

Evaluation of Financial Accounting and Reporting Systems in Shiraz Municipality

Ahmad Ali Asadpour

Department of Economics, Islamic Azad University, Bandar Abbas Branch, Bandar Abbas, Iran

Abstract: The present study evaluated the performance of financial reporting and accounting system in public accounting, finance and treasury departments in Shiraz City. A main hypothesis and three sub-hypotheses were tested in the study. The present study aimed to evaluate the accountability of financial reporting from the perspective of users in order to express the users' satisfaction on transparent financial reporting in the municipality. As a result, the users would recognize how public services are presented and how resources are used through transparent financial reporting. In this study, 71 employees were selected using simple random sampling method among 175 employees in financial system of Shiraz municipality for data analysis and testing the hypotheses. In this study, the library method was used to find solution for the problem, interview tool was used to better develop interview the questions. The questionnaire tool was used in field operations.

Key words: Financial reporting, public accounting, finance and treasury, Shiraz municipality, operation

INTRODUCTION

Government and affiliated units, municipalities and non-state institutions are public sector organizations in Iran. Therefore, an image of the public sector financial reporting can be depicted by providing an analysis of financial reporting of such organizations. This image is an essential tool for providing the necessary conditions in order to define, accomplish and enhance accountability of the elected officials. The government policy relevant to self-sufficiency in national municipalities cannot be implemented unless financial statements are analyzed and prepared based on the municipality's operating budget act. Analysis and interpretation of financial statements allow the officials and mayors to eliminate costly and redundant revenues and make easy money and analyze the constructive factors. In this study, the researcher attempted to assess the financial reporting in Shiraz municipalities in detail. He also sought to provide practical suggestions for improving reporting status of the organization if possible (Babajani, 1999; Abebi *et al.*, 2011).

Statement of the problem: Now a days, members of society are more sensitive to the future than ever. Municipalities as public organization make efforts to meet informational needs of the people and submit a report of their performance in terms of numbers and figures. In addition to statements (statement of income and expenses, surplus account and balance sheet) normally prepared and submitted at the end of the period, separate financial reports and statements are prepared during the financial period in short intervals. Certainly, adequate

knowledge and experience is required in order to design and use an appropriate system of reporting. It seems that the municipalities in Fars Province are dealing with several problems in this regard. Based on the above discussions, the main research question arises as follows. Has Shiraz municipality the capabilities expected from a desirable financial reporting system? Definition of terms and concepts: finance: allocation of all or part of the approved credit for certain expenses (Aghvami and Babajani, 2001).

Treasury: Comprehensive cash processes management and organizational performance analysis. In other words, planning and control of operations, cash payment, cheque and promissory note in the organization.

Budget control: A set of methods including registration and maintenance of budget accounts and reports used to observe rules and regulations made for the budget control act to ensure that every cash would be spent at the right point and no charge of credit would exceed the approved allocation (Bayat, 2009).

Research theoretical principles: Babajani (1999) conducted a study entitled as "Assessment of Accountability of the Public Financial Accounting System of the Islamic Republic of Iran". He assessed accountability of public financial accounting system. The results showed that several obstacles in public accounting system prevented improvement in public accounting and financial reporting system. Furthermore, the goals of public financial reporting were not accomplished, especially accountability of financial

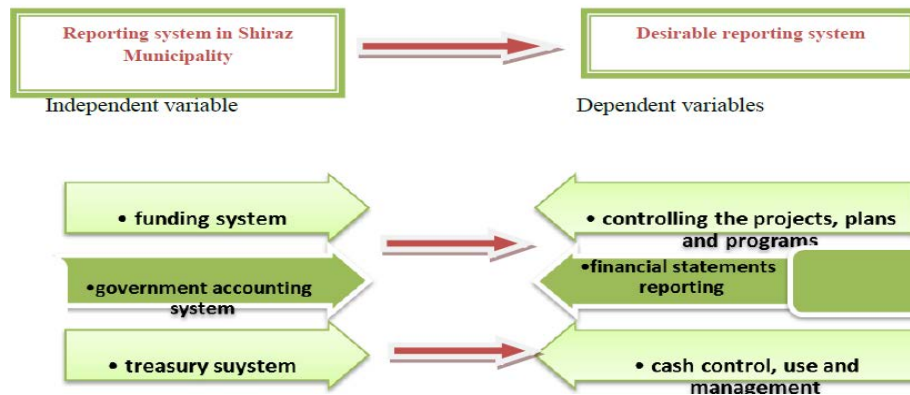


Fig. 1: Performance evaluation of financial accounting and reporting system

reporting system. In other words, public accounting and financial reporting system was not qualified in terms of accountability.

Kurdistani (2009) conducted a study entitled as “Improving the efficiency of financial reporting and accountability in the public sector”. He stated the problem as follows. Democracy requires the governments to be accountable to people who have delegated the powers to those governments. People have the right to become aware of how the public funds are used and how much efficient and effective are the programs offered by elected officials and how much effective are the above programs in promotion of public welfare considering the citizenship right and the right to seek answer. He concluded that accountability is not possible unless an appropriate informational system is used (Abedi *et al.*, 2012).

Bojnordi (2009) conducted a study entitled as “Assessment of Barriers to Development of Governmental Accounting and the Relevant Effects on Public Financial Reporting”. He stated that government and officials should establish and maintain an adequate system of accounting and financial reporting in an attempt to achieve their goals and tasks and be accountable to the people.

According to hypotheses tested in the former study, it was concluded that obstacles in public accounting system prevented improvement in government accounting. In addition, public accounting and financial reporting system functioned inefficiently and undesirably and did not accomplish the objectives of government accounting and financial reporting (especially government accountability and evaluation of this responsibility by people and their representatives).

Research variables: Variables used in this study to evaluate the performance of financial reporting system are as follows based on the hypotheses.

The importance and necessity of the research: It is essential to study the economic issues in Iran, compare the current situation in Iran and diagnose the underlying problem of government financial reporting in order to achieve the appropriate and applicable systems with regard to national conditions, facilities and regulations. For this purpose, short-term and long-term research programs were designed in order to provide the necessary background for development of a theoretical framework and government accounting standards and financial reporting. This is because accountability is one of the main principles of democratic systems and financial reporting system is one main tool for accountability of the government (Babajani, 1999) shown in Fig. 1.

Research objectives: Any research is done to achieve certain goals. The goal of any research is represented and explained in the format of statement of the problem (Khaki, 2004).

The present study aimed to evaluate the performance of financial accounting and informational systems and finance and treasury departments according to effective indices in financial reporting of Shiraz municipality.

Research question: The main research question is formulated as follows:

- Does financial reporting system of Shiraz municipality have the capabilities expected from a desirable financial reporting system?

Hypotheses: The hypotheses were developed after examining the issue of research and preliminary studies on the possible answers to questions posed in statement of the problem. The main hypothesis is as follows:

- Does financial reporting system of Shiraz municipality have the capabilities expected from a desirable financial reporting system?

MATERIALS AND METHODS

Library method and interview tool were used to better develop the questions. A questionnaire was used in field operations.

Methods of data analysis: In general, it can be stated that data analysis has a quantitative dimension which is certain statistical calculations. Qualitative dimension of analysis is reasoning and inference based on statistical results in order to generalize the results to the statistical population. Two descriptive and analytical statistical methods were used to analyze the data obtained from the questionnaires. SPSS was used to test the hypotheses.

Sample of the statistical population: The statistical population included all municipalities in ten districts in Shiraz. The sample consisted of 71 employees selected from 175 employees of the financial system in Shiraz municipality, regardless of specific priorities.

Research hypothesis

The first hypothesis: the funding system used in financial reporting in Shiraz municipalities was capable to control the cost of programs, plans and projects approved annually.

- H_0 : funding system used in financial reporting in Shiraz municipalities was not capable to control the cost of programs, plans and projects approved annually
- H_1 : the funding system used in financial reporting in Shiraz municipalities was capable to control the cost of programs, plans and projects approved annually

The value of the test statistic was significant at 0.05 level. The chi square value was calculated using SPSS as 81.95 which is greater than the table $\chi^2(51)$ with $df = 36$ at 0.05 significance level. The H_1 hypothesis was rejected with 95% confidence level. In other words, the financing system used in financial reporting in Shiraz municipalities was not capable to control the cost of programs, plans and projects approved annually.

The second hypothesis: The government accounting system used in financial reporting in Shiraz municipalities was capable to report on the financial statements in an acceptable level.

- H_0 : government accounting system used in financial reporting Shiraz municipalities was not capable to report on the financial statements in an acceptable level
- H_1 : government accounting system used in financial reporting Shiraz municipalities was capable to report on the financial statements in an acceptable level

The value of the test statistic was significant at 0.05 level. The chi square value was calculated using SPSS as 126.162 which is greater than the table $\chi^2(69.82)$ with $df = 36$ at 0.05 significance level. The H_1 hypothesis was rejected with 95% confidence level. In other words, government accounting and financial reporting system used in Shiraz municipalities are unable to report financial statement in an acceptable level.

The third hypothesis: Treasury system used in financial reporting Shiraz municipalities was capable to control, use and manage cash and reporting in an acceptable level.

- H_0 : treasury system used in financial reporting Shiraz municipalities was not capable to control, use and manage cash and reporting in an acceptable level
- H_1 : treasury system used in financial reporting Shiraz municipalities was capable to control, use and manage cash and reporting in an acceptable level

The value of the test statistic was significant at 0.05 level. The chi square value was calculated using SPSS as 63.713 which is greater than the table $\chi^2(31.4)$ with $df = 36$ at 0.05 significance level. The H_1 hypothesis was rejected with 95% confidence level. In other words, the test results indicated that treasury system used in financial reporting in Shiraz municipalities was not capable to control, use and manage cash in an acceptable level.

The main hypothesis: the financial reporting system in Shiraz municipalities had the capabilities expected from a desirable financial reporting system.

- H_0 : the financial reporting system in Shiraz municipalities had not the capabilities expected from a desirable financial reporting system
- H_1 : the financial reporting system in Shiraz municipalities had the capabilities expected from a desirable financial reporting system

RESULTS AND DISCUSSION

The status of the three effective factors in financial reporting system in Shiraz municipalities in terms of

Table 1: Performance evaluation of financial accounting and reporting system

Hypothesis	Variables	Results
The main hypothesis	The financial reporting system in Shiraz municipality had not the capabilities expected from a desirable financial reporting system	Rejected
The first hypothesis	Funding system used in financial reporting in Shiraz municipalities was capable to control the cost of programs, plans and programs approved annually	Rejected
The second sub hypothesis	Government accounting and financial reporting system used in Shiraz municipalities was capable to report on the financial statements in an acceptable level	Rejected
The third sub-hypothesis	Treasury system used in financial reporting in Shiraz municipalities was capable to control, use and manage cash and reporting in an acceptable level	Rejected

accountability was tested through three sub-hypotheses. The results indicated a significant difference between the key acceptable factors (funding system, government accounting system and treasury system) expected from a desirable financial reporting system based on accountability and the current status of those factors in reporting system used in Shiraz municipalities. There was also a significant difference between the three key factors and favorable status of the factors. The H_1 hypothesis was rejected. Then, financial reporting system in Shiraz municipalities lack the capabilities expected from a desirable financial reporting system in terms of accountability. Financial reporting system can be used as a major tool in the city of Shiraz in terms of accountability when financing system assist the municipalities in controlling and accomplishing the approved plans and programs and government accounting systems provide appropriate tools to Shiraz municipalities for financial reporting and treasury system provide appropriate tools to Shiraz municipalities for facilitating local control tools. The results showed that financial reporting system in Shiraz municipalities had not the above-mentioned in terms of accountability shown in Table 1.

CONCLUSION

The results showed that Shiraz financial reporting system in Shiraz municipality had not the desirable functionality expected from a financial reporting system.

RECOMMENDATIONS

Following recommendations are offered according to the results of first sub-hypothesis. The system of funding does not exist in most municipalities. It is recommended that all Shiraz municipalities create their own funding system in the municipalities to establish an adequate system of municipal finance for establishing a relationship between revenues and costs proportional to the criteria and guidelines of municipal budget act so that, municipalities in the province would be able to have enough financial information for financial reporting. Following recommendations are offered according to second sub-hypothesis results.

Government accounting principles in financial system of Shiraz municipality is cash. In other words, the main condition for recording and collecting the revenues and costs is payment which lacks receivable and payable accounts which impairs the cycle of financial reporting in the municipalities. It is recommended that Shiraz municipalities use accrual accounting method rather than cash accounting in order to reflect financial events (receivable accounts, payable accounts, receivable documents and payable documents and fixed assets) so that, the municipalities may have adequate sources of information using accrual accounting for the financial reporting system and pretend to be available for accountability. Following recommendations are offered according to the third sub-hypothesis results.

Management of Shiraz municipalities should create a coherent financial system to establish appropriate internal control and be accountable through separation of income department from finance department and allocate responsibilities for regular financial recording in terms of favorable payment by accumulation of local and toll revenues received from the state aid to municipalities in revenue unit and accumulation of all payments, including payments to the revolving fund accounting unit. As a result, appropriate financial resources are developed to meet the needs of financial reporting system of Shiraz municipalities.

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