

Evaluation of Budgetary Planning of Iraqi Private Banks: A Case Study of Iraq Islamic and Commercial Banks

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Abstract—The success of the budget system depends mainly on the speedy setup of the actual figures for all financial related operations of the bank or economic unit at the end of the period and comparing them with the actual budgeted figures for the specific period, trying to identify the reasons for the actual numbers deviation from the planned by monitoring, and the methods that follow to prevent these deviations to take place in the future. The research aims to study the results of the budgetary planning and comparing them with the actual results, and determining their deviations if they are positive (favourable) or negative (unfavourable) for a sample of Iraqi private banks that are Consisting of (Islamic banks and commercial banks). Further, the study employed SPSS statistical program is used to analyse the results of the deviation, and the study sample are consisted of (Iraqi Islamic Bank, National Islamic Bank, Baghdad Bank, and the Middle East Bank) for the fiscal years 2016 and 2017, as these banks were chosen because of their publication of discretionary budgets in the financial statements. Among the most important findings of the researchers was (Islamic banks are better than commercial banks as the rate of application of planning budgets because most of their statistical results are positive (favourable).

Index Terms—Budgetary planning, budgetary control, Iraqi private banks.

I. INTRODUCTION

A budget is the quantitative expression of a proposed plan of action by management for a specified period to help coordinating what needs to be done to implement that plan. A budget generally includes both financial and nonfinancial aspects of the plan, and it serves as a blueprint for the company to follow in an upcoming period. A financial budget quantifies management's expectations regarding income, cash flows, and financial position. Just as financial statements are prepared for past periods, financial statements can be prepared for future periods—for example, a budgeted income statement, a budgeted statement of cash flows, and a budgeted balance sheet. Underlying these financial budgets and nonfinancial budgets for instance, units manufactured or sold, number of employees, and number of new products being introduced to the marketplace (Horngren, et al., 2012). The banking system in Iraq has developed considerably. The banking sector is considered one of the main pillars of any economy as the bank represents a model of the deposit for any financial institution (Al-Delawi, 2019).

The concept of “budget” is being made use of by every individual who undertake a work involving expenditure. While some express it orally, others put it in a written form. For example, a person who wants to go on a holiday tour will prepare a budget involving expenditure on fares, boarding, lodging, purchasing, etc. After returning, he will compare the actual expenses incurred with budgeted expenses to know whether he spent more or less as compared to budgets and afterwards, what factors leads for changes in budgeted figure compared with actual figures. This enables him to changes his budget plan for the next year. In the same way, every business undertakes to budget its expenditure for utilizing the available funds more judiciously. Similarly, to ensure proper utilization of resources such as scarcity of raw materials and other factors of production, the management of every business will prepare a budget relating to material, labour, production and various expenditure. This enables in proper planning for all activities, their co-ordination and finally controlling such activities. In this process it enables the management to know the performance of business for a given period of time (Rao, 2006).

II. LITERATURE REVIEW

One of the main administration tasks in any institutions is planning. In addition, planning of the organisation actions confirms which the organisation arranges in the right approach. Member who relates to organisation will have certain goals which they will aim to obtain. Managers cannot overcome and control their institutions without a proper plan will absence direction as well as they lose their own goals and responsibility. Neither will they rise how their activities connect to those of other managers inside the institutions. The official plan will assist assure an arranged program, and the planning process itself will require managements to always think ahead, plan and check their activities in advance (Walker, 2005). The planning is the process of determining organization-wide goals. The superior organization makes both long- and short-term plans that determine the goals of the organization and the suggested approach of accomplishing them.

Additionally, focuses on the context of **A budget** is an official written statement of managers' plans for a determined future period, Explained in financial terms. It explains the

fundamental approach of communicating agreed-upon goals throughout the organization. Once adopted, a budget will be the main rules for Performance evaluation (Kieso et al., 2015). Also, Cost management accountant institution defined the term of Budget as a predesigned financial and quantitative statement to be adopted before the required period to achieve a particular target, the budget might contain the income, expenditures and capital (Polisetty and Mounica, 2018).

Besides, a **budget** is the quantitative expression of the proposed working plan by the manager, for a particular period. In general, the budget contains the financial aspect of the plan such as income statement, balance sheet and cash flow. And non-financial aspect such industrialization, selling of units, the number of employees and the brand-new product to be presented to the markets (Horngren and others, 2012). The budget is a plan established by the managements to express the financial situation of the entity and how to use the available resources to achieve of goals of the management, which is a priority of the organization (Jayamaha, 2012). Further, the study explained clearly budgeted process in the following lines.

A. Description of Budgetary process for Implementation

A budgetary process refers to the process by which commercial banks create and approve the following budget: (Myint, 2019).

- i) The Budget Committee or the Finance Department shall prepare worksheets to assist the Head of the Department in preparing the budget.
- ii) The Budget Committee or the Finance Department shall prepare a meeting of managers to describe and make plans for the forecasted level of activity for the following year.
- iii) Managers may work with the Budget Committee or by their own to prepare an estimated budget for next year's.
- iv) The managers submit the prepared budgets to their executive officers for reviewing and approval.
- v) It may be necessary to finalize the budget requirements in a written form, in most cases, the manager summarizes budgetary requirements with the senior executives.
- vi) Due to this phase of the process, adjustments of the budget submission may be required.

B. Advantages of Budgeting

Banks realize many advantages from budgeting, as follows: (Garrison, et al, 2012)

- i) Budgets express the manager's plans within the organization.
- ii) There is an essential to design a budget, many managements would spend all of their time dealing with day-to-day emergencies.
- iii) The budgeting process assigns resources to certain areas of the enterprise where they can be most efficiently used.
- iv) The budgeting process can exhibit the possibility of bottlenecks before they prevailing.
- v) Budgets coordinate the activities of the entire organization by integrating the plans of its different

parts. Budgeting helps to assure that each individual in the organization is following the same and the proper track.

- vi) Budgets define goals and objectives that can serve as benchmarks for subsequent performance evaluating.

C. Characteristics of the Budget

The important characteristics of a budget are: (Copal, 2009)

- i) A detailed Strategic Plan showing what the business wants to accomplish.
- ii) Enhancement of organizational performance.
- iii) Expressed in terms of quantity, physical and monetary terms, or both.
- iv) For the achievement of specific goal.
- v) A proper accounting system is an important to establish budgeting process.
- vi) The authority and duty correct fixation scheme is necessary to be implement in the place.

D. Budgetary control

Budgetary control defined as "establishing budgets linked to the functions of executive management with the tasks of the system and the continuous differentiation between actual results and budgeted, either to ensure the goals of that system through persons work or to provide a main for its revision. (Siyanbola, 2013).

Budgetary control is a process in which performance of the organization and its responsibility centers (RCs) are evaluated and analyzed for the reporting (actual) period by their budgets as standards for that time (Lambovska et al., 2019). The control is a function to ensure the Accomplishment of financial operations that includes the methods and procedures that drive the employees to fulfill the organization targets in order to compare the actual results with budgetary planning two that are mine that deviation (Teshome, 2019).

E. Types of Budgetary Control

- i) A static budget shows the estimation results of a responsibility center for just one activity level. Once the budget has been specified, it is not changed, even if the activity changes. (Warren, 2014).
- ii) A flexible budget: In contrast to a static budget, which is based on one level of activity, a flexible budget projects budget data for various levels of activity. In essence, the flexible budget is a series of static budgets at different levels of activity. The flexible budget recognizes that the budgetary process is more useful if it is adaptable to changed operating conditions (kieso, et al, 2015). Flexible budgets have two principal benefits (a) they allow the firm to project outcomes, including key variables such as profit, at different levels of activity. This is useful if the firm is unsure about some key issues, such as the potential sales for the year. (b)They can be applied for feedback control after the actual costs for a specific period have been determined. There can be valuable control information if the actual

costs for a period are compared with the flexed budget for the period rather than with the fixed budget (Coombs and others, 2005).

III. RESEARCH METHODOLOGY

A. Research Problem

Budgetary Planning is an estimate of financial operations for the upcoming years and at the same time they express the financial objectives that banks want to reach, and the achievement of those objectives is through continuous effective control and which maybe effect on the financial efficiency of banks in planning, and the problem of study can be expressed through this question : What is the efficiency of the sample banks in the budgetary planning and achieving the bank's financial objectives ?

B. Research Importance

i). Scientific Importance: The importance of this study lies in its attempt to identify the proper use of planning budgets in Iraqi banks and compare them with actual results and determine its results through deviations that show the efficiency of bank departments in planning and control.

ii). Applied importance: This study attempts to make the bank concentrate on the importance of commitment in budgetary planning and to use it as an effective method to control and evaluating the performance that affect positively the financial efficiency.

C. Research Objectives

Through this research, our goals to achieve the following objectives:

i). To understand the performance efficiency of the Iraqi banks in setting the budgetary planning through comparing them with the actual results and determining the efficiency of control the budget.

ii). to review the theoretical context of the budgetary planning subject, its advantages and characteristics to attribute to understand the baking performance.

3.4 Research Hypothesis

The Hypotheses that would be adopted in this research are:

1. The Islamic banks in Iraq implement the budgetary planning effectively
2. The Islamic banks in Iraq don't implement the budgetary planning effectively
3. The commercial banks in Iraq implement the budgetary planning effectively
4. The commercial banks in Iraq don't implement the budgetary planning effectively

The sample used in this research is four private Iraqi banks consist of 2 Islamic banks (Iraqi Islamic Bank and National Islamic Bank) and 2 commercial banks (Baghdad Bank and the Middle East Bank) for the years 2016-2017.

This research used the analytical methodology to extract its results, the analytical methodology depends on the detecting

and analysing the basic elements of the topics under discussion, and then studying in an in-depth manner, In this context spotting the light on the rules by which generalizations can be made that help in solving social problems.

The deviation (which represents the difference between the budgetary planning and the actual results achieved) was adopted as the results of research and statistical analysis conducted via the SPSS program.

IV. RESULTS ANALYSIS AND DISCUSSIONS

The results of the applied analysis of the research, represented by the difference between the actual and planned results of the banks of the study sample (Iraqi Islamic Bank, National Islamic Bank, Baghdad Bank, and the Middle East Bank), is as follows:

TABLE 1
BUDGET EXECUTION AT IRAQI ISLAMIC BANK 2016 (AMOUNT IN IQD)

Account Detail	Budget In thousands	Actual In thousands	Difference (Favourable / unfavourable)	Ratios
Credits	110,262,000	150,798,313	40,536,313	37 %
Investments	41,407,878	10,164,565	-31,243,313	75 %
Cash	264,392,093	279,486,064	6,093,971	2 %
Revenues	23,875,530	20,335,047	-3,540,483	14 %
Expenses	11,655,845	11,549,621	106,224	1 %

*source: researchers calculation

* IQD = Iraq Dinar

* Favourable is positive amounts, unfavourable is negative amount.

From the table above, we note that the largest positive (favourable) result was IQD 40,536,313 and which is represented 37% in the credit account, while the largest negative (unfavourable) result was IQD -31,243,313 and which is represented 75% in the investment account.

TABLE 2
BUDGET EXECUTION AT IRAQI ISLAMIC BANK 2017 (AMOUNT IN IQD)

Account Detail	Budget In thousands	Actual In thousands	Difference (Favourable / unfavourable)	Ratios
Credits	138,262,000	156,409,405	18,147,405	13 %
Investments	10,351,970	9,988,289	-363,681	4 %
Deposits	143,038,841	115,751,406	-27,287,435	19 %
Revenues	24,565,658	22,997,715	-1,567,943	6 %
Expenses	11,747,774	14,115,433	2,367,569-	20 %

*source: researchers calculation

From the table above, we note that the largest positive (favourable) result was IQD 18,147,405 and which is represented by 13% in the credit account, while the largest negative (unfavourable) result was IQD -27,287,435 and which is represented 19% in the deposit account.

TABLE 3
BUDGET EXECUTION AT ISLAMIC NATIONAL BANK 2016 (AMOUNT IN IQD)

Account Detail	Budget In millions	Actual In millions	Difference (Favourable / unfavourable)	Ratios
Cash	240,740	169,242	-71,498	30%
Investment	119	119	0	0%
Cash credits	455,000	454,972	-28	6 %
Total liabilities	439,110	385,908	53,202	12%
Total revenue	54,376	41,745	-12,631	23%
Total expenses	18,925	14,936	3,989	21%

*source: researchers calculation

From the table above, we note that the largest positive (favourable) result was IQD 53,202 and which is represented 12% in the total liabilities account, while the largest negative (unfavourable) result was IQD -71,498 and which is represented 30% in cash account.

TABLE 4

BUDGET EXECUTION AT ISLAMIC NATIONAL BANK 2016 (AMOUNT IN IQD)

Account Detail	Budget In millions	Actual In millions	Difference (Favourable / unfavourable)	Ratios
Cash	289,000	195,698	-93,302	32%
Investment	119	106	-13	11%
Cash credits	487,000	554,403	67,403	14%
Total liabilities	509,419	516,796	-7377	14%
Total revenue	59,088	40,837	-18,251	31%
Total expenses	21,066	10,527	10,539	50%

*source: researchers calculation

From the table above, we note that the largest positive (favourable) result was IQD 10,539 and which is represented 50% in expenses account, while the largest negative (unfavourable) result was IQD -93,302 and which is represented 32% in cash account.

TABLE 5

BUDGET EXECUTION AT BAGHDAD BANK 2016 (AMOUNT IN IQD)

Account Detail	Budget In thousands	Actual In thousands	Difference (Favourable / unfavourable)	Ratios
Cash	959,062,547	541,806,853	-417,255,694	%43
Credits	268,273,667	195,066,079	-73,207,588	%27
Deposits	1,226,837,914	827,926,225	-398,911,689	%33
Total expenses	32,286,155	35,699,550	-3,413,395	%11
Total profit	45,363,233	20,245,029	-25,118,204	%55

*source: researchers calculation

From the table above, we note that there is no positive (favorable) result, but most of it was negative in terms of planning, while the largest negative (unfavorable) result was IQD -417,255,694 and which is represented 43% in cash account.

TABLE 6

BUDGET EXECUTION AT BAGHDAD BANK 2017 (AMOUNT IN IQD)

Account Detail	Budget In thousands	Actual In thousands	Difference (Favourable / unfavourable)	Ratios
Cash	621,277,329	500,901,780	-120,375,549	%81
Credits	224,039,536	145,602,262	-78,437,275	%65
Deposits	777,405,552	714,522,882	-62,882,670	%8
Total expenses	30,870,783	31,039,906	-169,123	%1
Total profit	27,432,021	6,122,480	-21,309,541	%78

*source: researchers calculation

From the table above, we note that there is no positive (favourable) result, but most of it was negative in terms of planning, while the largest negative (unfavourable) result was IQD -120,375,549 and which is represented 81% in cash account.

TABLE 7

BUDGET EXECUTION AT MIDDLE EAST BANK 2016 (AMOUNT IN IQD)

Account Detail	Budget In millions	Actual In millions	Difference (Favourable / unfavourable)	Ratios
Investment	55,000	42,802	-12,198	22%
Cash credits	196,792	126,346	-70,446	36%
Total liabilities	488,865	396,220	92,645	19%
Total revenue	49,855	42,711	-7,144	14%
Total expenses	36,550	27,812	8,738	24%

*source: researchers calculation

From the table above, we note that the largest positive (favourable) result was IQD 92,645 and which is represented 19% in total liabilities account, while the largest negative (unfavourable) result was IQD -70,446 and which is represented 36% in cash credit account.

TABLE 8

BUDGET EXECUTION AT MIDDLE EAST BANK 2017 (AMOUNT IN IQD)

Account Detail	Budget In millions	Actual In millions	Difference (Favourable / unfavourable)	Ratios
Investment	55,000	36,464	-18,536	34%
Cash credits	157,150	100,252	-56,898	36%
Total liabilities	505,915	474,063	31,852	6%
Total revenue	45,166	35,790	-9,376	21%
Total expenses	34,990	36,372	-1,382	4%

*source: researchers calculation

From the table above, we note that the largest positive (favourable) result was IQD 31,852 and which is represented 6% in total liabilities account, while the largest negative (unfavourable) result was IQD -56,898 and which is represented 36% in cash credit.

V. DESCRIPTIVE STATISTICAL ANALYSIS

The researchers used the statistical scales (mean, medium, range, minimum and maximum) to make the statistical analysis, based on the SPSS statistical analysis program, and the results were as follows:

TABLE 9
DESCRIPTIVE STATISTICAL ANALYSIS OF ISLAMIC BANKS
(AMOUNT IN IQD)

The scales	Iraqi Islamic bank 2016	Iraqi Islamic bank 2017	Islamic national bank 2016	Islamic national bank 2017
Maximum	40,536,313	18,147,405	53,202	67,403
Minimum	-31,243,313	-27,287,435	-71,498	-93,302
Mean	2,390,542.40	-1,740,817	-4,494.33	-6,833.50
Medium	106,224	-363,681	-14	-3,695
Range	71,779,626	45,434,840	124,700	160,705

*source: researchers calculation

The results of the statistical analysis in Islamic banks showed that the study sample was the largest budget implementing result and the lowest result was in the Iraqi Islamic Bank in the year 2016 and with a value of IQD 40,536,313 in credit account and IQD -31,243,313 in investment account respectively.

While the largest score for Mean, Medium and Range was in the Iraqi Islamic Bank as well in 2016 with a value of IQD 2,390,542.40, IQD 106,224 and IQD 71,779,626 respectively.

TABLE 10
DESCRIPTIVE STATISTICAL ANALYSIS OF COMMERCIAL BANKS
(AMOUNT IN IQD)

The scale	Middle east bank 2016	Middle east bank 2017	Baghdad bank 2016	Baghdad bank 2017
Maximum	92,645	31,852	-3,413,395	-169,123
Minimum	-70,446	-56,898	-417,255,694	-120,375,549
Mean	2,319	-10,868	-183,581,314	-56,634,831.60
Medium	-7,144	-9,376	-73,207,588	-62,882,670
Range	163,091	88,750	420,669,089	120,206,426

*source: researchers calculation

The results of the statistical analysis in commercial banks showed that the largest result of budget implementation was in the Bank of Middle East in 2016 with a value of IQD 92,645 in total liabilities account and the lowest result was in the Baghdad bank with a value of IQD -417,255,694 in cash account.

While the largest result was Mean and Medium in the Middle East Bank in 2016 with a value of IQD 2,319 and IQD -7,144- respectively, and the lowest result was Mean and Median in the Bank of Baghdad in 2016 with a value of IQD -183,581,314 and -73,207,588, and the largest result was Range was in the Bank of Baghdad in a year 2016, with a value of IQD 420,669,089, and the lowest result of Range was at the Middle East Bank in 2017, with a value of IQD 88,750.

Tables no (9) and (10) of the statistical analysis, the results of Islamic banks shows that they are the best in the application of budgetary planning because their results are positive (favourable) in the maximum scale in the Iraqi Islamic Bank at the year 2016 and with a value of IQD 40,536,313 in, and this indicates the validity of the first hypothesis: The Islamic banks in Iraq implement the budgetary planning effectively

CONCLUSIONS & RECOMMENDATION

Conclusions

1- Islamic banks are better than commercial banks as the rate of application of planning budgets because most of their statistical results are positive (favourable).

2- The maximum result of applying the budgetary planning between banks (the study sample), which was in the Islamic Bank of Iraq, in the amount of IQD 40,536,313 (ratio 37%) in 2016.

3-The minimum result of applying the budgetary planning between the banks (the study sample), was in the Bank of Baghdad in the amount of IQD -417,255,694 (ratio 43%) in 2016.

4- The maximum result of implementing the budgetary planning between commercial banks was in the Bank of the Middle East, in the amount of IQD 92,645(ratio 19%) in 2016.

5- The lowest result of applying the budgetary planning between Islamic banks was in the Iraqi Islamic Bank at IQD -31,243,313 at a rate of 75% in 2016.

6- The largest result of mean among the banks (the study sample) was in the Iraqi Islamic Bank by IQD 2,390,542.40 in 2016. While the lowest result was mean at the Bank of Baghdad, at IQD -183,581,314 in 2016.

7- The largest result of median among the banks (the study sample) was in the Iraqi Islamic Bank by IQD 106,224 in 2016. While the lowest result was median at the Bank of Baghdad, at IQD -73,207,588 in 2016.

8- The largest result of Range among the banks (the study sample) was in Baghdad Bank by IQD 420,669,089 in 2016. While the lowest result was Range at the Bank of Middle East, at IQD 88,750 in 2017.

Recommendations

1- Continuous monitoring in terms of the auditing of the accounting records and journals, frequently and periodically, in the Iraqi private banks ,to implement the budget objectives.

2- Diagnosing budget deviations through continuous monitoring and developing appropriate solutions.

3-The necessity of preparing well and clear budgetary planning to help implement the plan in a way Intact

4- The necessity of setting clear policies and procedures by the administration for the proper application of the budget system

The schematic to ensure its implementation

5- The need for Iraqi banks to prepare budgetary planning and announce them in the annual reports, because most Iraqi banks do not announce the budgetary planning in the annual reports .

6- The necessity of involving all the administrative levels at the bank in the meetings and discussions held by the bank's senior management on preparing budgetary planning and adopting the initiatives and suggestions submitted by the participants.

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