

# BUDGETARY CONTROL SYSTEM OF MYANMAR PRIVATE COMMERCIAL BANKS: CASE STUDY OF MYANMAR ORIENTAL BANK LIMITED & TUN FOUNDATION BANK

Yu Yu Myint

Lincoln University, Malaysia & RSIM, Myanmar

Corresponding Author's Email: [yuyumyint.lcci@gmail.com](mailto:yuyumyint.lcci@gmail.com)

## ABSTRACT

Developing a budget is a critical step in planning and controlling of any economic activity. Private commercial banks should create budgets on at least an annual basis, so that they can carefully outline the expected needs of each department in the bank. Using an annual budget process also limits the amount of spending and managing capital resources. This research will be supported towards providing answers to the following questions: How are budgets prepared and implemented in Myanmar commercial banks? What are the forms of budgetary control procedures observed in Myanmar commercial banks? This study focuses on how to design the budgetary control process, which committee and department are mainly responsible for budgetary control process and how to establish control in selected commercial banks and tries to find out the requirement of current budgetary control process and design by comparing with theoretical budgetary control system. This research also supports to get more information about budgetary control system in Myanmar commercial banks and support to consider how to improve budgetary control system in Myanmar commercial banks. This study does not much emphasis on the employee satisfaction and effectiveness of budgetary control system.

The study adopts qualitative method which is done on both the primary data and secondary data. Primary data are collected from interviews with budgeting department and management level interview approach to achieve the research objectives. Secondary data conveys various and relevant textbooks, reference books and internet websites and reports of selected commercial banks.

**Keywords:** *Budgetary Control System, Myanmar, Private Commercial Banks, Design, Responsibility Department*

## INTRODUCTION

Myanmar's banking sector grows in terms of size and complexity. In addition, Myanmar's local private commercial banks will face regional and international competition in the coming years with foreign banks bringing in their skilled staff and potentially attracting the most skilled of the domestic workforce with higher salaries. The changing environment puts great demand on local private commercial banks needed more structured, comprehensive, and innovative approaches and international banking practices which can enable them to better deal with the changing environment and foreign competitors in the future.

A budget system serves the needs of management in respect of achieving target and expenditure control decision it is bridging to make and to provide a basis for the management functions of planning and control. Developing a budget is an essential step in planning any economic activity. Therefore, all types of businesses and governmental units at every level must make financial plans to carry out routine operations, to plan

for major expenditures and to help in making financial decisions. The study of budgetary control is very significant and relevant to commercial banks, because without budgetary control system they will sooner or later face serious financial problems. This can lead to bankruptcy and the eventual closure of the banks. Finally, this can out-turn on whole nation's economic growth.

### Scope and Method of Study

This study focuses on how to design the budgetary control process, which committee and department are mainly responsible for budgetary control process and how to make control in two selected commercial banks: Tun Foundation Bank and Myanmar Oriental Bank and tries to find out the requirement of current budgetary control process and design by comparing with theoretical budgetary control system. This study does not much emphasis on the employee satisfaction and effectiveness of budgetary control system.

The study adopts descriptive method which is done on both the primary data and secondary data. Primary data

are collected from interviews with budgeting department and management level interview approach to achieve the research objectives. Secondary data conveys various and relevant textbooks, reference books and internet websites and reports of Tun Foundation and Myanmar Oriental Bank. The data collected from selected two commercial banks –MOB & Tun Foundation bank. The findings of the study will be arrived at after considering the various factors to each of the selected commercial banks.

## LITERATURE REVIEW

The budget process is an infinite loop, like the larger financial planning process. It involves the following steps: Firstly, the bank defines goals and gathering data of last two or three years. Forming expectations and reconciling goals and data is the second stage. After collecting the data, creating the budget is another stage. Monitoring actual outcomes and analyzing variances are essential parts of budgeting process. To control the part of budgeting process, adjusting budget or goals as required. Final stage is to redefine goals (Kimani, 2014).

Budgetary control is the process of developing an expenditure plan and periodically linking actual expenditure against that budget to determine whether it or the expenditure behavioral patterns need to be adjusted accordingly. This process is necessary to control expenditure and fulfill different financial objectives. Organizations rely heavily on budgetary control to effectively manage their business activities, and this budget control process is also used by the public and private sectors as well as by private individuals, such as household leaders who want to ensure that they live within their means (Dunk, 1989).

Hirst (1987) explained that effective budgetary control solves the need for an organization to plan and consider how to deal with various possible future risks and business opportunities by establishing an efficient control system, a detector of variances between organizational goals and performance. Budgets are the core element of an efficient control process and therefore an essential part of an effective budgetary control concept (Shields & Young, 1993).

A budgetary process refers to the process by which commercial banks create and approve the following budget:

- The Budget Committee or the Finance Department shall prepare worksheets to assist the Head of the Department in preparing budget estimates for the Department.
- The Budget Committee or the Finance Department

shall call a meeting of managers and they shall describe and make plans for the forecasted level of activity for the following year.

- Managers may work with the Budget Committee or work on their own to prepare an estimate for next year's departments.
- The managers submit the completed budgets to their executive officers for review and approval.
- It may be necessary to end the budget request in writing. In most cases, the manager summarizes budgetary requirements with his senior executives. Due to this phase of the process, adjustments to the budget submission may be required.

Budgeting is the determination of the level of expenditure for each function of an organization. It is the estimation and allocation of the capital available used to achieve the intended objectives of a commercial bank (Magdalene, 1996).

## METHODOLOGY

### I. Analysis on Budgetary Control System in Selected Commercial Banks

#### (A) Myanmar Oriental Bank Limited (MOB bank)

##### (i) Budget Process

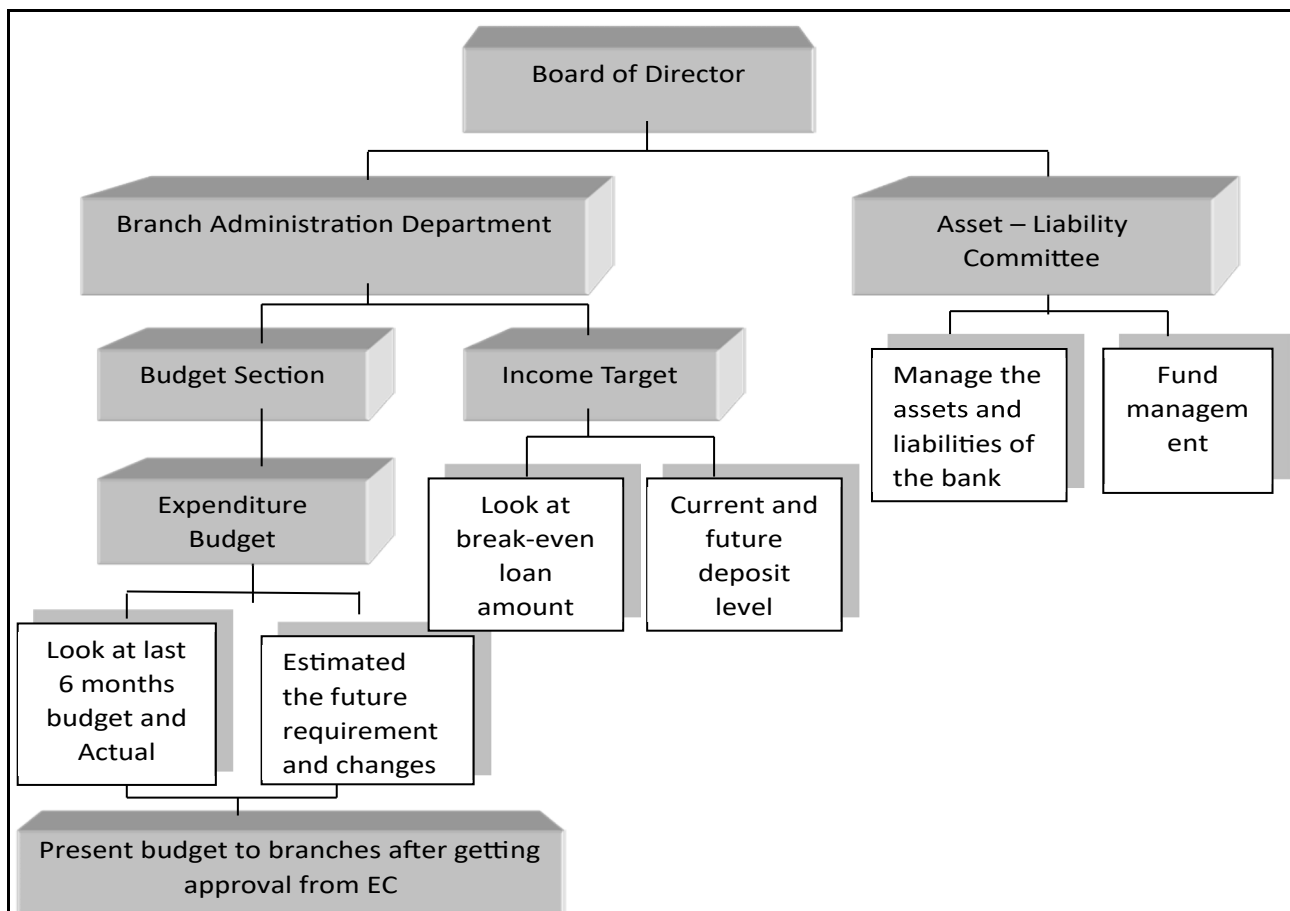
In MOB bank, budgets are prepared by two separated parts – expenditure budget and income budget. There is no master budget as a summary. Expenditure budget includes both revenue expenditure and capital expenditure. Revenue expenditure includes items such as rent of premises, staff salaries, electricity bills, stationery expenses and maintenance cost, and depreciation on plant and machinery etc. Capital expenditure consists of expenditure on items such as purchase of assets, major repair for improvement. Expenditure budget is prepared on six-monthly basis – April to September and October to March – to get more accurate estimate budget by shortening the budget period. Next six months budget is prepared based on the currently expired six months expenditure budget by making flexible adjustment requirement. Expenditure budget is prepared by Budget section which is also part of the Administration Department. The responsible persons for expenditure budget are management level person of Administration Department. The expenditure budget is prepared at Head office. They review the previous six-month budget and estimated the future requirement and changes. Based upon these factors, the expenditure budget is making the required plus or minus adjustment. And then the prepared budget is submitted to EC to get approval. After getting approval, the expenditure budget is laid down to the respective branches.

There is no income budget, but MOB uses income target. The concern center for income target preparation is Branch Administration Department. They have calculated the break-even point for each deposit which means the minimum requirement loan for every 100 MMK deposit. They are daily monitoring and they are reviewed on quarterly basis.

**Asset Liability Committee:** In MOB bank, instead of Budget Committee, there is an Asset Liability Committee. The members of this committee are from

various departments. This committee is not responsible for the whole budget. The main responsibility of the committee is the fund management. This committee always manage the assets and liabilities of the banks. If there is excess of asset, the committee is finding out where to make invest to make profit. The main aim of the committee is to balance the liquidity and profitability of the whole bank. Asset Liability Committee always compare and control over Deposit and Loans & Advances to balance the liquidity and profitability of the whole bank. This is budget process of MOB bank.

**Figure 1: Procedures for Developing a Budget at Myanmar Oriental Bank**



Source: Branch Administration Department of MOB bank

**(ii) Method and Length of Budget Period**

MOB bank does not use traditional incremental budgeting because it is an inefficient form of budgeting and it encourages slack and wasteful spending to creep into budget. Post inefficiencies are perpetuated because cost levels are rarely removed. The bank's budgeting involves preparing a budget for each cost center from their current level of expenditure by asking what would happen if current expenditure and current operations

were removed from the budget. Every item of expenditure must be justified to be included in the next six-month budget. MOB bank uses six-month period budget to update continuously. Expenditure budgets are an attempt to prepare targets and plans which are more realistic and certain by shortening the period between preparing budgets. Expenditure budget is prepared every six months. The second six months of budget would be planned in detail based upon the changes of first six months to avoid unnecessary waste. By using

six monthly period budget, MOB bank can get the following advantages:

- (1) They reduce uncertainty because they concentrate detailed on short-term.
- (2) They force managers to reassess the budget regularly and to produce budgets which are up to date.
- (3) Planning and control will be based on a recent plan so more realistic.
- (4) Realistic budgets are likely to have better motivational influence on managers.

**(iii) Monitoring and Controlling**

MOB bank is tightly controlled over expenditure to ensure profit. Even though there is expenditure budget, the branch managers can only use the expenditure by getting approval from the respective upper level management. This is because as a control to avoid the unnecessary wasteful spending. Monitoring and comparing the budget and actual expenditure all the time. As an income level control, the central accounting department is monitoring the loan to deposit ratio on daily basis and report directly to EC. MOB bank is

always using BEP asset liability ratio to achieve the target income level. Income target is also always adjusted upon the current changing situation on daily and monthly basis.

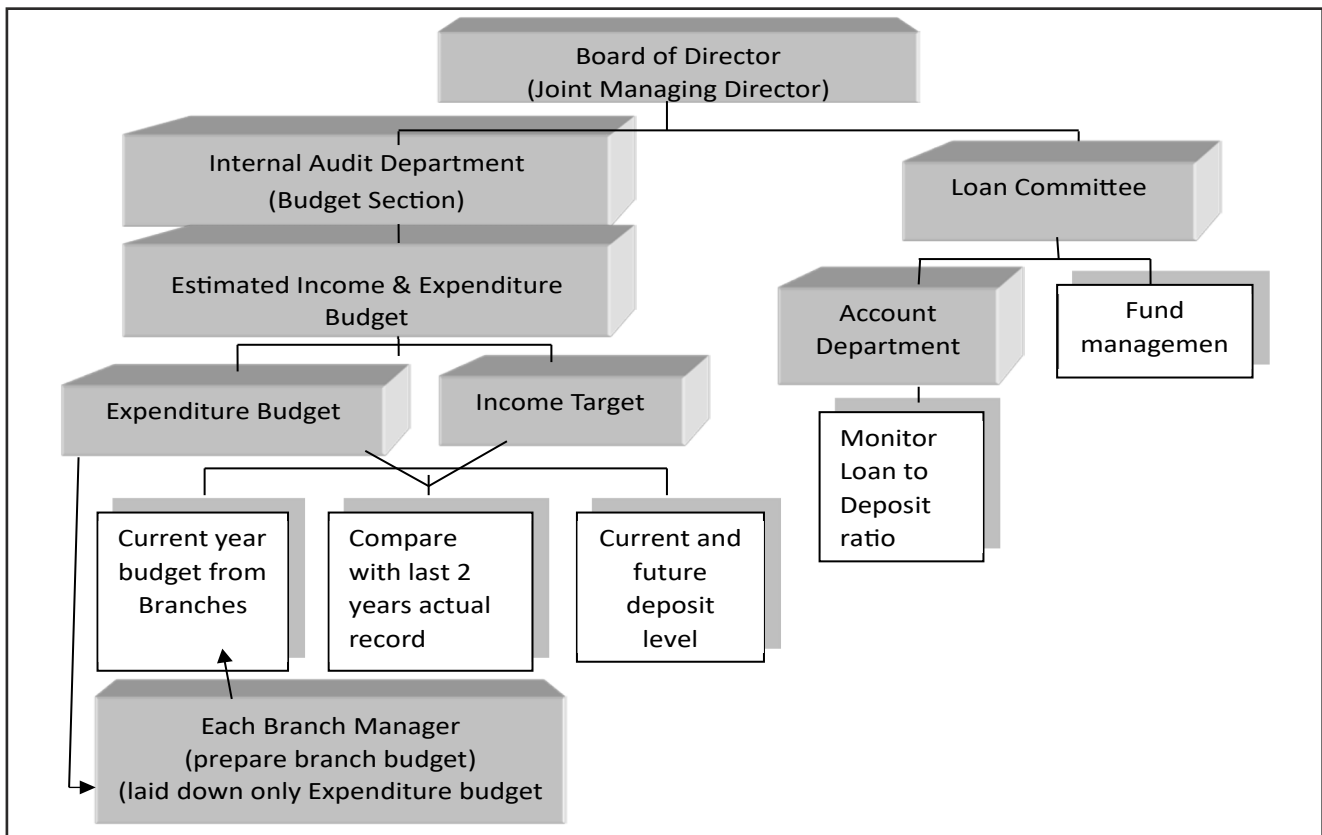
**II. Tun Foundation Bank**

**(A) Budget Process**

Tun Foundation Bank has no income budget. The bank also uses income target. Loan to deposit ratio is daily monitor and review by Account section and report to both manager of account section and manager of loan department.

**Loan Committee:** In Tun Foundation bank, instead of Budget Committee, there is Loan Committee. The members of this committee consist of joint managing director, two directors and one senior general manager. This committee is not responsible for the whole budget. The main responsibility of the committee is the fund management and loan management. This committee always manage the assets and liabilities of the banks. If there is excess of asset, the committee is finding out where to make investment to make profit. The main aim of the committee is to balance the liquidity and profitability of the whole bank.

**Figure 2: Procedures for Developing a Budget at Tun Foundation Bank**



Source: Branch Administration Department of TFB bank

**(B) Method and Length of Budget Period**

Tun Foundation bank does not use traditional incremental budgeting to remove the inefficient activity from budget. Tun Foundation bank reviews the past two-year actual expenditure data and current year budget submitted from branches. The bank does the plus or minus adjustment by considering the future condition. Internal Audit Department tries to find out budget slack and wasteful spending before giving approval.

Tun Foundation bank uses annual budget. The advantage of annual periodic budget is that there is less time spent on budget revisions as it is only prepared once for a full budget period and a new one is not introduced until the next budget period has begun. Tun Foundation Bank can use annual budgeting because there are no continuous changes and can foreseeable whenever changes occur. Tun Foundation Bank can adjust if there are major changes. The bank uses flexible for the budget.

**(C) Monitoring and Controlling**

Tun Foundation bank tightly controlled over expenditure to ensure profit. There is a budget control register in each branch. Each branch manager needs to prepare budget control register and monitor the budget by comparing the actual spending.

There is limitation on maximum amount for one year and one instance can spend for each heading of expenditure. If need to over the maximum spending limit, there may need to get approval from Joint Managing Director.

This is because as a control to avoid the unnecessary wasteful spending. Monitoring and comparing the budget and actual expenditure all the time. As an income level control, the central accounting section is monitoring the loan to deposit ratio on daily basis and report directly to Loan committee. Tun Foundation bank is always using estimated loan target percentage on deposit achieved, asset liability ratio to achieve the target income level. Income target is also always adjusted upon the current changing situation on daily and monthly basis. The Bank's loans and advances are spread out over various economic sector.

**RESULTS & DISCUSSION**

**Comparing between two selected banks**

This study sought to improve and understanding of budgetary control system in commercial bank. This study observes the budgetary control system currently used by

selected private commercial banks and then comparing theoretical requirement and current budgetary control system used in selected banks. The following table shows the comparison of the budgetary control system of two selected banks – MOB bank and Tun Foundation Bank.

**Table 1: Comparing and Analyzing Data between two selected banks**

	<b>MOB Bank</b>	<b>Tun Foundation Bank</b>
Budget Manual	Nil	Nil
Budget Committee	Nil Asset Liability Committee	Nil Loan Committee
Member of Committee	Managers from various departments	Joint managing director, two directors and one senior general manager
Principal budget factor	Nil	Nil
Target Industry to make loan	Nil	Nil
Loan Target by Industrial Sector	Nil	Nil
Budget Style	Top down style	Bottom up style
Budget Method	Zero based budgeting (making adjustment)	Zero based budgeting (making adjustment)
Length of Budget Period	Six-monthly Budget	Annual Budget
Functional Budget	Present	Present
Master Budget	Nil	Nil
-Income Budget	Nil	Little but not effective
-SOFP Budget	Nil	Nil
-Cash Flow Budget	Nil	Nil
Flexible Budget	Present	Present
Responsibility Center for Coordination		
• Expenditure Budget	Budgeting Section (Admin)	Internal Audit Dept: Loan Committee
• Income target	Asset Liability Committee	
Communication	Present	Present
Monitoring	Present	Present
• Expenditure budget	• Budget section	• Branch Managers
• Loan target	• Asset-Liability Committee	• Loan Committee
• Fund management	• Asset-Liability Committee	• Loan Committee
Control	Present	Present
• Expenditure budget	Get permission for spending	Get permission for over spending
• Loan target	Deposit to loan ratio	Deposit to loan ratio
• Fund management	Asset Liability ratio	Asset Liability ratio
Performance	Getting growth	Getting growth

**Findings**

This study focuses on how to design the budgetary control process, which committee and department are mainly responsible for budgetary control process and how to make control in Tun Foundation Bank and



Myanmar Oriental Bank and tries to find out the requirement of current budgetary control process and design by comparing with theoretical budgetary control system. The study adopts descriptive method which is done both the primary data and secondary data. Primary data are collected from in-depth interviews with budgeting department and management level interview approach to achieve the research objectives and to answer research questions. Secondary data conveys various and relevant textbooks, reference books and internet websites and reports of Tun Foundation and Myanmar Oriental Bank.

Both selected banks have sound budgetary control system in own style. Even though they have no master budget, both banks divide into two parts: expenditure and income. Both make carefully control over expenditure by using tight expenditure budgetary control system. In MOB bank, there makes rule to report whenever use the expenditure although there is expenditure budget. For Tun Foundation Bank, there is limitation amount to spend per annum and one instance. Whenever over this, there need to get permission from Joint Managing Director. There is little weak point in income budget system. They mainly use income target but not strictly control over it. Both banks are making loan and getting deposit from various sector to reduce the risk level. There is no target market to make loan.

The study noticed that there is no regular budget training to be more understood about preparing and controlling the budget system.

## **CONCLUSION**

In Myanmar, there are very fewer research about management accounting techniques especially budgetary control system. To understand the whole picture of budgetary control system in commercial bank, there should be made many researches on other commercial banks in Myanmar. Research on budget participation system is also required and interested part for future research.

## **RECOMMENDATION**

The budgetary control system is an integral part of both planning and control. Budgeting concerns plans, the implementation of plans and monitoring activity and then control to achieve organization's objective.

Budgetary control system should start from organization objective and then it becomes a management tool to ensure achievement of organization's objective. This study observes there is no linkage between organization objective and budgetary control system in the two

selected banks. By doing linkage, the budget gives management an idea of how well the bank is meeting their income goals, whether expenses are in line with predicted levels, and how well controls are working. Properly used, budgeting can and should increase profits, reducing unnecessary spending, and clearly define how immediate steps can be taken to expend markets.

It can be clearly seen that both two selected banks have good expenditure budget and successfully control over spending but there is a vulnerable in income begets and master budget as a summary. The following steps are to be established to prepare more quality budget:

- a) Existence of a budget manual: The manual shall contain the standing instructions governing the responsibilities of persons, procedures, forms and records relating to the preparation and use of the budgets.
- b) Constitution of the budget committee: The committee consists of the chief executive officer and representatives of functional area. The committee is to formulate the program for the preparation of the budget.
- c) Identifying principal budget factor: For commercial banks, as an example, principle budget factor may be loan target or deposit available within the frame of loan to liquidity ratio.
- d) Appointment of a budget officer: Normally one person who is charged with the responsibility of issuing budget instructions to various departments, receiving and checking the budget estimates; providing historical information to departmental managers to help them in their forecasting; ensuring that departmental managers prepare their budgets in time, preparing the budget summaries; submitting budgets to committee and furnishing explanation on particular points; discussing difficulties with managers and coordinating all budget works.
- e) Establishing the budget period: Budget could be established into control period.
- f) Preparing of the master budget: This is the consolidation of various functional budgets and budget from branch level. Master budget can be summarized into Budgeted Statement of Comprehensive Income and Budget Statement of Financial Position.

The major income for a bank is coming from making loan. To be effective budgetary control system, there should be target industry to make loan depending upon

future development aspects. There should be priority ranking for lending industry by estimating trend of each industry in coming budgeting period e.g. Tourism industry is popular in coming budget year in Myanmar and then giving priority to giving loan and making marketing to that industry. There should also estimate lending percentage on each industry to reduce risk level.

The study is noticed that there should be regular budget training to be more understood about preparing and controlling the budget system. The correct use of control information depends not only on the content of the information itself, but also on the behavior of the recipients because control in the business is exercised by people. Their attitude to control information will color their views and several behavioral problems can arise.

For the budgetary process to be successful, it requires top management support, corporative and motivated middle managers and staffs and well-organized reporting system.

## REFERENCES

- Dunk, A.S. (1989). Budget Emphasis, Budgetary Participation and Managerial Performance. A Note. *Accounting, Organization and Society*, 14(4), pp 321-324.
- Hirst, M.K. (1987). The Effects of Setting Budget Goals and Task Uncertainty on Performance: A Theoretical Analysis. *The Accounting Review*, 62(4), pp 774-784.
- Kimani, R.N. (2014). The Effect of Budgetary Control on Effectiveness of Non-Governmental Organizations in Kenya. University of Nairobi. Retrieved From:<http://chss.uonbi.ac.ke/sites/default/files/chss/28th%20October%20Nyambura%20Becky.pdf>
- Magdalene, S.S. (1996). Budgetary Control in Commercial Banks: A Study of Selected Banks in Nigeria. A Dissertation Submitted to the Post Graduate School, Ahmadu Bello University, Zaria, Nigeria. Retrieved From:<http://kubanni.abu.edu.ng/jspui/bitstream/123456789/1806/1/BUDGETARY%20CONTROL%20IN%20COMMERCIAL%20BANKS%2C%20A%20STUDY%20OF%20SELECTED%20BANKS%20IN%20NIGERIA.pdf>
- Shields, M.D. & Young, S.M. (1993). Antecedents and Consequences of Participative Budgeting: Evidence on the Effects of Asymmetrical Information. *Journal of Management Accounting Research*, 5, pp 265-280.