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Inaugural Lecture Series 23

ACCOUNTANCY SOCIETY AND ECONOMIC DEVELOPMENT

by Y. A. D. S. Samaratunga

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by

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Introduction

THE SUBJECT OF accountancy tends to conjure up in the lay mind visions of financial wizardry, basically associated with business enterprise—a belief which finds expression in the oft-quoted adage which attaches mystery to accountancy by describing it as "the language of business." This so-called 'language of business', which certainly did initially blossom out of business, has since transcended the boundaries of business behaviour and now, in its widest context, impinges upon the whole of society in one way or another. In the examination of this wider spectrum of accounting's influence as a social force, we who live and work in this part of the world which has come to be designated as "developing countries" need to give special consideration to the potential impact of accountancy upon the process of economic development itself—which latter has become in the modern day an objective that ranks, at the least, primus inter pares in the hopes and aspirations of two-thirds of the world's population which comprise the developing world.[1] Hence the title of my lecture this evening, "Accountancy, Society and Economic Development," whose objective shall be to attempt to chart, in as yet somewhat uncharted seas on the frontiers of accounting territory, the role of accountancy in relation to society in general and to economic development in particular.

The individual terms used in the title of this lecture as well as the composite title itself, serve to emphasise certain other features which are vital to a proper appreciation of the discussion that is to follow. The term 'accountancy', in contradistinction to 'accounting', has been deliberately chosen so as to embrace all the cognate systems, methods and procedures that may be used to ensure a proper accounting of the multifarious transactions and their effects occurring and permeating within a society. 'Society' refers to the larger community within which individuals and entities of all kinds exist and operate, such community being either local, national or international, depending on the horizons which we choose to bring within our ken. The term 'economic development' is taken to imply a materialistic approach—with its emphasis on the stock of economic wealth in a society and additions made thereto—an approach which does not necessarily signify any valid measurement of the "quality of life" or the degree of human happiness, which should after all be the ultimate rationale of all human endeavour. In combining these three terms in a single title it is therefore hoped to bring into focus the potential uses of the accounting methodology not only as a vital instrument of economic development per se, but also as a social force which should, increasingly in the years to come, help to improve the 'quality of life' of mankind in the widest possible context.

The Origin and Development of Accountancy[2]

Accountancy, in one form or another, has existed since the dawn of civilization, and its history is therefore replete with examples of the way in which it has responded to the needs and requirements of the socio-economic environment in which it operated in its day and age. In order to place our subject in proper perspective it therefore becomes incumbent to take a look, however briefly, into the past, examine the historical basis for the development of accountancy from the earliest times to what it is today, and attempt to see, however faintly, the lines of development that lie ahead on the road to progress into the uncertain future, particularly in the developing countries of the world.

Accounting evolved basically as a recording function. The first signs of recording of economic transactions and the first signs of internal control have been said to be found in the records of the early Mesopotamian civilization around 3,500 B.C. It appears that tiny marks, dots and ticks were to be found by the side of figures, indicative of some form of checking having been done. In the time of the Egyptian Pharaohs it is said that "nothing was given out of the treasury without a written order", and around 500 B. C. checking clerks were said to be employed in the city states of Greece.[3] But these were only the early beginnings of recording and checking which were later to become highly sophisticated ingredients of the whole process of accounting and management.

In the Middle Ages, even in the days of barter, merchants too needed some form of record-keeping for their trading activities. As trade and commerce developed, the need for some form of book-keeping emerged, and there are writings to indicate that some kind of book-keeping was in fact being practised even earlier than the 13th and 14th centuries. The double entry system of book-keeping as we know it today came into existence very much later, long after money as a medium of exchange had come into common usage. Indeed it was not until 1494 that Luca Paciolo, an eminent mathematician of the time, first collated the practices then prevalent and presented them as a formal system in his famous work, "Summa de Arithmetica". Even so, "It is probable that the vast majority of enterprises used a simple form of record keeping (which may conveniently be called 'single-entry') until well into the nineteenth century. . ."[4]

The advent of the double entry system did however gradually pave the way for proper books of account to be kept on a systematic and continuous basis, but it was not until the latter part of the 19th

century that record-keeping and book-keeping gave way to accounting proper in the sense of a comprehensive system of recording and analysis of financial transactions. Even so, the value of profit and loss statements per se came to be realised only in the early 20th century. It then became possible to prepare profit and loss accounts and balance sheets on consistent principles so as to show respectively the profit or loss earned or suffered by a business for a given period and the financial position of that business at the end of that period.

This of course was pure financial accounting whose objective was primarily to help management to keep a record of their stewardship for the benefit of the proprietors, the shareholders or the Government whose interests they represented and who indeed were the real owners of the businesses or agencies they managed. To the proprietors such accounts provided invaluable guidance as to the profitability of their enterprises and as to the direction in which their businesses were moving, by revealing to them significant trends in profit or loss and financial condition. To the shareholders they provided the means by which they were kept duly informed at regular intervals of the prosperity or otherwise of the companies in which they had invested their capital. To the Government and Governmental agencies they formed the end-result of the whole chain of accountability, namely, the process of keeping continuous track of appropriated funds and of ensuring that such funds were being put to the uses for which they were intended.

"Accounting grew up as a technique for recording what has happened; our figures are histories—records of receipts, payments, and the like. So long as such figures are not asked to do much more than afford evidence of faithful stewardship, they are very adequate. But are they still adequate for more delicate tasks. . ."[5]

Thus, a profit and loss account prepared on conventional lines showed only the aggregate profit or loss of the undertaking as a whole. It did not give any indication of the profits and/or losses of the separate component parts of the undertaking, be they different departments, different activities or different products or product-groups. Modern business cannot be efficiently conducted unless steps can be taken to distinguish the efficient from the inefficient department or operative, and the profitable from the unprofitable product or activity. Weaknesses and inefficiencies must be pin-pointed in order to facilitate control and corrective action by management.

Thus arose the need for cost accounting, for that was the only means by which costs could not only be classified according to types of expenditure, e.g., rent and rates, salaries and wages, etc. (as was done in financial accounting) but they could also be allocated and apportioned to individual departments, processes, products, jobs, contracts or other activities which often comprised the constituent elements of the total undertaking. Costs had to be ascertained before they could be controlled. If the cost of every single part of the undertaking is kept at a minimum, then the total cost of the undertaking as a whole must also be at a minimum. If each part of the undertaking can be made to pay its way, then the undertaking as a whole must also pay its way. Maximum efficiency in the running of an enterprise could be assured only in this manner.

In the days before the Industrial Revolution, that is, before the middle of the eighteenth century, when industry was carried on in the main by individual craftsmen in their homes, the simple methods of the craftman's industry did not require detailed records to enable him to ascertain his costs of production. The raw material of his industry was available to him practically "in the raw", the tools he employed were plain and simple, his factory was his home, and the labour be employed was his own and that of his family. In these circumstances the main element of cost to him was the time he and his family had to spend to turn out a given product. This he readily knew so that the ascertainment of cost in that sense was no problem to him.

With the advent of the Industrial Revolution, however, the development of the factory system of industry and the introduction of more and more complex machinery into the factory made the ascertainment of costs of production more and more difficult. Yet, the unit of business organization was still the sole proprietor or, at the most, a few partners. The proprietor or the partners played the dominant role in production, and they themselves supervised the few employees they had. The expenses of running their businesses were as yet, for the most part, direct and straightforward, so that the ascertainment of cost still did not present a serious problem to their simple business units.

In the nineteenth century, with the advent of better and more efficient means of transport, the market began to extend in ever-widening ripples and the products of industry began to seep through to areas further and further afield. This provided the impetus to further expansion of industry resulting in the gradual growth in the size of the business unit, a steady increase in the size of the labour force and an increasing influx of more and better machinery. The birth of the limited liability company form of organization in 1856 made possible the mobilisation, from a wider section of the community, of capital resources for the financing of industry which, therefore, now tended to expand more rapidly than ever before. The advent of the limited liability principle had a significant impact on the creation of a need for cost accounting (as, indeed, on the development of financial accounting) for, for the first time, the management of businesses was being effectively divorced from their owners.

By the turn of the present century, business and industrial units had grown enormously in number and size, employing increasingly complex machinery and increasingly complex methods of production, and the widening tentacles of industry with their complicated ramifications made it virtually impossible for boards of directors and top management to control the day-to-day activities effectively without efficient aids to management. With the overhead costs of large-scale businesses becoming increasingly marked, fixed costs began to form an increasingly larger proportion of the total costs of industry, and the ascertainment and control of costs became well-nigh impossible without the installation of efficient and scientific systems of costing for purposeful analysis and meaningful control.

Thus, from being a mere recording and stewardship function, accounting developed to become an analytical and control function—a sine qua non for efficient management.

This story would not however be complete without lending special emphasis to the latter-day development of management accounting as a means of achieving even better and more efficient control of an organization's activities and as a medium for decision-making on a still better and more well-informed basis.

Management accounting has its origins basically in financial accounting and cost accounting. Both these still continue to form part of management accounting but only to the extent that they are oriented towards the production and presentation of information to management in such a way as to facilitate the latter's decision-making processes. In other words, whereas financial accounting was primarily, and often solely, concerned with recording the past, and whereas cost accounting was partly concerned with recording and ascertaining past historical costs as such, management accounting was concerned with such data, whether originating from financial or from costing records, as long as such information was to be useful for purposes of efficient business management.

While the roots of this new discipline are therefore firmly grounded in basic financial and cost accountancy, with the passage of time and with the growth in size and complexity of business enterprise, and the quickening of the pace of life itself, the need was felt for the innovation of facilitating processes by which management decisions could be reached readily and speedily. These facilitating processes were in large degree part and parcel of the techniques and tools of management itself so that the enormous growth of management techniques in recent years has considerably enlarged the scope and potentialities of management accounting.

It was not however till the turn of the present century that the emergence of this specialised and developing body of knowledge involving the preparation of accounts and accounting data to suit the varied needs of management came to be increasingly recognised as worthy of special attention. Early attempts at identifying this special area of accounting knowledge resulted in such descriptions as "management through accounting" and "accounting for management," and it was only as recently as just over 25 years ago, i.e. since 1950, that the term "management accounting" as such came into popular use.

Accounting thus developed to become both an analytical measurement function and a comprehensive reporting function. "Intrinsically, accounting is a process of measuring and reporting various attributes of formal organisations. Whether employed in industry, government or public accounting, whether engaged in accounting, auditing, taxes or management services, the CPA (Certified Public Accountant) is primarily concerned with the measurement and reporting functions. For outsiders, accountants measure profits, financial position and flows of funds; for management, they measure a variety of costs, the effects of alternative decisions, the effects of budgetary commitments, etc. They measure such things as taxable income and return on investment in public utilities in accordance with prescribed rules of government agencies. Accounting reports, in the broad sense of this term, are the means by which the results of these measurements are communicated. Collectively, it is the entire measurement and reporting process—the body of concepts which are operative within this process and the means of communicating these measurements—that comprise the body of accounting knowledge."[6]

There we end this story of the history of accountancy to take a look at the present-day relevance and significance of accountancy from the point of view of the developing countries.

Accountancy and "Developing Man"

Accountancy, as we have thus seen, has served seemingly well the needs of trade, commerce, industry and government—in consonance with their changing character—from the earliest times to the present day. The various branches of accounting so far discussed—financial accounting, cost accounting and management accounting—have emerged, as we have seen, in response to the observed needs of stewardship, control and decision-making respectively, which themselves grew out of the changing needs of the economic environment within which accountancy operated at

different times in the economic history of nations. Each stage of development however not only served the needs of economic development in response to which it grew, but also acted and reacted on that development, thereby accelerating the process of economic growth itself.

It is at this point, however, that one needs to pause and ask oneself to what extent this has been true of today's developing nations. As Enthoven, a writer on accountancy for economic development, says, "Although accounting, generally, has responded to the needs of its surroundings, at times it has appeared to be out of touch with them. There have been moments when it has sensed the challenge, but has not responded. It seems that today is such a moment, and that the needs of the developing countries and the dynamic process of economic growth and development, represent the new challenge to the scope and function of accounting"[7]. This failure hitherto to respond is not altogether unnatural in the context of known economic limitations implicit in the economies of developing countries as evidenced by the short supply of one or more of the many M's of management, e.g. men, material, machinery, methods, markets and money; as well as in the context of known social constraints imposed by custom, habit, tradition and attitudes firmly entwined in the social fabric of many of these developing countries.

This latter aspect brings into sharp focus the psychological setting of the average man that inhabits the greater part of the developing world—a fact of life long known to economists examining the problems of economic development, but which has suffered comparative neglect in the sophisticated growth models postulated by them. As P. T. Bauer says, "In these growth models, human abilities and behaviour, social institutions, customs and attitudes and external contacts are either ignored altogether or at best treated parametrically. . . Thus, the prime determinants of material progress are taken as given"[8] and therefore ignored. Little wonder then that the peculiar characteristics of the average man in the developing world, whom I shall call "developing man", have apparently not been as yet systematically moulded into a readily recognisable model unlike in the case of "economic man" of classical times and "administrative man" of more recent vintage. It shall therefore be my endeavour presently to attempt to conceptualise this "developing man" as a prelude to an examination of the role that accountancy might play in refashioning and transforming him to serve as a positive force in the development process.

When, in classical times, David Ricardo spoke of "economic man" he spoke of a peculiar kind of animal who did not in fact exist in the world of reality, but who was deemed to make his choices in all situations and under all circumstances with perfect and complete rationality. In comparatively recent times, Herbert Simon has constructed a model of the "administrative man"—"the man of limited rationality" we see in every-day life—so as "would incorporate the actual properties of human beings, and at the same time retain some of the formal clarity of the economic model. . . While economic man maximizes—selects the best alternative from among all those available to him; his cousin, whom we shall call administrative man, satisfices—looks for a course of action that is satisfactory or "good enough." He makes his choice using a simple picture of the situation that takes into account just a few of the factors that he regards as most relevant and crucial".[9]

If "economic man" and "administrative man" represent concepts useful for economic theory and administrative theory respectively, it would seem that "developing man", which would take account of the special behavioural characteristics of the average man in the greater part of the developing world, might be a useful tool for systematic conceptualization in the analysis of problems of development theory. If, in Herbert Simon's view, administrative man is the "cousin" of economic man, then, in my view, developing man is the poor relation of both. While economic man maximises and administrative man satisfices, developing man may be said to "marginalise" in the sense that, being "survival-minded",[10] he merely strives to subsist on the margin of existence.

If economic man was only interested in materialism and did everything possible to pursue his selfish goals of material enrichment without consideration of other human factors whatever, "developing man," as I see him, is a creature, also seeking after material advancement as, indeed, is evidenced by the term "economic development," but seeking it, devoid of ruthless selfishness, in a somewhat passive, sometimes negative, and occasionally even in a somewhat self-defeating manner. He too wishes to advance himself, but either does precious little, or, more often, *can* do precious little, to pull himself out of the vicious circle of want and poverty in which he finds himself engulfed.[11] Each time he tries to pull himself out he tends to be pulled back into the vicious orbit where he was, and when occasionally be breaks out of it and steps forward he finds himself many steps behind the man who went before him.[12] In a fast-moving world of rapid technological change, he has to keep running even to remain in the same relative position.

Many special characteristics unfailingly mark out this particular species. His attitude of mind, his habits and customs, his ways of life, his religious beliefs, his attitudes to work, leisure and pleasure all tend to identify in unmistakable manner this developing man

who inhabits the greater part of the globe. He is in no hurry to reach for the moon, he is not in the thick of the rat race, he is generally happy and content with what he has and, at least in some countries, is even thankful to the stars under which he was born that he is not worse off than he already is. Some other related factors are clearly identified in the following quotation from Gunnar Myrdal: "The prevailing attitudes and patterns of individual performance in life and at work are from the development point of view deficient in various respects: low levels of work discipline, punctuality, and orderliness; superstitious beliefs and irrational outlook; lack of alertness, adaptability, ambition, and general readiness for change and experiment; contempt for manual work; submissiveness to authority and exploitation; low aptitude for co-operation; and so on."[13] It will therefore be seen that if economic man acts with maximum rationality and administrative man with limited rationality, developing man seems to act only with minimal rationality.

Accountancy has a particularly significant role to play in the context of developing man whom we have thus conceptualised. Since accounting is essentially a processing and registration of objective values which have economic meaning and usefulness, whatever improvements that might be effected in the measurement processes of accounting must necessarily have their impact sooner or later on the prevalent sense of subjective values held by developing man. Since, also, accounting is a quantitative technique whose modern applications extend beyond measurement in purely monetary terms only, deficiencies in performance and achievement of developing man in his daily pursuits can be brought home to him more vividly, in terms intelligible to him, with the aid of the facilitating processes of accountancy. Even numeracy, though desirable, is not itself an absolute sine qua non in situations where the interpretative function of accountancy is, as it ought to be, brought into full play.

A sense of cost consciousness, including an awareness that time is money, must also ultimately awaken developing man from his slumbers and from his lethargy and indifferent attitude to work. Comparisons made possible by accounting presentations would tend to promote a competitive spirit and a healthy rivalry which are so vital to economic progress. A greater degree of rationality would in time be introduced into his thinking and actions, thereby lifting him from his 'survival-minded' existence and activating and motivating in him a scientific quest for greater economic efficiency in the performance of his daily routines, be it in the home, the office or the factory.

The relevance of accountancy in its impact on these 'basic determinants of material progress' having been examined with special reference to developing man, it would be relevant to inquire into the potential impact of accountancy on the construction of economic planners' growth models themselves. In the words of one writer, "economic development is today's imperative and it is relevant to ask what contribution is made by accountants, by accounting systems, and by their concepts, methods and techniques".[14]

The potential uses of accounting in the cause of economic development could be so great that Enthoven has been led to coin a new phrase, "ecodev accounting" (economic development accounting) to signify what might in effect be perhaps described as an attempt to fuse all forms of accountancy, throughout the whole range of activity of an economy from micro to macro levels, into an interrelated and integrated accounting framework, with the needs of economic development as the unifying theme. "Ecodevelopment accounting can be described as the application of existing and potential accounting systems, techniques, procedures and data to enhance economic development within a nation and among nations."[15]

Accountancy has thus ceased to be purely a language of business. From its roles in accounting for stewardship, accounting for control and accounting for decision-making—all hitherto related primarily to business—accounting is now moving into new and more challenging roles. The application of accountancy to the needs of economic development is one of these new challenges that is particularly relevant and significant for developing countries. In taking up this challenge one must realize however that national goals in aggregate terms must be tied in with performance in individual business, governmental and other organisational units, and vice versa, both of them acting and reacting on each other. This naturally leads us to a discussion of micro and macro accounting, both of which together need to be developed as mutually consistent elements within a common accounting framework to meet the accountancy needs of economic development.

Micro Accounting and Macro Accounting

The references previously made in tracing the history of accountancy in its responses to the changing pattern of the socio-economic environment, as evidenced by developments in the fields of financial accounting, cost accounting and management accounting, all fall within the broad spectrum of micro accounting, namely, accounting in individual entities. Thus, these various branches of accounting have so far been considered, somewhat in isolation, in their respective applications to individual entities only and then, too, to entities consisting primarily of business units.

Micro accounting is not however confined to enterprise accounting or commercial accounting or business acounting as it is variously called. Government accounting is also an important segment of micro accounting, for governmental institutions of all kinds are also entities in their own right as much as individual business firms. Though government accounting is thus technically part and parcel of micro accounting, its field is so vast, its impact on society so great, and the techniques relevant to it so specialized—particularly in developing countries—that government accounting deserves separate consideration and is therefore left out of the discussion for the present.

Now, performances of individual organisational units—be they sole traders, partnerships, limited companies, etc. or be they Government Ministries and Departments, public corporations, State-owned companies, etc.—are all vital to the economic progress of the nation as a whole. Since accountancy, as we have seen, has been an important and essential aid to their efficient management and operation in developed countries, it behoves us to take a look, albeit briefly, at the state of the art and practice of accountancy in its various forms as it currently prevails in the developing countries.

Thus, Enthoven in his "Accountancy and Economic Development Policy" states: "In developing countries, accounting is still mainly custodianship and tax-oriented; the former to account for the funds and to prevent fraud by setting controls and checks in the system; the latter is considered a legally required nuisance or a service function in order to reduce or evade paying taxes.... The amount of economically useful information generated by the enterprise accounting system for micro decision making and national aims, is often scanty, unreliable and untimely. Consequently, the system and its internal and external financial reports are not relied upon to any major degree by .... government, or even management itself."[16] Geiger and Armstrong, in their study on "The Development of African Private Enterprise", have stated that "more than 90% of small African entrepreneurs keep inadequate records or none at all, and cannot determine whether they are operating at a net profit, or which are the profitable and the unprofitable parts of their business."[17]

Bryce has observed, "usually in underdeveloped countries the vital management tool of accounting, including cost accounting, is little developed. The most conscious manager cannot control costs unless he knows what they are."[18] Enthoven confirms, "In many developing countries, ... we find that cost records are poorly maintained and that proper realistic cost and allocation procedures do not exist. Firms often do not know the real cost of their products, or whether departments are profitable."[19]

Enthoven proceeds to elaborate in the following terms: "the value of cost accounting as a tool for pricing policy; operating, income, and performance measurement; product and cost control; budgeting; internal organisation and productivity is rarely adequately understood. Budgets are not used as a planning and control instrument. Furthermore, for purposes such as project evaluation, financial planning, tariff and pricing (rate setting) policy, export promotion, and other economic policies, effective cost accounting procedures are not properly recognized. Standard cost systems and modern management techniques are not effectively applied, while a sense of cost consciousness is generally lacking in both private and governmental institutions".[20] "Management accounting.... tends to be highly under-rated, while its needs at the micro and macro economic level are not adequately recognised."[21]

These opinions are of course generalised statements and are not entirely true in all respects in all developing countries. Some developing countries are more advanced than other developing countries in one or more of the areas indicated above, but the general picture that emerges from our analysis is unmistakably that, while accountancy has a significant role to play in the development process of developing countries, available accounting data for decision making at all levels (micro and macro) and in all entities (private business, public enterprise, Government Departments, etc.) are sadly deficient in content and/or presentation—a situation often aggravated by the scarcity of accounting and allied skills in such countries.

Macro accounting takes us on to a different dimension altogether. It is concerned with the application of accounting methodology to macro economic analysis. Alternative terms for the same concept include 'national income accounting", "economic accounting" and "aggregate accounting". Another term widely used, particularly by economists, is "social accounting"[22], but that term is not advocated in the present context in order to avoid confusion with social accounting as understood in current trends in accountancy thought—a development of very recent origin—to which attention will be paid in the concluding stages of this lecture.

In macro accounting we are in the area of economic planning more specifically, development planning. The development planner is concerned, not with the economic performance of individual entities, however large and significant some of them may be, but with the development of the national economy as a whole. "The planner seeks not just to classify and measure economic activities but to mobilise resources, weigh alternative courses of action, help establish national goals and priorities and pursue a set of

direct and indirect policy measures to make all decision cells of the national economy behave in the end according to predetermined norms."[23] He therefore thinks in terms of aggregates such as investment, savings, national income, money supply, international trade, and whole sector and regional groupings. The GNP (gross national product) is perhaps the best popularly known economic indicator emanating from some of these estimates of economic aggregates.

Final GNP estimates may be calculated in different ways but what is of significance to accountancy is that, however computed, they are based, or at least ought to be based, to a not inconsiderable extent, on financial accounting data. If therefore the financial accounting data are unreliable, on the computer principle of "garbage in, garbage out", the GNP estimates must themselves suffer accordingly. The concept of flows of goods and services which is basic to the construction of national social accounts is fundamentally an accounting concept. We are not here concerned with the mechanics of their preparation but in order to identify the broad similarities between enterprise accounting and national income accounting, the five basic components commonly encountered in national accounts may be briefly mentioned. They are (1) the National Income and Product Accounts (2) Input-Output Tables (3) Flow of Funds Statements (4) Balance of Payments Tables and (5) National Balance Sheets.

Of these, the National Income and Product Account and the National Balance Sheet may be compared to the profit and loss account and the balance sheet respectively of enterprise accounting; the Flow of Funds Statement is comparable to the sources and application of funds statement which enlightened companies nowadays prepare as part of their annual accounts; while the Input-Output Tables represent in effect merely a disaggregation of the National Income and Product Account itself. The only national income accounting document which has no precise parallel in enterprise accounting is the Balance of Payments Statement.

This analogy is, however, at the present moment of time, more a matter of form than of substance. The conceptual thinking behind the two approaches is widely divergent. National income accounting has so far been largely the domain of economists and statisticians who, particularly in developing countries, have to rely rather heavily on "imputed" values for some of their calculations. Although flows of goods and services in the economy basically constitute an accounting concept, the accountant has, at least in developing countries, remained largely unconcerned, preoccupied as he has been with more mundane affairs relating to the day-to-day management and control of individual business and other organizations.

The question now is, should this situation continue? As Professor Aboyade has pointed out, "There is no reason why the accountant should not appreciate his immense potential role here because . . . the basic function of accounting is really in the ultimate analysis the provision of systematic financial and other quantitative information for management decision making. And effective planning of the national economy is surely the biggest and most exciting managerial task that can confront any professional group."[24] Fortunately, there are growing signs on the horizon of a convergence of perspectives of the economist and the accountant. In recent decades, economists have moved from a methodology of reasoning from postulates based on subjective assumptions of human behaviour to one of reasoning from statistical data. On the other side, accountants have increasingly begun to use economic concepts in making financial projections and forecasts, and are now widely engaged, at least in developed countries, in investment appraisal techniques, project formulation and evaluation, cost/benefit studies and a host of others once considered to be the more or less exclusive preserve of economists, project analysts, operational researchers, etc. The stage is therefore now virtually set for the two disciplines to meet on the common platform of development planning.

It is at this point that we need a synthesis of micro accounting and macro accounting. The biggest challenge to accountancy in the field of development planning is the need to develop a uniform accounting framework such that the financial data emanating from the heterogeneous collection of individual entities in the micro field may be more readily enmeshed into the aggregates of macro accounting. The greatest need at the present time is therefore to devise a standardised accounting framework which, both nationally and internationally, will serve both micro and macro economic purposes. In this endeavour, however, it is important not to lose sight of the basic shortcomings in accountancy systems outlined earlier that currently exist in developing countries even in the micro area. The improvement of sub-systems within enterprise accounting and government accounting must therefore go hand in hand with the attempts to develop a uniform and standardised accounting framework for the overall system.

Government Accounting and Budgeting

These are the days of 'big government'—the massive enterprise that is called modern Government. Perhaps no business in any country in the world today is as big as the business of government. The days are long past when maintenance of law and order

was the primary function of governments. In the modern world the tentacles of government machinery have extended far and wide and have stretched to almost every facet of the economic life of a nation. Indeed, the far-flung ramifications of governmental activities and the ever-widening influences of governmental policies tend to touch the lives of all citizens of a nation in one way or another.

Such is the scale and magnitude of modern-day 'big government' that its activities now often assume the dominant role in a country's economy, particularly in the developing countries, so that the accounting needs of the government sector demand special attention. The cornerstone of national finance hitherto has, however, been the philosophy of 'accountability' whose basic objective has been to keep a continuous track of the use of appropriated funds, ensuring in particular that authorised votes are not exceeded. Naturally, a government, having voted funds for specified purposes which it considers to be in the best interests of the state or nation as a whole, must necessarily continue to ensure that the funds are in fact being put to the purposes for which they were intended and that any deviations, should such become necessary, are themselves duly authorised in appropriate manner.

The problem however has been that an over-strict adherence to the letter of 'accountability', regardless of the spirit in which the concept had been developed, has, perhaps inadvertently, led to a situation in which the 'form' of public expenditure has been faithfully respected by seeking to ensure unswervingly that authorised votes are not exceeded, irrespective of the 'substance' of public expenditure whose objective should surely be to ensure that the Government does in fact receive value for money in the manner intended. It is necessary therefore to ensure not only that monies are spent within authorised limits, but also that such monies are spent wisely, economically and efficiently in order that results are obtained to a degree at least commensurate with the monies spent.

Thus, the principle of accountability which, by itself, was adequate to a time when public expenditures were relatively small, has ceased to be adequate in modern times—particularly in meeting the major tasks of economic development to which Governments are increasingly committed in the developing nations. Never perhaps in the history of many a developing country has the need been greater than it is today to reinforce the time-honoured philosophy of accountability with a modernised managerial philosophy—a philosophy of managerial objectivity, efficiency and effectiveness. In Nigeria, for instance, this prime objective has been the underlying theme of the now famous "Udoji Report".[25]

The time has therefore now come for new thinking and new approaches to accounting in Government Ministries and Departments. Government accounting is sometimes considered as if it were completely independent of other branches of accounting. This notion is obviously mistaken. No doubt Government accounting is a specialized application of accounting, but to adhere to 'accountability' alone is to confine the system to accounting for stewardship which, as we have seen, was only the first stage in the development of accountancy.

The basic principles of not only financial accounting, but also of cost accounting and management accounting which have been earlier discussed, have equal relevance and validity in both private enterprises and governmental agencies alike, the difference being only a matter of degree. One of the first steps in improving government accounting methodology is therefore to recognise this position and positively promote the application of modern methods of financial and budgetary control, cost accounting, management reporting and so on to the affairs of the executing agencies of governmental machinery.

In this correction it must be noted that the government budget is the key instrument by which a Government gives expression to its financial policies and programmes, designed to achieve the overall aims of government policy. The budget has been the principal instrument of both planning and control in the vast field of government business and, because of its pervasive influence over almost all administrative actions, the budget necessarily forms the centre-piece of the total management system of the massive enterprise that is 'big government'.

Unfortunately, however, the government budget, which has also become the key instrument by which a Government attempts to give teeth to its development plans, follows the conventional model in most developing countries, with classification of expenditure by object and agency, based on accountability needs, rather than by function and activity which are the criteria by which development needs and performances can be properly assessed and judged. "The systems used to classfy accounts and the form in which they are presented in conventional budgets make it difficult or even impossible to obtain information needed for development planning purposes. The conventional line-item classification makes it impossible to relate expenditures to specific programmes, projects and activities of Government. Nor do they enable effective control of managerial performance in terms of output achievement."[26] "The tremendous growth of (governmental) activitities in recent years,. . . . along with the increasing use of long-and medium-term development planning, has emphasised the fact that traditional budgeting practices no longer meet the needs of decision-makers at the various levels of government for effective management of programme operations."[27] In fact, it has even been said that "in many countries, accounting systems and procedures used in operating ministries, departments and agencies seriously interfere with proper budgetary control."[28]

The answer to these deficiencies of traditional government budgeting is now generally accepted as lying in "PPBS", which, for example in Nigeria today, has become a fashionable term following the 'Udoji Report' which recommended it as one of three main management techniques to be applied in order to evolve what was termed 'A New Style Public Service.'[29]

The term "PPBS" is sometimes taken to mean 'planning programming budgeting systems' and at other times to mean 'programme performance budgeting systems'. The difference between the two connotations is, in my view, more a matter of emphasis a matter of substance. One cannot conceivably be deemed to plan something without an expectation of performance, nor can one be expected to perform something which has not been originally intended or planned. Perhaps a better appellation might have been "PP—PBS!"

A composite view would therefore be that there should be a phased transition to planning programming and performance budgeting systems in the Governments of developing countries. All three stages of this budgeting technique—planning, programming and performance monitoring—are, to my mind, equally relevant and important. I would in particular like to emphasise the performance aspect because it sometimes tends to get overlooked in technical discussions of the subject. Performance can often be measured not merely in monetary terms, but, more importantly, in physical terms as well. It is in this context that the relatively more modern accounting techniques such as cost accounting and management accounting become highly significant. Cost centres such as programmes and projects and cost units such as activities, sub-activities and other smaller units as are appropriate need to be established in order to determine the detailed costs applicable to each. Only by such cost analysis and cost ascertainment can meaningful data be made available for comparison of performances with plans. And plans to be given expression in subsequent budgets would themselves tend to become more realistic by benefiting from the detailed knowledge of past performance thus made available.

In the determination of project priorities within the overall perspectives of the budget—a stage referred to as the 'micro-phase' of development planning—two other techniques in which accountancy can play a positive supportive role come into prominence. These are the techniques of cost/benefit analysis and investment appraisal.

Projects and programmes are the "building blocks" of a development plan. Detailed cost/benefit assessments and the application of the management accounting techniques of discounted cash flows and other forms of investment appraisal are vital to the careful weighing of alternatives with a view to proper screening and selection of viable projects with the greatest potential for accelerated economic development. The essentials of cost/benefit analysis and the varied techniques of investment appraisal are today part of the armoury of most modern accountants. It is true that the problem of measurement, which is at the heart of accountancy, is one of the most intractable issues in cost/benefit analysis, but the accountant's participation in such studies with the modern precision tools at his command, in association no doubt with the economist and the statistician, should help to improve considerably the quality of the results of such exercises.

Perhaps the greatest contribution that cost/benefit analysis can make in its present stage of development is to force responsible officials to think a little harder and a little deeper about numerous aspects of a problem which might otherwise tend to escape their attention. The mere effort exerted in attempting to ponder the imponderables must itself produce a sobering influence on those inclined to rush headlong into seemingly grandiose projects which, all too late, might be found wanting in many ways. "It seems better to aim at the right sort of calculation in as abbreviated a manner as circumstances dictate."[30]

Social Accounting and Social Auditing

In the early stages of this lecture we started with the premise that the term 'economic development' implies a materialistic approach. In the discussion that has followed up to this point we have more or less consistently pursued that approach and have seen the invaluable past, present and potential contribution that accountancy *has* made, *is* making, and *can* make to the process of economic development. But the question is, *is* material welfare the ultimate acme of all human endeavour? As we all know, there are many other values which we cherish in life, besides material welfare. Human endeavour should, in the final analysis, be channelled towards an enrichment of all those values which we cherish—cultural, social and others besides, in addition to the purely economic.

Earlier on, too, we developed the concept of "developing man" who, acting with minimal rationality (judged by the standards of other, more advanced societies) tends to marginalise on the boundary line of subsistence. We also sought to see how accounting as a social force might help to transform his prevalent sense of value jugdments, change his attitudes to life and work, and pull him out of his present "survival-minded" existence. But neither accountancy nor any other social force can really completely transform him, nor should we in fact attempt to do so. Prof. Gambling, for instance, develops the concept of "cultural income": "All races and nations extract substantial benefit from what one might call their 'culture'; especially in a poor country, these benefits are as important and desirable as any others, and all 'management' and 'planning' should take account of these factors."[31] From these and other premises, such as economic growth producing a 'negative income' of increased levels of pollution, Professor Gambling speaks of a "societal income" which might be different from economic income and hence of a "societal wealth" as distinct from economic wealth, which latter is all that concerns macro accounting per se.

However, quite apart from the highly subjective and practically unmeasurable values such as 'cultural income' and 'negative income', one can readily see the relevance of the implied concept that the whole might be greater or less than the sum of the parts that constitute a society's economic wealth. There has thus been a growing awareness in recent times of the need to evolve a set of 'social indicators' quite apart from the usual 'economic indicators', such as will reveal progress made towards improving the 'quality of life' overall. An indication of this concern is clearly represented in the following question posed in "The State of the Union Message" of the President of the United States in January 1970:

> In the next 10 years we will increase our wealth by 50 per cent; the profound question is, does this mean that we will be 50 per cent richer in any real sense, 50 per cent, better off, 50 per cent happier?[32]

The 'message' is clear. National income cannot be equated to national well-being. Indeed, a rising national income may be experienced concurrently with a deteriorating national morale reflected, for example, in an increasing crime rate, increasing drug addiction, a higher suicide rate, a heavier accident rate, falling standards of moral behaviour, frustrations in an era of rising expectations, and so on and on.

It will now be seen why the economist's usage of the term "social accounting" for national income accounting was not favoured in discussing macro accounting earlier on in this lecture. "Social accounting" seems a more appropriate description for accounting in a social sense as distinct from accounting in a purely economic sense; in other words, the term is more appropriate in relation to methods of measurement of the impact of human activity on society and therefore on 'the quality of life' rather than to measures which account purely for the accretions made to a nation's economic wealth.

Social accounting in this sense is as yet very much in an embryonic stage. "The measurement of social factors for purposes of social auditing or social accounting is relatively underdeveloped when compared with the measurement of economic and financial phenomena."[33] But the value of the concept cannot be denied. Human happiness and welfare should, in the final analysis, be the ultimate goal of all human endeavour. Various so-called "goal areas" have at times been identified and "social indicators" for some of them specified; and it is reasonable to assume that more and better methods of measurement will be developed in course of time. Meanwhile, for the present, social accounting lacks the rigorous discipline of financial accounting and it is therefore generally felt that a "social report" outlining selected social indicators may be all that is feasible, at least in the present stage of development, to portray some idea of national well-being as opposed to national income as conventionally computed.

So much for social accounting in a macro sense. Greater progress appears to have been made in the area of what might be called "micro social accounting", i.e. the application of social accounting in individual entities. Social accounting as understood in this context has been defined as "the measurement and reporting, internal or external, of information concerning the impact of an entity and its activities on society."[34] This is in conformity with one of the objectives of financial statements as listed by the American Institute of Certified Public Accountants: "to report on those activities of the enterprise affecting society which can be determined and described or measured and which are important to the role of the enterprise in its social environment."[35] More precisely, social accounting in this sense is "the reporting of those costs and benefits, which may or may not be quantifiable 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."[36] The term "social auditing" conveys the same idea, though from an audit point of view: "a systematic attempt to identify, analyse, measure (if possible), evaluate, and monitor the effect of an organization's operations on society (that is, specific social groups) and on the public well-being."[37]

Some of the major areas of social performance which a company might include in its 'social report', and in respect of which it may be judged by social auditors, include its activities, and contributions

to society, in such fields as community involvement, human resources, physical resources and environmental problems, and product innovations and improvements. Detailed measurements might be possible, and indeed are already being achieved, in regard to various aspects under each of these broad headings. For example, in the area of community involvement, measures such as philanthropic contributions, volunteer activities, community planning and improvement, etc; in the field of human resources, such measures as equality in job opportunities, training programmes, employer-employee communications, working conditions, etc.;[38] in the area of physical resources and environmental problems, such measures as energy conservation, development of new energy sources, prevention and eliminations of pollutants, waste disposal, etc. and in regard to product contributions, such measures as packaging, product quality, product safety, responsiveness to consumer complaints, etc. are all engaging the attention of social accountants in developed countries.

For a developing country, significant additional areas of social performance are conceivable, e.g., foreign exchange savings and earnings, creation of employment opportunities, degree of import-substitution, etc., for each of which simple measures might readily be devised.

Suggestions have even been made, and practical steps actually taken, at least in the United States, for the construction of so-called social impact statements, socio-economic operating statements (SEOS) and even social balance sheets and social income statements to supplement the conventional annual accounts. These and other similar innovative ideas are still in a purely experimental stage, but, from a developing country's point of view the significance of at least a simple "social report" emphasising the special areas of social performance particularly relevant to a given country at a given time is undeniable.

The fact that social accounting is important but that no concrete methods of measurement are as yet available is reflected in "The Corporate Report"—a discussion paper published by the Accounting Standards Steering Committee representing all the leading professional accountancy bodies in the United Kingdom. It says, "We recommend that further study be conducted into methods of social accounting but that no obligation to report on social and environmental issues be imposed until acceptable, objective and verifiable measurement techniques have been developed which will reveal an unbiassed view of both the positive and negative impact of economic activities." [39] The significance of this Report for social accounting however lies in its identification of the information needs of important segments of society as users of corporate reports, and in its recommendations for the provision of additional statements to supplement the usual annual report and accounts in order to satisfy those needs.

In the area of social auditing, too, various types of social audits have been proposed. One of them, the "macro-micro social indicator audit" is worthy of special mention. The concept of such an audit is simply that an entity's social performance is to be judged in relation to the social goals and criteria established for the nation as a whole. This of course presupposes the existence of macro social indicators, as far as practicable in numerical terms, setting out a framework of goals, criteria and norms at the national level, e.g., in such areas as education, health and welfare, housing, income levels, cultural activity, living conditions, etc. Micro social indicators would then be calculated, also largely in numerical terms, which would set out the individual entity's own performance in each of these selected macro social indicator areas.

Conclusion

In bringing this lecture to a close, I should like to begin from where I have just ended. Social accounting and social auditing constitute the biggest, the newest and the most exciting challenge confronting the accountancy profession today. As in the other exciting areas previously mentioned in the course of this lecture, namely, macro accounting (i.e. national income accounting) and ecodev accounting (i.e. accounting for economic development), accountancy has sensed the challenge and is beginning to respond, as it has so ably done in the past in the face of a continually changing socio-economic environment (as shown in the brief outline of the history of accountancy in the earlier stages of this lecture).

I should now like to conclude this lecture with two well-worn quotations which would probably bear repetition in the present context:[40]

> 'Capitalism without double entry book-keeping is simply inconceivable. The hold together as form and matter.' (Sombart)
>
> Accounting and control—that is the main thing required for the smooth working, the correct functioning of the first phase of a Communist society.' (Lenin)

Accountancy is thus, not merely closely connected with the societies which it serves, but is indeed, as Professor Gambling has pointed out, "an *integral* part of the *fabric* of *every* society." (italics mine).[41]

FOOTNOTES

1. "The group of developing countries or the Third World, accounts for as much as 70% of total world population. The remaining 30 per cent is divided among developed market economies (20 per cent) and developed centrally planned economies (10 per cent)." Angelo Angelopoulos, *The Third World and the Rich Countries* (New York, Praeger Publishers, 1972), p. 19.
2. Much of what follows under this heading has been extracted from an article by the author entitled "*The Changing Role of Accountancy*" in the Nigerian Accountant, Jan/Mar. 1976 (Lagos, Institute of Chartered Accountants of Nigeria), pp. 5-7.
3. See "The Historical Development of Internal Control from the Earliest Times to the Present Day" in *Journal of Accounting Research*, 1965.
4. W. T. Baxter, *Studies in Accounting* (London, Sweet & Maxwell, 1950), p. 20.
5. Ibid., p.v.
6. Robert H. Roy and James H. MacNeill, *Horizons for a Profession* (New York, American Institute of Certified Public Accountants, 1967), p. 191.
7. A. J. H. Enthoven, *Accountancy & Economic Development Policy* (Amsterdam, North-Holland Publishing Co., 1973), p.21.
8. P. T. Bauer, *Nigerian Development Experience: Aspects and Implications* (Ile-Ife, University of Ife Press, 1974), p.22.
9. Herbert A. Simon, *Administrative Behaviour* (New York, The Free Press, 1946), pp. xxv—xxvi.
10. See Gunnar Myrdal, *Asian Drama* Vol. III (New York, Twentieth Century Fund, 1968), p. 1,872.
11. "Modern economics has adopted this cumulative circular process (i.e. the vicious circle of poverty) as an explanation of the fact that a poor country tends to remain poor because it is poor." Angleo Angelopoulos, op. cit.,, p. 17. The cumulative downward effect is better put by Gunnar Myrda; "Nurkse's poor man would become poorer because he is poor", op. cit. p. 1,845.
12. Angelo Angelopoulos says, "As time goes on,the problem of under-development assumes alarming proportions since, contrary to all hopes, the gap between rich and poor nations continues to widen instead of narrowing." op. cit., p. 32.
13. Gunnar Myrdal, op. cit., p.1,862.
14. A. H. M. Bennett, *Management Accountancy in Ceylon* (Colombo. Academy of Administrative Studies, 1971), p. 12.
15. A. J. H. Enthoven, op. cit., p. 289.
16. Ibid., pp. 279–280.
17. T. Geiger and W. Armstrong, *The Development of African Private Enterprise* (Washington D. C., National Planning Association, 1964), p. 49.
18. Murray D. Bryce, *Industrial Development, A Guide for Accelerating Economic Growth* (New York/Toronto/London, McGraw-Hill Book Co. Inc., 1960), p. 162.
19. A. J. H. Enthoven, op. cit., p. 281.
20. Ibid.
21. Ibid., pp. 280—281.
22. See for example, J. R. Hicks who says, "Social accounting is the accounting of the whole community just as private accounting of the individual firm." In *The Social Framework* (London, Oxford University Press, 1942), p.5.
23. O. Aboyade, *The Accountant in Development Planning* in the Nigerian Accountant, April/June 1975 (Lagos, Institute of Chartered Accountants of Nigeria), p.8.
24. Ibid., p. 9.
25. *Report of the Public Service Review Commission* (Lagos, Federal Ministry of Information, 1974).
26. Y. A. D. S. Samaratunga, *The Changing Role of Accountancy*, op. cit., p. 11.
27. United Nations. *A Manual for Government Accounting* (New York. U. N., 1970), p. 23.

28. Albert Waterston, *Development Planning, Lessons of Experience* (Baltimore, John HopkinsPress, 1969).
29. See *Report of the Public Service Review Commission* op. cit., Chapter 3, pp. 7—13.
30. I. M. D. Little and J. A. Mirrlees, *Project Appraisal and Planning for Developing Countries* (London, Heinemann, 1974,) p. 16.
31. Trevor Gambling, *Societal Accounting* (London, George Allen & Unwin Ltd., 1974), p.137.
32. Quoted from Ralph W. Estes (Ed.), *Accounting and Society* (Los Angeles, Melville Publishing Co., 1973), p.316.
33. David H. Blake, William C. Frederick & Mildred S. Myers, *Social Auditing* (New York/Washington/London, Praeger Publishers, 1976), p.4.
34. Ralph W. Estes, *Corporate Social Accounting* (New York/London/Sydney/Toronto, John Wiley & Sons, 1976), p.3.
35. A.I.C.P.A., *Objectives of Financial Statements* (New York, A.I.C.P.A., 1973).
36. *The Corporate Report—a discussion paper* (London, Accounting Standards Steering Committee, 1975), pp. 57–58.
37. David H. Blake, William C. Frederick & Mildred S. Myers, op. cit., p. 3.
38. "The current work on human resource measurement is important as the first conscious attempt to establish criteria and technical procedures for measuring any sort of externality effect." Trevor Gambling, op. cit., p. 132.
39. *The Corporate Report*, op. cit., p. 58.
40. See Trevor Gambling, op. cit., p. 15.
41. Ibid.