

Glossary

Accounting officer: In the Westminster tradition, the civil servant in a department who is accountable to the legislature for financial management, usually the administrative head of the department.

Accounting system: System for recording financial transactions. The two major accounting systems are cash accounting and accrual accounting. Cash accounting systems recognize transactions and events when cash is received or paid, whereas accrual accounting systems record payments and receipts when parties enter into a commitment, not when cash changes hands. Most governments rely on cash accounting systems.

Allocative efficiency: The capacity of the government to allocate resources and select programs and projects in conformity with its objectives. In economic theory, allocative efficiency, also called Pareto efficiency, occurs when resources are allocated in such a way that any change in the amounts or type of outputs currently produced would make someone worse off.

Amendment powers: The legal powers given to parliament to amend legislation. Some constitutions limit the right of parliament to amend the budget by prohibiting certain types of amendments, for example increases in expenditures.

Apportionment: Authorizations or distributions of funds generally made by the ministry of finance to line ministries and other spending units permitting them to either commit or pay out funds, or both, within a specified time period and within the amounts appropriated and authorized.

Appropriation: Legal authority granted to the executive by the legislature to spend public funds. Appropriation legislation varies in terms of its detail. In some countries, there are a number of appropriation laws passed each year, covering different departments or spending areas, whereas other countries have a single budget law. Budget legislation typically provides spending authority for a single fiscal year. However, permanent appropriations or standing appropriations provide spending authority over several years, and do not require annual approval. Supplemental or adjustment appropriations are sometimes granted subsequent to the annual appropriation law if the amounts provided in that appropriation prove to be insufficient to meet the intended purpose.

Audit court: A supreme audit institution that has judicial status and is independent from both the legislature and the executive. The main focus of audit in the court model is on the legality of spending.

Auditor general: An auditor general is the head of a supreme audit institution that is independent from the executive and that has responsibility for assisting parliament in its scrutiny of public expenditure.

Balanced budget: A budget where total revenues equal total expenditures for a given fiscal year. When the budget is not in balance, it is either in deficit or surplus.

Balance sheet: A financial statement showing the values of the stocks of assets and liabilities held by an entity at a particular point in time. A balance sheet is typically compiled at the beginning and end of an accounting period. Balance sheets summarizing starting balances, incomes and outflows, and ending balances are generally required for each distinct fund within a government's accounting structure. In practice, very few governments prepare statements of their financial position that can genuinely be described as comprehensive balance sheets covering all assets and liabilities.

Baseline: The benchmark against which proposed fiscal policy changes are measured. There is no universally accepted approach for measuring proposed budget changes. One is to use actual spending and revenue levels from the preceding fiscal year, another to calculate the cost of continuing current policies.

Budget: An itemized summary of estimated or intended expenditures for a given period along with proposals for financing them. The budget is the main economic policy tool of the government and indicates how it plans to use public resources to meet policy goals.

Budget committee: A permanent and specialized parliamentary committee responsible for the scrutiny of the draft budget and related matters.

Budget process: The sequence by which a budget is drafted, approved by the legislature, executed, and audited.

Capital expenditure: See 'expenditure.'

Cash budget: A system of budget execution that rations actual spending on the basis of available money. This means that no cash is released to line ministries for payment of their expenditures before sufficient funds are available from the central or general revenue fund.

Consolidated fund: The account into which tax revenues and other current receipts not specifically directed elsewhere are pooled and from which payments for the bulk of central government expenditure is made.

Contingency reserve: Funds set aside for unforeseen and unavoidable expenditures that may become necessary during the fiscal year, such as costs arising from a natural disaster.

Current expenditure: See 'expenditure.'

Debt: The outstanding amount the government owes to private lenders at any given point in time. Governments can borrow by taking out a loan directly from a financial institution, such as a bank, or issue bonds that are purchased by domestic and foreign businesses and individuals.

Debt service costs: The cost of interest on government debt.

Deficit: The difference produced when spending exceeds revenues in a fiscal year. Also see 'structural deficit.'

Direct tax: A tax paid directly to the government, for example a tax imposed on the income of individuals or companies.

Earmark: The dedication of funds to a specific program. A particular stream of revenue can also be earmarked for a specific purpose.

Excise taxes: Taxes on the manufacture or sale of certain domestic or imported products that are often charged on products such as alcoholic beverages, tobacco and petroleum.

Expenditure: Spending to fulfill a government obligation, generally by issuing a check or disbursing cash. Expenditures are sometimes distinguished between capital and current. Capital expenditures are investments in physical assets, such as roads and buildings that can be used for a number of years. Current expenditures reflect spending on wages, benefit payments, and other goods or services that are consumed immediately. Furthermore, actual expenditure may differ from the amounts in the budget. Significant and persistent differences between actual expenditure and budgeted amounts are a sign of a weak budget system.

External audit: Refers to audit carried out by a body that is external to, and independent of, the organization being audited, the purpose being to give an opinion and report on the organization's accounts and financial statements, the legality and regularity of its operations, and its financial management procedures and performance.

External debt: Debt owed to nonresidents of the country concerned.

Extra-budgetary: Government transactions not included in the annual budget. A wide variety of extra-budgetary arrangements are used, including funds set up under separate legislation that are financed by revenue earmarked specifically for that purpose. In other cases, state sponsored businesses such as utilities or airlines have independence in certain respects, but the government may ultimately be responsible for bailing out these businesses when they run into financial trouble. Extra-budgetary activities may not be subject to the same level of scrutiny or accounting standards as programs in the annual budget, although they should be.

Finance ministry: See 'treasury.'

Financial audit: The traditional focus of public sector auditing. One output is usually a certification whether the figures in the accounts are properly stated, the money was used as intended by parliament, and payments and receipts accord with relevant legislation and regulations.

Financial initiative: The right to initiate spending and revenue measures. In some countries, only the executive can introduce financial legislation.

Fiscal decentralization: The devolution of expenditure responsibilities and/or revenue powers to lower levels of government, for example from a national or central government to regions or states, or to local authorities.

Fiscal discipline: The control of key measures of fiscal performance, including total spending, total revenue, the financial balance and the public debt.

Fiscal policy: Policy on tax, spending and borrowing by the government, which is used to influence macroeconomic conditions. An 'easy' fiscal policy is intended to stimulate short term economic growth by increasing government spending or reducing revenues. A 'tight' fiscal policy restrains short term demand by reducing spending or increasing taxes, and is often intended to restrain inflation. The government sets and implements fiscal policy through the budget.

Fiscal stance: Measures how deflationary or reflationary the government's budget is. If after adjusting for the effects of the economic cycle the budget surplus is still large we say that the government has tightened the fiscal stance - it is seeking to control aggregate demand through the use of fiscal policy.

Fiscal year: A 12 month accounting period on which most government budgets are based. In some countries, the fiscal year does not coincide with the calendar year.

Functional classification: A way of government expenditure plans in a budget according to various activities and policy objectives, such as health care, education, defense or justice.

Gender analysis: Approaches, methods and tools used to examine policies, programs and projects for their likely impacts on women and men.

Grants: Funds that the national government disburses directly to lower levels of government, corporations, nonprofit organizations, and individuals. Some grants are given for specific purposes, requiring the recipients to meet certain conditions or requirements.

Gross Domestic Product (GDP): A measure of total national output, income and expenditure in the economy. GDP per head is the simplest overall measure of welfare, although it does not take account of the distribution of income, nor of goods and services that are produced outside the market economy, such as work within the household.

Horizontal equity: A key principle in taxation that holds that similarly situated taxpayers should face a similar tax treatment or tax burden. In other words, taxpayers earning the same amount of income or capital should be accorded equal treatment.

Incremental budgeting: A budget formulation process that focuses only on one year and how the budget for each program differs from the levels adopted in the previous year. Incremental budgeting is often criticized as having a narrow focus, concentrating on funding changes to existing programs rather than shifts in policy priorities.

Indirect tax: A tax paid to a second party, for example a shop owner, who then passes it on to the government. Examples are value added tax and custom duties on imported goods.

Inflation: The rate of general price increase.

Inputs: What government has available to achieve an output or outcome. For instance, typical inputs funded by a health budget would be the salaries of doctors and nurses, the construction of clinics and hospitals, and the purchase of medical supplies and drugs. All are used to provide government health care services. Costs are the expenses incurred in using the inputs.

Internal audit: Refers to audit carried out by a department or unit within a ministry or another government organization, entrusted by its management with carrying out checks and assessing the organization's systems and procedures in order to minimize the likelihood of errors, fraud and inefficient practices. Internal audit units must be functionally independent within the organization they audit and report directly to the organization's management.

Liability: A debt owed to someone else. For governments, their outstanding public debt is their primary liability, reflecting amounts borrowed from the public that must be repaid at some future date. A contingent liability is one that depends on the occurrence of a specific event. For instance, if government provides crop insurance to farmers, it faces a liability only in the event of a drought or other weather conditions that reduce crop yields.

Lima Declaration of Guidelines on Auditing Precepts: A comprehensive list of issues, goals and norms relating to government auditing that was adopted by delegates representing supreme audit institutions in 1977.

Line item veto: The power of the executive to veto particular items in legislation passed by the legislature. The legislature may have the power to override an executive veto with a supermajority.

Macroeconomic: Referring to the variables or performance of an economy as a whole, or its major components, as opposed to that of individual industries, firms, or households. Opposite of microeconomics.

Medium term expenditure framework (MTEF): A multi year framework of rolling budgets where forward estimates produced with the annual budget, usually covering another two to four years, serve as the starting point for preparing the following annual budgets.

Microeconomic: Relating to the behavior of small economic units, such as individual consumers or households. Opposite of macroeconomics.

Monetary policy: Policy in relation to interest rates, the exchange rate and the supply of money in the economy. Monetary policy aims at affecting macroeconomic conditions, in particular the control of inflation.

Money bill: Proposed legislation that contains revenue measures or appropriates funds. Outside the Commonwealth, the distinction between money bills and other bills is less common. In the Westminster tradition of parliamentary government, the constitutional powers of parliament to amend money bills are circumscribed.

Multi year budgeting: Budgets that take into account more than one year. In some cases, legislatures enact into law budgets that specify spending and revenue amounts for more than a single year.

Operational efficiency: The ratio of the resources expended by government agencies to the outputs produced or purchased by them.

Outcomes: The impacts on, or consequences for, the community from the outputs or activities of the government, for instance whether an increase in hours taught improved student test scores, whether more immunizations reduced sickness, or whether higher welfare benefits increased social equity. Outcomes reflect the intended and unintended results from government actions and provide the rationale for government interventions.

Outputs: The goods or services (usually the latter) government provides. Examples are teaching hours delivered, immunizations provided, or welfare benefits paid.

Package veto: The power of the executive to veto entire pieces of legislation passed by the legislature. The legislature may have the power to override an executive veto with a supermajority.

Performance budgeting: A budget process that integrates information about the impact of government spending. In its simplest form, performance budgeting places more emphasis on the outputs and outcomes associated with government expenditure and takes this information into account when setting future funding levels. However, gathering such information is a difficult task.

Power of the purse: This concept is defined by the British politician William Ewart Gladstone as 'the control of the House of Commons over public expenditure.'

Primary deficit or surplus: The amount by which total government expenditure exceeds total revenue, minus interest payments on government debt.

Progressive tax: A tax that increases as a percentage of income as one's income increases.

Public accounts committee: A parliamentary committee charged with ensuring propriety, efficiency, economy and effectiveness in the spending of public money.

Regressive tax: A tax that decreases as a percentage of income as one's income increases.

Revenue: The total annual income of the state derived from taxation and other sources, for instance user charges.

Reversionary budget: The default budget that is implemented should the legislature not approve a budget for the fiscal year, for example last year's budget or the executive's budget proposal.

Stabilization: The use of monetary and fiscal policies to stabilize GDP, aggregate employment and prices.

Structural deficit: The size of the government's budget deficit after allowance has been made for the level of economic activity. If after a period of sustained economic growth, the government is still running a budget deficit, it is likely that the causes of the deficit are structural.

Supreme audit institution: A public organization that is independent of government and has responsibility for auditing and reporting on the government's financial operations.

Surplus: The amount by which revenues exceed outlays or expenditures.

Tax: Money extracted from the public by the government on the basis of its sovereign powers. Typical sources of tax revenue include individual and corporate income taxes, payroll taxes, value-added taxes, sales taxes, levies, and excise taxes.

Tax base: The aggregate value of income, sales or transactions on which particular taxes are levied. Competition between jurisdictions may erode the tax base, for instance when a business moves to a jurisdiction with a lower rate.

Tax expenditures: Concessions or exemptions from a 'normal' tax structure that reduce government revenue collections, typically granted in order to achieve some policy objective. Because the policy objective could also have been achieved through a subsidy or other expenditures, the tax concession is essentially regarded as equivalent to expenditure. Estimating tax expenditures is difficult and requires a precise definition and estimation of revenues under the 'normal' tax structure and subsequently the revenues lost as a result of the tax break.

Tax gap: A measure of tax evasion that emerges from comparing the tax liability or tax base declared to the tax authorities with the tax liability or tax base calculated from other sources.

Tax incentives: Specific provisions in the tax code that provide favorable tax treatment to individuals and businesses to encourage specific behavior or activities, for instance accelerated depreciation provisions to encourage investment and provisions to encourage retirement saving.

Tax incidence: The final distribution of the burden of tax. Statutory incidence defines where the law requires a tax to be levied. Economic incidence refers to those who experience a decrease in real income as a result of the imposition of a tax.

Transparency: The public availability of comprehensive, accurate, timely, and useful information on the financial activities of government.

Treasury: The treasury or ministry of finance of the central government is typically responsible for such functions as collecting taxes, budgeting for and controlling government expenditure, and the management of the national debt. Treasury functions vary across countries.

User charges: Fees paid voluntarily by the public in return for a service or good provided by the government. Because the purchaser receives a direct benefit in return for paying the fee, the payment is not considered a tax.

Value for money audit: refers to examinations of the economy, efficiency and effectiveness with which a body has used its resources in discharging its functions.

Vertical equity: A doctrine in taxation that holds that differently situated taxpayers should be treated differently in terms of income tax provisions. In other words, taxpayers with more income and/or capital than others should pay more tax.

Virement: The shifting of resources from one program to another within the same department during the fiscal year and according to defined rules. In some countries, shifts of funds within appropriations are known as transfers or reprogramming.

Vote on account: Authorization for the executive to spend prior to formal approval of the detailed estimates.

