accountants and auditors who are supposed to take this examination have yet to take it due to the fact that the LAAA, after almost fifteen years from its establishment, have yet to set it.

5.4 Association and Membership Classification

The association is run by a board of directors composed of a chairman and eight members, who are elected by the General Assembly of the LAAA. The board selects one of its members as vice chairman another as treasurer and a third as secretary. [Ibid articles 10, 11]. Currently the entire board of directors are practising accountants, i.e. working accountants and auditors. However, these working accountants tend to have little concern about the progress of the profession as long as their own business is in a satisfactory condition. There is no evidence of them being involved in any research or development or even following the progress of the profession through the accounting periodicals or conferences. Accordingly, it may be better for the sake of the profession if some of the places on the board were reserved for accounting academics, who may have the willingness and desire to improve the profession and to be associated with research and development. The membership of the profession is divided into four categories: [Ibid article 36]

1. Schedule of working accountants and auditors which is composed of:
   a) schedule of accountants and auditors
   b) schedule of accountants' and auditors' assistants;
2. Schedule of non-working accountants and auditors which is composed of:
   a) schedule of non-working accountants and auditors
   b) schedule of non-working accounts' and auditors' assistants.

Those members who are registered in category 1a have the right to certify accounts and balance sheets of all types of firms and taxpayers. They also have the right to represent their clients with the tax authorities and other authorities. Those members who are registered in schedule 1b may only establish their own offices if they have had at least two years' experience with those who are registered in schedule 1a. However, they may only:

1. Certify accounts and balance sheets of firms with no shares;
2. Audit and certify accounts of taxpayers who are subject to taxes on incomes from commerce, industry and independent professions whose capital does not exceed 20,000 Libyan dinars or whose annual net income does not exceed 5,000 Libyan dinars according to the last certified financial statements or tax declaration;
3. Audit and certify accounts of taxpayers who are subject to general tax on income and whose revenue does not exceed 10,000 Libyan dinars according to the last tax declaration. [Tantouch M.]

The above rules suggest that a public accountant needs experience before he may express an independent opinion concerning corporate financial statements. While such a rule is understandable, it is doubtful whether an accountant or auditors assistant would be exposed to expressing an independent opinion on financial statements while he is working as an employee in another accountant's or auditor's firm. The job of these assistants would be mostly confined to writing up records and, to a small extent, to tax accounting services. Accordingly, it may be better if the rule could be replaced by one which explicitly requires the applicant to spend a minimum period of training in a public accountant's office where he would be exposed to co-operate auditing before a licence is issued to him.

5.5 The Independent Status of The Auditor

With the object of maintaining the auditor's independence, Law No. 116 of 1973 prohibited the auditor from combining his status as a public accountant with certain activities such as:

1. A ministerial position;
2. Any public post, permanent or temporary, with salary or compensation (unless he was permitted to do so according to the provision of this law);
3. Any commercial activities;
4. All other activities which are not compatible with the profession; [Law No. 116 article 25].

Furthermore, it is illegal for the members of the organisation to advertise or to use mediators in order to practice the accounting profession; and all members of the organisation are required to meet all obligations that may be imposed on them by law and by the ethics of the profession. [Ibid, article 49]. Both the L.C.C of 1953 and the Commercial Companies Act No. 65 of 1970 prevent members of the controlling committee and the audit committee from being permanent employees of the audited company or any of its subsidiaries, and they are not allowed to be auditors if they are related to the fourth degree to any of the directors of the company. However, the laws have stopped short of preventing the auditor or the members of the audit committee from acquiring a financial interest in the companies they audit.

In practice, however, the independence of the Libyan auditor is very doubtful, given that social and family ties play a major role in appointing the auditor. It is for that reason that the Auditor General requires that all external auditors to Libyan public enterprises should be appointed according to his recommendation, under Law No. 118 of 1973. It is hoped that the experience of the Auditor General and the integrity of his office will achieve the best possible independence of the auditor.

5.6 Professional Ethics

Ethics means the body of moral principles, values or rules of conduct followed by an individual or a group. Accordingly, most recognised professions have prepared a code of ethics, the purpose of which is to give guidance to the members themselves and between the members and their clients. Meigs et al define the purpose of such a code as follows:

> "The fundamental purpose of such codes is to provide members with guidelines for maintaining a professional attitude and conducting themselves in a manner that will enhance the professional stature of their discipline." [Meigs,W, Meigs, R. &Ray, O. 1982, p.40]

Not all countries, developed or developing, have formal codes of ethics for their accounting profession. However, in countries that do not have formal code of ethics, the practitioner may informally agree upon a fairly developed code of ethics. Moreover, the agreement on a code of ethics and the adherence to it by the overwhelming majority or practitioners transform a vocation into a profession. [Higgings, T.and,Alson,W.E, 1972, p 33].

In Libya, despite the fact that Law. No. 116 of 1973 stated that the profession's code of ethics shall be presented in the executive's memorandum, the profession has yet to have such a code, about fourteen years after its establishment. However, a suggested code of ethics was proposed to LAAA the by one of the staff of Accounting department. [El - Arabi, A. 1973]. This code was taken directly from the American Institute of Certified Public Accounts' code of ethics, and contains the same rules of conduct as in the United States. It includes such rules as:

1) independence,
2) integrity and objectivity,
3) general standards,
4) auditing standards, and
5) conformity with accounting principles.

Despite the absence of any formal code of conduct in Libya, some rules similar to those in America do exist to a very limited extent. These rules are scattered over the L.C.C. of 1953, the Commercial Companies Act of 1970 and Law No. 116 of 1973. All of these rules are dictated by the government and there is nothing stated by the profession itself.

5.7 Auditing Procedures

Auditing procedures refer to the detailed acts or steps undertaken by the auditor in the course of his investigation. A popular example of such procedures is the inspection and counting by the auditor of the client's assets such as cash, marketable securities, notes receivable and inventory. [Meigs,W. ,Meigs ,R. &Ray,O. 1982 p. 21].

The L.C.C. of 1953 has required the board of directors to submit to the controlling committee the balance sheet, the board's Report and all other documents. The law then requires the controlling committee to certify the balance sheet and the other documents to the General Assembly of the company. However, the law does not require the committee to perform any auditing procedures to satisfy itself as to the physical existence of the assets, the certainty of obligation, or to confirm the accounts receivable. At the same time, due to the fact that the mail service in Libya is poor and the means of transportation are no better, it is highly unlikely that independent auditors would use letters of confirmation to verify accounts receivable or undertake the burden of attending the physical taking of any inventory located outside the main cities of the country. Indeed, it is common for the auditor's report to state that inventory-taking is the responsibility of the management.

5.8 The Audit Report

The expression of the auditor of his independent and professional opinions the most important part of the whole audit operation. Most of the countries which have an organised accounting profession have adopted a specific form of audit report. Such a report is uniform and binding on all members of the organisation.

The most notable forms are the American and British, which express opinions in respect of the fairness of the financial statements in the case of the USA and the "true and fair view" in the case of the UK.

However, there is no standard form of auditor's report in Libya. The diversity of auditors backgrounds in Libya and the fact that the LAAA has yet to recommend a standard form do suggest a variety and diversity in the form of audit reports. Indeed, while evidence of the use of American and British audit reports has been found, many other forms have been found by the author. For example, Bait-El-Mal, M.M. , Charles, S &Taylor, M. , presented an independent auditors' report for one of the Libyan companies which is a complete translation of the American form. [Bait El-Mal,M.,Charles, S.&Tylor, M. 1973,p.93].Further diverse forms of audit reports have been found by the author, For example, an audit report by an accounting office in 1973 for the "Inx" Italian Company filed in Umma Bank, Sebha Branch. The words of the report are translated from Arabic into English by the author:

To Shareholders of INX.Corporation:

> " We testify that we have examined the Balance Sheet of the Inx Corporation Subsidiary, located in Sebha, Libya, as of 31 December 1973, and the Profit and Loss Account for the year then ended, according to the known auditing standards. Our examination included all the necessary tests of the necessary records, book and other accounting documents and other tests we considered necessary. We obtained all information and reports we asked for in order to accomplish our task.
>
> In our opinion, and to the best of our knowledge, which is based on the information given to us, the above mentioned Balance Sheet shows the financial condition of the Corporation Subsidiary as of 31 December 1973 and the Profit and Loss Account shows the result of the Subsidiary's operation for the mentioned year. both of the statements are prepared in accordance with the Commercial Law of 1953, Commercial Companies Act of 1970 and Tax Law of 1968, and the Subsidiary's books."
>
> Sebha, S.H ACCOUNTING OFFICE
> 31 May 1973

This form does not refer to generally accepted accounting principles nor does it specify whose auditing standards are applied. Nor does it express an opinion about the fairness of the statements or whether the statements give a true and fair view of the state of the company's affairs, as its American and British counterparts do. However, it does refer to the different Libyan laws and states that the financial statements were prepared according to these laws. However, it only reports on transactions and records which are kept in accordance with the requirements of those laws.

In general, audit reports in Libya are not uniform and are not based on any set of standards or procedures, even after the enactment of laws number 116 of 1973, 118 of 1973 and 79 of 1975. Law No. 79 of 1975 merely states that the audit of companies' accounts and enterprises shall be conducted in accordance with normal accounting principles and within the scope of the province governing the activities of these companies and enterprises. [Law No. 79 of 1975 article 18].

Speaking from his own experience, the Auditor General has specifically mentioned the diversity of audit reports in respect of the Libyan public enterprises which were subject to external auditors' examinations. Consequently, the benefit of the audit report is very doubtful with regard to decision-making investment, credit, education or policy.

5.9 Competence and Technical Standards

For any public accountant to be competent and a real professional, he has to strive to improve the quality of his services and to observe the profession's accounting principles, auditing standards and rules of conduct. However, such principles, standards and rules do not exist in any formal way in Libya. Hence the competence of the Libyan public accountant is measured by his education qualifications, his experience and his reputation in the business community. [Tantouch, M 1986]. In order to enhance any of the above mentioned factors, a public accountant has to keep in touch with new accounting periodicals and attend seminars and discussion groups. These are particularly important where there is no formal or non-formal continuing education, as is the case in Libya.

Since there is no mandatory requirement for continuing education in Libya, one may ask whether Libyan public accountants are participating in any other activities such as research, seminars, conferences, or following recent developments in the profession through accounting publications to improve the status of the profession and that of the members themselves. The answer is "No".

This may be explained by the fact that most of the public accountants in Libya know little English and that there are very few accounting periodicals written in Arabic.

One of the objectives of the LAAA is to educate its members through publications, seminars, conferences and fellowships, [Law No. 116 article 3] but this objective has yet to be achieved.

5.10 Responsibility to Clients and to the Public

The Responsibility to clients relates to confidentiality of client information and to contingent fees, whilst responsibility to the public refers to due care and prudence by the public accountant in expressing his opinion concerning his client's financial statements.

The confidentiality requirement is stressed in Article

51 of Law No.116 of 1973, which states that a public accountant should refuse to give any information known to him from practising his profession unless his purpose is to prevent a criminal act.

However, the law does not specify any responsibility of the public accountant towards the public, except in general terms scattered around its different articles. For example, article 49 states that "an accountant and auditor should operate according to the principles of honesty and should fulfill all of the duties which are imposed on him by the profession's laws, arts and traditions." Article 53 states that the association may give a warning, suspend a member for up to three years or expel him if he commits acts which are degrading to the profession by violating the requirements of honesty and integrity in his professional work. The expulsion, suspension or warning is decided upon by a committee of two persons chosen by the board of directors of the association. Under article 56, a public accountant may also be prosecuted by the public prosecutor. In practice, though, no such case has taken place, nor have any registered public accountants been expelled or suspended. [Tantouch,M.1985]

The issue of contingent fees for audit work is not specifically stated in the Law. However, it does state that in the case of disagreement between the pubic accountant and his client concerning the audit fee, they should bring the matter to the board of directors of the association who should resolve the matter within sixty days from the date of the case being reported.

Further, all laws establishing Libyan public enterprises state that the appointment and remuneration of external auditors are the responsibility of the respective minister. However, under Law no.118 of 1973, it becomes the responsibility of the Auditor General to appoint and to suggest the remuneration to be paid to the auditor. [Law No 118 of 1973 article 9]. The Auditor General's office has chosen the number of hours spent on the audit work as a basis for estimating fees. El-Sherif found that out of 46 Libyan accounting firms 4 firms (or 8.7 per cent) have annual gross fees of under L.D.5,000, 6 firms (or 11 per cent) have L.D.5,000 to 10,999, 7 firms (or 15.2 per cent) have L.D. 11,000 to 19,999, 8 firms (or 17.4 per cent have L.D.20,000 to 29,999, 12 firms (or 26.1 per cent) have L.D.30,000 to 39,999 and 9 firms (or 19.6 per cent) have L.D. 50,000 or more. [El-Sherif, Y. 1978, p.135]. Currently, the cost of the external audit of LPE, by the auditor general staff is estimated to be about L.D. 6 m [EL -Arabi H 1986].

5.11 Services Rendered By Public Accountants In Libya

Law No.116 of 1973 states the type of firms which each category of registered accountants and auditors and their assistants may audit, [Law No.116 article 34] . Accordingly, it is assumed that the public accountant may render any service required by his client. These services might include book-keeping, auditing, tax services, liquidation, management services, system design and installation, and public sector financial management.

In fact, El-Sherif in 1975 found that the three dominant services rendered by Libyan accounting firms were: audit work, tax services and book-keeping. Out of a sample of 46 accounting firms, 46 (or 100 per cent) performed audit, 21 firms (or 65.6 per cent) provided tax services and 20 firms (or 62.3 per cent) were rendering book-keeping services. [El-Sherif,Y.1978, p. 148]. Management services and system design count for merely 18 per cent each. No public sector financial management work was performed, while as the year 1975 fell in the middle of a business boom in Libya, so that liquidation services were almost non-existent. In 1986 the general secretary of LAAA stated to the present author, that while all public accountants in Libya offer external audit to their clients, only 10 per cent of them offer tax advice, and none offers management advisory

5.12 Public Sector Audit

Libyan public enterprises are subject to independent audit according to the law establishing each enterprise. Their audit was conducted by accounting firms licensed by the Ministry of the Treasury, whose appointment and the assessment of their remuneration was the responsibility of the respective minister of each individual enterprise. Auditors were responsible only to the ministry, which served as the general assembly of shareholders of each enterprise.

The early 1970's may be regarded as the "golden era" of public accountants in Libya. This was the period which witnessed the birth of large Libyan public enterprises. As a result, most public accountants became more careful and thorough in their examinations because they were dealing with bigger corporations, owned and supervised by the government. Their reports became more informative, as can be seen by comparing the audit report of those firms after they had been nationalised with their audit report before nationalisation. [Semba m. 1985]. However, their reports still suffered from short-comings due to the fact that they were only concerned with the audit of financial accounts and made no reference to management performance or to the effectiveness and efficiency of the operations of the enterprises. [The Auditor General 'S Office 1984, 1985]. Law no. 118 of 1973 transferred the responsibility of the appointment of external auditors for all public enterprises to the Auditor General. Then, under Law no.79 of 1975 in the case of all enterprises where government of public organisations and corporations had contributed not less than 25 per cent of the capital or had guaranteed a minimum profit, [Law 79 article No. 18] the Auditor General's office had the option of auditing them or appointing a public accountant who would be directly responsible to the Auditor General instead of the respective ministry of the enterprise.

The Auditor General's office now chooses the auditor for each public enterprise according to each accounting office's technical and practical ability. The office also discusses the audit procedures with the auditor before he starts his audit, and examines the auditor's report to check its comprehensiveness and its presentation. The office has the right to check the auditor's work or to ask him to do some of it again. [El - Arabi H, 1984, p. 7].

After ten years of these arrangements, the Auditor General's office has found some advantages and some disadvantegs:more audits have been conducted than would otherwise have been possible. Also, the arrangements have improved relationships between the office and public accountants and have helped the accounting profession in establishing rules and standards for the technical performance of the audit. They have also taken the burden of finding qualified and suitable external auditors from the management of the public enterprises. However, the disadvantages include the delay in the submission of some audit reports, the variety of the audit reports between one public accountant and another, and the absence of some vital information necessary to check such reports. On the other hand, public accountants complain of paperwork and red tape and of the decrease in the degree of their independence concerning the audit programme, fees assessment and discussion of their reports. [Ibid p.10].

Interviews with financial managers of some of the pubic enterprises suggests that some auditors appointed by the Auditor General are not able to perform management advisory services. The managers also argued that the auditors appointed by the Auditor General do not usually submit a management report based upon their examination of the accounting records. [Turky, A. Gaddoreh,B. 1985].

5.13 Recent Development

As stated earlier, the early 1970's were the "golden era" for the accounting profession in Libya, when vast growth in its economy, the number of business firms increased rapidly and big government corporations were created. As a result, the demand for accounting services increased and the number of firms of public accountants definitely rose. The other boost for the profession came from the recognition of the accounting profession by the enactment of Law NO.116 of 1973.

Since then the profession has suffered severe set-backs. According to law No. 118 of 1973, the audit of all public enterprises became the responsibility of the Auditor General's office. Despite having the option of appointing independent public accountants to audit these enterprises, in recent years most of those enterprises have been audited by the staff of the Auditor General's office. Furthermore, audit fees have been reduced drastically by the office to the extent that during the early years following 1973, some of the public accountants refused to conduct any audit work for public enterprises. But those who have remained in the profession have had to avail themselves to the Auditor General's office because of the reduction of the role of the private sector in the economy. In fact, since 1980 there have been no Libyan private firms and only a few foreign enterprises require accounting and auditing services for certification of their financial statements, for borrowing purposes and for advice and help in filling in tax returns and other financial reports demanded by the state organisation.

Yet another set-back for the profession occurred in the summer of 1985 when the state decided to evacuate all non-essential foreign labour. Foreign accountants were considered to be non-essential and accountants from public accounting firms, public enterprises and other public sector organisations were evacuated. The evidence suggests that the effect on all sectors will be immense, and that the accounting profession, as well as other administration functions, will be severely hit. In a country where out of 4,570 accountants 3,068 (or about 67.1 per cent) are foreigners and only 1,502 (or 32.9 per cent) are Libyans, it is very doubtful that such manpower is not essential (see Tables 5.1 and 5.2). In the last two Development Plans (1976-1980 and 1981-1985) the estimated need for accountants was about double the number of available Libyan accountants. Specifically the plan of 1981-85 has estimated that the Libyan accountants will count for about 61.4% of needed accountants. [Secretariat of planning 1985 p. 160].

Table 5.1

The Breakdown of Working Accountants in Libya between Libyans and non Libyans

Nationality	Number	%
Libyan	1,502	32.9
Foreigner	3,068	67.1
Total	4,570	100

Table 5.2

The Breakdown of Working Foreign Accountants in Libya According to their Nationalities

Nationality	Number	%
Egyptian	1,202	39.2
Sudanese	578	18.2
Tunisian	27	1.6
Pakistani	95	3.1
Turkish	44	1.4
Indian	71	2.3
Italian	106	3.5
Bulgarian	68	2.2
Polish	24	.8
Rumanian	40	1.2
Others	813	26.5
Total	3,068	100

Sources: SPLAJ, Secretariat of Planning, Dept. of Census and Statistics, Final Results of Manpower

5.14 Evaluation

Following the detailed discussion of the status of the accounting profession in Libya, it is now possible to answer the first question presented at the beginning of this chapter, namely: Is there a well established accounting profession in Libya?

According to L. Kohler's definition of a "profession", to be a profession there has to be recognition by universities and colleges. Libyan education does recognise accounting in this sense by the establishment of accounting departments at different levels of education. At the lower level of education the country has a number of commercial institutes, at the intermediate level it has some secondary institutes, while at the higher level it has a number of higher institutes as well as two accounting departments at the universities of Garyounis and El-Fateh. However, the fact that accounting education in Libya is highly American and British orientated suggests that accounting as a profession may receive little support from education, for accounting education in the USA and the UK is only part of the professional education. The other parts are those different institutions which are mainly concerned with preparing college graduates to become members of the profession. Such professional institutions does not exist in Libya and hence the support by universities and colleges for the accounting profession is at best incomplete.

According to Kohler, a profession requires mental rather than manual labour. It is by virtue of the very nature of accounting work that public accountants in Libya use their mental ability rather than their manual ability to do their work. But evidence does suggest that they perform their profession in a static and routine manner rather than a dynamic and creative manner. The majority of Libyan public accountants do not endeavour to follow new developments of the profession nor do they contribute to these developments.Few of them read any of the profession's publications or write any articles,and none of them has had any further or continuing education. Accordingly while accounting is not a predominantly manual activity in Libya it is a more static, routine profession rather than an intellectual one.

The other two of Kohler's criteria - recognising the obligation of public service and the public interest, and having a code of ethics - are the two criteria which are virtually unknown in Libya. Fifteen years since its formal establishment, the Libyan profession has yet to have a code of ethics. Having no code of ethics for fifteen years is more than enough evidence of the lack of recognition of the profession's obligation towards the public interest.

Turning to Logan's definition of a "profession", the main feature is that a profession must be based upon the understanding of the theoretical structure of some department of scientific learning. For a theory to have structure it must have certain principles around which its practitioners agree to perform their profession. [Bloom,R. Elegers,D, 1981 p.82].

In other words, for accounting to be a profession, it has to have accounting theory. Furthermore, for accounting to have a theory, it has to have principles upon which accountants can base their work.

In Libya, accountants have no defined or formal principles to work on; different accountants apply different accounting principles and different auditing standards and there is no theoretical foundation for the accounting profession in Libya. Public accountants in Libya base their practices either on their experience with some of the international accounting firms or on their accounting education in Libya or abroad. In either case little has been done to build any theoretical base for accountants to work from.

Finally, Buckly and Buckly have defined the accounting profession according to the problems it addresses. These include effective allocation of resources, technical assistance in policy formulation, design and management of an information system, assessing performance in relation to standards, computing systems, and assisting in the design and evaluation of the effectiveness of planning and control activities.

As we have seen, the only problem addressed by public accountants in Libya is the checking of figures of financial statements against documents, i.e. accountability. In their audit of financial statements public accountants express their opinion on the accuracy of the figures presented in those statements. No opinion is expressed on the efficiency or effectiveness of the operations of their clients nor do the majority of them offer any management advisory services.

Thus there are no code of ethics, accounting principles, auditing standards or procedures, uniform audit report and professional examinations; research and publication activities are very weak, there is a great shortage of Libyan accountants, there is no relation between the profession and accounting education, there are no services other than financial external audit, and, above all, there is no effective public recognition other than the enacting of Law no.116 of 1973 or obvious recognition of the obligation to the public interests. All these facts, suggest that the status of the accounting profession is indeed very weak in Libya.

5.15 Libyan Social Needs And The Accounting Profession

Given that Libya does not have a strong or well established accounting profession, it is worth asking what a strong accounting profession does to serve the social needs of a country.

The accounting profession in Libya is mainly concerned with external financial reporting and external auditing of such reports.

Many accounting writers in western Europe and the USA have questioned the role of the external auditor in their society. Briston and Perks (1977). Fanning (1978) and Estes (1982) have all questioned the social benefits of external reporting in the UK and the USA compared with its social cost. Furthermore companies in the USA and Canada have felt that audit fees are unreasonable, and even some public accounting firms have expressed concern about the rapid rise in audit costs. [Taylor,M.& Baker, R. 1981 p.55]. David Flint, in his article "The Role of the Auditor in Modern Society" expressed the view that the auditor's role still related back to his role in the nineteenth century and states that, whatever may have been the case in the nineteenth century, the inherent philosophy of that role is entirely irrelevant to the needs of today. [Flint D. 1971 p.92]. Buckly has argued that the financial audit has shortcomings from a management viewpoint:

> "It fails to measure progress towards enterprise objectives; it fails to account for non-fiscal essential of management; its basis of valuation is historical rather than current; it is untimely for many management decisions; it is orientated towards the past rather than the future; it fails in comparative analysis, i.e. in evaluating the effectiveness of the client's plans, procedures and operations versus those of competitors; it fails in integrative analysis, that is in evaluating the efficiency of functional interaction within the firm and it fails in interpretive analysis, for example in relating fiscal data to current decisions." [Buckley,J.

1969, p.86].

Other accounting writers have questioned whether the benefits of the orientation towards external reporting outweigh the costs. Briston and Perks estimated that the annual costs of external auditing in the UK was £200 million for 1975/76 and 250 million pounds for 1977. [Briston, R.&Perks,R. 1977 p.48, 50] while Fanning estimated the cost to be around 415 million pounds for 1976/77. [Fanning, 1978, p.48]. More seriously, Briston has challenged the independence of the external auditor, [Briston, 1985, p.30] due to the fact that an auditor will report on the activities of the sam management who have appointed him and who will pay him. Other accounting writers have challenged the independence of the external auditor, including Dyckman (1974), Boland (1982), Davidson (1977), and others.

If the UK and the USA accounting profession and its external auditing is under heavy criticism in developed countries, then by inference it should not be related to developing countries. Indeed, Briston (1978 and 1985) has demonstrated that external auditing is based on an accountability concept designed for the capitalism of the nineteenth century. Such an audit has become outmoded in the developed world, because it is highly biased towards private sector financial reporting with very limited appeal to management accounting and the virtual exclusion of national and government accounting. This biased financial accounting is designed to provide historical information for shareholders and potential investors in the capital market. Very few developing countries have a capital market and resource allocation is mostly in the hands of the state which allocates available resources according to social needs.

However, other accounting writers have argued that developing countries should learn from the strong accounting profession in developed countries so they may be able to develop strong capital markets. Scott stated that:

> "In advanced nations confidence is engendered by public accountants' auditing of financial records and physical assets and by their attesting to management's representations about company status and operating results. This attesting function is extremely important in fostering capital markets in developing nations." [Scott G. 1970 p.52]

He also argued that financial reporting is necessary for the existence of a capital market capable of fulfilling the needs of an industrial nation. [Ibid p.51]. But this argument has been successfully challenged by other accounting writers. For instance, Briston has demonstrated that there is no evidence to suggest that a stock exchange or a capital market itself is necessary for economic development or growth.

Indeed, Scott himself has stressed the weakness of the accounting profession in France compared with its counterparts in the UK and the USA. [Ibid pp.135 - 140]. He also stressed the weakness of the accounting profession in West Germany. [Ibid 1967 - pp.139-40]. In addition, Zappala has stressed the weakness of the accounting profession in Italy. [Zappala,F. 1973 p.111]. Russian and all the rest of the Eastern European countries have different accounting systems from those of the UK and USA. Despite the weakness of the accounting profession in these countries, they enjoy some of the strongest economic growth in the world. In fact, Japan, which may be considered as having the highest growth in the world, has a weak accounting profession. [Arpan, J.S.&Radebaugh, L. 1981, p.29]. Such evidence indeed suggests that the relation between a strong accounting profession and a strong economic development and growth is at best very weak.

5.16 The Libyan Case

According to the above discussion, a strong accounting profession based on financial external reporting and external auditing has a very weak connection with economic development or economic growth. Even the USA and the UK, which have a strong accounting profession based on financial external reporting and external auditing, are failing to meet the current needs of their respective environments. Thus Libya, which is a developing country and will remain so for a long time to come, may well be better off without a strong accounting profession, for several reasons:

First: Libya is a developing country which follows socialism as a path in its development and accordingly the state owns and controls all economic sectors.

If the purpose of external audit is to certify an historical cost financial statement for shareholders, creditors and potential investors, then it is the last thing that Libya needs for the state, as the only shareholder of Libyan firms, can obtain all the information necessary for its economic decisions by means other than financial statements. In additional, being entirely public sector, the state of Libya will need information concerning the efficiency and effectiveness of the use of its economic resources rather than information relevant to the status of its shares on the stock market, as provided by American and British orientated financial statements. Furthermore, as credit decisions in Libya are based on political and social factors rather than on economic grounds, the need for an external audit report is minimal.

Second: Evidence suggests that external audit reports are neither read nor understood. In many of his annual reports the Auditor General has complained about the fact that the managements of Libyan public enterprises are ignoring the recommendations in his audit reports and also that the Libyan authorities have not acted in accordance with his recommendations. Even when the private businesses were family-held and most of the owners knew very little about accounting or auditing language suggest that few shareholders ever read the external auditors' reports, and that the reports were used just to comply with the requirements of the law.

Third: With a population of just under four million, Libya suffers from a shortage of all kinds of manpower:

accountants are no exception. The last two development plans, which covered the period 1976 to 1985, have stressed the shortage of available accountants in respect of the needs of each of the plans. Indeed, the last census of manpower in Libya in 1980 showed that more than 67 per cent of working accountants in Libya were foreign nationals. [Secretariat of planning, 1980, p.39]. The situation will deteriorate even more, due to the fact that all foreign accountants have been considered non-essential foreign labour and were asked to leave the country in the summer of 1985.

As a result, Libya cannot afford to waste those accountants that are available on performing unproductive repetitive jobs such as external auditing.

Fourth: As has been suggested, the external audit is not of obvious value to either management or shareholders and there is much concern about both the cost of this function and the manner in which it is performed in the UK and the USA. [Briston,R. 1978 p.49]. It is even more alarming in the case of Libya. Although the exact figures of the financial cost of annual external audit in Libya cannot be determined, according to the study conducted by El-Sherif (1978), the average annual revenue from a sample of 46 public accountants' offices was L.D. 35,000, which is equivalent to US $115,000. Despite the fact that some of the respondents might not give the exact amount of their annual income, such a figure is considered to be high by Libyan standards. In addition, given that there were 87 public accountants' offices working in Libya then, based on such an average the total cost to the country would be about US$10,000,000. Thus, it is very doubtful whether the social benefit of external auditing in Libya does match its social and financial costs. Now that Libyan public enterprises are audited by the auditor general staff, the cost is estimated to be about 6 million Libyan Dinars or about 12 millions pounds

Fifth: The long delay in producing an audit report in Libya makes the benefit (if any) of such a report very doubtful. Audit reports in Libya are often one year or more in arrears, and the Auditor General's annual reports have complained repeatedly about this fact.

Sixth: Even if one accepts the case for external audit in the UK and the USA at least for listed companies, and that the auditor's examination is based on auditing standards and the financial statements are based on generally accepted accounting principles and standards, there are no listed companies in Libya and there are no auditing standards nor any accounting principles or standards. Accordingly, one wonders on what basis those financial statements should be prepared and on what standards the external auditor should base his work.

Seventh: The independence of the external auditor, which is the very essence of external audit, is highly suspect even in the UK and the USA, [Briston,R. 1985 p.30]. It is only to be expected it will be even more so in Libya. Family ties and friendship connections are a very important factor in appointing an external auditor in Libya. Consequently, his independence is highly questionable.

In spite of these arguments, some Libyan accounting writers have recommended the establishment of a strong organised accounting profession. [Bait-el-mal,M.M.,Charles,S &Taylor, M. 1973 p.59] and [El-Sherif,Y. 1978, pp 229-35]. But these writers should bear in mind that what may be good for the UK and the USA may not be good for Libya. Indeed, it could be argued that, even if the above obstacles against a strong accounting profession in Libya did not exist, the establishment of a strong American and British orientated accounting profession could hamper the improvement of accounting related to the Libyan environment. Some accounting writers who have experience with the accounting needs of developing countries have suggested that such countries should have an accounting system which would put more emphasis upon the use of accounting information with a decision making orientation and should adopt a current value system of accounting. Further, such a system could also be orientated towards efficiency and effectiveness audit instead of regularity audit. Specifically, El-Gehawe in 1980 recommended that the audit of the Auditor General's office in Libya should be based on efficiency and effectiveness rather than merely financial audit. [EL - Jehawe 1980, p.143]. Other writers have also suggested that an accounting system for developing countries should enhance the compatibility between micro and macro accounting and involve a greater awareness of public sector needs. [Briston,R. 1978, p.120 and 1985, p30 Enthoven A. 1977 p.70]. However, if such improvements and changes are needed by Libya, then the establishment of a strong accounting profession orientated towards external financial accounting and auditing will surely hamper them. Briston has stressed that such a strong accounting profession will aim at a monopoly of external auditing, which in turn will lead the profession to orientated its training and education programmes towards external auditing and financial reporting. [Briston,R. 1985 p.30].

5.17 Route to Improvement

As stated before, as a developing country Libya cannot afford to waste accounting manpower and scarce financial resources upon unnecessary and irrelevant accounting services. Instead, these scarce resources should be directed towards more relevant and more productive services. Such redirection is still very possible in Libya for the accounting profession is not yet strong enough to resist any such changes. Accordingly, there is a strong possibility of making improvements and for accounting to become economically and socially orientated.

Some of the changes in the accounting profession that immediately come to mind are:

1. The use of available public accountants in Libya to improve internal auditing rather than external auditing. Once internal auditing is improved and with strong

internal control, then the need for external audit will be minimal. Indeed market and Ramonan, have empirically found that, the more the enterprise spends on internal audit, the better the management performance is [Maher M.W. and Ramonan R. March 1988, p.56].

2. Emphasis on management performance evaluation.
3. Emphasis on cost audit, which has proved to be very successful in other developing countries such as India.
4. It is very important that the audit of public sector investments, whether conducted by an independent audit or through the Auditor General's office, should emphasise its feasibility study and its cost compared with its potential benefits.
5. Audit should also be directed towards effectiveness and efficiency rather than being merely a financial audit.
6 The available public accountants should be used to improve internal control and internal auditing of state departments besides the public enterprises.
7. The Auditor General's office should occasionally, rather than annually, conduct selective external auditing, aimed at the evaluation of the internal audit system.
8. It seems that the current arrangement of the appointment and remuneration of external auditors through the Auditor General's office is a sound one, but this arrangement should be aimed towards the improvement of internal control and internal audit rather than towards the external audit.
9. Extension of audit work to include management advisory services, investment consultancy, system design and

installation and appraisal of public projects. However this will need more specialised public accountants and should lead to changes in the Libyan accounting education system.

5.18 Summary And Conclusion

The Main purpose of this chapter was to answer two main questions, namely:

1. Is there a well established accounting profession in Libya? and
2. Do the social costs of a strong accounting profession match its social benefits in Libya?

The definition and objectives of the accounting profession in Libya are the same as those in the UK/USA. However, the historical development and its level of advancement are not similar. The definition and objectives of the accounting profession in the UK/US are the product of social and economic changes during and after the industrial revolution, while those in Libya are the result of the influence of foreign powers especially the UK/USA. the code of ethics, independence, audit procedures, audit report, completeness and technical standards, responsibility to the client and to the public, services rendered by public accountants, public sector audit and accounting function are all far less developed in Libya than their counterparts in the UK and U.S.A.

In conclusion then, the answer to both questions is also "No". A review of some studies which evaluate the accounting profession in terms of its social costs and benefits in the UK/USA was carried out. These studies have concluded that there is evidence which suggests that the social cost of the profession is exceed its social benefit. Similarities and difference between the environment in Libya and those in the UK and the USA were discussed and it was concluded that the social cost of a strong accounting profession would exceed its social benefit, therefore the conclusion is that Libya does not need a strong accounting profession especially at this stage of its social and economic development.

Currently, the accounting profession in Libya confines itself to external audit. However, Libya as a developing country cannot afford to waste its scarce accounting and financial resources in doing such repetitive unproductive work. To enhance the country's social and economic development, the accounting profession should expand its role to include internal audit, efficiency audit, educating the public and the authorities about the role of accounting in socio-economic development, educating its members, co-operating with the auditor general, accounting education institutes and other public sector authorities.

To achieve the above objectives, the accounting profession should not be given a free hand to regulate itself, nor should it be regulated totally by outsiders. A balance should be established between insiders and outsiders to regulate the profession. For example, a body consisting of members from the accounting profession, the auditor general's office, Secretariat of the treasury, the secretariat of planning, the secretariat of economy, and accounting education staff, should be given the responsibility of regulating the profession. This body should come under the umbrella of the auditor's general office, and its resolutions and pronouncements should be mandatory.

CHAPTER SIX

Accounting System of Libyan Public Enterprises (L.P.Es)

6.1 Introduction

Socialism is one of the dogmas of the Libyan Revolution of 1969. Accordingly, State enterprises and the branches of some international enterprises are the only form of enterprises operating in Libya and no private companies are currently operating in the country.

Libya, as a developing nation, has chosen central planning of the economy as its path to social and economic development [Secretariat of Planning, 1980] and, accordingly, needs extensive accounting information which should be supplied by the accounting systems of State enterprises. This information is needed to make successful economic decisions at micro and macro levels.

However, because of the way that accounting evolved in Libya, enterprise accounting is orientated towards U.K. and U.S.A. enterprises' accounting systems. Hence, Libyan public enterprises' (L.P.Es) accounting systems are biased in favour of private sector needs rather than public sector needs and towards external reporting rather than internal decision-making. This bias suggests that economic decision makers, at the micro and macro levels are either uninformed or misinformed, and hence their economic decisions could be sub-optimal.

Accordingly, the purpose of this chapter is to assess whether the current L.P.Es accounting systems do provide the information needed for micro and macro economic decision-making at the enterprise level and at the State level. But, due to the fact that L.P.Es have unique characteristics, objectives, management and financing methods, the chapter discusses these issues before discussing the L.P.Es accounting systems.

The data for the chapter was collected through questionnaires submitted to the financial departments of fifty L.P.Es as well as in depth interviews with various personnel in those departments and with officials at the Auditor General's Office, Secretariat of Planning and Secretariat of the Treasury undertaken by the author. The author has also reviewed the financial statements of fifty more L.P.Es. lodged with public enterprises section at secretariat of industry.

6.2 Historical Background And Characteristics Of L.P.Es

The administrative system of the State of Libya is divided into two main levels. At the top level there is the General People's Committee (GPC-1) which acts as does the Council of Ministers in other countries. The GPC-1 consists of a number of specific General People's Committees (SGPCs). Each Committee of SGPC is similar to a Ministry in other countries. These two Committees (GPC-1 and SGPCs) operate all over the country. At the lower level there are fourteen Municipal General People's Committees (MGPCs), each consisting of a number of Specific People's Committees (SPCs). Each Committee at the municipal level is controlled by its respective committee at the national level, as well as its MGPC. On the other hand, Libya has semi-autonomous bodies subject to the overall control of the State, but having their own managements responsible for policies and decisions within statutorily defined fields. The said bodies are called Libyan Public Enterprises (L.P.Es), which were renamed establishments in 1975.

Historically, L.P.Es came to the surface in Libya at the beginning of the 1970's. One of the dogmas of the revolution of 1969 was socialism, which was translated practically to mean the ownership of all businesses by the public sector. L.P.Es started in the early 1970's, gained momentum in the mid-1970's, and reached their peak in 1980 when every single business became owned and controlled by the Public Sector. "Establishments" has been the official name of L.P.Es since the declaration of the People's Authority in 1975. However, since 1984 there has been a tendency to rename the establishments as Public Corporations. Indeed, newly formed enterprises are called corporations and many old ones have been renamed. The practical difference between the two names is not clear, but on a number of occasions high officials, including the Revolution's leadership, have explained that establishments were supposed to provide services and goods to the public at cost, with no profit potential. Indeed, in many cases L.P.Es have provided services and goods at prices subsidised by the State, especially in their early days and up to the early 1980's. On the other hand, corporations are supposed to provide services and goods to the public at full cost plus an acceptable level of profit margin with no State subsidies.

There is no fixed number of L.P.Es, for the State policy towards diversification of L.P.Es offering the same services and goods is still not clear, even after approximately seventeen years of operation. At the beginning, the State advocated the policy of limited competition between two or more L.P.Es offering the same services or goods. The number had reached about 350 L.P.Es [Bricault,G.C. 1985, pp.313-330], when the State concluded that competition between the L.P.Es was a meaningless waste of resources and decided to merge all similar L.P.Es into one big enterprise. Hence the number has been reduced to 248 L.P.Es, with invested capital of about 1,400 million Libyan Dinars (or about 3,000 million pounds) [El-Arabi, H. Tripoli, Summer 1986].

Besides these L.P.Es the state owns some corporations with foreign parties (joint venture) where Libya owns 51 per cent or more of the share capital of those corporations which are based in Libya and an unspecified percentage of share capital of those corporations which are based outside Libya, such as the Arabian Insurance Company and the Libyan, Spanish Fishing Company. The management of the L.P.Es is totally Libyan, while the management of joint ventures and other companies is shared between Libyans and foreigners.

Generally speaking, L.P.Es are organised according to the Libyan Commercial Code of 1953 (LCC) and the Companies Act of 1970. However, some special features differentiate L.P.Es from those private corporations and hence some alterations to the above laws have been necessary. The special characteristics of L.P.Es may be summarised as follows:

1. Public ownership and control;
2. Semi-autonomous management appointed by the work force of each L.P.E. in the form of the People's Committee;
3. Separate legal personality of the entity;
4. Statutorily defined objectives, obligations and field of activities;
5. The main motive is to offer services and goods to the public rather than to make a profit. [General People 's Congress, 1981]

Due to the immense diversity of the L.P.Es' operations, they are categorised according to their activities which include import, export, marketing, services, and manufacturing. Each L.P.E. is controlled by a secretariat (ministry) depending on its level of operation. All L.P.Es are limited companies with all of their share capital owned by the state.

6.3 Objectives of L.P.Es

The designation of the objective of any investment decision is a fundamental factor in its evaluation and follow-up requirements. Unless the factors to be maximised, minimised or maintained are clearly specified, there will be no base for choice. [Webb,M. 1973, p.14]

However, the question of the choice of the objectives of State enterprises is a complex one. No comprehensive list could be drawn up for all the objectives of all State enterprises. Indeed, a group of State enterprises' managers and controllers from around the world listed the objectives and goals to which a public enterprise might be expected to contribute; yet the list was not intended to be exhaustive, and in many cases the stated objectives contradict each other (see Table 6.1). [Jones,P. 1975, p.144]

In the Libyan case the question tends to be harder rather than easier, for although L.P.E.'s objectives are set out in the various statutes of their establishment no exhaustive list has ever been produced. Different L.P.Es have different objectives. In some cases, even within the same activities, L.P.Es have different objectives. However, a very broad and general statement of the objectives of L.P.Es can still be drawn up.

Broadly speaking, the stated objectives of L.P.Es according to their establishment's statutes range from achieving efficiency in their output to subsidising essential needs of the public, thus distinguishing them from the behaviour of private enterprises, namely profit

Table 6.1

1. Increase employment.
2. Raise output.
3. Reduce income inequality.
4. Promote regional development.
5. Stabilise prices.
6. Increase national self-sufficiency.
7. Earn foreign exchange.
8. Save foreign exchange.
9. Promote primary exports.
10. Control monopolies.
11. Offset multinationals.
12. Achieve socialism.
13. Earn profit for investment.
14. Set "modernisation" example.
15. Train skilled managers and technicians.
16. Provides public services.
17. Promote national security.
18. Utilise resources efficiently.
19. Control commanding heights.
20. Implement government policy.
21. Prevent business failure.
22. Counterbalance powers of domestic capitalists.
23. Enhance national prestige.
24. Offset externalities.
25. Subsidise necessary commodities.

Sours Jones p.1975 ,p.145.

maximisation and exploiting the public. A close look at some of the original statutes establishing numbers of L.P.Es has made the following list possible:-

1. To serve as a vehicle for economic and social development;
2. To recognise the development planning objectives of the economy;
3. To provide goods and services to the public at reasonable cost;
4. To avoid duplication of facilities which may arise from other L.P.Es;
5. To operate efficiently and effectively;
6. To act in the best interest of the public;
7. To enhance nationals prestige and to contribute to the country's self-sufficiency;
8. To subsidise essential needs of the public.

The above stated objectives are all in general terms, and no attempt has ever been made to specify them in detail. Accordingly, they add to the confusion regarding the objectives of L.P.Es. For instance, no attempt was made to define what is "reasonable cost"; is it variable cost, or is it cost plus profit margin? In 1983 the Basic People's Congresses (BPCs) were asked to approve the raising of petrol prices from 50 Libyan Derhem (about 13p) to 120 Libyan Derhem (about 30p) per litre to cover cost in accordance with the objectives of the Brega Company for Oil Marketing's original statutes. However, people queried this cost as it is hard to believe that the cost of one litre of petrol could reach 30p in an oil producing country such as Libya. The Company was not able to break down the total cost into its components [Basic People's Congresses's meeting, December 1982]. This failure to be able to break down its unit's production total cost into its components is not confined to the Brega Company, but is a common shortcoming in most L.P.Es [Turkey, A. Benghazi Summer, 1985].

Another objective of L.P.Es is to "operate with efficiency and effectiveness", but no criteria have ever been set in Libya to measure efficiency and effectiveness. Even the Auditor General's Office never expressed an opinion on the efficiency and effectiveness of L.P.Es, as its audit is confined to compliance and financial audit [Law No.79 of 1975] Furthermore, the objective of avoiding duplication of facilities between L.P.Es adds more confusion when other L.P.Es are already operating in the same activities.

While the reasonable profit objective is important to maintain and expand State enterprises, L.P.Es are still required to be generous to the public. In fact, however, L.P.Es are neither profit making nor generous to the public. For example, the Libyan Arab Airline charges the public the highest air fare compared with its international counterparts, and yet it is heavily subsidised by the State. [Tantoush, A, Tripoli Summer 1986] Other examples can be found in the National Clothing company, the General Company for Agricultural Product Marketing, etc. However, on many occasions the leadership of the Revolution has criticised such companies and many of them have been brought to the attention of the People's Congresses. [Basic People's Congresses, December 1984]

The list of confusions can go on and on, but in general the Libyan authorities need to work harder if they ever wish to resolve these confusions, which must be done if L.P.Es' objectives are ever to be achieved. One way to attempt this is to establish trade-offs among economic objectives, to focus on performance evaluation and to list objectives in order of priority. [Jones,P.1975, p.146]

6.4 L.P.Es' Management

Generally speaking, most L.P.Es are managed by the People's Committees, and only oil companies and those with special status are still managed by the Board of Directors. People's Committees consist of five members, who should be chosen by the work-force at each L.P.E. One of those five members shall be chosen as the General Secretary of the Committee by its respective SGPC or SPC, depending on the level of the L.P.E. activities [General People's Congress, 1981 article 8]

The chosen committee should serve for five years unless for any reason its respective SGPC has recommended to the work-force that it should be replaced.

6.4.1. Responsibilities of the PCs

Law NO.13 of 1981 specified the responsibilities of the PC of a L.P.E. as follows:

1. To prepare the executive plans and programmes required to achieve the enterprises objectives and to follow up their implementation;
2. To prepare the budget and the final accounts of the enterprise;
3. To follow up the activities and operations of all L.P.E. departments and to make sure that these departments operate according to the plan;
4. To take all necessary measures and procedures to make sure that all production and operational needs are met, and to carry out the operations according to their timetable;
5. To establish all necessary internal systems and regulations for the enterprise as a whole and for each of its departments;
6. To take all necessary measures to protect the enterprise's assets;
7. To prepare all necessary training programmes for the enterprise's employees;
8. To suggest all necessary plans for the enterprise's growth.

Ultimately, the success of the management system of L.P.Es will depend on the caliber of the officers who run them, at all stages of policy formulation and operational control, to achieve their objectives and to execute their responsibilities as they should. Hence care must be exercised in the selection of the People's Committees (PCs). However, the fact that no practical or academic qualifications are necessary for any one to serve as a member of the PCs has created immense problems for the L.P.Es. Personal relations and family ties play a major role in choosing them; as a result, the majority of L.P.Es are poorly managed, inefficient, unprofitable and far from reaching their potential objectives.

The Libyan authorities have realised this at the MSPC level and has started moving PCs between the regions of the country, i.e. Specific People's Committees who were chosen in the eastern region of the country were moved to serve in the western region of the country, and vice versa. It is hoped that the country's authorities will realise that the same problem exists with the PCs at the LPEs. The authorities might also consider the qualifications of each potential committee member at each L.P.E. and let his appointment be made by a similar category of the work-force, but in a different region of the country and leave the committees chosen at their original L.P.E. instead of moving them to another L.P.E. in a different region of the country.

Again, the diversity of L.P.Es' activities and their large number make it very difficult to list all the L.P.Es' management problems. As the selection of the L.P.Es' People's Committees is based on ad-hoc criteria, almost every single management problem that one may think of is found in the L.P.Es. Reports of the Auditor General to various General People's Congress (GPC) conferences have repeatedly complained about the absence of practical and academic qualifications of many committee members and about the frequent changes and transfer of such committees. Furthermore, the Central Agency for Administrative Control (CAFAC) in one of its reports to the GPC has concluded that the performance of the L.P.Es remains far behind the expectations of the public [the Central Agency for Administrative Control, December 1983, p.37].

Besides quality of management, appropriate organisational structures are also necessary. According to the establishment statues of all L.P.Es and according to law No.13 of 1981 (concerning the administrative systems of L.P.Es), People's Committees of L.P.Es are responsible for establishing their enterprise's chart of organisation, subject to approval by their respective secretariats (ministries). Yet the absence of clear definition of the authority and responsibilities of various departments within an enterprise is one of the most serious problems which is facing L.P.Es. [Ibid ,p.97] Many L.P.Es have recognised the problem and hired staff members from the Faculty of economics of the University of Garyounis as well as some foreign consultant offices to design administrative systems for them. [University of Garyounis,Research Centre 1980] However, this arrangement was short-lived, due to the shortage of financial resources.

Despite the fact that different L.P.Es have different problems, studies on six big L.P.Es and reports of the Auditor General and the Central Agency for administrative Control have revealed the following general problems:

1. The lack of qualified personnel;
2. The absence of comprehensive and coherent administrative systems;
3. No clear allocation of the responsibilities and authority of different departments;
4. The absence of reliable periodic reports between departments of the enterprise and between the enterprises/management and its respective secretariat;
5. No consistency in policy as a result of frequent change in the PCs;
6. High labour turnover;
7. The weakness of the power of managers over the employees;
8. The weakness of the flow of effective documents between departments;
9. Poor inventory policy and control;
10. The inability of the L.P.Es to meet their production targets. [University of Garyounis Research Centre]

Meanwhile, one more serious and general management problem which needs close scrutiny by the State is the incoherence and inadequacy of the existing forms of public control over such enterprises. Such weakness leaves much lea-way for graft and economic corruption. Without effective public supervision, gross waste in public funds will be highly probable and inefficiency is likely to remain undetected. For the past eight years the State has investigated a great number of cases of misuse of public trust, but what remains undetected could be even greater.

6.4.1 Management Of The L.P.Es And Their Relationship With The State

L.P.Es have originated from three different sources: 1) administrations within the State departments; 2) nationalised private firms, and 3) newly established L.P.Es. Many of the L.P.Es were formerly administrations within State departments. Examples are the General Post and Telecommunication Corporation, the General Housing Company and th General Electricity Supply Company. Examples of the second group are the General Company for Agricultural Machinery and Necessities, the Arabian Gulf Oil Exploration Company and the Elmamoura Food Processing Company. Examples of the third group are the General Company for Construction of Educational Buildings, the General Company for Marketing Agricultural Production, and the Sebha Company for Roads and Construction.

Once a L.P.E. is established by the State, it is given considerable scope for independent action. All statutes establishing L.P.Es include articles which state that the board of directors (People's Committee) has all necessary authority to manage the company, to run its operations, to establish its general policy and to set up all administrative and financial systems in order to run and control the company .

The current relationship between the SGPC and the SPC on the one side and the PCs of the L.P.Es on the other side is formulated by law no.13 of 1981 concerning the PCs, and the 1980 resolution of the GPC-1 concerning administrative regulations of companies owned by the State.

According to these two instruments, each SGPC should:

a) Supervise and control all activities of all L.P.Es which are under its control and make sure that the L.P.Es have achieved their objectives, met their responsibilities and performed their operations according to the relevant laws, regulations and resolutions;
b) Ensure that all L.P.Es employees are seeking the increase and improvement of production;
c) Examine all L.P.Es periodic reports related to their operations and evaluate their success in reaching their targets;
d) Study all problems and obstacles that may face L.P.Es and to work out solutions for them;

e) Provide all possible assistance which may be needed by L.P.Es.

On the other hand, the PCs of the L.P.Es should:

a) Provide their respective secretariats with all reports and information as required;
b) Follow all orders and guidelines as provided by their respective secretariats;
c) Be directly responsible for carrying out and achieving all the L.P.Es objectives.

However, for those L.P.Es with special status, it is the responsibility of the GPC to issue all financial and administrative regulations, laws and penalties. Such regulations, laws and penalties should be promulgated according to the recommendations of the enterprise's respective secretariat . Furthermore, each SGPC and each SPC serves as a general assembly for all L.P.Es which are under their control. In summary, then, the relationship between L.P.Es and the State follows the sequence: SGPC is the general assembly for all related L.P.Es, while the secretary of the L.P.E., People's Committee and the People's Committees at the L.P.Es serve as board of directors for the L.P.Es.

The above laws, regulations and resolutions plus the statutes governing the L.P.Es, have established the principle of non-intervention by the secretary of the SGPC in the day-to-day affairs of enterprises. However, the secretary by law has the power to approve all capital and operational budgets, to direct LPEs to prepare their accounts according to prevailing laws, and to set production and service targets. Moreover, the secretary of the SGPC has the power to appoint the secretary of the People's Committee at L.P.Es under his control, and to approve loan agreements.

In reality, however, due to the fact that each SGPC has to supervise a great number of L.P.Es, much of the authority of the secretary of the SGPC has been delegated to the secretary of the People's Committee at the L.P.Es. Due to this fact, it is common in Libya to have different L.P.Es which have different administrative and financial systems and different policies, despite the fact that many of them have the same type of activities and are under the control of the same SGPC. For example, both the Libyan Cement Company and the Socialist Pipes Company are under the control of the Secretariat of Industry. But the Cement Company prepares only one comprehensive budget, while the Pipes Company prepares detailed budgets; also, the Cement Company has joint financial and cost accounts, while the Pipes Company has separate financial and cost accounts. Further, the two companies have different administrative systems, despite the fact that they are both manufacturing companies with a similar level of operations. [Interview with Financial Director Generals of both companies]

Moreover, there are many examples of little or no supervision by the SGPCs over those enterprises under their control. [The Central Agency for Administrative Control, 1982,p.83]

In concluding this section, then, one could say that management of the L.P.Es is poorly structured, poorly operated and poorly related to the overall policy of the State.

In order that management of L.P.Es can meet its responsibilities, members of People's Committees should be orientated towards management service and qualified to make informed economic decisions. It should also be stated that for any management to be successful it has to follow a consistent structure of organisation; which should not be compromised for financial reasons. Furthermore, the Director-General and managers should be members of the People's Committees, so that operations can be successfully co-ordinated with other related L.P.Es, and, last but not least, members of People's Committees should be allowed to serve for a longer period [3 - 5 years], so that consistency can be achieved.

6.5. Financing The L.P.Es

Financing State enterprises can take various forms, depending on their nature, objectives, and the environment in which they operate. Their financing ranges from total dependency on the State, to total self-financing, with others in between the two extremes. [Shisami, O. and Dean, P. 1984, p.285]

L.P.Es are similarly financed in many different ways, depending on their objectives and the other factors. In terms of their financial objectives, they are formed into two groups. One group's financial objective is to make a profit and operate just like any private company. Hence, these companies are expected to make a profit, but less than the maximum commercial profit or at least to reach their break-even point. Examples of such enterprises in Libya are the Libyan Arab Airline (LAA), the Libyan Insurance Company and the Elkyam and El-Gezira Companies for Hotels and Tourism. Such an enterprise is supposed to be totally self-dependent, finance its operations and achieve growth.

The second group's financial objectives are to provide services and goods to the public at cost or at subsidised prices. Examples of such enterprises are the National Company for Department Stores, the National Company for the Marketing of Agricultural Products, the Medicine National Company, and many others. These companies are partially or totally dependent on State subsidies as a means of financing their operations and growth.

The task of the State is to ensure that the methods of financing are appropriate to the characteristics of the L.P.E., consistent with the objectives set by the State and in accordance with the economic needs of the country, as interpreted within the existing conditions of the economy. However, the objective of making or not making a profit as a criterion for the methods of financing the L.P.Es is a confused one. In the early days of the L.P.Es it was thought that they were not supposed to make a profit as they were mainly established to stop the exploitation of the public by the private sector through the profit motive. The leadership of the Revolution frequently emphasised this, and prices of most of goods and services were very low compared with private sector prices. As a result, most L.P.Es were making losses and were necessarily dependent on the State for funds. But, with falling oil prices and the decline in national revenue, policy makers have now emphasised that all L.P.Es must make a profit in order to be able to continue operating. Recently those L.P.Es which were making a loss were brought to the attention of the People's Congresses and many of them have either been taken over by other L.P.Es or have been liquidated altogether. Moreover, many of the public organisations which used to provide services from within their respective secretariats, have been changed to public corporations with the intention of at least reaching break-even point. Examples of such organisations are the Agency of Post and Telephone Services, the Electricity Authority and the Housing Authority.

Another factor which dictates the method of financing L.P.Es is the way in which the enterprise originated. An

L.P.E. is either a newly formed enterprise or is a result of the nationalisation of a private corporation. In both cases, it is the State which decides the method of financing. The State could be very generous to an enterprise which was previously a private corporation by valuing its assets at historical cost and by taking the burden of the payment of all its previous debts. On the other hand, the State could be less generous with the new L.P.E., assess its assets at an up-to-date value and not take the burden of payment of its liabilities.

In most cases the State of Libya has taken the middle ground between the above two extremes. The State usually values the assets at book value, but the payment of old liabilities remains the responsibility of the new entity.

The State may finance L.P.Es in many ways:

1. Debt capital from the markets;
2. Equity capital;
3. Borrowing from the State;
4. Internal resources of the enterprise, such as retained earnings;
5. Borrowing from banks and other financial institutions; and
6. Gifts, both private and from the government. [Webb,M.G .1973 p.137]

The statutes establishing L.P.Es specify the method of financing by the State, through their equity capital, which is owned totally by the State, and by loans from commercial banks operating in Libya, by direct subsidies from the State and finally through its internal resources, i.e. retained earnings. Furthermore, in practice, some L.P.Es are financed by outright grant and by overdrafts. There is no formal guideline on how LPEs should seek financial help. However, in practice, the following type of information is necessary for the State to grant any type of financial help:

1. The latest certified accounts;
2. The current year's budget;
3. The reason(s) for seeking financial support;
4. The amount of financial support needed;
5. The expected cash flow for the current year.
   [El-Metnani, Benghazi, Summer 1986]

The procedures for financing L.P.Es do not involve performance evaluation, for the decision whether to provide finance is related not to the achievement of objectives, but to the L.P.E.'s needs. In a recent meeting of the General People's Congress, strong criticism was voiced against the Public Company of Agriculture Products Marketing. [Al-Zahef Al-Akhader Newspaper, 9 March 1987, p.7] in respect of its operations, yet subsidies have been granted to the company. Furthermore, for the past seventeen years, L.P.Es have been granted generous loans by Libyan Commercial banks, regardless of their performance. Financial statements have been required to grant such loans, but these statements were three to five years in arrears. The decision whether to grant loans was a political rather than an economic one, with full guarantee from the 'secretariat of the Treasury. The end result is that the majority of L.P.Es now owe huge amounts to commercial banks, with no possibility of paying them back, especially after the Secretariat of the Treasury has informed commercial banks that it is no longer committed to its guarantees of unpaid loans of L.P.Es. [El-Metnani, S., October 1986]

However, borrowing from commercial banks with preferential interest terms remains the most common source of finance for L.P.Es. Other sources, such as debt capital from the market, are unobtainable due to the lack of such a market in Libya. Furthermore, equity capital is in contradiction with the basic fact that all L.P.Es capital shall be owned by the State and no private individuals or institution shall own any shares in them. Finally, internal sources generated from retained earnings and depreciation monies could be used to finance L.P.E.'s investment needs, but this source is limited in practice because most L.P.Es are making a loss and the criteria for the distribution of profit between the employees, the enterprise and this State are yet to be defined after almost fifteen years. Most important, for L.P.Es to be able to generate enough internal resources for their financing, they would need to increase prices which are already considered high.

6.6. Accounting Systems of L.P.Es

According to the statutes of all L.P.Es, they must fulfill all the requirements of the LCC of 1953 and the Companies Act of 1970, so long as the said laws are not in conflict with such statutes. The requirements of these laws deal with, amongst other things, the registration of enterprises in the commercial register, accounting records, accounts, financial statements, profit distribution, reserves, capital adjustment and liquidation. However, some of these requirements are different from the L.P.Es' statutes. For example, the legal and statutory reserves of private enterprises are limited to 5 per cent of the annual profit and must not exceed 20 per cent of the paid capital of the enterprise. In the case of LPEs it is left to individual enterprises to choose the percentage of these reserves so long as they do not exceed the paid capital. As a result, the policy regarding these reserves differs from one enterprise to another (see the establishment statutes of the Medicine National Company, the General Agricultural Product Marketing Company and the Pipes Socialist Company).

Another difference is the distribution of profits. In 1972 the state decided that 25 per cent of all L.P.Es profits, except oil companies, shall be allocated to employees and the rest transferred to the public treasury. Both of these allocations were to be made after transfer to legal and general reserves. However, since 1980 the State has been trying to define certain criteria by which L.P.Es' profits should be allocated between the labour force, the enterprise and the State.

All L.P.Es are required to prepare budgets at least one year ahead of the current year, a requirement not stated by the LCC. In addition to the accounting records, accounts and financial statements required by various statutes, most of the L.P.Es keep other records and accounts and prepare other statements. It is not possible to list all of these, for different L.P.Es have different accounting systems [the Auditor General's Office, 1984].

In some L.P.Es one may find an accounting system which includes a chart of accounts, and structured financial statements. (for example, the accounting system of the Sebha Company for Roads and Construction is closely related to the Egyptian uniform accounting system), while other L.P.Es may use an American or British oriented accounting system. (e.g. the Pipes Socialist Company). However, in either case one should not expect to find a comprehensive and well-designed accounting system.

In some ways the fact that there is a diversity of accounting systems may be expected in so far as different L.P.Es have different objectives and activities. However, one might also expect that there would be minimum common features between their accounting systems at least in those with akin activity.

Briston and Enthoven have both argued that enterprises in developing countries should adopt some kind of uniformity, which would make the process of using micro accounting date for macro accounting purposes an easier task [Briston,R.,Russell,P. 1984, pp.21, 22] [Enthoven, 1973, p.236]. Furthermore, Shisami and Dean have listed some common requirements for any public enterprise's accounting system, which they believe, regardless of its objectives, should include the following:

1. Provision of sufficient data in terms of detail, timeliness, and reliability to allow good business decisions to be reached and to allow efficient working in all aspects of the entity;
2. Compliance with any relevant law;
3. Provision of the information necessary for auditors to reach a professional opinion concerning the accounting records;
4. Definition and regulation by an accounting manual illustrating its detailed working;
5. Relevance to the nature of the entity, the needs of its management and to its external reporting requirement. [Shisami, O. and Dean, P.1984p.292]

In summary, then, the accounting system of an LPE should comply with prevailing laws and regulations, and should have a degree of uniformity in external reporting for the purpose of economic decision-making at micro and macro levels. However, the requirement of the provision of the information necessary for external auditors to reach a professional opinion concerning accounting records and financial statements is debatable. [Briston, R, and Russell, 1984, pp.16, 17]

To assess whether the accounting systems of LPEs satisfy these requirements, a questionnaire was submitted to one hundred big L.P.Es, and a review of the financial statements of fifty industrial L.P.Es, lodged with the companies section at the Secretariat of Industry, was undertaken. The questions were designed to cover uniformity and decision making requirements at micro- and macro levels, and socio-economic development planning.

6.6.1. Accounting Records

The accounting records of L.P.Es are defined by the Libyan Commercial Code (LCC) of 1953, and the Libyan Tax Law No.64 of 1973. According to these, each L.P.E. should keep the following records as a minimum:

1. The journal: this should include all transactions related in any way to the business activities of the enterprise.
2. The inventory and the balance sheet book: this must

include an annual inventory list, a profit and loss account and a balance sheet.

3. Files: every business enterprise must maintain in special files copies of letters and telegrams received or sent out in relation to its business activities.

[Encyclopaedia of The Modern Libyan's Laws 1972,article 58 and Law No. 64 of 1973, article No. 82]

The questionnaire submitted to 50 L.P.Es concerning their counting records revealed the following:

Books and accounting records included in the system:		%
a.	General journal	100
b.	General ledger	100
c.	Inventory record	65
d.	Unified accounts (Financial, Cost)	20
e.	Separate accounts (Financial, Cost)	20
f.	Subsidiary journals	74
g.	Subsidiary ledgers	100
h.	Others	0

Accordingly, most L.P.Es seem to comply with the legal requirements regarding accounting records, but 35 per cent do not keep inventory records, 26 per cent do not keep subsidiary journals, and the respondents are equally split between keeping joint or separate financial and cost records. Hence uniformity in this respect is clearly weak.

6.6.2. External Reporting

All related legislation (LCC of 1953, Tax laws of 1968,1973,and Companies Act of 1970) in Libya requires corporations to prepare profit and loss accounts and balance sheets as a means of external reporting. These statements should be submitted to the shareholders' general assembly and to the commercial register after they have been certified by a legal representative of the corporation. Meanwhile, all statutes of L.P.Es have required them to prepare those same financial statements which should be audited by external auditors and submitted to their respective secretariat, which acts as the shareholders' general assembly, and also to the commercial registrar. These financial statements should be prepared in a similar way to those of private corporations. The statutes also state that all the resources, employees and internal systems of L.P.Es are not subject to the same rules and procedures as apply to State departments.

By these means the law gives the state information by which it can evaluate the performance of L.P.Es. However, evidence suggests that the accounting systems of L.P.Es and, in particular, their external reporting, do very little to promote accountability, and performance evaluation.

The external reporting procedures of L.P.Es vary in form and in substance. A question about the external reporting adopted by 100 L.P.Es [Section 2, Question II], revealed that all L.P.Es publish a balance sheet, 60 per cent publish a revenue and expenses statement and 40 per cent an income statement. However, only 12 per cent publish a statement of changes in financial position. This diversity of types of financial statements and their terminology is likely to confuse the users of the statements and the absence of other statements, such as the source and use of funds, changes in financial position and cash flow statements, makes evaluation much more difficult.

Furthermore, the format of the statements is far from uniform. While 35 per cent report extraordinary items within the operating revenues and expenses section, 57 per cent report them in a separate section, and 8 per cent use other classifications. More confusion is added by the fact that more than 92 per cent report fixed asseta in one side, and accumulated depreciation on the liabilities side, while 8 per cent, only report the book value of fixed assets. [Sec. 3, Question XIII]

The financial statements of most L.P.Es are mostly lists of total figures which give very little detail or explanation about their components, and there are few legal or professional requirements that the accounts should give much additional explanation. However, 87 per cent of respondents said that they publish additional information to financial statements. [Section 2, Question VIII], but other questions revealed that only 68 per cent of respondents disclose their inventory evaluation and depreciation methods. [Sec. 2, Question IX] Furthermore, a review of the financial statements of 50 industrial L.P.Es lodged with the Secretariat of Industry revealed that very few disclose information concerning short and long term investment evaluation, or the geographical location of their assets.

The financial statements of most L.P.Es represent a list of lump sum figures related to past events with very limited use for the future. What makes these figures even less useful is the fact that they relate to events which occurred three or more years earlier, and in all of his reports the Auditor General has complained about this. It is even more frustrating for the Auditor General that some L.P.Es have not prepared any statements since they were established [the Auditor General's Office, 1984]

Indeed, the questionnaires in the summer of 1986 revealed that the latest financial statements of the respondents were scattered as follows:

Date of last financial statements	%
13 December 1978	4
79	9
80	16
81	19
82	25
83	12
84	10
85	5

The reasons for such long delays were given as follows:

Reason	%
Not asked for by management	3
Not enough accountants	45
Other reasons	24
All of the above	28

It is thus fairly clear that by the time the statements are published they are irrelevant for use in economic decision-making. It seems that the majority of L.P.Es suffer from shortage of qualified accountants, and this factor will be further discussed later. What makes the financial statements even less relevant is the fact that the relevant laws and regulations require them to be prepared on a historical cost basis. The questionnaire revealed that 96 per cent used the historical cost basis and only 5 per cent of respondents were aware of the effect of changes in the purchasing power of money. [Section 2, Questions III, IV, VIII, IX, X, XI]

The review of the accounts of 50 industrial L.P.Es lodged with the Secretariat of Industry also revealed that their financial statements differ in their form of presentation. Some of them use the T account form while others use a vertical statement; some show fixed assets and long-term liabilities first, followed by current assets and liabilities, while others show them in reverse order.

6.6.3. Accounting Standards

Accounting standards in Libya is a phrase without meaning, for apart from inventory evaluation and depreciation methods, none of the laws, regulations or rules (LCC, tax law, statutes) mention what accounting standard should be applied for any issue. All that they require is the application of prevailing accounting procedures and standards. Even in the case of inventory, where the lower of cost or market value is required by tax law, the fact that there is no market where the market price is quoted means that actual cost is the only valuation method available. A problem also exists with depreciation, where it is common to find that some assets are fully depreciated according to the books, but are still operating, or vice versa.

While 90 per cent of L.P.Es use the accrual basis of accounting, they differ significantly in their revenue recognition point, with only 69 per cent using sales point, while more than 25 per cent use the production point, thought it was not clear whether the latter could guarantee to sell their product once it is finished. L.P.Es also differ in their criteria for the classification of revenue and capital expenditure. Only 66 per cent use the productive life as the criterion, while more than 30 per cent use the amount of expenditure or other methods. [Sec.3 Questions I,II,II]] However, evidence suggests that the majority of L.P.Es use the amount of expenditure as the criterion for deciding between revenue and capital expenditures. 87 per cent and 68 per cent of respondents consider maintenance and research and development expenses as revenue expenditure, in spite of their nature. Despite the requirement of various laws and regulations for the of a use periodic inventory system and the lower of cost or market method, only 23 per cent and 26 per cent respectively, follow these requirements. Of the 65 per cent who use the cost method of valuing inventory, 49 per cent use a weighted average and 4 per cent use others.

Most L.P.Es follow the legal requirement for the use of the straight line method for depreciation, though it could be argued that, because different fixed assets are used in different ways, they should be depreciated differently.

While most L.P.Es report long-term investments at cost price (87 per cent), only 45 per cent report short-term investments at cost. [See Section 3, Questions I, II, III, IV, V, VI, VII, VIII, IX, XI, XII]

The above evidence suggests that the external reporting of L.P.Es is varied not only in form but also in substance. Accordingly, their reporting is far from uniform and could be misleading to economic decision makers, financial analysts and academic researchers.

Some accounting writers argue that a lack of uniformity will result in better accounts because then individual enterprises will be able to choose those accounting standards or policies which best fit their conditions. But even if one accepts such an argument in the case of developed countries, such an argument is hard to accept in the case of developing countries, most of which suffer from a shortage of well-qualified accountants who can make a prudent choice when it comes to deciding between alternatives in accounting standards.

Moreover, the fact that most of the L.P.Es are financed by State subsidies means that the management of the L.P.Es may seek to disclose to the authorities the result or state of affairs likely to guarantee the receipt of these subsidies. Consistancy has very little appeal in Libya and the whole accounting system could often be changed due to the frequent changes in management. Indeed the questionnaire revealed that 43 per cent of respondents have had a major change in their accounting systems during the last five years. [Sec. 2, Question XVII]

Accordingly, it is widely believed that the greater the uniformity in accounting practices in Libya, the better the information will be for micro- and macro decision makers. The current state of accounting standards in Libya is likely to make accounting information not only less reliable, but also more biased.

6.4. Management Accounting in L.P.Es

Management accounting practice in L.P.Es is poor for managers and accountants have very little knowledge or appreciation of the function of planning and control. Legally, all L.P.Es are organised according to their statutes, which say nothing concerning cost accounting. Perhaps the intention was to leave such matters to individual L.P.Es who construct their own cost accounting system. Hence the only legal instrument which mentions managerial accounting is law NO.13 of 1981 concerning the People's Committee, which refers to the "responsibility of the PCs of the L.P.Es to prepare the budget".

However, most L.P.Es have cost departments, but they lack qualified accountants and reliable channels of reporting [Section 2, Question IV]. Consequently cost records are poorly kept and poorly prepared, and cost allocations and unit cost calculations are prepared on an ad hoc basis. When L.P.Es do carry out any cost analysis, unit cost is computed in total and there is no attempt to break the figure down into its components. The Libyan Cement Company and the Pipes Company, two of the largest L.P.Es do not have separate classifications for direct and indirect cost, according to their cost statements. Break-even analysis is rarely used and shadow prices analysis and input-output tables are unheard of. Comparison of performance between departments and between production lines is extremely difficult since they lack cost information, and pricing of products and cost control functions are based on unreliable cost records. [A. Shamiya, M. Turkey, R. Abuel-Saad, B. B-El-Aid. Director Generals of Financial Sections of Socialist Pipes Company, Libyan Cement Company, Libyan Arab Air Line, and Sebha Company for Public Roads and Constructions. Summer of 1985-1986.]

Questions were asked in respect of the budgeting systems of L.P.Es. Only 29 per cent of respondents use budgets for the purpose of planning and control, while 17 per cent prepare budgets, but do not use them, and 54 per cent do not prepare a budget at all. However, even those L.P.Es which prepare budgets limit themselves to one budget, namely the production budget. This budget is based on unreliable cost information and hence variances between the budget and the actual results are frequently immense.

Evidence suggests that, besides the absence of cost analysis, the calculation of unit costs is very questionable. The example of the cost of one litre of petrol mentioned earlier is only one example, and the cost of many Libyan produced goods is much higher than their imported counterparts.

In many cases, communication between warehouses, production line, purchasing departments and cost departments is weak or absent, according to studies carried out by research teams from the University of Garyounis. Specially, the manager of the cost department at the Pipe Line Company stated that his department was not able to calculate unit cost because vouchers transferring materials from warehouses to the production line were not available to him nor were vouchers transferring finished productions from production lines to the warehouses. [Shamiya, Benghasi, Summer 1985]

No attempt to adjust for inflation has ever been made in L.P.Es, for this is both unpopular and against both the tax law and the LCC, under which all figures are based on historical cost. Only very few L.P.Es such as the Sebha Company for Roads and Construction, are aware of the need to adjust figures for inflation, and, interestingly, these are the same few whose accounting system is somewhat similar to the Egyptian uniform accounting system.

Accordingly, managerial accounting practices in L.P.Es are far from perfect. Many features, such as input-output analysis, shadow prices, unit cost analysis, break-even point analysis and adjustments for inflation are absent. Consequently, decision-makers at the micro level receive inadequate information, as do decision-makers and statisticians at the macro level.

6.6.5. Audit of L.P.Es

6.6.5.1. External Audit

All L.P.Es are subject to external audit, either by the Auditor General's Office, or by other auditors appointed by the Auditor General. In the early 1970s, all L.P.Es statutes included articles which stated:

> "The company should have one or more independent auditor whose responsibilities, duties, authority and remuneration shall be specified by the company's respective secretary (minister), all

according to prevailing laws and regulations."

However, later in the 1970s, the Auditor General criticised this practice on the grounds that the secretary's power to appoint the auditor may result in the secretary exercising undue influence on the auditor's independence, for the auditor will report publicly on the activities of those directly responsible for his appointment [The Auditor General's Office, 1973, Volume No.6, p.9].

Accordingly, the Auditor General has proposed that the appointment of auditors of public organisations, corporations and companies fully-owned by the State, or whose laws provide for a special system of audit, should be made upon the recommendation of the Auditor General's Office [Ibid. p.10].

Consequently, the council of ministers issued law No.118 of 1973, which adopted the recommendation of the Auditor General as stated above. Since then, the auditors of L.P.Es have been appointed on the recommendation of the Auditor General's Office and have been made responsible to the AGO.

The same provisions were emphasised in the AGO law No.79 of 1975 in article no.19, paragraphs 1 and 2.

The said law has left the AGO the option to appoint independent auditors for L.P.Es or to perform the audit through its own staff. In effect, most L.P.Es are audited by AGO staff, despite the fact that it suffers from a severe shortage of staff.

This arrangement has given the AGO the opportunity to audit more L.P.Es than it would otherwise have done. The fact that independent auditors have to get the authorisation of the AGO concerning their audit programmes and procedures, has established some degree of uniformity in the audit. The arrangement of the AGO recommending the appointment of the auditor also has relieved L.P.Es from the burden of finding suitable auditors for their accounts. In fact 89 per cent of respondents express their satisfaction with the AGO audit. [Section 2, Questions VI]

However, the AGO has observed that some external auditors are far behind in submitting their audit report and that in most cases their submissions come after the annual meeting of the general assembly, and also that their reports are reveal a wide diversity in form and substance [El-Arabi, H., Tripoli Summer 1986].

Perhaps such an arrangement would have been more effective if the AGO had used the independent auditors' co-operation in improving the internal control and internal audit systems of the L.P.Es. It seems pointless to use such scarce resources in auditing accounts and financial statements which are between two to three years in arrears, for in all of his reports the Auditor General has complained about the lack of cash control, internal control and internal audit in the L.P.Es.

Even if L.P.Es were to prepare their financial statements on time, the fact that they are not orientated towards macro decision-making makes the usefulness of the external audit very questionable in the Libyan context, especially when most of the L.P.Es are reluctant to implement the AGO's recommendations.

6.6.5.2. Internal Audit

65 per cent of L.P.Es have internal audit departments, but the other 35 per cent do not. However, most of those which do have internal audit departments still limit their role to the detection of fraud, with emphasis upon examining accounts before payment, collecting income, and checking petty cash claims. [University of Garyounis Research Centre, 1981]

However, internal audit should be more than a routine check of payments and collections of money, and its objectives should be the continuous evaluation of internal control systems. The Chartered Institute of Public Finance and Accountancy in England and Wales (CIPFA) stated that the Principal Objective of Internal Audit Reporting are:

1. To alert management as soon as possible to matters of significance arising from audit;
2. To persuade management to implement recommendations for changes leading to improvements in the system and its performance;
3. To provide a formal record of points raised by the audit and, where appropriate, agreements reached with management. [Buttery, R.and Simpson,R, 1985, p.18]

A sound system of internal audit could be the remedy to many problems faced currently by the L.P.Es, for it would warn managers of defects in the both the financial and management accounting systems.

Indeed, it could be argued that, instead of using scarce resources in externally auditing financial statements which are non-unified, ill prepared, outdated, outmoded and based on historical cost, external auditors from the Auditor General's Office, or from independent accounting offices, would be better used in improving the internal audit system.

To secure the independence of the internal auditor, Briston and Perks [1977, pp.48-51] have already suggested that they could be included within the Auditor General's Office instead of within the audited organisation.

The role of internal audit in the evaluation of performance of State enterprises has also been emphasised by Briston and Russell [1984]:

> "The need, therefore, is for management accountants and book-keepers in the first place, and then fro the audit function to be based on internal audits rather than external, and upon efficiency audit rather than compliance." [Briston,R. and Russell,P. 1984, p.21]

Empirically Maher and Roman [1988] have found that there is a positive correlation between the level of spending on internal audit and the level of management performance. [Maher, M.W., and Romanan, R. 1988, p.56].

This finding suggests that the more Libyan authorities improve internal audit; the better the performance, and management at L.P.Es and other government departments would be. Such improvement in management performance is most urgently needed in Libya.

However, it is not the responsibility of the internal auditor to make the enterprise operate efficiently, or to create a system which makes it so operate. These are the responsibility of the management; the internal auditor's responsibility is to assist the management to operate efficiently and to evaluate their operations. [Buttery, R. and Simpson, R. 1986, p.68]

6.7 Relationship Of Accounting Practices Of L.P.Es To National Accounting

Up to this point it has been shown that accounting practices of L.P.Es have been highly influenced by accounting practices in the UK and USA. Enterprise accounting is biased towards external reporting and external auditing, and is not concerned with managerial accounting, internal auditing or performance evaluation. The relevance of the accounting practices of L.P.Es to national accounting is even worse. A number of accounting writers have pointed out the inappropriateness of UK and USA orientated accounting systems to developing countries, due to their bias towards private enterprises financial accounting, with little sympathy towards managerial accounting, and their disregard of the needs of national accounting. As a consequence, Briston [1978] has argued that developing countries should adopt an accounting system which will meet their own information needs.

The results of the survey suggested that the accounting systems of L.P.Es have little concern for national accounting needs. Indeed, only 18 per cent of the respondents were aware of the needs of national accounting, as far as their respective accounting systems were concerned (Sec. 3., Question XXIX].On average,fewer than 10 per cent of the financial statements of L.P.Es disclosed information in respect of:

1. Purchases of imported goods
2. Total interest expenses
3. Sales of goods and services to non-residents
4. Salaries of non-residents
5. Classification of assets according to activities
6. Classification of cash balances between national and foreign currencies
7. Business transfer payments
8. Classification of long-term investments between home and abroad
9. State subsidies
10. Amount of exports
11. Value added and its components
12. Increase in physical inventory

(Section 3. Questions I-XIV]

Furthermore, no L.P.Es prepare input-output tables or flow of funds tables, and very few of them prepare a statement of changes in financial position.

This, and other missing information, could have been very useful in compiling national income accounts, balance sheets, input-output tables, flow of funds statements of L.P.Es. Much information used in compiling national income accounts in Libya has had to be estimated because it was not disclosed in financial statements [Zenny, Tripoli, Summer 1986].

Hence, one may conclude that the relationship between micro accounting in the accounting systems of L.P.Es and macro accounting in the form of the national accounts is, at best, very weak. It is thus suggested here that L.P.Es should adopt an accounting system which would provide adequate information for national accounting purposes. It has already been argued that an accounting system designed for a developing country with a strong public sector might well be based upon a uniform accounting system on the French pattern [Briston,R. and Russell, P. 1984, p.22].

6.8. Accounting Manpower At L.P.Es

So far it has been argued that L.P.Es face many problems. These include the poor definition of their objectives, the lack of management efficiency, the ad hoc financing methods, the delays in external reporting as well as its diversity, the weakness of their cost accounting practices and their internal audit functions, and lack of awareness of national accounting needs.

Most of the above problems are caused by the shortage of accounting manpower in quantity as well as in quality. More than 50 per cent [Section 2, Question IV] of the respondents stated that the reason for delay in preparation of their financial statements was the shortage of accountants. This factor has been a problem for a long time for the country as a whole. According to the fourth social and economic development plan of 1975, the marginal demand for accountants was 1,780 accountants, while the marginal supply was only 1,215 [Ministry of Planning, 1972, p.137]. According to the manpower census of 1984, the total number of accountants in Libya was 5,818, of which only 2,750 accountants were Libyan nationals, while 3,068 accountants were non-Libyan. Furthermore, 2,438 accountants of that total were working at L.P.Es, of which 1,230 accountants were non-Libyans. The problem of the shortage of accountants in L.P.Es has been even worse, for since 1984 non-Libyan accountants have been asked to end their employment in Libya.

Consequently, the only sources of supply of accountants to L.P.Es are the accounting education institutions in Libya. But accounting education in Libya is an American-oriented system, where the emphasis is on the external reporting and external auditing of private enterprises, with public sector accounting and management given very little weight.

Furthermore, the accounting systems of L.P.Es require highly qualified accountants, while the majority of accountants are supplied by low level vocational training institutions. Statistics of graduating accounting students provided by the Secretariat of Education, the Faculty of Economics of Garyounis University, the Accounting Department of El-Fateh University, and the Higher Institution of Management and Banking show that the total number of accounting graduates for the period 1961-1985 was 4,330 students, only 1,693 of whom graduated from higher institutes and university colleges, while 2,637 students graduated from low-level vocational training institutes. This suggests that the majority of Libyan accountants are in fact book-keepers rather than accountants.

This confirms that L.P.Es do suffer from a shortage of accountants in terms of quantity as well as in quality. One way of solving such a problem is to adopt an accounting system which does not need highly qualified accountants to implement it, given that most of the accountants are book-keepers provided by low-level vocational training institutes.

As developing country, Libya cannot afford to adopt a complex accounting system of standards which can only be operated by sophisticated accountants. This fact was emphasised by G. Murray [Murray,G. 1981,p.18] when he stated:

> "A complex system of standards can only be operated where there is a sophisticated audience of accountants to implement them".

Such a change in the orientation of the accounting system of L.P.Es should be followed by a change in the Libyan accounting education system, which should shift its emphasis towards cost accounting and internal auditing, whose goal should be to supply more cost accountants and book-keepers, rather than supplying students who are highly oriented towards external reporting and auditing.

6.9. Characteristics Of The Accounting Systems Of L.P.Es

The above discussion of the accounting systems of L.P.Es suggests that there is no Libyan accounting system as such; rather, it is a mix of accounting practices which have very little correlation with each other. Accordingly, it is very difficult to make a comprehensive list of all of the characteristics of these practices.

However, a broad list of such characteristics might be attempted:

1. The accounting practice of L.P.Es is mostly concerned with external financial reporting and external auditing, with managerial accounting and the needs of national accounting rarely being given any weight. While all L.P.Es publish a balance sheet and profit and loss account and 89 per cent use an external auditor to certify these statements, only 29 per cent of them

actually prepare and use a budgeting system, only 32 per cent are aware of the needs of national income accounts, and only 18 per cent are aware of the needs of government departments outside its own secretariat.

2. People's Committees are given a free hand to choose and change any accounting policies, procedures and standards. Law No.13 of 1981 stated that it is the responsibility of People's Committees of the L.P.Es to "issue all necessary internal systems and regulations". However, due to frequent changes in such committees, the accounting systems of L.P.Es are also frequently changed. 43 per cent of the L.P.Es had changed their accounting systems within the previous five years and the tax law of 1973 seem to be the most influential factors in shaping the accounting system. However, these requirements are very few, very general and very weak and are only concerned with financial reporting and external audit.

3. The information which is provided by the accounting system is mostly of benefit to private investors, even though there are none of these, while other users are mostly ignored.

5. Internal audit and external audit are mainly concerned with traditional financial and compliance audit.

Most of the above characteristics, especially the diversity of accounting practices and the lack of concern with regard to public sector needs have mostly been caused by the way in which the private enterprise accounting system in Libya has evolved. Evidence suggests that this has been highly influenced by the accounting practices of American and British multi-national corporations and by the Libyan accounting education system, which itself had first a British bias and now an American bias.

6.10. Summary and Conclusion

This chapter has defined the problems facing L.P.Es and has stressed the need for clear and well-defined objectives to be used as criteria in evaluating the efficiency of management of L.P.Es.

It has argued that the current accounting systems of L.P.Es do not provide information which is oriented towards micro- and macro-economic decision-making; it has stressed the need for urgent changes in these systems towards an accounting system which is strongly orientated towards the public sector as well as towards economic decision-making; and finally, it has argued that the current accounting manpower problems facing L.P.Es could be solved by changing not only the nature of their accounting system but also the nature of accounting education in Libya.

CHAPTER SEVEN

Governmental Accounting in Libya

7.1 Introduction

Despite its long and continuous history, government accounting remains academically and professionally a neglected area. Accounting writers in developed and developing countries have been mostly concerned with financial enterprise accounting with the virtual exclusion of governmental accounting, following the Industrial Revolution. [Briston,R. 1978 p.106] Furthermore, the field of public sector finance has been occupied by economists, with the complete absence of accountants. [Lang, H.G.,1971,p.2]

Perhaps one of the reasons why more attention has not been paid to government accounting lies in the fact that government accounts are constructed quite differently from normal commercial accounts. They have to meet the special needs of executive and legislative branches of the government, and in this respect, tradition has tended to cast the accounts in a special and peculiar mould.

In the Libyan context, as has already been seen in this study, the evolution of accounting has been highly influenced by American and British accounting. Hence governmental and public sector accounting have been virtually excluded from either writing or discussion. In all levels of accounting education there has been only one governmental accounting course, which started as late as 1975. This course is confined to the government's pay-role preparation and to general budget preparation. Professionally, governmental accounting is considered only as a method of accountability, and the contribution of this branch of accounting in Libyan economic activities has yet to be recognised.

However, governments now have a major role in managing the economic activities of the state and of the public sector in particular. Thus section A of this chapter will discuss briefly in general terms the main elements of government accounting.

The main purpose of this chapter is to ascertain whether the present government accounting system in Libya is seeking to or is actually providing information relevant to the needs of the Libyan environment, namely the socio-economic development planning of the country. Therefore part B of this chapter discusses the government accounting system in Libya.

The purpose of this discussion is not to provide a detailed description of the operational transaction of the system, but rather to look for a general indication of its characteristics. Thus this part will discuss the three main elements of the system: 1) the budgeting system; 2) the accounts, and 3) the control function (i.e. preparation, implementation and control).

7.A Government Accountiq

7.A.1 The Siqnificance Of Government Accounting

Nowadays the government's role in shaping its subjects' life-style is continuously increasing both in size and form. Governments in both developing and developed countries carry out a wide range of activities for their subjects, and these activities require sizeable public funds and employment. Meanwhile, the form of the government's involvement has taken on a new shape. For instance, in Libya the public sector has reached a point where it controls every single activity of the economy. Even in the most developed countries, such as the United States and Western Europe, the public sector is performing entrepreneurial tasks, which include, among other things, nationalised industries, public corporations, councils and other semi-autonomous government agencies. Hence, within governments there is an increasing variety of organisational and accounting models.

Especially in socialist countries like Libya, the significance of government accounting is not subject to debate. In 1958/59 the total revenue of the state of Libya was L.D.23,094,000 and the total expenditure was L.D.19.179.000, [International Bank of Reconstruction and development, 1960, p.37], whilst the five year development plan expenditure amounted to L.D.25,000,000. [Ibid., p.70] In the 1985 budget the total revenue of the state from non-oil revenue was L.D.1, 185,000,000 and the five year development plan of 1981-1985 was allocated L.D.16,893,500,000. [Secretariat of Planning, 1980, p.91].

Furthermore, the Libyan government's activities have greatly widened from merely basic services, such as health, education and security to all types of economic activities which include everything from defence and security of the country to bakers' shops.

Such involvement by the state in economic activities and other services requires a sound system of government accounting.

7.A.2 Characteristics Of Government Accounting

Governments which manage public funds are held accountable to their subjects, who in turn authorise governments to carry out their policies. Subjects who authorise management of funds through their representatives, need a government accounting system through which the Accountant General and the Auditor General can control and verify that the actual expenditures and revenues were in fact as authorised. This emphasis upon legal authorisation and subsequent verification of expenditure and revenue - rather than upon policy objectives for which the expenditure is incurred and revenue is collected - has given rise to three main characteristics of government accounting in most countries:

first: the accounts are on a cash basis rather than an accrual basis; this has led to a certain amount of criticism by academicians and accounting professionals;

second: annual estimates have tended to show expenditure on the inputs side;

third: budgets have in effect been only for twelve months ahead, which is too short a period for any meaningful decisions to be made on the allocation and control of expenditure. [Lang,H.G.1971, p. 2]

7.A.3 The Purpose Of Government Accounting

In considering the purposes which government accounting should serve, it is usual to distinguish between accountability and managerial needs.

Accountability has general application in the area of parliamentary control. For such purposes, the United Nations in 1969 identified the essential requirements of an adequate system of governmental accounting.

(i) the system should comply with the constitutional, statutory and other legal provisions of the country;

(ii) the system should reflect the classifications used for estimates and budgetary purposes. The budgetary and accounting functions are complementary elements of financial management and must be closely integrated. It follows, then, that if estimates and budgetary classifications are changed, the classifications used in the accounting records should follow suit;

(iii) the system should show the objectives and purposes for which funds have been received and expanded and show the executive authorities responsible for the custody and use of public money;

(iv) the system should be constructed and maintained on a basis that will facilitate an independent audit and other external reviews [Enthoven, A. 1973, p.44]

Meanwhile, managerial and policyneeds involve several levels. at the Treasury level, The Treasury Department needs to know what the government is doing in aggregate from several points of view: how much of the total real resources are being used by various government activities; what is the impact of the current year's operation of the government on the economy as a whole; is the total government expenditure in fact being used for those things which the country needs and are some things are being done which, although of benefit to particular groups, may not be necessarily desirable if economic objectives are to be shown by purpose or output and related to policy objectives as well as to inputs. Finally, the system should be presented in a manner that parliament, as well as the various managers in the public sector, can measure the efficiency with which the different activities are being pursued.

The United Nations has stated those managerial and policy needs purposes in its Manual for Government Accounting System of 1969, as follows:

(i) the system must be developed in such a way that will permit effective administrative control of funds and operations, programme management and internal audit and appraisal;

(ii) the system should be developed so that it effectively discloses the economic and financial results of programme operations, including the measurement of revenue, identification of costs and determination of the operating results of the government and its programmes and organisations;

(iii) the system should be capable of serving the basic financial information needs of development planning and programming and the review and appraisal of performance in physical and financial terms;

(iv) the system should be maintained in a manner that will provide financial data useful for economic analysis and reclassification of governmental transactions and assist in development of national accounts.[Ibid, p.44].

After the above general discussion about government accounts, which laid down the general framework of the system, the study will turn to discuss the Libyan government accounting system.*

7.B. The Governmental Accounting System In Libya

7.B.1 Introduction

During the discussion of the evolution of financial accounting in Libya it was shown that most of the

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*The entire material for the rest of this chapter was collected through oral interviews as well as written questionnaires submitted to: 1) the Auditor General; 2) the Director Generals of the Budget Division and the Treasury and Accounts Division at the Secretariat of the Treasury, Tripoli, Libya, Summer of 1985/86, by the author.

environmental factors were strongly biased towards the financial accounting of private enterprises.

However, laws and regulations have been enacted from time to time by the state since independence in 1952, to deal with government accounting and auditing:

1. the law of the state financial system of 1967 and its amendments;
2. the law of the Auditor General's Office of 1966 and 1975;
3. the law of the Central Agency of Administrative Control of 1974;
4. the executive orders of budget, accounts and warehouses;
5. the executive orders of contracts.

The above laws and regulations have laid down the rules for various aspects of governmental accounting in Libya.

The study of the government accounting system in Libya is not intended to be detailed and comprehensive. The intention is to give an overall review of the system, to ascertain whether it is serving the needs of the Libyan developing economy.

Accordingly, the ensuing discussion will trace the process of establishing public funds, operating and controlling public funds and finally the auditing of public funds, and will include:

<u>first</u>: the State Budget process;

__second__: the accounts of the state;

__third__: the Accountant General;

__fourth__: the Auditor General.

7.B.2 The Budgets of the State

In public sector finance, budgeting is an essential tool, for it is in the budget that every single sum to be spent or received is forecasted. After these sums are proposed and authorised, it is considered to be a legal limit for authorities' spending and collecting. By comparing the budgeted sums with the actual sums at the end of the period the budget provides an essential element of control in systems of public finance.

In the Libyan context,the state has two main annual budgets; the General (administrative) Budget, and the Development Budget. Both of these budgets are financed by revenues collected by the state through various channels. Both of the budgets commence on 1st January and terminate at 31st December each year. However, the Development Budget is a part of the long-run five-year plan, while the General Budget is for the short-run span of one year. Furthermore, the Development Budget is concerned with long-run capital projects while the General Budget is concerned with the annual current expenditures of the State Departments.

The process of preparation, implementation and control are mainly similar, apart from the responsibility for the preparation of each budget. It is the Secretariat of the Treasury who is responsible for preparing the General Budget, while it is the responsibility of the Secretariat of Planning to prepare the Development Budget.

The first phase of the preparation process of both budgets begins with the circulation of what is called "The Budget Call Circular", sent by the respective secretariats (Treasury or Planning) to the rest of the state units.

In this circular the respective secretariat explains the rules of budget preparation and other overall objectives of the state, mainly to keep expenditure as low as possible and to collect as much revenue as possible.

The second phase of the process is the actual preparation of the budget estimates by various state units, as explained below. [Tantouch, A. 1986].

7.B.2.1 The Budget Process

7.B.2.1.1. Steps of the Administrative Budget Preparation

According to the State Financial System Law (24 October 1967) and its various amendments and the Law of Budget, Accounts and Public Warehouses, the Secretariat of Treasury is responsible for supervising the state funds, their collection, maintenance and spending.

In order to carry out its responsibilities, the secretariat follows certain rules according to a specific time-table within the general framework of the budget preparation, its examination and its submission to the responsible authorities for their approval. Then the secretariat supervises its implementation through its controllers at the various departments of the state. [Tantouch A. 1986].

The time table for preparing the budget is as follows:

1. Each municipality's Specific People's Committee (SPC) should prepare its budget proposal, which should be sent to the Specific People's Committee of the Treasury (SPCT), within the municipality accompanied by a detailed report explaining the proposal's figures and the reasons behind the differences from the previous year's allocations.

2. The municipality's SPCT examines the SPC's proposal in respect of the differences from the previous year's allocation and the accuracy of the detailed figures. It then submits to the municipality's General People's Committee (MGPC) the general budget of the municipality for its examination and finalisation.

3. The municipality's GPC-1 then submits its budget to the General People's Committee GPC-1 (State).

4. All central agencies and General Secretariats (GS) should prepare their budget proposals and submit them directly to the General Secretariat of the Treasury (GST).

5. The GST shall examine all budget proposals transferred by the GPC-1, GS and other central agencies in order to submit the final general budget of the state to the GPC (revenues and expenditures).

6. The GPC-1 examines the final budget, and then sends to each municipality its own final budget, which in turn is submitted to the Basic People's Congresses (BPC) for discussion.

7. The SPCT at each municipality prepares the final budget following its examination and approval by the BPC, to be sent to the GST.

8. The GST submits the general final budget of the state to the GPC-1 for its final examination and its submission to the General People's Congress (GPC).

9. After the GPC's approval of the final budget, the the Congress issues the decisions required for its implementation.

In summary, then, the procedure of drawing up the budgets is as shown in Figure 7.1 .

7.B.2.1.2 <u>Steps in the Development Budget Preparation</u>

The preparation of the annual development budget is based on the intermediate development plan which usually lasts for five years.

Secretariat of Treasury/Planning ---------> Request to a budget proposal

Municipalities -------------> Statement of budget proposal

General People's Committee ---------------> First approval

Basic People's Congresses ---------------------> Approval

Municipalities' GPC-1 ------------------------> Definition

Secretariat of Treasury/Planning --------> Final definition

General People's Congress ---------------> Final approval

Figure 7.1: Steps of budget preparation

The budget is usually prepared in the last quarter of the year. At the beginning of August of each year the Secretariat of Planning sends the budget circular to all the state departments concerned asking them to submit their development budget project to the Secretariat. [Ben-Saud, 1986].

The specific steps in the budget preparation are:

1. Review of the implementation of the previous year's budget in order to specify the rate of implementation in all sectors. This helps the authorities to estimate the coming year's needs in each sector.
2. Preparation of the report on the actual implementation of the previous year's budget and the estimation of the financial resources available for the coming year's budget.
3. The General People's Committee (GPC-1) enacts the budget resolution.

4. The Secretary of Planning issues the budget circular to be sent to the other general secretariats and the municipalities' secretariats, asking them to start preparing their development budget proposal.
5. The budget committee within the Secretariat of Planning, whose members are representative of various sectors of the economy, follows up the actual implementation of the previous year's budget, receives the sectors' requirements for the coming year and their current commitments and the funds expected to be transferred to the budget for the coming year, all of which should be prepared and sent by all state departments, both national and local.
6. The committee then allocates the financial resources expected to be available to all sectors according to the needs, general objectives and strategy of the intermediate plan and availability of financial resources.
7. Finally, the budget is submitted to the General People's Congress (GPC) for approval and the commencement of implementation.

7.B.2.1.3. Implementation of the Budget

The Financial System Law and the Budget Law both emphasise that the budget is an annual one, covering the period between 1st January and the end of December of each year. However, on many occasions the state budget can not be approved until mid-March.

The budget is classified into two main parts, the first for revenue, and the second for expenditure. The latter is divided into three headings:

1) appropriation for salaries and the like;
2) appropriation for general expenditure;
3) appropriation for new operations.

For any expenditure to be made, it has to be specified in the three appropriations above and no fund may be transferred from one heading to another without the appropriate authorisation.

However, in certain cases it is possible that some expenditures may not be known at the time of the original preparation. Hence the transfer of funds between items under the same heading is possible, given that the Under-secretary of the Treasury has given his authorisation. However, if the transfer of funds is between two headings, then the authorisation of the Secretary of the Treasury is necessary, after discussing the request at the General People's Committee. [Tantouch, A., 1986].

In practice, however, this arrangement has increased the possibility of the misallocation of funds and the misuse of such funds, due to the fact that it is almost certain that the undersecretary or Secretary of the Treasury will give such an authorisation to the department requesting it.

The Auditor General is so concerned about this because, in his opinion, it weakens the control of public funds and the function of accountability.[El-Arabi,H. 1986]

If the Auditor General is concerned about this arrangement, he is even more concerned about the arrangement for authorising new funds to spending departments when the original authorisation is proven not to be sufficient. These arrangements may also cause those who are responsible for preparing the expenditure estimates to be less careful in forecasting future expenditure . The Auditor General has always complained about the procedure of granting such additional funds to departments requesting them. In an interview with him in the summer of 1985 he explained that the account of "out of-Budget" - the account which is designed to contain additional spending - is becoming inflated year after year. [El Beshari]. As the then Auditor General, he would have liked an end to or the limiting of such practices, because they weaken control over government spending. The above discussion applies to the development budget as well.

7.B.2.1.4 Temporary Monthly Appropriation

According to the budget law, no fund should be authorised by the Accountant General unless a proper authorisation in the form of an authorised budget exists. However, due to the fact that in some years when the current budget expires, it is not immediately followed by the authorisation of the new budget - indeed, the 1988 budget was only approved on 17th March-1988 in such cases the law allows the Secretary of the Treasury to authorise the Accountant General month by month to continue spending under the first two headings of the budget - salaries and general expenditures - as well as for development projects. This spending should not exceed one twelfth of the previous year's appropriations for each month.

7.B.2.1.5 <u>Budget Format</u>

7.B.2.1.5.1. <u>The Expenditure Side</u>

All expenditure within the General Budget is supposed to be of a recurrent nature. However, some of the items, such as office equipment and furniture, which are capital expenditure in nature, are also included in the budget and treated as recurrent expenditure. All expenditure included within the Development Budget is regarded as capital expenditure in nature, though it includes items used to run the business of the various secretariats related to day-to-day operations rather than long-run operations.

Due to this policy, many expenditures which are supposed to be included within the General Budget are included in the Development Budget, and vice versa. Furthermore, other expenditures which are recurrent in nature are treated as capital items, and vice versa. (For more details see form "A" for the General Budget and form "B" for the Development Budget.)

The General Budget structure expenditure side is divided into three main headings (salaries, general expenses, new operations) which follow the same headings as the main accounts at the various secretariats and departments to facilitate the recording and the control of such headings. [Tantouch, A. 1986].

Each heading is divided into a number of items. For instance, the three sections of the 1985 budget were divided into:

	Section	Numbered Headings	Example
1.	Salaries	1-3	salaries; social security contributions; cash in kind appropriation
2.	General expenditures	4-18	raw materials; spare parts, maintenance training & education
3.	New operations	18-25	Buildings

<u>Source:</u> Details of General Budget, 1985, pp.40-43.

A heading is a major division of the estimates established formally for the purposes of accountability and control and normally corresponds to a main function or activity of the government. [Tantouch, A. 1986]

Each heading is divided into a serious of numbered items. These are smaller divisions of the estimates showing within a heading how funds are to be allocated between various users. For each heading of the estimates the accounts officer should keep a book showing:

a) the amount sanctioned in the estimates, adjusted by any transfer to another heading;
b) the expenditure incurred, any further known liabilities and the balance available.

It is the duty of the financial controller within each department to ensure that excess expenditure is not incurred under the headings controlled by him.

An example of the format of the General Budget (expenditure side and revenue side) is given in two tables taken from the State General Budget of 1985, (Tables 7.1& 7.2) and an example of the Development Annual Budget is given in Table 7.3.

7.B.2.1.5.2. Revenue Generation

Both Libyan budgets are financed by revenues collected by the state, which can be divided into oil revenue and non-oil revenue.

Under the Law of the Financial System of the State of 1967, the General Budget should basically be financed from non-oil revenues, which include:

1. taxes
2. service charges
3. service revenues

Form A Table 7.1

The General Budget of 1985 in 000 L.D.

	Section	Salaries	General exps.	New Operations	total
1	General People's Committee	950	120	10	1080
	Dewan of audit	2440	840	50	3330
	Central Agency for administrative control	1000	150	-	1150
	Jehad fund	90	10	-	100
	Total	4480	1120	60	5660
2	Justice Department	11800	2560	-	14360
	High Court	730	100	20	850
	Total	12530	2660	20	15210
3	Secretariat of Foreign Security		900		9000
4	Secretariat of Health	5500	43000	500	49000
5	Secretariat of Agriculture	3500	4200	-	7700
	water projects and land reclamation	800	100	10	910
	Agriculture Research Centre	1000	100	-	1100
	Total	5300	4400	10	9710
6	Secretariat of Housing	1229	1854	-	3083
7	Secretariat of Economy	1200	200	-	1400
	Tourism Department	350	150	50	550

	Sea Wealth Dept.	300	80	5	385
	Industrial Projects Dept.	900	100	-	1000
	Total	2750	530	55	3335
8	Secretariat of Treasury	4500	1000	-	5500
9	Secretariat of Education	8880	103	-	9913
	Education's Supplies Department	625	11518	-	12143
	School of Islamic Arts	300	150	-	450
	Archaeology	2778	150	-	2928
	Total	12583	12851	-	25434
10	Secretariat of Universities	250	3200	100	3550
	Elfateh University	-	26000	-	26000
	Garyounis University	-	24000	-	24000
	Bright Star University	-	2800	-	2800
	Sebha University	-	2650	-	2650
	High Technical Institutes	-	5000	-	5000
	National Agency for Scientific Research	-	1000	-	1000
	Total	250	64650	100	65000
11	Secretariat of Electricity	2500	1400	-	3900
12	Secretariat of Energy	3300	500	200	4000
13	Secretariat of Transportation	9500	5000	-	14500
14	Secretariat of Sport	1000	3000	-	4000

15	Secretariat of Planning	1300	70	-	1370
16	Secretariat of Public Services	1613	135	12	1760
17	Secretariat of Social Security	800	100	-	900
	Social Security Fund	1160	140	-	1300
	Rehabilitation Centres	2300	1000	-	3300
	Total	4260	1240	-	5500
18	Secretariat of Municipalities	445.5	468	-	913.5
19	Secretariat of Information	10000	1000	-	20000
	The external media	1500	2500	-	4000
	Total	11500	12500	-	24000
20	The Foreign Legion Office	13000	9000	500	22500
21	Secretariat of petroleum	726	172.5	-	898.5
22	Secretariat of Heavy Industries	820	180	-	1000
23	Miscellaneous	-	601000	-	601000
24	Subsidies of Public Agencies	-	5500	-	5500
25	Emergencies Account	-	1470	-	1470
	Total of Secretaries and Central Departments appropriations	99086.5	241800.5	1457	342344
	Total of Municipalities' People's Committees	73355	124097	-	857656
	Grand Total	832645.5	365897.5	1457	1200000

Source: Secretariat of Treasury, details of the General Budget of 1985, Tripoli, Libya.

Form B Table 7.2

Estimates of 1985 Revenues

Description	Estimation
Taxes:	
Taxes on Business income	90,000,000
Taxes on Personal income	130,000,000
Agricultural taxes	10,000,000
Stamp taxes	90,000,000
Taxes on leisure establishments	250,000
Production fees	90,000,000
Goods taxes and fees	360,000,000
Service Fees:	
Justice services fees	5,000,000
Transportation service fees	48,000,000
Miscellaneous service fees	1,500,000
Services revenues	
Agricultural services revenues	2,500,000
Police service revenues	3,000,000
Housing revenues	4,000,000
Public Health revenues	5,000,000
Customs services revenues	2,000,000
Miscellaneous revenues	10,750,000

Additional fees	15,000,000
Returns from income of banking sector	120,000,000
Returns from insurance sector	3,000,000
Contribution of social security fund	30,000,000
Returns from public sector partnership	25,000,000
Returns of petroleum national agency	155,000,000
Total	1,200,000,000

Source: General Budget details, p.20.

Form C Table 7.3

Development Expenditures of Transformation Plan 1981/1985 and for 1981

Head	Sector	Transformation Plan 1981/1985 Allocations	Transformation Plan 1981/1985 Share%	1981 Allocations	1981 Share%
1	Agricultural Reclamation and Land Development	3100	18.2	460	16.1
2	Light Industries	1200	7.0	200	7.0
3	Heavy Industries	2730	16.1	500	17.5
4	Oil & Gas Mining	200	1.2	60	2.1
5	Electricity	2000	11.8	250	17.5
6	Education	1000	5.9	180	6.3
7	Information & Culture	150	0.9	24	0.8
8	Manpower	150	0.9	25	0.9
9	Health	560	3.3	105	3.7
10	Social Security	130	0.8	22	0.8
11	Public Sports	100	0.6	23	0.8
12	Housing	1700	10.0	270	9.9
13	Utilities	1300	7.6	220	7.7
14	Transport & Communications	2100	12.3	306	10.7
15	Economy	500	2.9	200	7.0
16	Planning	80	0.5	15	0.5
	Total	17000	100.0	2860	100.0
17	Reserve for Projects	1500		140	
	Grand Total	18500		3000	

4. banks and insurance services' income

5. contributions of Social Security funds to medical treatment

6. revenues of public sector enterprises

7. contributions of the Petroleum National Agency, which is equal to the difference between the total expenditures and the above revenues.

The Development Budget should be entirely financed by oil revenues. According to the Law of Development Accounts of 1975, a minimum of 70 per cent of oil revenues should be allocated to the Development Budget annually.

However, the arrangements for the General Budget are proving to be impracticable, for the state faces a problem of severe fiscal imbalance between the expenditures of the General Budget and revenues collected from non-oil sources. In 1985, in the General Budget estimates, only L.D.155,000,000 out of L.D.1,200,000,000 (or about 13%) were supposed to be from oil revenues. But, in fact, the state was only able to collect 82 per cent, or L.D.#856,900,000 out of L.D.1,045,000,000 of non-oil revenues. Moreover, the expenditures of 1985 exceeded the budget by L.D.55,000,000. These factors made the oil revenue contribution to the General Budget equal to L.D.,398,000,000, which is almost three times the original estimate.

While the format of the General Budget is classified on both an administrative (various secretariats and departments) and a functionary basis (salaries, general expenditures and new operations), the Development Budget appears as part of the long-run five-year Development Plan, classified on the basis of secretariats, as shown in Form C Table 7.3.

On average oil revenue finances 100% of the Development Budget and about 33% of the General Budget. This dependence on oil revenue makes the accountability of the authorities responsible to the People's Congress for collecting and maintaining public funds somewhat difficult, Oil revenue is a factor dependent on a wide variety of international economic factors, on which the state has little or no influence.

During the time when the oil revenues flowed freely little has been done to create a real substitute for oil revenue. Most of the development projects have been operating at a loss rather than contributing towards substituting oil revenues. No doubt That, Very weak government and enterprise accounting systems, as well as negligence in maintaining and controlling the state public funds, were a major factor in the misuse of oil revenues

7.B.2.2. Characteristics Of Libyan Government Budgeting

The defects of the traditional Libyan government budget have been recognised in every Auditor General's Report since 1972. Many of these deficiencies are related to the characteristics of the Libyan government budgeting system. The first factor is that the classification and process of preparation of the budget are derived from the United Nations Manual for the Economic and Functional Classification of Government Transactions. [Tantouch A. 1986]. This manual is based on financial inputs and is closely related to the organisational structure of governments. [Enthoven,A. 1973, p.55]

Thus, the Libyan budgets (General and Development) are classified according to the administrative bodies responsible for making the expenditures. The Manual of 1985 General Budget contains more than two hundred tables, concerned only with central agencies, secretariats, sub-secretariats, departments and sub-departments, units and sub-units and the amounts of expenditure and phases of making such expenditure without a single references to the objectives of such expenditure. Accordingly the system totally ignores the out-put side and is concerned only with inputs.

As a result, the system can not be used to choose rationally between the available alternatives in the form of objectives and programmes. [Enthoven, A. 1973, p.52]

The second short-coming of the budget is the fact that it is an annual budget prepared for a short-run period, namely one year, with little relation to future years. Each year's estimates are only related to the previous year's estimates in that the latter are considered to be the starting-point for projection the estimates. The practice of estimating any expenditure on behalf of the spending department is done merely by adding a reasonable percentage to the last year's estimates, with no attempt most of the time to estimate any given year's expenditure independently in accordance with the objectives sought or the out-put. Evidence of such practices can be found repeatedly in the Auditor General's Reports, which have pointed out surplus in some government departments, deficits in others, and repeated requests from other departments to transfer funds from one item to another or from one heading to another, or for additional funds. [The auditor General's Office 1975, 1982]

The evidence suggests that the staff responsible for preparing budgets are not qualified to do their job. Furthermore, most of the spending departments leave the question of preparing their budget to the last minute before the closing date, and in some cases they are even behind the deadline. [Tantouch A. 1986]

A third point is that co-ordination between the Development Budget and the General Budget seems to be at a low level. Both authorities responsible for assembling the two budgets (Secretariat of Planning and Secretariat of the Treasury) have acknowledged that no or-ordination between the two budgets is sought. The absence of co-ordination has caused repeated applications for additional funds or misallocation of various funds between the two budgets.

Co-ordination is also absent between the various spending departments. According to the budget law, some expenditures are centralised for certain departments, despite the fact that those funds may be spent for the benefit of all departments. Examples of such funds are:

1. appropriation for school books
2. appropriation for medication
3. appropriation for spare parts
4. maintenance of administrative buildings.

But various reports of the Auditor General have revealed that in many cases long-run expenditures (ie development projects) have been paid for out of the General Budget, and vice versa. Also, the reports revealed that some centralised expenditures have been paid for by unauthorised departments.

Fourthly, the Call Circulars from both secretariats to various spending departments requesting the submission of budget estimates give no guidance in respect of budget constraints, priorities or the over-all objectives of the state. The two Budget Circulars of 1985 and 1986 were mostly concerned with the procedure for submitting the estimates and requesting departments not to exacerbate spending, with no reference whatsoever to the objectives or priorities of the budget. [Secretariat of the Treasury, 1986, pp.2-9]. As a result, spending departments have been left to set their own priorities, phases of spending and the amounts of spending.

Fifthly, knowing that these deficiencies exist, the Secretariats of both the Treasury and of Planning have adopted a new policy by which all spending departments are required to send their financial controller and one or more representatives to discuss their estimates with the Budget Committees of both secretariats to justify their estimates. [Tantoush A. 1986] But, due to the fact that few of those committee members will know all the information required to assess the estimates, the estimates will be caught between the arbitrary cuts of the committees and the anticipation of such cuts on behalf of the spending departments.

Finally, the General Budget is not linked with the planning process. Such a linkage could prove useful for project evaluation and execution. To achieve such a linkage, more reliable data - the detailed flow and measurement of relevant data to which proper accountancy can contribute - would need to be improved. [Enthoven 73, p.52]

However the Libyan Government Budget includes some positive aspects, including the centralisation of its final preparation and authorisation; the completion of its preparation ahead of its commencing date; the tightness of its procedures, and finally, being a ready guidance programme for the operations of the state.

However, these positive aspects are overwhelmed by the shortcomings.

In short, the general budget is prepared on an ad hoc basis, without reference to predetermined objectives, and putting heavy emphasis on inputs rather than outputs and ignoring performance evaluation. More seriously, the budget has no connection with development plans or the national income accounts.

As such, the traditional Libyan Government Budget does not contribute effectively to the development of the country; nor is it a reliable instrument for accountability and stewardship. Accordingly, it may be overdue for this traditional budgeting system to be supplemented a more advanced system. The Libyan State could choose from various budgeting systems available which may fit the Libyan needs and environment, such as Performance Budgeting (PBS), the Planning Programming Budgeting System (PPBS), and the Zero Base Budgeting System (ZBBS). Any one of the above could prove to be more useful than the traditional Libyan budgeting system.

7.B.2.3 Budget Control

There are four public agencies who control the government budget in Libya:

1. the Secretariat of the Treasury
2. the Auditor General's Office
3. the Central Agency for Administrative Control, and
4. public committees

However, effective financial control is practised by the first two agencies. The role of the Secretariat of the Treasury in controlling the budget is discussed below, while the role of the Auditor General's Office is discussed later under the heading of The auditor general office (7.B.7)

7.B.2.3.1 The Secretariat of the Treasury

The Secretariat of the Treasury is considered to be the main Treasury for the state, where the various revenues collected by the various state secretariats, departments and agencies are to be deposited. The Treasury is considered as the main bank, from which all expenditures are paid.

The provisions of the State Financial System Law of 1967, its amendments and its executive procedures of 1968 explain the role of the Secretariat of the Treasury in all the state's financial aspects. According to these provisions, the Secretariat of the Treasury is responsible for supervising, maintaining and controlling all state expenditures and revenues. The Secretary of the Treasury carries out his responsibilities through:-

i) Management of public funds. The Secretariat of the Treasury supervises, maintains and controls public funds through its accounts at the Central Bank of Libya. These accounts include:

   a) The General Fund Account, which is established for all state funds not included in the following accounts.

b) The General Reserve Account, which is for all funds allocated for this purpose. Funds allocated to this account are mainly those funds specified by Law No.127 of 1970, which stated that 15 per cent of oil revenues shall be allocated annually to this account. [Ministry of Justic,november 1970, p.37]

c) The Development Account. All funds allocated for the purpose of economic and social development are deposited in this account. However, all development funds are managed according to Law No.85 of 1970, which organises planning and development affairs. The funds deposited in this account are generated from:

1) what is allocated from oil revenues, which should not be less than 70 per cent of oil revenues after allocating the 15 per cent to the General Reserve Fund;
2) what is allocated from public loans;
3) funds allocated according to international treaties and,
4) any other funds allocated to this account; meanwhile a separate account fro development has been established at the Secretariat of the Treasury.

d) The Public Debt Account. This account is established for funds collected by the state through national banks.

e) The Trust Fund Account. This account is for deposits, collaterals and the like, which are deposited to achieve a specific purpose.

f) The Emergencies Account. Funds allocated for unseen events: funds which are deposited in this account are maintained to meet such unseen events.

ii) The process of preparing the General Budget. The Secretariat of the Treasury, in practising its duty of supervising and controlling state expenditures and revenues, follows certain rules, according to a specific time-table. This supervision and control is within the framework of the different stages of budget preparation, studying, submission and approval by responsible agencies, so that the Secretariat of the Treasury may supervise and control and budget through its orders to various financial controllers at the various state departments.

iii) Financial controllers. Since 1975 all financial controllers and their assistants at all of the state's secretariats, agencies and departments have become part of the Secretariat of the Treasury staff. In 1986, in accordance with a general rule which states that whenever there is a public fund the Secretariat of the Treasury should be involved, a law was passed by which the secretariat has appointed a financial controller at all public enterprises.

By this arrangement the Secretariat of the Treasury is able to practise direct supervision and control over all financial operations of the state through its financial controllers and their assistants in the various state units. [Tantouch A. 1986, Saad A. 1986]

The Financial Law of 1967 specifies the duties of the financial controllers as follows :-

1) Each secretariat should have a financial controller assisted by a number of assistance at all agencies under the supervision of the secretariat. The controller and his assistants should enhance the control of the budget implementation and make sure that agencies do not exceed their allocated funds in their spending.
2) The financial controller and his assistants should keep all records of funds for their respective secretariats and agencies.
3) They should participate in preparing budget proposals
4) They should participate in discussing budget proposals with the Finance Committee at the Secretariat of the Treasury.
5) They should prepare budget adjustment requests.
6) They should prepare monthly reports concerning the collection of revenues and spending of appropriations to be sent to the Secretariat of the Treasury.
7) They should supervise the financial department of their respective secretariat to make sure that the prevailing financial rules are applied.

8) They should supervise the warehouses of their respective secretariats.

9) They should provide reports to the Under-secretary concerning financial and accounting matters, whenever required.

10) They should approve, in the form of a written declaration, any spending commitment on behalf of their secretariat or agency and specify which fund is to be deleted and whether it is sufficient to cover the commitment.

Accordingly, all the various secretariats, agencies and departments are considered as one unit in respect of financial matters, with the Treasury supervising and participating in the implementation of those financial matters operates through its financial controller and his assistants.

iv) The Final Account. The Secretariat of the Treasury is responsible for preparing an annual Final Account for the state. This account contains:

1) a list of all assets and liabilities of the state,

2) a detailed list of all of the actual state revenues and expenditures during the year for each division of the budget compared with the estimated revenue and expenditure,

3) detailed information concerning each account in the

state accounts.

4) any other information considered to be necessary by the Secretary of the Treasury or the Auditor-General and,

This account is prepared from the Final Accounts of each administrative unit within three months of the end of the financial year. The Secretariat of the Treasury submits this account to the Office of the Auditor General within six months of the year end so that the latter can prepare his reports concerning this account to be submitted to the People's Congress. A format of this account is presented in Table 7.4. As we will see latter, such function is suffering from long delay. [El - Arabi H. 1985]

7.B.2.3.2 The Role Of The Central Agency For Public Administration Control

The above Agency was established by Law No.116 of 1970, which was replaced later by Law No.88 of 1974, which defined the duties of the Agency as follows:

1. to establish an effective control on the executive agencies;
2. to follow-up the executive agencies in respect of their fulfillment of their responsibilities and their implementation of the various laws and regulations;
3. to discover any violation of laws or any criminal act;
4 to investigate any claims or charges against any state employee.

Table 7.4

Secretariat of Treasury

Accounts Section

The Final Accounts of the State:

List of Assets and Liabilities of the State

	Assets and Debit Balances	Sub Total	Total	Liabilities and Credit Balance	Sub Total	Total
1	Cash at General Secretariat of Treasury and specific secretariats of Treasury			The general reserve Balances of additional funds		
2	Investments and loans			Trust funds		
3	Foreign investments			Credit balances		
4	Local loans			Transformation plan funds:		
5	Other debit balances			Balance at 1/1		
	Expenditure accounts:			Additional funds (net)		
	Balance at 1/1			Balance of Transformation		
	Budget expenditures			Balance funds		
	Additional allocations and funds			Treasury Bonds Other Treasury instruments		
	Total of public expenditures			Twin Accounts:		
	Twin accounts			Local investments		
	Foreign investment loans			Foreign investments		
	Local and foreign loans					

Most of the above practices fall within administrative and legal control. However, if the Agency discovers and financial misconduct as part of its investigation, such misconduct should be referred to the Auditor-General, who should in turn give his written opinion to the Agency.

The Agency writes a report every six months to be submitted to the General People's Congress. This report should include, among other things, any financial violations which have been discovered by the Agency through its investigation of the various state departments.

7.B.2.3.3 The Role Of the General Public In Controlling Public Funds

7.B.2.3.3.1. Basic People's Congresses

Basic People's Congresses have the right to discuss all aspects of internal and external policies of the state, and they send their decisions and recommendations to the General People's Congress to be finalised and stated in one unified statement. Statements of the General People's Congress are considered to be declared policies and should be followed by all the state departments which are managed by the various People's Committees. Accordingly, Basic People's Congresses practice their control over the state budget through their pre-discussion of the budget at their meeting before it is approved. Meanwhile, they practise their follow-up control through their monitoring of the

People's Committees' operations.

However, although the Basic People's Congresses establish the state policies and decide on phases of expenditure, due to the fact that people who attend such congress meetings have very little financial or economic knowledge, most of the funds of the budget are misallocated. It follows also that reports of the budget follow-up are mostly tables and figures of actual expenditures and revenues with no simplified explanations, which make them incomprehensible to ordinary people. Thus, the Basic People's Congresses do have a role in deciding what policy to pursue (formally, at least), but their role in controlling such policies is very questionable.

7.B.2.3.3.2. People's Committees

People's Committees are executive committees, chosen by the Basic People's Congresses at each state department, to manage the day-to-day affairs of all state departments. However, due to the process for selecting the committees, few of their members have any financial or administrative qualifications; rather, most of them are selected through social and family connections. As a result, the real authority is wielded by the secretaries of the committees and their director-generals.

7.B.2.3.3. General People's Congress

General People's Congress is the place where all state policies are given final approval. These policies include the annual Law of Budget, and the Congress practises follow-up control through various reports submitted to its General Secretariat by the Auditor General's Office, the Central Agency for Public Administrative Control and other public organisations.

The last two public bodies (Central agency for Administrative control and People's Congresses) do not provide effective financial control, for the ordinary people at the various levels of the People's Congresses or Committees are not really equipped with the financial knowledge to enable them to carry out such a function. They are merely symbolic bodies within the overall framework of the system of the state. People's Committees tend to be a rubber stamp for detailed reports compiled by executive personnel or committees and the Central Agency for Public Administrative Control has, in most cases, adopted the opinion of the Auditor General. Thus the only positive means of control over public funds are the Secretariat of the Treasury and the Auditor General's office.

In reality, however, due to a lack of qualified accountants in the various state departments (and in particular at the Secretariat of the Treasury), every single report of the Auditor General since 1972 has pointed out major weaknesses of the internal control system at the state departments, including:

1. over spending of appropriated funds by most of the spending departments;

2. weaknesses in documents maintenance systems;

3. differences between accounts kept by the Secretariat of the Treasury and accounts kept by the rest of the state departments;

4. absence of one unified accounting system for other state organisations;

5. differences between actual revenues and expenditures and estimated revenues and expenditures.

[The Auditor General's Office, 1972, p.13; 1975, p.18; 1982, p.15 and 1984, p.26].

7.B.3 Government Accounts

7.B.3.1 The Basis Of The State Accounts

There are three different bases on which financial accounts can be compiled: a cash basis, an accruals basis and a commitment (or obligation) basis. The Libyan government accounts are compiled according to the cash basis, whereby revenues and expenditures are measured in accordance with cash collected or disbursed. [Tantouch A.1986]

The State Financial System of 1967 states that only cash transactions are recorded (Article 10), and the single entry method is used to record all such transactions. [Tantnouch. A] Under the system in use, any cash transactions or adjustment transactions should be supported by proper documents. Proponents of the cash basis argue that the system is easy to understand and implement. In most cases government accountants (especially in developing countries) are not well qualified and most of them are book-keepers rather than accountants. As such, they need a system which is easy to understand and operate, unambiguous and strictly factual. Most of the government's accountants are qualified only by experience and have never received any sort of accounting training. Many of them are book-keepers rather than accountants, and the cash basis is the only system they could operate.

Another argument is that cash basis accounts promote accountability and control when authorisations are also made on the cash basis. [Briston,R. 1982, p.459]. Furthermore, the cash basis concentrates on the crucially important disbursement of money. Administrative staff will not release any cash until all necessary steps of verification and recording are taken. And finally, the cash basis is consistent with the importance given to the handling of cash. Even those proponents who believe that the accruals basis has a role in government accounting still argue that it has little relevance to defence or health or other government administrative activities, where the bulk of expenditure is incurred for salaries and wages. [Lang,H. p.2]

On the other hand, opponents of the cash basis argue that the overemphasis on cash disbursements of receipts rather than measurement of costs is one of the most serious shortcomings of government accounting system. [Enthoven,A.

1973 p.53] Indeed, in the Libyan context, one of the most neglected areas is the measurement of the unit cost of goods and services provided by the state. All charges for state goods and services are on an arbitrary ad hoc basis. Furthermore, the cash basis does not enable authorities to compute the state assets and liabilities at any given moment in time, for it only recognises the last stage of any transaction, i.e. the stage of collecting or paying cash. Critics of the cash basis also argue that, because no account is taken of stocks, of depreciation of fixed assets, or of outstanding accounts receivable or payable, it produces a very imperfect measure of economic cost. [Briston, R. 1982 p.459]

All in all, the current Libyan cash basis does not give a clear picture of the state of the financial affairs of the country, and its results cannot be used for the purposes of national income accounting or for a reliable state audit. As a result, cash accounts are a weak basis for decisions concerning cost efficiency and resource usage and it is very doubtful if they can be used for the purpose of accountability.

7.B.3.2 The Final Accounts

In general, accounts are a useful means of communicating available financial information to the users of such information. The function of the final accounts of any government is to give a full picture of The state of public wealth in terms of revenues received and expenditures made and the state of public funds at the end of each year. These accounts enable their users to receive audited facts about the state's operations, and also provide planners with a reliable base for planning for the future. Finally, they assist in the accountability of those who handle public funds to those who have authorised such funds.

In Libya there are three main documents when the State Final Accounts appear:

1) the budget estimates
2) the Accountant General's Report
3) the Auditor General's Report.

7.B.3.2.1. <u>The Estimate</u>

The Estimate is the starting-point for preparing the Annual Budget of the year. In this account are estimated the revenues to be collected and the expenditures to be spent during the coming financial year. [Saad, A. summer 1986]

The 1985 Estimate of the state could have been compiled by the Secretariat of the Treasury in the following manner:

1 Jan. 1985:		In LD millions
Balance of General Fund Account at 1/1		500
Add: estimated revenue for 1985		
non-oil revenue	1,043	
oil revenue	3,957	5,000
	------	-----------

Total revenue available		5,500
Less: expenditure for 1985		
general reserve, 15% of Oil revenue	593.25	
Development Fund Account	3,150.00	
Public Debt Account	115.75	
Trust Fund Account	235.00	
Contingency Reserve	206.00	4,300
31 Dec. 1985: Estimated Closing Balance of General Fund Account		1,200

Based on this table, there was L.D.1,200,000,000 in the General Fund, which could be spent in the General Budget. Thus the General Budget of 1985 authorised spending departments to spend up to L.D.1,200,000,000. Unfortunately, however, in that particular year the state did not collect the estimated revenue, due to the fall in oil revenues. On the other hand, some of the spending departments exceeded their authorised limitation. As a result, many development projects have suffered from a shortage of funds.

7.B.3.2.2 The Annual Report Of The Accountant General

The Accountant General's Report is concerned with the financial operations of the state during any given year, and also gives a picture of the financial position of the state at the year end.

The State Financial System Law of 1967 requires the Secretary of the Treasury to submit the Final Accounts of the State to the Auditor General's Office within six months of the year end and also requires all spending departments to submit to the Secretary of the Treasury all their financial information related to the Final Account of the state. These Final Accounts are included within the Accountant General's Report which have been specified by the said law as follows:

1. Statement of assets and liabilities;
2. detailed statement of all state revenues and expenditures and all actual figures for each of the budget sections compared with the budget estimates for the year;
3. detailed statements of each separate account (General Account, General Reserve Account, Development Account, Public Debt Account, Trust Account, Contingency Account);
4. any other statements which the Secretary of the Treasury or the Auditor General wishes to include in the Fiscal Account.

The format of the Final Accounts of the state in respect of assets and liabilities was given earlier.

Due to the lack of accountants at each level in the spending departments, more often than not a lengthy period of time elapses before the departments send their reports to the Secretariat of the Treasury. These delays may be as long as two to three years. [El-Beshari E. 1985]. Furthermore, due to a shortage of accountants in the Accountant General's Office, the last State Final Accounts were prepared in 1979 and it was six years behind.

Accordingly, by the time the report is published, it is irrelevant to current decision-making or to the control of past decisions. Furthermore, the Accountant General's Reports which have been submitted to the Auditor General have most of the time been contested by the Auditor General's investigations. The 1984 Auditor General's Report stated that the previous Accountant General's Report did not report the balance of public expenditure at the right figure, used the General Reserve in financing the General Budget deficit, and used local loans to cover the deficit in the budget revenues. [The Auditor General's Office 1984, p.128]

7.B.4. <u>The Accountant General</u>

The Accountant General of the Central State of Libya is the head of the Central State Accounting Services and the Treasury. According to the State Financial Law, the Secretariat of the Treasury supervises the expenditure and finances of the state, ensuring that a full account is made to the General People's Congress; it manages all the state accounts and supervises, controls and directs all the financial affairs of the state. Article 1 of the State Financial Law of 1967, has stated that the Accountant

General's functions are:

1. to act as chief accounting officer for the receipts and payments of the state funds;
2. to supervise all the state's accounts;
3. to compile the Annual Final State Accounts;
4. to issue officially approved accounting forms to all the state units;
5. to take all necessary measures in order to collect all state revenues, as well as returning all of those funds spent without proper authorisation;
6. to suggest all financial and accounting laws and the subsequent regulations needed to implement such laws;
7. to approve any accounting procedure changes related to any state department.

All in all, the Accountant General is considered to be the real effective power behind all the financial transactions of the state: he manages all state funds and accounts, accounts annually for receipts and disbursements of the state funds and ensures that there are adequate internal control systems in each public department for controlling all public funds; he is responsible for the creation of any public account, transferring funds to or from such accounts and finally controlling those accounts.

However, evidence suggests that the Accountant General is facing problems in executing his duties. The last State

Final Account was submitted to the Auditor General as far back as 1979. According to the Auditor General the accounts are more often than not full of errors, misleading facts and are incomplete. [El - Beshari E. 1985]

Furthermore, every single Report of the Auditor General since 1971 (and some reports of the Central Agency for Public Administrative Control) has included criticisms of the state of the various departments' accounts. A review of the Auditor General's Reports of 1971, 1972, 1975, 1984 and 1985 as well as the Central Agency of Public Administration Reports of 1978, 1982 and 1985 reveal some persistent weak areas relating to the various state department's accounting systems:

1. the absence of an internal control system, as is evidenced by:

   i) discovery of fraud in some organisations.
   ii) the inability of some agencies to collect their revenues from others;
   iii) a long delay in the preparation by some agencies of their final accounts and the inability of others to prepare any accounts at all;
   iv) a long delay in completing projects and the absence of a follow-up system for those projects;
   v) the weaknesses of the inventory systems in some organisations

2. Large cash surpluses in the accounts of some

organisations and cash deficits in others.

4. The absence of a clear separation between development expenses and recurrent expenses.

5. The absence of a uniform accounting system for those organisations which operate in similar economic activities.

6. Some organisations do not inform the Auditor General of their new contracts or obligations.

7. The unsystematic transfer of funds from the Secretariat of the Treasury to spending departments.

8. The use of Development Budget funds for the purposes of General Budget spending and vice versa.

9. The lack of co-operation between two secretariats implementing the same project.

10. The use of revenues collected by some secretariats to pay for expenses by the same secretariats.

11. The use of funds of some sections to pay for expenses of other sections without proper authorisation.

12. The weakness of the internal control system in respect of collected revenues. Evidence of such weaknesses can be detected from:

    i) printing of cash receipts books by non-government printing houses;

    ii) delay in depositing cash with the public Treasury;

    iii) absence of systematic records for revenues;

    iv) payment of some loans and salaries directly from the Secretariat of the Treasury.

13. the weakness of recording procedures for public funds as a result of which differences between actual expenditures of budget funds in the records of various spending departments and those of the Secretariat of the Treasury have occurred.
14. deficiencies in the government accounting system, as reported by the Central Agency for Public administrative Control, are mostly related to fraud and corruption as well as to the absence of accurate procedures.

At the same time, the Secretariat of Planning - National Accounts Division - complains about delays in receiving the information necessary to compile national income accounts from most of the secretariats, agencies and organisations; even when received, most of the information is inaccurate, not unified and, most important, not readily usable for national accounts purposes. [Zenni A. 1986]

Although the Accountant General is well aware of these problems and is doing his best to solve them within his capability, most of them are caused by one important factor, the lack of qualified manpower, as was explained by the Accountant General himself. According to him, all public sector departments including his own, are suffering from a shortage of qualified accountants. This problem has existed in Libya for a long time and it will continue to be "the problem" for a long time to come.

Accountants are allocated to all public sector departments by the Secretariat of Public Services, but due to the small numbers of new accountants graduating from various education institutes, (See Chapter 4 accounting Education), the Secretariat is under stress due to the continuing excess of demand over the supply of accountants available. These new accountants need at least two to three years to become familiar with the complications of government accounting, and education institutes are mostly concerned with private enterprise accounting and very little is taught about governmental accounting. However, the problem of shortages of accountants has been recognised by the highest authority and arrangements are now being made to open more accounting institutes and to allocate more students to departments of accounting. Further, to encourage students to take accounting as a career, accounting graduates are among the very few categories which are guaranteed a job by the state after their graduation.

The other source of supply of accountants to the public sector is expatriate accountants. Since independence, expatriate accountants represented a valuable source of labour in the accounting operations of all departments and at all levels of employment in Libya. Accountants from Egypt, Palestine, Jordan, Sudan, Pakistan, India, Italy, Britain and many other countries have been the practical operators behind all the financial operations of the Libyan government. However, since 1984 all expatriate accountants are considered to be unessential employees and have been asked to end their employment in Libya. This has paralysed the work of the financial departments in the majority of the public sector departments. As a result, longer delays in preparing accounts have occurred, many transactions have been cancelled, internal control systems have been weakened, revenues have remained uncollected, reports have been shortened, accuracy has been compromised and many other problems have arisen.

A short-term solution is not attainable, but hopefully a long-term solution could be reached as a result of more accountants being expected to be provided by the various new accounting institutes.

Meanwhile, despite these problems, the Accountant General is trying to minimise their effect by more on-job training for accountants, more detailed and simplified forms have been designed and so on. [Saad A, 1986]

7.B.5. The Accounting Unit

For accounting purposes, each secretariat at the Central State Level is regarded as an accounting unit. Each accounting unit has a sub-accounting unit at the municipality unit. The overall classification of the state accounting units is: [Saad A, 1986]

a) non-self-accounting unit,

b) sub-accounting unit and,

c) self-accounting unit.

7.B.6 <u>Transactions Between Secretariats</u>

For those cases when one secretariat provides services or supplies material to another secretariat, the two secretariats make an agreement in regard to the money value involved. The cost can be paid either by:

1. secretariat warrant, where the accounting officer of the receiving secretariat authorises the accounting officer of the supplying secretariat to insure expenditure and to sign vouchers on his behalf, or
2. adjustment voucher, where one secretariat or department, instead of paying in cash for services or supplies, received can pay by an accounting entry. The process starts by the creditor secretariat, which sends an adjustment voucher to the department or secretariat for acceptance of the charge. The adjustment voucher is prepared on Treasury Form M H-18. On return of the adjustment voucher, duly accepted by the debtor secretariat, the secretariat send copies to the Accountant General, who in turn credits the account of the creditor secretariat and debits the account of the debtor secretariat. He will also send a copy of the voucher to the Auditor General and to the creditor secretariat. [Ibid]

7.B.7 The Auditor General's Office (AGO)

7.B.7.1 Introduction

The Auditor General's Office (AGO) is considered to be the highest responsible authority in respect of state financial control over public wealth. It is an independent organisation responsible directly to the General People's Congress (GPC).

The staff of the AGO includes members and administrative, as well as technical, officers. An administrative or technical officer should have a university or equivalent degrees in accounting, law, economics, commerce or auditing. [Law No. 79 of 1975, Article 6]

The internal organisation of the AGO is laid down by the Auditor General's Resolution No.80 of 1979, which stated that the AGO should consist of:

1) the head of the office;
2) the under-secretary;
3) divisions;
4) central control units, and
5) a number of branches.

Figure 7.2 illustrates the internal organisation chart of the AGO.

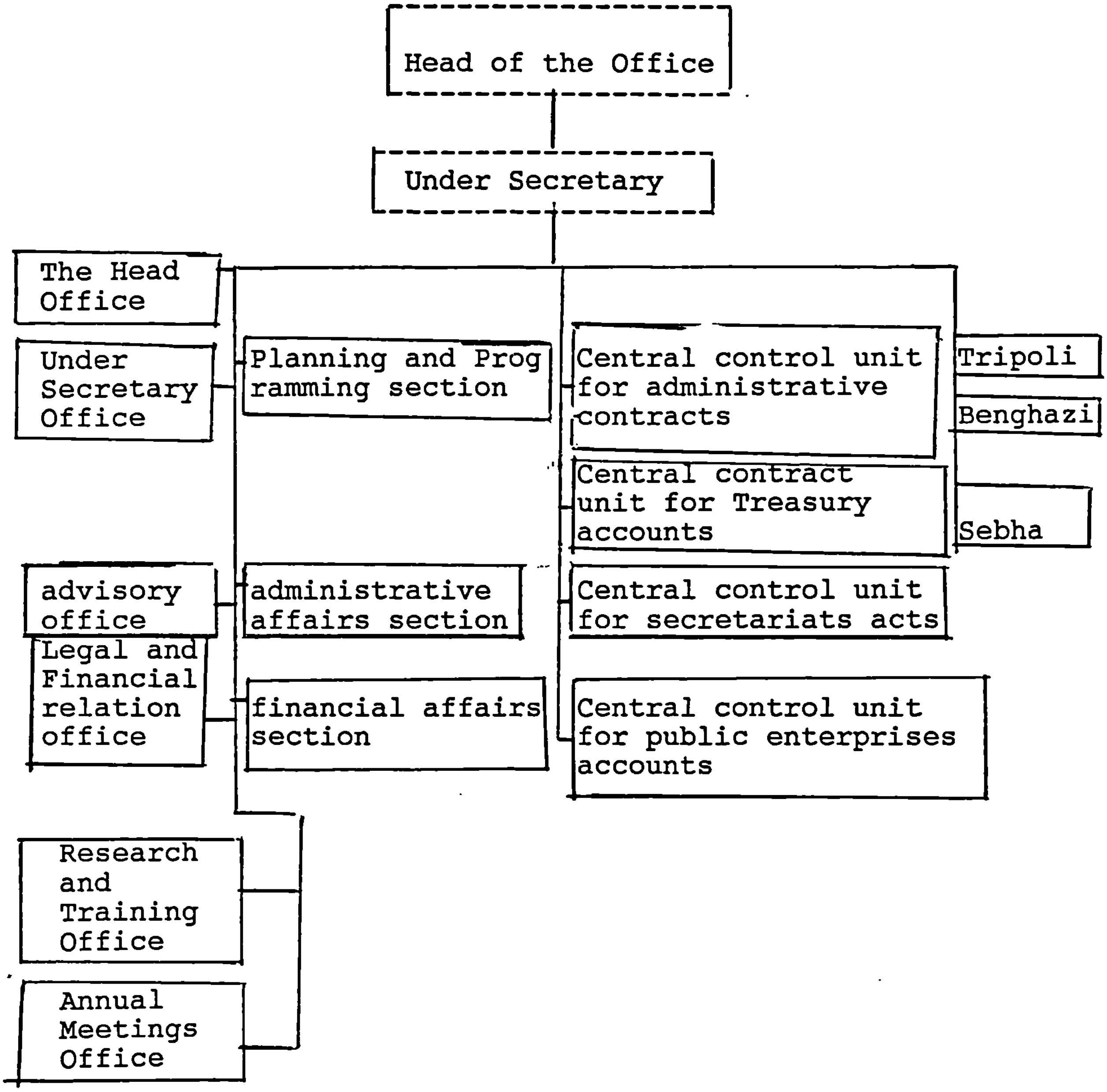


Figure7. 2: The internal organisation chart of AGO.

Source: The Auditors general office. Tripoli Libya

All of the state administrative units, public organisations, agencies, state enterprises, as well as any other enterprise of which the state owns at least 25 per cent of its capital or which receives subsidies or loans from the state, are subject to examination, control and audit by the AGO. [Law No. 79 of 1975 Article 25]

7.B.7.2 <u>Functions And Responsibilities Of The AGO</u>

Functions and responsibilities of the AGO have been specified by Law No.79 of 1975 as follows:

1. revenues control,
2. expenditures control,
3. administrative contracts examination,
4. review of laws and regulations,
5. nomination of external auditors to state enterprises and ,
6. preparation of annual report.

In order for the AGO to carry out its responsibilities, it performs three main functions.

7.B.7.2.1. <u>Post-Audit Of State Revenues</u>

Article 21 of Law No.79 requires the AGO to follow certain procedures in its control and auditing of public revenues these are:

a) control the collection of revenue and see that all amounts received have been rendered to the Treasury and are entered into the accounts concerned;

b) ensure observance and proper application of the provisions of the financial laws and regulations and draw attention to any inherent weaknesses or defects therein;

c) examine the financial regulations and systems in force to ensure their application, adequacy and efficiency for securing the collection of taxes, duties and other public revenues in compliance with the laws in force;

d) audit vouchers and supporting documents to ascertain that they are valid and accurately posted. [Law No.79 of 1975, Article 21].

A study of various reports of the Auditor General reveal that he is concerned about the collection of the state revenues in respect of their estimated amount, actual amount and what has been collected during the year. In many cases, however, he has drawn the attention of the authorities to the slowness, delay and ineffective methods of collecting revenues. Various departments tend not to take the necessary measures to collect the revenues for which they are responsible, but the AGO has stopped short of explaining why these deficiencies occur or suggesting effective procedures to solve the problem. More important, evidence suggests that the AGO is not concerned about whether such estimated revenues are correct, underestimated or overestimated.

However, despite this weakness in controlling and auditing public revenues, the AGO does play an important role in collecting some of the state revenues which otherwise would stay unaccounted for. For instance, since it started auditing oil companies, a considerable amount of revenue from fees, taxes and other revenue has been recovered, which has gone uncollected, due to some of the gaps in laws and regulations, which had been used very smartly by some foreign companies, as well as by some domestic ones. Furthermore, the AGO has continued to provide advice for departments as well as lending expertise in accounting and auditing to others. [El - Arabi H. 1985]

7.B.7.2.2. <u>Post-Audit Of The State Expenditures</u>

Article 22 of Law No. 79 of 1975 specifies the duties of the AGO with regard to expenditures as follows:

a) to ensure that all provisions have been disbursed for the purposes for which they were allocated and that they have been duly expended in accordance with the relevant laws and regulations
b) to ensure that all payments are properly supported by jenuine documents and to ascertain that documents and vouchers correspond correctly to amounts entered in the accounts;
c) to ensure that all the regulations and rules relevant to government stores have been properly observed and to draw attention to any inherent weaknesses or defects;

d) to ensure that all expenses are charged under the appropriate heading and item of the budget and that funds are actually allocated to attain the deserted objective;

e) to ensure that no government department has assumed any obligation which would cause it to exceed the approved credit under any heading of its budget, notwithstanding that the amounts involved have not actually been disbursed.

f) to ensure that credit authorised under any heading or item in the budget has not been exceeded except after proper authorisation by competent authorities.

The AGO Annual Reports comply with most of the above requirements. The reports are mostly concerned with expenditures authorised in the budget, actual expenditures and differences between the two amounts. However, the reports do not give reasons for the differences, nor do they give any approval or disapproval of those authorised expenditures. The reports also fail to consider whether the expenditures do in fact achieve their objectives in the most efficient and effective ways. However, the reports do comment where government departments have violated any laws and regulations in their expenditures, such as exceeding the authorised expenditures, charging of some expenditures under headings or items other than those designated, and the lack of supporting documents for some expenditures.

All in all, in respect of post-audit of state revenues and expenditures, the AGO covers the following aspects:

1. An examination to determine whether the general budget law and finance laws have been adhered to.
2. A review of the accounting records in the government agencies to ascertain that they are kept according to the principles and requirements prescribed by the Secretariat of the Treasury.
3. The AGO has to ensure that the individual figures in the accounts were substantiated and vouched factually and that these accounts were correctly totalled and balanced at regular intervals.
4. The AGO has to be sure that the summary of the accounts and their balances were forwarded to the general accounts and that their accuracy and completeness were tested and confirmed. [Law No.79 of 1975, Articles 21,22]

7.B.7.2.3 Pre-Audit of Government Obligations

Article 23 of Law No.79 of 1975 requires the AGO to pre-audit all supplies, public works, services and all other types of contracts entered into by the government which results in financial rights or liabilities in excess to L.D.500,000 (1,000,000 pounds).

According to this article, all government departments which have entered into such contracts should provide the AGO with all related documents to enable the AGO to examine and audit them and to write his report in respect of the contract before it is finalised. Furthermore, the AGO should ensure of the correctness of the procedures and documents as soon as any payment has taken place for those contracts which amount to between L.D.100,000 to 500,000 (200,000 to 1,000,000 pounds).

7.B.7.2.4 The Auditor General's Report

According to the Diwan of Audit Law No.79 of 1975, the Secretary of Finance has to submit the Final Account of the state to the Auditor General's Office within six months of the preceding fiscal year. The Auditor General is responsible for submitting to the General People's Congress an annual report showing his observations upon the Final Account of the state every fiscal year, copies of which should be sent to the Cabinet and Secretary of the Treasury.

The Report must include the Auditor General's observations on the secretariat's accounts as well as the accounts of the other state institutions and agencies and describe any violation committed by those entries.

The annual report has two main sections. the first includes observations on the Final Accounts of the state; the second includes observations on the secretariats, agencies and the rest of the state institutions as specified by Law No.79 of 1975. In this Report, the Auditor General includes the actual and estimated revenues and expenditures for each entity, and any differences between the two. The

Report also includes the observations of the office upon the internal control system, the accounting system, the state of the warehouses and storage system and the economic development plan. The Report ends with the office's conclusion and recommendations. The office may issue other reports on an irregular basis.

Unfortunately the Auditor General's Report does suffer from immense delay due to delays in other state entities' preparations of their own accounts and due to the shortage of staff at the Auditor General's Office.

7.B.7.2.4.1 <u>Follow-up System</u>

Discovery of wrongdoing, violation of finance budget laws or other irregular matters require prompt action by the AGO. The AGO contacts the entity responsible in order to correct the situation and requires the agency to respond to any major dispute within ten days after which the Auditor will visit the entity if the office does not receive any response. If the visit is unsuccessful, the Auditor General will contact the Secretariat responsible as well as the agency responsible for legal and administrative control. [El - Arabi, 1986]

7.B.7.3 <u>The Audit System</u>

From the above discussion it is clear that the AGO strongly emphasises financial pre - and post-audit for the collection of state revenues and for state expenditures. In his audit the AGO should ascertain that all collected revenues and all disbursed expenditures have been authorised and are supported by the necessary documents and vouchers. In this, the AGO is only conducting financial and compliance audit.

7.B.7.3.1 Environmental Factors Influencing The Audit System

Environmental factors in Libya have contributed a great deal to the present system of the state audit (financial and compliance audit).

1. Former Western colonial administrative systems. As has been discussed earlier in this study, Libya has been colonised by difference Western nations, which include Italy, Britain and France, etc. Most of these nations until very recently applied governmental accounting systems which put more emphasis on legal documented regularity of all the financial transactions of the state.
2. Prevention of fraud. The traditional purpose of auditing is to prevent or discover fraud in state transactions. This includes prior approval of individual financial transactions of the executive agencies and implies post-transaction voucher audits.
3. Type of budget. The Libyan government budget is a traditional budget which bases its annual estimates on the previous year's estimates of inputs with no attempt

to identify objectives or outputs. This budget system does not enable auditors to conduct any other audit apart from financial and compliance audit.

4. The accounts basis. The Libyan accounts basis is the traditional cash single entry basis, which, despite its simplicity, does not enable auditors to conduct more than financial and compliance audit.

5. Agricultural economic system of Libya. For a long time, the Libyan economy was an agricultural based economy with no industry, corporations or other financial institutions. This type of economy limited the role of accounting and auditing.

6. Late development of accounting education. Accounting education has started very recently, as has education in management, finance and economics. This education is highly British and American orientated, with an emphasis on private enterprise accounting with very limited concern for public sector accounting.

Such an audit is designed to provide an independent, objective opinion that financial information prepared by the government departments has been presented fairly in accordance with laws and regulations. But this stops far short of assuring the public and the authorities that funds have been disbursed economically, efficiently and effectively.

In a country like Libya where the bulk of the public wealth is in the hands of the government, the government should assure the public that its wealth is being managed in the most effective and efficient way. In short, accountability in the public sector to politicians and to the public occurs only when the public is assured that public funds are being spent in this manner.

Indeed the Ninth Congress of INTOSAL, meeting in Lima, has stated in its declaration that besides the financial and compliance audit the supreme audit institution should perform economic, efficiency and effectiveness audit of all government departments, agencies, state owned or partially owned enterprises. [The Lima declaration of guidelines of auditing precepts Appendix "A", p.6]

Despite the country needs and the above two recommendations, the Auditor General's audit in Libya is still confined to financial and regulatory audit. Indeed, Law No.79 of 1975 has only mentioned the financial and regulatory audit. The 1984 Audit Report of the Auditor General has only included planned and actual revenues and expenditures of the State. Even if the Auditor General was willing to perform value for money audit he would handicapped by two facts:

1) that the government budgets are traditional budgets with no stated objectives of targets to be used as a measure of performance or effectiveness;
2) the shortage of qualified accountants, let alone other expertise from economics, law, engineering, etc., which

is needed to assess efficiency and other elements of value for money audit.

7.B.7.4 Staffing Of The AGO

According to Article 2 of Law No.79 of 1975, the AGO is composed of the head and undersecretary and a number of other members and is provided with an adequate number of technical and administrative officials. The law defines the members of the AGO as the undersecretary and technical officials of a grade not less than Director General. All of the AGO staff should be Libyan graduates from either higher institutes or universities in law, economics, commerce, auditing, accountancy or any other branch required by the nature of work within the AGO.

However, the law, having required that members and staff of the office should be Libyan graduates, also recognised the shortage in this category and made an exception for the first three years following the date of the law becoming valid, i.e. 14th August 1975 [Article 26].

Indeed, the shortages in this category are so serious that up to the summer of 1985 the AGO staff has included many other nationalities and when a decision was taken to end most foreign employment in Libya, including accountants and auditors, the AGO faced, and still does face, an immense problem of staff shortage. As a result, government accounts which are subject to the AGO audit have stayed unaudited. [El - Beshari. 1985]

Examples of such accounts are: the Libyan Arab Airline [Ramadan Abu el saad, Head of Internal Control Department, summer 1986], University of Garyounis [Quari, M., Financial Controller, summer 1986], Secretariat of Health [Tamer, H., summer 1986], and many others. These departments are three years or more in arrears.

The problem of staff shortage has been around for a long time, especially since the 1970's when the government became more active in the economy. At one point the AGO suggested that all new graduates from the Faculty of Economics should be allocated for two or three years to the AGO, in order that they might gain experience and help in easing the problem of staff shortage. In effect, however, and due to an increasing demand chasing the small supply of accountant, the AGO was only allocated two graduates. [El - Beshari E. 1985].

The responsibilities, functions and scope of the AGO have been continuously increasing, but have not been matched by the appointment of new staff. In every single report the Auditor General has asked for more qualified staff, without apparent success. He justifies his request by:

1. the big increase in the administrative functions of the state which increase the need for more accountants and auditors to examine their operations;
2. the big increase in state enterprises and public projects;

3. the big increase of local authorities and accordingly the need for new branches for the AGO;
4. the limited increase of new graduates from the Faculty of Economics and other higher institutes. [El - Arabi H. 1986]

7.B.7.5 Education And Qualifications Of Staff

According to Law No.79 of 1975, all staff members should have at least a degree from a university or some other equal higher institute, but due to the shortage of such degrees compromises had to be made in order for the functions of the AGO to be carried out. Thus, staff are being appointed with only intermediate accounting education or with experience alone. Many of the branches' heads and staff are qualified only by experience rather than by any formal education. Such cases can be found especially in the small city branches.

Those members and staff who are qualified are mostly graduates from the Faculty of Economics and Commerce in Libya, others are from Egypt or from other Arabic countries. Most of the members and staff with higher degrees, such as Master degrees, are from British and American universities. Those who have graduated from Libyan or British and American universities are highly orientated towards private enterprise accounting. Hence they brought a very limited knowledge of public sector accounting when they first joined the AGO staff. Also very few, if any, have any knowledge of economics, law, management or engineering. [El- Beshari, Tripoli, 1985]

In respect of education in other government departments, there is no required qualification for their accountants as such. However, most government accountants have certificates from vocational institutes or experience alone. Very few have a university or higher institute degree in accounting.

7.B.8 Evaluation

All in all, government accounting in Libya has undoubtedly endured for a relatively long period - a feature that may be both an asset and a liability. It is an asset since it has provided some stability and has, by and large, been adequate in serving the purposes of accountability. It is a liability in that it has served only narrow purposes and has not shown much adaptability in meeting the requirements of the development programme. The characteristics of government accounting in Libya need to be defined in terms of what the system is expected to do, in terms of purposes and end uses and compared with what it has so far been able to achieve.

The purposes and final uses of government accounting, together with the components of the government accounting system, can be summarised and reconstructed from the beginning of this chapter in Figure 7.3.

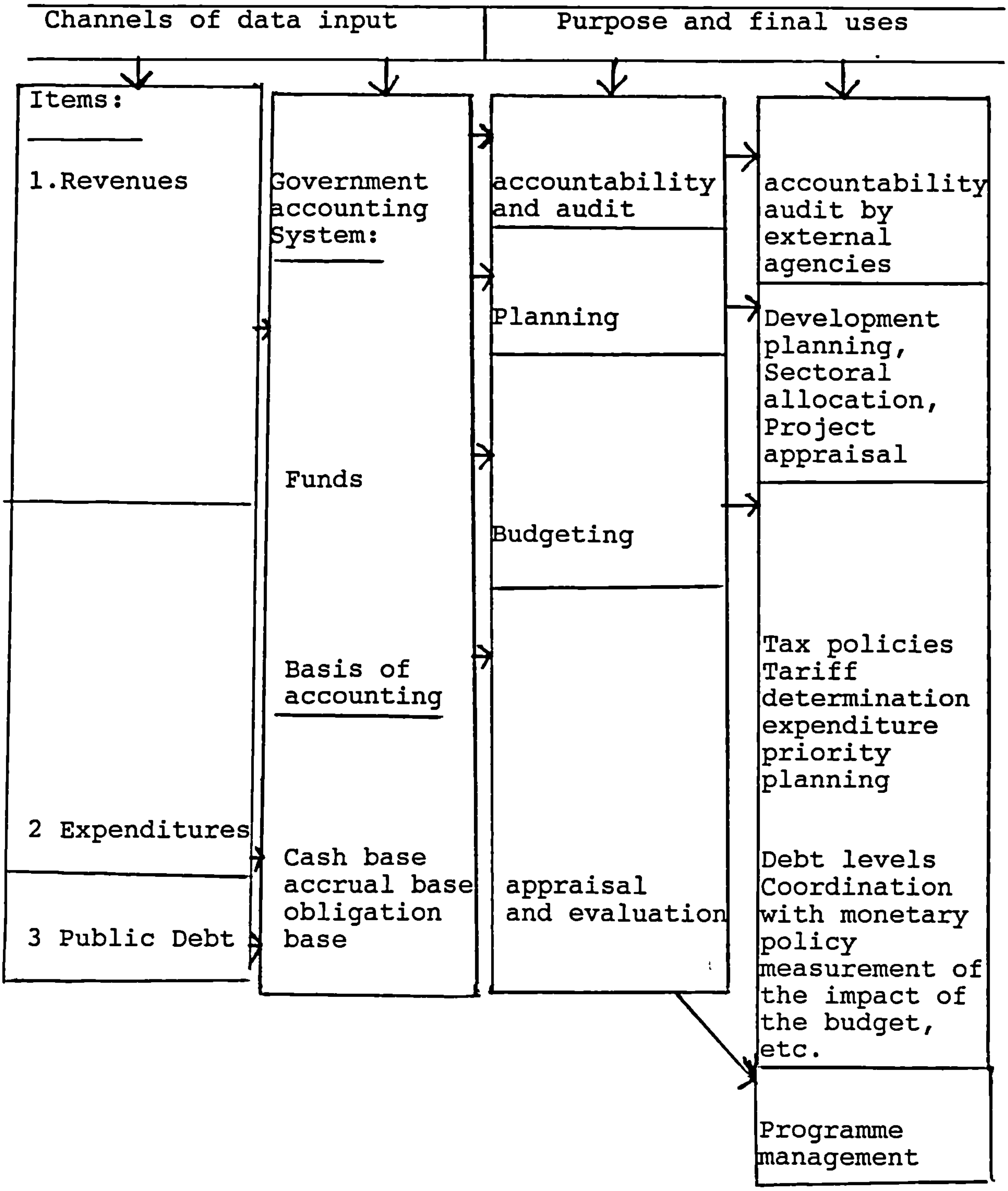


Figure 7.3: Purpose, final uses,and components of government accounting system.

Comparing the actual characteristics of the government accounting system in Libya with those given in Figure 7.3, the shortcomings of the system can be generally recognised in respect of its ability to contribute to the achievement of the purposes and final results of the system as it should be (see figure). Such shortcomings can be summarised as follows:

1. The evolution of the system appears to be generally independent from the needs and purposes of government policies. Whilst the Libyan government has involved itself with every aspect of economic activities in the country, the system has largely emphasised the provision of a set of detailed appropriations to meet the accountability aspects to the exclusion of objectives and performance evaluation. Furthermore, the emphasis on legality and priority of transactions has resulted in the separation of accounting from management responsibility in each agency.
2. Despite the appearance of emphasis on accountability, adequate accountability is still in doubt. Delay in preparation and auditing of government accounts makes the whole system ineffective.
3. Experiences of delay in collecting government revenues and in the payment of government expenditures suggest that the system is ineffective.

It is these and other shortcomings that need to be dealt with if he government accounting system in Libya is to achieve those purposes and final uses as shown in Figure 7.3.

7.B.9 Summary And Conclusion

All in all, government accounting in Libya is far from fulfilling its purposes and objectives. If the functions of collection, measurement, processing, communication, control of and accountability for revenues and expenditures in government accounting are designed to assure: a) effective co-ordination with other branches of accounting (particularly national income accounting); b) greater accountability; c) greater efficiency and effectiveness in management planning and policy; d) greater validity in domestic and international comparison, analyses, evaluations and measurements [Enthoven 1973, p.50] then governmental accounting in Libya is seriously overdue for urgently needed changes.

Apart from the objective of accountability, the other main component of governmental accounting objectives, as stated in The United Nations Manual on Government Accounting Objectives, remains largely unaccomplished. Even the objective of accountability remains handicapped by over-emphasising paperwork, red tape, checking and re-checking. As a result, preparation of the Final Accounts of the state is usually delayed, which reduces the effectiveness of the system. The AGO Reports are also years in arrear.

A government accounting system which is only concerned with producing detailed tables of public fund appropriations, taking account of the input side with no reference to objectives or output; which is concerned with cash receipts and disbursement recording, with no attempt to measure costs; which is not concerned with economic efficiency and effectiveness; which has based its estimations of revenues and expenditures on a merely guessing practice; which suffers from a great shortage of qualified manpower, and which suffers from the lack of concern on the behalf of the authorities to objectives of governmental accounting, surely cannot meet the state's needs in managing its activities and it is very doubtful whether it is even adequate for accountability purposes.

CHAPTER EIGHT

National Income Accounts

8.1 Introduction

National income accounting has two objectives: firstly to present a description of the economy in statistical terms in the form of a pattern of accounts and tables; and secondly to guide the use of these systems of measurement for planning and policy purposes. [O'Loughlin, C. 1971, p.7].

National income accounts have been used for various purposes since they were created by Williams Petty more than three hundred years ago. These uses have changed from merely a table of figures describing the state of the economy to become the generating power behind development planning. [Studenski, P. 1958, p.5].

It is the use of these accounts as a tool for development planning which makes them of special interest to developing countries in general and to Libya in particular. Indeed, national income accounts are the only formal instrument (beside other political objectives) on which development planning is based in Libya. Furthermore, development planning is the only known use for national accounts so far in Libya. [Zenny, A. Tripoli, 1986].

The main objective of this study in discussing national income accounts is to describe the source and methods of national income accounts in Libya and the relation between this branch of accounting and other branches (enterprises, governmental accounting) and the reliability of these accounts as a source of information for development planning in Libya.

Accordingly the rest of this chapter will examine:

1. Historical development of national income accounting
2. Nature and characteristics of national income accounting
3. Functions and uses of national income accounts
4. Development of national income accounts in Libya
5. Sources of data for national accounting in Libya
6. Relation of national income accounts to enterprise and government accounting in Libya.
7. Deficiencies of national income accounts in Libya.

Sections 4, 5 and 6 are based entirely on the oral and written responses of Mr. A. Zenny, the Director General of the National Income Accounts, and Mr. A. Shanta, the Head of the National Income Accounts Department at the Secretariat of Planning, Tripoli, Libya. Sections 7 and 8 are based on other primary and secondary sources.

8.2. Historical Development Of National Income Accounts (NIAs)

Originally NIAs were developed to compare the wealth and power of individuals of substance in terms of their annual income. [Studenski,P. 1958, p.11]. They were not deigned to provide information or data relevant to the economy as a whole. For much of the last 500 years the subject of NIAs was confined to discussion by academicians for the purpose of building tables of figures showing the total income of individuals of a given country. [Ruggles, R. and Ruggles, N. 1956, p.7].

The concept of NIAs was first formulated in the seventeenth century by Sir William Petty in England and by Peirre le Peton, Sieur de Boisbuillebert in France. [Studenski, P. p.11]. The development of NIAs since then has advanced to the point of formulating a meaningful concept of national accounts based on reliable statistical techniques. Such concepts were based on rational economic theories of production, consumption, saving and investments. Among these theories is the comprehensive production concept of William Petty and Boisbuillebert, the restricted material production concept of Adam Smith, and the restricted market production concept.

Studenski has divided the development of the above three concepts into six stages of time, each one characterised by a different notion of the nature of production and national income. The first stage was the emergence of <u>the merchantistic doctrine</u> of the sixteenth century which considered gold as the only form of national wealth. The second stage was the emergence of the comprehensive production concept of Petty and Boisbuillebert, which considered wealth as the stock of consumed goods and the means of their production, whether material or non-material. This concept came into service by the late seventeenth century. The third stage was in the mid-eighteenth century, when the French physiocratic doctrine narrowed the definition of production only as the true "production net" and accordingly national income consisted wholly of the net product of agriculture. The fourth stage witnessed the emergence of the theory of material production of Adam Smith. This theory gained acceptance throughout Europe and for the next century seemed the most popular base for national income estimates. The first theory rejected Adam Smith's concept of production and went back to the comprehensive production concept of Petty and Boisbuillebert. The second theory was Karl Marx's theory which extended Smith's original restricted material production concept. The first theory gained more popularity among economic schools, apart from Marxists, and was adopted as a conceptual base for nation income estimates in all countries, except those dominated by the Marxist philosophy. These adopted the second concept as official dogma and hence as the base for their national income estimates.

An important evolution of the function of NIAs emerged after World War I. In 1940 J.M. Keynes and his followers sought to use NIAs as a tool for forecasting and programming future national production. This concept marked the end of any conceptual development and we have thus been left with two major concepts and one subsidiary concept of NIAS. All economists, with the exception of Marxists, have accepted the soundness of the comprehensive production concept. Marx and his followers have accepted the soundness of the restricted material production concept. The first concept is applied almost all over the world, except in Eastern counties where the second concept is applies.

8.3 The Nature Of National Accounting (NA)

National accounting (NA) has been defined as:

> "The Term "National Accounts" is used to describe a body of statistics which includes social accounting, input - output analysis, flow of funds analysis, and national balance sheets. Social accounting can be briefly defined as the analysis of transactions between the main economic entities: households, businesses, government, and foreigners..". [O'Laughlin, C. p.3.].

It provides the information necessary to monitor the progress of the economy and plays an essential role in the formulation of economic policy. [Briston, R. 1981,p.489]. National accounting is known by different names, such as: economic accounting, social accounting, macro-accounting, or aggregate accounting. [Enthoven,A. 1973, p.65].

In spite of the fact that national accounting has been practiced by governments, economists and statisticians this branch of accounting is certainly related to the other two branches of accounting. The objectives of other branches of accounting (enterprise and government) are to create an information mechanism which is related to firms or to government departments while NA has as its prime objective the creation of an information framework suitable for analysing the operation of the economic system of a country as a whole. [Ruggles, N. and Ruggles R. 1970, p.1].

In conclusion, then, while micro-accounting is concerned with a single entity, NA is concerned with macro-entities which may be a whole industry, a sector, or the economy as a whole. The relation between NA and other branches of accounting emerges, then, from the fact that the whole economy consists of individual entities. Further similarities between national accounting and other branches of accounting emerge from the fact that, similar to other branches of accounting, NA has one integrated account as proposed by the United Nations Statistical Commission and also has a number of deconsolidated accounts. The most important of these accounts are:

a) NIAs which provide estimates of value of the output of the economy over a particular period of time.
b) Input-output tables which show the flow of goods and services among the different sectors of the economy.
c) Flow of funds accounts which are concerned with monetary transactions and the flow of savings through the various sectors of the economy.
d) National balance sheet which records the stock of assets of a country at a point in time.
e) Balance of payments, which is concerned with the country's transactions with the rest of the world.

In order to prepare the above accounts, NA needs information from business enterprises, private households, government and related accounts such as rest of world and capital formation. This information needs to be identified, collected, analysed, measured and reported. Information from the above entities is collected through their financial statements and statistical abstracts as well as some ad-hoc estimates. This relation between NA and other branches of accounting suggests that NA has a strong effective role to play in developing a useful overall accounting system for any country. However, despite this relation, the conceptual thinking in each branch of accounting differs considerably and currently constitutes a major gap between them. In the words of Enthoven, "They are treated as yet as separate disciplines, each leading a different existence." [Enthoven,A. 1973, p.68].

8.4 Function And Uses Of NIAs

Some writers have argued that one of the most important uses of NIAs is to create a framework of collecting and presenting economic information which could be suitable for describing the economic system of a nation over a given period of time, whereby public policy makers and economic analysts may formulate their decisions. Specifically in developing counties NIAs play a crucial role in formulating development plans.

Ruggles and Ruggles have expressed this function in the following way:

> "National economic accounting has as its prime objective the creation of an information framework suitable for analysing the operation of the economic system. A modern economic system operates on the basis of a network of transactions." [Ruggles, N. and Ruggles, R. 1970, p.1.]

One should bear in mind that the collection and presentation of this information is not a desirable end in itself, but is one step in a long process. Enthoven has suggested that this socio-economic information is needed for various national and international purposes. Nations - developing nations in particular - need it to set their overall goals in quantitive terms, devising development strategies, policies, plans and budgets, making decisions, measuring economic welfare and progress and in international comparisons and policies. Enthoven also stressed that company laws in certain countries reflect the importance of financial reporting for NIAs so that NIAs needs affect micro-accounting reporting. [Enthoven,A. 1973, pp. 66-67].

Yanovsky has also argued that there is a strong relation between NIAs and micro-accounting. He stated that NIA information is a vital factor in successful management practice in micro-units:

> "The national accounts were drawn up with the view of helping the public authorities in formulating their economic and financial policies. The accounts constitute a framework which makes possible a continuous systematically inter-related and consistent record of data on the basic economic functions in the economy. Production consumption and accumulation of capital ... The use of national accounts for the study of the economy and appropriate decision making has also spread to the business world and to labour organisations." [Yanovsky, M. 1965, pp. 11-12].

Enthoven has added that:

> "In addition, labour unions, trade associations, stock exchanges and other public institutions may use social accounts data for specific policies which business enterprises may need to obtain an idea of the structure of the economy and of the position of the enterprise therein from which necessary information can be drawn." [Enthoven,A. 1973, p.67].

Such uses of NIAs of both levels of accounting (micro/macro) are widely acknowledged in both developed and developing countries.

In capitalist developed countries NIAs are widely used in formulating monetary and physical policies, as well as being a guide for forecasting the performance of the economy. In socialist developed countries they are even more important. In these countries NIAs are used to forecast economic performance, to formulate their national plans and to control their implementation.

In developing countries the aim of economic policies is mostly to develop their economy through industrialisation and through achieving an accelerating growth rate. This aim is mostly achieved through long-term development plans which are based mostly on NIAS statistics.

However, despite the lack of reliable statistical data, in developing countries NIA remains the most valuable source of information needed to formulate development plans. Libya, India and many other countries are heavily dependent on such accounts to formulate their economic planning and growth policies.

Most nations apply the United Nations National Accounting System which is formally known as the "System of National Accounts (SNA)". [UN Departement of Economic and Social Affairs 1968, pp. 9-13]

The full system of national accounts as outlined in the text of the SNA system should, "furnish suitable goals for methodically evolving the national accounts and series of basic statistics of a country, irrespective of her stage of economic and social development." But in the context of developing countries such a system is being strongly challenged by many economic writers. Specifically, Barkey has stated that:

> "It appears that there are grave difficulties in the adoption of the full system of the United Nations national accounts to those developing countries I happened to be familiar with. In addition to the theoretical difficulties, the system is far too complicated and ambitious, not suitable to the limited statistical resources available in the developing countries." [Barkey, R. 1975 p.361].

However, the SNA may be more suitable to developed countries and hence it could be applicable in full to those countries and in part to developing countries.

The areas of economic analysis and policies where the information generated by SNA may be useful were summarised in the text of the United Nations system in the following table (see Table 8.1).

According to this table, the national accounts

Table 8.1:

Tables 1.6 & 1.7 Areas of Economic Analysis and policy Relation to S.N.A.

		1	2	3	4	5	6	7
		1 , 2	3 , 4	5 , 6	7 , 8 , 9 , 10	11 , 12	13 , 14	15 , 16
Opening Assets	1) Financial Claims 2) Net Tangible Assets				Studies of National Health Analysis of productivity			
Production	3) Commodities 4) Activities		input-output analysis of productivity	Consumer demand analysis studies of govt. spending	medley of stock Building and Fixed Capital Formation Investment policy	export demand		
Consumption	5) Consumer goods purposes 6) income and outlay		Production Functions: analysis as productivity analysis of Factor Shares	Distribution and redistribution of income: Fiscal Policy	Depreciation analysis; investment allowances	Studies of the return on Foreign investment double taxation policy		
Accumulation	7) increas in stock 8) Fixed Capital Formation 9) Financial Claims 10) Capital Finance	Studies of Network		Analysis of Saving Behaviour	monetary Policy and liquidity preference	international Finance and liquidity; long Term Foreign aid Policy.	Studies of capital gains and loses; capital gains, tax policies	Studies of Network
The rest of the world	11) Current Transactions 12) Capital Transactions		Import demand analysis	Short Term Foreign aid policy	International Finance and liquidity; long Foreign aid policy	Analysis of Balance of Trade of Payments		
Revaluations	13) Financial Claims 14) Net Tangible Assets				Capital revaluations			
Closing Assets	15) Financial Claims 16) Net Tangible Assets				Studies of National Health analysis of productivity			

Source: United Nations, "A System of National Accounts" U.N., New York, 1968, pp 9-13.

information may be used in many areas of economic analysis in:

1. Interpretation of past trends.
2. Revision of economic policies.
3. Economic forecasting and planning.
4. Explanation of an economic phenomenon.

Ingvar Ohisson has used national accounts as an instrument for co-ordinating economic statistics and stated that national accounts can serve three functions as an instrument for the co-ordination of economic statistics:

1. They can serve for establishment of standards for definition and classification of economic statistics.
2. They can provide the base for technical co-ordination in the production of statistics.
3. They can be used for the indirect estimation of certain magnitudes which cannot be observed directly or for quality control through alternative calculations. [Ohisson, I, 1966, p.269].

The usefulness of the SNA, or any other national accounts system, is not the subject of discussion at this point of the study. However, a concluding remark by Barkey may be useful here:

> "National accounts are therefore an essential tool for development planning in the surveyed countries, provided the system is compact, sufficiently simple to be constructed with the existing resources, sufficiently precise and can be constructed within the planners' time-table.

> All recommendations in the data supply-field should be judged in accordance with the above criteria and the three basic tenets of our profession - service, training and research - should be geared accordingly.[Barkey,R. 1975 p.357].

8.5 The Development Of National Income Accounts In Libya

The work of compiling the national accounts of Libya started in mid- 1967 when the Libyan government assigned N.C.T. Sutsopldis as a U.N. expert to the National Accounts Section (NAS) of the Ministry of Planning which then existed. [Shanta, Y. Tripoli, 1985].

A set of national accounts with supporting tables was complied by the end of October 1967. The estimates covered the years 1963 to 1967 and were designed as provisional estimates for internal office use only and in particular for planning purposes. These national accounts were prepared from rough data, hastily collected from different government departments. Other data had to be roughly estimated by the staff. It was the first time that national accounts analyses were used in a Libyan development plan.

The National accounts department (NAD) has continued since then to work on improving and expanding the national accounts statistics. Its activity has always been associated with the planning procedures. Since these estimates, other statements have been presented, including:

a) Preliminary national accounts of Libya, 1962 to 1967.

b) National accounts of the Libyan Arab Republic, 1962-1969.

c) Estimates of private final consumption expenditure in the Libyan Arab Republic, 1962-1969.

d) National accounts of the Libyan Arab Republic, 1962-1971.

e) National accounts of 1971-1980, and estimates of 1981-1982.

In these estimations, with the exception of the estimates of Private Consumption expenditure for 1962-1969, the national accounts of 1962-1971, and the national accounts of 1971-1980, practically no indication was given of the source and methods used in arriving at the estimates. The reason for not giving such an indication was, as expressed by Mr Shanta, the fact that the technicalities associated with the source and methods used have not been consistent during the entire period under consideration. The NAD was mainly applying the old U.N. National Accounts System during the 1960;s, until the publication of the New United Nations, National Accounts System in 1968, which the department has implemented since the early 1970's.

The first publication under the New U.N. system was issued in January 1973, which covers 1972 data, to be used as the base for the three-year development plan of 1973-1975. The second study was published in respect of the first half of 1970's, i.e. 1971 - 1975. Each publication contained four main parts: part one contained the unified accounts for the state, part two contained sub -and complementary tables by current prices, part three contained sub-tables by constant prices and part four contained the accumulated accounts for public sector. Finally the latest publication, which was issued in 1984, covers the period from 1971 to 1980, and the estimates for 1981/82.

The first part of the new publication contains four accounts: gross national product and expenditure accounts, the disposable national accounts, capital financing account, and the Foreign Transactions Account. These four accounts, were prepared according to the U.N. new system.

The second part of the publication contains 76 sub and complementary tables, at current prices, divided as follows: Two tables for gross national product, two tables for national income, twenty tables for gross domestic product and its distribution, eleven tables for final public consumption, one table for final private consumption, thirty-six tables for capital formulation, one table for gross domestic and national product, one table for national income and disposable national income, one table for state expenditure and capital transactions, and finally one table for foreign transactions.

The third part (sub-tables by constant prices) contains eleven tables, for expenditure on real gross domestic product, real gross national product, real public final consumption, real private final consumption, real gross fixed capital formation, population and manpower, and finally occupation.

The fourth part contains the accumulated accounts for the public sector, which represent the sixth group in the

U.N. new system, which was meant to suit developing countries' needs. These accounts include production accounts of public work organisations, production accounts of public services producers, the accumulated account of income and expenditure for the public sector and, finally, the state accumulated capital formation, finance account.

The sources of information for the above four accounts are the final accounts of the administrative budget, development and transformation budget, municipal budgets (25 municipalities), the independent administrative budgets (14 budgets), social security fund budget, works section organisations budgets (eight), and the public enterprises balance sheets. [Zenny, A. Director General of NIA Secretariat of planning Tripoli - Libya, summer 1986].

The fifth part contains thirteen tables for the public sector; detailed tables, such as the gross product of public services produces, and income and spending of the public sector.

The sixth part includes information about the individual share of social and economic internal variables, at current and constant prices.

The new system of Libyan national accounts follows the revised international standard industrial classification (revised I.S.I.C.) which was issued by the U.N. in 1968.

However some adjustments were necessary to suit the

Libyan environment. Accordingly, an independent main activity was assigned for national gas and oil sectors and to education services, health services, other public services and building ownership. In all, the classification contains fourteen main independent activities and seven sub-activities.

8.6 Source Of Data For National Accounts In Libya:-

The collection of data for the preparation of national accounts depends upon the method to be used to compile the accounts, as well as the nature of the account.

The main accounts prepared by the department of national accounts are:-

1) The gross domestic product at current factor cost prices, by main sectors economic activity.
2) The gross national product at market prices.
3) Consumers expenditure on goods and services at market prices.
4) Government current expenditure on goods and services at market prices.
5) Capital formation at current market prices.
6) External transactions on goods and services at current market prices.

8.6.1 The Gross Domestic Product And Consumption At Current Factor Cost Prices:-

For the purpose of calculating the gross domestic product (GDP), the Libyan economy is divided into the following main sectors:-

A - Agriculture, Forestry and Fishing.

B - Petroleum and Gas Mining.

C - Other mining and Quarrying.

D - Manufacturing.

E - Construction.

F - Electricity .

G - Transportation and Communication.

H - Wholesale and Retail Trade.

I - Banking and Insurance.

J - Public Administration and Defence.

K - Education services.

L - Health services.

M - Ownership of Dwellings.

N - Other services.

8.6.1.1 Agriculture, Forestry And Fisheries

Practically all the data required to calculate the figures for this sector are supplied by the secretariat of General People Committee of Agriculture (S.G.P.A.) - agricultural statistics division. Since 1966, this division has made available various agricultural statistics, which have been published in a number of monthly bulletins. The information in this publication has been used to estimate the value of farm produce, livestock production and change in animal stocks. The number of animals exported is taken from external trade statistics.

However statistic concerning forestry and fishing are virtually non-existent. Accordingly,the assumption is being made that, as the private disposable incomes increased during the period in question, the use of firewood must have been decreased, for the case of forestry.

The existing statistics on fishing activity are very poor, and there are no regular annual data on fish production. The work of collecting fisheries statistics is the responsibility of the Fisheries Department in (S.G.P.C.) of industry. Data for this section are collected from consumption data and from external trade statistics.

8.6.1.2 <u>Petroleum And Gas Mining Sector</u>:-

Currently the petroleum and gas mining contribution to G.D.P. is more than 50%. The information needed to calculate this contribution is derived from various sources. The value of exports is reported by the crude petroleum exporting companies and is based on F. o.b. prices. This figure is presented both in the report of the annual survey of the petroleum and gas mining industry undertaken by the Statistical Department and in the economic bulletin prepared by the research division of the Central Bank of Libya for the compilation of national accounts. The latter source is used, since it is more up-to-date than the former.

The value of domestic sales is reported in the annual survey of the petroleum and gas mining industry; other information supplied in this survey includes value of stocks, cost of surveys, explorations, research, etc., value of work done for others, other miscellaneous income receipts, and cost to current inputs, such as cost of materials and services purchased. The survey further includes information about:

(a) Wages and salaries and other employment costs.
(b) Rent and other income payments.
(c) Payments accrued to the state.
(d) Depreciation of fixed capital.
(e) Profits (operating surplus).

8.6.1.3 <u>Other Mining And Quarrying</u>:-

This section mainly relates to stone quarrying, which plays an important part in providing materials for construction. There is no current information on this activity and information is taken from various industrial censuses. The employment figures from these censuses are multiplied by average annual income per person employed. For the years between every two censuses, an assumed rate of growth is used to adjust the base figures.

8.6.1.4 Manufacturing:-

The main source of information, is the yearly survey conducted by the Statistical Department since 1965, and published under the title: "Report of the annual survey of large manufacturing establishments".

This survey covers mining, manufacturing, construction, electricity and gas. For manufacturing activity results are available for large establishments and small establishments separately. A major problem with the survey is the change of the classification base from one survey to another, as well as changes in coverage. Furthermore, additional data is required in order to produce estimates referring to the total manufacturing activity as needed for national accounting purposes. In this context:

(a) the data derived from the annual survey is adjusted to exclude trade activity taking place within the manufacturing sectors and,

(b) estimates are worked to for value of gross output for establishment employs fewer than 20 persons.

8.6.1.5 Construction:-

As a result of increasing expenditure on development projects during the past two decades, construction activity has dramatically increased. In recognition of this the statistical department decided to conduct an annual survey of construction activity. The detailed planning of the first survey was based on a preliminary ad-hoc survey of licensed construction units. Since it proved unrealistic to attempt to cover all units, it was decided that the coverage of the annual survey should be restricted to relatively large units, namely the licensed international and national construction units.

However, it has proved impracticable to obtain satisfactory comprehensive figures about the total value of output and it was found necessary to estimate the contribution of the sector to G.D.P. by the expenditure approach. In this context the contribution of construction sectors to G.D.P. is estimated as a percentage of the total expenditure on construction made by all sectors of the economy. These sectors are classified as:

a - General state (public sector).
b - Petroleum and gas sector.
c - Manufacturing sector.
d - Private housing.
e - All other sectors.

Furthermore, the estimates of expenditure on construction are separated between

(a) expenditure on new constructions, and
(b) expenditure on repairs and maintenance of existing building.

The main sources used in reaching these figures are as follows:-

a) For the public sector: The statements of actual expenditure on new construction recorded in the central state development and administrative budgets and in the municipal budgets, by type of expenditure, are one source of data while the analysis of the actual development expenditure of the social security fund, as reported to the N.A.D., is the source for expenditure on construction by that fund. The central state expenditure on repairs and maintenance is estimated to be 5 per cent of the total annul actual expenditure in the administrative budget.

b) For petroleum and gas mining: The source is the annual survey of the petroleum industry conducted by the Statistical Department since 1965, which includes a separate section on transactions in fixed capital, by type of expenditure. For estimating expenditure on repairs and maintenance, 40 per cent of the total expenditure on construction works is considered a fair figure for repairs and maintenance in the petroleum and gas mining sectors.

c) For the manufacturing sector: The main sources for expenditure on construction are the annual surveys of large manufacturing establishments. 20 per cent of the total expenditure on construction is considered a fair figure for expenditure on repairs and maintenance.

d) For private housing: The source for expenditure on construction is data supplied by the industrial and real estate bank. 20 per cent of the total expenditure is considered fair for repairs and maintenance.

e) For other sectors: Estimates are supplied by statistical department publications. For years between publications an assumed rate of growth is applied: here, too, 20 per cent of the total expenditure of construction is considered a fair figure for expenditure on repairs and maintenance.

8.6.1.6 <u>Electricity</u>-

Before 1969, the source of data was the industrial census, for accounting information about the production and consumption of electricity was impossible to obtain. However, since 1969, N.A.D. has been able to obtain fairly accurate annual data on transactions of the general electricity corporation. As a result, a preliminary production and income account, based on actual accounting data, has been compiled by th N.A.D. starting from the fiscal year 1970/71.

8.6.1.7 <u>Transportation And Communication</u>:-

This section includes the contribution of lorries, buses, taxis, airplanes, post sevices and telecommunications.

For mechanised road transport the estimates are based on the numbers of vehicles in use and an estimated contribution per vehicle per annum.

These figures are supplied by the S.G.P.C. of the communication and roads department, while air transportation data are obtained from reports and accounts of the Libyan Arab Airlines.

In the the case of communications, the accounts of the public enterprise for communications are used as source of information for the incomes generated by that enterprise. A similar source should also be used for land transportation, for the accounts of public enterprises for transportation are a valuable data source.

8.6.1.8 Wholesale Trade And Retail Trade:-

The trade activity in Libya is a leading sector of the economy. Nevertheless, there are no comprehensive statistics available for a direct measurement on its contribution to G.D.P. Thus the estimates are based on an indirect method, by which the income of the sector is estimated as a percentage of the value of goods traded during the year. This value is classified into the following four categories: imports, exports, domestic manufacturing and domestic primary production. The source of data for the first category is the table of estimated mark-ups on some imported commodities published by the statistical department. For the second category, export data is published by the Central Bank of Libya in its economic bulletin. The source of data for the third category is the industrial Census published by the S.G.P.C. of industry, while the source for the fourth category is the statistics division of the S.G.P.C. of agriculture.

8.6.1.9 Banking And Insurance:-

The following items were regarded as gross income accruing to banking:

(a) salaries and wage paid,
(b) contributions; to the personnel social security fund,
(c) contributions to charity,
(d) fees paid to members of the administrative council,
(e) direct taxes,
(f) depreciation, and
(g) undistributed profits.

Most of the data required are supplied by the banks themselves, through the economic research division of the Central Bank of Libya. For those banks which failed to report on the due dates, rough estimates have to be made. Because of the special status of the banking sector, an amount equal to the excess of interest and dividends received over interest and dividends paid should be deducted from the income accruing to other sectors of production in order to complete the set of required imputed transactions. This figure could not be satisfactorily estimated of the basis of the information currently supplied by the banks.

Information needed to calculate the contribution of insurance sector is supplied by the economic research division of the Central Bank of Libya.

8.6.1.10 <u>Public Administration And Defence</u>:-

Under this heading all payments (in cash or/and in kind) for public administration and defence made by the (i) central state (ii) local authorities and (iii) social security are included. The sources of information for these three levels are as follows:

8.6.1.10.1 <u>Central State</u>:-

The Central State Statements report actual annual expenditure on the following items:

1 - Personnel emoluments.
2 - Housing allowances.
3 - Labour.
4 - Social insurance.
5 - Uniforms.
6 - Rent payments for state offices.

The statements of actual expenditure of the administrative budget are supplied by the G.S.G.P.C. of the Treasury.

8.6.1.10.2 <u>Local Authorities (Municipalities)</u>:-

The source of information is the statement of revenues and expenditure of each municipality for each fiscal year, which is supplied by the S.G.P.C. of municipalities. The available data are in a standard form arranged to provide meaningful annual aggregates on actual revenue and expenditure. Under the heading "total personnel emoluments" the following items are included:-

1. Payments to specific general people's committee.
2. Salaries of employees.
3. Family allowances.
4. Housing allowances.
5. Contributions to pension fund.
6. Wages of workers.
7. Social insurance.
8. Overtime payments.

8.6.1.10.3 <u>Social Security Fund</u>:-

The data required are supplied by the national social insurance institutions.

8.6.1.11 <u>Education Services</u>:-

The contribution of this sector is measured by the total wages and salaries paid for education services. The sources of information are supposed to be the accounts of the various institutes within this sector. Unfortunately, the N.A.D. is unable to obtain sufficient accounting data to calculate satisfactory income figures. However, as the costs of this sector are entirely financed by the central state budget, the annual state transfer to this sector might be used as the basis for the estimation of contribution involved. Accordingly, a percentage of the total state current transfers to the education sector is accepted as a contribution to G.D.P.

8.6.1.12 Health Services:-

The contribution of this sector to the G.D.P. is measured by the wages and salaries paid by the public sector to doctors and other persons providing health services:

1- Wages and salaries and other costs paid by the Secretariat of Health.
2- Wages and salaries of medical staff paid by the social security fund.
3- Wages and salaries paid to medical staff by local authorities.

The sources for the above items are the respective accounting data.

8.6.1.13 Ownership Of Dwellings:-

The contribution of this section is considered to be the rental value of all dwellings, whether or not they are owned by their occupiers. The method used in measuring this contribution is to estimate the number of dwelling units each year and to apply an average annual rent per unit. The source of information is the general census supplemented by data on actual expenditure on the state housing programme supplied by The Secretariat of Housing and data on housing loans supplied by the Industrial and Real Estate Bank.

8.6.1.14 Other Services:-

The services included in this sector are mostly provided by relatively minor units in the private sector. The data for estimating the contribution is very poor indeed, and the source of number of individuals involved and their occupations is the manpower census conducted by the Secretariat of the Civil Services.

8.6.2 Disposable National Income (DNI)

In order to compute DNI at market prices net income from abroad and net indirect taxes are added to G.D.P. at factor prices.

8.6.2.1 Net Income From Abroad

As a result of the increasing activity of the Libyan economy, Net income from abroad has shown an enormous increase during the last twenty-five years. Income payments from abroad have been increasing due to the ever-growing financial investment abroad, but payments to abroad have shown a much higher increase due to the dramatic increase of capital earnings transferred abroad by the foreign oil companies and the rising wages and salaries transferred abroad by non-residents working in Libya.

The source of information being used is the annual balance of payments statement prepared by the economic research division of the Central Bank of Libya.

8.6.2.2. Net Indirect Taxes:-

In national accounts all expenditure transactions are valued at the prices in fact paid in the market. This means that all final products are valued at market price, inclusive of indirect taxes and exclusive of subsidies; thus the market value of all products will exceed the total of income accruing to factors of production by the excess of indirect taxes over subsidies.

The information on indirect taxes is found in the analysis prepared by the central state and local authorities, because the classification of taxes, subsidies and other grants, presented in the government accounts, is not satisfactory. The analyses are derived from:-

(a) central state accounts:- customs and excise, entertainment taxes, tobacco and salt monopolies, stamp duties,

(b) local authorities accounts; market tax, slaughter charger, industry and trade licence fees, precious metal stamping fees ... etc.

8.6.2.3. Consumer Expenditure On Goods And Services

The aggregate of national private consumption expenditure comprises the value of final expenditures of households and private residents. Thus expenditure by residents abroad is added, and expenditure in Libya of non-residents abroad is added, and expenditure in Libya of non-residents is subtracted from the estimated private domestic consumption expenditure, which is the expenditure of residents and non-residents in the domestic market. The commodity flow method (C.F.M.) is used for estimating expenditure of goods, and other approaches are used for estimations expenditure on services.

The C.F.M. is based on satisfactory external trade statistics by commodity and fairly good data on locally produced consumed goods, as well as import duties by commodity, trade margins, average retail prices and other relevant information. There are ten major groups of goods and fourteen major group of services involved, examples of which, with their sources of information are presented below:

8.6.2.3.1 Groups Of goods

A. Food And Beverages:- The sources of data on quantities used for human consumption, year by year, are the production/utilisation/processing accounts prepared by the statistics office of the Secretariat of Agriculture.

B. Tobacco:- The main source is the monthly survey of manufacturing undertaken by the statistical department, and the statistics for imported tobacco supplied by the Central Bank of Libya.

C. Clothing And Footwear:- Imports of clothing and footwear are shown in the external trade statistics. For domestic production the source is the annual manufacturing survey.

D. Furniture And Household Equipment:- Expenditure on imported items is estimated on the basis of external trade statistics and on data on customs, etc. expenditure on domestic productions based on the annual manufacturing surveys.

8.6.2.3.2 Groups Of Services:-

A. Accident And Health Insurance:- The main source is the data supplied by the national social insurance fund.

B. Transport:- This category includes fares on buses, taxis, etc. and is based on the data supplied by the Public Passenger Transport Corporation. Figures on fares and passengers for air transportation are supplied by the Libyan Arab Airlines in its accounts.

C. Communications:- This item includes expenditures on post services, telegraphs, and telephones (P.T.T.) and is based on the accounts of P.T.T.

D. Expenditure of residents abroad:- This is estimated by the Central Bank of Libya from the balance of payments statements.

E. <u>Expenditure in Libya by non-residents:-</u> This is also estimated by the Central Bank of Libya from balance of payments data.

8.6.2.4 <u>State Current Expenditure On Goods And Services</u>:-

This item includes current expenditure on goods and services by the State, including the Central State, Local Authorities, and the Social Security Fund. It comprises remuneration of employees and purchases from domestic enterprises and from abroad less sales of goods and services to enterprises and households.

8.6.2.4.1 <u>Central State</u>:-

The statistical sources are the annual data on revenue and expenditure supplied by the Secretariat of the Treasury. A standard classification is produced each year by purpose and by type of expenditure.

8.6.2.4.2 <u>Local Authorities</u>:-

The source of information is the annual statement of actual revenue and expenditure of each municipality.

8.6.2.4.3 <u>Social Security Fund</u>:-

The appropriate data are supplied by the National Social Insurance Institute.

8.6.3 Gross Domestic Capital Formation

The concept of capital formation lies at the heart of the economic and social development of a country. However, capital is not the only requirement for growth, and if capital is put to inefficient use, it will be wasted.

In the case of Libya, while, as with most developing countries, the shortage of capital finance in relation to development needs, is a major factor limiting growth, the problems of scarcity of skilled labour and of efficient allocation of available financial resources, are also important limiting factors.

Thus the possibility of misdirection of investment resources creates an urgent need for full information on capital formation and its impact on growth and productivity.

With regard to capital formation the Libyan national accounts includes the accumulation of fixed capital and changes in stocks and work in progress.

8.6.3.1 Definitions And Sources Of Data For Gross Capital Formation In Libya:-

In Libya the N.A.D. uses both the production and the expenditure method to calculate capital formation. The economy is divided between the petroleum sector and the non-petroleum sector. The expenditure method is used for both sectors, while the production method is used for the non-petroleum sector only.

The sources of information for the petroleum sector are the annual surveys of the petroleum industry and tables on the value of new fixed capital items and on the cost of surveys, exploration research, etc. which are treated as capital expenditure.

For the non-petroleum sector, the source of information depends on method of estimation and sector in question. The expenditure approach is used in measuring the value of capital construction of all kinds, while the production approach in measuring the value of capital formation in machinery, transport equipment and furniture.

The sources of information for public sector construction are the central state development budget, and the municipalities and social security fund annual statements.

By far the most important source is the central state annual development budget, for by using the analytical data at the project level available in the files of the Secretariat of Planning, every effort is made to classify this expenditure according to national accounting requirements.

Other information is taken from the administrative budget, using data supplied by the municipalities and the social security fund, on the basis of which reasonably goods estimates of expenditure on capital formation by type of capital goods, can be compiled.

For construction in the private sector, the sources of information are the annual survey of large manufacturing establishments, and data supplied by the Industrial and Real Estate Bank.

In view of the fact that, with the exception of some furniture, all other capital goods are imported, the external trade data constitute a satisfactory starting point for the application of the production approach, though a number of adjustments have to be made in respect of domestic production, in order to obtain final value paid by the users of capital goods. The other source for domestic production is the data derived from the surveys of large construction units, conducted by the Statistical Department.

8.6.3.2. The Measurement Of Changes In Stock:-

It is very difficult to obtain satisfactory estimates of annual changes in stocks, and the existing data are far from covering even manufacturing and trade, which are the main sectors responsible for changes in stocks.

The bewildering variety of commodities, mostly imported from abroad, for which quantity as well as price data would have to be collected, make such an attempt impractical. Also information concerning stock held on farms, other than livestock, is not available. With regard to the other sectors such as transport;, banking and all other services, including the state sector, no estimates whatsoever can be made. It is felt, however, by the N.A.D. that the amounts of stock held by these sectors are insignificant. Accordingly, changes in stocks are roughly estimated as follows:

(i) Changes in livestock are estimated on the basis of data supplied by the statistical office of the Secretariat of Agriculture.

(ii) The value of changes in stocks of crude oil is estimated according to data included in the annual survey of petroleum mining industries, which show the book value rather than the current value of the changes.

(iii) The value of changes in stocks held in all other sectors is roughly estimated on the basis of a stock/gross domestic product ratio for all stocks in the economy, whereby the value of changes in each stock is estimated as a percentage of the gross domestic product of each sectors except petroleum mining, and banking and insurance.

8.6.4 External Transactions On Goods And Services:-

Exports consist of exports of goods and services and the expenditure of non-residents in Libya, while imports are defined as imports of goods and services and the expenditure of residents abroad.

The data used is supplied by the economic research division of the Central Bank of Libya, which is responsible for the preparation and publication of the balances of payments statement on an annual basis. The breakdown presented in the main tables, with supporting supplementary figures, and explanatory notes is helpful in calculating international transactions for national accounting purposes. Libya's balance of payments statements are prepared in accordance with the instructions in the balance of payments manual of the International Monetary Fund.

8.7 Major Deficiencies Of Libyan National Income Accounts

Libyan National Income Accounts (LNIA) follow very closely the U.N. Standard National Accounts (SNA). [Zenny, 1986]. Accordingly, the deficiencies of the LNIA can be divided into two main categories:

1) deficiencies related to the concepts of the U.N. SNA, and
2) deficiencies related to the unreliability of the basic data used to construct the LNIA.

8.7.1 Conceptual Deficiency

It is not the purpose of this study to discuss the conceptual deficiencies of National Income Accounts, for this is more of a macro-economic than an accounting problem. The main concern of this study is to discuss deficiencies related to the basic data, where accounting is more involved. However, some of the fundamental conceptual problems of the U.N. SNA as related to the Libyan environment will be discussed in general terms.

The current literature has suggested some major conceptual deficiencies related to the U.N. SNA, such as

a) lack of coverage of rural areas
b) problems associated with income distribution
c) the treatment of services
d) aggregation problems
e) classification problems
f) articulation of transactions
g) the SNA matrix, the account and the supporting and supplementary tables
h) others.

As stated previously, it is not the intention of this study to undertake a theoretical analysis of National Income Accounts, so the discussion here will consider only one of the above eight deficiencies, namely the aggregation problems, which are considered to be the most relevant deficiency as far as the LNIA are concerned.

8.7.1.1 <u>Aggregating Problems</u>

One of the functions of national accounts is to provide aggregate accounts for the whole of industry, region or economy. For such aggregation to be useful the data must be homogeneous and accessible.

The starting-point for aggregating accounts is to divide the economy into different sectors, each of which should include a number of units which are sufficiently similar to make aggregation of their activities meaningful. Ruggles and Ruggles stated that:

> "The transaction data must be organised and presented so that the behaviour and interaction of the major parts of the system will be revealed and the structural changes taking place in the system can be understood." [Ruggles, N. and Ruggles, R. 1970 p.2]

Consequently, aggregating information drawn from economic units which are not homogeneous in their behaviour may harm rather than benefit the information base of the national accounts.

Examples of such a deficiency may be found in the income and outlay and in the capital finance accounts of non-financial enterprises. (See p.4 of National Accounts, 1971-1980 of Libya)., whose homogeneity is questionable. The component of this sector include:

1. Private and public enterprises, both large and small
2. Goods and services
3. Industrial, trade and agricultural activities

(See, for example, Tables 6-1 to 6-36 of National Accounts 1971-1980 of Libya).

Furthermore, both systems includes the enterprise sector as part of the Class 1 accounts (domestic product and outlay, national disposable income and its appropriation, capital finance and external transactions), while the deconsolidated enterprise sector is divided into a number of commodity, industry, and financial and non-financial enterprise sectors. As such, the enterprise sector is divided into so many sub-groups that it loses its separate identity. [Ruggles, N. & Ruggles, R. 1970, p.30]. Instead of mixing the enterprise sector with non-market producers, such as government or households, enterprises are better classified as market producers, and other producers as non-market producers. The above example demonstrates the problem of lack of homogeneity and the problem of untraceable aggregation. [Tongeren, J.W, 1973, p. 173].

8.7.2 Deficiencies Related To The Unreliability Of The Basic Data Needed To Construct The LNIA:-

The problem of the unreliability of basic statistics data is not unique to the Libyan environment, but is a common factor in almost all developing countries. As Jaffe stated:

> "Statistics for developing countries often are misunderstood and misinterpreted because the published data do not distinguish between the economically modern and traditional sectors."
> [Jaffe, A.J., 1972, p.313].

In order for national income accounts to meet their objectives they must be based on reliable basic statistical data, which must be accurate and consistent. [Novak, G.J. 1975, p.324].

In Libya, inaccuracy of the basic statistical data can be detected in two main areas:

1) the statistical abstracts group
2) revised national income accounts

8.7.2.1 The Statistical Abstracts Group:

A general review of recent statistical abstracts published by the Statistics and Census Agency of 1984 reveals that many figures either have been made up or are inconsistent with reality. For example, figures for animals over the past ten years (1973-1983) appear to have been made up. It is clear from the figures that an annual growth rate of 15 per cent of all types of animals was assumed (see Table 58, p.127 of the Abstract). Whilst this growth rate may be reasonable for some types of animals, it is clearly unacceptable for others.

Another example concerns the figures of agricultural produce. While it is possible to construct statistical tables for the large agricultural projects created under various development plans and owned by the public sector, it is highly unlikely that the same could be done for the private sector. Private producers sell their produce direct to consumers and figures of production are often not reported, especially since there was no tax on agricultural products during that period.

Furthermore, industrial statistics are often exaggerated. Figures published by the Agency concerning production of consumer durable goods suggest that local consumption is fully satisfied. However, the fact is that, during the 1970s and the early 1980s, local consumption was mostly satisfied by imported goods. Since imports were drastically reduced in the early 1980s there has been an acute shortage of such goods. A real example of the inadequacy of statistics was experienced by the writer, who was among a team of experts who were asked by a certain establishment to examine its problem areas. Among other problems,it was found that a certain production line had been idle for the last seven months of 1980, yet the statistical abstract group reported that production on that particular line was exactly as planned.

The inaccuracy of basic data may be explained by the fact that the people in units supplying data (public enterprises, government departments, etc.) do not see any direct benefits from those statistics or from the national income accounts. Indeed, the vast majority of respondents to the questionnaires in public enterprises stated that they were not aware of the requirement or the uses of national income accounts. [See the chapter on "Enterprise Accounting"].

As a result, little care is expected on the part of such people when preparing statistics. Another explanation could be the shortage of qualified manpower capable of compiling statistics in the unit concerned.

The unreliability of basic data in Libya is also affected by the method of classification used by the Agency, which follows the classifications suggested by the United Nations and mostly actually compiled by experts from the U.N. [Zenny, A. Tripoli, 1986]. The United Nations classification is largely oriented towards international comparison rather than the needs of the Libyan system or of development planning. As a result the National Accounts Department has to make several adjustments and estimates for its statistics to meet its needs.

Other sources of basic data for the LNIA are:

1. Final accounts of the development budget
2. Final accounts of the general budget
3. Final accounts of independent administrative organisations (24 organisations)
4. Municipalities' final accounts (24)
5. Business organisations' final accounts (9)
6. Agriculture sector bulletins published by the Secretariat of Agriculture
7. Follow-up report on development plans published by the Secretariat of Planning
8. The annual reports of the Libyan Central Bank and other commercial banks
9. The final accounts of the Social Security Fund
10. The final accounts of other specific banks (real estate,

agriculture, investment, etc.)

11. The final accounts of the Libyan Arab Corporation for Foreign Investments and the Libyan Arab Foreign Bank
12. Bulletins published by the General People's Committees

Evidence suggests that most of the above sources, apart from the banking sector, are unlikely to be able to provide accurate statistics.

In summary, the Director General of the National Accounts Section has suggested that the major deficiencies of the statistical abstracts are as follows:

1. Absence or unreliability of statistics in respect of savings and investment.
2. Unreliable data concerning employment .
3. Inadequacy of agricultural statistics.
4. Absence of reliable estimates of depreciation.
5. Absence of reliable estimates of changes in stocks.
6. Inaccuracy of the population census.

8.7.2.2 Revised National Income Accounts

The problem of the inaccuracy of estimated figures of National Income Accounts is not unique to Libya. Gleyser and Schavey analysed the revised national income accounts data of the GNP and eight of its component in 40 developed and developing countries and found that the first estimate is very often significantly biased downwards, especially in the case of private consumption, fixed investment, GDP and

GNP. [Gleyser, H. and Schavey, P. 1974, p.317].

This deficiency is also noticeable in the case of Libya (which was not included in the 40 countries), except that the first estimate in the case of Libya is very often significantly biased upwards. Comparison between the first estimate of the 1971 figures (as reported in the National Income Accounts published in 1972) and the revised figures for 1971 (as shown in the National Income Accounts published in 1984) shows considerable differences. For example, in the accounts published in 1972 the GNP for 1971 was reported to be L.D.1,298 millions, while in the 1984 the revised GNP was reported to be L.D.1,165 millions, a difference of L.D.133 millions, or 11 per cent. The gross national income of 1971 was estimated to be L.D.1,257.7 millions while the revised figure was L.D.1,183.4 millions, a difference of L.D.74.3 millions, or about 6 per cent. Accumulated capital transactions were estimated at L.D.583.7 millions, then revised to L.D.558.2 millions, a difference of 26.5 millions, or about 5 per cent. Transactions with the rest of the world were estimated at L.D.1,036 millions, then revised to L.D.1,284.8 millions, a difference of L.D.178.2, or about 14 per cent.

The Department of National Accounts has expressed its concern about a number of difficulties facing it in preparing national income accounts:

1. It was not possible to estimate the outstanding interest

on public debts and consumer debts, so that this interest was not subtracted from national income.

2. Because of the lack of statistics of income from independent professions and retained earnings of some organisations, the data on national income component and its distribution are insufficient.
3. There are some doubts about the preparation of figures covering central and local government transactions, and it was not possible to obtain quarterly information.
4. It was not possible to disintegrate either capital depreciation or savings in the public and private sectors.
5. It was not possible to classify the gross national product between more than fourteen sectors because of the absence of statistics covering trade, transportation and services sectors.

8.8 Micro and Macro Accounting in Libya

Accounting is a tool for both micro users and macro users. There is a strong relationship between the micro and the macro economy on the one side and micro and macro accounting on the other. This relationship can be expressed in the following diagram. [YU, S.C, 1966, pp.8-20].

micro economics <---------------> macro economics

micro a ccounting <---------------> macro accounting

What is more relevant here is the relationship between micro and macro accounting. Macro accounting is based primarily on the economic theory, but in practice it uses several micro accounting concepts and classification methods. Thus the macro-accounting framework is a combination of both the economic and the accounting framework, which suggests that micro and macro accounting could be better integrated with a view to reduced differences between their concepts and improving the quality of the information which they generated.

In the Libyan context the evidence suggests that such integration is very weak indeed. Enterprise accounting in Libya, as was explained in Chapter 6, has been strongly influenced by the British and American accounting, while accounting education was British oriented and is now American oriented (see Chapter 4). The accounting profession was originally established by international accounting firms (mostly American and British) and was Libyanised in 1973. The Libyan nationals who took over were previously partners or employees of those firms and tended to retain their procedures (see Chapter 5). Finally, the accounting systems of Libyan enterprises were mostly designed by American and British accounting firms, or by Libyans who were educated under the American and British system.

Both empirical evidence, and the writing of various accounting authors suggest that American and British accounting has very little to offer to the needs of developing countries, and that it tends to result in a micro accounting system which is poorly integrated with the macro accounting system.

Indeed, interviews and questionnaires carried out in this study have found that such integration does not exist or at most is very weak. [see Chapters 6, 7 and 8]

While macro accounting in Libya has as its main objective to provide information needed in development planning, the micro accounting systems has a completely different objective. The enterprise accounting system is designed to provide information needed to prepare and audit external financial statements, while the government accounting system is designed to provide information related to public accountability.

Management accounting scarcely exists, apart from some simple budgeting techniques. Cost benefit analysis, shadow prices, input-output tables, cost analysis and current cost accounting records are all completely absent. Uniformity of form or substance in accounting forms, procedures, policies, systems and classification is virtually absent.

The staff of the national accounts department have expressed concern about the availability and quality of information provided by Libya enterprised and government units. Timing the form of accounts and their contents and classification both in enterprises and in government departments, are unsuitable for national accounts.

As a result, the improvement of macro accounting in Libya is highly dependent on the improvement of micro accounting.

Some of the possible areas of improvement in micro accounting which could lead to improvement in macro accounting in Libya are as follows:

8.8.1 Measurement Of Changes In Stocks:

It has proved very difficult to prepare satisfactory estimates of annual changes in stocks, for the figures on such changes are far from covering even manufacturing and trading entities, let alone agriculture and service entities. [Zenny, Tripoli 1986].

Thus, an improvement in inventory valuation and depreciation methods would certainly improve the national accounts. An accounting system which evaluates inventory at current cost and gives physical and value changes of inventories of materials, work in progress and finished goods and revaluation adjustment information is thus badly needed.

Depreciation is an important factor in calculating capital consumption. An accounting system which requires a uniform basis of valuation of fixed assets, preferably at current cost, would also improve the national accounts.

8.8.2 Non-Market Transactions:

Macro accounting is concerned with both market and non-market transactions, while micro accounting in Libya is concerned only with market transactions. Accordingly, micro accounting system which reports transactions such as capital assets produced for self-use and assets produced for self-consumption and the valuation of those assets would enhance the calculation of capital formation for macro accounting purposes.

Furthermore, information about imputed value of rent and depreciation of buildings occupied by the business or government departments, as well as differences between actual and imputed interests on invested capital, would also improve the capital formation figures at the macro level.

Finally, wages paid in kind, or earned by the self-employed, if reported in micro accounting records, would facilitate the calculation of real income from employment and operating expenditure of the business and government sectors.

8.8.3 External Transactions (with the rest of the world):

External transactions include exports and imports of goods and services to and from abroad, and are of great important to Libya, since most its development and current consumption are imported from abroad. On the other hand, most of its national income is earned from exporting oil.

Therefore a micro accounting system which reported information on materials purchase or sold abroad, services purchased or sold abroad, wages paid to foreign employees, wages earned by Libyans abroad, and similar information, would assist the macro accounting process.

8.8.4 Input-output Tables:

The Macro accounting system in Libya does not include input-output tables or accounts for the economy as a whole for sectors or for regions. The reason for not including this according to the national accounts staff was that there is no source of information on which the department could work to compile such tables. [Zenny, A, Tripoli 1986].

It was found in this study that there is no Libyan enterprise which currently prepares input-output tables in respect of its production. Accordingly, an improved micro accounting system which requires the construction of such input-output tables in the various units of the economy would certainly enhance the chances of preparing such tables at the sectoral, regional or the whole economy level.

8.8.5 Flow Of Funds

The flow of funds statement at the macro accounting level is a direct adoption of flow of funds statement at the micro level.

However, the libyan macro accounting system does not include flow of funds statements,due to the absence of such statements at the micro level.Consequently,an improved accounting system at the micro level, incorporating flow of funds statements for micro units would facilitate the preparation of such statements at the macro level.

8.8.6 Uniformity:

It is generally accepted that the macro accounting system is designed to integrate the individual accounts of micro units of the economy into one comprehensive account. In order for such integration to be possible, it is necessary that the individual accounts of the micro units are prepared on a unified base, with the objective of providing information for purpose of aggregation at the macro accounting level. A uniform accounting system in Libya should be designed using the concept of uniformity in order to improve the scope and quality of macro accounting information.

8.9 Summary And Conclusion

National accounting includes five main elements:

1. National income accounts ,
2. balance of payments,
3. flow of funds,
4. national balance sheet,and

5. input-output tables.

The most popular of the five elements are the national income accounts. These have evolved from merely an account of the wealth of noble families to become systematic accounts and tables of the wealth of a nation. The many possible uses of national income accounts have led to different countries and writers using them for different purposes. The use for socio-economic development planning might be considered as the most popular use, especially in developing countries.

Libya compiled its first national income accounts as recently as 1967 for the purpose of formulating the Second Five-Year Development Plan of 1968-1972. Since then, a number of national income accounts have been published, the latest in 1984 for the period 1971 -1980, with estimates for 1981 and 1982. in libya the main purpose of national income accounts is to provide a systematic base for socio-economic development planning.

The main sources of data for national income accounts are: 1) the final accounts of development budget, 2) the final accounts of administrative budget, 3) the financial statements of business organisations, 4) statistical bulletins of different economic units, and 5) the population census. The national income section in Libya follows closely the new UN SNA of 1968.

The national income accounts in Libya do suffer from several conceptual and practical deficiencies, particularly the aggregation problem and poor reliability of basic data. While their conceptual drawback are similar to those of the U.N new SNA, their practical deficiencies are mainly related to Libyan environment. The absence and unreliability of data provided by micro units is a major deficiency. There is no link between micro accounting and macro accounting. Furthermore, the poor quality of classification used in statistical abstracts is a further major problem. In order to improve the national income accounts, an improved micro accounting system has to be designed to meet the information lbneeds of macro accounting in Libya.

CHAPTER NINE

The Accounting Information Needs of Libya

9.1. Introduction

The purpose of this chapter is to specify the general accounting information which is needed by the Libyan authorities in order to prepare successful socio-economic development plans. This information should be relevant to economic and social decision making at micro and macro levels.

A number of accounting and economic writers have drawn attention to the need to expand the role of accounting to include social matters. Gambling argues that current accounting theory as a whole is misleading as it is limited to economic improvement while totally excluding social improvement. He argued that:

> "It is only in recent years that society has turned its attention to social betterment as an independent goal from purely economic advance; the criticisms that our theoreticians are at present trying to counter will be essentially of failure of accounting practice to take account of this ...... interest. What is needed is nothing less that the redefinition, or classification of 'accounting' as the data base for all aspects of social measurement and control." [Gambling,T. 1974, p.9]

Developing countries in particular have been encouraged to adopt accounting systems which provide relevant information for their social and economic development. [Briston,R. 1978, p.120]

This expansion in the role of accounting has led to a new definition of accounting. Perhaps the familiar definition by Enthoven is the one which is best related to the Libyan needs. He defines accounting as follows:

> "Accounting covers the entire administration or management of information for all socio-economic activities and conditions in micro and macro economic sectors covering internal and external needs of various groups . . ." [Enthoven,A. 1973, pp.112-113].

However, more specific roles of accounting and characteristics of accounting information were defined by Briston when argued:

> "Although the appropriate accounting system for each country will depend upon a wide variety of historical, political, economic and social factors, there seem to be certain standard questions which should be posed in the construction of such a system. For this purpose accounting is regarded as the collection and communication of information for making and controlling the implementation of economic decisions in both the public and the private sectors." [Briston,R. 1978, p.117]

Many other writers have provided definitions covering different aspects of socio-economic accounting, although some of them have mixed socio-economic accounting with social accounting, which is an established field of accounting and economics. Among these, two comprehensive definitions are given by Mobley and Belkaoui. Sybil Mobley has defined socio-economic accounting as follows:

> "Socio-economic accounting refers to the ordering, measuring and analysis of the social and economic consequences of governmental and entrepreneurial behaviour. So defined, socio-economic accounting is seen as encompassing and extending present accounting. Traditional accounting has limited its concern to selected economic consequences .. whether in the financial, managerial or national income areas. Socio-economic accounting expands

each of these areas to include social consequences as well as economic effects which are not presently considered." [Mobley, S. 1970. p.762]

Perhaps a more comprehensive definition is that of Belkaoui, as follows:

"Socio-economic accounting results from the application of accounting in social sciences; it refers to the ordering, measuring, analysis and disclosure of the social and economic consequences of governmental and entrepreneurial behaviour. It includes these activities at the macro and micro level. At the micro level its purpose is the measurement and reporting of the impact of organisational behaviour of firms on their environment. At the macro level its purpose is the measurement and disclosure of the economic and social performance of the nation. At the micro level socio-economic accounting includes, therefore, financial and managerial social accounting and reporting and social auditing. At the macro level socio-economic accounting includes, therefore, social measurement, social accounting and reporting and the role of accounting in economic development." [Belkaoui, A. 1984, p.7]

In spite of these arguments in favour of the usefulness of accounting information for macro purposes, the fact remains that accounting information concerning macro and social factors is not all it might be, and there is a need for specific conceptual change to fulfill macro and social needs. [Ibid, p.189] Perhaps the following quotation by Gerald H.B. Ross portrays a fair attitude concerning this issue:

"Social accounting will probably never be an exact science. However, society faces monstrous problems, which cannot be ignored. They will inevitably involve some sort of measurement, no matter how imprecise. Yet we must not let the desire for precision become the blindness that

> will hide opportunities around us. As John Maynard Keynes warned accountants: 'It is better to be vaguely right than precisely wrong.'" [Ross,G. H.B. 1971, p.27]

Libya thus seems to have no choice but to generate accounting information which is related to its social and economic development planning. Accounting information which is related to the market mechanism does not satisfy these needs, for the market itself is not relied upon for the development of the country, as stated by a U.N. Conference on Planning:

> "The need for using appropriate criteria for selecting projects arose because of the failure of the market mechanism to provide a proper guideline. In less developing economies, market prices of such factors of production as labour, capital and foreign exchange deviate substantially from their opportunity costs and were not, therefore, a correct measure of the relative scarcity or abundance of the factors in question." [U.N., 1965, p.12]

9.2. The Environmental Factors Influencing The Nature Of Accounting Information In Libya

Accounting information provided for micro and macro level planners depends on certain environmental factors, including markets, ownership, financial legislation, management planning, pricing and investment decisions, managerial efficiency control and performance evaluation.

9.2.1 The Impact Of The Market

The nature of the accounting information needed is influenced by the market in which that information is used. The market conditions may be located anywhere between a completely competitive market and a centrally planned economy. The Libyan market operates under state control and planning, the main aims of which are to enhance social and economic growth and to provide necessary services and commodities to the public at large as well as to guarantee the survival of the various economic production units.

9.2.2 Ownership

Accounting information for economic decision making is dependent upon the type of ownership of the economic and social units. In Libya all economic activities - except in the agricultural sector, where some farms are still under private ownership, - are owned and controlled by the State. Unfortunately, the role of cost accounting has been restricted. [Al-Zehaf Al-Akhder, Newspaper, Tripoli, Libya, 25 May 1987, p.5] A developing country like Libya requires accounting information which facilitates control over the growth of the economy and which protects the interests of the public through project appraisal and performance evaluation.

9.2.3. Financial Legislation

Accounting information, then, is one of the activities which affects the welfare of the State. Because of this, the State should thus enact legislation to organise the reporting of accounting information which facilitates the compilation of national accounts, measurement of economic development, development planning and performance evaluation. In Libya, there is no independent body which is responsible for organising financial reporting, and the laws and regulations of the state have only touched upon the area of the organisation of accounting information.

9.2.4 Management Planning and Budgeting

Accounting information is a basic necessity for planning and budgeting, in forecasting economic growth and in controlling such growth. In a developing country, the accounting information needed varies according to the planning level. At the macro, level, the budget of an economic unit becomes a detailed part of the national plan for that unit or sector. At the micro level, the budget becomes a detailed operational programme for the unit concerned. In Libya, however, budgeting is not a popular practice at the micro level, despite its requirement by the State.

9.2.5. Price and Investment Decisions

In a planned economy, the State is responsible for each individual economic unit as well as for the economy as a whole. Thus in Libya each individual producing unit receives instruction. from the secretariat of the economy to produce a specific volume of output. The secretariat is also authorised to approve or disapprove product prices and any investment decision taken by the management of an economic unit. Accordingly, appropriate accounting information must be supplied to the State for the exercise of this responsibility.

9.2.6 Managerial Efficiency Control and Performance Evaluation

Accounting information is needed to evaluate management efficiency, effectiveness and performance. At the micro level such information is needed to evaluate each production line, department and policies. At the macro level such information is needed to evaluate each unit, sector or the whole economy. Information related to financial and managerial ratios, percentages and actual and planned production targets is needed.

9.3 Economic Development Planning

Due to the fact that planning objectives and practices in one country are in some respects different from those in every other countries it is almost impossible to give a definition of development planning which satisfies each and every need. One can find at one extreme, a definition. broad enough to include practically every country, or so narrow as to exclude all but a few. Enthoven has defined development planning as follows:

"Development planning is the preparatory evaluation and decision-making process of a forward-looking character for an economy, in which alternatives have to be measured, weighed and outlined, and priorities for the use of resources established." [Enthoven,A. 1973, p.149]

Todaro refers to development planning as:

"A deliberate governmental attempt to co-ordinate economic decision-making over the long run and to influence, direct and in some cases even control the level and growth of a nation's principle economic variables (income, consumption, employment, investment saving, exports, imports, etc.) in order to achieve a predetermined set of development objectives." [Todaro M., 1977, p.29]

The above definitions fail to incorporate the social concepts of development planning with the economic concept. Social concepts of development planning are extremely important and require specific emphasis in the definition of development planning. Accordingly, the following third definition of development planning by Waterston is considered to be more appropriate for it defines the need for the social concept in an environmental such as that of Libya.

"A country was considered to be engaged in development planning if the government made a deliberate and continuing attempt to accelerate the rate of economic and social progress and to alter institutional arrangements which were considered to block the attainment of this goal. The attempt had to be a conscious one made by a government and it had to be made often enough to give substance to the government's claim or belief that it was concerting policies and taking action designed to bring about economic and social progress and institutional changes. But it was not essential ... that these efforts be successful." [Waterston, A., 1971, pp.19-20]

Development planning may assume one of the following general characteristics:

1. a mere forecast (econometric),
2. a series of guidelines of an indicative or mandatory nature, or
3. a formal centralised mandatory character. [ibid., p.18]

Enthoven has further broken down these types of development into five types:

a) a mere forecast of trends accompanied by recommendations or a few guidelines of government policy;
b) a plan for the public sector (with mandatory implementation) unaccompanied by any planning for other sectors of the economy;
c) a plan for the public sector combined with a forecast of activities for other sectors of the economy;
d) a plan for the public sector as well as a programme for other sectors of the economy, the fulfillment of which is ensured as far as possible by "indirect" instruments of government policy;
e) a comprehensive plan covering all sectors of the economy and mandatory for implementation in government organs and other agencies (i.e. centrally planned economies). [Enthoven,A. 1973, p.151]

Generally speaking, Libyan development planning followed types 1 and 2, or a) to d) during the early years of its economic and social development (i.e. 1952-1980).

However, since 1980 the role of the private sector in Libyan economic and social development has been totally overtaken by the public sector and accordingly development planning has been of type 3 or e) in the above classifications.

The text of the social and economic transformation plan of 1981 to 1985 stated that the purpose of the various plans is to create substantial structural changes in the national economy, transferring it from a one commodity economy (oil) to a multiple commodity productive economy dependent on dynamic and renewable sources which guarantee to sustain self-generating growth. To achieve this a long-run strategy is required which needs scientific and comprehensive planning covering all sectors of the economy - production as well as services. [Secretariat of Planning, 1980, Vol.1, p.49]

Socialism is the chosen path towards economic and social development, and no private economic activity is permitted, with the exception of small farming. Indeed, the plan of 1981-1985 covers all sectors of the economy as well as detailed projects to be developed by the State. Specifically the plan listed the following objectives to be achieved:

1. Continuous effort to achieve social and economic transformation and rapid growth in all non-oil economic activities of about 10.3 per cent annually.
2. The achievement of higher self-sufficiency and priority

to production efficiency and to increase capacity.

3. To reduce crude oil production to level necessary for financing the transformation programmes and projects. In order to maintain the oil resources for the longest possible period of time, the plan envisages to reduce its extraction only at a level required for financing the social economic transformation programmes and projects.
4. Human resource development and the increase of Libyan participation in the transformation process.
5. The improvement of the individual's level of consumption, life style, and income and the achievement of a better balanced regional development.
6. Establishment of an effective policy for the development of technical science for protection of the environment.

Libyan development planning can be divided into three main types, according to their time span:

1. A long-term plan which covers twenty years (1980-2000) the aim of which is to diversify the economy and to turn Libya from a developing country into a developed one;
2. a medium-term plan covering a five-year span, in which priorities are given to the development of certain economic sectors (industry, agriculture, etc.), and
3. a short-term plan which covers a span of one year, and which specifies individual projects (water projects, roads, schools, etc.) [Ben-Saud. Tripoli summer 1985]

9.4 The Process Of Planning

Development planning, being a comprehensive and multi-duration process, can be divided into interdependent processes.

Belkaoui has defined these as three basic strategies used for implementation of development planning, namely, aggregate growth models based on a forecasting of macro-variables, multi-sector input-output models based on the interrelationships and flows among the various industries, and project appraisal through cost/benefit analysis. [Belkaoui, A. 1985, p.336]

Tinbergen labelled the above models as macro-, middle and micro-phase respectively when he stated:

> "The macro-phase has to show the most desirable development in macro-economic terms, without subdivision in regions or industries. In this phase, then, only such overall figures are used as the national product, and capital, the total investments, imports and exports and state expenditure. In the middle phase the picture resulting from the macro-phase is made clearer by distinguishing a number of sectors or industries and a number of regions. Finally, in the micro-phase, an even clearer and more detailed picture is obtained by dealing with separate projects and even smaller geographical regions, perhaps even separate rural and urban districts." [Tinbergen, J., 1967, p.76]

These three stages may indeed be identified in Libyan development planning. In the introduction of the 1981-1985 development plan the planners specified the annual macro-growth rate of non-oil sectors to be 10.3 per cent. Then they allocated L.D.16,894 m to raise the capital formation rate (rate of investments to gross domestic product) from 21.6% in 1980 to 36.6% in 1985. Finally they specified the industrial and agricultural sectors as the main vehicle for achieving this growth rate, representing the macro phase.

The planners then divided the economy into fourteen sectors, each of which was given a specific role in the transformation operation at the middle- and long-term stages. For the long-run strategy and objectives, human and natural resources were identified, as well as any obstacles which may arise during the sector transformation. This process represents the middle- or multi-sector phase. In the same phase the planners have divided the country into six regional areas to be developed.

Finally each sector, has been divided into a number of specific projects and programmes, and specified the needs of each of the six regions specified as well as the projects to be established in each region. [Secretariat of Planning, 1980, pp.49-202]

The above planning processes are interdependent, interactive and also simultaneous. This necessitates a similar nature between the three branches of accounting (social, enterprise, government). The first phase - the macro-economic aggregates model - requires a comprehensive and consistent set of values to be provided by social accounts information covering the period of the plan. This information includes national production, consumption, investments, exports and imports. In the later stage this information has to be translated and refined for sectoral and project processes, where the macro-aggregates will be broken down using the input-output model. It is essential at this stage to carry out a careful cost-benefit analysis of each project or industry in order to decide which should be given priority. The input-output model is based on knowledge of all sources of inputs and the uses made of the output. This information is provided by enterprise accounting.

In the micro-phase detailed cost accounting measurement and effective accounting information are needed in order to specify which goods are to be produced and at what price and volume. [Enthoven,A. 1973, pp.154-162]

Government accounting is well represented in the development process,which can not be carried out effectively without the governmental budgeting process.[Ibid,p.156] As a result,for social and economic development planning to be successful, relevant, comprehensive and organised accounting system is an essential prerequisite.Such a system should provide information for each of the three development planning stages.

9.4.1. The Aggregate (Macro) Stage

In this stage the planners determine the planned growth rate of the whole economy. The writer of the 1981-1985 plan has specified that the annual average planned growth for non-oil sectors is to be 10.3 per cent, while it is planned to be -5.9 per cent in the oil sector. Accordingly, L.D. 16,894 m and L.D. 439.8 m have been allocated to the two sectors, respectively. [Secretariat of Planning, 1980, pp.57-78]

In order to forecast th growth rate, various economic models could be used. Enthoven has discussed a number of such models, including those of Adam Smith, David Ricardo, Harrod Domar, Karl Marx and Rostow. [Enthoven,A. 1973, pp.145, 146] All of these require quantitative information about the economy, which is usually provided by accounting and statistical tables.

The Libyan planners have chosen the two-sector model of Harrod-Domar to project the growth rate of the economy. [Ben-Saud, Tripoli, Summer 1986] The production function used by the Harrod-Dumar model is as follows:

$$y = a' + kk'$$

$$y = b'N$$

when

y : gross domestic product (GDP)

a': constant

k': the marginal capital/output ratio

k : capital

b': the marginal labour/output ratio

N : labour

To calculate the rate of growth, the following equations are applied:

$$\frac{dy}{y} = k'\frac{dk}{y}$$

$$\frac{dy}{y} = b'\frac{dN}{y}$$

In using this model, the planners have to compute the capital output ratio and the labour output ratio. Such rations are of three types: 1) net average ratio, 2) gross average ratio, and 3) marginal ratio. Enthoven has defined the three capital output ratios as follows:

1. Net average ratio, reflecting the depreciated value of the total existing stock of investments (mainly fixed assets and inventories, including work in process) to annual output;
2. gross average ratio, representing the undepreciated value of the above assets and their resulting annual output;
3. marginal ratio, net or gross, portraying the value of additional capital investment in relation to incremental output. [ibid., pp.157-158]

Libyan planners have chosen the marginal or incremental capital and labour output ratios. Despite its simplicity, the Harrod-Domar model has caused some difficulties, due to the absence of basic accounting and statistical data. [Ben Saud, summer 1986]

The model relies heavily on the capital theory of value and hence labour can only be introduced if the capital/labour ratio is constant. The model also assumes the availability of all necessary labour; this is not the case in Libya, where the country is heavily dependent on expatriate labour, a factor which has worsened since the deportation of most foreign labourers in the summer 1985. [ibid.,] Other problems have been the lack of reliable information covering investments, consumption figures, private and government savings, government expenditure, manpower and the rate of growth in population, changes in stocks, depreciation, current values and other similar data.

Despite these difficulties the capital and labour output ratio are essential tools for projecting the investment and labour needed in orders to achieve the projected rate of growth of the economy. The projection of the investment target demands a reliable method for determining gross national product, gross capital formation and the target rate of growth. The pertinent questions, then, are: how reliable are these figures, and how might a sound accounting system contribute towards making these figures more realistic in the case of Libya?

9.4.1.1. The Estimation of the Gross National Product in Libya

The first attempt to estimate the Gross National Product of Libya was made by the International Bank for Reconstruction and Development Mission in 1953. The second attempt was in 1968 and the final one in 1982. All these estimates are considered to be approximate because of the limited statistical and accounting information available, although improvement has been made over the years. [Zenni, summer 1985]

In 1963 the Ministry of Planning completed the preparation of the first five-year plan without any type of national accounts, while the national accounts compiled in 1967 for the purpose of the second five-year plan were based on very limited data. [Shanta, 1985] The compiler of the national accounts in 1967 stated that, since they were prepared under pressure from development planners to produce the accounts on such data as was available at that time, they were largely rough estimates. Table 9.1 shows the national income estimates for the period 1962-1971. No distinction between factor costs and market price was made. Table 9.2 shows the national accounts estimate at current prices for the period 1971-1980, and an improvement can be seen.

9.4.1.2 Accounting Information Needed at Macro Stage

The calculation of Libyan national accounts has been less than reliable, partly because of the lack of relevant micro accounting information and partly because of the unreliability of such information as was available.

The more the enterprise and government accounts conform to the classifications used for the national accounts, the

Table No. 9.1

Account No.2

(in million Dinars)

Gross National Income (GNP) Current Prices

Debit Side	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971
2-1 Salaries and wages of employees	49.0	63.4	82.2	111.7	137.6	168.9	219.2	252.9	268.8	293.2
2-2 Income from self employment, Families' income from ownership and organisation (4.6)	82.3	118.8	127.1	172.2	212.8	222.5	270.3	337.9	313.4	326.4
2-3 Government Gross Income from ownership and organisation (3.6)	16.4	40.3	77.0	126.6	179.8	227.1	354.8	418.2	409.1	638.1
Gross National Income (GNP)	147.7	222.5	286.3	410.5	530.2	618.5	844.3	1009.0	1072.3	1257.7
Credit Side	62	63	64	65	66	67	68	69	70	71
2-4 Gross National Product	147.7	222.5	286.3	410.5	530.2	618.5	844.3	1009.0	1072.3	1257.7
Gross National Product	147.7	222.5	286.3	410.5	530.2	618.5	844.3	1009.0	1072.3	1257.7

Table 9.2

Account No.2

(in million Dinars)

Disposable National Income and its allocation 1971/80

Classification	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Public Sector Final Consumption	156.0	359.1	465.4	864.8	1044.5	1184.6	1400.5	1691.8	2006.6	2350.5
Private Sector Final Consumption	468.6	543.3	702.7	927.1	1193.5	1336.6	1482.2	1665.2	1894.7	2327.5
Saving	493.5	470.0	542.2	1452.4	895.0	1633.3	2111.8	1618.7	3064.1	5205.8
Disposable National Income	1280.5	1372.5	1710.4	3244.3	3137.8	4154.4	4994.3	4957.7	6965.4	9883.8
Employees' compensations	415.5	518.2	625.9	840.8	1048.2	1221.4	1431.7	1635.4	1848.9	2162.7
Employees' compensation from abroad (net)	(-54.9)	(-94.6)	(-78.3)	(-71.4)	(-71.7)	(-72.4)	(-77.5)	(-161.5)	(-301.9)	(-311.5)
Operational Surplus	1071.2	1123.9	1444.0	2803.1	2460.0	3354.2	3973.5	3623.3	5490.9	7736.2
Ownership and organisation income from abroad (net)	(-156.0)	(-179.8)	(-239.9)	(-397.6)	(-360.7)	(-445.1)	(-439.2)	(-280.4)	(-251.2)	22.8
Indirect Taxes	55.2	73.3	99.2	165.0	291.9	242.9	246.2	307.3	393.3	509.4
- (minus) Production Subsidies	(14.9)	(27.9)	(35..3)	(73.8)	(114.2)	(104.0)	(113.9)	(115.9)	(149.9)	(211.5)
Other Current Transfers from abroad (net)	(-35.6)	(-40.7)	(-105.2)	(-21.8)	(-49.3)	(-42.6)	(-44.5)	(-32.6)	(-64.6)	(-24.3)
Disposable Income	1280.5	1372.5	1710.5	3244.3	3132.8	4154.4	4994.3	4994.3	6965.4	9883.8

more likely it is that the national accounts will be easier to compile and of an improved quality. S.C. Yu has argued that the technical framework of macro-accounting is very much similar to that of micro-accounting, and that statements and accounts in national macro-accounting are based on their counterparts in micro accounting.

> "The national balance sheet and the national income and product account are equivalent to the two basic financial statements in financial accounting. The saving and investment account, the statement of retained earnings, input-output tables, which reveal inter-industry purchases and sales relationships, are merely an extension of the national income accounting system with emphasis on the cost of goods manufactured. The flow of funds system is a direct adoption of the statement of funds in financial accounting. Finally, the balance of payments is partially a variation of the statement of funds and partially an extension of the foreign transactions account in the nation income system." [Yu, S.C. 1966,pp.11,12]

Yu further suggested that, in theory, the two branches of accounting should be related to one unified accounting system concepts and principles. [ibid., p.17]

Enthoven attributes the deficiencies and the unreliability of developing countries' national accounts to poor financial accounting reporting practices. [Enthoven, A 1973, p.32]

Briston attributes these deficiencies in the financial reporting of developing countries to the western domination over accounting education and over the accounting profession in those countries. Most of the questions related to the needs of the national accounts and development planning have never been considered in the U.K. [Briston,R. 1978, pp.117, 118]

Scott has specified various items in national accounting which are based on enterprise accounts. He stated that private enterprise wages and salaries account for more than 50 per cent of the national income in most nations and that these wages must be reported by enterprise accounting. Interest paid and received by firms, asset depreciation and asset sales and purchases, all necessary for compilation of national accounts, are also provided by enterprise accounting. [Scott, G. 1970, p.37]

Saving and investment are two important factors in determining the rate of growth of the economy and enterprise accounting can be a great help in computing the above two factors. This point was emphasised by Lucano when he argued:

> "... it should be interesting to note that while financial accounting does not customarily specify savings in its formal structure, its statement of retained income and its statement of application of funds could be used as a basis for national income savings amounts, if sufficient financial accounting reports were available." [Lucano, R.V. 1962, p.17]

Arvay also explained how enterprise accounting has contributed to the reliability of national accounting in Hungary, as follows:

> "The reliability of national accounting is favourable in Hungary, as it is based mostly (92 per cent) on the book-keeping data of enterprises, corporations and institutions. The book-keeping

system is uniform in all economic organisations in conformity with central regulations, and it takes into account the demand of computations for national accounting." [Arvay, J. 1974, p.55]

The principles and methods of macro and micro accounting are similar, but due to the different purposes served by each differences between the two branches do exist. Mattessich summarised the general relationship between the two branches as follows:

enterprise accounting	national accounting
1. The beginning and ending balance sheets of the firm: "The balance sheet has a static character."	1. Saving and investment statement: "... has a dynamic character."
2. Profit and loss statement: "it is a description of income and expenses with the net profit as a residual."	2. Income and product statement: "... it describes the income of production factors and their costs on the debit side and the position of the product created on the credit side.
3. Budgeting	3. Anticipation statistic: "...estimating and fore-casting economic activity."
4. Cost of goods purchased	4. Input-output study, or the study of interindustrial re-lationships which is based conceptually on a breakdown of cost of goods purchased. It attempts to show in sys-tematic form not only the industries producing goods and services, but also the industries purchasing them, giving in effect a cross-classification table of industrial interdependence.
5. Source and uses of funds statements.	5. Money flows analysis: "... which may be categorised here as essentially a source and use of funds analysis for the entire economy."

[Mattessich, R. 1956, pp.551-564]

The above discussion has provided evidence of the role of micro accounting statements, accounts and records in compiling macro accounting accounts and hence their valuable contribution to development planning.

The capital output ratio is of vital concern in computing the investment needed to produce the targeted output. In computing this ratio, Enthoven recognised that:

> "Capital output ratios, reflecting the quantity of output resulting from a unit of capital intput, are used as either measuring or policy making devices in micro and macro development programming. In the macro sphere they portray the resulting national income from capital investment ... again largely based upon industry (accounting) statistical data. In computing the gross, net marginal capital (output ratios) the 'value' ;and composition attached to capital equipment, depreciation and output should be included or excluded according to realistic accounting information and classification." [Enthoven, A. 1973, p.113]

However, the use of accounting information for computing the capital output ratio is not without difficulty, in the Libyan context it has been argued by the compilers of national accounts that depreciation figures for some economic units are entirely absent, while others are calculated on a straight-line method, in which the production life of all assets have been specified by tax laws. Accordingly, some producing assets are depreciated fully in the accounting books, while they are in fact still in operation, and vice versa. Other problems arise from the fact that all fixed assets are recorded at historical cost, while output is usually measured in current cost. Accounting may help to solve these problems by adopting different depreciation rates for different classes of assets according to the nature of the asset, volume of production and availability of maintenance requirements. The accounting system may also solve the problem of the cost base by adopting one unified cost base in measuring both input and output.

Furthermore, those preparing the national accounts have expressed their concern about the complete lack of information regarding changes in stocks. [Zunny, Tripoli, summer 1985] As a result, these figures have to be based on a guesswork rather than on figures provided by accounting statements or statistical tables. Enthoven has suggested that consistent valuations over a period of time may help to overcome this valuation problem. [Enthoven,A. 1973, p.159]

Finally, the problem of a clear distinction between the capitalisation of repair and maintenance expenses poses a serious problem for responses to questionnaires reveals that most Libyan public enterprises mostly consider maintenance expenses as current expenses regardless of their nature. [See Chapter 6.6]

9.4.2. The Sectoral Stage

In this stage of the development planning process the planners are concerned with translation of an overall growth objective, as specified in the aggregate stage, into detailed sectoral target rates of growth, so that allocation of the overall investment to individual sectors can be accomplished. [Arkadie B., and Frank C. , 1966, p.371] The purpose of this stage is to balance the growth between the various sectors of the economy. This balance may be determined either by an analysis of costs and returns or by priorities set in the overall strategy of the development plan.

Experience of the Libyan development plan reveals that both methods of growth balancing have been used at different times.

Failure to allocate investment wisely among sectors may result in the overall targeted growth rate - set in the aggregate stage - not being achieved. Thus an appraisal of the Libyan development plan of 1976-1980 shows that the plan failed to achieve its overall targeted growth rate. This had been set at 10.7 per cent, whereas the actual growth rate was only 7.5 per cent. Thus failure to achieve the overall targeted growth rate can easily be explained by the failure of individual sectors to achieve their targeted growth rate. Table 9.3 shows that the actual growth rate of almost every sector was far from its target, the exception being education services where the growth rate (13.7 per cent) almost reached the target of 14 per cent.

Literature, as well as the practice of other developing countries, suggests that input-output tables might be especially useful in making Libyan sectoral growth projections. Many countries in Africa (Zambia, China, Algeria, Egypt etc.), Asia (India) and Latin America (Argentina, Peru etc.) have successfully applied input-output tables to project their sectoral growth rate. [Arkadie, B.V.and Frank, C. 1966, p.141]

The text of the transformation plan of 1981-1985 stated

Table 9.3

The Real Growth of the Gross Domestic Product

By Economic Activity During 1976-1980

(at 1975 prices in LD. million)

Economic Activity	1975 (Base year)	1980 (Provisional)	Realised Annual Growth Rate %	Planned Annual Growth Rate %
Agriculture, Forestry and Fisheries	82.9	100.3	3.9	15.8
Mining of Oil and Natural Gas	1961.1	2399.4	4.1	7.8
Other Mining and Quarrying	20.7	32.3	9.3	10.3
Manufacturing Industries	65.5	171.1	21.2	30.7
Electricity & Water	17.6	46.7	21.5	23.0
Construction	434.7	632.5	7.8	12.5
Wholesale & Retail Trade, Restaurants & Hotels	224.6	338.4	8.6	11.0
Transport, Storage & Communications	175.8	242.8	6.7	18.7
Finance, Insurance (Excluding Houses) & Business Services	98.9	181.7	13.0	14.0
Ownership of Houses	131.0	178.8	6.4	10.9
Public Services (Excluding Education & Health	258.3	549.0	16.2	8.8

Educational Services	122.3	232.5	13.7	14.0
Health Services	51.6	127.7	19.8	12.0
Other Services	29.3	41.4	7.1	10.0
Real Gross Domestic Product:	3674.3	5274.6	7.5	10.7
Distribution between: Oil & Natural Gas Mining	1961.1	2399.4	4.1	7.8
Total non-oil Activities distributed between:	1713.2	2875.2	10.9	14.1
Non-oil Activities (Excluding Public Services, Education and Health)	1281.0	1966.0	9.0	15.2
Public Services, Education & Health	432.2	909.2	16.0	10.5

Source: Socialist People's Libyan Arab Jamahirya, Secretary of Planning, Socio-Economic Transformation Plan 1981-1985 A.D., p.9

that the strategies of sectoral transformation were designed on the basis of:

a) the defined role of each sector in the overall transformation operation in the long and medium term;
b) the strategies and objectives of each sector in the long term, as concluded from the preliminary study of the transformation strategy for the period 1980-2000;
c) the human and natural resources required and the obstacles to the sector transformation operation;
d) the level of performance and the shortcomings of each sector during the 1976-1980 transformation plan. [Secretariat of Planning, 1980, V.1, p.63]

Rules of thumb were used in determining the rate of growth of each sector based on the scarcity of labour and raw materials. [Ben Saude, summer 1985]

The success of input-output tables in projecting sectoral growth rates made possible the projection of investment needed in each sector. If the failure of the sectors of the economy to achieve their targeted growth rate can be explained, at least partially, by the failure of rules of thumb, then input-output could be of great help to the Libyan planners. It is not the intention of this study to discuss the mathematical structure of the input-output tables, or how accounting data can be used in building such tables. However, a brief discussion of the nature of input-output tables is beneficial before discussing the accounting data needed for their compilation.

Arkadie and Frank have defined input-output tables as follows:

> "An input-output table is a summarisation of the flows of goods and services between three types of organisation and the rest of the world."

These organisations include households, productive organisations and the government.

An input-output table or account could be considered as a deconsolidation and extension of the national income and product account. [Enthoven, 1973, p.90]

The enterprise section in national income accounts is disaggregated in the form of input-output tables according to component industries. Within, these industries huge transactions of selling and buying are taking place, as also happens between these industries and the household sector and the government sector. However, transactions between industries play the most important element of input-output tables. In general, when the product of one industry is used as an input in the production process of a second industry, this is called an intermediate use of the first industry's product. From the point of view of the using industry the purchased goods are called a produced input. All other sales of the output of industries are called sales for final use.

The input-output tables consist of a number of rows and columns, the rows representing the output side of any industry and its allocation, while the columns represent the input side of each industry (as well as other sectors) and its sources. Each cell of those rows and columns represents an input factor from one industry and output goods or services for another industry. Together, the entries in the cells give a picture of the complicated set of flows of goods and services between various industries and other sectors of the economy.

The main sources of these entries are the accounts of business activities, particularly the balance sheet and income and expense accounts. Other entries come from government budgets and from engineering data. However, it should be noted that accounts of business activity will have to be broken down and combined and consolidated before they can be used to build input-output tables. It is this consolidation and breakdown of accounts of the individual firms which determines accounting information needed for the building of input-output tables. Not all accounting information is relevant for planning purposes, hence care is needed in specifying the internal and external floes and the measurement. [Enthoven, 1973, p.90]

9.4.2.1 Accounting Information Required

The preparation of an input-output table takes three stages: 1) consolidation and breakdown of accounts for individual firms, 2) industry consolidation, and 3) the formation of the input-output table. The input-output analysis is based on accounting data:

> "An input-output system gives a more dynamic idea of the economy, and although these data are hard to prepare ... above all, in developing countries ... they play a vital role in development planning. The accounting information derived from business activities is at the core of such a matrix, and, especially with the application of input-output coefficients, current or prospective eco-accountancy values have to be reflected. These coefficients help determine the requirement of prospective projects." [Enthoven, 1973, pp.335-336]

Firstly, at the level of the firm the manufacturing account, the profit and loss account and the unappropriated (retained) profit account - have to be carefully broken down, re-arranged and combined to give a picture of all sources of input and all uses of output, which involves interrelationships with other firms, households and government. The three accounts should be broken down and recombined to form Table 9.4.

Items 1 and 2 of the above table on the debit side are provided by the manufacturing account, while items 3, 4, 5 and 6 are provided by the profit and loss account, and items 7, 8, and 9 are provided by unappropriated profit account. On the credit side items 1 and 2 are provided by the manufacturing account.

Having constructed Table 9.4, those preparing the national accounts will further combine some of the items of Table 9.4 and break down other items to formulate a new table, called the source and use account (Table 9.5). The source and use account is formulated as follows:

On the debit side: cost of materials and services

Table 9.4

Debit	Credit
1. Cost of materials and services purchased	1. Sales revenue
2. Factory wages	2. Increase in stock of finished goods
3. Sales expenses	3. Increase in stock of raw materials
4. Administrative and management salaries	
5. Interest paid on bank loans	
6. Depreciation accrued	
7. Income (profit) Taxes paid	
8. Dividends declared	
9. Unappropriated profit	
Total	Total

Source: B.V. Arkadie and C. Frank, Economic Accounting and Development Planning, 1966, p.72

Table 9.5

Source and Use Account

Debit	Credit
A. Purchases of produced inputs: 1. from industry 1 2. from industry 2	A. Sales of intermediate products: 1. to industry 4 2. to industry 6
B. Purchases of imports	B. Final Sales: 1. Consumption 2. Government 3. Export 4. Fixed investment
C. Value added: 1. Wages and salaries 2. Rent 3. Profit (gross of dividends and taxes) plus interest 4. Depreciation	C. Inventory investment: 1. Raw materials 2. Finished goods
Total value added	
Total	

Source: Ibid., p.74.

(item 1) in Table 9.4 is further broken down into purchases of produced inputs from individual industries and imported purchases. Items 2-9 will be combined under value added (heading (C)) as they represent payments to primary factors of production.

On the credit side of the source and use table, sales revenue (item 1) will be further broken down to sales to individual industries, and final sales to government, consumers, exports and fixed investments, while increase in stock (items 1 and 2) will be under the heading of inventory investment, divided into raw materials and finished goods. The final form of the source and use account may be presented as in Table 9.5 .

At the industry level, source and use accounts of all firms in the industry have to be consolidated for the whole industry by adding up the totals of each item. These totals will give the total sales of any given industry to other industries as well as the total purchases of each industry from other industries. It is also possible that firms within the same industry may buy and sell from each other.

Then when the consolidated tables of the industrial sector have been completed, it is possible to construct an input-output table in order to determine the requirements of capital skilled labour, foreign exchange, food, power and other factors for the whole plan.

The input-output table can be divided into four main quadrants. The first shows how the output of each industry and imports are distributed among the various types of final use. Quadrant two is a summary of sales of intermediate products by each industry to other industries and of purchases of each industry from other industries. Quadrant three shows the value added by each industry, broken into different primary factor shares. Quadrant four shows the direct purchases of different types of primary inputs by government and households. Quadrant one could be called the final use quadrant, quadrant two inter-industry flow, quadrant three, value added and quadrant four, the direct purchases quadrant.

The final form of an input-output table for the purpose of inter-sectoral relationship and development planning is given by Table 9.6.

9.4.2.2. Problems Related to the Construction of Input Output Tables

The consolidation of individual firm and industry accounts and the construction of an input-output table involved many accounting problems. An industry's purchases could be used for the production of the current year's or could be added to the stock of raw materials and used in the next year's production. Also the previous year's purchases could be used for the current year's production. Accordingly, current year purchases as reflected in inter-industry flows, could be different from inputs used for the

Input-Output Table

II　　　　　　　　　　　　　　　　I

Use / Source	Industries												
	1	2	3	4	5	6	7	C	G	I	E	FU	TR
1													
2													
3													
4													
5													
6													
7													
M													
W													
D													
R													
P													
VA													
TP													

III　　　　　　　　　　　　　　　　IV

Source: V. Arkadie, p.76.

Key to Symbols:

C	consumption	M	imports
G	government	W	wages and salaries
I	investment	D	depreciation
E	exports	R	rent
FU	final use	P	profit
TR	total use	VA	value added
No. 1-7	industries	TR	total source

current year's production. Hence care must be taken to include only those raw materials which have been used in current production rather than those which were bought during the period.

Another problem is that successful development planning needs to take into consideration changes in technology. Accordingly, dynamic input-output model tables need to be built to include various levels of technology. Enthoven points out that accounting work has been scarce in this field. The interrelation between micro and macro accounting means that relevant micro data refined at the macro level are necessary for expansion of micro units. To solve this problem, Enthoven suggests that "extensive comparative cost accounting efforts could spur such a process." [Enthoven,A. pp.163, 164]

All in all, then, accounting can be of great help in constructing input-output tables for the purpose of development planning at sectoral and regional stages. Better cost accounting systems, better internal and external reporting, better classification schemes at the enterprise level, closely related source and use accounts and more uniform accounting data to facilitate comparability of input-output data are advantages which accounting can offer to facilitate sectoral development planning.

In Libyan the weakness of cost accounting systems, the diversity of external reporting the absence of linkages between micro and macro accounting have all made the construction of input-output tables at the enterprise level, the industry level and the economy level impossible. Libyan national accounting does not include input-output tables because of the absence of suitable accounting and statistical data. [Zenny, summer 1985]

Construction of input-output tables in Libya should not be difficult if a reasonable amount of accounting information were available, for most of the intermediate materials needed for production are imported, and most Libyan enterprises are producing for final consumption rather than for intermediate use by other firms.

9.5. The Project Stage

The third stage of the planning process is the allocation of investment among the different projects in each sector. This stage in the planning process differs from earlier stages in three important respects: first, accounting oriented data are most important at this stage. [Belkaoui, A., 1985, p.337] Second, the co-ordination problem becomes more complex at this stage of the plan; and third,the administration process at this stage involves a variety of specialists who may have little knowledge about development planning. [Arkadie, B.V.and Frank, C. ,1966, p.372]

A project is any scheme or part of a scheme for investing resources which could be analysed reasonably and independently evaluated. [Little, I.M. and, Mirrlees J.A. , 1977, p.3], while project appraisal could be defined as a case-by-case method of selecting investments to ascertain their ability to generate better social welfare. [Roemer, M. and Stern, J.1981, p.79]

9.5.1. The Need for Project Appraisal

The eagerness of developing countries to achieve development has led development planners to put great faith in broad macro economic strategies. Accordingly, what matters to such planners is simply more investment, whilst the quality of investment is of little importance.

Indeed, in Libya, particularly during the period of booming revenues, the majority of development projects were executed without any type of feasibility or appraisal study. [The Auditor-General's Office, 1984, p.27] As recently as May 1987 the leadership of the Revolution warned that most of the country's industrial projects are heading for a collapse, owing to scarcity of raw materials and lack of management. [Al-Zahef Al-Akhder, Tripoli, Libya, 25 May, 1987, p.4]

Other reasons for failure cited by project managers include problems with foreign currency and lack of skilled labour. Specifically, the follow-up report of the 1981-1985 Libyan development plan in 1984 revealed that the actual annual growth rate of gross domestic product was only 2.8 per cent, against the planned growth rate of 10.3 per cent annually. The report also revealed that, only the electricity, natural gas and water sectors reached their targeted growth rate. Furthermore a detailed study of the various projects showed that most of development projects faced a number of problems at the implementation as well as the operational stages. Most of these problems related to difficulties in importing the necessary raw materials and spare parts, and problems with skilled labour and marketing channels. [Secretariat of Planning, 1986, pp.1-11]

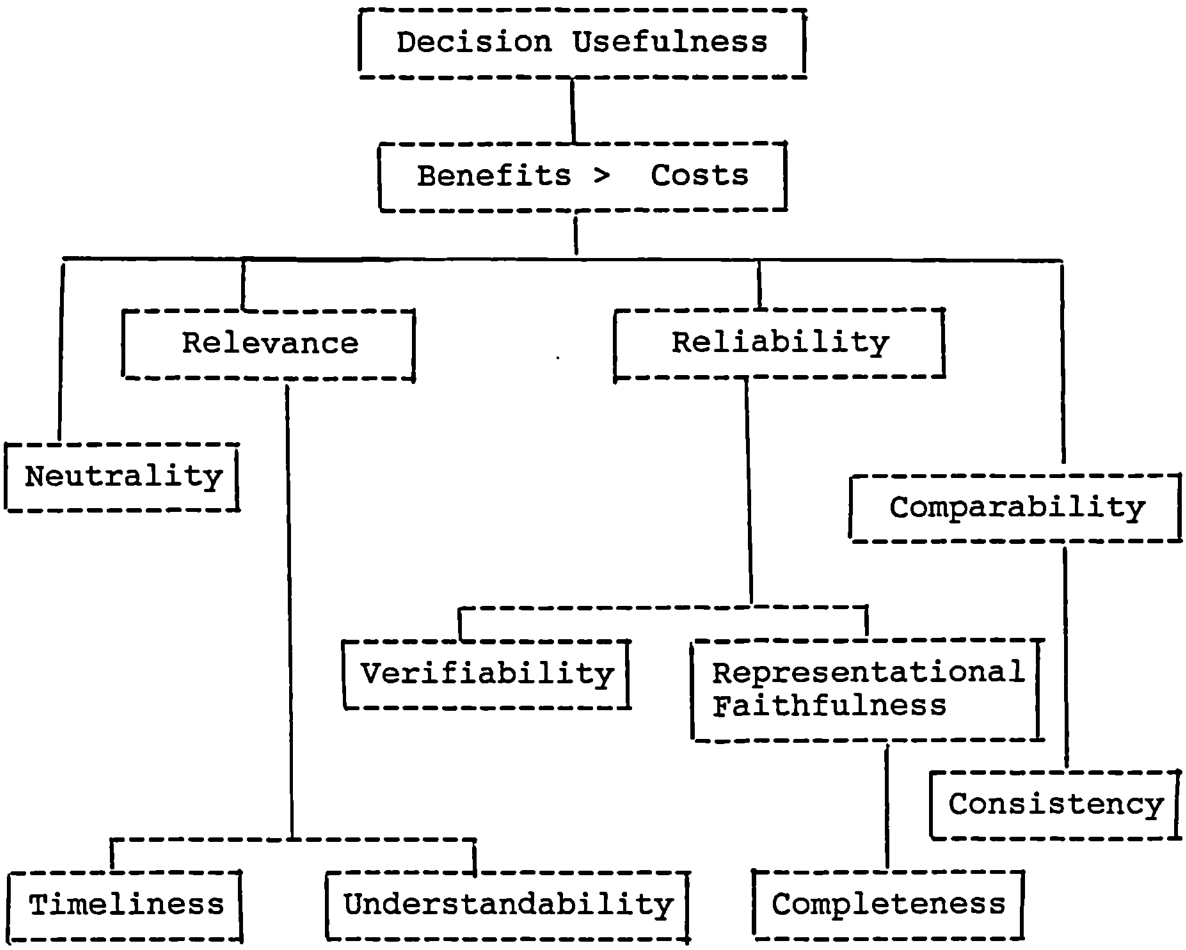
For example, the scrap melting factory was established in 1976 with a planned capacity of 16800 tons of iron production. The actual production for the first five years was 2431 tons per year. In 1982 the production was 9229 tons. The increase in production was due to the use of highly qualified Indian workers. But the cost of production of one ton was so high - its cost was about L.D.529 (1100 Sterling pound) compared with the international market price of about 300 Sterling pound per ton - that the factory was shut down in 1983 and plans to convert it into a pressing unit are under way.

Another factory which was established in 1980 with a production capacity of 60,000 tons was idle for 210 days last year (1987) due to shortages of raw materials and spare parts. [Al-Zahef Al-Akhder, Newspaper No.439, Tripoli, Libya, 22 February 1988, p.6]

One way out of this dilemma is to establish a set of weighted measurements for Libya's development objectives. [Roemer, M. and Stern, J. 1975, p.2] Such a weighted measurement should be in common units to allow the planners to analyse individual projects - separately or in combination - in terms of their contribution to the overall objectives of the plan. Only those projects which will yield the maximum benefits for given costs should be chosen. Project appraisal is the technique that permits the establishment of such a set of weights, measurements and prices. [Ibid., p.3]

Project appraisal in development planning rests, to a large extent, on the use of cost/benefit analysis. The function of cost benefit analysis is to enumerate and assess all socially relevant costs and benefits of each proposed project for the purpose of defining and selecting those projects which maximise the present value of all benefits, less costs subject to specified constraints and given specified objectives. [Belkaoui, A. 1985, p.337]

Hence, for an investment in any development project to be useful, the present value of benefits should exceed present value of costs. The data used to compute a project's benefits and costs should have certain characteristics. The American Financial Accounting Standards Board in Statement No.2 has specified these characteristics in the following diagram:



Source: Financial Standards Board, Statement of Accounting Concepts No2, "Qualitative Characteristics of Accounting Information's Stanford, FASB, May 1980, in Belkaoui, Socio-economic Accounting, 1984.

The above diagram is self-explanatory.

The present Libyan accounting system suffers from various shortcomings which suggests that it cannot provide accounting information with the above characteristics. [See Chapters 6, 7 and 8 of this study]

9.5.2 The Need for Cost Benefit Analysis and Shadow Prices In Libya

The need for development planning in Libya is a necessary fact. The choice of socialism over capitalism and the consequent total take-over of the private sector by the public sector have made the mechanism of the market totally out of touch with the real prices of production factors and commodities. This state of affairs has been described by the U.N. as follows:

> "The need for using criteria for selecting projects arose because of the failure of the market mechanism to provide a proper guideline. In less developing economies, market prices of such factors of production as labour, capital and foreign exchange deviated substantially from their social opportunity costs and were not, therefore, a correct measure of the relative scarcity or abundance of the factor in question." [U.N. 1965, p.12]

The failure of market prices to measure social costs and benefits of production factors has led to use of shadow prices.

In Libyan one can easily identify a number of factors which cause the failure of the market mechanism in providing the correct prices of social costs and benefits of production factors. Hence the use of cost benefit analysis based on shadow prices becomes a necessity. These conditions are outlined below.

9.5.2.1 Inflation

The desire of the country for speedy development has caused the prices of all production factors to rise uncontrollably. After the discovery of oil the quantity of money in the hands of the people rose far more than the rise competition on the labour market exists only if the marginal product of labour is equal to the wage paid for it. In Libya, however, the labour market is far from perfect. According to Libyan socialism, a job should be available to every one who can work. Wages of labourers are not determined by the productivity of labourers, but are fixed by law. Law 15 of 1982 has made dramatic changes in the structure of Libyan labour wages, specifying wages for all categories of labour, arguing that the base of this allocation is the just distribution of wealth between Libyans. As a consequence of this law, it is very common in Libya to find that unskilled labourers earn as much (or even more) than skilled labourers.

Hence, one may conclude that Libyan workers are unable to contribute as much to production as they consume, so that market wages do not measure the social cost of employment in the Libyan environment.

9.5.3. Imperfect Capital Markets

In a perfect capital market, interest rates are determined by the state of risk at any one time, and accordingly profits measure net social benefits. [ibid., p.31] The interest rate in Libya is fixed by the State at about 7 per cent; this rate does not reflect the state of risk at any time. In fact, loans are only provided by State-owned banks to State-owned firms, most of which are unable to repay their loans, despite guarantees provided by the State. Yet the interest rate is still at 7 per cent, which suggests that profits do not reflect social benefits.

9.5.4. Inelasticity of Demand for Exports

The Libyan economy is a one-commodity economy. As a member of the Organisation of Petroleum Exporting Countries (OPEC), Libya has been able to dictate the oil prices on the international market. Despite the fact that since 1985 oil prices have become closer to the market price, they are still far from reflecting social benefits.

9.5.5. Large Projects

Projects such as the petro-chemical projects, water dams, water transformation projects, steel projects and many others are so big that they require a number of years just to be finished. These projects are given a high preference and are exempt from all taxes, and have priority in the allocation of foreign currency and raw materials compared with other projects, so that their reported profits do not reflect their social costs and benefits.

The above discussion has established the need for development planners in Libya to adopt cost benefit analysis based on shadow prices rather than market prices. However, it is accepted that cost benefit analysis is not a simple process, nor are shadow prices easy to establish, nor will such prices ever be the exact reflectors of social benefits and costs.

9.6. Principles (Considerations) of Cost Benefit Analysis

R.V. Horn has defined cost benefit analysis as follows:

> "Cost benefit analysis is a method used to assess the desirability of projects when it is necessary to take both a long and a wide view of the impact of the proposed project on the general welfare of a society." [Horn, R.V. 1980, p.432]

The function of the technique is to define all relevant social costs and benefits of all given projects and translate them into quantitative form in order to choose the best alternative. It has been widely used in the U.S. Federal Planning-Programming-Budgeting System (PPBS) since the 1960's. This technique aims at maximising the net present value of social benefits over social costs. To achieve this a series of questions needs to be answered which incorporate the general principles of cost benefit analysis. [Gambling, T. 1974, p.164]

1. What are the objectives and constraints to be considered?
2. Which costs and which benefits are to be included?
3. How are the costs and benefits to be valued?
4. At which interest rate are they to be discounted?
5. What are the investment criteria to be used?

9.6.1. Objectives and Relevant Constraints

Belkaoui has defined the objectives of cost benefit analysis as:

"The main objective of cost benefit analysis is to determine whether or not a particular expenditure is economically and socially justifiable." [Belkaoui,A.1984, p.202]

Such an objective is achieved through the concept of efficiency, i.e. the most efficient use of scarce resources. Efficiency can be defined as follows: "A programme is efficient if it could redistribute (or contribute to redistribution) benefits among the community in a way that every person is at least as well off (or better off) as he was before the establishment of such a programme." This is achieved when total discounted benefits exceed the total discounted costs of a given programme.

However, the objective of maximising community wealth is not constraint-free for, constraints do exist:

a) physical constraints which include technology and production factors:
b) legal constraints;
c) administrative constraints;
d) distribution constraints;
e) political constraints;
f) budgetary constraints;
g) social and religious constraints.

Critics of cost benefit analysis argue that, while it is possible to define physical constraints, other constraints may not be possible to identify. [Gambling, T,1974, p.166]

9.6.2. Which Costs and Which Benefits are to be Included

Both benefits and costs can be classified as direct and indirect. Direct benefits of a project are those which accrue directly to the users of goods or services provided by the project - such as additional traffic in the case of a new motorway - while indirect benefits might be the increase of rental value of sites for filling stations and restaurants near such a motorway.

Direct costs of a given project are those incurred directly by the users of the goods or services provided by the project. In the example of the motorway they include capital costs, operating and maintenance costs, and personnel expenses. Indirect costs are those incurred by those other than the users of the goods or services provided by the project.

9.6.3. How the Costs and Benefits are to be Valued

Roemer and Stern defined costs and benefits as:

> "For social project appraisal, costs include all payments that reduce the availability of reap resources to other users.
>
> Benefits occur when the project supplies the additional good or services that is its objective or reduces the cost of a *good previously* available." [Roemer, M. and Stern, J.J. 1975, p.12]

In a perfectly competitive market benefits and costs are valued at the existing market prices of production and production factors. However, in developing countries, including Libya, a perfect competitive market does not exist, in which a case, shadow prices are used to value the social benefits and costs of the outputs and inputs of a project.

9.6.4. Choice of Discount Rate

The choice of an appropriate discount rate is of crucial importance. Baumol recognised this when he stated that:

> "It is generally recognised that discount rate is a critical datum for the evaluation of any proposed government project. Even where there is little basic disagreement about the investment's prospective costs and benefits, the choice of a discount rate figure may make the difference between acceptance and rejection. A project which seems to yield substantial net benefits when evaluated at a 3 per cent rate may well appear extremely wasteful if the rate is 5 per cent." [Baumol, W. J. , 1969, p.202]

In Libya a fixed 7 per cent is used as the interest rate for lending funds. This rate does not reflect, and it is very doubtful that it will give a proper net present value.

9.6.5. What Investment Criteria are to be Used?

Cost benefit analysis is a technique used to evaluate the desirability of a number of projects which have varying long-term lives. The costs and benefits of each project should be compared to each other at the same point of time, namely: the time of taking the investment decision (i.e.

time zero). However, some of the costs and certainly all of the benefits will occur in the future, and will have to be discounted back to time zero, using a specific rate of discount in order to make them comparable. Also, in the case of budget constraints, development projects may be mutually exclusive, so that to choose the best alternative(s), a common criterion of evaluation has to be used in evaluation.

Three alternatives methods of reduction to a common basis are available: 1) net present value, 2) ratio of present value of benefits to present value of costs, and 3) the internal rate of return.

9.6.5.1. Net Present Value

In the net present value method the excess of return over the costs of each year is discounted back to the present year. The discount rate used does not have to be the current rate of interest, but is a shadow discount rate.

The basis of this method is that an immediate return is more attractive than a future return and that costs to be paid in the future are less onerous than costs paid now. The criterion of net present value is as follows:

$$V = \sum_{t=1} \frac{B_t - C_t}{(1+r)^t}$$

where:

V = value of the project

B_t = benefit in year t

C_t = cost in year t

r = social (shadow) discount rate

n = life of the project

Generally, a project is acceptable if V has a positive value. However, development planning in most developing countries operates under constraints, such as budget constraints, foreign exchange, or private investment opportunities foregone. In such cases the following model could be used: [Belkaoui,A. 1985, p.340]

$$V = \sum_{t=1} \frac{B_t - C_t}{(1+r)^t} - \sum_{j=1}^{N} p_j k_j$$

where:

P_j = shadow price of a binding constraint

K_j = number of units of a constraint

9.6.5.2 Benefit Cost Ratio

The second method of appraisal is the ration of present value of benefits to the present value of costs discounted at the shadow rate. The ratio is computed as follows:

$$\frac{\sum_{t=1} \frac{B_t}{(1+r)^{t_i}}}{\sum_{t=1} \frac{C_t}{(1+r)^t}}$$

The decision criterion is that if projects are not mutually exclusive, then any project with a benefit cost ratio of one or more is accepted. But if projects are mutually exclusive then projects with a higher benefit cost ratio will have priority.

9.6.5.3. The Internal Rate of Return

The internal rate of return is defined as the rate which equates the net benefits over the life of the project with the original cost. Explicitly, the internal rate of return is:

$$\sum_{t=1} \frac{B_t}{(1+r)^t} - \sum_{t=1} \frac{C_t}{(1+r)^t} = 0$$

Generally, all internal rates of return which exceed the social discount rate are deemed acceptable. [ibid., p.341] However, in the case of projects being mutually exclusive, projects with a higher rate of return will have priority.

9.7. The Accounting Information Needed at the Project Stage Level

The process of project analysis is a complex one, which is composed of a number of stages. For example, the U.N. has enumerated the following stages:

a) identification of projects;

b) selection of preliminary projects which will justify allocation of resources for further studies;

c) preparation of preliminary projects to determine preference between the various possibilities;

d) allocation of priorities between projects studied;

e) preparation of the final projects;

f) installation of the new production units;

g) entry into operation and normal operation of the production units.

The O.E.C.D. has divided project analysis process into the following stages:

a) preparation of a number of possible alternative solutions;

b) comparison of alternatives and the final selection of one of them;

c) implementation of the project.

Enthoven has distinguished the following three stages:-

a) identification and formulation;

b) evaluation and selection;

c) execution and follow-up.

[Enthoven, 1973, p.172]

However, despite differences in detailing the naming of the stages, the overall classification is similar. Accordingly, for the sake of the discussion of the accounting information needed, Enthoven's definitions will be adopted here.

Each stage of the project analysis needs a different type of accounting information. Consequently, accounting information for project appraisals will be discussed here on the basis of the stages of project appraisal: namely, 1) identification and formulation, 2) evaluation and selection, and 2) execution and follow-up.

9.7.1. Project Identification and Follow-Up

The identification of an investment opportunity may result from formal sector studies that try to pin-point the investment requirements of a specific sectors. At this stage the planners will determine whether the project is within the priorities of its sector and whether it is feasible and viable to execute, operate and supervise it. This will need studies to be made of the country's available resources, the cost factors involved in production, the expected return and other indirect effects.

Bryce has mentioned the following aspects of any potential project to be analysed: import studies, investigation of local materials, study of available skills, making industrial studies, examination of interindustry relations, evaluation of development plans, review of old projects and observation of other experience. [Bryce, M.D. 1960]

Project appraisal involves the identification of opportunities to execute the project and the selection of the best one available. In Libya, however, experience suggests that this identification and formulations stage has not been taken seriously. Projects have been decided upon on the spot, for political reasons, and opportunities to execute them have been chosen on an ad-hoc basis. [The Auditor General's Annual Office, 1984, p.88]

The accounting information needed at this stage is related to the preliminary costs and benefits using shadow prices. Comprehensive data - on materials (quantity and prices), labour (quantity and costs), capital investment needed, overhead costs, potential sales revenue, anticipated behaviour of various costs and revenues in the future, as well as the need for or the saving in foreign exchange due to a given project, execution and operation these should be provided by accounting records and reporting.

9.7.2. Project Evaluation and Selection

At the first stage of project appraisal, projects are identified based on preliminary costs and benefits. At the evaluation and selection stage, data of costs and benefits are studies and measured in detail. Project evaluation reports should cover at least six major aspects, which include: economic, financial, technical, managerial, institutional, organisational and commercial aspects. The relative importance of each of these aspects is dependent on the type of project which is being evaluated. [King, J.A., 1967, p.5]

Accountants should co-ordinate their work with engineers in order to be able to specify the factors needed for executing a given project and the time table of the construction. Accordingly, accountants could translate such construction needs to current and capital costs, taking into consideration the changes in technology and prices of such factors. It is the duty of accountants to make sure that all relevant costs and benefits are defined and measured.

Data obtained from construction specifications should cover labour, materials and overheads for both production and operation of the project. Such data can be obtained from the project cost and financial accounting departments.

The current accounting systems in Libya are particularly deficient in providing such information to project planners. Analysis of direct and indirect costs, input-output tables, accurate and up-to-date records of costs of operation and production are all lacking. There is no doubt that the ultimate success of project evaluation in Libya is dependent on a better accounting system, which can generate relevant, accurate and up-to-date cost as well as financial accounting information.

9.7.3. Project Execution and Follow-Up

Once a project has been evaluated and selected, the subsequent stage is the actual execution of the project. Here negotiations with contractors, providers of capital, lending institutions, employee training, know-how required and may others will need very detailed accounting information, so that the present and future returns of the project can be specified and forecast more accurately. If there is a major deviation between the forecasts of the first two stages and the current stage, then the planning of the project must be adjusted.

Before the actual execution of a project, the planning process is usually based on forecasting the future, using certain assumptions. However, no guarantee can ever be given that what was forecasted or assumed will be true in the future. Accordingly, follow-up procedures have to be established if reasonable success of a given project, as well as future planned projects, is to be achieved.

Enthoven has stated that:

> "The demands on accounting in this phase are to devise planning and control systems and relate measurement procedures, enabling timely, accurate and comprehensive reporting on activities. The absence of such information often causes failure of implementation and follow-up." [Enthoven, A. 1973, p.177]

9.8. Principles of Shadow Prices

It has already been established that for social and economic development planning in Libya to be successful, it is necessary to use social cost benefit analysis based on shadow prices at the project appraisal stage. It follows, then, that it is necessary to value both the resources used as well as the goods and services produced in a consistent way. The underlying principles are:

1. Factor costs should measure the output that society must sacrifice when the factors of production - land, labour, capital and foreign exchange - are moved from their best alternative use into the project being analysed;
2. Intermediate goods and prices should reflect the costs of the resources needed to produce them;
3. Final prices of goods should measure the resulting utility enjoyed by consumers if goods increase the cost of consumption or the equivalent resources (usually foreign exchange), or if they substitute one source for another without markedly changing total consumption. [Roemer, M. and Stern, 1975, p.43]

Applying the above principles in pricing production factors and goods and services will give the planners a set of what are called "shadow prices" to distinguish them from the prices which are used in business accounts (market prices).

The application of the above principles to factors of production and goods and services produced can differ, however.

9.8.1. Shadow Prices of Capital

In a perfectly competitive market it is assumed that the current market interest rate is the price for capital.

However, in Libya, the interest rate is set by the government at around 7 per cent. Accordingly, the market interest rate should not be used as a shadow price for capital.

In calculating the shadow interest rate, planners in Libya should take into consideration the inflation rate.

9.8.2. Shadow Price of Labour

Due to government control of wages and salaries of workers in Libya, the market wages of skilled and unskilled labour do not reflect the opportunity cost of labour. The real shadow price of unskilled labour is believed to be less than the market wages, while the shadow price of skilled labour is believed to be higher than the market wages. Evidence is provided by Law No.15 of 1982, which organises and specifies the wages of all Libyan workers, and which states that the purpose of the law is to narrow the gap between the people's incomes.

There is no one easy way to compute the shadow price of labour. V. Arkadie has suggested that shadow prices of labour should be equal to the marginal social utility of leisure, [Arkadie, B. and Frank, C. 1966, p.336] while Roemer and Stern have suggested for unskilled labour the use of the next available alternative employment for the labour being used in a project and the marginal produce in that use. For skilled labour they have suggested the use of the wages and salaries paid by the private sector; that includes gross wages before taxes plus benefits paid by the employer, plus perhaps the use of salaries paid by foreign companies to the same class of needed labour. Libya employs a great number of expatriate technicians and whose shadow wages would be different from those of Libyans. Their salaries in their own countries could be a good indicator for their shadow wages, taking into consideration the Libyan income tax rate. [Roemer, M. and Stern, J. 1981 pp.63-69]

9.8.4. Shadow Prices of Foreign Exchange

The success of Libyan development planning is heavily dependent on the availability of foreign currency. During the late 1970's and early 1980's Libyan economic growth was accelerating rapidly, and the availability of foreign currency enabled the import of all necessary raw materials and goods as well as expatriate labour. Since then, however, the foreign currency reserves have fallen dramatically and Libyan development planning has faced all sorts of problems, ranging from a shortage of spare parts to be scarcity of expatriate labour. The foreign exchange rate is strictly controlled by the government and no market rate exist, except that of the black market, which runs well above the official market. Thus, it is necessary for Libyan planners to set shadow prices for foreign currency.

Evidence suggests that shadow prices of foreign currency in Libya should be far above the official rate. This evidence includes the strong control over imports and other payments to foreign contractors; and the active black market, where foreign currency is traded for as much as three times the official rate. Roemer and Stern have suggested that one way of calculating an import control premium is to carry out a sample survey of key commodities to establish the difference between the C.I.F. and the market price of individual import commodities. The black market rate can be used as an indicator of the premium on the foreign exchange. [Roemer, M. and Stern, J.1975 pp.52-53] Tinbergen has argued that the black market rate could be used as an indicator of the shadow price of foreign currency if the amounts being converted at both the official rate and the black market rate are taken into consideration, i.e. using a weighted average rate. [Tinbergen, J. 1967, p.157]

9.8.5. The Shadow Price of Commodities (Goods and Services Output

In Libya most commodities are imported from abroad, so that foreign currency is the only resource which has been used in producing these commodities. Consequently, the shadow price of such a commodity will be equal to the shadow price of foreign currency being paid for any given commodity. However, for the few commodities are produced in Libya, the shadow price should be equal to the saving of foreign currency as a result of locally producing them instead of importing them.

9.9. Limitations of Cost/Benefit Analysis

In his book,"Societal Accounting", Trevor Gambling has stated that:

> "Probably, as with many techniques introduced for the amelioration of social problems, the direct value of these techniques has been heavily overstated - as a necessary step towards getting them adopted and accepted in the first instance." [Gambling, T. 1974, p.162]

This does suggest that cost/benefit analysis, like any other technique designed to deal with social factors, has many limitations in its objective of measuring the social costs and benefits of a project.

The literature has suggested the following limitations: [See Gambling, T., pp.162-166; Enthoven, 1973, p.166; Belkaoui, 1984, pp.206-207 and 1985, p.343; Haveman, R.H. 1970, p.157]

1. There are difficulties with the measurement of social objectives and goals. Not all of the objectives are economic objectives; governments may have other political and social objectives, in which case it is very difficult to measure them quantitatively.
2. The valuation of costs and benefits is not a straightforward process. It involves determining the project's future life time and the future social discount rate, the estimation of both being hindered by

uncertainty.

3. Most development projects are large and spread their effects over a wide area. However, cost benefit analysis falls within a partial equilibrium analysis. Accordingly, it can only evaluate the immediate effects on closely related areas.
4. The shadow prices themselves have a major limitation, namely the lack of adequate information regarding alternative methods of production and their possible future impact on the economy.
5. There are often physical, legal and budgetary limitations on action which must be observed.

All of the above limitations are obviously applicable in Libya. The absence of a free private market, the vagueness of the objectives of the Libyan public enterprises, the weakness of Libyan accounting systems and the social environment, all these could cause limitations when adopting cost benefit analysis in project appraisal.

However, social cost benefit analysis is still the only available practical technique for project appraisal in the context of social and economic development planning.

Accordingly, what is needed in the case of Libya is a relevant accounting system which can provide guidelines in choosing between alternatives by comparing relevant costs and benefits. Therefore, a socio-economic accounting system is needed. Clearly the present accounting system, which has evolved under the influence of a western type of accounting system, is not relevant to the needs of Libyan social and economic development planning.

Briston (1978), Enthoven (1973), Belkaoui (1984), S.C. Yu (1966) and Samuels are among the few accounting writers who have expressed their reservations about developing countries continuing to adopt western style (U.K., U.S.A.) accounting systems. They, and others, have suggested some basic questions relevant to the socio-economic needs of any country which have to be answered before any accounting system is adopted. [Briston,R .1978]

Others have suggested that developing countries should adopt an accounting system which provides continuous dialogue between micro and macro accounting. [Enthoven, 1973, S.C. Yu, 1966]

Specifically, Ralph Estes proposes:

> "An accounting model that systematically reflects the worth of all resources consumed, including those resources of values which are free to consuming entity (non-internalised costs of external dis-economies) and the worth of all benefits produced, including those that provide no compensation to producing entity (external economies)." [Estes, R. W. 1982 p.115]

Estes has argued that conventional accounting systems have ignored the reflection of external economies and diseconomies and have only taken into consideration the welfare of the entity. Consequently, he has proposed an accounting model which reflects the direct effects of an entity on society. His model is stated below:

$$SS = \sum_{i=1}^{M} \sum_{t=1} \frac{B_i}{(1+r)^t} - \sum_{j=1}^{M} \sum_{t=1} \frac{C_j}{(1+r)^t}$$

where:

SS = Social Surplus or deficit

B_i = The i^{th} social benefit

C_j = the j^{th} social cost

r = an appropriate discount rate

t = time period in which benefit or cost is expect to occur

All in all, an alternative and relative accounting system for Libyan needs can be found and that is the subject of the next chapter.

9.10 Summary and Conclusion

Accounting information needs, as dealt with in this study, are mainly related to socio-economic development planning and macro decision making.

Throughout this chapter it has been emphasised that the current role of accounting should be extended so that these information needs can be satisfied.

As a developing country, Libya needs accounting information which covers social as well as economic transactions which should be carefully considered when formulating successive development plans in Libya . In other words accounting in Libya should provide information about direct flow (economic) and indirect flow (social) effects of any transaction. Externality effect represents an important part of all transactions in Libya, thus reporting should accord as much weight to it as to economic (direct) effect. As such accounting information should satisfy the needs of the development planning process (macro, sectoral, project), each of which needs a unique set of accounting information. The macro stage needs information provided by macro accounting which includes levels of saving, investments, consumption, etc. At the sectoral stage the necessary accounting information is provided by micro accounting records which include purchases of produced inputs, purchases of imports, value added, depreciation, sales of intermediate products, final sales and inventory investments. Such information is necessary to compile input-output tables for the sectors of the economy. At the project stage the accounting information needed should be provided by micro accounting. Information related to cost of materials, labour and overheads, as well as sales and revenues, should be provided for projects analysis and appraisals to be carried out.

Little of the above information can be provided by current accounting practices in Libya because, micro accounting in Libya is based on Anglo-American classical accounting theory, and practices, while macro accounting is based on the UN national income accounts model, which does not suit the developing and socialist society of Libya. Problems related to comprehensiveness and reliability of macro accounts hinder the successful performance of the macro stage, while problems related to financial accounting reporting and the full use of available managerial accounting, as well as the relationship of market prices to the true social prices, limit the successful performance of the sectoral and project stages.

Therefore an accounting system which integrates micro and macro accounting records and which provides information based on the true social and economic value of economic figures on a unified bases is urgently needed.

CHAPTER TEN

Socio-economic Development planning
and the choice between
Accounting Diversity and Accounting Uniformity

10.1. Introduction

The purpose of this chapter is to examine accounting concepts and their relationship to socio-economic development planning; in other words, which of the available accounting concepts is better oriented towards public sector accounting information needs, and development planning. Current accounting literature contains two schools of thought regarding which accounting concept should be adopted by developing countries. There are those who argue that developing countries should follow the example of the UK and USA, and adopt flexible accounting. Others argue that this type of accounting is not relevant to its own environment, let alone that of a developing country, and that developing countries should therefore follow the example of France, Egypt and Russia, and adopt uniform accounting.

Those who argue that developing countries should follow the UK and USA example are perhaps best represented by Scott, while Briston perhaps best represents the case of those who argue that UK/USA accounting may do more harm than good to developing countries, and that such countries should therefore establish their own localised accounting system, possibly a uniform accounting system.

Before we can draw any conclusion, however, we should discuss the users and objectives of accounting information in the UK and USA as representing a flexible accounting concept and the users and objectives of uniform accounting systems, both theoretically and in practice.

Accordingly, the second section of this chapter will be devoted to the objectives and users of financial statements in the UK and USA. Financial statements were chosen because the main concern of accounting in the UK and USA is to prepare and audit external financial statements. No lengthy treatment of flexible accounting is given, because it is well covered in western accounting literature and nothing is to be gained by repeating that discussion here. However, the case is different with regard to uniform accounting systems, thus the remaining sections of this chapter examine the various definitions of uniformity, its objectives and its different types. An appraisal of uniform accounting is made and finally the experience of some countries which have adopted it are discussed.

10.2. The Objectives And Users Of Financial Statements In The UK And The USA

Most accounting writers have assumed that accounting as practised in the UK and USA and the developed Commonwealth countries represents the goal towards which developing countries should aim. Indeed, a great number of developing countries have followed this view in their accounting evolution [Briston,R. 1978, p.107].

Examples of such countries cited by Briston include Nigeria, Indonesia and, very recently, Egypt, which has started to move in this direction. In Saudi Arabia the Ministry of Commerce issued in 1986 its first set of auditing standards and accounting objectives and concepts, which closely resemble those of the UK and the USA. [Saudi Arabia, Ministry of Commerce, Resolution No.692, 1986).

Scott has strongly recommended that developing countries should draw as much as possible from the UK and the USA accounting systems, going on to specify that accounting reporting should be directed towards private investors and external audit in order to enhance the development of the capital market. He has even tried to dissuade countries from following a uniform concept of accounting such as the French accounting system.

Many other accounting writers, implicitly r explicitly, have followed the same direction as Scott. Despite the fact that very few studies have been published in respect of accounting in Libya, those which have been published have proceeded along the same lines as those of other developing countries and in accordance with Scott's ideas. Baith El-Mal, M. et al, (1973) EL- Sherif (1978) and the National Agency of Scientific Research, 1986, have all recommended the creation of a strong accounting profession and the adoption of American accounting concepts, principles and standards.

An analysis of the UK and USA accounting and auditing standards reveals that they strongly emphasise the accounting needs of private enterprises and even here the emphasis is on external reporting, i.e. financial statements and external audit. [Briston,R. 1978, p.106].

Paton and Littleton have argued that the purpose of accounting is:

> "To furnish financial data concerning a business enterprise, compiled and presented to meet the needs of management, investors and the public. A consistent framework of standards is needed to serve as a basis for judgement in constructing and interpreting financial statements." [Paton W.A. and Littleton A.c. 1970, p.1].

10.2.1. Users Of Financial Statements In The UK

Generally speaking, users of financial statements may be classified into two main groups: 1) internal users, who need information which may help them in contributing to the achievement of the overall aims and objectives of the organisation; 2) external users, who need information which may help them in achieving their goals.

The information needed by internal users is largely provided by internal reporting instruments, while information to external users is provided by external reporting instruments, i.e. financial statements. For these financial statements to satisfy external information needs, the users and their needs have first to be defined.

In the UK the traditional view of accounting is that of stewardship. Hence external reporting is considered to be reporting by the managers to the owners of the organisation in respect of: 1) satisfying the owners that there has been no misappropriation of resources, and 2) the efficient utilisation of resources entrusted to the care of the managers.

However, British legal requirements have emphasised only the first concept, and little emphasis has been placed on reporting on the efficiency of utilisation of resources.

This deficiency in UK financial statements was stressed in the Corporate report published in 1975 by the Accounting Standards Steering Committee. The report claimed that the responsibility of the managers to report to external users is greater than that recognised by legal requirements, and widened the base of users of financial statements beyond the owners to include six more groups. [The Accounting Standards Steering Committee, 1975, paras. 1.5, 1.8, 2.0, pp.15, 17, 19] The seven groups are as follows:

1. The equity investor group: information is needed by this group for decision making on investment or disinvestment; it includes information about future earning power and dividend paying potential, and information to assess the performance of managers;
2. The loan credit group: information is needed by this group to assess the long/short term viability of the organisation, current liquidity, likelihood of corporate default, and compliance with any restrictions as defined

in any loan agreement;

3. The employee group: information is needed by this group to assess the prospect of continuing employment and for the purpose of collective bargaining;
4. The analyst-advisor group: information needed by this group is determined by the needs of the groups which they serve;
5. The business contact group: information needed by this group is dependent on the nature of the user. Users could be suppliers or customers whose business operations are dependent on the reporting entity's operations.
6. Government: information needed by the government includes information for tax purposes, protecting the public interest, statutory regulations and statistical information;
7. The general public: finally, the Corporate Report identifies the public at large as users of financial statements because of the status of the reporting entity within the community.

In the view of the Corporate Report, financial statements are biased towards investors and creditors. They also suffer from the following shortcomings:

1. Emphasis on period earnings encourages users to believe, erroneously, that the maximisation of short-term profits is the goal of the enterprise;

2. The audit certificate combines with the financial statements to give the figures a false impression of certainty;
3. The form of the financial statements encourages users to evaluate the enterprise on the basis of short-term results and may thus influence management to take a short-term view;
4. The financial statements implicitly direct attention to proprietors as the dominant interest group, which may not be the case.

The bias of current British Financial statements towards investors and creditors, together with the above shortcomings, led the authors to the conclusion that general purpose financial statements may not satisfy the information needs of all classes of users defined by the Report. Hence, the following six additional statements were recommended:

1. A statement of value added.
2. An employment report .
3. A statement of money exchanges with government.
4. A statement of transactions in foreign currency.
5. A statement of future prospects.
6. A statement of corporate objectives.

Subsequently, statement NO.1 has been recommended by the ASC and statement NO.6 six is required by company law. [Limmack, R.J., 1985, p.20].

Despite the effort of the Corporate Report to define the potential users of the financial statements and their needs, no comprehensive set of objectives of financial statements have been developed in the UK. Even the notion in the Report that the fundamental objective of reporting is to communicate economic measurements of and information about the resources and performance of the reporting entity to users has not been taken seriously by the accounting profession in the UK. [Ibid., p.21].

Recently a report on the possibility of developing an agreed conceptual framework for setting accounting standards, and the nature of such a framework, was written by Macave. He suggested that it was not possible to draw a comprehensive agreement on specific objectives of financial reporting or on means of achieving them. Specifically, he considered it unlikely that an agreed "conceptual framework" could be found that would give explicit guidance on what is important in preparing financial statements. [Macave, R., A 1981,p.14]

10.2.2. Users And Objectives Of Financial Statements In The USA

Unlike the UK, the Financial Accounting Standards Board (FASB) in the USA has issues a statement on the objectives of financial reporting, the Statement of Financial Accounting Concept No. 1 (SFAC1) (FASB, 1978). This statement was mainly based on the APB Statement No. 4 (AICPA, 1970) and the Trueblood Report. (AICPA 1973) FASB

Statement No. 1 stated that the specific objectives of general purpose financial reports are:

1. To provide information which is useful to investors, creditors and others in making rational decisions;
2. To assist investors and creditors in assessing future net cash flows to the enterprise in respect of amount, timing and uncertainty;
3. To identify entity resources and claims against resources, both creditors' claims and owners' claims;
4. To provide information about enterprise performance and earning potential;
5. To show how an enterprise obtains resources and what it uses them for.

According to FASB Statement No. 1, users of financial reporting are primarily investors and creditors, whose information needs are defined by the statement as being: "information predicting, comparing and evaluating enterprise earning power and to judge the management's ability to utilise enterprise resources in achieving earnings and cash flow." Objectives of financial reporting were specified accordingly.

10.2.3. The Debate

In our discussion of the accounting information needs of Libya we have shown that because Libya has a purely public sector economy, owned and controlled by the State, the primary user of financial reporting is the government.

However, in both the UK and the USA it is assumed that the primary users of financial reporting are the shareholders and creditors, and thus the needs of the government or the public sector in both countries have virtually been excluded. Although the Corporate Report recognised the government as one of the users of external financial reports, it defined no needs other than for tax purposes and to ensure that the reporting entity has compiled with government regulations.

It is clear, then, that external financial reporting along UK and USA lines is unsuited for an environment such as Libya, where the government should be the primary user of such reports.

Furthermore, in both countries it has been argued that financial statements are meant to be used by those outsiders who have no power to obtain information about the reporting entity by any other means. This effectively excludes both the management of the enterprise and the government. In Libya, however, accounting information needs are such that both managers and governmental agencies would be better served by financial statements which give them more timely and relevant information.

Financial statements in the UK and US are general purposes financial statements, which are claimed to be the source of information for unknown users with multiple decision objectives. General purpose financial statements which provide information to multiple classes of users may not readily provide all the necessary information for economic decisions to be made by any single user. Because different users have different needs, there is a danger that what is actually provided by such statements is data rather than information. Decision makers then have to refine such data to obtain the information they need.

Furthermore, in the UK the Corporate Report has explicitly expressed doubt about the ability of general purpose financial statements to provide relevant and readily available information to potential users and consequently recommended the publication of six more statements.

Because in Libya, the primary user is the State, Libyan information needs may be better served by special purpose financial statements containing information relevant to the public sector's particular decision models. [Most, K.S., 1982, p.147].

For any accounting system to meet the accounting information needs of Libya it has to provide information relevant to the socio-economic development planning of the country. Development planning consists of three stages (aggregate, sectoral, project appraisal). To serve the needs of such stages, accounting must integrate enterprise accounting, government accounting and social accounting; in other words, integration of micro accounting and macro accounting is needed.

Such integration is not an objective of financial statements in the USA and the UK.

In the USA, the recommendation of the Trueblood Committee, that "an objective of financial statements is to report on those activities of the enterprise affecting society ... and which are important to the role of the enterprise in its social environment", was excluded by FASB from its Statement No. 1. In respect of governmental accounting, FASB has only dealt with the objectives of financial statements which relate to non-business organisations which include private non-profit making organisations (such as colleges and hospitals), and other social institutes (such as trade and professional associations). [FASB, 1980].

Hence, the needs of social accounting have been ignored as well as those of the government, so that the integration of the three branches of accounting in one general framework cannot be achieved by the American accounting system.

In the UK, the Corporate Report drew attention to the concept of" social accounting" when it stated that:

> "We believe that social accounting (the reporting of those costs and benefits which may or may not be quantified in money terms, arising from economic activities and substantially borne or received by the community at large or particular groups not holding a direct relationship with the reporting entity) will be an area of growing concern to the accounting profession and one in which it has an opportunity to help develop practical reporting techniques." [The Accounting

Standards Steering Committee, 1975, para 6.46, pp.57,58].

However, thirteen years later no attempt has yet been made to put this recommendation into practice. Indeed, implementation is unlikely while the current nature of the accounting profession in the UK persists. Only in those countries where the government plays a significant role in setting standards of accounting and financial reporting is social accounting likely to be taken into consideration.

Indeed, M.J. Erritt, the Chief Statistician, Department of Industry, Trade and Prices and Consumer Protection in the UK, has pointed out the unsuitability of published company accounts for compiling the national aggregates used in macro economic analysis and decision making. The following factors were cited as reasons for this:

a) The present analysis of accounts relates only to companies above certain size limits;
b) In general, only annual data for accounting periods which may differ from company to company are available and then not very quickly;
c) The accounts cover the whole of a company's activities and do not distinguish sufficiently the results of activities in the United Kingdom from those of overseas activities - a distinction which is essential for the national accounts. Nor are activities in different industry groups always separated;
d) There is insufficient standardisation of definitions and

presentation;:

e) For many uses not enough detail is given, particularly of financial transactions. [Erritt, M.J., 1979, pp. 44.3, 44.4]

The objectives stated and practised in the UK and the USA were designed to meet the needs, not of users, but of the accounting profession. Although these objectives have been stated to enable the accounting profession to set "generally accepted accounting principles" (GAAP), Leonard Spacek has argued that such acceptance should be expressed by the public, not by the profession itself. However, the profession has yet to explain to the public why these principles should be generally accepted. [Spacek, L., 1961, p.391].

A major emphasis of the FASB Statement on objectives of financial reporting is on the use of financial information to predict cash flows. However, while the prediction of cash flows may be a primary objective for the private investor, and the public sector investor. Many accounting writers have expressed their concern about the ability of current financial statements to provide information relevant to cash flow. [Hicks, B.E. 1981, p.26]. In addition the general purpose financial statements are based on the unknown information needs of their potential users and accordingly may not be an adequate device for providing information relevant to economic decision making. [Most, K. 1982, p.155].

In Libya, the State-owned banks are the primary creditors to the only existing form of business, i.e. public sector enterprises; thus information needs are for development planning rather than cash flow prediction.

Thus it may be concluded that the American and the British style of accounting may not even meet all the needs of its own environment, and is certainly not relevant to the Libyan environment. The view that shareholders and creditors are the primary users of financial reporting in the UK and the USA is out of touch with the present reality in those countries let alone in Libya. The emphasis on the concept of stewardship instead of on the concept of measurement and performance evaluation, or the reconciliation between the two concepts,, is equally dated. Meanwhile, the emphasis on private enterprise accounting in the form of external reporting and auditing suggests that accounting in these two countries still ignores the involvement of governments in the economic affairs of their countries. If these accounting methods do not serve the needs of their own environments where government involvement is much less than that of the government in Libya, they are by inference, far from relevant to the needs of Libya.

Specifically, Libya needs an accounting system which provides information relevant to its socio-economic planning rather than one which is designed to provide information to the stock market and its declining and uninterested body of shareholders. Therefore, Libya should not look to accounting in the UK or the USA as a system which may be adopted in its present state, or even in a modified form.

Some accounting writers, acknowledging that UK and USA accounting may not serve the needs of developing countries, have urged them to adopt international accounting standards issued by the International Accounting Standards Committee. Even Enthoven, whos pioneered work in the area of the role of accounting in economic development, has urged developing countries to adopt those international accounting standards. R.I. May, as recently as August 1986, urged accountants in developing countries to adopt international accounting standards. [May, R.I., 1986, p.70]. Indeed, many developing countries have adopted such standards. Briston has warned that the Egyptian national uniform accounting system is currently being threatend by western influence. In 1980 the first international accounting conference in Egypt recommended that Egypt should adopt the international accounting standards instead of keeping its uniform accounting system.

However, both Briston, and Samuels and Oliga have stressed the domination of the international accounting standards committee by members from western Europe and the USA, and the fact that even those who are members from developing countries tend to be American or European educated, means that "international" standards represent essentially internationalisation of the domestic standards of the dominant members of the standard setting bodies.

[Briston,R. 1978, p.116, and Samuels,J. and Oliga,J. 1982, p.72].

International accounting standards are designed to provide some degree of harmonisation between the accounting practices of the multi-national firms which operate in those developing countries. Many of those firms are American or European, and comply with the accounting requirements of their own countries. For these reasons, adopting the international accounting standards means, in effect, adopting British and American standards. Specifically, Oliga and Samuels have demonstrated that accounting standards are not appropriate in relation to developing countries, either theoretically or practically.

As Libya needs different information from that of the western world, international accounting standards are not particularly relevant to its needs. Nor has Libya the sophisticated audience for which such standards were designed.

All in all, neither the American nor the British accounting style, as designed by their own accounting professions, nor the international accounting standards are relevant to the information needs of Libyan development planning.

10.3. Uniformity And Its Relation To Development Planning

If the role of accounting, as seen by Enthoven, is to supply information relevant to effective evaluation and decisions about activities and the allocation of resources and subsequent communication of the results of such evaluation and decisions to decision-makers at both the micro and macro accounting levels [Enthoven,A. 1973, pp.112-21], then it can be concluded that he is advocating uniformity. [Briston,R. 1978, p.106].

Enthoven's definition of accounting and his advocacy of uniformity is related to developed and developing countries. Indeed, it can easily be argued that uniformity is suitable to a developed or developing economy, a centrally or non-centrally planned economy, and to micro or macro accounting.

However, our concern is uniformity and its role in economic development planning. Accordingly, our discussion will be in the context of developing countries in general and Libya in particular.

10.3.1. Definition Of Uniformity

Different writers have defined uniformity from different approaches.

Enthoven (1973) considered uniformity as a concept which could be implemented at various levels of standardisation. Accordingly, he considered that the existence of standards and principles in reporting in itself constitutes "uniformity". To this extent the British and the American style of accounting is "uniform". Moving along the scale, he considered a unified method of accounting classification (charts of accounts) as uniformity: accordingly, the German and Swedish charts of accounts are each "uniform". Finally, at the other end of the scale, uniformity may apply to the whole system of accounting, which includes the principles, standards, chart of accounts, procedures, policies, methods and reporting, i.e. a uniform accounting system. Hence, he considered the Russian, French, Egyptian and Iraqi systems as "uniformity".

Unlike Enthoven, who considered standardisation as a part of uniformity, Edey (1977) considered uniformity as part of standardisation. To Edey standardisation could mean one of four processes:

a) disclose methods and assumptions (disclosure, not uniformity);
b) to specify methods, criteria, measurement and choice between alternatives of some factors;
c) to draw attention to some items without others;
d) to establish some kind of uniformity in presenting accounting statements.

Accordingly, standardisation may not necessarily mean uniformity. [Edey,H. 1977, p.295].

Others have defined uniformity according to characteristics and degree. Bailey (1973) specified four uniformity characteristics:

a) applied in cost accounting only;

b) applied by a specific industry;

c) applied voluntarily;

d) applied with flexibility.

Alhashim linked uniformity with purpose and called it purposive uniformity. He stated that:

> "The concept of purposive uniformity is a system of accounting control in which the interpretation of economic events and the prescription for accounting methods and reports are purposive users' needs." [Al-Hashim, D. 1973, p. 24]

Mueller (1965) defined uniformity according to the approach by which it is established. He defined three approaches:

1. The economic approach, where the starting point is the needs of the national economy, which will determine the characteristics of the uniform system, where accounting technical matters come second. This approach was adopted by Germany and Egypt.
2. The business approach, where the starting point is consensus on the uniformity area of application. For example, a uniform accounting system for an industry will be based on the procedures which already apply in that industry.
3. The academic approach, where determination of uniformity is based on analytical, general and theoretical factors.

None of the above definitions of uniformity is comprehensive, for each is dependent on the personal orientation of its writer. Hence, each definition has been determined by the needs of its own environment, which may very well be different from other environments.

An environmentally comprehensive definition of accounting should incorporate all branches of accounting, all accounting variables (standards, procedures, methods) all levels of the economy and all levels of organisation. This definition would indeed meet the uniformity needs of developing countries.

Only a uniform accounting system which incorporates the above elements can cover the entire administration or management of information for all socio-economic activities and conditions in the micro and macro economic sector covering the internal and external needs of the various groups, as stated by Enthoven. [Enthoven, 1973, p.112]. Accordingly, a comprehensive definition of uniformity would involve the application of similar accounting standards, principles, methods and procedures at all levels of organisation - micro and macro, and would cover all accounting standards, principles, procedures, methods and policies from all accounting branches. If such a full application is not possible, then it should be tried partially, either at the organisation level or in accounting branches or accounting principles, methods, rules, etc. Moreover, uniformity could be applied in all fields of accounting (financial, cost accounting) or in parts of accounting fields, unlike the other definition where the scope of application is limited to one field of accounting, dependent on the orientation of the writer. Thus, the above definition has incorporated the definition of accounting as seen by Enthoven and Briston, who are very much concerned with the needs of accounting in developing countries.

10.3.2. <u>Objectives Of Uniformity</u>

Uniformity could be viewed as an approach for establishing objectivity and rationality in the choice of accounting methods. Indeed, one may list th overall objectives of uniformity as follows:

1. To set rules for external reporting in order to facilitate comparability and communicability of financial statements and eliminate managerial discretion over the choice of accounting principles, standards, methods, etc.
2. To assign classes, including such classes in accounts categories, and to give general guidelines on how appropriate accounting classification can be achieved for each account appearing in a given system. Such assignment and guidance will facilitate the construction of financial statements.
3. To supply data required by national planners, and by managements or organisations for the purposes of planning and control.
4. To measure the effectiveness and performance of managements of different organisations and entities.

The above objectives are in general terms, but it can be concluded that they are far more relevant to the needs of developing countries than are the stated objectives of American accounting and those implicit in the British style of accounting.

The above objectives state explicitly that to supply information for national economic planning and control, as well as at the organisation and entity level is a prime objective. Indeed, they are based firmly on the user's needs rather than on what professional accountants think the objectives should be.

10.3.3. Types Of Uniformity

10.3.3.1 Uniform Principles, Standards, Practices And Conventions

This type of uniformity is the weakest of all, for it includes only the basic concepts, principles and standards of external reporting. It merely treats in general terms, with a degree of flexibility, the valuation of fixed assets and inventory, and the recognition of revenues and expenses. [Enthoven,A. 1973, p.223]. This type of uniformity is supposedly applied in the UK and the USA and is recommended by the International Accounting Standards Committee. However, evidence suggests that what is currently applied by the above two countries is far from uniformity. The diverse application of accounting principles and standards suggests that uniformity, even with greater flexibility, is of the little concern in those two countries. There is evidence to suggest that managements are using the wide diversity of accounting principles, standards and methods available for their own ends rather than to give users objective information about their firms. The practices of income smoothing, maximisation or minimisation are well documented in literature in these two countries. In fact, Chambers has calculated at least four methods of revenue recognition, four methods of pension payments, eight methods of taxation, seventy two methods of any aggregate set of depreciable assets, 132 methods of inventory valuation calculation and 32 methods of stating miscellaneous expenses in financial statements. In conclusion, Chambers estimates more than thirty million ways of stating financial statements within generally accepted accounting standards. [Chambers R.J., 1965, pp.15,16].

Recently, A. Hopwood and M. Page have stated that

> "there has been growing concern by some observers that UK standard setting is dominated by the views of preparers of accounts companies and auditors,, and that the views of users - investors, investment analysts and others - are being increasingly unheard. At the same time it is perceived that the spirit, and often the letter, of standards is being flouted by a growing minority of companies through the use of ingenious loopholes in standards or by outright non-compliance." [Hopwood,A. & Page, M. 1987, p. 115].

This suggests that this type of uniformity is not suitable for its own environment and certainly by inference is not suitable for developing countries. One may go even further and suggest that the above form of uniformity is too weak to be considered as a "type of uniformity". It seems that the appropriate name for it is "diversity", or, at best, it may be called "the weak type of uniformity".

10.3.3.2. <u>Uniform Chart Or Frame Of Accounts</u>

This type of uniformity is mainly concerned with specifying the classification categories either for all economic units or by specific sectors and industries on a domestic scale (as in the case of the Swedish M. Chart or the German chart of accounts) or on a regional or international scale (as the European Economic Community Chart of Accounts). Such a type of uniformity could be applied on its own, as in the above examples, or as part of a complete system of accounting (uniform accounting system). The Uniform Chart of Accounts is mainly concerned with financial external reporting at the micro level. [Enthoven, A. 1973, p.223]. Such a type of uniformity, despite the advancement in its degree of uniformity compared with the first type, however, is still financial, micro-oriented and gives little consideration to macro national planning. It is a step in the right direction, but it may not be considered as an end in itself for developing countries. It should only be adopted as a first step towards establishing a complete system of uniformity.

10.3.3.3. Uniform Plan Of Accounts (Uniform Accounting System)

This type of uniformity is a comprehensive system which encompasses identification, collection, measurement, lay-out of accounts and tables, processing of data, summarisation and reporting of data. The above functions should be unified quantitively and qualitatively. The system can be very rigid or very flexible in its degree of uniformity, and may be compulsory or voluntary, and applied nationally or to certain entities, and it may include all fields of accounting or some of them. Such a system is currently applied in Russia, France, Egypt, Iraq, French-speaking Africa and some Latin American countries. The system is macro economic oriented and has proved to be very successful in enhancing national economic planning, control, performance evaluation and economic growth.

Those accounting writers who have experience of accounting information needs for economic development have always argued that, due to the unique cultural, political, social and economic environment of each developing country, a national uniform accounting system based on the particular requirements of each country should be pursued. Briston, (1978), Mueller (1967), and, Samuels and Oliga (1982) argued that progress in international accounting does not necessarily lie in the direction of greater uniformity in international accounting practice. Rather there may be good and sound reasons why there should be at least some diversity in international accounting.

10.4. Appraisal of Uniform Accounting System

In this section the pros and cons of establishing a uniform accounting system will be discussed in detail and it will be argued that the advocates of a uniform accounting system have a stronger case than have its opponents.

10.4.1. Advantages Of A Uniform Accounting System

The advocates of a uniform accounting system have presented a strong case in favour of the system as compared with a flexible accounting system.

10.4.1.1. Better Comparability

One of the chief advantages of a uniform accounting system is the ability to produce highly comparable information between two or more units, or between two or more periods of time for the same unit, and at both micro and macro levels. Such comparability would facilitate:

a) allocation of economic resources,
b) structural analysis of enterprises,
c) ex-ante and ex-post investment appraisal and related economic decisions,
d) readability of financial statements.

Loor once stated that:-

> "Accounting normalisation (provides) a more efficient protection of the interest of third persons (shareholders, bondholders, bankers, suppliers, customers) by making the accountancy and financial documents more readable and comprehensible ..." [Loor, E. 1962]

In contrast, advocates of a uniform accounting system have argued that a flexible accounting system is not based on an authoritative and generally recognised body of accounting which investors and the public at large can look to when examining financial statements. Consequently, third parties have no basis on which to accept or reject the reliability of financial statements apart from their trust in the preparation of such statements, which is highly doubtful. Accordingly, no informed choice can be made among alternative investments for investors. [Keller T.F. 1965, pp.638-9].

This problem can only be solved through an accounting system which is able to provide comparable results, i.e. a uniform accounting system.

Comparable data are not required merely by private investors. Managements of enterprises as well as central planners and the government also need such information.

Managements of enterprises need inter-firm as well as intra-firm comparable data so they can improve efficiency. For example, comparison between accounting figures of two or more years for the same firm will enable it to detect early any decline in its profitability, its growth or its market share.

Comparability is also required at the national level. Unless accounting figures are comparable, it will be very difficult for national planners to choose between investment alternatives or to undertake cost-benefit analysis, which is the core of the project stage in economic development planning.

Meaningful comparability can only be achieved through uniformity, for under the UK/USA system figures of profit or loss accounts of two different firms could be prepared on two different bases within generally accepted accounting principles, making comparability between the income of the firms meaningless. For example, General Motors and Standard Oil of New Jersey each recently (1963) sold its half ownership in Ethyl Corporation at a book gain of many millions of dollars. G.M. reported its fifty per cent of the gain as part of its net income for the year. Standard Oil left net income unaffected, crediting its fifty per cent directly to surplus. [Keller, F. 1965, p.639].

In Libya, a number of individuals (Zenny, A., Shanta, M., Gayem, M., El-Arabi, H.,) have expressed grave concern over the diversity of accounting figures of Libyan enterprises, due to the various accounting methods, policies and rules which are followed by different enterprises. A uniform accounting system in Libya would provide comparable accounting figures so that economic development planning and control, management performance evaluation and the choice of alternative investment opportunities would be greatly enhanced.

10.4.1.2. Consolidation And Aaggregation

The second advantage of a uniform accounting system is its ability to generate accounting figures which are easy to consolidate and integrate, for figures based on a unified basis of measurement and valuation can be more easily aggregated. Managements of enterprises usually consolidate the accounts and statements of various branches, departments and affiliated businesses into one integrated and consolidated statement. Unless the figures prepared for each department, branch or business are based on the same set of rules, then their consolidation will be misleading.

National accounting segments are basically the product of the aggregation of enterprises accounting segments. Thus, national income accounts, national balance sheets, value added statements and flow of funds statements are simply the product of the aggregation of figures from the profit and loss accounts, balance sheets, and sources and uses of funds and value added statements of enterprises. Only a uniform accounting system can provide enterprise accounting figures which can be added together.

This argument is especially important in Libya, where the Central Statistical Agency suffers from a shortage of qualified statisticians as well as a lack of co-operation between various economic units. Most of its statistics figures are based on estimates rather than actual censuses. A uniform accounting system would help statisticains as well as the compilers of national accounting segments to provide reliable, relevant, timely and current information that could be easily gathered and processed.

10.4.1.3. Advantages For Economic Development Planning And Control

At each stage of economic development the need for relevant, reliable, comparable and current information is paramount. At the macro stage such information is needed so that national accounting segments can be prepared. At the sectoral stage uniform information is needed to compare the performance of different sectors and to aggregate the accounting figures of each sector so that it is possible to measure the priority of different sectors in allocating capital. The same thing can be said about the project stage.

Singer stated that the first purpose served by a uniform accounting system is to facilitate the planning of State departments by supplying significant statistics based on uniform and known definitions. [Ibid, p.89].

Indeed, most countries with centrally planned and controlled economics are adopting, with considerable success, a uniform rather than a diversified accounting system. Examples include Eastern Europe, France and Egypt.

A uniform accounting system can also provide useful information for enterprises and for national policy making in a free market economy such as the USA and the UK.

In Libya it has been suggested by this study that the success of development planning and control is dependent, amongst other things, on the availability of comparable and unified accounting information.

10.4.1.4. The Evolution Of Over-All Accounting Theory

Advocates of a uniform accounting system argue that it will enhance the development of accounting theory. If accounting concepts, measurements and policies are unified, concern with accounting will be mostly related to purely theoretical matters, and less time will be devoted to operational and practical matters. [Mueller,G. 1965, p.868].

In Libya, however, there is a more urgent need for the practical side of accounting. This is not to say that Libyan accounting practice should not be based on sound accounting theory, but rather than operational accounting has the first priority compared with accounting theory.

10.4.1.5. Ease Of Introduction Of A New Accounting System

Advocates of a uniform accounting system argue that for those countries which are in the process of adopting a particular accounting system, a uniform system could shorten the time needed for design, for training accountants, and for the transfer of accounting know-how from other countries, and could also reduce the level of sophistication required on the part of the accounting manpower. Accounting systems based on diversity would take longer to design as it is expected that different entities would choose different systems. Also more sophisticated accountants would be needed and hence a longer time required for their training. Furthermore, the transfer of accounting know-how would not be as specific, detailed and clear as in the case of a uniform system.

10.4.1.6 Education And Training Of Personnel

Yet another advantage of a uniform accounting system is its ability to co-ordinate accounting education and accounting practices in the real world. Accounting curricula could be based on an existing uniform scheme, so that students could be better prepared technically to adapt to real world accounting practices when they start working at other economic units.

Uniform accounting can also facilitate the transfer of accountants from one organisation to another. Enthoven has argued that:

> "In developing countries in particular the lack of good accounting personnel poses a serious problem and uniformity procedures would facilitate the training process and transfer of know-how and skills." [Enthoven,A. 1973, p.237].

Indeed, in Libya the problem of shortage of accounting manpower is evident at all levels, as is the problem of the turnover of accountants between firms. A uniform accounting system would make such transfare smoother as well as relating accounting education in Libya to its environment.

10.4.1.7. Internal And External Auditing

A uniform accounting system would make the job of internal as well as external auditors less demanding. The internal auditor would not be so concerned abut the technicality of the work of the accountants of his organisation. He would, however, be concerned with the efficiency of the organisation's operations. As most of the work of the accountants would be standardised, there would be very little scope for difference in opinions between the internal auditor and the accountants. Internal control would also be stronger as creative accounting would be avoided.

The case of the internal auditor's job and the strength of the internal control would greatly reduce the work of the external auditor.

In Libya, although all public enterprises are required by law to create an internal audit department, the reports of the Auditor General have always emphasised the weakness of internal audit and control in public enterprises. An explanation for this is the shortage of qualified personnel and the absence of a written accounting system for most

Libyan pubic enterprises. The result is that the Auditor General's staff have to perform routine detailed accounting work and consequently their audit is three to five years in arrears. [The Auditor General's Office, 1984, pp.9-11].

It is believed a uniform accounting system would alleviate this problem. [El-Arabi H. 1986].

10.4.1.8 Computerise Accounting

A uniform accounting system would facilitate the adoption of computerised accounting. In the case of Libya, where there is a shortage of accounting manpower, such as orientation is very necessary, for many LPEs would be sharing the same computerised accounting system, rather than each having to design its own system.

Such a system would require less highly qualified accountants than in the case of diversified accounting systems.

The above mentioned advantages are not an exclusive list of the advantages of a uniform accounting system, but rather they are examples of such advantages. Other advantages may include:

1. facilitating the design of fiscal policies,
2. adaptability for small organisations,
3. price and cost regulations and control,
4. more equitable economic legislation, and

5. better regional economic integration.

10.4.2. Alleged Disadvantages Of A Uniform Accounting System

10.2.1. The Fallacy Of Comparability

The opponents of uniformity argue that the comparability provided by a uniform accounting system is unreal, for such financial data are usually generated by various businesses which are different in nature. [Mueller, G. 1965, p.870]. Critics of the system accordingly argue that accounting should reflect economic reality, which can only be achieved through flexibility in accounting practices rather than by artificial comparability. [Pelouhet, M.E., 1961, p.40].

Some have gone even further in suggesting that comparability exists only in the minds of the advocates of uniformity due to a misconception about what is meant by "comparability". W. Bevis, for example, argues that:

> "The term is comparative and suggests moving in a direction; but moving in the direction of the rainbow is quite different from grasping at the end of it the pot of gold that is absolute comparability. All this suggests that the APB through the Institute has a public enlightenment job to do in terms of educating all concerned that it has not discovered that which has up to now eluded all mankind - the means of satisfying the natural craving for certainty." [Keller, 1965, p.64].

In the same way other opponents of uniformity argue that meaningful comparability of financial data reflecting the affairs of diverse business organisations is a utopian goal and that it cannot be achieved by the adoption of strict rules that do not take adequate account of differing situations.

The above arguments suggest that opponents of uniformity believe that comparability is unattainable in the real world, and that it attempts to compare non-comparable businesses organisations and hence sacrifices reality for the sake of superficial uniformity by treating similarly what are actually different. Accordingly, it is argued that uniformity is not a logical approach to accounting problems and fundamentally runs counter to the actual nature of business.

What really matters, it is argued, is consistency in applying alternative accounting principles from one period to another for the same organisation, rather than uniformity of applying such principles between two or more organisations. [McCosh A., 1967, p.700]. However, although consistency is very important in intra-firm comparison, it is inter-firm comparison which is mainly served by financial accounting as well as the compilation of social accounts.

Investors in both the private sector the public sector are more concerned with making choices among different firms rather than a choice between two different periods. It is comparability between organisations, be it on the stock market or in development planning, which truly matter.and it is suggested that it is uniformity rather than diversity which enhances consistency in applying accounting rules, methods and policies. Uniformity does not allow changes of accounting policies from one period to another merely for the sake of change, while diversity accounting does allow such change as long as it is disclosed.

The claim that diversity in generally accepted accounting principles is designed to reflect differences in economic circumstances has also been challenged empirically. For example, in an empirical study conducted by L.G. Chasteen in 1971 it was concluded that the assumption that differences in inventory evaluation methods are due to differences in economic circumstances was untrue. Chasteen stated that:

> "... the conclusion was that significant differences in economic circumstances apparently do not exist among firms which use different methods of inventory pricing in the industries samples." [Chasteen,L.G., 1971, p.508].

In respect of calculating net income Chambers found that there were over 30 million possibilities of calculating net income for any given company, all resting within generally accepted accounting principles. [Chambers, R.J., 1965, p.16].

Accordingly, it is possible to suggest that uniformity and its comparability are better equipped to help decision makers and that the main motive behind diversity is not to reflect real economic circumstances but rather to provide cover for managements to use accounting alternatives to achieve their own ends.

Finally, it should be stated that the above argument against comparability based on uniformity is rooted in American accounting literature, where the concern lies with the stock market and very little attention is paid to the needs of social and economic development planning. For this reason, the above argument against comparability is irrelevant to Libya, which needs comparable information between its various development projects and sectors so that the two stages of its development planning, namely the sectoral stage and the project stage, can be carried out successfully. Libya can ill afford the diversity permitted by generally accepted accounting principles.

10.4.2.2. Hindering Management's Freedom

Opponents of uniformity have argued that uniformity would stifle the management's desire to report results in the most meaningful way and that imposing a set of rules on the management's range of authority over financial reporting methods would be harmful. [McCosh,A. 1967, p.693].

Instead, they believe that management should be left free to choose between accounting alternatives as conditions of economic reality dictate.

In giving such a mandate to management, opponents of uniformity are assuming that management will normally act in the best interests of the business and its owners and that it has no vested interest in choosing between accounting alternatives.They also imply that giving management the freedom to choose from diverse accounting principles would enable it to choose the right alternative to reflect economic reality. They believe that imposing a uniform method of accounting for every set of circumstances would hamper the use of the prudent and professional intelligence of an honest management.

However, theoretical and empirical evidence suggests that management does not always act in the best interests of the business and its owners and that it does have a vested interest in figures of reported income.

According to agency theory, whenever a contractual agency relationship exists between two or more parties, a conflict of interests does exist. The agent who is entrusted with resources by their owner will always seek to maximise his interest at the expense of the owner. The field of managerial economics provides both theories and evidence which suggest that the choice between accounting alternatives is dependent on the type of control., D.S., Salomon, G.L., Dhabimal,D.S. and Smith E.D., (1982) all argue that the managers of large corporations with diffuse ownership have considerable discretion in guiding the affairs of their firms and that the discretionary power is used to divert resources from corporate shareholders. [Solomon, L., Dhalimal, D .& Smith, E. 1982 p.42

Gagnon (1967) has pointed out that:

> "The basic argument is that the managers of the firms maximise their own monetary and non-monetary income by maximising reported income ... part of the executive compensation is formally based on company profits. That type of contract should constitute an incentive to maximise reported income." [Gagnon J., 1967, pp191-192].

Williamson (1964) reports that theorists largely agree on the fact that managers seem to pay great attention to their security "and reputation for excellence", both of which are dependent on reported profits. Consequently executives maximising their own utility would pay attention to the reporting methods their firm uses." [Solomon ,L. ,Dhalimal, D .& Smith, E. 1982, p.43]

Indeed, Watts and Zimmerman's positive theory of accounting method choice implies that manager-controlled firms are likely to choose accounting methods with different income effects than those chosen by owner-controlled firms [Watts, R . and Zimmerman,J. 1978 ,pp.112-134]. The theme of their argument is that manager-controlled firms are more likely than owner-controlled firms to choose those accounting methods which result in higher (or early) reported earnings and higher reported equity. In fact the empirical testing of hypotheses based on the above theoretical arguments has provided considerable support for them. [Solomon, L. , Dhalimal, D. & Smith, E. 1982, p.52]

It is suggested that among the reasons for such behaviour is the intention of management to gain tax advantages and to improve relations with creditors, employees and investors. [Belkaoui, A. 1984, p.528].

Kamir and Ronen (1978) tested smoothing behaviour on the lines of ownership and control and concluded that a strong majority of management controlled firms behave as if they were income smoothers. [Kamir ,J. &Ronen, J .1965 p.153].

Taking into account agency theory, and the empirical evidence of income manipulation, one may suggest that, contrary to the belief of the opponents of uniformity, management is biased in preferring its own vested interest over that of the owners, and that accounting information, instead of being used for purposes of planning control and performance evaluation, is often used by management to provide a cover-up for its behaviour.

A uniform accounting system is more likely to eliminate such practices by management and would boost the use of accounting to reflect the true economic reality of a given organisation.

All in all, then, management does not have the capability or the desire to use accounting alternatives in the best interests of the business and its owners. On the contrary, it tends to maximise its own vested interests and will use accounting alternatives as a tool of achieving this aim, where such alternatives are available to it.

Accordingly, the argument that uniformity will hinder the freedom of management, has no substance. Only uniformity designed by outsiders can enhance the possibility of using accounting for reflecting the economic reality surrounding a given organisation. In Libya, it has been explained that the managements of public enterprises are not qualified even to know the differences between accounting alternatives, let alone to choose between such alternatives in order to reflect the economic reality. Moreover, it could be argued that the fact that most Libyan enterprises are dependent on State subsidies may encourage managements to use accounting alternatives which would guarantee and increase such subsidies. On the other hand the fact that the performance of these enterprises is evaluated in relation to their reported net income could be a motive for managements to use those accounting alternatives which maximise income figures.

If the function of accounting in Libya is to facilitate social and economic development planning and control at both micro and macro levels, then managements' freedom to choose between accounting alternatives is of questionable value. The advantages of having uniform accounting rules imposed by outsiders on the management far outweigh the disadvantages.

10.4.2.3. Hampering The Progress And Development Of A Dynamic Accounting Theory

The opponents of uniformity argue that it is a strait-jacket, which will stultify the development of accounting theory and practice. They assert that the uniform system may be too mechanistic and prevent the stimulation of new ideas. [Enthoven,A. 1973, p.238]. Others have argued that only diverse accounting will allow experimentation with new and hopefully better accounting ideas. W.E. Parker (1964) in addressing the Fifth Congress of the Union des Experts compatables, Economiques et Financiers in Vienna, attacked the European plan of accounts, saying:

> "To the British accountant attempts to standardise on a uniform national scale, let alone on an international scale, the form in which accounting information is recorded and reported seems to be fraught not only with difficulties but with danger.
>
> "The difficulties are self-evident, stemming as they do from differing circumstances of different businesses, from change of circumstances both generally and within individual businesses and from the development of accounting thoughts and techniques as time and events move on ...
>
> "The dangers of such a project, as they would appear to most British accountants, are:
>
> "1. that the plan, if it was effective, would not be sufficiently flexible to accommodate varieties and changes of circumstances and to avoid forcing accounting into a particular mould in which it would tend to become unresponsive to the development of new ideas, new situations and new needs." [Parker W.E., 1964, p.859)]

Others have argued that accounting has been considered through the years to be an area where creativity and progress can take root and flourish. Indeed, accounting itself has been developed and is still progressing through experimentation and acceptability. If we start now to codify accounting principles and methods, this codification will take us back to the Roman "corpus juris". Obviously the present is not the time in which such codification should be considered as a final and unchangeable authority. [Brown,D . E. 1966, p.44, Pelouhet,M. 1961, p.37].

But, as Spacek explained, no empirical evidence has yet been presented to support these arguments. He stated:

> "But so far as I know, not one single treatise has been presented to show the fairness of the various financial statements that would result from the application of alternative accepted principles to a given set of facts." [Spacek, L., 1961, p.392].

Contrary to the critics' claim that uniformity will hamper progress by being a strait-jacket, real world examples have shown that uniformity need not be "static". Boards of accounting experts have been set up in those countries adopting uniformity - France, Egypt, Russia - to monitor the progress of the system, to solve problems during implementation and to recommend any necessary changes in the system due to new needs or changes in circumstance, suggesting that uniformity s a dynamic process and ready to adapt to new situations as they arise.

Uniformity in accounting has even enhanced economic progress in those countries which have adopted it. The revival of the German economy after the war, and the improvement of French and Egyptian economic planning are just a few examples of how uniformity has facilitated economic and accounting progress.

The stabilisation of unified accounting principles, methods and policies will enable accounting researchers to devote more time to the assessment and improvement of accounting theory. Once accounting methods and procedures are unified, then there will be no need to expend considerable time on their discussion. Accordingly, more rationality would be brought into the development of accounting theory without hindering real creativity and progress.

In contrast, evidence has shown that diversity has been used as a cover-up for irregularities and has prevented real and efficient progress. [Spacek,L.1961, p.43].

All in all, then, the claim that uniformity prevents progress in accounting theory and hampers creativity is without foundation. Uniformity has helped accounting progress and the establishment of accounting theory, whereas diversity in accounting hindered the development of a dynamic accounting theory. The use of nineteenth century accounting doctrines in the UK and the USA are the best examples of its static state. Meanwhile, the great number of court cases against the accounting profession around the world where diversity is adopted can be taken as evidence of the real danger of diversity to the accounting profession.

In Libya, the urgent need for relevant accounting to satisfy the country's social and economic development needs makes it undesirable for accountants to waste their time and effort in arguing in different directions. The need is for a specific framework within which they can concenterate their time and effort in order to develop a relevant accounting theory and establish uniform criteria for accounting rules, methods and procedures to be applied as soon as possible.

10.4.2.4. Cost Of Uniformity

Opponents of uniformity argue that the design of a complete uniform accounting system which would detail explicitly the ways of applying every single accounting principle, method, procedure, classification and policy would be a very costly process for firms, especially the smaller ones. [Mueller G.G., 1967, p.113].

The design of an accounting manual - which includes a uniform codification of accounts with instructions on how to calculate cost, how to determine market values, where to use each inventory valuation method, how to allocate costs between departments, products and periods, and how to determine depreciation rates for all categories of assets etc. - is thought to be unrealistic, difficult to achieve and above all of high costs. [Grady,P. 1965, p.34]. Such an argument seems to be without substance. Real world experience suggests that uniformity does not involve such a high cost and that the above processes are not difficult to achieve. The fact that a high percentage of French and German firms, irrespective of their size, have voluntarily adopted uniformity suggests that it is no more costly than diversity. [Ibid, p.108]. Furthermore, Enthoven has stated that the French plan has been received favourably on the part of French firms. [Enthoven, A. 1973, p.302].

In fact, uniformity is likely actually to reduce the cost of implementation. The adoption of a uniform accounting system at national, sectoral or industrial levels should reduce the number of accounting systems to be implemented. For example, if an industry includes 100 firms, then they only need one uniform accounting system in the case of uniformity, compared with a possible 100 systems in the case of diversity. Training programmes in the case of uniformity will cost less because trainees could be trained towards one manual or computerised accounting system instead of 100 systems, and costs would be less in terms of hardware, software and the time needed for training.

There is little theoretical or empirical evidence to suggest that uniformity is unfavourable to small firms or that it is more costly. Indeed, accounting literature suggests that the existence of accounting alternatives carries with it costs to firms and users of accounting information. Theorists have argued that accounting choices have economic consequences because changes in accounting policy will lead to changes in the distribution of firms' cash flows or the wealth of the parties who use those numbers for contracting or decision making. [(Watts, R. and Zimmerman, J., 1978, p.118)], [Holthausen, R. W. and

Leftwich, R. W. , 1983]. Whether or not the owners choose to monitor management in its choice between accounting alternatives, costs will accrue to the owner. If they choose to monitor management this will have a cost which could be too high. [Verrecchia, R.E., 1986, p.177]. If they choose not to monitor management, it may then select those alternatives which will maximise their compensation. Costs will also accrue to investors and financial analysts who try to reverse any accounting changes. These views have been borne out by a number of empirical studies. [For details of such studies and their conclusions see Holthausen, R. ,and Leftwich, R. , 1983, pp. 77-117].

Practical and theoretical evidence thus suggests that uniformity is neither unfavourable to small firms nor costly in operation. Accounting literature suggests that diversity of accounting systems can lead to high costs, whether in monitoring management choice or in action to alleviate costs caused by management's freedom of choice between accounting alternatives. Costs would also be borne by investors and financial analysts as well as the public at large because of the need to design a great number of accounting systems and the extensive training which would then be necessary. Finally, audit fees should be less in the case of uniformity than in the case of diversity.

In Libya, the costs of diversity if far greater than the potential cost of uniformity. The lack of the necessary relevant, accurate and timely accounting data is detrimental to the country's economic and social development; the cost of controlling and monitoring Libyan public enterprises and other public agencies is enormous, and due to the diversity of accounting in Libya, the Auditor General is three to five years in arrears in conducting his audit and the cost in terms of time and money of his audits is made higher. According to the figures for 1986, the Auditor General only audited between ten and fifteen per cent of Libyan public enterprises, with fees of about L.D.600,000 to L.D. 1,000,000 (or 1,2,000,000 to 2,000,000 Sterling pounds). [El Arabi, H., 1986)].

In conclusion, then, uniformity has a very strong case in its favour. As Enthoven stated:

> "We believe that in view of the requirements of economic process, the advantages to be derived from more uniformity accounting, whether partial or complete, outweigh the disadvantages." [Enthoven,A. 1973, p.238].

10.5. Experience Of Other Countries With Uniform Accounting Systems

National uniform accounting systems have been established in several countries with different environments, including centrally planned economies, mixed economies and free market economies, and have proved to be very useful for the requirements of those environments.

Russia and the other East European countries have applied a uniform accounting system which has proved to be very successful in providing very detailed data for management and for ensuring the smooth application of planning centrally.

West Germany has had two different experiences with uniformity. During the National Socialist period, both before and during World War II, Germany adopted the policy of a centrally planned and controlled economy. As a result a new uniform accounting system was introduced which was complete and was compulsory for all firms. Abel has quoted Singer, who described the principles of book-keeping regulations of November 1937.

> "The new aims of the German economy call for increased output and efficiency from business undertakings. The fulfillment of this great task requires a thorough knowledge and a close control of all business transactions. Thus a well developed accounting system is a primary factor in the re-organisation of industry. The public interest, and in particular the aims of the four-year plan, demand that the accounting system of all firms should be arranged on uniform principles. Systematic mutual exchange of experience, especially in the form of comparative analysis of companies, will help towards this end. [Abel, R., 1971, p.41].

The main aims of the German uniform system during the period of 1937-45 were to supply various government departments with readily aggregatable and comparable statistical data to facilitate planning and control and policy making decisions and to improve efficiency and accounting practices.

Enthoven has concluded that:

> "It may well be that uniform charts of accounts played an important role in the switch-over plans to a war economy in the late 1930's and the economic recovery in the 1950's." [Enthoven, A 1973, p.229].

Abel also stated that:

> "The case of Germany in the thirties was presented in an attempt to illustrate this point of view. The political ideology and its economic ramifications prevailing in the country at that time clearly imposed some extraordinary challenges to German accountants of that day. This writer believes that this challenge was met with a high degree of original thinking and with considerable vigour in attempting to implement the uniform cost accounting scheme that was developed ...
>
> ... Yet it is contended that in its own environment it was an appropriate response to the needs for accounting data in a totalitarian state running a war-directed economy." [Abel,R. 1971, p.47].

The German uniform accounting system ceased to be compulsory in 1950. [Oldham, K.M., 1987, p.171]. However, many entities still apply the uniform chart of accounts on an industrial basis apparently because of its advantages. [Kollaritsch, F. 1965, p.383]. Kollaritsch stated that:

> "However, in Germany industries still voluntary adhere to this system because of its many advantages ... But the German experiment was not a complete failure; for the nearly uniform classification of accounts and treatment of items in German enterprises at the present time must be attributed mostly to it." [Ibid pp.382-383].

The fact that a uniform accounting system or some element of such a system has been applied through two different economic environments - centrally planned and controlled and free market - suggests that the uniform accounting system is applicable under both economic philosophies. The current charts of accounts in Germany differ according to the nature of each industry and they are subject to continuous revision by various trade associations to meet the changing needs of each industry and the latest development in accounting.

Another example of an environment where a uniform accounting system has been applied is France. Despite earlier moves towards a uniform accounting system, the decrees of the 1930's following a period of economic difficulties may be considered as the first serious action towards uniformity in France. The decrees were enacted to require consistency from year to year in the presentation of financial statements and their valuation rules. [Fortin, A., 1986, p.49].

The war and the German occupation led to the drafting of the 1942 uniform accounting plan which was published in 1947. The plan includes a chart of account and related definitions, rules for valuation and use of accounts,, model financial statements and a section on cost accounting. Since 1947 the plan has been subject to a series of revisions, the latest being published in 1979 and coming into effect with the passing of the accounting law on 30th April 1983. [Ibid., p.497].

The stated objectives of the plan are:

1. To promote more reliable national and fiscal policies;
2. To assist in eliminating fiscal inequalities;
3. To minimise social misunderstanding by informing the public of the true distribution of national wealth;
4. To provide data for the study of market trends;
5. To improve healthy competition;
6. To aid in the development of fairer taxation;
7. To provide shareholders, suppliers and bankers with an opportunity to exercise their judgement more satisfactorily;
8. To aid governmental authorities in exercising controls;
9. To provide a clear and prompt view of financial results;
10. To permit analysis and comparison of manufacturing results. [Oldham, K. 1987, p.145].

The above stated objectives revealed that the plan is micro and macro oriented for the purpose of better national economic planning. Enthoven [1973, p.226] claims that:

> "not only has the system proved extremely useful for social accounting and public administration (including taxation), but it has been also of great benefit: (a) for macro and micro economic planning (it is closely geared to the French national economic plan); (b) to industries and industrial associations in making the necessary economic analysis and forecasts; (c) for structural analysis and in measuring and comparing productivity; (d) it furthermore tends to enhance the efficient administration of enterprises. It also should be mentioned that the French accounting plan has been trying to correct deficient accounting practices."

The success of the plan is evident from the fact that even after the revision of the original plan of 1947 (the version of 1957), by which its compulsory implementation for many private firms was relaxed, it continued to have wide acceptance and popularity among industries and commerce. [Most,K. 1971, p.20].

Mueller agreed that:

> "the plan has proven to be a flexible and adaptable instrument so that many French companies have voluntarily adopted it." [Mueller G.G., 1967, p.105].

Indeed, the percentage of the French companies which were adopting the plan voluntarily in 1962, well after 1957, was estimated to be eighty to ninety per cent of large enterprises, sixty to eighty per cent of medium enterprises and forty to sixty per cent of small enterprises. [Loore, J., 1962]. In fact, Mueller has high praise for the success of the French plan.

> "... the French experiment with rather rigid uniformity seems to have produced desirable results as well. Present day French accounting appears to be an important improvement over anything that ever existed in France before." [Ibid., p.114].

Furthermore, Most has stated that:

> "France presents us with a good example of the use of accounting for economic development ... we can only point to the fact that there has been, and still is, a widely held belief on the part of competent officials that accounting does have a significant part to play in the economic development of the modern state." [Most,K. 1971, p.15].

The above discussion would suggest that a uniform accounting system based on the French plan is indeed more relevant to the needs of accounting information by developed and developing countries in either a free or centrally planned economy. Its relevancy and success is indicated by its adoption by the Belgians, who designed their accounting plan on the same structure as that of the French plan.

The plan has also been adopted by some developing countries, with various degrees of success. After the French colonies gained their independence in the early 1960's they realised that development planning was the only way to recover from their economic stagnation. Hence, information on economic performance became a necessity, and the heads of state of the Organisation Commune African Malgache et Mauritienne (OCAM), recognised the need for a uniform accounting plan for the purpose of developing economic statistics. As a result the OCAM plan was established in 1968. This plan closely follows the French plan, with adjustments to meet the environment of those countries. The success of the OCAM plan has led to the establishment of a training and implementation package based upon the plan. The experience of Peru suggests that the plan can provide a quick improvement in the quality of national statistics. [Briston,R. 1978, p.11].

The plan has also been adopted in some North African countries, such as Tunisia, Morocco and Algeria, which are in some respects comparable to Libya. Professional accountants, as well as government authorities in Tunisia praise the plan very highly. Ahmed Mensoor, a well known professional accountant, stated that the plan has reduced the time as well as the cost of their professional audit for their clients. [Mensoor, H., 1982].

A. Mestiry, the Minister of the Treasury in Tunisia, also praised the plan for providing relevant information for the purpose of economic planning in Tunisia. [Mestiry, A., 1982].

The success of the French plan in developed countries (France, Belgium), developing countries (Algeria, Morocco, Peru, Tunisia, OCAM countries: Burundi, Cameron, Central African Republic, Chad, Congo, Dahomey, Gabon, Ivory Coast, Madagascar, Mali, Mauritania, Niger, Uganda, Senegal, Somalia, Togo, Upper Volta and Zaire),and free economies (France, Belgium) suggests that it could be a useful model for a new accounting system for Libyan economic and social development.

Egypt, an example of a developing country with a centrally planned economy, has operated a uniform accounting system since 1967. Its stated objectives are:

1. To provide the basic data and the analytical tools for planning, implementation and control at various levels;
2. The integration of micro unit accounts with macro accounts (national accounts);
3. To facilitate collection, classification and storage of

accounting data.

Hence Egyptian uniform accounting is mainly concerned with macro development planning as well as effective control by the State over its economic units, i.e. mainly Egyptian public enterprises. [The Central Accounting Administration (CAA), 1966, pp7-10]. The main features of this system are:

a) the system is compulsory for all Egyptian public enterprises. Private enterprises could be required to apply the system by the relevant minister; [Ibid., pp.15-16]

b) the system is a uniform system which includes;
   1. chart of accounts,
   2. bases, rules, terminology and definitions of accounting,
   3. accounts and financial statements,
   4. planning budgets. [Ibid., pp.21-101].

The main reasons behind the establishment of a full uniform accounting system in Egypt were to provide the government with a source of information for the process of planning and control of economic activities, and for measuring the effectiveness of management in utilising the resources entrusted to it and the contribution of each enterprise to national income and national production. [Briston, R.& El-Ashkar,A 1985, p.9].

c) the system is flexible. The presidential decree No. 4733 of 1966 stated that a permanent technical committee should be formed by the chairman of the CAA, this committee would recommend any changes or adjustments which became necessary because of changing circumstances Meanwhile, the system adopted flexibility as one of its standards. It allowed companies to keep special records for more detailed information which is needed. [CAA, 1966 p.17].

The Egyptian uniform accounting system has now been in use for more than twenty years, an evidence suggests that it has been successful in achieving its objectives. It has also succeeded in the collection, tabulation and storing of data by companies in order to provide governmental bodies with the required information. Briston and El-Ashkar have stated that:

> "various kinds of information at different degrees of detail can be easily collected at the state level within a comparatively short time." [Briston, R, & El- Ashkar, A. 1985 p.23].

They have also claimed that the system has proved to be successful in providing governmental bodies as well as management at the enterprise level with reliable financial information at the right time. [Ibid., p.24].

Another developing country with a centrally planned economy in which a uniform accounting system serves the economic system is Iraq, whose national system is intended to facilitate planning and control at various levels.

The discussion in this chapter has served to support two main propositions:

1. An accounting system based on generally accepted accounting principles and on standards based on such principles, as in the case of the American and the British accounting style, does not adequately serve its own environment (the UK and USA environments), let alone the environment of developing countries. Such an accounting system is based on nineteenth century capitalism and is biased towards financial external reporting and its audit. Neither the needs of governments nor the needs of other outsider users are satisfied.
2. In order to manage the economy effectively in a developing or developed or a centrally planned or free economy, a full uniform accounting system offers considerable advantages.

10.6. Summary And Conclusion

Accounting in the UK/USA has external financial reporting as its main concern. The main users of those statements are private sector investors and creditors, and their objective is to provide accounting information relevant to those two groups, while public sector needs and economic development planning are totally ignored. This orientation of accounting is related to the capitalism of the nineteenth century and has little or no relevance to the current environment of developing or even developed countries.

In contrast, however, a uniform accounting system could be designed to serve both private and public sector users. Its objectives range from macro economic planning and control to the financial analysis of micro-level units. A full uniform accounting system covers uniform principles, standards, concepts, terminologies, charts of accounts and financial statements. The system could be very simple or very sophisticated; and could be applied by small shops or big corporations or organisations.

All in all the advantages of the system far outweigh its disadvantages. In particular, it is very useful for developing countries which are adopting socio-economic development planning.

Unlike the concept of accounting diversity it is not restricted to the needs of a single sector, whether private or public. Indeed, the experiences of some countries have shown that it is very useful in proving the information needed for macro-economic planning policy making, development planning, and public wealth control, as well as that needed for private investors and creditors. Furthermore, the system provides the means whereby micro and macro accounting may be linked.

For these reasons, it may be concluded that uniform accounting is more effective than accounting diversity, not only for developing countries but also for developed countries.

CHAPTER ELEVEN

The Libyan Socio-Economic Development Needs and the Uniform Accounting System

11.1 Introduction

Chapter ten has shown that developing countries should adopt a uniform accounting system, preferably along the lines of the French system.

However, our main concern is to consider how such an accounting system might improve the relationship between Libyan accounting and its environment, and what other improvements are needed beside the adoption of a uniform accounting system.

Accordingly, the main purpose of this chapter is to discuss the advantages offered for each accounting branch as well as for development planning by uniform accounting.

Therefore, the remaining sections of this chapter will be devoted to the needs of enterprise accounting, government accounting, national accounting and development planning for a uniform accounting system, all with particular reference to the Libyan context.

Accounting does not exist in a vacuum, but it is part of wider environment with which it should be in tune. Environmental factors such as the economic system of a country, its level of development, its educational advancement, the uses of accounting information, play a very important role in encouraging or hindering the implementation of a uniform accounting system. Thus, section five of this chapter will discuss whether the related environmental factors in Libya appear to be favourable or otherwise, to the implementation of a uniform accounting system.

While the adoption of a uniform accounting system would seem to be the most important step towards improving the linkage between accounting and its environment in Libya, other accounting issues need to be resolved before the system could operate effectively. Such issues range from the adoption of current value accounting in enterprise accounting to the compilation of input-output tables in national accounting. Therefore, section six of this chapter will discuss and recommend some additional accounting issues and propose the adoption of new accounting elements such as value for money audit and the national balance sheet.

11.2 Micro Accounting Needs For A Uniform Accounting System

11.2.1 Enterprise Accounting

In Chapter six the responses to questionnaires revealed that the general characteristics of Libyan public enterprise accounting are:

1) Diversity in accounting principles, standards, policies, procedures, tabulation, measurement and reporting. This diversity makes any reliable comparison between the financial statements of any enterprises almost impossible. Thus an efficient allocation of scarce resources by public authorities will be less likely, and national accounts compiled on the basis of those

financial statements will be unreliable, for any aggregation of figures provided by those statements will be misleading. Such problems can only be alleviated by adopting a unified set of standards, principles, policies, procedures, classifications and reporting methods, i.e. a complete uniform accounting system.

2) The second general characteristic of Libyan public enterprises is the frequent change in the People's Committees and, as a result, frequent changes in enterprises' accounting systems, as these committees have the authority to establish their own accounting systems; the questionnaires reveal that 43 per cent of the respondents have changed their accounting systems within the last five years (1981-86). This suggests that there is little consistency in rules of measurement, collection, tabulation and reporting, in any enterprise. The lack of such consistency makes the comparison of figures of any given year with those of the previous or subsequent year impossible, and decision-making based on the performance trend of the enterprise will be sub-optimal.

To alleviate such problems a certain degree of consistency in accounting rules, policies, measurement, collection, tabulation and reporting methods between any one year and another has to be guaranteed in any given enterprise. The most effective way to achieve this is to adopt a full uniform accounting system. Such a system would provide greater consistency in measuring, collecting and reporting accounting information; hence comparability between figures of different years would be improved and decisions would be based on better information.

3. The third general characteristic of Libyan public enterprise accounting is its external reporting and auditing bias, with managerial and national accounting needs being rarely considered. Whilst, of the enterprises surveyed, all the respondents prepare financial statements and 89 per cent of them use an external auditor (the Auditor General's Office since 1973), only 29 per cent operate a budgeting system.

With such an emphasis on external reporting based on the generally accepted accounting principles of the USA and the UK, accounting information is only useful to private investors and to owners, even though such groups do not exist in Libya. The need for managerial accounting data is rarely considered, and there are no effective enterprise budgets, input-output tables, cost analysis, cost allocation, ratio analysis, future projection, capital budgeting, cost benefit analysis, product pricing, performance evaluation, project appraisal and choice of investment alternatives.

A uniform accounting system incorporating a cost system could help in alleviating these problems.

A uniform basis for preparing cost figures is of benefit to the individual business, and to businesses generally. The overall objective of cost accounting is measurement for management, whether it is at the enterprise level, industry level or national level. Only a system incorporating a uniform costing system could guarantee the uniform cost figures.

While most Libyan public enterprises prepare financial statements, none of them incorporates the accounting information needed by the government or national accounts. While 32 per cent of the respondents mentioned that they are aware of the needs of national accounts, only 18 per cent are aware of the needs of government departments outside their own secretariat. Moreover, none of the respondents incorporates information needed to compile national accounts, or classifies financial statements according to the needs of national accounts, or even provides current value measurements in their financial statements.

Accounting information has little value unless it is adapted to its environment. Libya is a developing country which has chosen the path of development planning as its vehicle towards growth and development. National accounts are the data bank for such planning and, unless financial statements are adapted to the needs of development planning, they are useless. Only a well-structured uniform accounting system will ensure that financial statements will provide information geared towards national accounting, so that development planning will be based on accurate macro accounts.

In respect of enterprise auditing, Libyan enterprises are mainly concerned with external auditing, for it is required by law. The Libyan Commercial Code of 1953, the Companies Act of 1970 and the Tax Law of 1973 all require Libyan enterprises to have their financial statements certified by an external auditor or by a legal representative. However, none of the laws gives any advice on how external audit should be conducted or prescribes any auditing standards or procedures or structure of the audit report. Prior to 1973, audits were conducted by private accounting offices. Since that date they have been conducted by the Auditor General's staff. Neither the above laws nor the Auditor General's Office law of 1975 have expressed the need for a value for money audit, so that external audit is confined to legal and financial compliance.

A traditional audit of this type cannot be used to evaluate the efficiency and effectiveness of an enterprise. In fact, neither legal requirements nor the practice of Libyan public enterprises, is directed towards generating accounting information to enable auditors to perform a value for money audit. A uniform accounting system could be designed to provide information which is economically, rather than legally oriented, thus facilitating value for money audit.

Furthermore, the adoption of a uniform accounting system would reduce the need for external audit. A full uniform accounting system, with its explicit rules of measurement, collection, tabulation and reporting would reduce the need for an external body to certify that the enterprise had applied generally accepted accounting principles or that it was consistent from year to year in its application of the accounting standards, policies and procedures. Instead, the need would be for an expert to assess whether an enterprise had utilised the economic resources entrusted to it in the most efficient and effective way. Such an assessment requires experts able to examine activities as they take place. Accordingly, it is believed that a staff of independent internal auditors could perform such a task in a more effective way than any external auditor.

All in all, then, a uniform accounting system at the enterprise level is necessary not only for the needs of the management of such enterprises but also to improve the quality of a wide range of economic appraisals and decisions at the macro and micro levels.

The fact that all enterprises are owned and controlled by the State has eliminated any possible problem in respect of differing internal objectives for different enterprises or conflicting views of the purposes of enterprise accounting. One of the objectives of all Libyan enterprises is to contribute to the country's development and their accounting systems should therefore provide information with socio-economic orientation.

11.2.2. Government Accounting

Libyan government accounting, as explained in Chapter 7 is considered to be uniform to a certain degree. The body which is responsible for designing, implementing and controlling the system is the Secretariat of the Treasury, with the Auditor-General's Office acting as a consultant body and as a device for control.

The State Financial System Law and its executive procedures, both issued in 1967, specify the type of accounts, measurement rules, accounts and budget forms, classification of accounts and budget, the accounts base, rules of evaluation, procedures of budget preparation and so on. Meanwhile the Law of the Auditor-General's Office specifies the procedures for conducting the audit, its implementation and forms of reporting. However, the system in itself is far from perfect and it is doubtful whether it provides relevant information for development planning. The system uses the cash basis for its accounts and the budget is a traditional budget, both of which were designed to provide information for stewardship and compliance with budget allocation. A great deal of improvement is needed if the information provided by such a system is to be useful for development planning.

It was suggested in Chapter seven that the State should adopt a more advanced budget model, such as the Planning Programming Budgeting System (PPBS). Two of the elements of PPBS are:

1) measurement of total programme cost - not for one year only, but for at least several years ahead, and
2) analysis of alternatives to find the most effective means of reaching basic programme objectives.

The above elements can only be enhanced by adopting uniform rules of measurement, identification and consistency of costs and benefits. In the public sector, benefits and costs are not the same as those benefits and costs as priced by the market, but should be measured by their shadow prices. However, the market is the starting point for measuring the social costs and benefits. Hence, a uniform accounting system at the enterprise level is a necessity because it will provide comparable data between different projects as well as between the different years of any project. Comparable cost data and benefit data are the core of a successful comparison between alternative projects for the purpose of an efficient use of available resources to make the maximum contribution towards development.

A uniform accounting system at the enterprise level is also needed for an effective system of taxation. The uniformity of measurement, evaluation, tabulation and reporting will guarantee the smooth calculation of tax revenues. With a uniform accounting system only those expenses which contribute to generating revenues will be deducted and all revenues generated during the period will be included. There will thus be less scope for tax evasion.

One of the familiar problems in government accounting is the unclear distinction between current and capital expenses. Many government departments frequently use funds for development projects to pay for current expenses, or vice versa. A uniform accounting system with its chart of accounts will explicitly define current and capital expenses, thus alleviating such problems.

If the PPBS model need to be adopted in Libya, then a uniform system is a necessity. Enthoven has asserted that a uniform cost and financial accounting system is a necessity for the PPBS model to operate effectively. The uniform system would be extremely desirable for internal budgetary and planning purposes and for better correlation with the social accounting system. All government departments should adopt a uniform model in order that information can be easily compared, appraised and systematically integrated. [Enthoven,A. 1973, p.63]

Indeed, Enthoven has identified the adoption of a uniform accounting system as one of the improvements most needed in government accounting. He stated that:

> "A uniform and consistent (e.g.) coding and classification lined with an international system could well stimulate better government accounting and would be also of great use for social accounting and economic planning purposes. A unified system should be easy to grasp, simple to maintain and adequate for the envisaged purposes. It need not be uniform in all details for ministries and agencies, but its concepts, principles classifications and rules should be homogeneous as much as possible." [Ibid., p.60]

11.3 Social Accounting

Enthoven has stated that:

> "The aim of social accounting is to describe coherently, systematically and quantitatively the structure and activities of an economy-or-its-parts during a certain time span and stocks (assists and liabilities) at a particular moment of time." [Enthoven,A. 1973, p.66]

Such information is needed for various national and international purposes, including the construction of equations in econometric model-building needed for economic planning. [Ibid., p.66] The above information is provided through various social accounts, which include national income accounts, balance of payments accounts and the national balance sheet. The success of these accounts in providing coherent, systematic and quantitative information covering the whole economy is dependent on the degree of uniformity applied in them. Thus, the new United Nations' matrix system shows a high degree of integration between the various accounts in the system and its classification system and procedures are strongly unified in obtaining information from other branches of accounting.

The various social accounts are mainly based on information provided by enterprise accounting and government accounting. According to S.C. Yu, the technical framework of macro accounting is very much the same as that of micro accounting. [Yu, S.C., 1966, p.11] Indeed, the national balance sheet and the national income and product account are equivalent to the two basic financial statements in financial accounting. The saving and investment accounts are similar to the statement of retained earnings. Input-output tables, which reveal inter-industry purchases and sales relationships, are largely an extension of the national income accounting system with an emphasis on cost of goods manufactured. The flow of funds account is an adaptation of the statement of sources and uses of funds in financial accounting, and the balance of payments account is partly a variation of the funds statement and partly an extension of the national income system.

Such a strong interrelation between the segments of micro and macro accounting suggests that the successful integration between the various segments of macro accounting is highly dependent on the degree of uniformity at micro accounting level.

In Libya, however, the degree of uniformity at the micro accounting level is very weak, while linkages between micro accounting and macro accounting are almost completely absent. The analysis in Chapters 6, 7 and 8 (enterprise accounting, government accounting and social accounting) suggested the following:

1) There is no agreement between micro accounting and macro accounting (or even within micro accounting) regarding the definitions, measurement base, unit of measurement and the basis of accounting of the input data necessary for obtaining information of certain economic observations that would be needed for evaluating the country's economic performance or for monitoring the progress of a development plan.
2) There is no comparability between micro accounting data for macro accounting purposes.
3) There is no awareness by micro accountants that accounting measurements which they are using could have a great impact upon decision making at the macro level.
4) There is no awareness by managers at the micro level of the great benefit in using macro aggregates for planning and controlling their business.

The only way for Libya to resolve the inconsistencies between micro accounting and macro accounting and to promote awareness at the micro level of the interrelationship between it and the macro level, is to adopt an accounting system which is specifically tailored to Libyan accounting information needs and which results in an accountancy function compatible with the Libyan economic and social structure.

A uniform accounting system, if adopted in Libya, could play two important roles:

1) it could establish a base for common understanding between the micro accountants and macro accountants, and
2) it could solve some of Libya's national accounting problems.

It could establish a common understanding between the two groups of accountants by unifying the accounting language used and resolving all discrepancies and differences in accounting terminology. Furthermore, the information from the micro accountants to the macro accountants would be provided according to a specific framework already known to each of them, while micro accountants would be well informed of the needs of those at macro level.

Some of the problems which could be solved by adopting a uniform accounting system are:

1) The aggregation problem.
2) The absence of sufficient and detailed information to compile national sectoral accounts.
3) The margin of error.
4) The imputed transactions.
5) Stock valuation.

An examination of these problems in the Libyan environment will show how a uniform accounting system may be expected to alleviate them. In regard to the aggregation problem, it was mentioned earlier (see Chapter 8) that one of the most serious problems faced by compilers of national accounts in Libya is the aggregation of the accounts of the various economic units to construct national or sectoral accounts. [Zenny, A., 1986] For example, it is very difficult for national accountants in Libya to distinguish between current and capital expenditures and incomes for the purpose of aggregating certain statistical totals such as total savings and total investment (capital formation). The reason for these problems is the absence of unified terminology and methods of presenting information at the micro level. Perhaps two of the major concerns of uniform accounting are to unify accounting terminology, concepts, rules, accounting bases and classification of economic activities and goals, and to unify the method of presenting information through the accounts charts, accounts, financial statements and budgets.

With regard to the second problem (absence of sufficient details) national accounts in Libya depend mainly on production statistics provided by the accounts of micro units. However, micro unit accounts are not usually adequate to enable accountants to prepare detailed national and sectoral accounts to meet the needs of national planning and control. The detailed accounts, which are urgently needed in a centrally planned economy such as Libya, require basic information of a high degree of disaggregation. Thus, the new UN system is highly disaggregated for the purpose of international comparison.

A uniform accounting system would alleviate this problem by the participation of micro and macro accountants in designing the chart of accounts and by requiring micro units to prepare statements and budgets which include detailed information about the micro unit on the basis of unified classifications, activity and goals.

The third problem (error margin) can result from errors in the practical application of the theoretical framework of classifications definitions, etc., and from statistical errors as a result of the use of imprecise numbers. In Libya at present, micro and macro accounting are entirely separate, which may cause the misinterpretation of micro accounts by macro accountants, and vice versa. A uniform accounting system would encourage micro and macro accountants to understand each other's language, which would eventually bring about a reduction in the margin of error.

The last two problems (imputed transactions, and stock evaluation) are two of the most serious problems faced by national accountants in Libya (see Chapter 8). A uniform accounting system would assist by unifying the accounting treatment of current operations surplus to include rent of self-used buildings, imputed interest, and differences in stock valuation by selling prices, in addition to eliminating those expenses and revenues which do not belong to current operations, in order to facilitate the computation of value added according to the economic concept.

It is believed that comprehensive research should be undertaken with the objective of identifying the accounting information needs of socio-economic development planning in Libya. This would assist in the integration of the social accounting segments. However, at the moment the only two segments of social accounting in use in Libya are the national income accounts and the balance of payments. It has been suggested by authorities at the Secretariat of Planning that the absence of the basic data needed to prepare the other segments of social accounts is the reason for this deficiency. [Zenny, 1986]

A uniform accounting system which requires firms to prepare the traditional financial statements as well as cash flow statements, current operations accounts, statement of sources and uses of funds, monthly or quarterly as well as annual statements on a physical and a financial basis, value added statements, accounting return, etc. - would surely enhance the preparation and integration of all social accounts segments in Libya. Such systems have proved to be successful in those countries which apply the uniform accounting system, such as Egypt. [Hussein, I. K. 1981, p.9]

11.4. Development Planning

Besides improving the state of the three branches of accounting in Libya, Libya needs a uniform accounting system to improve the process of development planning. In the last chapter accounting information needs at each stage of development planning were defined. The need for a uniform accounting system to provide that information in a coherent, systematic, up-to-date and comprehensive manner at each stage is evident.

11.4.1 The Aggregate (Macro) Stage

The purpose is to calculate the capital/output ratio according to the Harrod-Domar model so that the percentage of national income which must be invested in order to achieve the target rate of economic growth can be estimated. Key figures in calculating this rate are provided by national income, investment, consumption and balance of payments. The figures are mainly based on the composition and value of such items as fixed assets, inventories and output, which are provided mainly by the financial statements of business enterprises and government departments. In Chapter 8 it was stated that there is some evidence of the inaccuracy of national accounts figures. This inaccuracy could be explained, as authorities of the Secretariat of Planning have suggested, by the nature of those figures, most of which have to be estimated because of the lack of information from public enterprises and other government departments, or because of the inability to aggregate the available figures due to diversity in measurement rules, evaluation, classification, timing and reporting. [Zenny, Summer 1986]

The success of the uniform accounting system in other countries in providing the figures needed to aggregate and prepare national income, investment, production and balance of payments statements suggests that such a system could be successful in providing such figures in Libya. Indeed, a uniform accounting system at micro level could be designed so that unified rules of identification, collection, measurement, evaluation, classification, timing and reporting of items in the traditional financial statements, as well as in other additional statements, could be guaranteed. Items of different micro units can only be aggregated to give national income, investment, production, consumption and balance of payments statements if the rules governing their measurement and evaluation and classification are unified.

11.4.2. <u>Sectoral Stage</u>

The main objective of sectoral planning is to determine the planned growth rates of the various sectors of the economy. This is achieved either by:

1) the input-output table method, or by
2) the partial sector analysis method (rule of thumb).

Libyan planners have been using the second method, but it is believed that the input-output method is more accurate. Input-output tables show systematically the industries producing goods and services and those purchasing them, giving in effect a cross classification table of industrial interdependence. Input-output tables give a dynamic picture of the economy, including a projection of sectoral output requirements, calculating imports, capital and labour requirements of sectoral production and determining the capital and labour intensities of products.

In contrast, partial sector analysis is mainly aimed at the calculation of the capacity needed to satisfy the projected demand for any sector's production or services.

Clearly, input-output tables are better equipped to project a sector's growth targets and the factors needed to achieve that growth rate.

In the Libyan case, with the partial method there is a wide gap between the planned and the actual growth rates in almost all sectors of the economy. (See Table 7.3) The successful use of input-output tables is dependent upon the input-output coefficients which need to be accurate within a reasonable margin.

We have seen that the calculation of the input-output coefficient in an industry or sector is dependent on the source and use accounts (see Table 7.5) which originated from the financial statements of business enterprises. Conceptually, input-output tables are based on the disaggregation and reconstruction of items from the product account, the profit and loss account and the appropriated profit account.

A uniform accounting system could improve the above process in two respects:

1) business enterprises could be required to give information concerning details of purchase (by industry or import), value added (wages, rent, profit, interest, depreciation) as well as information covering sales and inventory;
2) inter (and intra) industry data (internal and external flows) could be measured using current values.

The Libyan accounting system is incapable of generating sufficiently well-classified and up-to-date cost information. A uniform accounting system with a uniform cost system would alleviate this problem so that better sectoral planning could be achieved.

11.4.3. Project Stage

The project stage is the final stage of the development planning process. However, the success of the whole plan is highly dependent on accurate analysis at this stage. If project screening and evaluation are not based on scientific and objective analysis, the whole plan is likely to fail. This stage requires the identification, collection, measurement and evaluation of project data provided by cost and financial accounting.

The inadequacy of this stage of planning in Libya is suggested by the failure of so many development projects to achieve their goals. A great number of development projects have been completed, only to cease operation a short time afterwards. Others are operating with heavy losses, while others have not been able to achieve their targeted volume of production. Indeed, as recently as May 1987, the leadership of the revolution asserted that most Libyan industries are heading for collapse.

The Auditor General's reports have repeatedly complained about the fact that many development projects have been decided upon without any feasibility study. However, even if such feasibility studies were carried out, they were unlikely to be accurate because of the absence of reliable accounting information. The project analysis stage, unlike the other two stages, cannot be based on rough data; it needs accurate data to be successfully carried out. Most of the accounting data needed at this stage are related to cost benefit analysis. It has been stated elsewhere in this study that there is evidence that the cost accounting systems of Libyan public enterprises are at best very weak. No cost analysis is undertaken, budgeting systems are poor and many costs are assigned on an ad-hoc basis.

Despite the fact that project analysis is based, not on the market prices of costs and benefits, but rather on shadow prices, nevertheless the starting point of determining these prices is the cost records of the enterprises.

It is believed that, given the current Libyan environment, the only way to supply the required cost/benefit data is to adopt a form of uniform accounting system which incorporates a cost system.

Project analysis comprises three main stages and a uniform system is expected to be useful in each of these stages.

Firstly, the identification stage: the purpose is to ascertain whether a project is consistent with the priorities of its sector and whether it is feasible to execute it. This will require studies to be made of the country's available resources, the cost factors involved in production, the expected return and other indirect effects. These studies will need accounting information such as preliminary costs and benefits, comprehensive data on materials (quantity and prices), labour (quantity and costs), capital investment needed, overhead costs, potential sales revenue, expected behaviour of various costs and revenues in the future as well as the possibilities of savings in foreign exchange due to a given project.

Only a uniform accounting system with a standardised cost system will provide comprehensive, systematic, accurate and up-to-date information about these accounting variables. [Enthoven, 1973, p.222]

Secondly, the project evaluation and selection stage: the purpose of this stage is to select from the pool of projects which have been identified in the first stage, the project or projects which should be carried out, based on their cost and benefit analysis. Projects with greater net benefits should be given priority of execution. Budget constraints will dictate the number of projects which can be carried out within each sector. The selection process is based on one or more investment criteria, which include net present value, internal rate of return or any other criterion. All such criteria require data concerning social costs and benefits.

The need for uniform rules for identifying these costs and benefits and for their measurement and valuation is a major important factor in project selection.

Thirdly, the project execution and follow-up stage: the purpose is to calculate the actual costs and benefits of the project and to compare them with those costs and benefits calculated at the first two stages so that feedback and control is possible.

The calculation of actual costs and benefits will have to be based on the rules used in calculating the projected costs and benefits at the first two stages. Hence the need for a uniform accounting system to identify, collect, measure, classify and report such actual costs and benefits is evident.

In addition to the need for a uniform accounting system in the three branches of accounting and for development planning, Libya could also benefit from using the uniform accounting system for other macro purposes. Libya is aiming at the most efficient allocation of its resources, which implies accurate pricing, and the detection and correction of inefficiencies and leakages in the economic system.

It is acknowledged that an adequate detailed classification of costs is essential for accurately pricing any product or materials. The pricing of products by manufacturers is essentially a micro level problem, but the regulation of the price mechanism is clearly a macro concept. Price regulation in Libya is necessary to minimise the inevitable side effects of accelerated development on the public, such as the inability of most producers to meet the public demand for their goods and services. The Secretariat of the Economy is the body which is responsible for pricing such goods and services. Price regulation can only be effective and objective when the experts in the Secretariat of the Economy have comprehensive, reliable, relevant and up-to-date information concerning the cost elements of such goods and services. However, the current Libyan accounting system is too weak to provide this information and a uniform accounting system could be structured to produce it.

Besides pricing goods and services, the uniform accounting system could also enhance the accuracy of pricing factors of production such as land, labour and capital. As Libya aims to share profits between the State and the employees, it is essential to price the production and its factors correctly. Among the factors of production which need to be priced is the cost of capital. As the State is the primary supplier of capital for all business, it is essential that cost of capital should be calculated correctly as part of the expenses.

For the State to achieve social justice in distributing profits between employees of various economic units, it is essential that these profits should be measured on a unified basis. A uniform accounting system would be better able to provide such uniform measurements than that currently in operation.

Another factor in the optimum allocation of resources is the detection and correction of inefficiencies and leakages in the system. This requires adequate control of national assets and reduction of costs of production. One of the popular functions of a uniform accounting systems is control over the efficient use of the resources which are entrusted to various micro units. This function is one of the main objectives of the German (Hitler), Russian and Egyptian uniform accounting systems.

11.5 Environmental Needs For Uniformity In Libya

If the uniform accounting system is to achieve its objectives, then the right environmental factors must exist. Indeed, as Enthoven once stated, accounting should serve its environment and should be in tune with it. It is the widening gap between accounting and its environment in Libya which renders the current accounting system useless.

D.D. Al-Hashim and S.P. Garner suggested twelve postulates which favour the adopting of a uniform accounting system in any country. [Al-Hashim,D.D. and Garner, S.P., 1979, pp.410-417] These postulates are discussed in relation to the Libyan environment to show how environmental factors favour the adoption of uniform accounting in Libya.

11.5.1. Postulate 1: The more centralised the economy, the greater the likelihood of uniformity.

In Libya the planning of the economy is the responsibility of the Secretariat of Planning. The socio-economic development plan is prepared centrally by the experts at the Secretariat, approved by the Basic People's Consensus and implemented by the People's Committees at the state and municipal levels.

11.5.2. Postulate 2: The lower the level of accounting education in a society, the greater the need for uniformity.

Accounting education in Libya was the subject of chapter 4. However, at this point it can be stated that accounting education in Libya is at a low level. Accounting education in Libya is fairly new and the first accounting was the Faculty of Economics and Commerce in Benghazi. A few other education institutes provided only vocational accounting education. Accounting education in Libya was highly British oriented and is now highly American oriented. This orientation has very little relevance to the Libyan environment. Statistics show that for the period of 1961 to 1985 only 1,520 students graduated from a university, and 3,140 from commercial institutes. In addition there are about 25 Ph.D graduates in accounting. Thus, the number of persons with formal accounting education is low, and most of these have had only vocational training.

Accordingly, it could be concluded that the level of education in Libya is indeed at a low level, thus implying the need for a uniform accounting system.

11.5.3. <u>Postulate 3</u>: The more urgently the need for economic development is felt by a central government, the greater the desirability of uniformity.

Since independence, Libya has felt the need for economic development. Since 1963, when the first five-year development plan was introduced, the country has had six five-year development plans. The latest started at the beginning of 1986, and current planning covers a period of twenty years, starting from 1981.

11.5.4. <u>Postulate 4</u>: The less the availability of trained management, the greater the need for uniformity.

Under the new system of managing public enterprises by People's Committees, most committee members have been appointed not form their qualifications or managerial skills, but for other reasons. As recently as 1987 the leadership of the Revolution explained that the failure of most Libyan public enterprises has been caused in part by the lack of qualified representatives on the People's Committee.

The appointment process and the frequent changes in the People's Committees have contributed to the weakness of the management of Libyan public enterprises. A uniform accounting system could assist by providing information needed for managing and planning, and it could also facilitate the execution of the managers' and planners' function, especially if the managers and planners have not been trained to handle the work required of them. A uniform accounting system can also simplify accounting education.

11.5.5. Postulate 5: The more the members of a society identify their own interests with the interests of the society, the greater the acceptability of uniformity.

Since the Revolution of 1969 the Libyan government has declared socialism as one of its three main dogmas (freedom, socialism, unity). This socialism has been interpreted to mean the ownership and control of all business activities by society, represented by the State, and since 1980 the State has owned, operated and controlled all business activities from small cigarette shops right up to the petro-chemical industry.

It can be argued, then, that the Libyan population identify their own interests with the interests of the society, so that a uniform accounting system would be found highly acceptable in Libya.

11.5.6. Postulate 6: The greater the scope for using electronic data processing systems (EDPS), the greater the need for uniformity.

At the present time only a few of the big organisations, such as banks, oil companies, Libyan Air Lines, etc., use EDPS. This is due to the shortage of qualified operators and lack of awareness of the benefits of more detailed and timely information. Another factor is the cost involved in setting up and operating such a system. However, the adoption of a uniform accounting system would enhance and facilitate the use of EDPS, for it would provide more unified and systematic accounting data; hence it would be less costly to operate EDPS because a great number of firms would share the same accounting system and the data to be processed would be more easily systematised.

The need for EDPS in Libya is evident because of the shortage of accounting manpower and because of the range and detail of accounting data which is needed by state authorities.

11.5.7. Postulate 7: The lower the professional status of accountants, the more reason for uniformity to protect society in general.

A detailed discussion of the status of the accounting profession was the subject of Chapter 5, where it was shown that the accounting profession is not well established in Libya. Despite the enactment of Law No. 116 of 1973 (the Law of Libyan Accountants' and Auditors' Organisation), the profession has yet to issue a code of ethics or conduct or to design a professional examination. Few professional accountants in Libya have a university degree in accounting or any other academic qualifications.

The profession is formally recognised in law (law No. 116), but in practical terms, this recognition is very limited. The role of the profession is considered to be to conduct compliance audits of financial accounting figures with no concern for their social or economic relevance. Thus, the accounting profession in Libya serves merely a mechanical function with no significant role to play within society.

11.5.8. <u>Postulate 8</u>: The greater the rewards for misrepresentation of accounting results, the greater the resistance to uniformity.

In the discussion of Postulate 7 it was stated that the status of the accounting profession is very weak. Furthermore, the only customers of the accounting profession in Libya at present are the few foreign companies which are operating there, for all state enterprises are audited by the staff of the Auditor General's Office. Even the audit of foreign companies is confined to a stamp of approval without a real and serious audit. Furthermore, few of the accounting professionals are aware of the potential effect of the uniform accounting system on their profession.

Therefore, the resistance of the accounting profession to a uniform accounting system is expected to be minimal.

11.5.9. Postulate 9: The more clearly identifiable the common goals and interest served by financial statements, the more desirable is uniformity.

Because Libya is a socialist country, the top management of Libyan enterprises, regulatory bodies and the national planning board (Secretariat of Planning) should all have common interests and objectives in respect of the units they supervise. The operational information which each needs in respect of subordinate units is thus substantially the same. Accordingly, the financial statements of Libyan enterprises are likely to serve a small number of identifiable users who share much the same needs and objectives.

11.5.10. Postulate 10: The greater the variety of purposes served by accounting information, the greater the number of accounting processes.

It has been stated that the few users of accounting information (top management, regulatory bodies and the national planning board) should all have common interests and objectives. Hence the demand for accounting information is similar or uniform. It follows then that the processes of generating such information by accountants should be similar. This similarity in accounting processes means that a uniform accounting system is highly desirable in Libya.

11.5.11. Postulate 11: The less the degree of the accountant's sophistication, the less the resistance to uniformity.

The nature of the qualification of Libyan accountants suggests that their level of sophistication is very weak. Accounting education in Libya is based on classroom lectures, text book problems and solutions and written examinations. This has tended to produce very traditional and limited accountants, and has not encouraged independent thinking. Those Libyan accountants who have qualified through experience have gained that experience by copying the practices of their trainers. Therefore the bulk of Libyan accountants lack the ability to judge independently alternative accounting systems and to select those which suit the country's needs.

11.5.12. Postulate 12: The closer the information needs of the operational managers to those of the controlling party, the less the resistance to uniformity.

It was stated earlier that the objectives of top managements, regulatory bodies and the national planning board in Libya are similar. In addition, the objectives of various controlling bodies in Libya (such as the Secretariat of the Treasury, the Secretariat of the Economy, the Auditor General and the People's Congresses) are all similar to those mentioned above. Hence the objectives of operational managers of Libyan enterprises are identifiable with those of the groups exercising legal or financial control over their operations. Therefore the information needs of those managers would be closely related to those of the controlling bodies, so there should be little resistance, if any, on their part to a uniform accounting system in Libya.

All in all, then, Libya provides a very suitable environment for a uniform accounting system, and one which is very inappropriate for a British or American style accounting system.

However, some difficulties might be expected to arise during the implementation of a uniform accounting system in Libya. The first of these is the lack of sufficient manpower to implement the system. It has been explained that Libyan accountants can only cover about half of the requirements of the development plan of 1981-85. One way out of this problem is to intensify the sue of computerised accounting systems where the need for accounting manpower is less than it is in manual systems. A uniform accounting system would make the implementation of a computerised accounting system less costly and more adaptable than a diversified accounting system. If follows then that intensive training programmes for Libyan accountants on the use of computers in accounting data processing are a necessity.

Another difficulty is the orientation of accounting education in Libya. Most Libyan accountants have received their accounting education in Libya, the UK or the USA. In all cases, the emphasis is on the British and American style of accounting, so that resistance to and lack of understanding of the uniform accounting system are likely. One way out of this difficulty would be a series of seminars held by the public sector authorities and supported by academicians and practitioners experienced in the role of a uniform accounting system in economic and social development planning, as well as in planning and control at the micro level.

11.6. Suggestions For Other Improvement Of Libyan Accounting

Although a uniform accounting system would be the most important single step towards improving accounting in Libya, it is certainly not the only element required, and if accounting in Libya is to be comprehensive, co-ordinated and relevant, the following elements are also needed:

1. Current value accounting .
2. Planning and programming budgeting system.
3. Cash Accounting .
4. Value for money audit.
5. Non-financial measures.
6. Flow of funds tables .
7. National balance sheet .

8. Input-output tables .

9. Integration of national accounts.

The above list is not exhaustive, but comprises those elements most urgently required as complements to a uniform accounting system.

11.6.1. Current Value Accounting

11.6.1.1. Definition

Different writers have defined current value accounting in varying ways. However, the most relevant and comprehensive definition is that given by A. Enthoven at a conference on Current Cost Accounting held in 1983.

> "The term 'current cost' as used here pertains to an array of methods that try to reflect more relevant, contemporary or fair-value data; the term 'current cost' covers such concepts as market or exit value, liquidation, replacement or entry, discounted future flows and opportunity costs. Consequently 'current cost' has been given a fairly wide latitude in our paper and covers a multiplicity of methods."
> [Enthoven, A., 1983, p.193]

Although Enthoven used the term "current cost accounting" here, in his previous writing he used the term "Current value accounting" to mean the same thing. [Enthoven,A. 1973, p.245].

11.6.1.2. The Need For Current Value Accounting

Current value accounting is necessitated by the defects of historical cost accounting as a tool of measurement of income and value at both the micro and macro levels. At the macro level historical cost accounting does not appear to be in general use, for national accounting figures are usually expressed in some form of CVA. However, at the micro level the issue is still unresolved, despite the great efforts of the opponents of historical cost accounting (HCA), who stress the harm caused where micro accounting uses HCA as the only measurement for income and value. W.T. Baxter has likened the combining of figures of different dates to adding Australian dollars to American dollars - it is a combination of unlike units [Baxter W.T., 1983, p.38], which is likely to result in various types of misinformation. Two of the more obvious are:

1. Figures of different dates, even if each was correct at its own date, are not comparable, and to compare them is to invite false impressions.

2. If a year's accounts contain figures obtained by adding or subtracting unlike units, then these figures are in a significant sense incorrect even at the date of the accounts. [ibid., p.38].

If the management of an enterprise has been misinformed as a result of using HCA figures, problems could develop which could be detrimental to the planning and control of the firm's activities. These problems might include:

1. Trends: Anyone who tries to identify trends in a time series of HCA figures might draw false conclusions. For example, a firm's reports usually include comparative tables of sales, profits and fixed assets over a period of time. If this is a period of inflation, which is usually the case, then the impression will normally be an upward trend for sales, profits and fixed assets, whatever the physical turnover or the efficiency of management. The same holds for almost all other kinds of long-term accounting series.
2. Mixed figures within an account: The ledger of any account may include figures from different accounting periods. If these figures are based on HCA, then each figure is peculiar to a given year. Thus, the remained earnings account will include retained earnings from different accounting years; these figures are best expressed and interpreted in terms of some sort of CVA so they then represent the current value of those historical figures.
3. Comparison of cost: The comparison of income statement figures, which are based on HCA, will be misleading, and revenue and cost figures will not truly represent the success or failure of management or the general economic conditions of the firm over the years; instead, they will tend to reflect inflated figures of revenues compared with less inflated figures of costs. The overstated net

income could lead to the distribution of capital as dividends, which might eventually lead to the collapse of the firm.

4. Comparison between firms: Similar historical values for fixed or current assets bought at different dates by two or more firms may hide the fact that the assets of one firm may have greater value than those of another despite their apparent similarity. Furthermore, the replacement of assets of a firm may prove to be impossible due to insufficient funds being retained for replacement.

As a result of the use of distorted HCA figures, wrong decisions might be taken by management in at least three major areas:

1. investment decisions
2. pricing decisions
3. performance evaluation. [Allardyce, F.A., 1983, p.49].

Accounting literature was dealt comprehensively with these issues and further discussion here would add little to the debate. However, the discussion has been sufficient to indicate that accounting figures based on HCA alone could mislead management, leading to less effective planning and control of the activities of the firm.

Although the above discussion has been confined to micro accounting, the problems arising at the micro level would influence macro accounting because macro accounting figures result from the aggregation of micro accounting data. Those responsible for the national accounts are aware of the problems of HCA figures and adjust them to CVA figures. However, this causes delay in preparation of the national accounting figures and lost opportunities for better resource allocation decisions.

To overcome the problems caused by HCA figures at both levels of the economy, many economists and accounting scholars have recommended the adoption of CVA, either alone or alongside HCA.

The adoption of CVA in accounting measurement, reporting and decisions making would enhance the reliability and effectiveness of activities, flows and resources in both the micro and macro economic sectors.

The objectives of CVA at the enterprise level are dependent on the methods of presentation of current cost in financial statements. There are two main methods of current value accounting as summarised by Enthoven:

1. Methods which aim at realising certain "maintenance objectives" in determining enterprise income.

   The objectives of such methods are to maintain intact:

   a) the nominal capital of an enterprise
   b) the stock of non-monetary assets
   c) the source of income for capital investors of an

enterprise

d) the equity capital expressed in monetary units of a stable purchasing power.

2. Methods which aim at presenting relevant information in financial statements. Elaboration of such methods can be found in the writing of Sprouse and Moonitz, Chambers, Edward and Bell and Sterling.

At the macro level the need for current value accounting is dictated by the aims of macro accounting and the nature of information needed by economic analysis, policy and planning.

Data for the macro accounts and tables are largely obtained from financial statements of business enterprises which will require adjustment and reclassification to reflect current activities and changes in stocks (assets or liabilities) for the economy as a whole.

Unlike micro accounting, the data recorded in the macro accounts should be measured at current values or at constant prices. For example, inventory and the depreciation and values of fixed assets must be expressed at current value rather than historical cost. Accordingly, the data taken from business enterprise statements must either be expressed at current value in the original statements be adjusted for macro accounting purposes. The market values can be obtained either from available market prices or by applying a general or specific price index.

Current value accounting (CVA) is also needed at the macro level to enhance economic analysis, policy and planning. As we have seen in the previous chapter, at the heart of development planning are such measurement tools as capital output ratios, input-output analysis and shadow pricing, each of which need current value measurements.

There are three types of capital output ratio (net average, gross average and marginal capital output ratio), in which current output is related to the capital input used for producing it. In each case, both output and the value of capital consumed are measured at current value rather than historical value.

At the sectoral stage, input-output analyses are very significant in analysing the interrelationships between various sectors of the economy. Because any figure in any cell of the input-output table represents an output of one sector and an input of another sector, both input and output must be expressed in the same units. As current output units are expressed in current market prices, it follows that input units must also be expressed at current value.

At the project stage, the allocation of resources between different projects is carried out through comparison of the social benefits with the social costs of projects. These costs and benefits are based on shadow (accounting) prices rather than on market prices. Reliable cost-benefit analysis requires that accounting figures should be expressed at current values of production factors. Realistic calculations of shadow prices could be enhanced by initial estimates based on the "opportunity cost" of input. These can be identical to the current cost. [Enthoven. A.1973 p.100].

All in all, then, planning and control of a firm's activities as well as development planning and decision-making at the national level requires current value accounting.

We have seen that Libyan enterprises have yet to recognise the need for market prices and constant prices in the national income accounts. Libyan national income accounts are expressed at both market prices and constant prices. However, these figures are dependent on the adjustment of figures provided in the financial statements of business enterprises, thus causing delay and limiting the usefulness of national income accounts. The latest Libyan national accounts, which cover the period 1971-1980, took four years to compile, being published in April 1984. Reasons for the delay given by the Director General of the National Income Accounts Division (Zenny, 1986) were: the delay in receiving companies' financial statements, collecting data by other means and the need to adjust historical to current value figures. Indeed, of those enterprises responding to the questionnaires (see Chapter 6) none has reported its financial statements in current value figures or kept its accounting records on that basis. The tax law, the commercial code and the companies act all require that books should be kept according to the original or historical cost of assets and liabilities.

For Libyan planning and control to be effective at the micro and macro levels, they must be based on true values of assets, liabilities, costs and revenues. Inflation in Libya, despite the absence of published figures, is a matter of fact. Most factors of production and most capital assets are imported from abroad. Inflation nowadays is a world-wide problem, except in a handful of countries where the inflation rate is moderate. Therefore, reliable values of assets, liabilities, costs and revenues can only be achieved by adopting current value accounting, which could be based on current market prices, replacement values or even constant prices using price indices. Some sort of current valuation based on a general price level index should be possible, as the Central Bank of Libya publishes such an index.

The Libyan uniform accounting system should therefore be based on current value accounting alongside historical value accounting at least for the foreseeable future.

11.6.2. Cash Accounting Versus Accrual Accounting In The Context Of Government Accounting

Government accounting in Libya is based on cash accounting system (see chapter 7) in that estimates are cash authorised and accounts show cash receipts and payments, with comparison of authorised actual expenditure providing accountability and control. Such a system has been defined as follows:

> "The cash basis of accounting means reflecting only transactions involving actual receipts and disbursement accruing in a given period with no attempt to record unpaid bills (or amounts) owed to or by the entity." [Gross, J.&, Malvern, J., 1972].

The reasons for adopting this system as explained by Mr. A. Saad (Director General of Accounts Section, Secretariat of Treasury, Tripoli,) are:-

1. The system is very simple and easy to operate, thus it does not need a highly qualified accountant. In fact most government accountants have no accounting degree, and thus need a simple system to operate.
2. The budget authorisation is based on cash, thus the system promotes control of government spending, for it is easy to compare amounts authorised in the budget and those actually spent.
3. It facilitates the implementation of the government financial system, for it is factual and it does not need personal judgement.
4. It facilitates the training of newly appointed accountants.
5. It facilitates the preparation of final accounts of the state.
6. It promotes accountability, for it is easy to identify those who receive cash or make cash payments and the reason for such actions.

7. Most of our expenditure and revenue is cash payments and receipts. For example, salaries and wages of all government employees are paid in cash on 25th of each month. These payments represent more than 75 per cent of payments authorised by the administrative budget. On the other hand, the bulk of the state revenue (oil revenue) is collected in cash, most of the time within the same year of sales. [Saad, A., Tripoli, 1986].

Mr. Saad added:

> "For that reason we believe that cash accounting is adequate for our government accounting purposes, and we see no need for change to another system, despite the recommendation of the Auditor General."

One may add to the above list of reasons that cash accounting is cheap to operate and straight-forward; reports can be prepared quickly at the end of the period since the work of estimating and valuing necessary under other bases is not required. Further, the reports are simple, thus easy to understand by managers and others.

However, cash accounting is not problem-free since the timing of cash flows is only loosely related to that of the associated flows of real resources; a receipts of payments account may not provide a clear indication of the underlying operations of the state. Although this situation may not be relevant to the current nature of expenditure and revenue of the Libyan government, according to Mr. Saad nevertheless, it could be the case of some expenditures and revenues in the future. Another problem associated with cash accounting is that it makes no attempt to separate capital and income because there are no assets or liabilities. There is no measure of the organisation's worth or of its capital, and income cannot be measured since it is represented by the increase in capital. It may be argued that government departments, unlike business organisations, do not aim to make a profit and that their capital assets could be replaced simply through the government budget. However, national accounting needs to distinguish between capital formation and value added.

It could be argued, however, that whilst government accounting should provide readily available information about capital and value added, the requirement of accountability and control may outweigh the requirement of capital and value added, especially as national accountants could still adjust government accounts to calculate capital and value added. Therefore, it is reasonable to suggest that given the Libyan environment, and the objectives of government accounting in Libya, cash accounting should stay as the base for government accounting.

Recently, however, there are some accountancy writers (though few) who argue that government accounting should adopt accrual accounting instead of cash accounting. For example, Jones, R., Pendlebury, M., (1985), Jones, R., (1988), U.N 1984 and the

Auditor General (1984). Those who argue in favour of adopting accrual accounting for government accounting are trying to transfer such accounting from enterprise accounting to government accounting. Such an attempt could be challenged for two reasons:

1. What may be applicable to the private sector is not necessarily applicable to the public sector, and
2. There is doubt about relevancy of accrual accounting to decision making even at the private enterprise level, let alone at the public sector level.

Those who argue that the public sector should provide accrual information because private sector bodies provide it could be challenged on two accounts. First, the characteristics and objectives of the public sector organisations are different from those of private sector. Thus there is no reason to suggest that the same accounting methods would be appropriate for both sectors. Let us for the moment assume that the accrual accounting is relevant to the private sector, then it could be argued that the status of the bottom line in an accrual based statement itself differs between the two sectors. As Rutherford argues:

> "A shareholder in a profit-seeking entity has an interest in the profit and capital of an organisation which varies in proportion to his or her shareholding and which can be changed only by buying or selling shares, a matter outside the control of the organisation itself. By contrast, the extent to which a constituent benefits from the fund balance of a public sector body will depend entirely on how the body decides to spend the balance - a decision which is under its

> control and over which an individual constituent has almost no influence." [Rutherford, B., 1983, p.45].

Indeed in Libya, those who pay higher taxes have a very minor or no influence on deciding how to allocate the budget, while those who pay no tax or very small amounts have more say on how to allocate the budget. This is due to the fact that the bulk of people who attend Basic Peoples Congress meetings in Libya are those with lower incomes. Secondly, the conceptual basis for accrual accounting in private sector is the matching of costs and revenues to determine the earnings for a given period. Another concept in the private sector is the matching of costs and output by comparing efforts and accomplishment in this way, a net result can be calculated which indicates the net earning. [Ibid, p.44]. These two concepts are not relevant to the public sector since:

a) The objective of the government is to provide services to its subjects and not to make a profit, and hence, many government costs have no money revenues. For example, the Libyan government spends billions of pounds on education, health and defence services; three which have no revenues in return. On the other hand more than 90 per cent of its revenue is drawn from oil, yet producing and selling oil costs very little.
b) Public sector revenue is not a measure of output, thus the allocation of periodic costs cannot achieve the objective of matching costs with output. Indeed, in

Libya the selling price of all services and goods is fixed by the state, when in most cases prices are below or above the real cost. In the case of taxes, Libya has one of the highest income tax rates, yet services provided by government are very poor.

c) The proponents of accrual accounting assume that the ability of a private sector to survive is dependent on its ability to make a profit. Such assumptions cannot be applied to the public sector, where survival is dependent on its capacity to raise taxes and guarantees a cash inflow. For example, there were some occasions where the Libyan government was not able to meet its international, national and local commitments, not because goods and services were not received, nor that revenues were not realised, but because government was not able to collect its taxes, and services and goods charges such as telephone, water and electricity charges. Such delay in meeting its commitments had created some concern inside and outside Libya.

d) Accrual accounting would require entries to be made in the accounts at the moment liabilities were incurred. This method requires more complex book-keeping than the straightforward cash accounting. Ledgers records would be necessary to disclose for each individual the sums receivable and payable and of settlements made against these sums. It would also be necessary to estimate and distinguish current from capital expenditure in order to provide depreciation and inventory valuation. Such actions would involve several subjective estimates and allocations which are difficult for most government accountants in Libya to carry out properly, and thus a very distorted picture would be provided by government accounting.

e) In addition to the above arguments one may add that while performance evaluation is currently based on return on capital (challenge is forthcoming), performance evaluation in the public sector is based on the effectiveness and efficiency of management in achieving the government objectives that is to provide services and goods to the population efficiently and effectively.

It is worth mentioning here that in Egypt where there are far more available and experienced accountants than in Libya, the accrual basis in government accounting was adopted in 1973, only to be abandoned in 1979. The author of Law No. 11 of 1979 in article 12 stated that the general budget should be prepared on the basis of cash accounting instead of accrual accounting. The author argued that accrual accounting was not able to provide the information which was hoped for when it was first required by Law No. 53 of 1973, and that it created more problems because most government accountants were not able to operate the system [Arab Costing Society 1980,Vol.4,p144].

The second reason for challenging accrual accounting is that there is doubt about its relevance even to private sector enterprises, let alone to the public sector. This accounting base is related to "matching principle" and "earning statement" both of which have been criticised since the 1970's on both sides of the Atlantic. Kenneth S. Most once wrote that:

> "until quite recently one accounting principle was demonstrably a generally accepted accounting principle. In spite of the fact that scholars and practitioners behave and discuss as if this were still the case, evidence is accumulating which tends to show that the promulgation of accounting rules and standards no longer relies upon matching as a principle of accounting." [Most, K.S., 1977, p.286].

Most based his argument on a number of comments made by the Accounting Principles Board (APB), in its statement No. 4 with regard to income determination. They argued that due to the many different meanings of the term matching, this term is not used in this statement. In note 43 of the statement, APB stated that:

> "The term matching is often used in accounting literature to describe the entire process of income determination. The term is also often applied in accounting, however, in a more limited sense to the process of expense recognition of expenses by associating costs with revenue on a cause and effect basis. Because of the variety of its meaning, the term matching is not used in this statement." [ibid ,p.287].

Further, the Financial Accounting Standards Board (FASB) in statements Nos. 2 and 5 in regard to Accounting for Research and Development Costs and Accounting for Contingency respectively has recognised the same problem and thus explained that "matching" in these two statements means recognition of expenses by associating costs as expenses on a cause and effect basis'. It is easy to argue that there are many types of revenue which have no costs and vice versa, especially in the case of externality except for social cost or benefit. Also the determination of costs is in many cases involved in a long process of arbitrary allocation such as depreciation and stock valuation. Indeed, FASB in a note to statement No. 2 concluded that this notion of matching cannot be applied to research and development costs.

Also in statement No. 5 it concluded that this matching concept 'is a consideration in relation to accrual for such matters as uncollectable receivable and warranty obligations' and by implication, that it is not a consideration in relation to self insurance....

In the UK, SSAP2 defined accrual accounting as follows:

> "Accruals concept: Revenue and costs are accrued (that is, recognised as they are earned or incurred, not as money is received or paid), matched with one another, so far as their relationship can be established or justifiably assumed and dealt with in the profit and loss accounts of the period to which they related, provided that where the accruals concept is inconsistent with the prudence concept, the latter prevails." [Jones, R. &Penlebury, M. 1985 ,p.168]

Thus it seems also that the Accounting Standards Committee has some reservations about the accruals concept, stating that, 'where the accruals concept is inconsistent with the prudence concept the latter prevails'. It seems that it will not be long before FASB and SC start to shift their emphasis from the matching principle and accruals concept to cash flow accounting. In fact since 1971, some accountancy writers have started voicing their concern about accruals accounting on both sides of the Atlantic.

If the main purpose of accruals accounting is to match costs with revenues in order to prepare the earning statement, then such accounting is becoming less useful, for that the conventional earning statement itself has a declining role to play and it could be rejected for a number of reasons. Hicks, B.E,[1981, p.26] argues that there are at least four reasons for rejecting this statement:

1. Difficulties in application in that the smoothed cash flow measure distorts and buries the cash flow to the point that even an experienced accountant has difficulty reversing all distortions to discover the real cash flow. Indeed it could be argued that when it comes to preparation of cash flow statements it is better to use cash receipts and payments rather than an income reconciliation method, because the latter is confusing to financial statements users. It reinforces the belief that profits and depreciations are sources of cash. Net profit is the change in net assets and not a change of cash, and that depreciation cannot be real measure of

any cash flow. At best it might be a measure of difference between the real cash flows.

2. Lack of practical and theoretical support by other decision-makers. Net profit is not considered an important factor in the decision-making process by all other decision-making groups, except for the accounting profession which appears to have an earnings statement fixation. [Ibid, p.28]. Indeed, all other groups are using future cash flow as the criteria for project appraisal rather than the future earning of the investment.

The earning statement causes errors in decision making, for as long as net profits continue to be published there are reasons to believe that some investors will simply predict future earnings and use them directly in decision-making. Such action would inevitably lead to serious errors in the decisions made. In fact there is strong evidence to suggest that this is exactly the case in that Lerner and Rappaport (1968) recommended to managers that, when there are differences between the recommendation using the cash flow method and reported earning method in the case of capital budgeting decisions, managers should choose the latter. Furthermore, investors outside the organisations have no alternative but to use the reported earnings to base their investment decisions upon and to evaluate the performance of management, simply because the current external reporting does not include cash flow statements.

For that reason Briston and Fawthrop [1971, p.14] argued that:

> "A company appraises investments on the basis of probability distributions of future cash flows, while investors, owing to the form of published accounting reports, commonly base their decisions on historical single-value profit figures. Clearly, if the market is to value shares correctly it must be in possession of the same information regarding future cash flows as that which is available to management."

Finally, it could be argued that there is a serious practical gap in traditional accrual accounting because managers plan their future investments on the basis of future cash flow, whilst their consequences are evaluated on earnings. As a result, managers do not receive feedback on whether their cash flow forecasts were accurate nor whether their decision to go ahead with the investment was appropriate as far as the cash flow is concerned. [Ijiri, Y., 1979, pp57-8].

Based on the above argument (in this sub-section) it is reasonable to suggest that government accounting in Libya should continue to use 'cash accounting' and there is no apparent reason for changing to accrual accounting as some accounting writers and the Auditor General in Libya suggested.

11.6.3. Planning Programming Budgeting System (PPBS)

In the discussion of government accounting in Libya (Chapter 7) it was found that the government uses the traditional budget" or what is called "line-item budgeting". Such a system emphasises the input side of the budget with too little emphasis on output and objectives. The emphasis is on the nature of income and expenditure, e.g. income from grants, fees, sales, or expenditure on salaries, materials, travelling, etc. (See Budget Format, Chapter 7) and is concerned with control to the exclusion of management and planning. [Shick, A., 1972, p.17]. Thus, the budget fails to identify the amounts allocated to individual services, and fails to indicate the planned level of activity for each service or the best alternative means to achieve such services.

What is missing here are the two other phases defined by Chick: the management phase, which is concerned with the effectiveness with which tasks are performed, and the planning phase, which concerns the strategic choices to be made in the future, i.e. the consideration of alternative objectives of policy and alternative means of achieving these.

It is argued that PPBS is the best budgeting system for incorporating all three of the above phases. According to the Chartered Institute of Public Finance and Accountancy (CIPFA), PPBS is:

> "A management system for an organisation as a whole, providing regular procedures for reviewing goals and objectives, for selecting and planning programmes over a period of years in terms of output related both to objectives and to resources necessary to achieve them, for allocating resources between programmes and for controlling their implementation." [Chartered

Institute of Public Finance and Accountancy, 1981 Vol. 28, para. 80].

PPBS has been defined by Schultze as having six main elements:

i) Identification and examination of goals and objectives in each major area of government activity;

ii) Analysis of the output of a given programme in terms of its objectives;

iii) Measurement of total programme cost, not for just one but for at least several years ahead;

iv) Formulation of objectives and programmes extending beyond the single year of the annual budget;

v) Analysis of alternatives to find the most effective means of achieving basic programme objectives;

vi) Establishment of these analytical procedures as a systematic part of budget review. [Shisami, O. and Dean, P. 1984, p.83].

Compared with the Libyan traditional budget, PPBS is more relevant to accounting information needs at both the micro and the macro level. At the micro level, it facilitates the planning of the future activities of a given government department and the best allocation of funds to each department, according to a structured set of priorities. It will also assist a department to plan its projects, at which stage a cost/benefit analysis is used for the optimal allocation of resources. PPBS measures the total programme costs and analyses the alternatives to find the most effective means of achieving the programme's objectives.

The key feature of PPBS is that it allocates scarce resources by programmes, not as in the traditional budget, by departments. Thus, it eliminates duplication of goals and services by different departments and indicates each department's responsibility in achieving each programme's objectives. This stage is called "programme structure". However, what is more important is the provision of information for decision making. This is done through the second stage, "programme analysis", which is concerned with the analysis of the costs and benefits of each programme.

PPBS can thus be considered as assisting managerial and economic decision making on how limited resources can be allocated between competing users. [Enthoven,A. 1973, p.57]. Enthoven praised PPBS as being both a decision model and an accounting information sub-system.

In Libya the traditional budget is meant to be a device for the control of spending and revenue collection. However, it is very doubtful that it is able to satisfy even such a limited role, let alone one of management and planning. There is no co-ordination between the general administrative budget and the development budget. Similar projects have been financed by both budgets, while the development fund has been used to pay for administrative or current expenditures and there is no clear policy for distinguishing between current and capital expenditure. The two budgets are prepared by two different secretariats (Treasury/Planning) and co-ordination between the two bodies is very weak. [Ben-Saaude, Summer 1985].

The two budgets are prepared on the basis of increasing or decreasing the previous year's appropriation (Secretariat of Planning, Transformation Budget preparation, September 1987) without a serious study of alternatives or any meaningful cost/benefit analysis, while its classification is based on the nature of expenditure rather than on programmes.

The current Libyan budget cannot be used as a management tool, or as a planning device, and the only control which it provide is the comparison of actual expenditures and revenues with those planned. Therefore, the shift of the system towards PPBS is a necessity if better development planning, accountability and management of resources are to be achieved.

However, the concept of PPBS should be extended to include the implementation and control aspects in addition to the planning aspect,because much of the criticism of PPBS is due to the fact that it was developed primarily as a planning system. [Briston ,R. 1985 B. p.18]. As a result its emphasis was on efficiency, with less concern for effectiveness, and the concept was developed mainly by economists who paid little attention to the administrative and accounting problems involved. Thus, to avoid such practical deficiencies as have occurred in the past, Libya should adopt a system based upon cross-departmental programmes rather than the present method of making decisions based upon individual departments. This new strategy would require the adoption of a new system which would provide information relevant to the new concept of PPBS, i.e. information relevant to planning, implementation and control of the programmes. Libya would also need to extend its auditing practices from th compliance and regulatory audit currently performed, to include efficiency and effectiveness audit (VFM) in order to operate PPBS successfully. As Briston argues:

> "Unless a full system of effectiveness auditing is established, then there is no way that PPBS can work, for it is incompatible with traditional compliance auditing. Indeed, it could be argued that effectiveness auditing is utterly pointless without a PPBS system which has at its core the search for effectiveness, and, in the same way, PPBS will be abortive unless it is supported by effectiveness auditing." [ibid, p.19].

It is hoped that the uniform accounting system proposed for Libya would provide the necessary information for PPBS which includes planning, implementation and control. In addition, the adoption of VFM audit would assure the successful implementation of the system. It should also be emphasised that the body appointed to supervise the system should include economists, accountants, administrators, statisticians, engineers and other specialists.

Due to some environmental problems it might be necessary to adopt a *performance budget first and then to* move towards PPBS.

PPBS is not a substitute for the traditional budget, rather it is an extension and improvement of the budgeting system. Thus Libya should not abandon completely the current system, but should move towards incorporating PPBS into its system.

11.6.4. Value For Money Audit

Current accounting literature defines of two types of audit, the commercial audit which is used mainly in private companies, and government audit.

The Councils of the Institutes of Chartered Accountants in Britain (England, Wales, Scotland, Ireland) and the Association of Certified Accountants have defined commercial audit as follows:

> "An audit is the independent examination of an opinion of the financial statements of an enterprise by an appointed auditor in pursuance of that appointment and in compliance with any relevant statutory obligation." [Jones, R. and Pendlebury, M .1985, p.271)].

The Green Paper on the role of the comptroller and auditor general (CMN 7845) defined the functions of government audit as covering:

Financial and regularity audit:

a) A financial audit to ensure that systems of accounting and financial control are efficient and operating properly and that financial transactions have been correctly authorised and accounted for;

b) A regularity audit which verifies that expenditure has been insured on approved services and in accordance with statutory and other regulations and authorities governing them (sometimes called compliance audit);

c) An examination of economy and efficiency, to bring to light examples of wasteful, extravagant or unrewarding expenditure, failure to maximise receipts, of financial arrangements detrimental to the exchequer and weaknesses leading to them.

Effectiveness audit:

(d) An examination to assess whether programmes or projects undertaken to meet established policy goals of objectives have met these aims. [Command Paper, 1980,p.7].

Despite this distinction between private sector audit and government audit, it is believed that economic, efficiency and effectiveness (or value for money) audit is desirable in both sectors.

The nature and functions of audit in public enterprises and government departments in Libya were discussed in Chapters 6 and 7, respectively.

In Chapter 6 it was shown that all Libyan public enterprises are subject to external audit on the basis of a commercial audit performed by the Auditor General's Office or by an independent auditor appointed by the Auditor General. The purpose of this audit is to certify that the financial statements of the enterprises are prepared according to generally accepted accounting principles and to express an opinion on the fairness, or, sometimes the correctness, of those statements.

In Chapter 7 it was pointed out that law no. 79 of 1975 relating to the court of accounts has given the Auditor General the responsibility for auditing the accounts of the government and of public organisations and corporations whether or not other laws have provided for a special system of audit.

In respect of public corporations, organisation and enterprises, the law has specified that their audit shall be conducted according to normal accounting principles and within the scope of the provisions governing their activities.

With regard to government accounts, the law requires that the Auditor General should examine revenues and payments. He should satisfy himself that all revenues have been collected, rendered to the Treasury and entered into the accounts concerned. In respect of expenditures, he should satisfy himself that all provisions have been disbursed for the purpose for which they were allocated and that they have been duly expended in accordance with the relevant laws and regulations in force. (Article 21, 22).

Thus the external audit of corporations, enterprises and the government is a commercial, financial and regulatory audit, and does not include economy, efficiency and effectiveness audit.

Although commercial, financial and regulatory audit provides some relevant information for the purpose of accountability and custodianship, it provides very little information relevant to the optimal use, control or performance evaluation of scarce resources and their management.

The public sector owns and controls the wealth of the nation, so that the public needs an effective means to satisfy itself that the wealth entrusted to government officials and managers of public enterprises has been utilised in the most effective way to achieve the nation's objectives.

Audit should be the means by which the public are given the above assurance. However, merely assuring the public that accounting principles have been applied, that all revenues have been collected, and that all expenditures have been disbursed for the purposes for which they were allocated in the budget does not mean that resources have been used efficiently and their goals and objectives achieved effectively.

For example, a typical Auditor General's audit report on the implementation of the two budgets of the State would appeared as follows:

> "The General Budget of 1984 was approved with a total of L.D. 1437 millions and was increased by L.D. 140 millions, according to laws No. (5) (59) (69) (78) of 1984. Consequently its final figure was 1577 millions. Furthermore, a number of laws had been issued which allocated additional funds of L.D.816 millions to be covered from the expected additional collected revenues of the year. The implementation of the budget had resulted in collecting L.D. 789 millions to match actual expenditures of L.D.1,142 millions, with a deficit of L.D.353 millions ...
>
> "The result of the 1984 budget implementation is a deficit carried forward to next year of L.D. (353) millions.
>
> "In respect of the development budget of 1984, it was approved with L.D. 1869 millions. The actual implementation of the budget resulted in a deficit of L.D. 45 millions.
>
> "Accordingly the deficit of the two budgets carried forward was L.D.398 millions. The Treasury followed a number of procedures to cover this deficit. These include the use of the general reserve, despite its clear violation of the provision of such reserve law, and loans from the local financial market, which will result in paying additional interest." [See ,The Auditor General's Reports of 1972/73/84 and 1984]

The above report, and those in respect of public organisations, corporations and enterprises, confine themselves to actual expenditures and revenues compared with those planned, and with accounting principles. Nothing is said about whether materials, labour and other items have been acquired in optimal quantities, quality and prices and whether they have been used in an efficient way to achieve the objectives of the budgets. Indeed it was revealed five years later that some officials and managers had accepted bribes from foreign companies in return for higher material prices, lower quality and excessive quantities.

Furthermore, many big projects and factories are only partially utilised, and due to excess capacity, factories have remained idle. A number of factories ave been completed only to be closed later, due to shortage of raw materials or labour, and there are often shortages of goods or products in one part of the country while there is a surplus of the same items elsewhere.

Current audit practices in Libya do not provide enough information to the public to ensure that its wealth is economically, efficiently and effectively administered. These practices were developed in an era of growth and excess resources, when the problem was not the availability of funds, but how to use them. Nowadays the country's economic condition is one of cash limits, which necessitates that the public sector should be more subject to public accountability. Development planning in such conditions requires greater accountability, so that programmes and services should be subject to value for money audit in addition to regularity audit.

H.A. Butt and D.R. Palmer have argued that value for money audit helps public bodies to set up a framework for action and to evaluate such questions as whether:

1. there are more economic ways of meeting required service levels;
2. the organisation is being managed well;
3. the organisation is getting what it is paying for;

4. all the present services are necessary;
5. new services and activities need to be developed;
6. the performance measurement and budgeting systems are providing the policy makers with adequate and timely information to help them achieve value for money. [Butt H.A., and Palmer, D. 1985, p.7].

One may add that value for money audit can identify problems, causes and possible lines of corrective or preventative action and formulate constructive recommendations. [Flint, D., 1978, p.240].

The theoretical claims for "value for money audit" have been borne out by practical experience. It has been practised successfully in the USA, Canada, Australia, Sweden and the UK and recently in Hong Kong. [Miller,S.,1987,p.37].

In the UK "savings of 258 million pounds have been made, opportunities worth around 260 million pounds per year have been identified and over 100 million pounds could be saved via projects in progress. Such is the value for money experience in the public sector." [Chadwick, L., 1986,p.23].

At the public enterprise level, although there is no specific form of audit report, it is based on the external auditor's report in the UK and the USA. Despite the importance of assuring the public that accounting procedures and techniques have been applied correctly, it is surely more important to ensure that capital invested in such enterprises is utilised economically, efficiently and effectively. Such performance measurements are surely more relevant to decision making, development planning and accountability than merely making sure that the lower of market or cost was applied in valuing inventory or that the straight line method of depreciation was used. The success of value for money audit in the public sector in the UK, USA, Canada, Sweden and other countries suggests that it could be of great value to enterprises in the public as well as the private sector. Indeed, L. Chadwick has demonstrated how value for money audit can be used successfully in areas of finance, fixed assets, distribution, research and development, labour and overheads. He argues successfully that:

> "there is a great need for the technique to go full circle: that is, developed in the private sector, applied in the public sector and re-applied to the private sector ..." [Ibid., p.23]. Furthermore, Briston and Russell have argued that :
>
> "A full and regular value for money audit should be adopted in nationalised industries in Britain as well as in developing countries. They stated that: "our conclusion from the previous section was that whichever approach to efficiency is adopted, the method of evaluation should be a regular audit rather than an ad-hoc study." [Briston, R., and Russell, P. 1984, p.14].

Value for money audit should thus be applied as well as the current financial and regulatory audit in government departments, public organisations, corporations and enterprises.

Meanwhile its successful application needs a relevant accounting system which would provide all necessary information accurately, comprehensively, and on time. A national uniform accounting system designed with a strong public sector emphasis would be better for providing such information. Furthermore, current cost accounting better serves the needs of value for money audit in that it provides more reliable cost data, and accrual base accounting is better for providing relevant costs and revenues; and, finally, the planning programming budgeting system identifies the objectives of the nation and the best alternative ways to achieve them.

The Auditor General should be given a stronger role and his staff should include accountants, economics, engineers and lawyers so that he can conduct his new role and perform value for money audit effectively. His staff should be given better financial and moral incentives so that he can attract well qualified personnel.

11.6.5. Non-Financial Measurements

The function of the proposed new accounting framework in Libya is to provide information relevant to the needs of the country's socio-economic development. However, the social and economic welfare of the country is not measured solely by the profits of Libyan enterprises or by the monetary income of the population. The objectives of fair distribution of wealth among individuals, full employment, a pollution-free environment, political and economic independence, cultural improvement, human resource development and so on can not be measure by monetary units alone. Indeed, as was seen in Chapter 6, despite the absence of a clear set of objectives for public enterprises, a general set was drawn up which includes social as well as economic objectives. Accordingly, the need for measurement of social costs and social benefits to be used in the project analysis was emphasised.

It is thus only logical to suggest that the new proposed framework of accounting should incorporate such measures, based upon the country's socio-economic development policies.

Non-financial measures at the macro level could be used in deciding what sectors and projects would best assist in the social development desired. This development might include better health, better education, a pollution-free environment, full employment, improved housing, migration from cities to rural areas, and so on.

At the micro level, non-financial measures would encourage the awareness of organisational social performance and provide tools to enable managements to accomplish more of its objectives, to provide greater objectivity and freedom in deciding between controversial issues and to assist in the planning and control of social performance. [Brummet, R.L., 1973, p.345]. Indeed, Robert A. Mathias argued that:

"One might well ask where does this process

> eventually lead and what are the uses of these corporate measures. We envisage that initially they will be definite aids in evaluating strategic alternatives even if the evaluation procedure does not explicitly make use of the measures and models. That is, we expect that there is significant value in attempting to understand the cause effect relation within the corporation and with society. The understanding gained and a feel for the sensitive aspects of these systems can only be of help in strategic decision making." [Mathias, R.A., 1973, p.285].

All in all, non-financial measures are necessary to achieve social planning and control, internal and external assessment of the social performance of organisations, the possible disclosure of social performance and possible attestation by an independent audit.

The need for such measures necessitates a taxonomy, which does not need to be totally quantitative, objective or mathematically sophisticated, for not all social factors can be measured purely objectively. However, relative accuracy is required to give a general indication of social performance. Brummet prescribed that such a taxonomy should be subjectively determined, but acceptable for dealing with social performance measures. He went on to suggest that the total performance of any organisation should be looked at as a function of net income, human resource development, social contribution, environmental contribution and produce or service contribution i.e.:

TP = NI + HRD + SC + EC + P or SC

[Brummet,R. 1973, p.348].

Accountants in Libya would need the co-operation of economists, politicians, engineers, sociologists, psychologists and perhaps anthropologists. This would entail extensive education and training programmes in order to establish such measures and introduce performance evaluation.

11.6.6. Proposed Improvements To Social (Macro) Accounting In Libya

In the previous sub-sections potential improvements to micro accounting in Libya have been outlined. The next section is devoted to the improvement of macro accounting in Libya. The task of this section is merely to point out that social accounting in Libya should incorporate all elements of macro accounting, namely:

1. national income accounts,
2. flow of funds tables,
3. national balance sheets,
4. input-output tables, and
5. balance of payments.

Social accounting in Libya currently includes only national income accounts and balance of payment. Admittedly, national income accounts, together with balance of payments, play an important role in providing information needed by development planners, for they focus attention on the total output of the economy in terms of the final goods and services that are produced and offered, and the incomes and other payments generated by that production. The role of functional sectors, producers, consumers and government as receivers of income and as purchasers of goods and services is shown in terms of the total activity of the country's economy. [Ruggles, N. and Ruggles, R. 1970 p.187].

However, although this information is very important, other information could be generated through different classifications, and disaggregation using the same base data.

National balance sheets would give a picture of the country's assets and liabilities, the income generated by those assets, and any changes that have taken place during the period; flow of funds accounts would indicate the resources used during the period and their sources; while input-output tables produced by those inputs, and the distribution of output between that used as intermediate inputs and that used to satisfy final demand.

Literature on national accounting has extensively discussed each of the social accounting elements, and little or nothing would be gained by more extensive discussion here. Hence the three missing elements in th Libyan social accounting system will only be briefly considered, summarising their concepts and indicating their usefulness for Libya.

11.6.6.1. <u>National Balance Sheet</u>

The national balance sheet has been defined as "The national balance sheet of all economic units within a country." [Goldsmith, R.W., 1950, p.14].

The United Nations' revised SNA defined it more explicitly:

> "Reduced to its simplest term, a balance sheet shows for a sector or set of sectors such as a national economy:
>
> 1. The written down value of tangible assets held plus the excess of financial claims held as assets over financial claims issued as liabilities, and
>
> 2. The net worth of the sector."

Perhaps the best way to illustrate the national balance sheet is to show its proposed format. (Table 11.1)

11.6.6.2. <u>Uses Of National Balance Sheets</u>

Information obtained from sector and national balance sheets used in conjunction with economic data from other accounts is of paramount importance to economic analysts and national planners.

Stocks have always played an important role in economic thought, theory and analysis. An example of this importance is the capital stock figures that are necessary for production functions. Stocks of tangible assets are also used for capital output ratios, while stocks of money held

Table 11.1
Form of National Balance Sheet

Description	Subsector Classification For			
	Enter-Prises	Govern-ment	House-hold	Total
I. Total assets				
A) Development expenditures				
B) Durable goods expenditures				
1. Structures				
2. Producer durables				
3. Consumer durables				
4. Land				
C) Inventories				
D) Financial assets				
1. Currency and demand deposits				
2. Other bank bank deposits & shares				
3. Life insurance resources, private				
4. Pension funds, private				
5. Pension funds, government				
6. Consumer debt				
7. Trade Debt				
8. Loans on securities				
9. Bank loans, N.E.C.				
10. Other loans				
11. Mortgages				

12. Bonds and Notes

13. Other financial assets

II. Total liabilities and equities

A) Liabilities

1. Currency and demand deposits

2. Other Bank deposits & shares

3. Life Insurance reserves, private

4. Pension funds, private.

5. Pension funds, government.

6. Consumer debt

7. Trade debt

8. Loans on securities

9. Bank loans, N.E.C.

10. Other loans

11. Mortgages

12. Bonds & Notes

13. Other liabilities

B) Equities:

1. Retained income

2. Realised capital gains

3. Unrealised capital gains

<u>Source:</u> Ruggles & Ruggles. The Design of Economic Accounts, National Bureau of Economic, New York, 1970, p.175.

for either liquidity or speculative purposes are used in models of consumption and saving functions.

Specifically, national balance sheet could be used in:

1. Analysis of tangible assets and their structure:-

Analysis of tangible assets of any economy or any sector within an economy is considered to be one of the most important uses of the national balance sheet. [Goldsmith, R. 1950 p.74]. The fact that the composition of the stock of tangible assets is classified into producing and non-producing assets, and the provision of information on assets or different age and life expectation make such balance sheets of great benefit in the field of capital, interest and money analysis.

This type of information would be of value to the development of the Libyan economy. Policy makers could assess the capacity of the economic units comprising a sector in performing their functions and achieving assigned targets, and it would also help in redistributing the national wealth between the sectors and the population.

2. Studies of productivity and capital coefficients:-

The detailed analysis of capital stock as shown above, together with the total output derived from national income accounts, would furnish the information needed to construct two important ratios:

a) capital-output ratio (capital/coefficient)

b) output-capital ratio (capital productivity)

The above two ratios are calculated and used in many countries for the purpose of projections, economic analysis and comparative studies for different periods and countries. It is felt that these ratios would be of great value for Libyan development because they would reveal situations that need correction or the effect of alternative policies.

3. Check against other economic accounts:-

The United Nations has defined the instrumental uses of the national balance sheet as a check on the internal consistency of other economic accounts. Typical examples of such checks are:

a) each type of financial claim held as an asset should be the same as the types of liabilities in issue;
b) the total evaluations of both financial assets and liabilities should be equal.

Goldsmith [pp.77-78] argues that one of the uses of the national balance sheets, provided they were proposed periodically on a consistent basis, is as a check on the figures of capital formation which are published in national income accounts.

4. Construction of flow of funds accounts:-

The construction of flow of funds accounts of a sector or a nation is largely derived from sector or national balance sheets being based on the difference between the figures at the beginning and those at the end of the period.

5. Studies of the growth and trends in national net worth:-

The national balance sheets enable analysts to calculate the total net worth of either the economy as a whole or any individual sector. The net worth is the difference between the assets and the liabilities. Goldsmith uses national balance sheets to measure the trends in and the growth of net worth among the main sectors of the American economy and the influence of price changes on net worth.

In the Libyan economy this would provide valuable information for policy makers, who could use the net worth of each economic sector as a criterion to assess the extent to which development programmes have influenced its growth (or decline) and the relative net worth among the main sectors of the economy. The net worth of each economic sector could then be analysed into its two main components, i.e. growth, which is related to a real increase in net worth, and nominal increase which is mainly related to changes in price level.

The above five uses seem to be the most valuable for Libya. Others are also important, but it is not possible to discuss them all within the scope of the present study. Accordingly, they will only be listed here without further elaboration:

6. Financial (monetary) analysis and behaviour
7. International comparability
8. Studies of the pattern of finance in the economy
9. International trade negotiations
10. Other general uses.

Despite their valuable use in development planning, national/sector balance sheets are also expected to create some implementation problems which must be given careful attention. These include the following:

1. Sectoring the economy: In sectoring the economy for the purpose of constructing national/sector balance sheets, it is necessary to take account of the objectives of sector/national balance sheets, the integration of the system of national/sector balance sheets into the system of national income and flow of funds accounts, international comparability, the economic circumstances of the country, and the availability of the data needed to construct a sector balance sheet.
2. Classification of assets and liabilities
3. Statistical sources available
4. Valuation basis (historical or current)
5. Form of presentation of national balance sheets.

It is not impossible to solve these problems, but finding acceptable solutions will take time. However, a uniform micro accounting system with a current value base and linkages to social accounting and economic planning would speed up the process.

11.6.6.3 Flow Of Funds Accounts

> "In recent years a form of economic accounting has been developed which is referred to either as 'money flows accounting' or as 'flow of funds accounting." [Ruggles, R. and Ruggles, N. 1956, p.198].

Flow of funds accounts have been defined as: setting forth the flow of payments and receipts, not only for goods and services but also for instruments of ownership and debt. [Ibid, p.198].

In both development and developing countries, financial transactions play an important role in the daily economic activities of the people, the government and financial institutions. In particular, governments use financial transactions as a base for their monetary policies which are designed to achieved their economic objectives of high employment and increased real income. Flow of funds accounts provide part of the information needed to facilitate the process of goal definition and policy formulation, the implementation of policies and the monitoring of the attainment of goals for planning and control purposes.

The successful use of flow funds accounts in the developed world in both western and eastern Europe as well as the US suggests that it could be of great value for a developing country such as Libya.

Economic literature has suggested many uses for flow of funds accounts in developing countries:

1. as a framework for the countries' data:
2. as an instrument for financial planning
3. as an indicator of relationships between financial and non-financial sectors in the economy
4. in the analysis of the financial reaction of the main economic sectors to certain conditions
5. in analysis of the general development of a capital market
6. to trace the influence of savings on investment
7. to forecast the flow of funds transactions in the economy
8. in the international comparability of funds accounts
9. in international negotiations
10. to predict any bottleneck in the availability of resources.

However, the construction of such accounts is highly dependent on the availability and accuracy of the base data needed to construct them. This data does not need to be created independently, but is already available in firms' flow of funds statements, sectors' flow of funds statements and the national income and product account. It merely needs to be presented differently in order to show the sources and uses of funds in the economy.

11.6.6.4. Input-Output Tables

Input-output tables have been defined and their usefulness discussed in detail in a previous chapter. Their usefulness in Libya was evident, but the possibility of constructing such tables is limited by the lack of accurate and relevant base data. However, the adoption of a uniform accounting system would alleviate this problem. Meanwhile, time is needed to sector the industries and draw a picture of the flow of goods and services between them.

11.6.6.5. Integration Of Social Accounting Elements

A complete system of social accounting necessitates the construction of five elements, national income accounts, input-output tables, flow of funds accounts, national balance sheet and balance of payments. For maximum benefit, these elements should all be integrated. This would benefit both the preparers and the users of social accounting information, though it would need substantial resources. The potential benefit of considerable economy in developing all the required estimates simultaneously is believed to outweigh the substantial resources which are needed. Ruggles and Ruggles have stated that the concept of decentralisation of preparing and constructing such elements could be costly in terms of time, effort, reliability and comparability:

> "Decentralization of the task of estimation often results in duplication of effort and inconsistency or non-comparability among similar parts of the relates systems; from an analytical viewpoint, it confronts users with apparently conflicting sets of data with no way to bridge the gap except through elaborate reconciliation tables that explain the conceptual and statistical

differences."

[Ruggles, R. and Ruggles, N. 1970, p.61].

The new UN system was designed to integrate all social accounting elements within the same system. However, other related economic and social data may need to be integrated into the system. Since Libya is already adopting the new UN system, what is needed now is merely the integration of such additional data, the consolidation of the national accounts which are already compiled, and the construction of input-out tables, national balance sheets and flow of funds accounts. It has to be acknowledged, however, that such integration demands more data collection and better measurements; and possibly the use of computers and help from abroad may assist in this.

11.7. Summary and Conclusions

A uniform accounting system is needed in all branches of accounting. At the enterprise level, such a system would improve the comparability of accounting figures both in and outside the enterprise. Not only would accounting figures of enterprises be readily available for use for national accounting, but they would also be relevant, reliable and aggregatable. In return, enterprises would be able to use national accounting figures for their own planning. It would provide cost data for the management of an enterprise which would enable it to take better decisions and to control the operations of the firm. Many additional cost figures and managerial accounting techniques would be available. Indeed, a uniform accounting system with a cost accounting component would facilitate cost analysis, budget preparation and the establishment of cost standards.

With regard to internal and external audit, the system would facilitate the function of internal audit and control which in turn would minimise the need for external audit. It would establish consistent accounting policies, thus solving problems caused by the turnover of management and accountants in the LPEs. It would also simplify the training of new accountants and reduce to a minimum the need for highly qualify accountants.

In the field of government accounting, a uniform accounting system would increase the possibility of adopting cash flow accounting, a more advanced budgeting system, and value for money audit, three changes which are urgently needed in Libya. A uniform system would also facilitate control of public funds and government departments by controlling agencies. It would also simplify tax assessment and collection.

Nowhere is the need for a uniform accounting system more urgently felt than at the national level, for the construction of all elements of the national accounts is dependent on the availability, reliability and uniformity of the data provided by enterprise and government accounts. In fact as Yu S.C. argues, the technical framework of macro accounting is very much the same as that of micro accounting.

However, the only way to make such data available is to prepare the accounts of micro economic units and government departments according to a uniform accounting system.

A uniform accounting system is also needed for socio-economic development planning in Libya, at all development planning stages, macro, sectoral and project analysis.

Figures from which to prepare the capital/output ratios, input-output tables and cost benefit analysis would be readily available from both micro and macro accounts, if a uniform accounting system were applied.

In addition to the accounting and development planning advantages of a uniform accounting system in Libya, there are many environmental factors which would favour its adoption. The centralised economy, the comparatively low level of education, the need for economic development, the low level of management training, the need for electronic data processing and the weakness of the accounting profession, are among the many factors which favour the adoption of a uniform accounting system in Libya.

For optimal improvement of accounting and development planning, however, the adoption of such a system should be combined with other improvements, such as current value accounting, so that information would be up to date and reflect economic reality, and the planning-programming-budgeting system, which would lead to development projects being chosen according to established criteria.

Information is needed not only for devising and implementing development plans but also for control and performance evaluation. Thus efficiency audit is needed in order to improve the effectiveness of resource allocation, and to enable waste and inefficiency to be discovered and remedied.

Expansion of the role of national accounting in socio-economic development and micro and macro decision making is also required. This would include the compilation of additional elements of the national accounts. Currently the Secretariat of Planning prepares national income accounts only, while the Central Bank of Libya prepares balance of payments figures. Other elements of the national accounts are needed for better planning and control. These additional elements include the national balance sheet, flow of funds and input-output tables.

In conclusion, then, Libya urgently needs a uniform accounting system, not only to improve accounting but also to improve its economic development planning and control. For this improvement to be complete, the introduction of a uniform accounting system should be linked with other improvements.

The adoption of the system is expected to be generally smooth, since most existing environmental factors are in favour of uniform accounting.

CHAPTER TWELVE

The Proposed Gentral Framework of Accounting in Libya

12.1. Introduction

The main purpose of this chapter is to outline the general characteristics of the accounting system which should be adopted and implemented in Libya. This chapter is a synthesis of the discussion presented in previous chapters; the main arguments presented will be put in perspective and summarised, after which the characteristics of a desirable accounting framework are discussed. Thuse section 2 of this chapter is devoted to discuss the characteristics of the proposed general framework of accounting in libya.

By now it is clear that it would be desirable for Libya to adopt a uniform accounting system. However, a new system must not only be desirable, but also feasible, so section 3 of the chapter will discuss the feasibility of implementing a uniform accounting system in Libya.

In order that the proposed framework could actually be translated into an effective uniform system, a responsible body should be established which would take the initial steps to design and implement the system. Accordingly, ssection 4 of this chapter contains a blue-print for the proposed Libyan Uniform Accounting System.

12.2. General Characteristics Of The Proposed Framework Of Accounting In Libya

The purpose of this section is to outline in general terms the features of a general framework of accounting in Libya, as suggested in this study. Throughout the study the emphasis has been that accounting in Libya should be oriented towards planning and control at the micro and macro levels for the purpose of providing socio-economic decision-making information, to assist the socio-economic development of the country. Thus the proposed accounting system for Libya could be labelled as "socio-eco-development accounting". This should not be considered as a new branch of accounting, but should be looked upon as a parent framework of all branches (enterprise accounting, government accounting, social accounting) which already exist. The three branches of accounting should not go their own separate ways, but should co-ordinate their functions in such a way that each branch relates to the others and all have one common objective, i.e. to provide accurate and relevant information for the country's socio-economic development.

The current uncoordinated body of accounting due to its American and British orientation, evolved originally in a private sector economy with little government interference. However, since the early 1970's government interference has been intensified to the point where almost all economic activities are run and controlled by the State and central planning has become the tool for developing the country. Yet, due to its original orientation, accounting in Libya continues to focus on private enterprise accounting practices, with stewardship and accountability as their main functions.

The contradiction between current accounting in Libya and its environment is thus evident. Therefore it is the theme of this study that Libyan accounting should undergo a revolutionary change rather than an evolutionary one. The new accounting system should be oriented towards serving the country's socio-economic development planning, directly and effectively. The new integrated body of accounting will use existing universal accounting techniques and procedures, but with a different perception.

The preceding chapter laid down in a general way the improvements that should be undertaken to accounting in each of the three branches. These include a uniform accounting system, current cost accounting, and value for money audit for enterprise accounting. In government accounting it is felt that the current system is fairly unified in its procedures and forms, due to the fact that it is based on the financial system of the State, as specified in law. However, there are many shortcomings in the system - not least its orientation towards stewardship and public accountability with no consideration for economic decision making. Accordingly, suggestions for improvement include the adoption of a planning programming budgeting system, current cost measurement and value for money audit.

In social accounting Libya has adopted the UN new system of national income accounts. However, Libya currently prepares only two elements of the system, namely national income accounts and balance of payments. As a result, improvements needed in social accounting include the introduction of the other elements, namely national balance sheets, flow of funds accounts and input-out put tables.

The study concludes that, if these improvements were carried out, an integrated body of accounting would emerge that would be of great service to the socio-economic development of the country.

The above improvements and those relevant elements of accounting that already exist are considered to be the factors needed for the proposed general framework of accounting in Libya.

We therefore specify the general characteristics of the proposed framework in the following sub-sections, which summarise the discussion presented in the preceding chapters in order to bring the proposed framework into focus.

12.2.2. Co-Ordinated Socio-Economic Objectives

The socio-economic accounting proposed for Libya should be based on the objectives of the country's development. The improvement of the population's general health, education, security, self dependence and economic welfare are generally considered to be the main objectives of socio-economic development plans. The degree of emphasis upon the objectives is dynamic and accounting should adopt to meet the accounting information needs dictated by any such changes in emphasis.This . include the information needed to construct social accounts to meet the needs of the development planning stages, to assist the planning and control of micro units, to construct government budgets, both traditional and PPBS.

The relationship between development objectives and accounting should be a two-way process incorporating a feedback loop between development planning and social accounting. (See Figure 12.1.) This loop would improve the quality of information provided by social accounting for development planners.

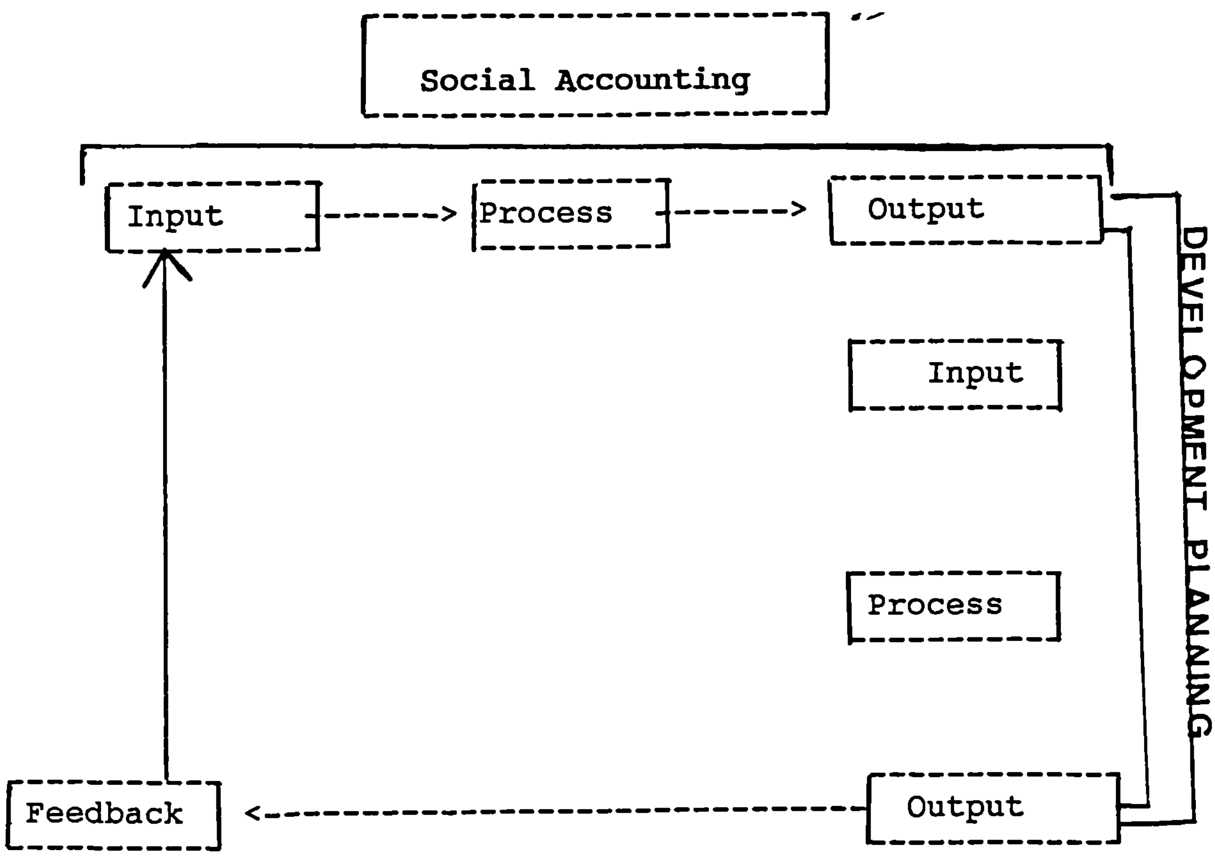


Figure 12.1: The relation between social accounting and development planning:

-Sourc: Mirghani, m .,1982

objectives is dynamic and accounting should adopt to meet the accounting information needs dictated by any such changes in emphasis. Thes include the information needed to construct social accounts to meet the needs of the development planning stages, to assist the planning and control of micro units, to construct government budgets, both traditional and PPBS.

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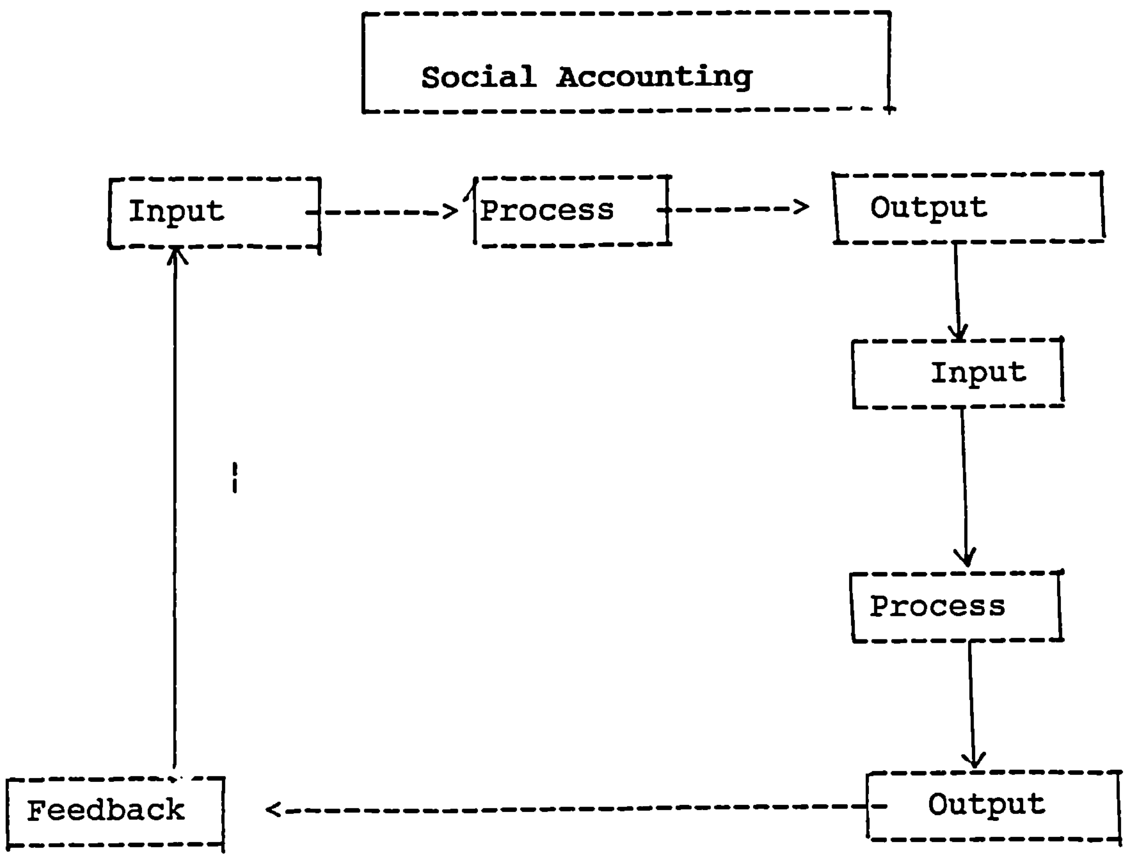

Figure 12.1: The relation between social accounting and development planning:
Source: Mirghani, M. 1982.

12.2.2. Integrated And Relevant Information System

The implementation of the above relationship between accounting and socio-economic development requires the establishment of a well co-ordinated accounting information system. The system should be co-ordinated within itself (branches of accounting) and with other information systems in the economy (management information systems, manpower statistics, etc.).

Data processed within the accounting information system originates from the output of other information systems and unless there is mutual co-ordination, it may not be possible to make the accounting system operational. Thus, it is a necessary first step to assets what kind and quality of information could be provided by other information systems before establishing an effective accounting information system. It should be acknowledged that not all information provided by other systems is relevant to the accounting information system.

The need for the accuracy, relevancy and aggregability of the information provided by other systems requires that a uniform basis of measurement and reporting should be adopted. This will eventually lead to the optimal use of the available scarce resources in order to achieve development objectives effectively.

The co-ordination within the accounting information system itself, i.e. between the sub-systems, and between it and other information systems, can be illustrated by Figure 12.2. This figure shows that the social accounting information output is originally generated by other information systems and by accounting information sub-systems. It also shows that other information systems provide data needed by accounting information sub-systems.

An effective accounting information system should provide information and use measures relevant to economic analysis and policy. Current value measurements rather than historical value measurements should be used in social accounts, capital output ratios, shadow pricing, feasibility studies, government budgeting, etc. and should include financial as well as non-financial measurements.

The socio-economic development accounting system should identify, measure and communicate all relevant information for both micro and macro purposes. The information needed by business enterprises is not sufficient for macro development planning; for information about foreign exchange, import, export, employment, environment, social welfare as well as net income and liquidity, should be identified, correctly measured and uniformly reported.

12.2.3. Relevant Accounting Theory And Principles

The new system should be based on sound accounting theory and fundamentals, which should themselves be based on

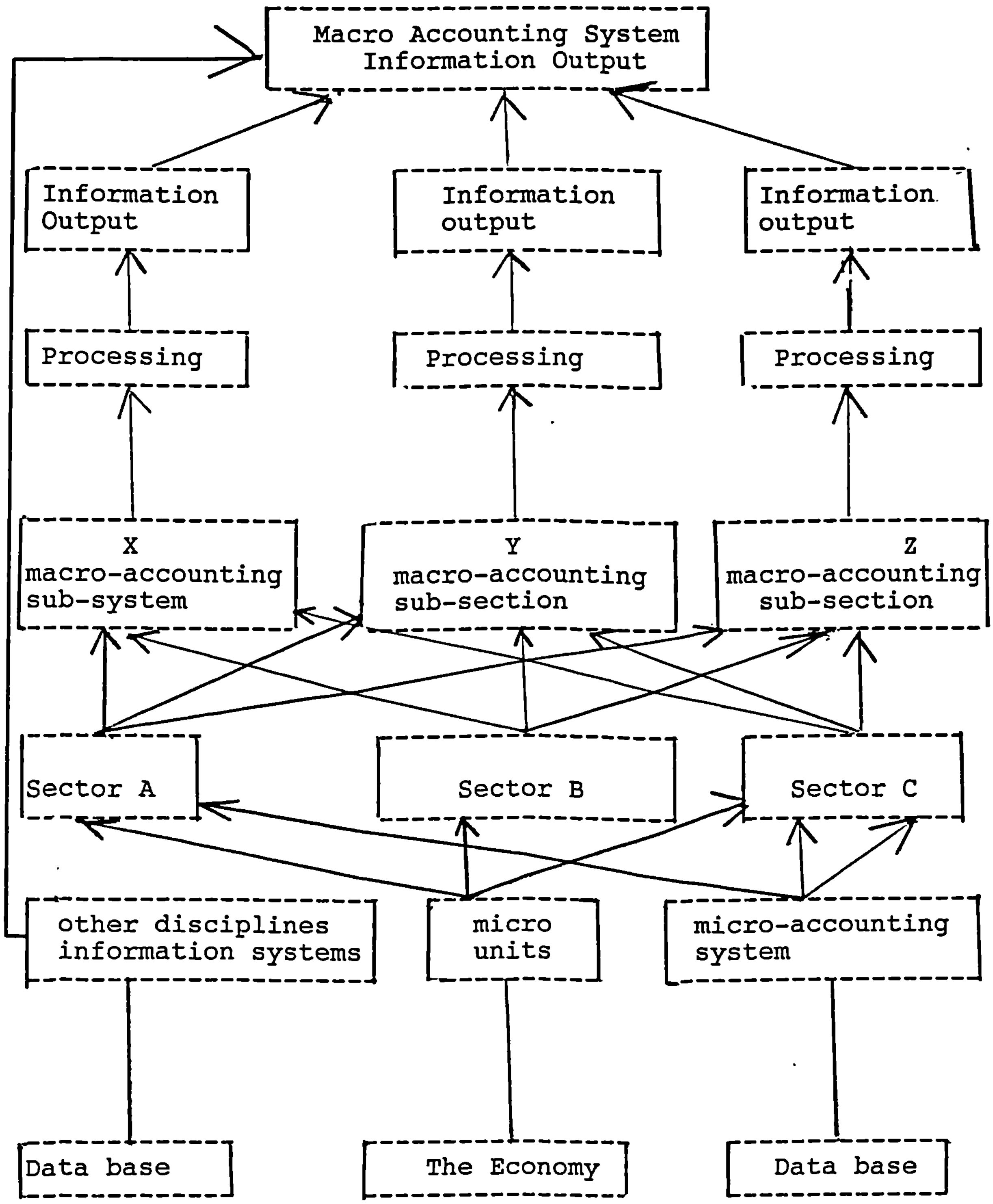

Figure 12.2: Relationships between macro accounting system and micro accounting and other information systems.

Source: Modified version of Mirghani, M., Model, 1982, p.65.

the Libyan socio-economic development framework and its objectives. It is not expected that Libya should have its own accounting theory and principles, but some adjustments to those which already exist may be warranted, for Libya is unique in its degree of development, its economic and social systems, and hence its accounting information needs. On the one hand it needs a detailed uniform accounting system, with its rules of identification, collection, measurement and reporting explicitly defined. On the other, it may not need all the conventions and principles of current accounting theory.

It is felt that Libya should look for those conventions and principles within accounting theory which are relevant to its socio-economic development. Accounting literature contains as many as nineteen accounting fundamental assumptions [Gambling, T., 1974, pp.25-32], but certainly not all of them are relevant to Libya. However, these fundamental assumptions lack consensus and may not reflect the essence and objectives of accounting. Thus it may be more realistic to look for this essence in the form of concepts. [Enthoven, A. 1973, p.120].

Enthoven has defined four such concepts, which include:

a) the socio-economic scope and framework. Data to be collected, measured and reported should be relevant and useful for socio-economic decision making and other purposes;

b) verifiable evidence;

c) quantitative measurement, including financial and non-financial events;

d) comprehensive, systematic and timely arrangement. [Ibid., p.121].

Perhaps a more advanced comprehensive and relevant accounting theory is "The Societal Accounting Theory" as proposed by Trevor Gambling, according to which, accounting should take into consideration the direct and indirect flows of any transaction. In other words, double entry accounting should reflect transferable wealth as well as cultural wealth. He defined transferable wealth as the direct economic flow of wealth, which is currently recorded by the debit and credit relationships, while cultural wealth was defined as the inevitable externality which follows any economic transaction.

"The Societal accounting Theory" could readily adopt the existing accounting assumptions those propounded by Mattessich and cited by Gambling. Indeed, Gambling has interpreted and adapted Mattessich's assumptions to some anthropologists' variables. [See Tables 12.1, 12.2].

The Libyan environment is a mixture of Islamic teaching, and a Arabic tradition. The cultural wealth is an important element of the overall wealth of the society and collective consumption of wealth is the tradition of families and the nation.

Table 12-1

CULTURE, PERSONALITY AND ACCOUNTING THEORY 111

BASIC ASSUMPTIONS

Mattessich	Wallace	Parsons	Kluckhohn
1 Monetary values (additive ... single value	1 Values	a Affectivity affective neutral	g Active-acceptant
2 Time internals (discrete)	?		K Now-then
3 Structure (set of account headings)	2 Objects	c Universal - particular	b Unitary-pluralistic
4 Duality (direct flows only)	2e How it works	e Specificity - diffuseness	m Unique - general
5 Aggregation (loss of detail .. use of 'balances')	?	c Universal - particular	l Quality - quantity
6 Economic objects	2c Non-human environment		b Unitary - pluralistic
7 Inequality of monetary claims (debts)	?	b Self - collectivity	e Self-others
8 Economic agents	2b Human		d Individual - group
9 Entities			f Autonomy - dependence
10 Transactions	?	d Ascription - achievement	?

SURROGATE ASSUMPTIONS

Mattessich	Wallace	Parsons	Kluckhohn
11 Valuation	1 Values 3b and 3c	?	i Physical - mental
12 Realisation	?	d Ascription - achievement	?

13 Classification	2 Objects	c Universal - particular	b Unitary pluralistic
14 Data input	?	?	a Determinate - indeterminate
15 Duration	?	?	
16 Extension	2b Human objects	b Self - collectivity	e Self-others
17 Materiality	?	?	h Discipline - fulfilment
18 Allocation	2b Human objects	c Universal - particular	b Unitary - pluralistic
19 Purpose	?	?	g Active - acceptant

Reconciliation statement between Mattessich's accounting assumption and the Anthropologists variables.

Source: Trevor Gambling Societal accounting, 1974, p.111.

Table 12-2

ACCOUNTANTS' ASSUMPTIONS	ANTHROPOLOGISTS VARIABLES			
Revision	Mattessich	Wallace	Parsons	Kluckhohn
1. There is a system of valuation and a set of values which are ranked in a purposive fashion	Assumptions 1, 11 and 19	1 Values (also 3b		g Active acceptant (also i Physical mental)
2. There are data held to be material to these values, which are located in period of time and at some point within it.	Assumptions 2,14,15 and 17	?	a Affective neutral	a Determinate - indeterminate h Discipline - fulfilment k Now-then
3. The data which are seen as relating to the human and non-human environments can be classified so as to demonstrate a significant structure. Data can be aggregated into these classes, and the classes themselves can be grouped and regrouped in a significant fashion.	Assumptions 3,5,6 and 13	2a-2d Objects	c Universal particular	b Unitary pluralistic (also l Quality - quantity)
4. The relationship between the objects of agents is seen either as a single direct flow at one point in time, or as some more complex relationship involving direct or indirect effects over a period of time.	Assumption 4	2e How it works	e Specificity diffusion	m Unique general
5. The human environment is distinguished from the non-human environment, in that humans are seen as collaborating in various	Assumptions 7,8,9 and 16	2b Human environment	b Self-	d Individual - groups e Self-others f Autonomy - dependence

ways for the purposive pursuit of values. Human collaborators can be grouped and regrouped so as to reflect varying mutual interests.				
6. There are criteria for deciding when material data may be recognised for classification in its appropriate categories.	Assumptions 10 and 12	?	d Ascription achievement	?

Revised Reconciliation statement

Source: Trevor Gambling Societal Accounting, 1974, pp 112,113

12.2.4. Uniform Accounting System

It has been shown in the previous chapter that the accounting information needs of Libyan development planning would be better served by the adoption of a full uniform accounting system. This would provide relevant, reliable and timely information needed for the construction of social accounting data for development planning, project appraisal and other economic analysis and policy. A uniform accounting system for Libya should include a uniform chart of accounts, and uniform procedures, rules and measurements, as well as cost and budgeting provisions. It would be a system which aims at providing for the needs of the country, and its scope should include enterprise, government and social accounting. Whilst the system should be detailed in all its aspects, flexibility and continuous assessment should be observed and devices to adapt to new developing circumstances should be built into the system.

12.2.5. Current Value Accounting

Relevant information for socio-economic planning will be of limited benefit to the users if it is based on historical measures, for we have seen that social accounts are based on current value measures and that project appraisals, shadow prices, capital output ratios and productivity measures are all better based on current values. Furthermore, a realistic government budgeting (PPBS) and value for money audit both require current values. Current value measurements can be used as a substitute for or as an extension of historical value measurements. However, it is believed that, despite its inferiority for decision-making, a general price index may be the only available measurement in Libya for the time being.

12.2.6. Regulatory, Compliance And Value For Money Audits

We have seen that audit in Libya is a regulatory and compliance audit as defined by law No. 79 of 1975 of the Dewan of Audit in respect of government departments. The audit of public enterprises is a commercial audit as required by the same law. However, these audits are confined to accountability and stewardship and no consideration is given to the economic costs of materials and labour, the efficient use of resources or the effective achievement of previously set objectives, despite their importance to the development process and for performance evaluation.

It is recommended, then, that value for money audit should be incorporated into the new framework in addition to the regulatory, compliance and commercial audit which already exists. Value for money audit should be adopted for auditing government departments, agencies and organisations, as well as public enterprises. However, it is thought that time will be required before such audit can be implemented.*

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*This frame-work is generally based on Enthoven's frame-work.

12.3. Feasibility Of Implementing A Uniform Accounting System In Libya

The main requirement of the general framework of accounting in Libya as presented in the last section, is that it should be uniform. However, one may ask why a country as Libya, whose socio-economic development is dependent on relevant uniform accounting data, and whose Arabic culture and Islamic religious teaching are compatible with social accounting, [Gambling T. and Karim, R.A.A. 1986, pp.39-50] has not yet adopted a uniform accounting system, and whether it is possible to implement such a system.

Evidence suggests that the answer to the first question is "ignorance". The political authorities of the country were ignorant of the role that accounting can play in socio-economic development planning and control, and in making many related economic, social and political decisions. Indeed, as previously stated, in 1985, the government considered foreign accountants as inessential and evacuated them along with certain other foreign labourers.

Since then, many accounting-related problems have come to the surface, and evidence suggests that the government has become aware of the importance of accounting information and its role in the country's economy. It has established a new accounting college and other lower and intermediate accounting institutes and has encouraged students to take up careers in accounting by making graduate accountants one of the categories for whom employment is guaranteed.

Those Libyan authorities who are aware of the role of accounting information in decision-making, unfortunately have little knowledge of uniform accounting systems. Indeed, when one was asked whether he would choose a uniform accounting system or a flexible one to improve accounting in Libya, his answer was the former, but when he was asked whether the French or the American and British accounting approach was more useful in establishing a Libyan uniform accounting system, his answer was the American.

Even accounting academicians are ignorant of uniform accounting systems, which is hardly surprising, since they were all educated in America or Britain. Some of them were surprised to know that France, a western capitalist country, is actually applying a uniform accounting system, and that West Germany has an industry-based chart of accounts. Others thought that a uniform accounting system is merely a chart of accounts, and were not even aware that the Egyptian uniform accounting system is a full system and not just a chart of accounts.

Most of the accountants who are employed in state enterprises and government departments are unaware of uniform accounting systems and think that the American concept of accounting is the only one that exists. Again, this is not surprising, as Libyan accounting education has been British and American orientated.

However, it is feasible to implement a uniform accounting system in Libya. When it was explained to the authorities that an alternative to American accounting exists, and that uniform accounting has been successfully adopted in both developing and developed countries, both Arab and non-Arab, and in both capitalist and centrally-planned economies, most expressed their enthusiasm for the idea.

In fact, the state enterprises section of the Secretariat of Industry has already investigated the establishment of an industry - based chart of accounts [Gaim M., Tripoli 1988]. Many authorities have explained to the writer the kind of accounting problems they face, and, when they are shown how a uniform accounting system might help in solving these problem, they positively welcome the prospect of implementing the system. For example, various government authorities have expressed to the author directly or indirectly, the need for a uniform accounting system in Libya.

The Director General of the national Accounts at the Secretariat of Planning has stated that one of the major problems faced by his department is the absence of the information needed to construct the Libyan national accounts. He specifically mentioned the following short-comings of the information available:

a) delay in receiving information

b) lack of comparability

c) incompatibility with classifications of national accounts

d) historical basis

e) lack of completeness. [Zenny, A., 1986].

A senior official at the Auditor General's office has also urged a uniform accounting system. H. El-Arabi has expressed the view, also found in various reports of the Auditor General, that the diversity between the accounts and financial statements of Libyan public enterprises is so wide as to render meaningless any comparison between enterprises.

He also mentioned the absence of formal accounting systems for the majority of Libyan public enterprises. The Auditor General's office sent a survey to thirty public enterprises in respect of the existence of a formal accounting system. The survey showed that twenty-seven enterprises did not have a formal system. He also noticed the inconsistency of accounting policies from one year to another and the absence of any published financial statements.

Based on the above shortcomings of accounting in the majority of Libyan public enterprises, he expressed the opinion of the Auditor-General's office that there is a need for a Libyan uniform accounting system.

Even some accounting professionals have argued for a uniform accounting system to solve many of the problems faced by their clients. Mr. Tantouch, one of the most experienced professional accountants and General Secretary of the Libyan Accountants and Auditors Association, advocated that a uniform system should be adopted by public enterprises.

A. Tantouch, Director General of the budget section at the Secretariat of the Treasury, where subsidies are allocated to public enterprises, has supported the need for a uniform accounting system for these enterprises, arguing that effective control and efficient allocation should be based on relevant, up-to-date, complete and comparable data. [Tantouch, M., and Tantouch, A., 1986].

The need for a uniform accounting system has also been stressed by accountants working in the financial sections of public enterprises. Mr. A. Turkey, Mr. O. Jebril, Mr. M. Soliman, Mr. B. Guddorah (1985) and many others who are financial authorities in Libyan public enterprises have expressed to the author the need for such a system.

All were enthusiastic about the benefits of uniform accounting in respect of their own branch of accounting. The staff at the Secretariat of Planning recognised the benefit of the system for national accounts and for development planning. The staff in the Secretariat of the Treasury mentioned the benefits of the system in respect of government accounts and budgets, as well as the accounts of those public enterprises which are under their control. The authorities at the Auditor General's office stressed the benefits of the system in improving the accounts of government agencies as well as enterprise accounts, and in assisting the work of the office in auditing the accounts of those agencies and enterprises. Authorities at the public enterprises were concerned with the information provided by the accounting system of their enterprises. Perhaps the most urgent steps are to educate accounting academicians in the country about the uniform accounting system, in the hope that accounting programmes will undergo major changes.

The government should take steps to educate accounting academicians and others at the micro and macro levels concerning the concepts, nature, establishment, implementation and revision of the uniform accounting system. Lectures, seminars, literature and visits to countries which already apply the system would be good steps to start with. Outside help from individuals and institutions experienced in the accounting information needs of developing countries may assist in constructing accounting programmes relevant to The Libyan needs, and facilitating the smooth implementation of the system.

Changes in accounting education which immediately come to mind include a change in emphasis from classical to social accounting theory. The former theory is based on duality, which assumes that all transactions consist of two accounts which are the result of direct flows, while externalities are not considered. Gambling has argued that this Anglo-American accounting theory is perhaps the most limiting of the assumptions made about accounting. [Gambling, T., 1974, p.26]. Therefore accounting education in Libya should change its emphasis to social accounting theory, where the inevitability of second order effects or externalities [Ibid p.26] would be taken into consideration.

As a result of this change in emphasis, four accounting courses should immediately be replaced by accounting courses which emphasise uniform and social accounting. Intermediate accounting courses (Course Nos. 230 and 231) as well as advanced accounting courses (Course Nos. 330 and 331) should be changed to accommodate uniform accounting and social accounting theory. Emphasis should also be shifted from historical cost to current value accounting, and from financial and regulatory audit to value for money audit. Other changes in emphasis should be from external to internal audit, from enterprise accounting to national and government accounting, and from financial accounting to cost and managerial accounting.

Students should also be educated in the accounting information needs of public sector economics, rather than concentrating solely on the needs of the private sector.

The influence of the accounting profession in Libya on the feasibility of implementing the system must also be considered. Naturally, the profession will resist the implementation of the system, as happened in Egypt, where, following the open-door policy and the re-emergence of a strong accounting profession, the uniform accounting system has come under fire. [Briston, R. and El-Ashkar,A. 1981,p.30].

Fortunately, however, the accounting profession in Libya is neither well organised, nor strong enough to resist the establishment and implementation of a uniform accounting system [see chapter 5].

The only factor which may hinder the implementation of a uniform accounting system in Libya is the availability of accounting manpower, for the present accounting manpower is inadequate both in number and in ability. As a short-term solution the government should reconsider its earlier position of foreign accountants, and permit the employment of foreign accountants, especially from Egypt and Tunisia where the system is already applied.

In the long term, however, a body of Libyan accountants should be established, adequate in quantity and quality to establish, implement and revise the system as necessary; computers should also be introduced into the system.

All in all, then, both in the short and long term, it would appear that the implementation of a uniform accounting system in Libya is indeed feasible.

12.4. Blueprint For A Uniform Accounting System In Libya

12.4.1. Definition:

The Libyan uniform accounting system (referred to as "the plan" from now on in this section) is intended to record accounting information, prepare financial statements final accounts and budgets, all in accordance with a specific framework of terminologies, rules and bases in order to serve specific purposes or objectives.

The plan should include financial accounting, management accounting and auditing, enterprise accounting and government accounting. It should also unify:

1. The financial year of all LPEs and other state departments.
2. Accounting principles, standards, procedures, methods, terminologies and definitions in all LPEs in any one sector, as well as in state departments.
3. Flow chart of accounts.
4. Financial accounts and financial statements.
5. Budgets and other management accounting techniques.

Scope Of The Plan:

The plan should be adopted by all LPEs, and other Libyan economic units and state departments. A Libyan economic unit may be defined by this study as follows: "It is that unit which performs industrial, commercial, agricultural, real estate activities or any other form of economic activity; also all public agencies and authorities which are required by law to prepare financial statements similar to commercial financial statements, and which do not perform any of the above activities."

A Libyan state department is defined by this study as follows: "It is that department which performs public services to be provided to the public either in return for a price or free of charge."

Obviously, the plan should provide for different sizes of LPEs, other state agencies, authorities and departments. However its implementation at state departments may take a longer time than at LPEs and other economic units.

12.4.3. Objectives Of The Plan:

Although the plan should serve specific purposes and objectives inside and outside economic units and other state departments, it is unlikely that the plan could, in fact, meet all the needs of planning, control, and performance evaluation of all types - financial, economic and technical. However, as implementation proceeds, it should be possible to fulfill all these needs, especially after a unified cost accounting system is completed and included in the plan, and the new accounts basis and a budgeting system are improved and adopted in government accounting.

Consequently, an exhaustive list of objectives cannot be drawn up at this point. However, a general statement of objectives is still possible. In general those objectives are:

a) To provide basic data, and other analytical tools for planning, implementation and control at the micro and macro levels.
b) To link micro and macro accounts.
c) To facilitate the collection, classification and storage of accounting information.
d) To facilitate performance evaluation.
e) To set rules for external and internal reporting in order to facilitate comparability and communicability of financial statements and eliminate managerial discretion over the choice of accounting methods and policies.

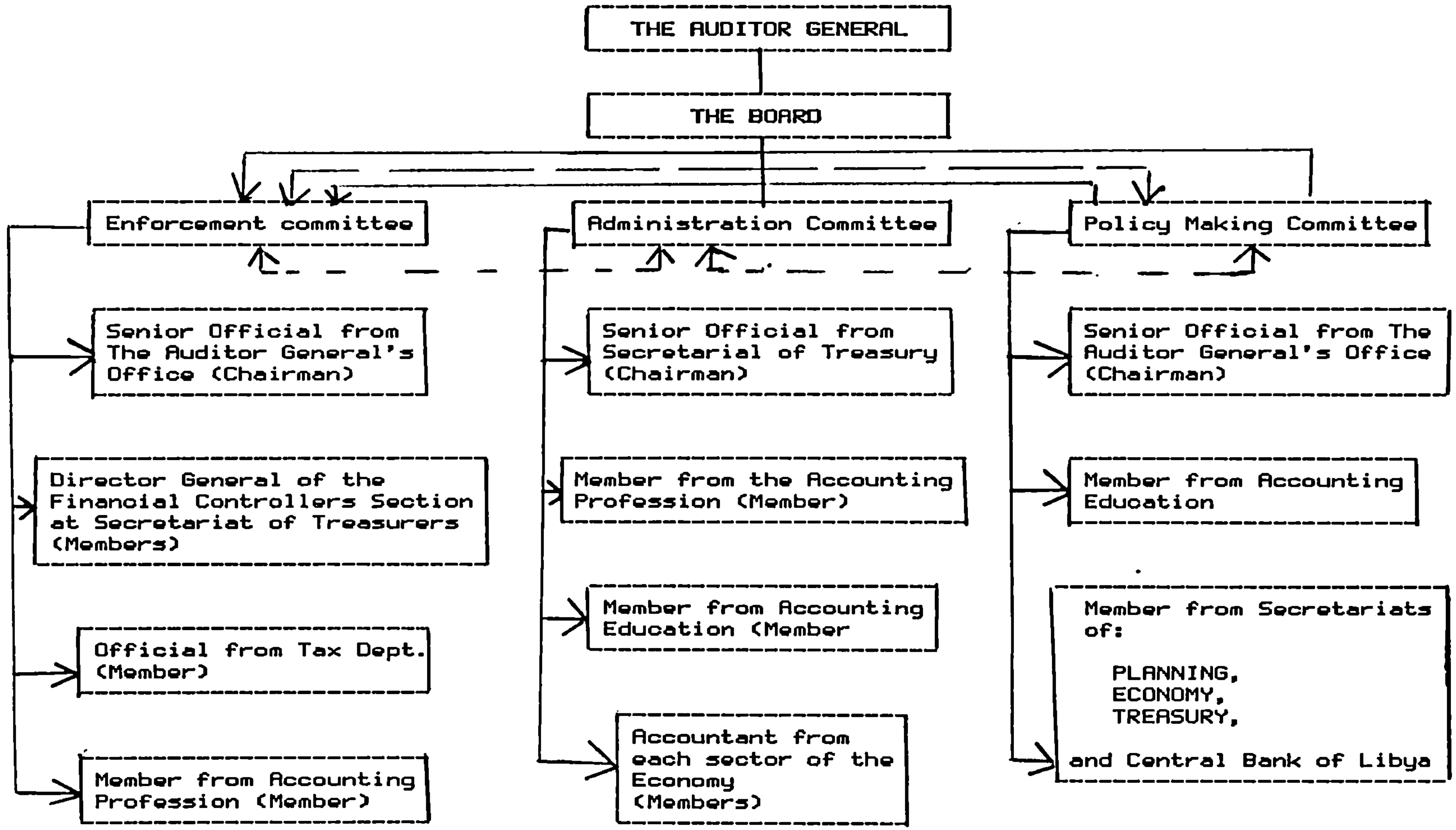
12.4.4. To Prepare and Implement The Plan:

Preparation and implementation of the plan should be under the supervision of the State. Specifically the plan should be managed by a special board whose chairman should be the Auditor General. The board should establish three committees:

1. Policy making committee,
2. administration committee, and
3. enforcement committee.

Each committee should include members who should represent various uses, groups and technical experts. Figure 12.3. shows the proposed structure of the board and

Figure 12.3



Flow Chart of the Organisation of The Central Committee of Accounting in Libya.

the committees.

12.4.4.1 Methods Of Preparation:

As previously stated, uniformity in Libya should serve users' needs and hence deduction is thought to be a suitable method. Principles and practices would flow from general theories and concepts, which would relate primarily to the expectations and behaviour of users. Users in Libya include economic units, the Secretariats of Planning and the Economy and the Treasury. Other users include the Auditor General, the Central Agency for Administrative Control, the Central Bank of Libya, the Statistical Census Agency, the Industrial Research Centre and others. The policy-making committee will have to survey the users' needs as well as the available financial and human resources and the technical assistance available from within and without the country.

12.4.4.2. Policy Making:

The job of the policy-making committee would be to define the users' needs, through empirical research and the study of their behaviour.

It would need to formulate the plan, and to set administrative guidelines and enforcement policies. The plan should be deduced from the general theory of users' needs, which would be define in part from empirical studies, in part from direct users' inputs and in part from the members of the committee. While instructions should go from this committee to the other two committees, it should deal with administrative and enforcement problems through feedback from those committees.

The committee might include a senior official from the Audit General's Office as chairman, for that office is already responsible for changing or establishing any accounting-related matters at LPEs and any state department. One or more committee members might be accounting academics because they are the only people with the necessary theoretical background and familiarity with new developments in accounting. Furthermore, it would ensure a linkage between accounting education in Libya and the needs of the plan. Other members might include one or more representatives from the Secretariat of Planning, for example the director general of the socio-economic planning directorate, so that a linkage between planning needs and the plan could be achieved. Also one or more representatives from the Secretariat of the Economy and the Treasury and the Central Bank of Libya, so that information related to imports, exports, state revenues and expenditures, maintaining public wealth, controlling foreign currency and other policy-making needs could be satisfied by the plan.

The committee may need to employ a number of researchers to provide it with the theoretical framework of the plan and the practical needs of the users. This would include direct inquiries as to users' expectations and behaviour. For example, they could experiment with different formats, language and contents of the accounting charts, financial statements and other accounts to achieve maximum understanding and disclosure. Also they could provide administrative linkage of the plan structure, by assisting administrators in implementing policies, principles, methods and the whole plan as well as improving the enforcement mechanism.

12.4.4.3. <u>Administration</u>:

The job of this committee would be to implement and enforce the plan formulated by the policy-making committee. This could be carried out by the preparation of general guidelines for the practical implementation of the plan, a development programme for the profession, guidelines for improved practices, publication of professional literature, discussion groups and seminars, training programmes and supplying educators and accountants with materials.

By including representatives of various user groups, the committee would be sensitive to their needs and would ensure that the plan satisfied those needs.

The committee could implement the plan through encouragement, professional literature, professional development, training, education etc., and through actual enforcement by enacting laws and regulations.

Besides its function of administering the plan, the committee would provide linkages between the policy making committee, the enforcement committee and accountants. Through the assistance of researchers, the committee could implement and enforce the plan and could recommend to the policy making committee the changes needed to enable the plan to function in conformity with users' needs. Indeed, the administration of the plan is a follow-up process with feedback between the process of preparing, implementing and enforcing the plan.

12.4.4.4. <u>Enforcement</u>:

Enforcement of the plan in Libya is expected to be a straight forward process. All Libyan enterprises are stated owned and controlled. When the plan is ready, a decree from the General People's Committee (Council of Ministers) or, more strongly, from the General People's Congress (the highest authority n the country) could be enacted. This would require all Libyan economic units and state departments to comply with the plan. Compliance with this decree should be monitored by various law enforcement agencies such as the Auditor General's Office, the Secretariat of the Treasury, the tax department, and the enforcement committee.

Through his external audit of all economic units and state departments, the Auditor General would have the authority to enforce compliance with the plan. Furthermore, if the suggestion that all internal audit departments at all economic units and state departments should be attached to the Auditor General's Office, rather than to various economic units and state departments, were accepted, then the internal audit staff would ensure compliance with the plan. Enforcement of the plan could also be enhanced by the financial controllers of all economic units and state departments already attached to the Secretariat of the Treasury.

The idea of an "accounting court" to look after settlement of disputes between accountants and claims between various users could also be explored. Such a court would provide linkage between administrators and accountants. It is through this court that any changes in the plan demanded by the accountants, could be introduced by the enforcement committee and then recommended to the administrators' committee, who in turn would recommend those changes to the policy-makers committee.

12.4.4.5. Financing The plan

Finance for the different activities of the plan should be granted from the general budget of the state.*

12.5 Summary And Conclusion

Accounting in Libya should be based on a general

*The General frame work Of this blue print was borred from D.D.Al-Hashim model of purposive uniformity.1973.

framework which takes in consideration the socio-economic needs of the country for planning, implementation, control and performance evaluation.

Such a framework is feasible theoretically and practically in the case of Libya. Thus, the country should immediately establish a responsible body whose job would be to design a libyan uniform accounting system.

In the short term the country may implement one of the uniform accounting systems in use by other countries whose environmental needs and conditions are similar to those of Libya.

CHAPTER THIRTEEN

Utilisation of other Countries' Uniform Accounting Systems

.13.1 Introduction

In connection with the proposed framework of accounting in Libya, it is desirable to investigate to what extent uniform accounting systems from other countries might be adapted to the Libyan environment, for Libya can ill afford to wait for many years without improving the quality of its accounting information. In any case,it is possible that some of those countries which already have a uniform system may also have environmental factors similar to those in Libya. Therefore, this section will be devoted to investigating briefly the main features of the Soviet, French, Egyptian and Iraqi Uniform accounting systems in order to ascertain whether Libya might benefit from using one of these systems or a combination of them, in the short term. It is not intended to discuss the O.C.A.M. plan for it is based very largely upon the French Plan ,and was designed for the use of capitalist countries in French-speaking Africa, whose needs are different from those of Libya.

13.2 The Main Features Of The Russian Uniform Accounting System:-

The Soviet Union is a socialist planned economy, in which the government regulates and controls the activities of almost all economic sectors and entities. This control enables the state to establish a comprehensive and detailed uniform accounting system to be applied by all soviet enterprises. This system provides uniformity in the organisation of accounting, in recording recording of transactions and in the preparation of statements and reports to provide uniform information about the entire economy for economic and social planning and control.

In this system, accounts are organised into eleven homogeneous classes in a Uniform chart of accounts to assist in the preparation of social accounts in economic planning, the measurement of investment return, and productivity, and the taxation and financing of enterprises. [Enthoven,A 1973, p.233]. Table 13.1 gives a summary of the chart and shows that its main orientation is towards the production cycle.

The classification is divided into two main categories (levels): summary accounts and subsidiary or sub-accounts. However, enterprises use a third level of accounts for analytical purposes; those differ from one enterprise to another and are not included in the chart. Furthermore, summary accounts are kept in money value only while analytical accounts are kept in physical and money values. Thus the latter accounts allow enterprises to expand the range of information on specific items of transactions and to construct the statistical and accounting reports in physical terms as required by higher organs or by the enterprise.

The chart could be criticised in that it does not distinguish: (1) between income statement and balance sheet accounts, (2) between operating and non operating accounts,

Table 13.1

Main Account of the Russian chart of Accounts.

Code	Name of Account
I	Basic means of production
II	Production stocks
III	Production expenditures
IV	Completed output, Commodities and Realisations
V	Monetary Resources
VI	Current accounts
VII	Appropriations
VIII	Shortages and losses
IX	Funds and promissory
X	Bank Credits and Finance
XI	Financial results.

and (3) between long-term and short-term assets and liabilities. Thus, it could be argued that it is not very helpful in preparing financial statements.

In addition to the chart of accounts the Russian system includes a group of accounting returns which are divided into three main types of reports (1) operational reports; (2) accounting or financial reports, and (3) statistical reports. [Bailey,D.1978, p.4]. These reports serve the needs of both internal and external users . Their main feature is that the first two reports conform to the needs of the third (Statistical reports) and thus, they all summarise economic information related to national planning and control.

The main Soviet accounting reports are:

First: Balance Sheet: This statement is the main financial report. It includes basic funds, sources owned by the enterprise (statutory funds, finance from state budget, balance of profits, etc.), state bank credits miscellaneous bank credits and other short term loans.

The functions of the balance sheet are to verify the maintenance of double entry principles, to provide a statement of an enterprise's financial position and to provide higher bodies with control over the financial and commercial affairs of an enterprise.

Second: Output Realisation Report: This report gives the information needed for analysis of performance. It differentiates between profits arising from altering the original state of the enterprise, profits resulting from higher quality products and profits resulting from other income which may be derived from the sale of goods of subsidiary agricultural activities, surplus material stock etc. [Bailey,D. 1978, p.25]

Third: Output Plan Performance Statement: This report is mainly concerned with assessing the extent to which an enterprise has fulfilled its production plan.

Fourth: Production Cost Report: This analyses output costs according to economic elements. Its purpose is to provide information relevant to the calculation of national income, assessment of normal working stocks required by an enterprise, planning national wages, planning production expenditure, assessment of cost performance and investigating to what extent cost reduction can be achieved in the future. [Ibid. p.137].

This list of accounting returns is not exclusive because there are more than twenty other reports.

These returns and others are used to set up the economic plan at the enterprise and and at national level and to ensure smooth implementation of the plan.

In summary, the functions of Soviet accounting are: [Gallik,D., Jesina, and Rapaway, 1968, p.189].

1. To maintain control over plan fulfilment .
2. To ensure the preservation of socialist property.
3. To control the proper remuneration of labour.
4. To encourage the economical use of resources.

13.3 The Main Features Of The French Uniform Accounting Plan (Plan Comptaible General):

The accounting system in France is based on a mandatory national accounting plan,in which accounting reports and information are produced in a standardised format to facilitate the compilation of statistics and their comparison.

The latest revision of the French plan was completed in 1979. Its main features are that it is strongly oriented towards macro-accounting needs, it is highly codified and prescribed in detail and it is largely intended to provide uniformity in financial reporting for national economic purposes.

The tradition of national economic planning in France was the main reason behind the establishment of the French uniform accounting system. Accordingly, the stated objectives of the Plan are:

1. To promote more reliable national and fiscal policies.
2. To assist in eliminating fiscal inequalities.
3. To minimise social misunderstanding by informing the public of the true distribution of national wealth.

4. To provide data for the study of market trends.
5. To improve healthy competition.
6. To aid in the development of fairer taxation.
7. To provide shareholders, suppliers and bankers with an opportunity to exercise their judgement more satisfactorily.
8. To aid governmental authorities in exercising control.
9. To provide a clear and prompt view of financial results.
10. To permit analysis and comparison of manufacturing results. [Oldham,K.1987, p.145].

The French Plan is divided into three main parts. The first contains general accounting principles and description for the organisation of accounts; the second focuses on financial accounting,and The third part deals with cost accounting. The accounting principles are clearly stated in the revised plan to make them easy in application,and consist of the following:

1. Presentation of a true and fair view of the firm's financial position through financial statements .
2. The principle of conservatism which leads to recognition of losses when probable and gains when realised.
3. The principle of regularity.
4. The principle of veracity of information contained in financial statements.
5. The requirement that attributes be measurable.
6. Promptness in the production of accounting information;
7. Production through financial statements of an adequate,

faithful, clear, precise and complete description of the firm.

8. The observance of consistency in the application of principles and procedures.
9. The organisation of accounting in such a way as to make it possible to collect elementary transactions, register them chronologically and keep original documents. [Fortin, A. 1986 pp. 449, 50].

The first part also includes a section on terminology which is common to both financial and cost accounting; thereby enhancing its utilisation. This section also includes rules on general price level accounting and replacement cost accounting, should these be applied. Historical cost is the basic valuation method, though the EEC fourth directive allows the use of alternative methods.

Finally this part includes the chart of accounts which is classified into nine homogeneous classes, which assist in the preparation of national accounts and traditional accounts. Indeed the 1979 plan is a compromise between the requirements of the fourth directive and the objective of revising the 1957 plan. The EEC fourth directive aims to provide shareholders and creditors with a comprehensive data on a company's financial position and to impose equivalent minimum legal requirements on firms concerning the level of disclosure required. The objective of revising the 1957 plan was to improve financial statements for both managerial and social accounting purposes.

The chart of accounts includes the following classes:

Class 1: Capital accounts .

Class 2: Fixed assets accounts.

Class 3: Accounts for inventories of materials, finished goods and good in process.

Class 4: Third parties' accounts .

Class 5: Financial accounts .

Class 6: Expenditures accounts.

Class 7: Revenues accounts.

Class 8: Special accounts.

Class 9: Cost accounts.

A detailed analysis of the chart shows that classes (1-5) are allocated to balance sheet accounts, classes (6-7) are allocated to results accounts, and class 8 is called the special accounts class which includes revenues and charges resulting from inter company exchanges of goods and services. Class nine is allocated to cost accounting.

The second part of the plan is devoted to financial accounting. It includes valuation rules and rules for determination of income, details on the functioning of accounts and three sets of financial statements for three different accounting systems: the abridged system for small firms, the basic system for medium and large firms and the optional system for more elaboration. Valuation rules are based on historical cost. A notable feature of the plan is that all capitalised expenses are transferred to balance sheet accounts through a revenue account (Ac.No.79) except for the cost of self-construction of fixed assets which is transferred through revenue account No.73 (fixed assets production). These procedures have been adopted to record all expenditures of the period in expense accounts, thereby providing national accountants with accurate information on flows of the period.

Also included within the financial section of the plan are three sets of financial statements (abridged, basic and developed). The abridged statements are simple and can be drawn from any accounting system. The basic statements correspond to those required by the fourth directive and the developed statements are the most complete set, since they include a statement of changes in financial position, present a schedule for the computation of significant figures in the income statement, and provide a breakdown of debts and current assets between those linked to operations and others.

Unlike the UK/ USA balance sheets, which are classified according to liquidity/maturity, the French balance sheet is classified according to the economic function of the items and in some cases according to the economic agent involved in the transaction.

The Income statement in the French plan is divided into four levels of analysis: results of operations, financial results and exceptional results, and net income. This statement can be broken down to provide various useful subtotals for economic, financial and national income analysis. These subtotals are:

1. The commercial margin, which indicates the gross profit realised on goods purchased for sale.
2. Production, which represents the result of productive activity.
3. Value added, which measures the productive contribution of the entity to the national economy.
4. The gross surplus from operations, which has a great impact on the appraisal of the entity, for it represents the amount generated by the entity's activities which is available for distribution to shareholders and which can be invested to maintain or increase the entity's productive capacity.
5. The results of operations before financial revenues and charges which allows an appreciation of current results independent of financial operations and consequently independently of financial structure.
6. The exceptional results.
7. Net income.

Most of the above classifications are based on the national accounts classification. Other classifications of financial statements are adopted to promote harmonisation within EEC countries. For example, revenues from certain activities, royalties on intangible assets and revenue generated by fixed assets not used for normal activities are classified within miscellaneous revenues. This classification, though heterogeneous, was adopted on the rationale that these revenues are generated by fixed assets, and also because it corresponds to the classification adopted in national accounting. Another example is the exclusion of subsidies from production. Furthermore, wages of casual labour have been classified as external charges, as in national accounting, instead of being classified with regular employees' wages, as would be the case in managerial accounting, thereby increasing value added. Another example is the classification of yearly instalments on leasing agreements as external charges, as in national accounting, rather than being considered as financial charges and as depreciation of assets acquired through leasing.

The authors of the plan, aware of the controversial nature of the above classifications as far as enterprise accounting is concerned, presented these accounts separately in the income statement of the developed systems. Thus analysts and management can reclassify these items as they wish in their analysis of the entity's results.

The nature of the classification of French financial statements suggests that the financial character of an item prevails over its other characteristics for classification purposes. [Fortin, A. 1986, p. 475].

In addition to the above two main statements, the 1979 plan includes a statement on changes in financial position. This statement is optional since it is included within the developed set of financial statements. It shows the financial sources and uses for the period, the impact of all transactions entered into, the working capital and cash position.

Furthermore, the plan includes a note on financial statements providing detailed information about fixed assets, depreciation, provisions, maturity dates of receivables and debits, results of the firm over the previous five years, etc.

The 1979 plan includes a section on cost accounting. which is divided into five parts: general provisions, a description of the network analysis, the nomenclature of accounts, details of accounting procedures, and depreciation for various cost methods.

A unique feature of French accounting is its advanced social reporting. Law No. 77-69 of July 1977 requires all companies with 300 employees or more to prepare a social report sheet on a yearly basis showing information about the latest two years on employment, wages, health and safety conditions, other working conditions, training, industrial relations and other relevant within factors . [Al -Abdullah, R. 1985, p.172]. This statement services the needs of government and contains valuable information for both investors workers.

13.4 The Main Features Of The Egyptian Uniform Accounting System:-

Egypt has operated a uniform accounting system since 1967. Its stated objectives are:

1. To provide the basic data and the analytical tools for planning, implementation and control at various levels.
2. To integrate micro unit accounts with macro accounts.
3. To facilitate the collection, classification and storage of accounting data. [C A A 1966 pp.7-11]

Hence Egyptian uniform accounting is mainly concerned with macro development planning as well as effective control by the State over its economic units, mainly public enterprises.

The main features of the system are:

a) The system is compulsory for all Egyptian public enterprises. Private enterprises could be required to apply the system by the relevant minister; [Ibid., pp.15-16]

b) The system is a uniform system which includes:

    1. Chart of accounts,
    2. bases, rules, terminology and definitions of accounting,
    3. accounts and financial statements, and
    4. planning budgets. [Ibid., pp.21-101].

The main reasons behind the establishment of a full uniform accounting system in Egypt were to increase the government's dependence on the accounting system as an information tool in the process of planning and control of economic activities, to measure the effectiveness of management in utilising the resources entrusted to it, and to measure the contribution of each enterprise to national income and to national production. [Briston, R. and El-Ashkar, A. Spring 1985 ,p.46].

c) The System is flexible. The presidential decree No. 4733 of 1966 stated that a permanent technical committee should be formed by the chairman of the CAA. This committee would recommend any changes or adjustments which became necessary due to new conditions. Meanwhile, the system adopted flexibility as one of its standards allowing companies to keep special records for more detailed information as needed by a given company. [CAA, 1966 p.17].

The Egyptian uniform accounting system incorporates some national accounting concepts to facilitate the extraction of figures by national accounts, and the preparation of traditional financial statements and accounts. The chart of accounts is classified according to type; including main or sub-classes. It includes nine classes as follows:

Class 1- Assets.

Class 2- Liabilities.

Class 3- Uses of resources.

Class 4- Resources.

Class 5- Production Centres Control.

Class 6- Production services Centres Control.

Class 7- Marketing Service Centres control.

Class 8- Administrative and Financial Services control.

Class 9- Capital Transaction Centres Control.

The First two classes (1,2) are balance sheet accounts, the second two classes (3,4) are operating and revenue accounts, while the remaining classes (5-9) are analysis of use of resources.

The last five classes represent the control accounts where costs are analysed for the purpose of preparing the production and trading account, the profit and loss account, as well as the current operation account. The first two of these accounts meet the needs of financial accountants and provide functional cost data, while the latter is intended for national accountants, providing the data required for national purposes. [Briston, R. and El-Ashkar, A. 1985 p.14]

Furthermore, the classification scheme provides links between financial and cost accounts, and between enterprise and national accounts. The chart includes "opposite twin accounts" for linking micro accounts to macro accounts. These accounts appear at an equal value on both sides of the current operation account. In addition to the chart of accounts, the system includes information on accounting bases, rules and terminology for both financial and cost accounting. In the case of the financial statement, and accounts, the system has recognised the need for the capital operations account, and its linkage to the traditional accounts and financial statements for the purpose of showing sources, uses and capital formation at the entity's level.

The system also adds an account for current operations to reflect the result of the entity's current activities. This account is also linked to the traditional financial statements. The system provides a uniform accounting treatment of current activities surplus in that the surplus includes the variances of imputed rents and interest, and variances of inventory valuation of sales prices, while excluding expenses and revenues which are not related to current activities, in order to facilitate computation of value added according to economic concepts and to enable comparison between the current activities surpluses of different entities.

It is also worth mentioning that the system enables the entity to prepare a cash operations statement, linked to the chart of accounts through balance sheet accounts which directly show the balance of cash transactions, without the need for additional analysis. One very important feature of the system is that it requires a comparison between the details of the final accounts and those of the planning budget.

The fourth component of the system is "the planning budget", which consists of physical, cash and financial budgets which can be used as an effective planning, control and follow-up system at all levels.

In addition to the above main elements, the system includes a number of indices for depreciation rates, financial control rules, a requirement for regular and detailed information and special records.

The section on final accounts and financial statements includes three accounts in addition to the annual traditional statements which each entity is required to prepare as a part of its final accounts:

1. A current operations account which reflects the result of the current activities of the entity.
2. A statement of sources and uses of funds, which shows the inflow and outflow for each entity. It distinguishes between gross fixed capital formation, capital formation in stocks, customs and duties on investment components, capital transfers, financial investment, etc. The statement facilitates the preparation of the business sector's capital accounts and financial tables.
3. Cash statements showing payments and receipts in detail and in total, classified according to the nature of the transactions between the entity and other sectors. This

helps the preparation of the financial tables and the revenues and expenditures of the sector.

Each entity is also required to prepare monthly or quarterly statements as well as the annual planning statement on a physical and financial basis. Examples of statements required include statements of sources and use of products, goods for resale, production inputs, commodity inputs and production programmes. These statements are helpful in preparing commodity flow and input-output tables. In addition entities are required to prepare a value added statement.

Another important feature of the Egyptian uniform accounting system is its consideration of the needs of micro accounting and macro accounting in its specification of valuation rules. This is seen clearly in the rules of evaluation of inventory valuation, imputed transactions and capital consumption. For example, in the case of imputed transactions, there are four types of transaction:-

a) Capital assets produced for internal use; the system values these cost of production,and the current operating account is credited with the cost. Thus, aggregated figures of expenditure and income of the business sector on capital formation are easily calculated .

b) Two accounts are reserved for rent adjustments. Each shows the difference between imputed values and the depreciation of the buildings occupied. The imputed rent is calculated at the rate charged for similar assets and the straight line method of depreciation is used.

c) Two accounts are maintained for interest, each showing the difference between actual and imputed interest. At the macro level, the interest adjustment indicates the expenditure of the entity on financing its capital from state funds. It also shows revenue for the government sector which finances most of the entities' capital.

d) Wages paid in kind are calculated at micro level to provide national accountants with figures of real income from employment and the operating expenditure of the business sector.

Rent adjustment, interests adjustment and wages paid in kind facilitate the calculation of factor incomes and value added at macro and micro levels, and all these accounts may be allocated to cost centres as appropriate. This is left to the costing system of each individual entity. [Hussein, I. 1981 p. 11].

The Egyptian classification of accounts, rules of evaluation, and types of accounts and financial statement serve the needs of national accounts very well. They are also useful to micro entities since the entity's objectives are linked to national objectives.

In summary, the main characteristics of the Egyptian uniform accounting system are:

1. It is clear, simple and flexible.
2. It adopts existing accounting rules and principles.
3. It is feasible.
4. It meets the needs of micro entities as well as national requirements.
5. It is comprehensive.

13.5 The Main Features Of The Iraqi Uniform Accounting System [IUAS].

The preparation of the IUAS began in April, 1979,and it has been in use since 1982.

The IUAS is based on the Egyptian uniform accounting system. In fact, the two committees of experts which prepared both uniform accounting systems were headed by the same person, Shadi, M.A.,an Egyptian scholar.

Indeed, the objectives, features, principles and scope of the two systems are the same. Both systems have as their objectives: (1) To provide basic information, and analytical tools for planning, implementation and control at all levels, (2) to link micro accounts with national accounts, and (3) to facilitate the collection, classification and storage of accounting information. In addition, both systems are comprehensive, simple, flexible and practicable. The chart of accounts, accounting treatments, final accounts, financial statements, cost accounting provisions and planning budgets are all much the same. A detailed analysis of the two systems reveals that in most cases, accounts and sub-accounts are coded in similar terminology, statements are interpreted in the same way, and the contents of accounts and financial statements are compatible.

The fact that the IUAS was prepared sixteen years after the Egyptian Uniform system was put into use has benefited the former in two ways: (1) It took into consideration all the difficulties posed by the Egyptian system during its sixteen years of operation [Financial control court, 1985, p.10], and (2) it was able to take advantage of the advances in computerised accounting, cost accounting and budgeting since 1966. Indeed the IUAS is more flexible than the Egyptian system because its chart of accounts only includes the main headings of accounts and sub-accounts leaving the detailed sub-classification of these accounts to individual entities to arrange according to their particular needs Furthermore, the IUAS includes more sections than the the Egyptian system, such as sections on how to computerise the system and on how to prepare reports for national accounting purposes at the entity level.

Because the IUAS includes all the characteristics of the Egyptian uniform accounting system, it will not be analysed in details here, though its structure will be explained in the next section. However a brief list of its bases is appropriate at this point. These are:

1. The classification of accounts in such a way as to serve

the needs of traditional financial accounts, cost accounts, price setting, national accounts, etc. and to provide information which is needed for the purpose of planning and control, and specifically for the preparation of value added.

2. The adoption of decimal numbering and the logical classification of charts of accounts in order to computerise the system.
3. The differentiation between current activities, and capital activities and between normal activities and exceptional activities.
4. The classification of "opposite twin accounts" within balance sheet accounts.
5. The adoption of accrual accounting.
6. The separation of cost accounts into distinct sections.
7. The classification of fixed assets in a general way according to their nature and use, and differentiating between utilised production capacity and projects which are not ready for use (i.e. between fixed assets and projects under construction).
8. Differentiation between the accounting treatment of public ownership and entity ownership for the purpose of fixed capital. [The Financial Control Court, 1985 p.21].

The above bases of the IUAS have indeed linked micro accounts with macro accounts and facilitated the compilation of national accounts. For that the system includes a section on national accounts which supply data directly related to national accounts compilation. These data are supplied by various accounting returns included within the system. A detailed example of the availability of data supplied by the IUAS is the financial analysis summary shown in Table 13.2

13.5 The Libyan Choice:-

From the preceding brief analysis of the characteristics of various uniform accounting systems , it may be suggested that they generally have similar objectives. Each of them is intended to provide accounting information which is relevant to national planning and control, to link micro entity accounts to national accounts, and to facilitate the collection,classification and storage of accounting information. Evidence from the literature suggests that they are successful to a certain degree, in meeting these objectives, each within its own environment. These environments include a centrally-planned (the Soviet Union), a developed free market economy (France) and developing centrally planned economies (Egypt and Iraq). Certainly, there are differences between these environments and accordingly they differ in their degree of similarity to the Libyan environment.

The Soviet Uniform Accounting system is designed to provide information and to be linked to a different national

Table 13.2: Financial Analysis of the Transferable Industry

No.	Details	Amount I.D.
1	Paid-in Capital	
2	Retained Profit	
3	Invested Accumulated Depreciation	
4	Ownership Right = (1 + 2 - 3)	
5	Long-run Appropriations	
6	Long-run Loans	
7	Available Capital = (4 + 5 + 6)	
8	Current Liabilities	
9	Grand Total of Liabilities Side + (7 + 8)	
10	Gross Total Fixed Assets (Inclusive of Fixed Assets Under Construction)	
11	Accumulated Depreciation	
12	Net Fixed Assets = (10 - 11)	
13	Inventory at the End of the Period a) Physical Requirement b) Work-in-Process c) Finished Inventory d) Goods Purchased for Sale e) Others	
14	Current Assets	
15	Assets Readily Convertible to Cash	
16	Working Capital = (13 + 14 + 15)	
17	Net working Capital = (16 - 8)	
18	Other Assets	
19	Used Capital = (12 + 17 + 18)	
20	Grand Total of the Assets Side = (12 + 16 + 18)	
21	Grand Total of Previous Year Fixed Assets Side	
22	Additions to Fixed Assets = (10 - 21)	
23	Inventory at the Beginning of the Period a) Physical Requirement b) Work-in-Process c) Finished Inventory d) Goods Purchased for Sale e) Others	
24	Net Sales (Revenues from Ordinary Activities)	
25	Production Valued at Market Prices = (24 + 23c)	
26	Sales of Goods Purchased for Sale	
27	Other Revenues	
28	Cost of Goods Purchased for Sale	
29	Total Production Valued at Market Prices = (25 + 26 + 27 - 28)	
30	Intermediate Consumption	
31	Gross Value Added at Market Prices = (29 - 30)	
32	Indirect Taxes	
33	Subsidies	
34	Gross Value Added Cost = (31 - 32 + 33)	
35	Annual Depreciation	
36	Net Value Added at Cost = (34 - 35)	
37	Net Current Transfers	
38	Income of Factors of Production a) Net Profit or Loss i) Retained Profit ii) Treasury Share (Ordinary and Capital Budgets) iii) Workers Share b) Salaries and Wages c) Net Paid Interest d) Precautionary Reserves	
39	Net Value Added at Market Prices (31 - 35)	
40	Workers Compensation = (38aiii, i.e. Workers Share + 38b,i.e. Salaries and Wages)	
41	Operating Surplus	

Source: AL-ABDULLAH, R.J. 1985 pp. 300, 1.

accounts system from that which is applied in Libya. Whilst Russia follows the Marxist concept of national accounts, Libya follows the United Nations new system of National Accounts. These two systems are fundamentally different from one another (see Chapter Eight). For example, in the Soviet Union national income is considered to be created only by those sectors concerned with material production or goods. Sectors which provide services such as education and health are supported by redistribution of national income created by the production sectors and thus national income results only from the product of labour.

As a result of this ideology, Russian national accounts are prepared directly from the production sectors' accounts and rely much less upon indirect sources and imputation. [Gambling,T. 1974 p.83].

Perhaps this ideology is the reason why Soviet micro accounting does not distinguish between income statement accounts and balance sheet accounts, between operating and non-operating accounts, and between long-term and short-term assets and liabilities. In addition, land and natural resources are excluded from balance sheet accounts.

In a developing country like Libya, imputation and indirect information play a major part in national income compilation since most sectors of the economy own their own buildings and capital is the most important source of finance. Furthermore, the family sector and the urban sector also contribute to national income.

It could also be argued that the Soviet uniform accounting system is designed for large organisations since most Soviet business entities are large state organisations, while Libyan organisations vary considerably in size.

However, the Soviet requirement that each enterprise submits a number of accounting returns would be of great benefit to Libyan accounting information needs, if adopted.

However although the system is successful and relevant as far as the Soviet environment is concerned, and some elements and concepts of the system could be of benefit to the Libyan environment, it is unlikely that the system would be appropriate for Libya.

The second system which was discussed the above section was the French uniform system. In this system a heavy emphasis is given to financial matters while costs accounting and budgeting are given less emphasis. In effect, national economic planning is well represented in the French accounting system whereas the control function of the system is weak . Unlike France, the Libyan economy is a developing and centrally-planned economy requiring a heavier emphasis on planning, control and performance evaluation.

The national economic plan in France is a plan for the public sector as well as a programme for other sectors of the economy. The fulfilment of the plan is ensured as far as possible by indirect instruments of government policy;

therefore, unlike Libya where the development plan is mandatory for all sectors and entities, economic planning as far as the private sector is concerned is merely a forecast for the future. Indeed economic planning in France is operated by the government through the control of the capital market via the policies of the Bank of France. Thus, Most describes the French planning approach as follows:-

> "France aims principally at the planning of money flows rather than the production of goods and services: the state influences the choices of its subjects by increasing and decreasing their command over the means of payment, and not by directly allocating land, labour, and capital to specific output objectives". [Most, K. 1971,, p. 265].

For this reason the French uniform accounting system does not provide a link between planning and action. Apart from final financial statements there are no other accounting returns provided by the French system for continuous control over actual actions, so that the relationship between central planning and action is very loose.

This weak relationship between planning and actual action is explained by the fact that France, unlike the Soviet Union or Libya, has a capitalist economy. Thus central planning in France does not apply to the private sector. In effect, the French system only provides suggestions on how to construct budgets at the micro level. The French system is oriented towards a developed free market and there is doubt about its suitability for a developing socialist economy like that of Libya. Evidence can be found in the experience of three Arab developing countries, Algeria, Tunisia and Morocco which established uniform accounting systems based on the French system. Whilst the latter two countries are continuing to apply their original systems, Algeria had to abandon its French-based system and establish a new uniform system based on the needs of its socialist economy and the experiences of Eastern European countries and Egypt. Furthermore, the fact that the 1979 French plan had to adopt the requirements of the EEC Fourth Directive suggests that it is more orientated towards a free market system than to a controlled system.

In conclusion, while some elements and concepts of the French uniform accounting system are certainly of benefit to the Libyan environment, it is unlikely that the system could be utilised without considerable modification. The same argument could be applied to the OCAM plan which was based on the 1957 French plan and is applied to some former French Colonies in Africa.

The two remaining examples of uniform accounting systems which were discussed are the Egyptian and Iraqi systems. These two systems are felt to be more suitable to the Libyan environment than the Soviet or French systems, since they both provide relevant information to their own environments, which are very similar to that of Libya, for both Egypt and Iraq are developing, centrally planned and controlled Arabic and Islamic environments.

Both systems incorporate budgets as well as financial accounts so that the relationship between planning and control is strong.

Both countries, like Libya adopt a comprehensive socio-economic planning systems covering all sectors of the economy, mandatory for all government organisations and other agencies. Accordingly the Egyptian and Iraqi systems provide information relevant to such planning. Information is provided on a sectoral basis, including transactions within each sector and between sectors with regard to production, saving, investment, income and expenditure. Detailed information about imports, exports, foreign currency, imputed items and actual results compared to plans are also provided by the two systems.

However, evidence suggests that the Iraqi uniform accounting system is the more appropriate of the two as far as the Libyan accounting information needs are concerned. Although the Iraqi system is based on the Egyptian system, it has some advantages compared to that system, for it was prepared about fourteen years later and has benefited from the experience of the Egyptian system. For example, many Egyptian firms complain that the system includes details which are not relevant to their activities, while other relevant details are not included in the system. Indeed by 1976 the permanent Committee had to answer more than 570 enquiries. [CAA, 1975 pp 4-472]. Iraq took this experience into consideration, making its own system more flexible.

Its chart of accounts includes five instead of six levels, and addition, it allows micro units to add to the system details as required, on condition that they consult with the permanent committee of the system. It also includes most of the additions which the Egyptian system found necessary as a result of enquiries by micro units. [The Financial Control Court, The Uniform Accounting system, 1985 p.10]. Furthermore, the Iraqi system includes two sections which are not included in the Egyptian system, namely computer software for the system and national income accounts.

It could also be argued that Iraq's economic environment is closer than Egypt's to that of Libya, because both Libya and Iraq are oil-rich, which secures their capital needs; however both of them suffer from shortage of manpower. In contrast, the Egyptian economy suffers from lack of capital but has a surplus of manpower. In addition, evidence suggests that Egypt has started to move towards a free market economy as a result of the open-door policy adopted by the late President Sadat.

Finally, it seems that the future of the Egyptian system is less secure than that of the Iraqi system because the open-door policy in Egypt has increased the influence of multi-national companies and the "big eight" accounting firms as well as the International Monetary Fund (IMF).

In effect, there is a strong tendency in Egypt now to adopt IAS and to strengthen the accounting profession. In fact, among the recommendations of national and international conferences on accounting and auditing held in Cairo in June 1980, Dec. 1980 and Dec. 1986 were the preparation of accounting standards conforming with generally accepted international accounting standards, the production of auditing standards, that professional officers should be allowed to participate in the audit of public sector companies and that committees should be set up to study the possibilities of establishing an accounting and auditing institute to represent qualified professional accountants and auditors. [Briston, R, and EL-Ashkar,A. 1981 p. 29, and Dauban, M.S. 1988 p.9]. the implementation of these recommendations would represent a major move towards the adoption of the British and American accounting system. [Ibid, p.30].

Based on the above argument it is felt that it would be more appropriate for Libya to utilise the Iraqi uniform accounting system than any of the other systems discussed. Such utilisation is certainly required in the short term and it could even prove to be appropriate in the long term. Thus the following section is devoted to discussing, in some detail, the structure of the Iraqi uniform accounting system.

13.6 The Structure Of The Iraqi Uniform Accounting System:

13.6.1. The Chart Of Accounts:

The Chart of accounts is divided into five levels:

Level 1: This contains four main groups: Assets, liabilities, expenses and revenues. Five additional groups are also included: the cost centre of production, marketing, administrative financial and capital operations.

Each of the above accounts is given a one digit code number (1-9) respectively. However the official flow chart of accounts shows only the first four accounts.

Level 2: The first four groups of the chart of accounts are each sub-divided to a second level of nine accounts of which each is given a two-digit code number, for example "projects under construction" is given code 12.

Level 3: Each of the nine accounts of the second level is further sub-divided into nine accounts with each given a three-digit code. For example, "Transportation means" is given code 124.

Level 4: Each account of the above level is subdivided into nine accounts with each given a four digit code. Thus, "Transportation means by cars" is given Code 1241.

Level 5: Each account in the previous level can be subdivided into nine accounts with each given a five-digit code. Thus "passenger transportation means" is given code 12411. Therefore, the chart of accounts could have 26244 accounts (4 x 9 x 9 x 9 x 9). A full form of the Iraqi chart of accounts is given in Table 13.3 while a detailed five level account appears as follows:

I Assets

II Fixed Assets

III Land

IIII Agricultural land

IIIII Purchasing Cost

IIII2 Reclamation Cost

This chart of accounts has certain advantages which could be defined as follows:

1. The Coding system has abbreviated the names of accounts making it easier to remember the code than the full name of an account. It has also facilitated the computerisation of the system.
2. The chart is flexible because since some sub-accounts are unfilled, it is possible to add one or more accounts or sub-accounts to the chart. However its flexibility in Libya could be improved by sub-dividing each account or sub-account into more than nine subs, because Libya uses the original Arabic numbers (0-9). Thus there is

Table 13.3: Chart of Accounts

Assets	Liabilities	Expenses (Uses)	Revenues	Production Cost Centres	Production service Cost centres	Marketing Cost Centres	Adm. & Fin. Cost Centres	Capital Operation Cost Centres
1	2	3	4	5	6	7	8	9
11- Fixed Assets	21- Capital	31- Salaries & Wages	41- Revenues from goods productions	531- Salaries & Wages	631- Salaries & Wages	731- Salaries & Wages	831- Salaries & Wages	931 - Salaries & Wages
12- Projects under construction	22- Reserves	32- Physical Requirements	42- Revenues from commercial activities	532- Physical Requirements	632- Physical Requirements	732- Physical Requirements	832- Physical Requirements	932 - Physical Requirements
13- Inventories	23- Provisions	33- Service Requirements	43- Revenues from services activities	533- Service Requirements	633- Service Requirements	733- Service Requirements	833- Service Requirements	933 - Service Requirements
14- Loans given	24- Loans reclined	34- Contracting and services	35- Goods Purchased for Sale					
15- Financial Investment	25- Credit Banks	36- Interests & land rents	44- Revenues from activities to others	535- Current Transferable Expenses	635- Current Transferable Expenses	735- Current Transferable Expenses	835- Current Transferable Expenses	935 - Current Transferable Expenses
16- Debtors	26- Creditors	45- Cost self produced assets					836- Special Current Transferable	
18- Opposite	28- Current operations accounts	37- Depreciations	46- Interests & Land rents					
19- Debit twin accounts	29- Twin accounts opposite credit	38- Transferable expenses	47- Subsidies					
		39- Other Expenses	48- Transferable Revenues					
			49- Other Revenues					

Source: The Financial Control Court, the Uniform Accounting System, Baghdad, 1985, pp. 32-33 no zero problem with the computer, as is the case in Iraq which uses the Indian numbers which include a dot(.) as zero. A dot in computer language means something other than zero. Furthermore, should an entity need more than five levels, these could be added if necessary.

3. It distinguishes between current and capital expenses and revenues. Thus, it is possible to distinguish between operating profit and deficit, which is a useful indicator for performance evaluation .

4. The chart includes accounts Nos.32 and 33 for physical and services requirements respectively, to account for those goods and services which were provided by other producing entities. In effect these represent intermediate consumption. This facilitates the calculation of national product for which this type of consumption must be distinguished.

5. Account No. 12 (projects under construction) represents current capital formation. In effect, it is an accumulation of all current capital expenditures. This account has the advantage of enabling the planners to decide whether this formation is equal to, above or below the capacity needed to maintain the present level of capital goods.

6. It classifies each entity's transactions with other entities according to each entity's sector. For example account Nos. 141 (long term loans to others), 142 (short term loans), 151 (long term investments) and 164 (Notes

receivable) are classified according to sector as follows: social, co-operative, mixed, private and foreign. This classification facilitates measurement of the relationship between various sectors and the calculation of each sector's contribution to the national product or income, when compiling national accounts.

13.6.2 <u>The Explanation Manual For The Chart Of Accounts:-</u>

The purpose of this manual is to clarify the meaning of accounts included in the chart of accounts. This explanation is intended to help accountants, especially new accountants, to perform their job with a certain degree of assurance without the need for them to consult others for interpretations or rely on their own judgement. For example, projects under construction are defined as follows:

> "Projects under construction account includes all the investments which create production capacity but which have not yet been completed or which are still under reform, production, purchase or erection according to their nature. This account is debited by all costs which were expended on it, such as purchasing price, manufacturing cost, erection costs and all other costs. It is also debited by all paid amounts for which no goods or services have been received in return, such as advance payments. It is also debited by amounts paid to contractors in return for jobs which have not yet entered the production stage, such as costs of land reclamation. Accordingly this account should be analysed as follows..."
> [The Financial Control Court , 1985 PP63-4]

In addition to the explanation of each main account, the manual gives detailed explanation of each component of the account. For example, account No. 1291 (advance payments) is shown to include all amounts paid in advance for purchase of land, buildings, plants, machinery, equipments, transportation means, furniture, etc. [Ibid P.66].

13.6.3 The Accounting Treatments Of The Uniform Accounting System:

The accounting treatments were specified within a general framework of principles which take into consideration both the case of procedure and the maintenance of accounting checks and control. These principles, therefore, could be classified as

a) Principles to maintain proper accounting checking and control:-

1. The creation of projects under construction as an intermediate account to be debited by all financial transactions for acquisition of fixed assets in order to calculate the capital expenditure of the entity.
2. The adoption of the weighted average basis for inventory pricing. However, in exceptional circumstances, the entity could adopt a different method after consulting the financial control court.
3. The inclusion of all amounts spent on goods before they reach the entity's stores, in the cost of purchases
4. The determination of sales value at the point of departure from the entity's stores.

5. The use of "accounts receivable" for recording sales of goods or providing services to others, whereas sales of fixed assets should be recorded in the "accounts receivable from exceptional activities" account.

b) Principles to facilitate accounting procedures:-

1. The preparation of the accounting entry of the last level in the chart of accounts.
2. The recording of salaries and a like at the end of each month.
3. Due to the absence of cash budget in many entities at the present time, the use of intermediate accounts for transformation expenses (38), other expenses (39), subsidies (47) and other revenues (49) remains optional until the adoption of the cash budget as a tool for follow-up and control or the use of computerised accounting.
4. The use of account No. 163 (Debit current accounts) and account No. 263 (Credit current account) during the accounting period for the purpose of identifying the financial relationships within the organisation and with the its firms and branches and for the purpose of facilitating payment transactions among them.

The system gives some practical examples of how to record in each account. Thus it helps the micro accountants to understand many of the macro accounts established for the purpose of compiling national accounts. This also provides further clarification of accounts already outlined in the manual. Furthermore, it reduces the need for consultation with senior officials.

13.6.4 Financial Statements And Final Accounts:-

This section includes a complementary group of balance sheet, final accounts and other analysis statements in order to provide information needed by the internal and external users of the group. It includes information relevant to the requirements of the management, control, follow-up and national accounts. The analysis statements are included to guide the entity according to its needs and circumstances. The entity could add or remove any information to or from these statements according to its needs.

The final statements and accounts are: the balance sheet, production, trading, profit and loss, and their distribution account, profit and loss account for commitments and finished contracts, current operations statement, gross value added statement, value added distribution statement and finally 25 analysis statements.

13.6.5 Balance Sheet:-

The assets side of the balance sheet starts from the least liquid assets and ends with the most liquid assets, with current and non-current assets shown under separate headings.

The liability side of the balance sheet is also organised according to period of obligation. A full form of the balance sheet is shown in Table 13.4.

Assets are shown by their book value only, while their historical costs and their accumulated depreciation are shown separately in an analysis statement of fixed assets and depreciation. Initial formation cost is shown within deferred current expenses which include six further types of deferred expenses, all of which are shown in the deferred current expenses statement. The balance sheet also shows projects construction separately from other fixed assets to facilitate the calculation of fixed capital formation and capital expenditure in the national accounts. Inventories in the balance sheet include, inventories for production, finished goods, production in process, goods for sale and goods paid for but undelivered; explanation is included in the inventory analysis statement. Imputed interests and rents are included in the twin account of the liabilities side of the balance sheet. Their amount is shown separately in the debited and credited twin accounts analysis statement which also includes , the final products at sales price, differences of stock valuation and other statements.

All in all there are eleven analysis statements for items included in the balance sheet.

13.6.6 <u>Production, Trade, Profit, Loss And Distribution Account:</u>

This account is divided into five stages (see Table 13.5). The first shows revenues from current activities

Table 13.4 **Balance Sheet in ...... (Assets side)**

Analysis No.	Chart of Accounts Code	Name of Account	Current year I.D.	Last year I.D.
	1	Assets		
		Fixed assets:		
1	11	Fixed assets at book value	xxx	xxx
2	118	Deferred current expenses	xxx	xxx
3	12	Projects under construction	xxx	xxx
4	141	Long term loans (given)	xxx	xxx
5	151	Long term investments	xxx	xxx
		Current Assets:		
6	13	Inventory (Cost)	xxx	xxx
6	138	Credit letters for purchase of materials (Its amount .... I.D.)	xxx	xxx
4	142	Short term loans (given)	xxx	xxx
5	152	Short term financial investments	xxx	xxx
7	16	Account receivable	xxx	xxx
8	18	Cash	xxx	xxx
			xxx	xxx
			xxx	xxx

Table 13.4 Continued

Balance Sheet in ...... (Liabilities side)

Analyis No. No.	Chart of Accounts Code	Name of Account	Current year I.D.	Last year I.D.
	2	Finance Source		
		Long term finance sources:		
	21	Paid in Capital (Nominal Capital .... I.D.)	xxx	xxx
9	22	Reserves	xxx	xxx
10	23	Long term provisions	xxx	xxx
4	241	Long term loans (received)	xxx	xxx
		Short term finance sources:		
10	23	Short term provisions	xxx	xxx
4	242	Short term loans (received)	xxx	xxx
	25	Bank loans	xxx	xxx
	26	Accounts payable	xxx	xxx
		Finance source total	xxxx	xxxx
19		Twin accounts	xxx	xxx

Table 13.5

Production, trade, profit, loss and Distribution account in ...

Analysis Statement No.	Chart of Accounts Code	Name of Account	Current year I.D.	Last year I.D.
16	41-45	Revenues from Current activities	xxx	xxx
		Subtract:		
17	5	Production cost	xxx	xxx
17	6	Production services cost	xxx	xxx
		Change in unfinished product inventory at cost minus -	xxx	xxx
		Revenues from scrap sales	xxx	xxx
		Production Cost (Net)	xxx	xxx
	35	Purchases of goods for sale	xxx	xxx
		Changes in finished product inventory	xxx	xxx
		Change in goods for sale inventory	xxx	xxx
		Cost of current activities (Net)	xxx	xxx
		Surplus or (deficit) current activities	xxx	xxx
17	7	minus-marketing expenses	xxx	xxx
		surplus (deficit) of production and trade	xxx	xxx
	46	Interest and rent of land (credit)	xxx	xxx
	44	Subsidies	xxx	xxx
17	8	Deduct administrative and finance expenses	xxx	xxx
		Surplus (deficit) of operations	xxx	xxx

Table 13.5 (continued)

Analysis Statement No.	Chart of Accounts Code	Name of Account	Current year I.D.	Last year I.D.
	48	Add- Transferable revenues	xxx	xxx
	49	Other revenues	xxx	xxx
			xxx	xxx
15	38	Deduct- transferable expenses	xxx	xxx
15	39	Other expenses	xxx	xxx
			xxx	xxx
		Surplus (deficit)	xxx	xxx
		Surplus distributed as follows:		
		(according to prevailing regulations percentage)	xxx	xxx

(i.e. revenues from produced goods, commercial goods bought for resale, revenues from services, revenues from producing for others, costs of self-produced assets). The second shows surplus or deficit of current activities (i.e. revenues from current activities - costs of current activities (net)). The third shows surplus or deficit of production and trade activities or gross profit. The fourth shows surplus or deficit of current operations. The fifth shows the surplus or deficit (net). The sixth shows distribution of surplus according to the prevailing regulations.

13.6.6 Profit And loss account For Un finished commitments And Contracts:-

The purpose of this account is to specify profits made from unfinished contracts since operations were started. It usually takes longer than one accounting period to complete a contract, but each year should be credited by its revenues, although the contract is not completed at the year end. This account is divided into two sections. The first section shows excess of revenues over costs of partially finished contracts.

The second shows profit or losses (net) from contracts, which consists of revenues (or loss) from the first section, with the addition of exceptional revenues. (See Table 13.6).

Table 13.6:

Profit and loss account

for completed commitments and contracts.

Account Name	Current year I.D.	last year I.D.	total I.D.
Revenues from partially completed contracts.			
contract No......	xxx	xxx	xxx
contract No....	xxx	xxx	xxx
	xxx	xxx	xxx
Subtract - Cost of Partially completed contracts			
Contract No.....	xxx	xxx	xxx
Contract No.....	xxx	xxx	xxx
Ecess of Revenues over costs	xxx	xxx	xxx
Add. exceptional revenues	xxx	xxx	xxx
Profit (loss) of finished contracts	xxx	xxx	xxx
Transfer to balance sheet.			

13.6.7 <u>Current Operations Statement:-</u>

The main objective of this statement is to establish a link between an entity's accounting system and national requirements without distorting the conventional accounting requirements. It is divided into two main sections: revenues from current operations, and expenses of current operations.

The rules governing this statement are:

1) to determine value added according to the national accounts system definition which represents the net contribution made by an entity to the total value of production in the economy,
2) to distinguish between operating and non-operating costs and revenues.
3) to determine the current deficit and current surplus,
4) to offset the effects of certain accounts created for the purpose of calculating national figures on the conventional profit and loss account results (see Table 13.7 Account No. 194, 294)
5) to show how distributable surplus is disposed of.

13.6.8 <u>Gross Value Added Statement:-</u>

This statement is directly extracted from the current operations statements and is included for purposes of performance evaluation . The statement is divided into four sections (see Table 13.8).

Table 13.7:

Current operation statement for the period .....

Analysis statement No.	Chart of Accounts Code	Name of Account	Current year I.D.	Last year I.D.
		Revenues from Normal operations:		
15	41-45	Revenues from current activities	xxx	xxx
	461-462	Interest and land rent earned	xxx	xxx
	47	Subsidies	xxx	xxx
	294	Opposite Twin Accounts (Credit)		
19	2941	Variance of imputed rent	xxx	xxx
19	2942	Variance ofimputed interest	xxx	xxx
	2944	Valuation difference of goods purchases for sale inventory	xxx	xxx
			xxx	xxx
		Current expenses		
12	31	Salaries and Wages	xxx	xxx
13	32	Commodity requirements	xxx	xxx
14	33	Services requirements	xxx	xxx
15	34	Contracts and services	xxx	xxx
15	35	Goods purchases for sale	xxx	xxx
15	36	Interest and land rent paid	xxx	xxx
1	37	Depreciations	xxx	xxx
15	384	Taxes and excises	xxx	xxx
			xxx	xxx

		Surplus (deficit) Normal operations (First stage)	xxx	xxx
		Surplus (deficit) normal operations (transferred from first stage)	xxx	xxx
	194	<u>Opposite twin accounts (debit)</u>		
19	1941	Variance of imputed rent	xxx	xxx
19	1942	Variance of imputed interest	xxx	xxx
19	1943	Valuation differences of finished product inventory	xxx	xxx
	1944	Valuation goods purchased for sale	xxx	xxx
			xxx	xxx
		<u>Add Other transferred revenues</u>		
	463	Revenues from securities	xxx	xxx
	48	Transferred Revenues	xxx	xxx
	49	Other revenue	xxx	xxx
			xxx	xxx
		<u>Subtract-Other Transferred examples</u>		
15	38	Transferred expenses (except AC/No.384	xxx	xxx
15	39	Other expenses	xxx	xxx
			xxx	xxx
		Distributable surplus (net deficit) second stage.		

Table 13.8:

Gross Value Added

at Production Factors Cost

(all sectors except Financial and insurance sector).

Chart of of Accounts Code	Description	I.D.
	1) Sources	
41	Revenue from goods production activity	xxxx
42	Revenue from commercial activity	xxxx
43	Revenue from Services activity	xxxx
44	Revenue from operations to others	
45	Costs of self-constructed assets	xxx
2943	Valuation differences of finished product inventory	xxx
2944	Valuation differences of finished goods purchased for sale	xxxx
	Total of sources	xxxx
	2) Production requirements	
32	Commodity requirements	xxx
33	Services requirements	xxx
34	Contracts and Services	xxx
35	Goods purchased for sale	xxx
		xxx

Chart of of Accounts Code	Description	I.D.
	3) Gross Value added (1) - (2)	xxxx
	Gross Value added at market price Brought forward	xxx
384	deduct - Taxes and excises (indirect)	xxxx
47	add-subsidies	xxx
	(4) Gross Value added at production factors cost	xxxx

The first section shows, sources of revenues such as production, sales, services, self-constructed assets, and variances in valuation of imputed inventory. The second section shows, the uses of the revenue, such as production requirements. The third section shows, Gross value added at market prices (sources - uses). The fourth section shows, Gross value added at production factors cost. The distribution of the gross value added between production labour cost, interests, depreciation and surplus is given in a separate statement (See Table 13.9)

13.6.9 Books Of Account

Books of account represent an important basis for the uniform accounting system, for they include evidence for the verification of any transaction, and the accuracy of accounting results is dependent upon them. The uniform accounting system does not require entities to use rigidly designed books of account but offers general guidelines and recommends certain books of account in order to assist the individual enterprise. The author of the text of the system stated:

> "The system defined the books of accounts as a general framework, however it should be noted that:
>
> - General Journal and general ledger are compulsory.
> - Other books should be used according to each entity's needs.
> - It is possible to combine one book with another or, to divide one book into a number of books.

Table 13.9:

Distribution of Gross Value Added

at Production Factors Cost

(all sectors except financial and insurance sector)

Chart of Accounts Code	Description	I.D.
31	Labour return	
	(1) Cash Salaries and wages	xxx
	(2) Wages in kind	xxx
	Social Services	xxx
	Net interests (361-462)	xxx
37	Depreciations	xxx
	operation Surplus	xxxx
	Gross value added at production on Factors cost	xxx

- It is possible to use periodical statements instead of any book for the purpose of facilitating work procedures".]Ibid p.257].

Accordingly the system gives freedom to an entity to chose whatever books are suitable to its circumstances, on condition that it includes the details specified by the system with regard to analysis of assets, liabilities, expenses and revenues.

The books of accounts are divided into two types:

1) financial books of account and,

2) cost books of account.

The objectives of the first type is to record, classify, and summarise all the financial operations related to an entity in order to state clearly the source of financing its operations, the way in which such financing is used and to enable it to construct its final accounts and statements. The financial books of account include general journal,general ledger subsidiary journals, and subsidiary ledgers.

The objectives of the second type of books of account are to give a detailed analysis of the major activities of an entity, to ensure adequate follow-up procedures to record the costs of a specific period, to give functional analysis of expenses and to facilitate the construction of certain cost and production returns and budgets. The cost books of accounts include ledgers of wages, commodity requirements, services requirements, current transferable expenses, job orders and finished products cost.

13.6.10 <u>The Cost System Of The Uniform Accounting System</u>

The authors of the uniform system define the cost system as follows:

> "The uniform cost system is the uniform terms, definitions, bases, and procedures, which are applied by entities operating within the same sector, in computing their production costs, and the preparation of their results and information. [Ibid P.367].

Based on the above definition, the system is not intended to be a uniform cost system similar to the financial system described in the last sections, for different sectors have different activities. Thus, the objective of the uniform system is to present a general framework for those concepts which could be unified at the national level. Accordingly, the system includes uniform terms, definitions, bases, rules, and procedures at the national level. However, from one sector to another, and within each sector it is left to individual accountants at the appropriate levels to choose those concepts which best suit their particular activity requirements.

The uniform accounting system allocates accounts Nos. 5,6,7 8 and 9, for the control of cost centres at the first level of the chart of accounts.

The section on the uniform cost system is divided as follows:

The first part includes definitions of costs, cost classification, cost system elements (cost unit production unit, cost period, cost centre,etc.), production capacity, production (production order, production process actual, production etc.) and break-even point.

The second part includes the general framework of cost centres charts which is presented as follows:-

Groups	Chart Code
Production Centre controls	5
Production services centre controls	6
Marketing Services centre control	7
Capital operations centre controls	9

The system leaves the analysis of lower classifications of cost centres to individual entities. However, it gives general guidelines on how to analyse these centres to lower levels. For example it provides general rules on, how to define cost centre analysis of the control of centres, and the codes on the chart.

The third part includes general guidelines on how to allocate costs to cost centres. Those costs are defined as follows:

Chart Code	Allocated Cost
31	Wages and Salaries
32	Commodity requirements
33	Service requirements
34	Contracts and Services
35	Goods purchased for sale
36	Interests and land rents
37	Depreciations
38	Transferable expenses
39	Other expenses

The fourth section includes Books of Accounts on a semi-merged base of financial and cost records.

The fifth part includes procedures of cost control, such as planning budgets, cost reports and standards.

The sixth part includes the cost sub-systems for some activities and major groups of assets which include :

1. Work-shops activities:
2. Fixed assets.
3. Transport .
4. co-operative catering
5. Pharmaceuticals.

In each of the above sub-systems the system explains the administrative and accounting procedures.

13.6.11 Planning Budgets

The general framework of budgets in the uniform accounting system covers the activities of all economic units within each economic sector. Thus, the system provides only the main unified forms and schedules of the system whilst leaving each individual entity to prepare detailed forms and schedules according to its needs, though the needs of national central planning should be given priority. The system defines the objectives of budgets as follows:

1. To achieve optimal use of production factors and available resources.
2. To co-ordinate the efforts and activities of an entity for achieving its objectives.
3. To provide a base for unit performance control through comparison of actual and planned performance.
4. To provide information needed by central planning and follow-up authorities.

Furthermore, the system specifies the general guidelines for preparing budgets as follows:

a) Comprehensiveness; because the system is applied to the socialist sector, it designs the budget schedules to cover all the sector's activities through the system classifications and by specifying accounts which reflect main, sub and departmental activities.
b) Flexibility; the system has dictated only the minimum

level of budgets schedules as required, while leaving some degree of flexibility to entities to make more sub-schedules according to their needs.

c) Planning; the budget schedules are centralised around the principle of proper planning of the activities of the entity based on the actual performance of prior periods and that expected in future periods.

d) Follow-up; the budget schedules include sections for comparison of achieved performance with previous plans to enable the planners and central authorities to determine the success of planning, , and to follow the growth of entities.

e) Financial and cost accounts; it is noticeable that most of the schedules' classifications represent accounts of a financial nature which reflect aggregate figures, analysed by cost centres controls (accounts Nos. 5, 6, 7, 8, 9) while the detailed analysis of these aggregates is left to the discretion of each entity according to its needs.

f) Participation; Without real co-operation and consultation at various levels between those who set budgets and those who implement them, motivation will be lacking. Thus, the uniform accounting system ensures that participation must be a prominent feature of budgeting.

g) Periods within the budgets; the uniform system of budgeting is orientated towards a yearly budget, though the budget must be divided into months and quarterly budgets.

13.6.12 Budget Types:-

There are three types of budget:

First: Physical budgets; this type of budget reflects quantities of sales, and production and the human, material, and inventory requirements. They are considered to be fundamental for building other budgets and for performance evaluation.

Second: Financial budgets; these budgets reflect the financial value of sales and production and their material and human requirements. They also include schedules for other expenses such as service expenses and financial investments schedules. From these accounts it is possible to prepare development accounts of an entity's activities at the end of budget period, which is represented by production, trade and profit and loss accounts.

Third: Cash budget; this budget shows the cash inflows and outflows of an entity. It identifies in advance the variances between actual and required cash during the period covered.

The number of budgets specified by the uniform system are thirty two. These are:

Serial No.	Name of Budget	Schedule No.
1.	Planning budget for sales for:	
	- Monthly sales volume	1
	- Monthly sales value	2
	- Quarterly sales volume and value	3
	- Monthly exports volume	4
	- Monthly exports (volume and) value	5
	- Quarterly exports volume and value	6
2.	Planning production budget for:	
	- Monthly production volume	7
	- Monthly production value	8
	- Quarterly production volume and value	9
	- Monthly self-used production volume	10
	- Monthly self-used production value	11
	- Quarterly self used production value and volume	12
3.	Planning budgets for finished goods	13
4.	Planning budget for production capacity for capacities added and removed	14
5.	Available and used capacity	15
6.	Planning budget for employment	16
7.	Planning budget for:	
	- Purchased Commodity Volume	17
	- Purchased Commodity Value	18
	- Imported and locally purchased commodity	19
8.	Planning budget for used commodity value	20
9.	Planning budget for services	21
10.	Planning budget for contracts and services value	22

13.6.13 National Accounts:

The uniform accounting system already includes some elements of national accounts. For example, it includes current operations account, gross value added and gross value added allocation statements. Additional accounts are added in this section of the system. It includes the fixed capital formation and changes in stock statement, and the source and application statement.

The inclusion of national accounts within the uniform system has three advantages:

1. It makes the importance of national accounts clear to all entities, and its requirements could be considered simultaneously, whenever revisions become necessary.
2. The system requires more account and statements, specially designed for the purpose of national

accounting, to be maintained by each entity.

3. It makes accountants at the micro levels aware of the importance of their work for the national accounts, and it shows them how their work can be linked to those accounts.

13.6.14 Computerisation:-

The objectives of the computerised system are similar to those of the manual except that it can achieve its objectives with more details and speed. It also helpes to solve the problem of manpower shortage, and provides reports more speedly.

The text of the uniform system shows step-by step documentation and instructions for programming the system. It explains how to create files, what inputs are to be used, what outputs are to be expected and the controls on inputs and outputs.

13.7 Adoption Of The Iraqi Uniform Accounting System (IUAS):-

The preceding analysis of the structure of the IUAS suggests that it is in general is compatible with the proposed general framework of accounting suggested for Libya, because it provides a reliable information system, linkes micro and macro accounts and provides information needed for national planning and control, thuse facilitating the performance of V.F.M. audit. It incorporates budgets as well as financial accounts it has readily available computer software and is designed for a centrally planned economy.

It is thus recommended that the IUAS should be adopted in Libya as a short term solution for the deficiency of the Libyan accounting system . However, it could be argued that with some changes and additions it could be made suitable for permanent adoption in Libya.

The changes and additions needed for the purpose of short or long term adoption would be determined by a working team which should consist of a number of experts on the information and environmental needs of Libya and on uniform accounting systems, in particular from Iraq, Egypt and other Arab countries which have adopted uniform accounting systems, and some international experts on the accounting needs of developing countries. Such a team should be based in Libya under the umbrella of the uniform accounting system committee as was suggested earlier in this chapter.

It would be valuable, however, to suggest some of the changes and additions necessary:

1) The chart of accounts: In general the chart of accounts seems to be acceptable for adoption, for it contains general headings and leaves the detailed division to the individual entities concerned. Thus it avoids the possible confusion of classification unnecessary for some

entities being included in the chart. While such an approach seems to be reasonable, all ministries should be asked to develop their own sub charts of account to satisfy the needs of all entities under their supervision and of national planning.

Furthermore, accounts within each class need not be restricted to nine accounts, but could go over nine since Libya does not have the "Zero" problem of the Iraqi system.

2) <u>The system of Final Accounts and Statements:</u>

To achieve better comparison of performance and linkage of micro and macro accounts, the system should distinguish between profit-making and non profit-making, large and small and industrial, agricultural and commercial L.P.Es

The types of financial statements for use by different-sized entities, as in the French plan, could be helpfully utilised in this regard.

Furthermore, while the IUAS incorporates some non-conventional accounting concepts such as imputed accounts, and the evaluation of finished goods inventory at current prices, it fails to reflect these imputed figures effects on the results of operations of micro entities because it creates counter-effect accounts (twin accounts). The inclusion of the effects of the imputed accounts should be emphasised in the Libyan case so evaluation and comparison of performance of L.P.Es can be improved.

In addition, the introduction of current values should cover all items in the financial statements instead of finished good inventory only. This would mean that figures of gross value added and its distribution are represented at current prices.

The calculation of imputed costs should be based on their current shadow prices, because market prices do not reflect the opportunity costs of rents and interest.

3) Cost and budgeting system: It is not possible to discuss in detail the Iraqi uniform cost system in this study due to lack of space. However,a review of the current Iraqi system reveals that some changes are needed in order to make it more effective in planning and control. These suggested changes and additions are:-

First:- The Iraqi system adopts the downward cost allocation method in the allocation of costs of services centres to production centres. This method is not appropriate for all centres or entities, whose costs might be more accurately allocated by a different method. Thus it is suggested that, instead of imposing one allocation method on all entities and cost centres, a specialised method for individual centres and entities should be adopted, which should depend upon the conditions pertaining to each entity or centre.

Second:- The current variance analysis system is very simple and does not give adequate indicators of performance.

It merely compares actual with planned production and cost elements. Further variance analysis should be performed such as wage variances, material variances, capacity variances, price variances, fixed costs variances, etc.

Third:- More emphasis should be placed on transfer prices, because in Libya some L.P.Es use the production of other L.P.Es as an intermediate raw material. Unless a proper transfer price, based on shadow prices of these intermediate inputs is calculated, the performance evaluation of those enterprises will be distorted.

Fourth:- More emphasis should be placed upon performance evaluation because no timely follow-up procedures are available in the current Iraqi cost system. Although the budgeting system requires the division of budgeted figures into months, quarters and years, there are no cost accounting or other returns on a monthly and quarterly basis.

In addition to the above changes, Libya should adopt a social balance sheet similar to that adopted by the French.

The above deficiencies are by no means exhaustive, but are merely examples of some changes and additions which should be adopted to the current Iraqi uniform financial and cost system before its implementation in Libya.

13.8 Summary And Conclusion

The general framework of accounting in Libya should aim to contribute towards the achievement of the country's socio-economic development objectives. This contribution, in practice, requires the generation of relevant, up-to-date and reliable accounting information for micro and macro decision making, planning, control and performance evaluation.

Information relevant to these functions should be provided by accounting in conjunction with other related information systems. Thus, the proposed general framework of accounting should take into consideration the need for proper co-ordination both within the accounting system and between it and the external environment.

To ensure the relevance of the proposed general framework , a uniform accounting system should be adopted which uses current value accounting for measurement, and regulatory compliance and value for money audit for control and performance evaluation.

Admittedly, such a framework will take a long time to establish - a time which Libya can ill-afford. Thus, the adoption of the Iraqi uniform accounting system would help in meeting the short-term needs of accounting information and in establishing a permanent accounting framework and system in Libya.

CHAPTER FOURTEEN

Summary of Principal Conclusions and Recommendations

Libya, as a socialist developing country, needs accounting information which is based on an integrated body of accounting practices showing both the financial, and social costs and benefits generated by the country's economic activities and resources. This information should be relevant to social and economic planning, micro and macro decision-making, and planning and control at both the micro and macro levels. Thus the objectives of this study are:

1) To determine whether users of accounting information at the micro and macro levels in Libya receive relevant accounting information (Accounting, as dealt with in this study, includes enterprise, governmental and national accounting).
2) To determine how accounting in Libya could be improved. For example, would the uniform approach be of greater value to Libya than a flexible approach?

To achieve these aims, it was necessary first to examine the Libyan environment with particular reference to social, economic, political and regulatory environments, and foreign influence in Libya. It was also necessary to examine some related areas such as accounting education and the accounting profession. Furthermore, it was importance to examine the type of information which is provided by accounting systems in Libya. To this end, the Libyan public enterprises (LPEs) accounting system, government accounting and national accounting were empirically examined in order to ascertain whether that accounting information is relevant to and satisfies the needs of the Libyan environment. To be relevant, this information has to be uniform to reflect economic reality, to be related to economic decision making and to be integrated. Thus the accounting information needs of Libyan socio-economic planning, and micro and macro decision making were also examined. Finally, the means to improve the accounting system in Libya was discussed. The relevance of the flexible and uniform approaches to the needs of the Libyan environment were examined in order to suggest an appropriate approach and other necessary improvements to enhance the relevance of accounting information in Libya to its environment.

There has been little published material on the socio-economic, political and regulatory environment in Libya, and even less data, if any at all, on accounting education, profession, systems, and the information needs of Libya. Therefore, it was necessary for the author to make two long visits to Libya (Summers 1985 and 1986) in order to collect general data on the Libyan environment and its needs, and the feasibility of improvement. Some of this data was collected through in-depth interviews or was obtained from laws and regulations, and government bulletins and publications which had to be translated from Arabic to English by the author.

The main emphasis was placed upon detailed investigation of the type of information which is provided by accounting systems in Libya. This was done by means of a closed end questionnaire submitted to 50 LPEs, a review of the financial statements and other reports of 50 LPEs lodged with the companies section at the secretariat of industry, and in-depth interviews with the directors- general and other authorities of the various sections within the Secretariat of Treasury (budget, accounts and treasury sections) and within the Secretariat of Planning (planning, budget and follow-up sections). In-depth interviews were also held with the auditor-general and some of his senior staff.

In the case of LPEs, data about their management, finance, applied accounting rules, standards, policies, audit, management accounting, man-power and its relationship to national accounting was gathered. In the case of government accounting, data about budgets, accounts, control, audit and its relationship to national accounting was also gathered. Regarding national accounting, data was obtained about sources and methods of national accounts, and their relationship to enterprise and government accounting in Libya.

It is worth mentioning that the little published and unpublished material in regard of accounting in Libya covered very small segments of accounting. For example, services rendered by the accounting profession, the influence of accounting policies on credit decisions by commercial banks and input-output models for planning and control in oil refineries. None of this material considered the developing nature of the Libyan environment but merely recommended improvement on the lines of American accounting, in the belief that American accounting is as good for the Libyan environment as it is for the American.

The theoretical and empirical studies, and analysis thereof have revealed the following accounting problems and deficiencies:-

1. The American and British influence on the economic and regulatory environment of Libya is highly noticeable especially during the period 1945 to 1980.

2 Most accounting-related regulations are relevant to a free market economy and to private enterprises.

3. Regulations related to LPEs were issued in the form of statutes relevant to individual enterprises.

4. Many of these regulations are vague, imprecise and lacking in detail, with much leeway existing in their interpretation and application.

5. They are more concerned with form than with substance and with regulatory rather than with economic facts.

6. As a result they create increased confusion rather than giving guidance.

7. Accounting education has an American bias with only marginal relevance to the Libyan environment.

8. Its emphasis is on private sector financial accounting

(external reporting) and its subsequent traditional external auditing.

9. It virtually excludes social accounting and government accounting, and includes very few cost and managerial accounting courses.

10. It prepares students for routine accounting work with no orientation towards creative and analytical work.

11. Research in general, and that related to Libyan needs in particular, is very poor in both quantity and quality.

12. The accounting profession is weak and disorganised.

13. The profession is a residue of American and British accounting firms which had to stop operating in Libya in 1973.

14. Its services are confined to routine traditional financial and regulatory audit, and the preparation of some tax forms.

15. Its role in improving accounting in Libya is minimal. Foreign pressure and influences, especially those of British and American multinational business and accounting firms, and that of accounting education, have done more harm than good to the evolution and status of accounting in Libya because:

16. Authorities at the micro and macro levels, as well as academics, have very little knowledge of the role of

accounting in socio-economic development planning, micro and macro decision making, and the areas of control and performance evaluation.

17. LPEs are poorly managed by people's committees few of which have any knowledge of accounting management, finance and economics.

18. Turnover of these committees and their members is very high and frequent.

19. Most of these enterprises have no clear objectives or means of finance.

20. They have no relationship with the overall development of the country.

21. Accounting systems are weak and many have no written or specified system.

22. Accounting systems of LPEs have an American and British bias, because they emphasise financial external reporting which includes information relevant only to a free market economy.

23. There are no specified accounting systems, accounting rules, standards or policies.

24. Diversity and inconsistency of accounting reporting is the main feature of LPEs accounting systems.

25. Financial statements are often three to five years in arrears, which makes them outdated and irrelevant.

26. Financial managers, accountants and accounting systems of LPEs are frequently changed.

27. Because financial statements and accounting systems of LPEs are audited by the Auditor-General's staff, there is considerable delay in the audit function which is confined to traditional financial audit. No attempt at efficiency or effectiveness audit was sought, nor is it possible, due to the shortage and low calibre of staff and the poor quality of information provided by the accounting systems.

28. Internal audit and internal control functions are very weak. Few LPEs have an internal audit department, and those that have include it within the financial section. Its function is to check payments and receipts before and after the actual payment.

29. All LPEs suffer from shortage in quality and quantity of accounting manpower.

30. Linkage between LPEs accounting and national accounting is very weak.

31. Government accounting in Libya is based on the traditional United Nations manual of government accounting.

32. The system is focused on fund accountability and tied to the appropriation and conventional budget process. Thus, it ignores the managerial and planning function.

33. The Budgets are classified according to spending departments for accountability.

34. Emphasis is on the input-side with little concern for the output side.

35. The classification bears no relationship to national accounts classification.

36. The state budgets are prepared by different departments and as a result there is no co-ordination between budgets.

37. State budgets are not directly linked with national planning. The only linkage between the budgets is the classifications of expenditure allocation and the main sources of revenues for financing projects under construction in the capital budget. As a result, they do not represent a segment of integrated overall national planning.

38. The government accounting rules and system of classification of accounts are inadequate because they follow the budget classification and budget estimates which are constructed in an unacceptable manner. Estimates of future expenditures and revenues are based upon the estimates of the previous period.

39. It seems that the government accounting system ignores the function of performance evaluation or achieving better organisational structure and improving the

information system.

40. Various agencies conduct auditing and control functions over government agencies, which creates some problems.

41. Unnecessary audit work is often done and unnecessary expenses incurred.

42. It is not uncommon for different staff from different control agencies to conduct audit and control functions at the same time in one entity, which causes confusion and disruption in its daily activities.

43. The auditor general's office suffers from shortage of staff, both in quality and quantity. Most of its staff are accountants and auditors, some of whom have no accounting degree nor qualification in any related discipline (e.g. economics and management).

44. The Auditor general has no executive power to carry out his recommendations. Hence, in many cases these recommendations are ignored.

45. Audit is confined to financial and compliance audit, with no attempt to carry out any type of V.F.M. audit.

46. Audit is often three to five years in arrears due to shortages of staff and to the diversity of accounting systems of LPEs, and there are delays in the preparation of accounts of all units, economic and otherwise.

47. All in all, it seems that government accounting in Libya

is separate from the overall accounting system and its budgets are not closely linked to the overall national plan.

48. Libya has adopted the UN National accounts system (New) but only compiles one of its five elements, "National income accounts", whilst following the IMF system for Balance of Payments statistics.

49. National income accounts in Libya suffer from conceptual and practical problems.

50. Their conceptual problems are related to those of the UN system and include problems of aggregation, urban areas, productive activity, production boundary, second-hand goods, residents, consumer durables and dwellings, imputed income, etc.

51. Practical deficiencies result from the status of micro accounting in Libya because data supplied by micro entities are not readily aggregatable and comparable, and micro accounting conventions are incompatible with those of the national accounts.

52. Delays of anything up to seven years occur in the preparation of national accounts as a result of non-receipt of the data needed from micro units, economic and otherwise, and the shortage of qualified manpower.

53. Many variables have to be based on rough estimates because of the unavailability of the basic data.

54. Libya needs an accounting system which provides information relevant to its socio-economic development and micro-and micro decision making.

55. In effect this system should recognise the information needs of the various development planning stages, the public sector, and decision making, including information relevant to planning, implementation, control and performance evaluation.

56. Clearly, neither the current accounting systems in Libya, nor any accounting system based on the UK/USA accounting concept of flexibility, notwithstanding the implementation of accounting standards, are likely to satisfy Libya's information needs, and thus they are an expensive luxury. On the contrary there is considerable evidence to suggest that a uniform accounting system is more capable of providing accounting information relevant to decision making at both the micro and macro levels, as well as to socio-economic development planning.

Indeed, the experiences of the Soviet Union, France, Germany, Iraq, Egypt, Syria, Tunisia, Morocco and OCAM countries with uniform accounting systems, are very encouraging, and Libya might well benefit from such a system.

Thus it is argued that a complete uniform accounting system would alleviate many of the above problems and deficiencies. In particular, it would enhance planning, implementation, control, and performance evaluation. In addition, it would improve the status of accounting and development planning in Libya. It is also reasonable to suggest that all environmental factors point to Libya's need for a uniform accounting system and that the implementation of such a system is indeed feasible.

Therefore, this study strongly recommends that Libya should immediately adopt a uniform accounting system. This system has considerable advantages over other systems, in that it alleviates most of the above mentioned problems and deficiencies. In fact, its main purpose is to solve the problems caused by the diversity of accounting practice and hence improve the reliability and consistency of accounting data for sound decision-making, planning and control, integrating micro and macro accounting. Thus it would provide greater comparability between financial statements of LPEs, as well as their cost records.

This greater comparability will facilitate and improve:

i. the consolidation and integration of data at all levels: unit, sectoral and national,

ii. the design of development policies and plans, and related information projections at the macro, sectoral and project stage,

iii. external control and audit of economic unit and government departments.

The system will further facilitate the improvement of accounting education, and computerisation of accounting in Libya.

In order to maximise the benefits of the system to accounting in Libya, this study recommends the following:-

1. The system should incorporate both financial accounts and budgets.

2. It should include a national chart of accounts with reasonable flexibility as well as sectoral charts of accounts.

3. The system should be based on a general accounting framework which in turn should be based on the eco-social needs of the Libyan environment.

4. In effect this framework should have the following general characteristics:

   (i) Co-ordinated socio-economic objectives.
   (ii) Integrated and relevant information system.
   (iii) Relevant accounting theory and fundamentals.
   (iv) Uniform accounting system.
   (v) Current value accounting.
   (vi) Regulatory, compliance and value for money audit.

5. In order that the new uniform system could be prepared, implanted, improved and achieve its objectives, improvements in regulations, institutions and accounting

branches should be undertaken.

6. All accounting-related regulations should be based on socio-economic benefits rather than mere accountability and control.

7. Regulations should be clear, comprehensive, flexible and precise.

8. Accounting education should be geared towards the teaching of environmental related materials and oriented towards decision-making, critical analysis and initiation.

9. The teaching of uniform accounting should be included and given priority.

10. Its teaching should cover all levels of accounting education. At the lower level it should emphasise the practical aspects of accounting (book-keeping and cost accounting) and at the higher level it should emphasise its conceptual aspects (critical analysis).

11. Accounting teachers and students should be urged to undertake accounting research which relates accounting to its environment in Libya.

12. Accountancy teachers should be given the chance to co-operate with the Auditor-general, and use their knowledge to improve accounting in micro and macro units as consultants to LPEs and other units. This would

improve the accounting status at those LPEs and units, as well as accounting education.

13. The accounting profession should be regulated by the state and supervised by the Auditor-general.

14. The accountancy profession should change its traditional function of financial external auditing to value for money auditing.

15. The accountancy profession should require its members to educate themselves by attending seminars and conferences, and doing research.

16. Action should be taken to improve the organisation of the profession by issuing a code of ethics.

17. Management of LPEs should be conducted by a cadre of staff who are better educated, experienced and specialised.

18. LPEs should have clear objectives explicitly stated in their statutes.

19. Their method of finance should be explicitly specified.

20. All LPEs should be required to apply the national uniform accounting system.

21. Their audit should be carried out by the Auditor General's staff or by accounting professionals, who should be appointed by him, and who should follow a

uniform audit programme and procedures established by the Auditor general.

22. However the emphasis should be on internal rather than external audit, and on value for money rather than financial and compliance audit.

23. Internal auditors at LPEs should be a part of the Auditor-General's staff rather than employees of LPEs.

24. The various audit and control agencies should be merged into one public audit and control agency.

25. The staff of this agency should include various types of specialists such as accountants auditors, engineers, lawyers, sociologists, economists, statisticians etc.

26. The Head of this agency should be given more legal and executive power to enforce his authority, and should be supported by a greater number of better-qualified and better-paid members of staff.

27. This agency should be an affiliate of the General People's Congress to secure its independence.

28. All accounting graduates should spend at least one year at this agency for training purposes.

29. Government accounting methods for measurement and reporting in Libya should be improved to make them more accurate, reliable, timely and useful.

30. The data recording and classification system should

allow for accountability, planning, control and managerial requirements.

31. The government accounting system should be based on clear, comprehensive, and uniform standards, principles and practices.

32. A uniform and consistent system should be linked to social accounting wherever possible.

33. The system should be decentralised if possible, but it should be co-ordinated, and integrated.

34. The wider use of computers should make such decentralisation feasible.

35. Some legal institutional changes such as the state financial law and the Diwan of Audit law are necessary in order to improve the system.

36. The State budget's system of preparation, implementation and control should be improved.

37. Co-ordination among the budgets and with the general development plan of the country should be attained.

38. Classifications of budgets especially the general budget should be changed to facilitate the construction of national accounts.

39. This classification should give information about:

(i) Salaries, allowances and wages;

(ii) Service expenses;

(iii) Goods expenses;

(iv) Assets maintenance expenses;

(v) Fixed assets expenses;

(vi) Internally transferable service expenses;

(vii) Obligations, assistance and investments;

(viii) Investments special programmes;

(ix) Social security fund.

40. PPBS or performance budgets should also be adopted.

41. PPBS in Libya should include planning, implementation and control processes.

42. A sound collection and processing system for base data should be installed to facilitate the adoption of PPBS.

43. An adequate system of internal control based upon a proper separation of duties and documentary evidence should also be built into the government accounting system, adherence to which would facilitate the audit function.

44. Internal audit should be given greater emphasis than external audit, and internal audit staff should be included within the Auditor General's staff.

45. Cash base accounting should be used. However this base should be more comprehensive with receipts and expenditures giving a full picture of the government's financial activities.

46. Cost accounting is necessary for the successful implementation of PPBS. The cost data should be current value data classified according to cost accounts and cost centres.

47. National accounting in Libya should include all five components of national accounting.

48. Its methods of data collection and compilation of the component accounts should be improved.

49. Estimates and imputations should be reduced whenever possible.

50. Simple records and forms should be prepared, explained and incorporated into micro accounts.

51. The use and benefits of national accounting data should be explained to authorities at both micro and macro levels.

52. The national accounting data should be unified and integrated.

53. A permanent committee of the uniform accounting system should immediately be established.

54. This committee should be divided into specialised sub-committees to ensure that a uniform accounting system is prepared, implemented and continuously improved.

55. This committee should be under the supervision of the

Auditor general, or better still, an affiliate of the General People's Congress.

56. An immediate review of some of the uniform accounting systems in use elsewhere should be undertaken with a view to utilising one of these systems or a combination of some of them for the short term improvement of accounting in Libya.

57. A detailed study of the Libyan environment and its accounting information needs should precede the establishment of a Libyan uniform accounting system.

58. The Iraqi uniform accounting system seems to be the most suitable of the systems in use to the needs of the Libyan environment.

While the discussion throughout this study was related to the Libyan environment, much is also relevant to all developing countries. Accordingly, it is recommended that those developing countries which have not yet established their own uniform accounting system should consider doing so as soon as possible. Such a system should be relevant to the unique environment of the country concerned and hence its own accounting information needs.

This study has by no means provided an exhaustive account of the Libyan environment or the evolution and status of accounting in Libya. Nor are the proposed solutions the final remedy for all problems related to accounting in Libya.

Nevertheless, the arguments advanced in this study serve three purposes:

First: To draw the attention of the authorities and accountants in Libya to the important role of accounting in the socio-economic development of the country, and to convince them that it is the reform and further development of accounting which offers the most hopeful prospect of resolving many of the most pressing problems of the country;

Second: To illustrate that an accounting system relevant to the needs of developing countries in general, and Libya in particular, is available.

Third: To indicate new areas of research regarding the status of accounting, the accounting information needs, and the nature of the relevant accounting system as a major challenge for researchers.

All in all, a uniform accounting system in Libya is needed, and steps towards establishing such a system should be undertaken immediately. This system should be based on social accounting theory rather than the present classical Anglo-American accounting theory. Admittedly, there will be some disputed areas in the new system and they should not cause more difficulties than those already encountered in the present accounting model.*

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* NOTE: Since the compilation of this study, the author informed that a libyan authority enquired to an Iraqi student who recently completed his Ph.D thesis on building a computer model for Uniform Accounting system, about the possibility of adopting the system and the new model for Libya in the future.

APPENDICES

Appendix 1

a) Specific taxes

1. Income tax on real estate:

   First L.D. 6,000 15 per cent

   Next L.D. 4,000 20 per cent

   Excess over first 10,000 25 per cent

2. Income tax on income from trade and industry:

   First L.D. 4,000 15 per cent

   Next L.D. 4,000 20 per cent

   Next L.D. 4,000 25 per cent

   Excess over 12,000 30 per cent

3. Professions:

   First L.D. 4,000 15 per cent

   Next L.D. 4,000 18 per cent

   Next L.D. 4,000 20 per cent

   Next L.D. 4,000 25 per cent

   Excess over 16,000 35 per cent

4. Tax on income from salaries and wages (after subtraction of personal exemption):

   First L.D. 1,800 8 per cent

   Next L.D. 1,200 10 per cent

   Next L.D. 1,800 15 per cent

   Next L.D. 1,800 20 per cent

   Next L.D. 1,800 25 per cent

   Excess over 8,400 35 per cent

5. The tax rate on foreign income for residents of Libya is 15 per cent.

6. The tax rate on income from interest on bank deposits and savings is 15 per cent.

7. The tax rate on agriculture income is 5 per cent.

b) General tax on income:

First L.D. 4,000 exempted

Next L.D. 3,000 15 per cent

Next L.D. 5,000 25 per cent

Next L.D. 8,000 35 per cent

Next L.D. 15,000 45 per cent

Next L.D. 25,000 55 per cent

Next L.D. 40,000 65 per cent

Next L.D. 100,000 75 per cent

Excess over 200,000 90 per cent

c) Tax on companies:

First L.D. 10,000 20 per cent

Next L.D. 20,000 25 per cent

Next L.D. 30,000 30 per cent

Next L.D. 40,000 40 per cent

Next L.D. 50,000 45 per cent

Excess over 150,000 60 per cent

Appendix 2

Buildings with machinery	5 per cent
Building without machinery	3 per cent
Motor cars	20 per cent
Commercial vehicles	15 per cent
Ships	5 per cent
Boats	5 per cent
Aeroplanes	10 per cent
Furniture of offices and houses	10 per cent
Furniture of hotels, restaurants, cafes and hospitals	20 per cent
Catering equipment and carpets for hotels and restaurants	30 per cent
Office equipment	10 per cent
Electricity generators	20 per cent
Other machinery	20 per cent

Appendix 3- Questionnaire

The Sample size was 50 LPEs.

Rate of responce was 100% .

(1) GENERAL INFORMATION ABOUT THE COMPANY

(I) The Accountant's Place of Education:

COUNTRY	
Libya	71%
Arab countries	21%
Non-Arab countries	8%

(II) THE Company's Activities:

(a) Imports and marketing	20%
(b) Manufacturing and Marketing	62%
(c) Services	11%
(d) Contracting	7%

(III) Number of Years in Business:

(a) Less than 5 years	42%
(b) From 5 to 8 years	21%
(c) From 8 to 11 years	17%
(d) Over 11 years	20%

(IV) Sales Volume (Turn-Over) in L.D 000,000:

(a)	Less than 5	30%
(b)	From 5 to 10	13%
(c)	From 10 to 15	11%
(d)	Over 15	46%

(2) INFORMATION ABOUT THE ACCOUNTING SYSTEM AND FINANCIAL STATEMENTS

(I) Books and Accounting Records Included in the System:

(a) General Journal

(b) General Ledger

(c) Inventory Record

(d) Unified Accounts (Cost + Financial)

(e) Separate Accounts (Cost + Financial)

(f) Subsidiary Journals

(g) Subsidiary Ledgers

(h) Other books

BOOKS	
a + b + f + g	16%
a + b + d + f + g	3%
a + b + c + e + g	5%
a + b + c	12%
a + b + c + g	5%
a + b + c + d + f + g	13%
a + b + c + f + g	27%
a + b + d + g	4%
a + b + c + e + f + g	15%

(II) Types of Financial Statements:

(a)	Income Statement	40%
(b)	Revenues and Expenses Statement	60%
(c)	Financial Position Statement (Balance Sheet)	100%
(d)	Changes in Financial Position	12%
(e)	Others	0%

<u>STATEMENT</u>	
a + c	34%
b + c	54%
a + c + d	6%
b + c + d	6%

(III) Last Financial Statement Date:

<u>DATE</u>		
31 December	1978	4%
"	1979	9%
"	1980	16%
"	1981	19%
"	1982	25%
"	1983	12%
"	1984	10%
"	1985	5%

(IV) Reasons for Delay in Preparation of Financial Statement:

(a)	Not asked for by management	3%
(b)	Not enough accountants	45%
(c)	Other reasons	24%
(d)	(b) + (c)	28%

(V) Users of Financial Statements:

(a)	Tax authorities	100%
(b)	Company's management	100%
(c)	The Auditor General's Office	89%
(d)	Owners (secretariat)	85%
(e)	Employees	3%

(VI) The use of external auditors including accounting firms and the Auditor General's Office

Yes	89%
No	11%

(VII) Use of internal audit section of department

Yes	65%
No	35%

(VIII) Type of external and internal audit

(a)	Financial and compliance	100%
(b)	Value for money audit	0%

(IX) Provision of additional information to the financial statements

Yes	87%
No	13%

(X) Disclosure of inventory methods and depreciation methods

Yes	68%
NO	32%

(XI) Preparation of financial statements based on basis other than historical cost

Yes	4%
No	96%

(XII) Awareness of impact of change in the purchasing power of money

Yes	5%
No	95%

(XIII) Use of budgeting for the purpose of planning and control

Yes	29%
No	54%
Budgets prepared but not used	17%

(XIV) Use of standard cost

Yes	3%
No	97%

(XV) Breakdown of total cost to variable and fixed cost

Yes	4%
No	96%

(XVI) Sources of accounting methods, policies, rules and principles

(a)	Written accounting system	13%
(b)	Personal experience	23%
(c)	Various laws and regulations	30%
(d)	Other external sources	20%
(e)	Combination of above sources	17%

(XVII) The occurrence of major changes in the accounting system during the last five years

Yes	43%
No	57%

(3) INFORMATION ABOUT METHODS AND RULES OF PREPARATION OF FINANCIAL STATEMENTS

(I) Rules:

(a)	Accrual method	90%
(b)	Cash base	0%
(c)	Mix of (a) + (b)	10%

(II) Revenue Realisation Point:

(a)	Completion of production	27%
(b)	Sales point	69%
(c)	Others	4%

(III) Criteria for Revenue and Capital Expenditure Classification:

(a)	Productive life	66%
(b)	Amount of expenditure	16%
(c)	(a) + (b)	18%

(IV)	Inventory System:		
	(a)	Periodical	23%
	(b)	Perpetual	50%
	(c)	Mix	27%
(V)	Base of Inventory Evaluation:		
	(a)	Market Price	6%
	(b)	Cost price	65%
	(c)	Lower of cost or market value	26%
	(d)	Others	3%
(VI)	Inventory Costing Method:		
	(a)	F.I.F.O	8%
	(b)	L.I.F.O	4%
	(c)	Simple average	35%
	(d)	Weighted average	49%
	(e)	Others	4%
(VII)	Depreciation of Fixed Assets:		
	(a)	Straight line method	92%
	(b)	Decreasing balance	4%
	(c)	Percentage of use	4%
(VIII)	Base for Valuation of Short Term Investments:		
	(a)	At cost price	45%
	(b)	At lower of cost or market price	27%
	(c)	At market price	21%
	(d)	Others	7%

(IX) Base for valuation of long Term Investments:

(a)	At cost price	87%
(b)	At cost + share of net income (dividends of invested shares in the company)	10%
(c)	Others	3%

(X) Merger Accounting Policy:

(a)	Purchase price	65%
(b)	Others	15%
(d)	No answer	20%

(XI) Classification of Maintenance Expenses:

(a)	As revenue	87%
(b)	As capital	13%
(c)	Others	0%

(XII) Treatment of Research and Development Expenses

(a)	Revenue	68%
(b)	Capital	32%
(c)	Others	0%

(XIII) Method of Classification of Fixed Assets and Accumulated Depreciation:

(a)	fixed assets - accumulated deprecation	0%
(b)	fixed assets at book value	8%
(c)	fixed assets on assets side and accumulated depreciation on liabilities side	92%
(d)	Others	0%

(XIV) Treatment of Long Term Loans:

(a)	At face value - discount	93%
(b)	At face value + dividend + interest rate	7%
(c)	Others	0%

(XV) Disclosure of Extra-Ordinary Items:

(a)	Within operating revenue and expenses	35%
(b)	In a separate section	57%
(c)	Others	8%

(XVI) Value of Manufactured Inventory at Year End:

(a)	At direct cost only	47%
(b)	At direct cost plus share of manufacturing indirect cost	36%
(c)	plus share of general and administrative costs	15%
(d)	Others	2%

(XVII) The Rate of Exchange for converting Foreign Currency into Libyan Dinar:

(a)	Average of the period for income statement items and balance sheet	0%
(b)	Average of the period for income statement items and end of the year for balance sheet items	0%
(c)	End of the year rate for both statements	0%
(d)	Others (According to central bank Of Libya)	100%

(XVIII) Disclosure of imported raw materials and finished goods

Yes	9%
No	91%

(XIX) Disclosure of transfers of money overseas

Yes	2%
No	98%

(XX) Disclosure of salaries of foreign workers

Yes	9%
No	91%

(XXI) Classification of fixed assets according to activities

Yes	0%
No	100%

(XXII) Classification of cash between cash in hand and cash in bank

Yes	86%
No	14%

(XXIII) Classification between finished products and partially finished products

Yes	28%
No	78%

(XXIV) Classification of long term investment between foreign and home-based investment

Yes	7%
No	93%

(XXV) Disclosure of state subsidies

Yes	87%
No	13%

(XXVI) Disclosure of exports

Yes	3%
No	97%

(XXVII) Classification of cash between foreign and local currency

Yes	0%
No	100%

(XXVIII) Classification of purchases between purchased for sale and purchased for use

Yes	6%
No	94%

(XXIX) Awareness of needs of national accounting

Yes	18%
No	92%

(XXX) Awareness of needs of government departments other than your own secretariat

Yes	96%
No	4%

(XXXI) Disclosure of employees' compensation in kind

Yes	1%
No	99%

(XXXII) Disclosure of gifts or participation in improving the quality of life for employee or the community at large

Yes	2%
No	84%
No reply	14%

Appendix 4

2- Personnel Interviewed

1. Abu-El Saad, R., Libyan Arab Airline, Tripoli. Interviewed 14th October 1986.

2. Abu-El Saud, M., Secretariat of Planning, Tripoli. Interviewed Summer 1985, 1986, various dates.

3. Beryoun, N., Central Bank of Libya, Tripoli. Interviewed October 1986.

4. El-Arabi, H., The Auditor General's Office, Tripoli. Interviewed Summer 1985, 1986, various dates.

5. El-Beshari, E., The Auditor General's Office, Tripoli. Interviewed Summer 1985, various dates.

6. El-Berrani, S., El-Wahda Bank, Benghazi. Interviewed October 1986.

7. El-Hadi, A., Tax Department, Sebha. Interviewed Summer 1985.

8. Ellafi, A., Public Accountant, Benghazi. Interviewed Summer 1986.

9. El-Sharif, A., Secretariat of Planning, Tripoli. Interviewed Summer 1986.

10. El-Shamiya, H., Socialist Establishment of Pipes, Benghazi. Interviewed Summer 1985.

11. Gaiym, M., Secretariat of Industry, Tripoli. Interviewed Summer 1986.

12. Ghaddowra, B., Sebha Public Company for Roads and Buildings, Sebha. Interviewed Summer 1986.

13. Saad, A., Secretariat of Treasury, Tripoli. Interviewed Summer 1986.

14. Samba, M., The National Commercial Bank, Sebha. Interviewed Summer 1986.

15. Shanta, Y., Secretariat of Planning, Tripoli. Interviewed Summer 1985, 1986, various dates.

16. Tamer, H., Secretariat of Health, Tripoli. Interviewed Summer 1985, 1986.

17. Tantouch, A., Secretariat of Treasury, Tripoli. Interviewed Summer 1986, various dates.

18. Tantouch, M., Secretary General of the Libyan Accountants and Auditors Association, Tripoli. Interviewed Summer 1985, 1986, various dates.

19. Turkey, A., The National Cement Company, Benghazi. Interviewed Summer 1985.

20. Yehia, H., Braiga Company for Foreign Oil Marketing, Tripoli. Interviewed Summer 1986.

21. Zenny, A., Secretariat of Treasury, Tripoli. Interviewed Summer 1985, 1986, various dates.

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