



Budgetary accounting and reporting practices in Bahraini governmental units: An empirical study

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ABSTRACT

Each government engages in a full budget cycle involving the preparation of own budgets and supportive documents. In Bahrain, important administrative changes and major reforms have been implemented aimed at improving the overall efficiency, effectiveness, transparency, performance, accountability and sound budget management. This has been through State Budget Law No. 39 for the year 2002 which applies to all ministries and government organisations. The main purpose of this study is to identify, describe and analyse budgetary accounting practices and reporting requirements across Bahraini governmental units. The paper also contains a short description of the internal control reforms in Bahraini government departments. Questionnaire survey, structured and unstructured interviews and archival documents were used to collect the data.

The results of the study indicate that budgetary accounting is the most important component of the accounting system in the government. Fund accounting is not used and the basis of accounting used is the modified cash basis. In preparing the budget, the line-item approach is used and questionnaire respondents are dissatisfied with this approach to budgeting. However, State Budget Law recommends that the necessary steps be taken to gradually implement performance and program budgeting beside line-item budgets. Moreover, encumbrances, budgetary revisions, and emergency budgets are used. In financial reporting, the statement “consolidated fund” maintains fiscal transparency. All revenues and expenditures get routed through the consolidated fund and controlled by the budget and no separate fund is permissible to credit receipts.

Based on the findings, some recommendations for development and improvement are highlighted. In this regard, comprehensive implementation of performance and program budgeting is worthwhile for effective control on government expenditure, efficiency and accountability. Further, it is recommended that the accrual basis is introduced when preparing the government-wide budget.

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1. Introduction

Governments are a critically important force in our society. They spend considerable sums and employ a substantial workforce. For example, the Bahrain budget for the year 2006 exceeded BD1558 million (BD = \$2.65). The government employs over 39000 employees (33624 in 2002) and the manpower budget for the year 2006 is BD628 million which accounts for more than 40% of the total expenditure (both recurring and project). Citizens come into daily contact with governmental units and non-profit entities. When using public services, or working for others, people contribute to or benefit from these organisations. The pervasive influence and economic significance of governmental units and non-profit

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organisations require the public to understand how they are organised and managed and how they can be held accountable for the resources they spend (Douglas, 1991). As such, questions surrounding the management of public funds, controlling of government expenditure and balanced budgets, have been areas of study for government and researchers alike over the past several years.

The main purpose of this study is to identify and describe budgetary accounting and reporting practices across Bahraini governmental units and suggest specific recommendations for improvement (see Reginato & Fadda, 2004). The motivation for the study is that it provides a broad range of information about the complex governmental accounting and financial reporting system in Bahrain. Being able to read and understand the budgetary process and financial statements prepared by government and understanding the accounting principles that underlie those financial statements can be of interest to students at universities, researchers, investors, creditors, citizens, lawyers, labor unions, and financial and other managers working in government departments. In addition, the recent reforms in the Kingdom of Bahrain and the transition of Bahraini governmental accounting creates new opportunities for accounting research and for the further development of accounting education. Finally, the study is the first to be carried out in the context of the Bahraini environment. To date, no research has examined the accounting and reporting practices in Bahraini governmental units. This paper addresses this deficiency.

The next section provides a background on the use of funds, the budgetary basis of accounting, the budgetary process and the different approaches to public budgeting. Section three discusses the methods used to collect the data. Section four provides empirical evidence about the governmental accounting system and a description of reforms contained in the State Budget Law No. 39 (2002). Section five provides some suggestions and recommendations for improvement. The last section concludes the study and suggests some areas for further research.

2. Issues of public budgeting

Generally, the basis of accounting used by governments is the modified accrual basis which falls between the cash and accrual bases. Transactions are generally recognised when they occur (similar to the accrual basis), but the timing of the ultimate cash receipt or cash disbursement may have an impact on when the transaction is recorded (similar to the cash basis). Under the modified accrual basis, revenues are recognised when they are measurable and available (Rupple, 2004). Revenues are measurable when they are reasonably estimated and available means that the revenue is collectible within the current period or soon enough thereafter to pay liabilities of the current period (60 days of the end of the current period).

The measurement focus refers to what the government entities are trying to measure when they prepare the financial statements. The economic resources measurement focus is based on whether the entity is economically better off or worse off as a result of the events and transactions that occurred during the fiscal period being reported. It is used by funds that undertake business-type activities. The current financial resources measurement focus is used only by governmental funds. In the governmental units and governmental type funds the focus is on the resources available for spending and the liabilities that are to be paid during the current period. Financial statements prepared using the current financial resources measurement focus reflect changes in the financial resources available in the near future as a result of transactions and events of the fiscal period being reported. Increases in revenues are reported as revenues or other financing sources and decreases in spendable resources are reported as expenditures or other financing uses.

The use of fund is an important tool for governments to demonstrate their legal compliance with the lawfully permitted use of resources. Fund accounting for governments was developed in response to the need for governments to be fully accountable for their collection and use of public resources (Hay, 1989; Rupple, 2004). The financial statements of a government are prepared in accordance with generally accepted accounting principles (GAAP) and Governmental Accounting Standards Board (GASB) requirements. They include information reported on a government-wide basis. Chow (2004) introduced Whole of Government Accounting (WGA) as a means to improve government ability to manage the economy and that (WGA) style reporting strengthens accountability to Parliament, government, planners, taxpayers and managers as a result of improved accounting information disclosure.

Various budgeting approaches are commonly used and fall into: line-item or object of expenditure approach; performance and program budgeting; and zero-based budgeting (ZBB). The line-item budgeting allows the accumulation of expenditure data by organisational unit and is consistent with the lines of authority and responsibility in organisational units. As a result, this approach enhances organisational control and allows the accumulation of expenditure data at each functional level (Granof, 1998). In addition, the line-item budget approach is simple and the budgets can easily be prepared and understood by users. Moreover, information presented in the budget can be incorporated into the accounting system and detailed comparisons between budgeted and actual revenues and expenditures can easily be made (Ives, Razek, & Hosch, 2004).

Although this approach offers substantial advantages, critics have identified several shortcomings that may make it inappropriate for certain organisational environments. A major criticism is that it presents little useful information to decision makers on the functions and activities of organisational units. Since this budget presents proposed expenditure amount only by category, the justification for such expenditures are not explicit; it does not provide information about the purpose of the expenditures or about the programmes for which they are allocated, nor about the efficiency and effectiveness of the programmes. The line-item classification also results in the lack of appreciation of the costs of the projects or programmes involved. Additionally, it provides a framework for a set of financial statements that comply with legal requirements rather than with providing useful management information (Ives et al., 2004). This approach also encourages,

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