THE RECONCILIATION OF GOVERNMENT TRANSACTION STATISTICS: NATIONAL ACCOUNTS, COMMISSION ON AUDIT, AND OFFICE OF BUDGET AND MANAGEMENT REPORTS

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I. INTRODUCTION

Government finance plays a major influence on the economic activity of a country. This is more so in developing countries than in developed ones except perhaps when the latter are welfare states.

A random sampling of government expenditures to GDP in developed and developing countries as listed in IMF's *International Financial Statistics* indicates that the average ratio of government expenditures to GDP in developed countries is from 10 to 15 percent, whereas, for developing countries the ratio is as high as 35 percent. For the Philippines, national government expenditures to GDP averaged 17 percent from 1975 to 1981. If we add to this the expenditures of local governments and government corporations, the share of government expenditures may reach as high as 25 percent.

Government capital expenditures, comprising of infrastructure and noninfrastructure capital outlays, have increased substantially especially in the decade of the 1970's. The entire public sector capital program triggered a transformation in the economy which brought about changes in economic and social structures. These developments naturally call for a continuous examination of the statistical data bases. The development and adoption of relevent government finance statistics to serve the needs of the government and other data users as input remain a challenge to government budget, accounting and finance officers.

II. THE GOVERNMENT DATA SYSTEM

The government data system has as its basis a Constitutional provision which requires the Prime Minister to submit to the National Assembly a budget containing estimates of receipts and expenditures of the National Government, the estimates of receipts to be based on both existing and proposed revenue measures (Article 7, Section 17.1). Under Article 8, Section 18.1, "no money shall be paid out of the Treasury except in pursuance of an appropriation

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made by law." This provision makes it clear that the use of government funds must be authorized by enabling laws. There are generally three Appropriation measures from which the program of expenditures are drawn:

1) General Appropriations Act
2) Public Works Act (for infrastructure projects)
3) Automatically Appropriated Expenditures

The third one authorizes payments without the need for an explicit appropriation measure. Government expenditures covered by automatic appropriations are government contributions to GSIS, Medicare and Pag-ibig Funds, payments of principal and interest on public debt and certain revenues which are earmarked for specific offices.

The Constitution further provides that Special Appropriations Bills may be introduced in the National Assembly only if supported by available funds as certified to by the National Treasurer, or if accompanied by a corresponding revenue measure included in the same bill (Article 8, Section 16.4). This provision seeks to avoid authorizing expenditures which are unlikely to be implemented because of the unavailability of funds.

The idea, therefore, is to consolidate as much as possible government activities within the General Appropriations Bill which should be submitted to the National Assembly in July of each year. Those government activities that cannot be included in the General Appropriations Bill can be considered under Special Appropriations during the ensuing year's budget preparation process, but only if there are excess funds or there is a corresponding funding proposal.

Article 12, Section 2.1 of the Constitution further provides, among others, that the Commission on Audit shall keep general accounts of the government and shall promulgate accounting and auditing rules and regulations, including those for the prevention of irregular, unnecessary, excessive or extravagant expenditures or uses of public funds and property.

Thus, it is clear from these constitutional mandates that there are three offices in government tasked to prepare, record, and monitor government activities. The budget preparation and budget execution phases are the responsibility of the *Office of Budget and Management.* The budget preparation involves the setting up of priorities for the budget year, the review of the various agencies' budgetary requests, and the consolidation of the agencies' budgets into a one-piece document for legislative discussion and review. After the Batasang Pambansa shall have passed the Appropriations Bill, which is then signed into law by the President as the General Appropriations Act, the Office of Budget and Management starts with the budget execution phase. This phase is concerned with the release of funds in the form of obligational authority and cash disbursement ceilings and with the continuing review of the budget program and other related activites. The Office of Budget and Management likewise monitors budget-related aspects of government expenditures such as expenditures by program, project, activity; object of expenditures including personal services, operating and maintenance expense, subsidy, interest, etc.; expenditures by region or locality; obligational authority and cash disbursement transactions arising from fund releases, etc. The most relevant document which reports on the budgetary performance is the "Budget Message" of the President. The actual figures in this document represent a two-year lag at the end of the budget year.

The other office in government which records and monitors comprehensively government transactions is the *Bureau of the Treasury.* In our governmental set-up, the Bureau acts as the depository of funds of all national government agencies and therefore of all disbursements of the national government. Letter of Instruction 61 dated 5 March 1973 requires all the funds of government agencies to be deposited with the Treasury and all disbursements to be covered either by Treasury Warrants or by a Treasury Checking Account for Agencies (TCAA). Thus, checking accounts maintained by agencies, offices and bureaus with depository banks are limited only to payroll and petty cash expenses. As a result of this change, the Bureau of the Treasury can now prepare a consolidated statement of cash operations which shows both inflows and outflows. BOT reports are on cash basis (check cashed basis). Inflows of cash are then recorded on the basis of the nature of this inflow, i.e., tax receipts, nontax receipts such as fees and charges, interest income, share of profits from corporations, etc. Outflows are presently recorded by object classification, by fund classification, and by area of disbursements. BOT does not report government expenditure by function. The Bureau of the Treasury's report on cash operations of the government is prepared monthly. The monthly Treasury Cash Operations Statement has a 3 to 4 week lag after the end of the month.

The *Commission on Audit* (COA) is the third office to form the triumvirate in the planning, programming, managing and controlling of government activities and accounts. COA's relevant functions as regards the development, management and monitoring of government data as quoted from Presidential Decree No. 1445 are as follows:

1. To develop and implement a comprehensive audit program that shall encompass an examination of financial transactions, accounts, and reports, including evaluation of compliance with applicable laws and regulations;
2. To institute control measures through the promulgation of rules and regulations governing the receipts, disbursements, and uses of funds and property, consistent with the total economic development effort of the government;
3. To promulgate auditing and accounting rules and regulations so as to facilitate the keeping, and enhance the information value, of the accounts of the government.

The output arising from the above functions is manifested in the Annual Financial Report of the National Government in the Summary Financial Audit Report of Government-owned or Contolled Corporations, and in the Annual Financial Report on Local Governments. These reports are published by COA and are generally made available with a considerable time lag of about 15 months after the end of the calendar year.

Obligational Authority Vs. Cash Budget

From the General Appropriations Act, the Public Works Acts and those expenditures which are automatically appropriated, a program of expenditures is prepared for the year. However, not all of the available appropriations are scheduled for expenditure in a given year. The unprogrammed expenditures are either carried over to the succeeding budget year or are considered lapsed. This annual program of expenditures is what is generally termed as the budget for the year. Depending on the timing of government receipts, i.e., tax, nontax and government borrowing, the funds released are also timed in such a manner as to take into account the inflow of receipts into the government coffers in order to avoid any undue effects on the credit budget and on price levels. Additionally, fund releases are timed to give spending agencies some leeway in entering into contracts and to meet the delivery of goods and services. This is to ensure that government work is not delayed or hindered by procedural requirements.

The fund released from the OBM involves two stages: the first stage is the issuance of the *Advice of Allotment* (AA) which is also known as the Obligational Authority and the second stage is the issuance of the *Cash Disbursement Ceiling* (CDC). The former allows the agency to issue purchase orders, enter into contracts on capital projects or otherwise enter into other obligations. The CDC authorizes the agency to write checks and specifies the amount to be disbursed by month and by quarter. Prior to 1982 CDC and AA were released comprehensively. After 1982 only personal services were issued on a comprehensive basis. The Cash Disbursement Ceiling for the year's budget cannot exceed the Advice of Allotment. However, Cash Disbursement Ceilings are issued to agencies which have certified accounts payable which are programmed to be paid in the current budget year. This is the excess of CDC to AA. Accounts payable arise out of work done or activities accomplished in previous years for which no payments have been made.

Both the Office of Management and Budget and COA record government activities on an obligational basis.

From the Cash Disbursement Ceiling issued by the OBM, the spending agencies could then issue Treasury Warrants or Treasury checks. In some instances, CDCs are not utilized by the agencies. Unutilized CDCs may be extended to the next quarter. Extension of the validity of CDCs to the succeeding quarter/quarters depends on the nature of expenditures. For example, capital expenditures have automatic extension period up to the second quarter of the following year. In certain instances, and depending on strong justification presented by agencies, CDCs are revalidated.

Checks issued by the spending agencies are therefore presented to the depository banks of the Bureau of the Treasury or the Treasury itself for encashment. It is on the basis of these encashed and cleared checks that the Treasury records its cash disbursements, and this is what appears in the Cash Operations Statement.

Classification of Government Accounts

The classification of government accounts depends on the need which it serves. Traditionally, government accounts are classified to satisfy the needs of accountability and administrative control of funds. Government accounts are therefore classified by object of expenditures and by spending agencies (ministries).

The increased activities of government, the introduction of performance and program budgeting, together with the realization that the government budget is an affective management tool, require a system of classification of government accounts more responsive to these developments. In the Philippines, the introduction of economic and functional classification of expenditures was necessitated by the Planning/Programming/Budgeting linkage.

The economic classfication of expenditures traces the relationship of government transactions with the rest of the economy. In the economic classification system, expenditures are broadly classified into current and capital expenditures. Within this broad framework, expenditures are further broken down into requited and unrequited payments to employees, to other levels of governments, or abroad, etc. Capital accounts include equity contributions to government corporations and loans.

Functional classification, on the other hand, focuses on the purpose for which outlays or payments are made. Thus, expenditures are classified into General Government, Defense, Agriculture, Industry, Transport, etc.

In the present government data system, COA reports expenditures by object cum organizational classification and functional classification. COA's object classification closely follows the economic classification lines. The OBM, on the other hand, reports government expenditures in the President's Budget Message terms, i.e., on very broad economic, current and capital outlays with a further breakdown of capital outlays into infrastructure, equity contributions and noninfrastructure capital expenditures. The functional classification or sectoral classification of expenditures in the OBM budget document has not been consistently and continuously reported. The Bureau of the Treasury's monthly report at present covers only the economic classification of expenditures with details less aggregated than those in the COA report.

On the revenue side, the three reporting offices are better harmonized than on the expenditure side. With the adoption by COA of the Government Accounting Manual in January 1979, tax receipts are now classified according to the nature of the base on which the tax is levied, or on the kind of action which creates the tax liability, e.g., income tax, property tax, sales tax, export tax, etc. Nontax receipts and capital revenues are well-defined in the COA Government Chart of Accounts. The difference, however, lies in the treatment of the so-called "extra-ordinary" income and receipts from borrowings. COA and the OBM treat repayments of advances and loans, as well as proceeds of borrowings, as income. The Bureau of the Treasury, on the other hand, nets out repayments for advances and loans outlay in its net lending account. Proceeds from borrowing in the Treasury books are treated as a financing item; therefore, they are excluded from the income/receipt of Government.

III. RELATIONSHIP OF GOVERNMENT TRANSACTIONS WITH NATIONAL ACCOUNTS

The System of National Accounts (SNA) provides an integrated framework for presenting the main flows relating to national production, consumption, accumulation, and external transactions. The SNA covers the whole economy; government accounts are often limited to the entities reflected in the budget. Thus, in the definition of general government in the National Accounts, social security transactions are included. However, in the government budget, only that portion of dividends accruing to the National Government from SSS and GSIS are recorded on the receipt side. The government's contribution to GSIS, on account of the employees and equity contributions to these two institutions, is recorded on the expenditure side.

Similarities between Government Account and SNA exist, and these are:

1. *Basis of reporting:* The SNA records transactions including importations of values at the time they occur even if payments were made in the past or in the future. This accrual basis of recording is followed by COA and the OBM where expenditures are recorded at the time liabilities are incurred. The recording of receipts, by both offices, however, follows more or less the cash basis.
2. *Classification:* The economic and functional classification of expenditures in the Government Accounts follows the main lines of the SNA.

Differences between SNA and Government Account should also be noted:

1. National income accounts involve a wide varity of imputations, while government accounts aim at recording hard facts;

2. Government transactions are generally recorded on a gross basis, whereas the SNA nets out many transactions, e.g., SNA sale and purchase of land is shown on a net basis; and borrowings and lendings abroad in the Government Accounts are shown as receipts and expenditures on a gross basis so as to fully show the flow of resources through government;
3. The SNA treats government corporations as part of the private sector whereas Government Consolidated Accounts treat government corporations as part of government;
4. Account III of the SNA considers only the current receipts and outlay of General Government and incorporates the capital transactions of government in Account IV (the Combined Capital Reconciliation Account). Government budget, however, shows the current and capital receipts and outlays altogether. The budgetary presentation is better adopted if, in an instance, one wishes to see the impact of the Government sector on the economy.

IV. ISSUES AND PROBLEMS

The issues/problems discussed here arise from the present methodology used in the treatment of Government transactions in the National Income Accounts.

1. The government sector in the National Income account cannot be seen as an integrated government sector because of the separation of government corporations and quasi-government corporations from the government sector. In order to see the totality of the impact of government transactions, it may be worthwhile to recast the five Accounts with the end in view of setting up a Consolidated Government sector.
2. Following issue No. 1, the Capital transactions of the Government sector may be incorporated into a consolidated account for the public sector. The Consolidated Public sector account, therefore, may be presented in the manner shown on pages 80-84.
3. It is apropos that the COA report on the transactions of government is used for the National Income Accounts because both systems of recording are on an accrual/obligational basis. However, given the considerable time lag before COA reports are made available, the status of the National

A. Public Sector (Consolidated)

Account 1. Income and Outlay Account

Government final consumption expenditures (1b.1.5)	Operating surplus of public enterprises (1a.3.2)
Property income	Property income
1. Interest	1. Interest
2. Dividends	2. Dividends
3. Rent	3. Rent
Casualty insurance claims	Net casualty insurance premiums
Subsidies	Indirect taxes
Social security benefits	Direct taxes
Social assistance grants	Compulsory fees, fines and penalties
Unfunded employee welfare benefits	Social security contributions
Current transfers, n.e.c., to:	Unfunded employee contributions, inputed
1. Residents	Current transfers, n.e.c., from
2. The rest of the world	1. Residents
Saving (5.7.1)	2. The rest of the world
Disbursements	**Receipts**

Account 2. Capital Finance Account

Increase in stocks	Savings (3.7.1.)
Gross fixed capital formation	Consumption of fixed capital (1a.3.3+1b.3.3)
Purchases of land and intangible assets, n.e.c., net	Capital transfers, net from:
	1. Residents
	2. The rest of the world
	Net borrowing (5.7.8)

Account 2 (Continued)

Gross Accumulation	Finance of Gross Accumulation
Net borrowing (5.79)	Currency and transferable deposit
Gold	Other deposits
Currency and transferable deposits	Bills and bonds, short-term
Other deposits	Bonds, long-term
Bills and bonds, short-term	Corporate equity securities, including capital participations
Bonds, long-term	Short-term loans, n.e.c.
Corporate equity securities, including capital participations	Long-term loans, n.e.c.
Short-term loans, n.e.c.	Net equity of households on life insurance reserves and on pension funds
Long-term loans, n.e.c	Trade credit and advances
Trade credit and advances	Other liabilities
Other financial assets	
Net acquisition on financial assets plus net borrowing	**Net incurrence of liabilities**

B. Corporate and Quasi-Corporate Public Enterprises
Account 3. Income and Outlay Account

Withdrawals from entrepreneurial income of quasi-corporate enterprises	Operating surplus of public enterprises (1a.3.2*)
Property income	Property income
1. Interest	1. Inrerest
2. Dividends	2. Dividends
3. Rent	3. Rent
Net casualty insurance premiums	Net casualty insurance premiums
Casualty insurance claims	Casualty insurance claims
Direct taxes	Unfunded employee welfare contributions, imputed

Account 3 (Continued)

Fines and penalties	Current transfers, n.e.c.
Unfunded employee welfare benefit	
Current transfers, n.e.c.	
Saving (5.7.1.)	
Disbursements	**Receipts**

Account 4. Capital Finance Account

Increase in stocks	Saving (3.7.1)
Fixed capital formation	Consumption of fixed capital (1a3.3)
Purchases of land and intangible assets, n.e.c., net	Capital transfers, net
	Net borrowing (5.7.8)
Gross Accumulation	**Finance of gross accumulation**
Net borrowing (5.7.9)	Currency and transferable deposits
Gold	Other deposits
Currency and transferable deposits of	Bills and bonds, short-term
i. Monetary institutions	
ii. Other	Bonds, long-term
Other deposits	Corporate equity securities, including capital participation
Bills and bonds, short-term	Short-term loans, n.e.c
Bonds, long-term	Long-term loans, n.e.c.
Corporate equity securities, including capital participation	Net equity of households on life insurance reserves and on pension funds
Short-term loans, n.e.c.	Trade credit and advances
Long-term loans, n.e.c.	Other liabilities

Account 4 (Continued)

Trade credit and advances	
Other financial assets	
Net acquisition of financial assets plus net borrowing	**Net incurrence of liabilities**

C. General Government (Consolidated)

Account 5. Income and Outlay Account

Final consumption expenditure (1b.1.5)	Operating surplus (1a.3.2*)
Property income 1. Interest 2. Rent	Withdrawals from entrepreneurial income of quasi-corporate enterprises
Net casualty insurance premiums	Property income 1. Interest 2. Dividends 3. Rent
Subsidies	Casualty insurance claims
Social security benefits	Indirect taxes 1. Import duties
Social assistance grants	2. Other indirect taxes
Unfunded employee welfare benefits	Direct taxes 1. Direct taxes on income 2. Direct taxes, n.e.c
Current transfers, n.e.c. to: 1. Residents 2. The rest of the world	Compulsory fees, fines and penalties
	Social security contributions
Saving (5.7.1)	Unfunded employee welfare contributions, imputed
	Current transfers, n.e.c., from: 1. Residents 2. The rest of the world
Disbursements	**Receipts**

Account 6. Capital Finance Account

Increase in stocks	Saving (3.7.1)
Gross fixed capital formation	Consumption of fixed capital (1b.3.3)
Purchases of land and intangible assets, n.e.c., net	Capital transfers, net, from:
	1. Residents
	2. The rest of the world
	Net borrowing (5.7.8)
Gross accumulation	**Finance of gross accumulation**

Net borrowing (5.7.9)	Currency issued by Treasury and transferable deposits
Gold	
Currency and transferable deposits of:	Other deposits
i. Central government	
ii. Other	Bills and bonds, short-term
Other deposits	Bonds, long-term
Bills and bonds, short-term	Short-term loans, n.e.c.
Bonds, long-term	Long-term loans, n.e.c.
Corporate equity securities, including capital participations	Trade credit and advances
Loans, n.e.c.	Other liabilities
Proprietors' net additions to accumulation of quasi-corporate enterprises	
Other financial assets	
Net acquisition of financial assets plus net borrowing	**Net incurrence of liabilities**

Accounts remains uncertain.

4. To the extent that the Bureau of the Treasury report is used in the absence of COA data, and knowing that the Treasury uses cash accounting as the basis for recording, we wonder if adjustments are made to reconcile accrual expenditures with cash payments. It may be noted that cash payments include activities that have been accomplished in the past or are still to be accomplished in the future. Likewise, the use of the report of the Project Monitoring Staff of NEDA for the infrastructure program of government is on a "checks issued" basis. Any adjustment on an accrual basis would also be in order in this case.
5. The individual income tax paid after the taxable period should be deducted from the Individual Income Tax collected for the current year. For example, an Individual Income Tax collected by the BIR in 1980 may include the income tax liability of the taxpayer for the tax year 1979. The paid 1979 income tax should be deducted from the 1980 collection.
6. In Account II (7) and Account III (3b), direct taxes on persons are not disaggregated in either the COA or OBM report except for income tax. Thus, direct taxes in the National Income Accounts are understated unless assumptions are made as to the share of direct taxes paid by individuals. There is a need to institutionalize the method of segregating the direct taxes of individuals and corporations.
7. Wide disparities in figures are shown between the NEDA National Income Account and the COA and OBM reports in regard to the following items:

    1. General government income from property and entrepreneurship
    2. Direct taxes
    3. Current transfers from the rest of the world
    4. General government consumption expenditures
    5. Subsidies
    6. Other current transfers to persons

    These divergencies may be explained by: (1) different classification systems used by the concerned offices, and (2) imputations made in the National Income Accounts.

8. There is a need to include government transactions which are extrabudgetary in nature in the National Income. These are not recorded in any of the reports of COA, OBM or the Treasury and are therefore automatically excluded in the National Accounts. An example would be the grants-in-aid received from abroad and in kind which are directly received by the agencies. At present there is difficulty in the sourcing of data.