

# Investigating the implementation of statement No. 34 of Governmental Accounting Standards Board (GASB#34) in the municipalities of Kerman province

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## Abstract

Implementation of statement No. 34 of Governmental Accounting Standards Board was defined in 1997 by Governmental Accounting Standards Board of the U.S. The objective of this study is to investigate accounting system and budgeting of municipalities in accordance with statement No. 34 of Governmental Accounting Standards Board in the municipalities of Kerman province. Statistical population of this study includes 130 people (the number of municipalities of Kerman province is 70) and data analysis was conducted using SPSS and Minitab statistical software in two sections including descriptive and inferential methods. The results of this study show that, applying the principles and governmental accounting standards in the municipalities of Kerman province is possible according to the statement No.34. Spearman test showed that, assumption  $H_0$  is rejected at a significant level  $\alpha=0.05$  and consequently, at least 50% of the people agree that, the principles and standards of this statement could be performed in municipalities of Kerman province.

**Keywords:** Statement No. 34, Municipalities of Kerman province, Governmental accounting system

## Introduction

Widespread problem of urbanization combined with population growth of the cities and major industrial and economic changes and also, social issues and citizens' force to get various types of municipal utilities have generated the biggest challenges and problems of municipalities. In this regard, resolving this problem would be possible within the "budget" and the scientific and practical budgeting framework. Nowadays,

numerous references of Government Accounting Standards such as Governmental Accounting standard Board (GASB) have performed various measures and statements which are required to be conformed to current status in local governments and in order to take and apply the best pattern. In this context, statement No. 34 about principles and standards of governmental accounting was investigated which has been developed and approved by Governmental Accounting Standards Board of the U.S. in 1999 based on the concept of accountability. Since, based on accountability, the municipalities should be accountable to their citizens and should be able to justify properly the process of collecting funds and how to use these resources and aware the people (Saffar and Rahimian, 2002).

Municipality as a local government should arrange current and development plans as the long term, medium term and short-term budget considering income limit and unlimited municipal needs so that, the maximum use of these limited resources becomes possible for unlimited needs and this existential philosophy is the first message of budget.

In local governments including municipalities, the citizens give directly the authority to their official representatives who are the members of the municipal and rural councils, through election. In the note paragraph of Article 71 of the Law on Organization, duties and elections of Islamic councils have been explained: City Council is required to elect the qualified mayor immediately after recognition. In municipalities, mayors as executive chiefs are responsible to against urban and rural Islamic councils and both of them are responsible against people. The central government also shall monitor the execution goodness of laws and regulations.

Municipality establishment in Iran has followed the financial and administrative rules and regulations

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in France and Belgium. In these rules that have acceptable principles and techniques, the municipalities are behaved as local governments. The three powers are evident in the municipalities' essence; so that, the municipalities under the laws have treasury that are fully differentiated with treasury of entire country and act independently (Pourhang Bahrami, 2008).

Most developed countries such as the U.S., England, Australia, New Zealand and etc. have designed and performed their accounting system and financial reporting for state and local governments based on accountability responsibility (Babajani, 2003). In the U.S. Governmental Accounting Standards Board is responsible to develop governmental accounting standards, and published its statement No.34 entitled "basic financial statements and report of management reviews and analyzes in governmental units". The board presented some principles in this statement that cause to improve the government accountability.

Babajani (1993) studied the trend of evolution in public accounting in Iran, and concluded that, governmental accounting system from the perspective of public accounts law, not only has had no improvement since 1928; but also, it has had a regression. Fundamental change in the accounting system needs comparative study of accounting systems in other countries and to consider principles, norms and Executive standards of the governmental accounting, and appropriate use of the experiences of advanced countries in order to design an appropriate accounting system.

Saffar and Rahimian (2002) believe that the purposes of financial reporting are determined by information needs of the users. Therefore, the process of drafting financial reporting purposes, and then, proposing the Government Accounting Standards is not a simple process. The cause that makes this process complicated is that, each accounting standard has various impacts which should not be ignored. Therefore, in the process of accounting standards development, some items should be noted as below: accounting standards have a direct impact on the activity of executive accountants, auditors and users of this information.

In the suggestion of accounting standards development, the balance between benefit and cost of different methods must be considered. And the last point is that, financial and accounting statements could not meet all the needs of users for evaluating the government performance.

Babajani et al. (2003) in their study concluded that, accounting system of the government is not enough capable to control approved programs, identifying and recording real incomes and costs,

reflecting the financial operations and status of each independent financial source. Although, ministries and governmental institutions measure to financial reporting by arrangement and presentation of monthly and annual financial statements, they are not able to cope with financial accountability.

Mahdavi and Fanel (2003) investigated accountability in public section and accounting information system in Islamic Republic of Iran. They investigated the specific traits and properties of Islamic government in Iran in addition to governmental accounting and its relation with culture with explanation of public section accounting in Iran, and they proposed some recommendations to make changes in accounting system of Iran. The authors found that, making change in accounting system of the government of Islamic Republic of Iran is necessary since; current methods of governmental accounting are not able to meet the goals of society public sources. Moreover, the mentioned system cannot provide required information in effective control of public cash and properties. Existence of cash basis in budgeting system also is one more weakness of the system.

Barton (1996) stated the differences between produced goods market in public sector and produced commercial goods in private sector and also, difference in characteristics of the activity environment. They also, discussed about some specific aspects of accounting in public sector activity and concluded that, the attempts conducted by Public Sector Accounting Standards Board (PSASB) must be considered for development of accounting standards in different economic parts.

Barton (1999) believes that a reason of the success of accrual accounting is that, this kind of accounting meets the users' information requirements and is synchronized with changes in the business environment. Therefore, public sector accounting should also attempts to meet information need of the users. In this regard, public sector accounting standards should give the information about resources management to the users considering the characteristics of public goods market and emphasizing on the concept of public accountability.

Pina and Torres (2006) investigated governmental accounting development for local governments in Spain, and compared it to international approaches and the standards of other countries. By studying in many countries such as the U.S. , England, Australia, Canada and New Zealand, the researchers concluded that, fundamental changes

in governmental accounting have been started from local governmental accounting and affiliated organizations. This matter also has been performed in Spain from budget law in central government.

Chen (2003) investigated the role of accounting information in coping with accountability responsibility in various governmental levels and statement of the purposes of governmental accounting and its differences with accounting of private institutes. The author believes that, the government voluntarily reveals information for entering others to resources transition and allocation including providing the necessary information for potential buyers of government bonds, credit suppliers of goods and services. This information is used only to predict the government potential in coping with its responsibilities. Therefore in short time, the governments ignore the needs of other users who have no power to compel the government to disclose.

Huges and Ponitez (2004) believe that, governmental accounting standards are developed to illustrate the areas of financial reporting. Accounting standards and financial reports must contain complete budgetary reports and information that present budgetary information prior to Compliance or non-compliance with budget including the programs and budget of the next year. These aspects in Governmental Accounting Standards Board standards of the U.S. include only the ex-post budgetary reports and they do not include ex-ante budgetary information. Moreover, Federal Accounting Standards Advisory Board has had no recommendation about budgetary reports in its developed standards. Therefore, the present study intends to investigate accounting and budgeting system of municipalities in accordance with Statement No.34 of Governmental Accounting Standards Board to improve their (municipalities of Kerman province) accounting and budgeting system.

## Methodology

This study sought to determine the feasibility of implementing the declaration on principles of Governmental Accounting Standards No. 34 of Governmental Accounting Standards Board in the municipalities as the epitome of local government.

The used research method in this study is as below:

At the first stage, descriptive studies were conducted since, the purpose of descriptive studies is regular and systematic description of the situation really. It means that, it states whatever exists.

At the second stage, a comparative study between what is considered in the society and what is better to be (it means the statement No. 34 of Governmental Accounting standards Board).

At the third stage, a survey was conducted on the feasibility of what is better to be in the society to be suggested to the considered society if it is possible.

Therefore, at the first stage of this study, the existing situation in municipalities of Kerman province was investigated and then, at the second stage, the existing situation in municipalities of Kerman province was compared to the statement No. 34 of Accounting Standards Boards and after that at the third stage, the possibility of proposing the principles and standards of governmental accounting was investigated using survey and questionnaire based on accountability responsibility which has been presented in statement No.34 of Governmental Accounting Standards Board.

For data collection to test the hypotheses, field and literature studies were used for the first stage considering the research subject, and the required information were collected to be conformed to the statement No. 34 of Governmental Accounting Standards Board. After conformity, the possibility of proposing the principles and standards of governmental accounting was investigated using survey and data collection was conducted using questionnaire which contained general and specific questions.

### *Research hypothesis*

Implementation of Governmental Accounting Standards Board Statement No. 34, in accounting and budgeting system of municipalities of Kerman province is possible.

### *Measurement tool*

Questionnaire is the measurement tool in this study in order to make the data devoid of any environmental impact and the views of respondents to be more objective.

### *Statistical population*

Accountants of Kerman province municipalities (mayor and finance officer in each municipality) along with others who are active in sectors related to accounting and budget form the statistical population in this study. Therefore, statistical population in this study includes 130 people. It is good to be noticed that, Kerman province has 70 municipalities, and our sample in this study is entire the statistical population.

### Data collection method

In each study, producing the real data considering the research objective is much important. In this study, two methods were used for data collection as below:

In order to analyze variables of the study and to assess the statistical population ideas related to the feasibility of applying governmental principles and standards based on accountability responsibility in the municipalities of Kerman province a questionnaire (according to GASB-34) was distributed among them.

Likert scale (five options) was used to answer the questions. This scale provides more options for answering and the respondents are requested to choose an option.

### Reliability of the questionnaire

In order to calculate the reliability, various approaches are used including test-retest, parallel method (equivalent), split-half, Cronbach's alpha coefficient, Spearman correlation coefficient and etc.

Spearman correlation coefficient is calculated using the following equation:

$$\rho_s = \frac{\sum_{i=1}^n R(x_i)R(y_i) - \frac{n(n+1)^2}{4}}{\left[ \left( \sum_{i=1}^n R^2(x_i) - \frac{n(n+1)^2}{4} \right) \left( \sum_{i=1}^n R^2(y_i) - \frac{n(n+1)^2}{4} \right) \right]^{1/2}}$$

Where  $R(x_i)$  is the rank of  $x_i$  and  $R(y_i)$  is the rank of  $y_i$

### Data analysis

Data analysis was conducted through statistical software including SPSS and Minitab in two sections of descriptive methods and analytical method.

### Results

Possibility of accounting and financial reporting capabilities in the municipalities of Kerman province based on:

#### A) Gender

**Table 1. Status of commenting of the respondents to investigate feasibility and infeasibility of Principle 1 (according to gender)**

Frequency percentage	frequency	Unknown gender	male	female	
73.08%	95	7	85	3	Feasibility of principle 1 implementation
26.92%	35	2	32	1	Infeasibility of principle 1 implementation

The above figure and table show that, the most of respondents (73%) believe that, the implementation of this principle is possible in municipalities of Kerman province.

#### B) Organizational position of respondents

According to the above tables and figures, implementation of this principle is possible in municipalities of Kerman province (with 73% agreeing comments).

#### C) Education level of respondents

According to the above tables and figures, implementation of this principle is possible in municipalities of Kerman province (with 73% agreeing comments).

#### D) Field of study

According to the above tables and figures, implementation of this principle is possible in municipalities of Kerman province (with 73% agreeing comments).

#### E) Work experience

According to the above tables and figures, implementation of this principle is possible in municipalities of Kerman province (with 73% agreeing comments).

Investigating the feasibility of the other principles (2 to 10) in municipalities of Kerman province also is conducted through the above procedure.

### Results of investigation and analysis of the research hypothesis

Is the principle of accounting and financial reporting possible to be implemented in municipalities of Kerman province? Zero assumption and its opposite assumption are described as below:

$$H_0 = P \leq 0.05$$

$$H_1 = P > 0.05$$

**Table 2. Status of commenting of the respondents to investigate feasibility and infeasibility of Principle 1 (according to organizational position)**

Frequency percentage	Frequency	other	Director of Financial tasks	Director of Revenue	Director of administrative tasks	Financial and Administrative Assistant	Mayor	
73.08%	95	8	23	4	8	16	36	Feasibility of principle 1 implementation
26.92%	35	3	8	2	3	6	13	Infeasibility of principle 1 implementation

**Table 3. Status of commenting of the respondents to investigate feasibility and infeasibility of Principle 1 (according to education level of respondents).**

Frequency percentage	Frequency	Diploma	Associate diploma	B.Sc.	M.Sc.	Ph.D.	
73.08%	95	5	10	76	3	1	Feasibility of principle 1 implementation
26.92%	35	2	4	29	0	0	Infeasibility of principle 1 implementation

**Table 4. Status of commenting of the respondents to investigate feasibility and infeasibility of Principle 1 (according to the field of study of respondents).**

Frequency percentage	Frequency	Other majors of management	Financial management	economy	Accounting	
73.08%	95	13	4	9	69	Feasibility of principle 1 implementation
26.92%	35	5	2	3	25	Infeasibility of principle 1 implementation

**Table 5. Status of commenting of the respondents to investigate feasibility and infeasibility of Principle 1 (according to work experience of respondents).**

Frequency percentage	frequency	More than 15 years	10-15 years	5-10 years	Less than 5 years	
73.08%	95	46	13	24	12	Feasibility of principle 1 implementation
26.92%	35	17	5	9	4	Infeasibility of principle 1 implementation

The observed success in this test is 0.73. Therefore, considering the obtained P-Value, the assumption of  $H_0$  is rejected at a significant level  $\alpha=0.05$ . It

means that, at least 50% of the people agree that, this principle is possible to be implemented in municipalities of Keramn province.

**Table 6. Results investigation and analysis of the research hypothesis**

P-Value	Expected success	Observed success	Number	Category	
0.000	0.5	0.73	95	Success	Feasibility of the principle implementation
		0.27	35	Failure	Infeasibility of the principle implementation
		1.00	130		Total

## Conclusion

The present study has been conducted to investigate the implementation possibility of modified fundamental principles of governmental accounting based on accountability responsibility in municipalities of Kerman province (according to the statement No. 34 of Governmental Accounting Standards Board). In this regard, implementation feasibility of ten principles published by Governmental Accounting Standards Board which cause to raise the level of governments' accountability responsibility was assessed in municipalities of Kerman province as following, to answer the question: are these principles which have been developed by the statement No. 34 of Governmental Accounting Standards Board, possible to be implemented in municipalities of Kerman province?

Analysis of the questionnaire specific questions has been done using binomial distribution test. The obtained results show that, most of respondents have chosen the option "totally agree" or "agree". Therefore it can be mentioned that, in their opinion, implementation of the principles and governmental accounting standards according to the statement No.34 is possible in municipalities of Kerman province. This was resulted from analysis of each principles and governmental accounting standards based on accountability responsibility according to the statement No.34 of Governmental Accounting Standards Board in municipalities of Kerman province. The observed success is 0.73. Therefore, according the obtained P-Value, H<sub>0</sub> assumption is rejected at significant level of  $\alpha=0.05$ . It means that, at least 50% of the people agree that, implementation of this principle is possible in municipalities of Kerman province (Table 6).

According to the above explanations, compilation of governmental accounting standards in accordance with the statement No. 34 of Governmental Accounting Standards Board could be possible in municipalities of Kerman province. Governmental accounting standards and principles can be important since, they are based on accountability responsibility according to the statement No.34, and observance

of the above ten principles increases government accountability responsibility, according to Babajani.

### Research based recommendations

The last section represented the obtained results from this study. According to the mentioned results and the research literature, compilation of governmental accounting standards is possible according to the principles set forth in statement No. 34 of the Government Accounting Standards Board (GASB) in municipalities of Kerman province. Observing the above principles causes to raise the governments' accountability responsibility level (here, local governments or municipalities) so, these principles are necessary to be observed. It is recommended that, the following principles to be observed in municipalities of Kerman province since, the possibility of their implementation was proved:

- 1) Principle of accounting and financial reporting capabilities
- 2) Principle of the number of independent accounts
- 3) Principle of the types of independent accounts
- 4) Principle of capital assets recording
- 5) Principle of long-term debt
- 6) Principle of measurement criterion
- 7) Principle of budgeting and budgetary control
- 8) Principle of funding
- 9) Principle of classifying the separation of the funds transferred from previous years from revenues of current year and the costs from the costs of current period
- 10) Principle of annual financial report

### Recommendations for the future studies

In this research, the implementation feasibility of modified fundamental principles of governmental accounting based on accountability responsibility was tested in municipalities of Kerman province. According to the results, it is recommended that, the implementation feasibility of governmental accounting standards and principles to be investigated in other municipalities of Iran based on GASB for the future studies.

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