Analysis of Cost of Governance and Revenue Assurance

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Article summary:
The paper aims at assessing cost of governance and revenue assurance mechanisms. The methodology adopted by the paper involves the use of quantitative data for 9 years, from 2002 to 2010, which was generated from the annual report and accounts of the Central Bank of Iran. The data generated for the study was analyzed using graphs and simple percentage analysis. The finding of the paper shows that Cost of governance at state level has greatly increased in Iran. Similarly, the trend of Extra-Budgetary Expenditure put to question the implementation of budgets at the States. The paper concludes that the task of reducing cost of governance for revenue assurance at states level does not rest on the executive, legislature and judiciary alone. It is task demanding the collective effort of all stakeholders. Finally, the paper recommends that there is the need to reduce recurrent expenditure to sustainable level through reducing waste, inefficiency, corruption and duplication in government, as well as, make capital spending more effective.

Introduction

Every government, be it federal, state or local government, is established with a view to providing social services that would improve the general well being of its citizenry. For every government, therefore, to achieve its objectives, it is required to adopt measures which would ensure effective revenue generation, as well as, judicious utilization of resources at its disposal.

The tenets of public service, which include honesty, integrity, probity, accountability, transparency, impartiality, discipline, commitment, diligence, expertise and competence, among others, have not only been violated by public officials but also eroded by political office holders. Thus, paving way for the enrichment of the few, who are in power and authority, and in turns the impoverishment of the majority of the citizens who are subjected to poverty, squalor, insecurity and violence. All great nations of the world did not attain their enviable status without good governance, revenue assurance and moral uprightness by both their leaders and followers.

Public governance may be define as use of political authority to promote and enhance societal values- economic as well as non-economic- that are sought by individuals and groups. It is the processes whereby values in society, at different levels, are realized. On the other hand, Revenue Assurance (RA), is about improving revenues and cash flows and eliminating leakages, excesses, abuses and fraud, as well as, minimizing operating cost. Thus, RA in public governance is meant to reduce the excessive share of the budget being allocated to personnel and overhead costs; reduce the cost of governance in general; improve resource management by curtailing wasteful expenditure and increasing the level of productivity and efficiency, and ensure budget discipline (adherence to limits). There is a wide consensus that good governance must lead to broad-based inclusive economic growth and social development. It must enable the state, the civil society and the private sector to enhance the well being of a large segment of the population.

It is common that audit reports in Iran, at all levels, reveal flagrant disregard to rules and procedures, overthrow of financial discipline, accountability, probity and transparency, which the treasuries were set-up to establish and protect. These abuses/breaches range from varied duplication of contracts, over-valuation of contracts, fictitious payments of contracts, non-certification of payment vouchers by the internal auditor, among others. Other fraud in treasury activities may include over payment to existing staff, payment of salaries and allowances to dead or retired staff and ghost workers. These are clear manifestations of the collapse of standard policy and practices in treasury departments, and hence the inability of most governments to achieve their objectives. Standard treasury management policy and practice is, therefore, particularly essential in Iran, with a view to being proactive in preventing persistent lack of efficiency and effectiveness that characterized financial activities in the public sector, resulting in fraud (Hamid, 2011).

In recent years, everyone in and out of government in Iran seems to agree on the need to cut the cost of governance, by eliminating areas of wastages in the budget and the unexplored opportunities of entrenching prudence.

The paper aims at assessing cost of governance and revenue assurance mechanisms at states level in Iran. The methodology adopted by the paper involves the use of quantitative data for 9 years, from 2002 to 2010, which was generated from the annual report and accounts of the Central Bank of Iran. The data generated for the study was analyzed using graphs and simple percentage analysis. Structurally, the paper is organized in to five sections. In the second section, an attempt is made to conceptualize governance, and point to the differing notions of
what it entails and the differences between good and bad
governance. Section three contains a conceptualization of
revenue assurance, explaining the differing notions of what it
entails, its types and its different attributes. Section four explain
cost of governance and revenue assurance at states level using
quantitative data of 9 years from 2002 to 2010 and section five
concludes with a recap of issues that involve the reducing cost of
governance at state level in Iran for revenue assurance.

The Concept of Governance

Governance is seen as the manner in which power is
exercised in the management of a country’s economic and social
resources for development. It is the use of political authority and
exercise of control over a society, and the management of its
resources for socio-economic development. This entails that
governance has to do with sound management of public
resources of which public fund is a crucial component.

Good governance, therefore, is pre-occupied with how to
achieve a high standard of living for its populace by employing
every strategy within the constitutional provision. It is in this
vein that Section 16 (1) of the 1999 Constitution states that, “the
state shall, within the context of the ideals and objectives for
which provisions are made in the constitution: (a) harness the
resources of nation and promote national prosperity and an
efficient, dynamic and self-reliant economy; (b) control national
economy in such a manner as to secure the maximum welfare,
freedom and happiness of every citizen on the basis of social
justice and equality of status and opportunity; and (c) that
suitable and adequate shelter, suitable and adequate food,
reasonable national minimum living wage, old age care and
pensions, and unemployment, sick benefits and welfare of the
disabled are provided for all citizens.” From this discourse, it is
clear that the essence of governance is the socio-economic
development of a state and the improvement of the general well
being of the citizenship.

Cost of Governance

Public expenditure refers to the expenses which government
incurs in the performance of its operations. With increasing state
activities, it may be easy to judge what portion of public
expenditure can be ascribed to the maintenance of government
itself and what portion to the benefit of the society and the
economy as a whole. Government expenditure is broadly divided in
to two (2) main categories, namely recurrent expenditure and
capital expenditure. Recurrent expenditure is the type of expenditure
that happens repeatedly on daily, weekly or even monthly basis.
This includes for example payment of pensions and salaries,
administrative overheads, maintenance of official vehicles,
investment and profitability of firms, thus fostering economic
growth (Nurudeen and Usman, 2010).

A point of consideration is to consider how the State
governments’ budget is divided strictly between recurrent and
capital expenditures. Where a rising proportion of government
budget, at whatever level, is used to support the administrative
structure of government, poverty is bound to be pervasive as
economic growth slows down or even stagnates (Adeolu and
Evans, 2007). What this implies is that maintaining government
administrative structures comes at gargantuan costs to the
economy, as available funds are barely sufficient to finance
projects in vital sectors of the economy. Enormous
administrative expenditure is not only used to finance an
unusually large, inefficient and corrupt civil service personnel,
but also a larger than optimal executive cabinet, and an
ineffective legislature.

However, citizens would perceive government as a burden
when its recurrent expenditure is repeatedly higher than its
capital expenditure, which should impact positively on the
economy, especially in the areas of employment generation,
investment and other activities that induce growth.

The Concept Of Revenue Assurance

Revenue Assurance (RA) is a discipline that has existed for
over 20 years. It is a concept that was previously applicable to
telecommunication industry, but its practice has gradually
spread to many industries and organizations.

Revenue Assurance (RA) may be defined as the process
within an organization of ensuring that all possible revenue is
collected accurately and in a timely manner, identifying where
revenue gets lost, and minimizing such losses by eliminating
revenue leakage and lowering overhead costs whilst managing
fraud to an acceptable level. RA is, therefore, about improving
revenues and cash flows and eliminating leakages, excesses,
abuses and fraud, as well as, minimizing operating cost.

Revenue assurance is used to describe a service performed
to identify operational underperformance relating to operating
cost and collection of revenue. RA can also be described as a
service associated with identifying, correcting and preventing
errors which might cost organization enormous financial
resources due to ineffective cost control, unnecessary expenses,
revenue leakages and fraud, excesses and abuses, financial
impropriety and extravaganzas in the discharge of
responsibilities. RA can also be used to ensure compliance with
regulations and internal policies, though it cannot replace
effective implementation of business controls. In order for RA to
be effective, a business organization needs to ensure that they
have in place good corporate governance practices. RA can be
used in public governance to eliminate overlap, duplication and
redundancies which lead to inefficiencies and wastage.

Revenue Assurance is the work effort to ensure that
processes, practices, and procedures maximize revenues; it is
due to ineffective cost control, unnecessary expenses, revenue
leakages and fraud, excesses and abuses, financial
impropriety and extravaganzas in the discharge of
responsibilities. RA services may be
provided internally by an organization through its revenue
assurance units and internal audit or externally by accounting
firms, management consultants and soft ware houses.

Dimension/Types of Revenue Assurance

RA can take any of the following dimensions, namely
Reactive, Active or Proactive

1. Reactive Revenue Assurance: Reactive Revenue Assurance is
used to just detect the existing revenue leakage after it occurred.
2. Active Revenue Assurance: Active Revenue Assurance
addresses problems as they occur. This approach is designed to
initiate corrective responses prior to incurring any losses.
The actual business process is monitored in real-time. Discovering problems in real-time helps in correcting the leakage before it causes damage and impacts the customer.

3. Proactive Revenue Assurance: Proactive Revenue Assurance acts in anticipation. Controls and other measures are implemented in order to prevent problems from occurring in advance.

The methods described above are complementary. As a first step, it is important to detect and fix the actual revenue leakage in an organization. After finding the reasons for that, active or proactive RA should be implemented to prevent damage or as an ultimate goal to prevent the occurring of leakage.

Core Elements of RA

Revenue assurance work should have three core elements, namely:

1. All revenue assurance activities – large and small – should always be evaluated, prioritized and carried out with financial benefit as the prime target.
2. In order to deliver tangible results, there is a need for a comprehensive toolbox of methods and solutions – built on hands-on experience and replication of best practices to control activity costs.
3. In many cases, operators benefit from engaging an external partner to boost the outcome of revenue assurance. An external partner can not only deliver leakage detection and monitoring solutions but also share insights and general expertise on how to solve problems. Furthermore, a true partner supports the operator and understands its business environment.

Cost Of Governance And Revenue Assurance In Iran

Table 1 shows the State Government’s finances (in Billion Naira) from 2002-2010. The Table shows that the States had the highest Total Revenue of N2, 943.80 billion in 2008, followed by 2010 and 2009 with N2, 739.40 billion and N2, 590.70 billion, respectively. While the lowest amount of total revenue in the years under review was in 2002 with N669.83 billion.

Figure I: Internally Generated Revenue (IGR) (2002-2010) in Billion Iran

Source: Developed by the Author from Table 1

Table 1 and Figure I show the trend on IGR at State level from 2002-2010, with the highest IGR of N461.20 billion in 2009 and the lowest IGR of N89.61 billion in 2002. The Revenue Assurance (RA) based on the IGR between 2002 to 2006 remains relatively low and increased proportionately in 2007. The trend of IGR generally records upwards and downwards movement, questioning generally the Revenue Assurance (RA) mechanisms at the State level. The States therefore need to make concerted effort to ensure steady growth in IGR.

Source: Developed by the Author from Table 1

The trend of recurrent expenditure from 2002 to 2009 shows similar behaviour with that of the IGR. The most worrisome is that the RE far outweighs the IGR in all the 9 years under consideration. This shows an awful scenario that without grant from the Federation Account the States would not have
been able to take care of their overhead expenses. This is not
good from the point of view of cost minimization and Revenue
Assurance at States level.

Cost of governance at state level has greatly increased in
Iran due to unnecessary increase in the number of government
agencies, high number of Commissioners, Special Advisers,
Special Assistants and Personal Assistants, jumbo pay of
political office holders, payroll fraud as a result of ghost
workers, high number of official vehicles irrespective of the
monetization policy of the government, incessant foreign trips,
existence of security vote and extra-budgetary expenditure.

Conclusion

The question of efficiency in governance is about ensuring
that each amount of public funds is spent judiciously. In other
words, every naira of public funds must be spent in a way that
collective, not private welfare of citizens is maximized. In the
absence of strong political institutions, the reduced cost of
governance could only come if a benevolent set of public
officers is in power. Since this is highly unlikely, we need to
place institutional constraints on public office holders and
technocrats in a way that minimizes the extraction of rent from
the state. This is the better path to follow if the cost of
governance is to be drastically reduced in Iran.

Thus, no matter the quantum of financial resources in hands
of the government, the desired objectives may not be achieve if
cost of governance is not reduced to ensure revenue assurance
in Iran. This is necessary to controlling costs and achieving the
overall objectives of governance. No institution of the size of
even the smallest public organization can prosper without
effective cost control, minimizations of expenses, blockage of
revenue leakages and control of fraud, excesses, and abuses,
financial impropriety, extravaganzas in the discharge of its
responsibilities.

Revenue Assurance is a combination of organizational
structure, processes, technology and information responsible for
monitoring the revenue process. Its activities are designed to
provide assurance that business processes and systems are
performing as developed, in order to reduce the risk of revenue
leakage, by ensuring that risks have been identified and
appropriately addressed; promote operational efficiency, by
analyzing processes and systems, identifying gaps and design
flaws which drive up operating costs; and effectively
communicate business risks to management, in order to allow
informed decisions and eliminate surprises.

Good governance can only achieve the desired objective if
corruption is addressed and completely eradicated from the
society because no programme can be successfully implemented
under a corrupt environment. Revenue leakage is a growing
problem in public governance in Nigeria. To get the most out of
a revenue engagement, it has to be carried out as part of a
government performance strategy – and not be just a leak
detection exercise. The task of reducing cost of governance for
revenue assurance at states level does not rest on the executive,
legislature and judiciary alone. It is task demanding the
collective effort of all stakeholders.

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