

**THE DEVELOPMENT OF PUBLIC ACCOUNTING TRANSPARENCY
IN GULF COOPERATION COUNCIL COUNTRIES (GCC)
AN ANALYSIS OF BAHRAIN, OMAN AND KUWAIT**

Authors:

Khalil Abushamsieh

kabusham@gmail.com

PhD Candidate

Antonio M. López Hernández

alopezh@ugr.es

Professor

David Ortiz Rodríguez

dortiz@ugr.es

Associate Professor

Address:

C/ Campus Universitario de Cartuja s/n

Postal Code 18071

Department of Accounting and Finance

Faculty of Economic Science and Business

Granada University

Granada

Spain

SUMMARY

In recent decades, governments are paying increasing attention to the issue of transparency in reporting governmental financial information. Transparency and accountability in governmental reporting serve as the major elements in establishing a political democracy, and governments are trying to manage public funds efficiently to achieve their economic goals. To this end, governments need a strong and effective accounting system to manage their financial resources and improve the standards of living of their citizens.

In this context, in 2000 the International Federation of Accountants (IFAC) began to publish a series of International Public Sector Accounting Standards (IPSASs), to ensure that governmental financial information included in reports is sufficient to support decision making by different users. IPSAS 1 and 2 made recommendations concerning the structure and the contents of financial statements presented by the public sector.

Gulf Cooperation Council (GCC) countries are trying to develop their accounting information systems to be more informative and more transparent. The aim of this paper is to examine to what extent GCC accounts are transparent and to study if it is done as recommended by IPSAS 1 and 2. In our work, we concentrated on three GCC countries; these countries were Oman, Bahrain and Kuwait.

To carry out this study, we analyzed the reforms initiated by GCC countries to improve the transparency of governmental financial information. We used an index that was developed by Caba and Lopez (2009) and Benito *et al.* (2007). This index relates to the minimum information presented in final accounts as recommended by IFAC through the IPSAS 1 and 2.

KEY WORDS: financial reporting; financial information; IFAC; IPSAS; public accounts, transparency

INTRODUCTION

In recent decades, governments have been trying to improve their governmental accounting information systems so that they are more informative, efficient and transparent; as a result, important accounting reforms have been made in different countries around the world (Lüder, 1992; Caba and Lopez, 2008; Nasi and Steccolini, 2008). In this context, increasing attention has been paid to governmental accounting reforms. In 2000, the International Federation of Accountants (IFAC) through the International Public Sector Accounting Standards Board (IPSASB) started to issue the International Public Sector Accounting Standards (IPSASs) in order to provide high quality public sector accounting information in the of end year accounting reports (Christiaens *et al.*, 2010). IPSAS No. 1 and IPSAS No. 2 are mainly talking about the forms and types of end year accounting reports to be presented to users of the information in order to be more transparent and thus serve them better.

According Caba (2001) the majority of research for governmental accounting can be found about Anglo-Saxon and European countries. In spite of that, recently studies have been done about Latin American countries, (Caba and Lopez, 2009; Caba *et al.*, 2009; Araya, 2010), other studies have been done about Malaysia (Saleh, 2007 and Rakoto, 2008), and China (Chang *et al.*, 2008). Some studies can be found about African countries (Godfrey *et al.*, 1995; Godfrey *et al.*, 1996; Godfrey *et al.*, 1997; Merrouche *et al.*, 1996); in this context it seems that little attention has been paid by researchers to conduct studies about the Middle East region.

In the last three decades, important administrative changes have been adopted in the GCC public sector administration in order to face their socioeconomic changes. As we stated before, our work will be concentrated on Bahrain, Oman and Kuwait. After we started our work, the first results obtained about the GCC countries showed a low level of implementation of the IPSASs, so we decided to broaden our work, by adding other countries that have the same socio cultural values and that are situated in the same geographical region although they have different economic development. This allowed us to compare the situation regarding the transparency of public financial reporting. So,

we chose Palestine, Jordan and Egypt which represents a group of countries that receives a high percentage of ODA. These countries are considered to be developing countries, so in our work we have two groups of Arab countries: (a) Bahrain, Oman and Kuwait that represent developed countries and (b) Palestine, Jordan and Egypt that represent developing countries and (ODA) receivers.

So our objective in this study is focused in Middle East countries, we analyzed the changes and reforms in GCC laws and royal decrees concerning financial transparency, then we analyzed the impact of these changes on their governmental accounting information systems, and to examine if these reforms are in accordance with public accounting bodies, especially the IFAC through IPSAS No. 1 and IPSAS No. 2.

To conduct this study, we used an index that was developed by Caba and Lopez (2009) and Benito *et al.* (2007) to analyze the transparency of accounting information presented by these countries. This index relates to the minimum information presented in final accounts as recommended by IFAC through the IPSAS 1 and 2. This index has two levels: the first level talks about the financial reports that should be presented by the reporting body, irrespective of their content. While the second level concentrates on the content that should be presented in each of the financial reports.

This paper is structured as follows: First we did an overview of governmental accounting reform regarding IPSAS and its relationship with transparency through the application of IPSASs standards. Second we described the recent reforms about accounting laws and procedures that have been applied in the selected GCC countries, after that we explained our methodology of conducting this paper. Following the methodology the empirical work was done, and results of this analysis were presented, finally we highlighted our conclusion of this paper.

GOVERNMENTAL ACCOUNTING REFORM TOWARD IPSASs.

The public demand for radical improvement of public sector activities resulted in a wave of organizational, managerial and accounting reform in the public sector

worldwide (Christiaens and Rommel, 2008). Public sector reforms should include the need to enhance accounting and financial reporting beyond cash considerations alone, in other words not just for cash flows and balances, but also it must be accountable for how they spend money (Prodjoharjono, 2009; Brusca and Montesinos, 2009).

In this context, several countries have adopted financial accounting reforms at one or more levels of government sector by replacing or transforming their traditional cash accounting systems into systems that support accruals, an accounting basis that is widely used by business-like organizations, in order to increase their financial accountability and transparency and improve measurement of government sector performance (Stamatiadis, 2009). One of the main considerations of the reforms was represented by the change in government accounting systems, by the adoption of accrual basis of accounting, control systems and management in exchange for the traditional cash basis of accounting (Lapsley, 1999; Nasi and Steccolini, 2008).

Actually there are two other bases of accounting that were recognized by the IFAC between the accrual basis of accounting and cash basis of accounting: modified cash basis of accounting and modified accrual basis of accounting (Christiaens *et al.*, 2010). Subjects that are covered by IPSASs include the presentation of financial statements, the effects of changes in foreign exchange rates, financial instruments, contingent liabilities, and segment reporting.

The cash basis of accounting measures financial results for a period as the difference between cash receipts and cash payments, while modified cash basis of accounting is of is the same as cash basis of accounting but it takes into account the unpaid accounts and/or receivables at the end of the year. In the accrual basis the transactions and events are recorded in the accounting records and recognized in the financial statements of the periods to which they relate, while a modified accrual basis of accounting system recognizes transactions and other events on an accrual basis, but certain classes of assets or liabilities are not recognized. A typical example is the expensing of all non-financial assets at the time of purchase (IFAC PSC, 2000; IFAC, 2008).

The stated objectives of the introduction of accrual basis of accounting in public sector as new management tool were: the need for more transparent, more effective and more informative system that help decision makers for better cost control and accountability (Nasi and Steccolini, 2008). Christiaens *et al.* (2010) added that the trend towards accrual accounting is explained by the need for transparency, efficiency and performance management. It helps to improve the quality and consistency of the information provided to decision makers (United States Government Accounting Office, 2000), and holds managers accountable for the cost of resources and match with the results obtained (Anthony, 2000; Katsikas *et al.*, 2009). According to Jones and Pendlebury (1996), accrual basis of accounting is appropriate to comply with various requirements and is able to offer more than the cash basis of accounting in terms of quantity and quality. It is not surprise that most developed countries that have previously adopted a cash basis of accounting or cash budget, are recently introduced forms of accrual basis of accounting in their public sectors as part of an overall public sector reform, especially Anglo-Saxon and European countries (Prodjoharjono, 2009).

Since the last decade the IPSASB of the IFAC has developed a set of IPSASs in order to streamline and support these reforms in the area of governmental accounting and seeking to ensure that governmental financial reports included financial information of sufficient quality to support decision-making by different users (Caba and Lopez, 2009; Christiaens *et al.*, 2010). The need for comparability of government accounting systems has caused a trend towards harmonization through international accounting standards, resulting in the development of IPSASs (Christiaens *et al.*, 2010). Currently there are twenty four IPSASs applicable to accrual bases of accounting and one IPSAS applicable to cash bases of accounting. IPSASs are important stimulus for the harmonization of financial information in the public sector (Benito *et al.*, 2007) and are designed to facilitate the generation of government financial reports of high quality that are internationally comparable (Khan and Mayes, 2009).

A preliminary step in any reform is to conduct investigations of current accounting practices of the country and its comparison with other countries (Lüder, 1988). When comparing the current public accounting systems in different countries, it is evident that

differences exist internationally for several reasons: the accounting language used, the format of the presented accounting information, the amount of presented accounting information, accounting procedures used, the policies applied, the criteria for verification of accounting information, etc., according to those differences there are varying degrees in intensity on the countries under comparison (Caba, 2001).

As the IPSASs of the IFAC have been produced independently and adapted from the International Accounting Standards (IAS), with the participation of governments from all over the world, professional of accounting bodies and of international organizations which are strongly recommended by them such as the World Bank (WB), the United Nations (UN), the Organization for Economic Co-operation and Development (OECD), the International Monetary Fund (IMF) and other multilateral organizations, the possibility of a country refusing to introduce such public accounting rules, albeit ones that were not created within a given country or agency, is reduced (Brusca and Benito, 2004; Benito *et al.*, 2007).

According to Caba and Lopez (2009), the IPSASs of the IFAC encourages governments to present additional information to that typically produced on the basis of the budget, in order to improve financial transparency. Benito *et al.* (2007) stated that the adoption of IPSASs will lead to a significant improvement in the quality of general purpose financial reporting by public sector entities, increasing transparency and accountability. This additional information should concern the financial position, performance and cash flows of an entity, all of which are useful to a wide range of users in taking and evaluating decisions about the allocation of resources. Among the questions concerning IPSASs addressed by the IFAC are proposals aimed at improving the content of the financial information included in the year-end report, so that it might provide a better reflection of the financial and asset situation of the bodies that comprise the national public sector (Caba and Lopez, 2009).

According to the World Health Organization -WHO- (2007), IPSASs constitute a series of high quality guidelines concerning accountancy and the publication of financial reports by the public sector, according to which accounting should be based on 'total

earned values'. The adoption of these standards by governments would improve both the quality and the comparability of the financial information presented by public sector agencies worldwide (Caba and Lopez, 2009).

According to IPSAS No. 1 and 2 of the IFAC, a complete set of financial statements should include the following statements: (a) statement of financial position – a balance sheet or statement of assets and liabilities; (b) statement of financial performance; (c) statement of changes in net assets/equity; (d) cash flow statement; and (e) accounting policies and notes to the financial statements.

THE REFORMS OF GOVERNMENTAL FINANCIAL TRANSPARENCY IN THE ARAB COUNTRIES IN RECENT DECADES

The nature of implemented and development of governmental accounting information system in a country is influenced by the background history, culture, economy and legal system and laws of a country (Lüder, 1992). In this context, the objective study for accounting transparency in governments needs first of all a general view of most important environmental variables in order to analyze and evaluate the governmental accounting system in which those systems had been developed in this environment.

A. GCC Selected Countries

GCC is a regional organization situated in the Persian Gulf; it was created in 25 of May 1981 by six countries: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates. The six member countries of GCC share common sociopolitical history; Islam is the religion of all member countries and Arabic is the official language. According to their socioeconomic indicators, these countries are the most rich in the Middle East. These countries were poor before five decades (Ramady, 2005). Currently their main source of wealth is oil; their economies are important for the region and need to employ foreign workers, as a percentage foreign workforce represents at least 50% of all workforces in each country (Hanna, 2006).

As we stated before depending to the availability of information, our work concentrated on three GCC countries; these countries are Oman, Bahrain and Kuwait.

Oman is considered new country; In July 1970 Sultan Qaboos came to power after the country gained independence from Great Britain, the first financial law was issued in 1982 through the royal decree number 56/1982 which has been evaluated and changed in 1998 through royal decree number 47/1998, and finally some articles had been modified through royal decree 74/1999 in 1999 which still used up to date. According to articles 6 to 9 from financial law number 47/1998 which assigns the responsibility of Ministry of Finance (MOF), the MOF must interpret the accounting procedures and practices, in this context the ministry has issued various manuals, the last one has been issued in 2009 through minister order number 118/2008.

The State Audit Institution of Oman was established in 2000 by Royal Decree number 55/2000, superseding the Royal Decree 129/91. The new State Audit Law authorizes the State Audit Institution to investigate a broad sweep of public agencies, including the state administrative apparatus, government entities and departments, and private institutions that receive government assistance. This law had been interpreted through the last manual of 2009.

The case of Kuwait is different; Kuwait gained its independence from United Kingdom on June 1961. The first budget for Kuwaiti government has been prepared in 1955 according to minister order that include the preparation of budget for all ministries and government entities. In 1960 the royal decree number 1/1960 had been issued, this decree organized the rules for preparing state budget, control procedures and final accounts preparation. The mentioned royal decree had been canceled and by the issuance of royal decree number 31/1978 which still valid up to date, but some its articles had been modified as royal decree number 18/2000 and 27/2000 which modified the accounting year that starts from 1 of April and end en 31 of march each year for all ministries, governmental entities and committees.

In addition to that ministry orders has been issued to modernize the accounting

information system for Kuwait, in 1981 MOF issued a ministry order number 13/1981 in this order they issued a unified manual of accounting for government entities, this manual suffered some modification by ministry orders number 18/1985 and 11/1989, later to that MOF issued a ministry order number 21/2002 which determine for the government entities the financial control responsibilities and responsibilities of accounting directors.

In 2004 the MOF consulted experts from the IMF in order to modernize and develop the governmental accounting information system, as a result to that effort the MOF has started by the preparation of what is called Reengineering Financial Transactions Project (RFTP), which needed four years of preparation, so in 2008 they starts work and adapt the plans of this project. The project duration is 4 years and consists of three stages:

1. Reconstruction of financial management, budget and accounting information in accordance to IPSAS.
2. Reconstruction of inventory of stock management, fiscal management, cost project management.
3. Reconstruction of assets management.

In Bahrain, after of its independence from United Kingdome in 1971, important administrative changes and major reforms have been implemented that aimed at improving the overall efficiency, effectiveness, transparency, performance, accountability and sound budget management, this can be noticed through different reforms and issuance of laws, in 1975 royal decree number 1/1975 has been issued which organize the rules for preparing state budget, control, and final accounts. Another royal decree number 4/1994 has been issued in order to reconstruction of MOF and all its function.

In 1998 Ministerial order number 5/1998 has been issued which talked about standards of governmental accounting and control, and in 2002 law number 16/2002 had been issued about the control and establishing the Supreme Audit Commission, the General

Budget Law number 39/2002 has been issued in 2002 which organizes the budgeting and final accounts procedures, this law had been modified by the law number 3/2007.

In 2006 the MOF issued the Standardized Financial Manual Systems depending to article 59 of Law 39/2002, and also in 2002 MOF issued the manual of fixed assets systems on the basis of article 59 of Law 39/2002. It is clear from the foregoing that during the past two decades, the governmental accounting systems has been changed and developed, regulatory and administrative procedures had been taken in order to improve the efficiency, effectiveness, transparency and responsibility of the governmental accounting systems in the State of Bahrain.

As noticed from above, these countries had been developed during the last three decades; different laws had been issued to reform their politics, economies and financial systems, some of them made reforms in their governments, ministries and governmental entities in order to adapt according to its socio economic status.

B. ODA Receiver Countries

In case of ODA receivers, different reforms had been done during the recent decade. In Palestine, The Palestinian National Authority (PNA) was established in 1994 following the 1993 Oslo Agreement, with responsibility for areas of the West Bank and Gaza (WBG) under Palestinian control. Between 1994 and 1998, the governmental accounting system of PNA depended on a series of resolutions and instructions and financial regulations issued by the Ministry of Finance, which were not dependent on financial legislation that regulates the financial operations until the issuance of the first law that regulate the public budget and financial affairs No. 7 of 1998. In 2004, PNA issued a law financial and administrative control No. 15 of 2004, after that the Council of Ministers issued a resolution No. 43 of 2005 for the financial system of ministries and public institutions, these laws are trying to achieve more transparency in the governmental accounting system.

The Jordanian MOF has embarked on an important reform program for raising

efficiency in planning, preparation and execution of the general budget, this program includes a rationalization of the budget preparation so as to arrive at a result oriented budget within clear sector priorities; it also aims to achieve more fiscal transparency, upgrade of the quality of government service to citizens and investors through more accountability in ministries and spending units.

In Egypt the governmental accounting system had been developed by the issuance of deferent laws, these laws can improve the financial transparency in the governmental accounting, law No. 53 of 1973 organize the state budget, some articles of this law had been modified by law No. 87 of 2005 and law No. 109 of 2008. In 1981 the accounting law No. 127 had been issued which had been modified by law No. 35 of 2009.

METHODOLOGY

In order to conduct our work in verifying the level of compliance in the information provided in the annual public financial reports of the countries being studied, and in reference to the established requests in IPSAS references No. 1 and 2 of the IFAC that talks about the financial information that should be presented in the end year financial statements for the public sector, and in accordance to the index that were developed by Caba and Lopez (2009) and Benito *et al.* (2007), we used an index about the minimum requisites for the information to be provided in the annual financial public report, as recommended by the IFAC. This index has two levels:

- **Level One:** distinguishes the countries in terms of the obligatory financial statements that should be presented by the reporting body, according to the established in IPSAS No. 1 irrespective of their content. This first level differentiates between five items that should be presented: statement of financial position – a balance sheet or statement of assets and liabilities, statement of financial performance, statement of changes in net assets/equity, cash flow statement; and accounting policies and notes to the financial statements (*see Table 1*).

- **Level Two:** concentrates on the content that should be published in each of the financial reports presented, with the information to be included being given on separate lines. For the second level, 76 items were selected, distributed as shown in Table 2.

The total number of minimum IPSAS requisites for disclosure of public financial information provided by the annual public accounts for a specific country is obtained by adding the score of each of the IPSAS recommended items listed in Table 2, which represents total of seventy six items for all the five components of basic financial information to be presented. Among the alternatives presented for the scoring of these items, we opted for a dichotomous procedure by which a score of 1 is assigned if the country's public reporting includes information consistent with IPSAS recommended items and 0 if it does not.

Once all the items have been scored, an index was created to measure the total level of compliance (*TC*) with the minimum requisites of the information that must be provided in annual public accounts for each country, in according to the IPSAS recommendations. It assigned an identical valuation for each of the components of financial statements, for example an assessment of 20% for each of the five basic statements. The partial compliance percentage (*PC*) for each financial statement can be obtained by dividing total items points obtained (*Po*) by maximum number of items that could be obtained (*m*), thus: $PC_b = Po/m * 100$ for Balance sheet, $PC_p = Po/m * 100$ for the operating statement, $PC_c = Po/m * 100$ for the cash flow statement, $PC_n = Po/m * 100$ for the statement of changes in net assets and $PC_s = Po/m * 100$ for the notes to the financial statements. Therefore, in order to generate the total level of compliance in level 2 (*TC*), we combine all the partial results obtained from each component of the five financial statements and then divided by the total number of financial statements as follows:

$$TC = PC_b + PC_p + PC_c + PC_n + PC_s / 5$$

Partial indexes for each of the following statements could be defined for the first level compliance: *TC_b* for the balance sheet; *TC_p* for the operating statement; *TC_c* for the

cash flow; *TCn* for the statement of changes in net assets; TCs for the notes to the financial statements.

RESULTS

As we notices previously from the reforms of financial transparency in recent decades, important administrative changes have been implemented in the GCC countries in order to improve the overall efficiency, effectiveness, transparency, performance, accountability, these administrative changes includes financial laws and decrees reforms, ministry orders, issuing of accounting manuals and planes of accounting reforms in other countries.

To analyze what happens in practice, we compared the financial information provided in the last three years (2007, 2008 and 2009) of end financial report published in by each of the selected GCC countries, we tested if reports were done with the recommendations made by the IFAC, which are those listed in the previous section.

The first results of our analysis show that the selected GCC countries (Bahrain, Oman and Kuwait) year-end financial reports do not include all the financial statements proposed by IPSAS No. 1 (see Table 1), as a result of that we decided to expand our work in order to add value for it, we decided to add another three Arab countries that share the same socio cultural values, but not with the same level of economic development, then we chose Palestine, Jordan and Egypt. The reason why we chose these countries is that they receive high percentage of Official Development Aid (ODA) from donors (Werlin, 2005); by this study we will be able to test the influence of ODA on financial transparency for ODA receiving countries (Palestine, Jordan and Egypt) and to compare it with financial transparency for non ODA receiving countries (Bahrain, Oman and Kuwait).

Level 1 compliance results:

We began our analysis by examining the first level consistent with the IPSAS for

Bahrain, Oman and Kuwait to see the type of financial report presented in end year report, these countries achieve the same first level degree of compliance of the content of its year-end financial report and the IPSAS No. 1 recommendations which is 2 out of 5 that represents 40% each country (see Table 1). To compare these results with ODA receivers we noticed that they have the same level of compliance in level 1, in addition to that none of the six countries published Balance sheet, statement of changes in net asset / equity and statement of cash flow. In their end year reports they just publish statement of financial performance with accounting practices and financial statement notes.

Level 2 compliance results:

In the light of level 1 compliance findings, we analyzed the second level degree of compliance (Table 3), taking into account that some of the data stipulated in the first level were not existed as balance sheet, statement of changes in net asset / equity and statement of cash flow, this way in second level each country lose 17 item of balance sheet, 9 items of cash flow statement and 6 items of changes in changes in net assets, the total of these item is 32 items out of 76 items of all second level degree which represents 42%.

With respect to the items presented in the statement of financial performance, Bahrain, Oman and Kuwait are more or less sharing the same items presented in of financial performance (*see index 1 for more details*), neither of these countries has considered it necessary to include elements showing in a clearly differentiated way the deficit or surplus produced, whether by operating activities, or as extraordinary items. The three countries are showing revenue from operating activities, net surplus or deficit for the period, and expenses are aggregated according to their nature, program or purpose for which they were made. Finance cost is not shown in case of Kuwait, it could be because they do not have public deficit. As shown in Table 3 the total second level of compliance of the operating statement for Bahrain and Oman is 57% and 43% for Kuwait.

To compare these results with ODA receivers as shown in Table 3 and index 1, we could see that Palestine have the same level of compliance with GCC selected countries, Jordan and Egypt represent one more item which is surplus or deficit from operating activities, the total level of compliance for operating statement for these countries is 71%.

As stated before the cash flow statement is upset from the end year reports of mentioned countries, which means that the second-level of compliance of the cash-flow statement with IPSAS No. 2. is 0%. The same thing for items presented in the report of changes in net assets, none of these countries presents changes in net assets in their reports.

Finally, let us mention the information presented in the main section or in the notes to the financial statements, starting from section 5.A (Supporting information for the items included in the balance sheet, further sub-classifications of line items included), we noted that just Kuwait present this type of supporting information, in spite of that Kuwait does not present a Balance Sheet we found that just Kuwait presented these information as notes and separated tables, this can be interpreted because as mentioned in the previous section Kuwait has a plan to adapt IPSAS by the end of 2012 and they recently started the planes and training to adapt it.

In the second section 5.B (Supporting information for the items included in the operating statement), All the six countries presented notes about A sub-classification of total revenue and an analysis of expenses using a classification based on either the nature of expenses or their function within the entity, they comply 100% of this section.

Finally analyzing the third section 5.C (Supporting information to the financial statement in general), we found that more or less the three countries of GCC have the same number of items presented, in case of Bahrain they have 7 items, Oman has 6 items and Kuwait has 8 items, which means that they presented little information when noticing that the total items if this section (5.C) is 19 items. In comparing this result with ODA receivers we noticed that by that Jordan and Egypt present less information than GCC selected countries, Palestine present more or less the same information that

presents Oman and Bahrain, but it still poor information.

Regarding the total of section 5 which represents 37 items, we found that Kuwait is more informative than others; total items presented by Kuwait in section 5 were 17, which represents 46% of total compliance in this section, while the rest of these countries presented poor information, namely: Bahrain presented items were 10, Oman 8, Palestine 9, Jordan 7 and finally Egypt 5.

To end our analysis, as shown in Table 3, we noted that the overall second level degree compliance with the IPSAS proposed by IFAC in the studied GCC is weak, that the more informative system is Kuwait only represents 26% of compliance with IPSAS, while Bahrain compliance is 18%, Oman and Jordan 16%, Palestine 17% and Egypt 13%.

CONCLUSIONS

Our main objective in this paper is to examine to what extent GCC governmental accounting information systems are transparent and are done as recommended by IPSAS 1 and 2 of the IFAC. In order to achieve this objective we researched all web pages of MOF in each member country in GCC. The purpose was to search for end of year governmental accounting reports. From six member countries of GCC we found only three countries which publish their end of year accounts in MOF web page. These three countries are: Bahrain, Oman and Kuwait. Our analysis produced poor results so we decided to add value to our work through adding another three Arab countries. We chose Palestine, Jordan and Egypt as stated before.

The review of previous literature has shown that among the reforms of the public sector in general, many countries have introduced the accrual bases of accounting as an element for improving the quality and transparency of governmental accounting information systems, also as recommended by IPSASs of IFAC.

Then we analyzed the developments of the financial laws that organize the issuance of

end of year governmental accounting information, we found that in recent decades, an effort has been made by these countries to change and modernize their financial laws and procedures. In the case of Bahrain and Oman these financial law reforms do not rise to the needed level of presenting the governmental accounting information as recommended by the IFAC. In the case of Kuwait we noticed that a great effort has been made in order to meet the recommendations of IFAC. A four year plan begun in 2008 to adopt the recommendations of the IFAC.

Next we used an index for testing the information presented in the end of year reports of the last three years. We found that, in spite of the important administrative reforms in financial laws that have been made in recent decades, the studied countries publish the statement of financial performance with different tables and explanation notes in their end of year accounting reports, so the first level degree of compliance with IPSAS proposed by the IFAC is still poor. The six countries presented 2 out of 5 (40%) from a complete set of financial statements that should be presented.

In the second level degree of compliance with IPSAS, we found that the total second level compliance with IPSAS No. 1 and IPSAS No. 2 is very low and reach 26% in its better cases (Kuwait), that because these countries publish just the statement of financial performance and accounting policies and notes to the financial statements.

From our analysis for ODA country receivers and non ODA receivers we could conclude that ODA receivers and GCC selected countries have similar transparency and compliance with IPSAS No. 1 and 2 of IFAC. All countries should make more progress in presenting financial information. Our analysis shows that all countries publish similar level of information. When comparing GCC countries to ODA receivers, we noted that, ODA receivers publish more details in the main body of the statement of financial performance, and less information in accounting policies and notes. This could be because of donors requirements. In case of non ODA receivers, we can conclude that Kuwait is the most informative end year accounting system; this could be because Kuwait has started a plan to adapt IPSASs of IFAC.

REFERENCES

- Anthony, R. N. 2000. The fatal defect in the federal accounting system. *Public Budgeting & Finance*, 20 (4): 1-10.
- Araya Leandro, C. 2010. Comparación de los sistemas de contabilidad gubernamental en los países de la región centroamericana. PhD thesis. *Granada University*, Granada.
- Benito, B., Brusca, I., and Montesinos, V. 2007. The harmonization of government financial information systems: The role of the IPSASs. *International Review of Administrative Sciences*, 73(2): 293–317.
- Benito López, B., and Brusca Alijarde, M. I. 2004. Análisis comparativo de la contabilidad pública a nivel internacional. *Presupuesto y gasto público*, 37 (4): 189-210.
- Brusca Alijarde, M. I., and Montesinos, V. 2009. International experiences in whole of government financial reporting: Lesson-drawing for Spain. *Public Money & Management*, 29(4): 243-250.
- Caba Pérez, C. 2001. Los sistemas contables públicos en Iberoamérica: Una propuesta para su comparación. PhD thesis. *Granada University*, Granada.
- Caba Pérez, C., Rodríguez Bolívar, M. P. and López Hernández, A. M. 2008. E-government process and incentives for online public financial information. *Online Information Review*, 32(3): 379-400.
- Caba Pérez, C., López Hernández, A. M. 2009. Governmental financial transparency in MERCOSUR member countries. *International Review of Administrative Sciences*, 75(1): 169-181.
- Caba Pérez, C., Ortiz Rodríguez, D. and López Hernández, A. M. 2009. Governmental financial information reforms and changes in the political system: the Argentina, Chile and Paraguay experience. *Public Administration and Development*, 29: 429-440.

Chang, J., Chen, G. and Chow, C. 2008. Exploring the desirability and feasibility of reforming China's governmental accounting system. *Journal Public Budgeting, Accounting & Financial Management*, 20(4): 482-510.

Christiaens, J., Reyniers, B., and Rollé, C. 2010. Impact of IPSAS on reforming governmental financial information systems: A comparative study. *International Review of Administrative Sciences*, 76(3): 537-554.

Christiaens, J., and Rommel, J. 2008. Accrual accounting reforms: only for businesslike (parts of) governments. *Financial Accountability & Management*, 24(1): 59-75.

Godfrey, A., Devlin, P. and Merrouche, C. 1995. The contingency model and East Africa. Towards a critique. *5th Comparative International Government Accounting Research (CIGAR) Conference*, Paris.

Godfrey, A., Devlin, P. and Merrouche, C. 1996. Governmental accounting in Kenia, Tanzania and Uganda. *Research in Governmental and Nonprofit Accounting*, 9: 193-208.

Godfrey, A., Devlin, P. and Merrouche, C. 1997. Local Government Accounting in Algeria y Marocco. *6th Comparative International Government Accounting Research (CIGAR) Conference*, Milán.

Hanna, D. 2006. A new fiscal framework for GCC countries ahead of monetary union. *International Economics Programme (May) IEP BP 06/02*, London, Chatham House.

IFAC. 2008. IFAC handbook of international public sector accounting pronouncements. *IFAC*, New York. 1213.

IFAC PSC. 2000. Study 11 - government financial reporting: accounting issues and practices. *IFAC*, New York. 284.

Jones, R., and Pendlebury, M. 1996. Public Sector Accounting 4th ed. *London*, Pitman Publishing.

Katsikas, E., Orelli, R. L. and Padovani, E. 2009. Management accounting innovations

in local governments. Evidences from Italian and Greek municipalities (October 31, 2009). Available at SSRN: <http://ssrn.com/abstract=1497526>

Khan, A. and Mayes S. 2009. Transition to accrual accounting. *Fiscal Affairs*, Department International Monetary Fund technical notes.

Lapsley, I. 1988. Capital budgeting, public service organizations and UK government policy. *Journal of Accounting and Public Policy*, 7(1): 65-74.

Lapsley, I. 1999. Accounting and the new public management: Instruments of substantive efficiency or a rationalising modernity? *Financial Accountability & Management*, 15(3/4): 201-207.

Lüder, K. 1988. Governmental accounting in west European countries: with special reference to the federal republic of Germany. *Included in Chan y Jones (1988) (Eds.)*. 82-104.

Lüder, K. 1992. Contingency model of governmental accounting innovations in the political-administrative environment (311 R). *In Research in Governmental and Nonprofit Accounting: A Research Annual, Edited by James L.Chan*, 7: 99-127.

Merrouche, C., Devlin, P. and Godfrey, A. 1996. Local government accounting in Algeria and Morocco. *Research in Governmental and Nonprofit Accounting*, 9: 139-156.

Nasi, G., and Steccolini, I. 2008. Implementation of accounting reforms. *Public Management Review*, 10(2): 175-196.

Prodjoharjono, S. 2009. Accrual accounting in the public sector, *The Audit Forum, Vol XI -February 2009*, 3:22-40.

Rakoto, O. 2008. Contingency factors affecting the adoption of accrual accounting in Malagasy Municipalities. *International Journal on Government Financial Management*. 8(1): 37-52.

Ramadhan, S. 2009. Budgetary accounting and reporting practices in Bahraini governmental units: An empirical study. *International Business Review*, 18(2): 168-183.

Ramady, M. A. 2005. *The Saudi Arabian Economy: Policies, Achievements and Challenges*, New York: Springer.

Stamatiadis, F. 2009. Investigating the governmental accounting reform of Greek national health system (ESY), some preliminary evidence. *International Journal on Governmental Financial Management*, 9(2);73-97.

US Government Accounting Office, 2000. Report to the honorable Benjamin L. Cardin, house of representatives: accrual budgeting – experiences of other nations and implications for US, 57: 201-216.

Werlin, H. H. 2005. Corruption and foreign aid in Africa. *Orbis*, 49(3): 517-527.

World Health Organization (WHO). 2007. Normas internacionales de contabilidad del sector público. *27th Conferencia Sanitaria Panamericana, 59th Sesión Del Comité Regional*; www.paho.org/spanish/gov/csp/csp27-17-s.pdf

Table 1. First level degree of compliance with the IPSAS proposed by IFAC

	BH	OM	KW	PS	JO	EG
Balance sheet	0	0	0	0	0	0
Statement of financial performance/ operative statement	1	1	1	1	1	1
Statement of changes in net assets/equity	0	0	0	0	0	0
Statement of cash flow	0	0	0	0	0	0
Accounting practices and financial statement notes	1	1	1	1	1	1
	2/5=	2/5=	2/5=	2/5=	2/5=	2/5=
First-level degree of coincidence	40%	40%	40%	40%	40%	40%

BH: Bahrain, OM: Oman, KW: Kuwait, PS: Palestine, JO: Jordan, EG: Egypt

Source: Own production

Table 2. Details of items of level 2

	ITEMS	%
1 BALANCE SHEET ITEMS: 1.1. Non-financial fixed assets; 1.2. Tangible assets; 1.3. Intangible assets; 1.4. Investments; 1.5. Short and long-term financial assets disclosed separately; 1.6. Receivables; 1.7. Short and long-term receivables disclosed separately; 1.8. Cash and cash equivalents; 1.9. Prepayments; 1.10. Payables; 1.11. Short and long-term payables disclosed separately; 1.12. Borrowing; 1.13. Short and long-term borrowings disclosed separately; 1.14. Current portion of borrowing disclosed separately; 1.15. Provisions; 1.16. Net asset/ equity; 1.17. Current and non-current assets and current and non-current liabilities as a separate classification or in order of liquidity.	17	22,3
2 OPERATING STATEMENT ITEMS: 2.1. Revenue from operating activities; 2.2. Surplus or deficit from operating activities; 2.3. Finance costs; 2.4. Surplus or deficit from ordinary activities; 2.5. Extraordinary items; 2.6. Net surplus or deficit for the period; 2.7. Expenses are aggregated according to their nature, program or purpose.	7	9,2
3 CASH FLOW ITEMS: 3.1. Net use of cash payments arising from operating activities disclosed separately; 3.2. Major classes of gross cash receipts and gross from operating activities disclosed separately; 3.3. Use of net cash payments arising from investing activities disclosed separately; 3.4. Major classes of gross cash receipts and gross from investing activities disclosed separately; 3.5. Net use of cash payments arising from financing activities disclosed separately; 3.6. Major classes of gross cash receipts and gross from financing activities disclosed separately; 3.7. Cash flows associated with extraordinary items disclosed separately; 3.8. Cash flows associated with interest received and paid as operating, investing or financing activities disclosed separately; 3.9. Reconciliation of the amounts in the cash flow statement with the equivalent items reported in the statement of financial position disclosed.	9	11,8
4 CHANGES IN NET ASSETS: 4.1. Net surplus or deficit for the period; 4.2. Each item of revenue and expense, recognized directly in net asset/equity, and total of these items; 4.3. Contributions by owners and distribution to owners, in their capacity as owners; 4.4. Cumulative effect of changes in accounting policy and the correction of fundamental errors; 4.5. The balance of accumulated surpluses or deficits at the beginning of the period and at the reporting date, and movements for the period; 4.6. Reconciliation between the earning amount of each component of net asset/equity at the beginning and end of the period.	6	5,2
5 NOTES TO THE FINANCIAL STATEMENTS		48,6
5. 1 Balance sheet backup information.	17	
5. 2 Operating account backup information.	2	
5. 3 General financial balance sheet backup information.	19	
TOTAL	76	100%

Source: Own production.

Table 3. Second level degree of compliance with the IPSAS proposed by IFAC

	BH		OM		KW		PS		JO		EG	
	Po	TC	Po	TC	Po	TC	Po	TC	Po	TC	Po	TC
1. Compliance with items to be presented on the face of the balance sheet (mb = 17)	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%
2. Compliance with items to be presented on the face of the statement of financial performance (mp = 7)	4	57%	4	57%	3	43%	4	57%	5	71%	5	71%
3. Compliance with items to be presented on the face of the cash flow statement (mc = 9)	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%
4. Compliance with items to be presented on the face of the changes in net assets/equity (mn = 6)	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%
5. Compliance with information presented in the main sections or in the notes to the financial statements (ms = 37)	10	27%	8	22%	17	46%	9	24%	7	19%	5	14%
5.A Supporting information for the items included in the balance sheet	1		0		7		1		1		0	
5.B Supporting information for the items included in the statement of financial performance	2		2		2		2		2		2	
5.C. Supporting information to the financial statement in general	7		6		8		6		4		3	
Total second-level compliance (m= 76)	14	18%	12	16%	20	26%	13	17%	12	16%	10	13%

BH: Bahrain, OM: Oman, KW: Kuwait, PS: Palestine, JO: Jordan, EG: Egypt, Po: points obtained, TC: total compliance, m: maximum number of items that could be obtained.

Source: Own production

Index 1. Second level degree of compliance with the IPSAS proposed by IFAC

Country	BH	OM	KW	PS	JO	EG
1. Items to be presented on the face of the balance sheet						
1.1. Non-financial fixed assets	0	0	0	0	0	0
1.2. Tangible assets	0	0	0	0	0	0
1.3. Intangible assets	0	0	0	0	0	0
1.4. Investments	0	0	0	0	0	0
1.5. Short and long-term financial assets disclosed separately	0	0	0	0	0	0
1.6. Receivables	0	0	0	0	0	0
1.7. Short and long-term receivables disclosed separately	0	0	0	0	0	0
1.8. Cash and cash equivalents	0	0	0	0	0	0
1.9. Prepayments	0	0	0	0	0	0
1.10. Payables	0	0	0	0	0	0
1.11. Short and long-term payables disclosed separately	0	0	0	0	0	0
1.12. Borrowing	0	0	0	0	0	0
1.13. Short and long-term borrowings disclosed separately	0	0	0	0	0	0
1.14. Current portion of borrowing disclosed separately	0	0	0	0	0	0
1.15. Provision	0	0	0	0	0	0
1.16. Net asset/equity	0	0	0	0	0	0
1.17. Current and non-current assets and current and non-current liabilities as separate classification or in order of their liquidity	0	0	0	0	0	0
Total minimum IPSAS requirements for the balance sheet fulfilled by the country	0	0	0	0	0	0
Second-level of compliance of the balance sheet	0%	0%	0%	0%	0%	0%
2. Items to be presented on the face of operating statement						
2.1. Revenue from operating activities	1	1	1	1	1	1
2.2. Surplus or deficit from operating activities	0	0	0	0	1	1
2.3. Finance costs	1	1	0	1	1	1
2.4. Surplus or deficit from ordinary activities	0	0	0	0	0	0
2.5. Extraordinary items	0	0	0	0	0	0
2.6. Net surplus or deficit for the period	1	1	1	1	1	1
2.7. Expenses are aggregated according to their nature, program or purpose for which they were made	1	1	1	1	1	1
Total minimum IPSAS requirements for the operative statement fulfilled by the country	4	4	3	4	5	5
Second-level of compliance of the operating statement	57%	57%	43%	57%	71%	71%
3. Items to be presented on the face of the cash flow statement						
3.1. Net use of cash payments arising from operating activities disclosed separately	0	0	0	0	0	0
3.2. Major classes of gross cash receipts and gross from operating activities disclosed separately	0	0	0	0	0	0
3.3. Use of net cash payments arising from investing activities disclosed separately	0	0	0	0	0	0
3.4. Major classes of gross cash receipts and gross from investing activities disclosed separately	0	0	0	0	0	0
3.5. Net use of cash payments arising from financing activities disclosed separately	0	0	0	0	0	0
3.6. Major classes of gross cash receipts and gross from financing activities disclosed separately	0	0	0	0	0	0

3.7. Cash flows associated with extraordinary items disclosed separately	0	0	0	0	0	0
3.8. Cash flows associated with interest received and paid as either operating, investing or financing activities disclosed separately	0	0	0	0	0	0
3.9. Reconciliation of the amounts in the cash flow statement with the equivalent items reported in the statement of financial position disclosed	0	0	0	0	0	0
Total minimum IPSAS requirements for the cash flow fulfilled by the country	0	0	0	0	0	0
Second-level of compliance of the cash-flow statement	0%	0%	0%	0%	0%	0%

4. Items to be presented on the face of the changes in net assets/equity

4.1. Net surplus or deficit for the period	0	0	0	0	0	0
4.2. Each item of revenue and expense, which is recognized directly in net asset /equity and total of these items	0	0	0	0	0	0
4.3. Contributions by owners and distribution to owners, in their capacity as owners	0	0	0	0	0	0
4.4. Cumulative effect of changes in accounting policy and the correction of fundamental errors	0	0	0	0	0	0
4.5. The balance of accumulated surpluses or deficits at the beginning of the period and at the reporting date and movements for the period	0	0	0	0	0	0
4.6. A reconciliation between the earning amount of each component of net asset/equity at the beginning and end of the period	0	0	0	0	0	0
Total minimum IPSAS requirements for the statement of changes in net assets fulfilled by the country	0	0	0	0	0	0
Second-level of compliance of the assets/equity	0%	0%	0%	0%	0%	0%

5. Information presented in the main section or in the notes to the financial statements

5. A. Supporting information for the items included in the balance sheet (further sub-classifications of line items included):

5.1. Tangible assets shows separately:						
5.1.1. Land and buildings	0	0	1	0	0	0
5.1.2. Plant and equipment	0	0	1	0	0	0
5.1.3. Infrastructure assets	0	0	1	0	0	0
5.1.4. Accumulated depreciation	0	0	0	0	0	0
5.2 Net assets/equity shown separately:						
5.2.1. Reserves	0	0	1	0	0	0
5.2.2. Accumulated surpluses/deficits	0	0	0	0	0	0
5.2.3. Capital contributed by other government entities	0	0	0	0	0	0
5.3. Intangible assets	0	0	0	0	0	0
5.4. Investments	0	0	1	0	0	0
5.5. Receivables	0	0	0	0	0	0
5.6. Cash and cash equivalents	0	0	1	0	0	0
5.7. Prepayments	0	0	0	0	0	0
5.8. Payables	0	0	0	0	0	0
5.9. Provisions shown separately						
5.9.1. Employee benefits	0	0	1	0	0	0
5.9.2. Other provisions	0	0	0	0	0	0
5.10. Borrowing	1	0	0	1	1	0

Total section A	1	0	7	1	1	0
5. B. Supporting information for the items included in the operating statement:						
5.11. A sub-classification of total revenue	1	1	1	1	1	1
5.12. An analysis of expenses using a classification based on either the nature of expenses or their function within the entity	1	1	1	1	1	1
Total section B	2	2	2	2	2	2
5. C. Supporting information to the financial statement in general:						
5.13. Cross-referenced to any related information in the notes	1	1	0	1	0	0
5.14. Measurement basis used	1	0	0	1	0	0
5.15. Specific accounting policy on:						
5.15.1. Revenue recognition	1	0	0	1	0	0
5.15.2. Consolidation principles	1	0	0	1	0	0
5.15.3. Investments	1	0	1	0	0	0
5.15.4. Recognition and depreciation/amortization of tangible and intangible assets	0	0	1	0	0	0
5.15.5. Capitalization of borrowing costs and other expenditure	1	1	1	1	1	1
5.15.6. Construction contracts	0	1	1	0	1	0
5.15.7. Investment properties	1	1	1	0	0	0
5.15.8. Financial instruments and investments	0	0	0	1	0	0
5.15.9. Employee benefit cost	0	1	1	0	1	1
5.15.10. Research and development costs	0	0	1	0	1	1
5.15.11. Provisions	0	0	0	0	0	0
5.15.12. Foreign currency translation and hedging	0	1	1	0	0	0
5.15.13. Inflation accounting	0	0	0	0	0	0
5.16. The cash not available for use by the economic entity	0	0	0	0	0	0
5.17. Contingencies not included in the balance sheet	0	0	0	0	0	0
5.18. Commitments not included in the balance sheet	0	0	0	0	0	0
5.19. Non-financial information not included in the balance sheet	0	0	0	0	0	0
Total section C	7	6	8	6	4	3
Total minimum IPSAS requirements for the notes to financial statements fulfilled by the country	10	8	17	9	7	5
Second-level of compliance of the notes to the financial statements	27%	22%	46%	24%	19%	14%
Total Items	14	12	20	13	12	10
Total second level compliance	18%	16%	26%	17%	16%	13%

BH: Bahrain, OM: Oman, KW: Kuwait, PS: Palestine, JO: Jordan, EG: Egypt

Source: Own production.