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Decree Law No. (39) for the year 2002 Regarding State Budget

Preamble

After a review of the Constitution as well as Law No. 1 for the year 1975 with Respect to Determining the Financial Year and the Rules for the Preparation of the State Budget and the Control of the Implementation thereof and the Final Account, and as per the submission of the Minister for Finance & National Economy, and after approval by the Council of Ministers, we issue this Law as follows:

Chapter I: General Provisions

Section 1: Interpretation, Object, Application and Financial year

Article (1)

Definitions

In this Decree law the following words & expressions shall have the meaning assigned to them, except where the context otherwise requires:

- 'Ministries and Government Organizations' include all ministries, municipalities, corporations and government organizations which are required to implement this Decree Law.
- 'Ministry' means the Ministry of Finance & National Economy.
- 'Minister' means the Minister for Finance & National Economy.
- 'State Budget' for the State is the financial policy instrument of the State and shall include the revenue estimated to be realized and the expenditure estimated to be incurred for the Government within the Financial Year concerned for the purpose of achieving sustained economic development and stability by the judicious allocation of resources and by efficient and effective use of the resources.
- 'Financial Period' means one or more financial years as determined by the Council of Ministers.
- 'Consolidated Account' means the Fund into which all monies received by ministries and government organizations (excepting those specifically exempted from applying this provision, or the monies received in trust or custody by virtue of signed agreements) are deposited, and from which shall be paid all monies required to defray the expenditures relating to the implementation of the State Budget.
- 'Sector' refer to the distinct and interlinked divisions of the national economy based on the economic activity, as may be determined by the Council of Ministers.

- **‘Final Account’** means the annual financial statements as at the end of the financial year for a ministry or a government organization and the annual consolidated financial statements for the Government including all ministries and government organizations, and shall comprise the following:
 - the balance sheet;
 - the statement of revenues and expenditures;
 - the cash-flow statement, and;
 - any other statement that may be prescribed by the Minister or may be required to be included under the Generally Accepted Accounting Standards.
- **‘Government Reserve’** are reserves established by special laws, which provide for the nomenclatures of the reserves and the methods of financing such reserves, and may include the procedures for withdrawing amounts from such reserves.
- **‘Emergency Expenditure’** means the block amount provided in the Budget to meet unexpected items of expenditures which are not included in the current budget, but cannot be deferred to the subsequent years’ budget without detriment to the public interest.
- **‘Adjustment Budget’** includes a supplementary budget proposed to make any variations or additions from the amounts allocated in the original budget.
- **‘Generally Accepted Accounting Standards’** means accounting standards complying in material respects with the standards approved by the Minister for maintaining the public accounts by ministries and government organizations and for reporting by them, including for the Government of Bahrain as a whole.
- **‘Accounting Basis’** refers to either a cash-based accounting system or an accrual-based accounting system or a modified system containing the elements of both, as may be determined by the Minister, by issue of regulations, and forming part of the generally accepted accounting practice.

Article (2)

Object

The object of this Decree Law is to secure transparency, accountability, sound management and control of the budgeting and budget management process covering the revenue, expenditure and assets of all ministries and government organizations to which this Decree Law applies.

Article (3)

Application of the Law

- a) This Decree Law applies to all ministries and government organizations; and the provisions of this Decree Law shall apply to the budget of independent organizations and to their financial statements.
- b) The Minister may, on the proposal of Board of the Directors of municipalities, corporations and government organizations lay down special rules relating to their budgets and final accounts if, due to the nature of their activities, the provisions of this Decree Law could not be applicable to them.

Article (4)

Financial Year

The financial year for the State Budget shall consist of twelve months starting from the first day of January and ending on the thirty-first day of December of each year.

Article (5)

Duties and Responsibilities of the Ministry

The Ministry will be generally responsible for the formulation of the economic strategy of the Kingdom, and to establish and implement the economic and fiscal policies of the Government and follow up their implementation as would guarantee the attainment of stable and sustainable economic growth and to promote the general fiscal policy framework of the Government within the parameters of the macroeconomic policy, and also to carry out reviews to evaluate the economic and financial programmes, to undertake economic planning and research and carry out especially the following:

- manage the State Budget;
- manage the Government Reserves;
- ensure that ministries and government organizations conduct their affairs, and manage their revenues, expenditures, assets and liabilities with efficiency, economy, effectiveness and transparency, and;
- monitor the investments of the Government in companies and establishments, both domestic as well as external; and strive to maintain improved international financial and economic relations.

Article (6)

Responsibilities of the Relevant Ministries and Government Organizations

Relevant Ministries and government organizations shall coordinate with the Ministry to achieve the following requirements:

- a) Establish appropriate systems for financial management and internal control which are transparent, efficient and effective and comply with the rules and regulations issued by the Ministry for the implementation of the provisions of this Decree Law;
- b) Establish systems and procedures for planning and analysis of all major programmes and capital projects;
- c) Manage the financial resources efficiently and effectively;
- d) Shall report to the Ministry instances of theft, negligence or financial breaches or violations, as soon as they come to notice;
- e) Ensure that appropriate systems exist for the financial management of the beneficiary organizations receiving grants and subsidies from the Government, and;
- f) Obtain prior approval of the Ministry before undertaking the expansion of any existing programmes, or formulating new programmes, and before establishing any new unit or corporation relating to the affairs of the relevant ministry or government organization, which involves any additional financial incidence.

Article (7)

Contents of the State Budget

The State Budget shall contain the following:

- a) estimates of all revenues, including grants-in-aid;

- b) estimates of recurrent expenditure;
- c) estimates of project expenditure;
- d) estimates of interest and repayment of the loans;
- e) proposals for financing any anticipated deficits;
- f) the projected revenue and expenditure for the previous financial year;
the actual revenue and expenditure for the year prior to the previous year, and;
- g) measurable objectives for the programmes within each ministry's budget.

Article (8)

Adoption of Modern Methodology in Preparation of State Budget

Modern Methodology in preparing the State Budget and requirements of economic and social developments plans shall be adopted in determining the format, chapters and contents of the State Budget.

Article (9)

Determination of the National Level of Expenditure

On the recommendations of the Minister, the Council of Ministers shall, at least three months prior to the beginning of each financial period, determine:

- a) The fiscal policy objectives, the macro-economic framework, the policy basis for the budget, and identifiable major fiscal risks;
- b) The national level of expenditure that could be incurred by the Government for the succeeding financial period, taking into account the estimated revenues, and;
- c) The basis and the criteria for the allocation of the national expenditure between the various sectors and between the different ministries and government organizations during the succeeding financial period, taking into account the overall government policy, development strategy and sectoral priorities, among other things.

Article (10)

General Account

10.1 The Ministry shall establish the General Account of the State and shall ensure that:

- a) all monies received by ministries and government organisations are paid into the General Account, except monies excluded by a Decree Law, or monies held in trust or custody; and
- b) no monies may be withdrawn from the General Account except in terms of appropriation under the State Budget; or as a direct charge against the Account under a law or a judicial decree; or to refund money incorrectly paid into, or which is not due to the General Account.

10.2 All monies invested out of the General Account in term deposits, together with interest earned, shall be regarded as part of the Account.

Article (11)

Emergency Expenditure

- a) It shall be permissible for the Minister to withdraw from the General Account, as a direct charge against the Account, during any financial year, amounts not exceeding 5% of the total budget for the current financial year, to meet any unforeseen and emergent expenditure for which no provision has been made in the Budget and which cannot be postponed to the subsequent year, in public interest.

The Minister shall submit to the Council of Ministers a comprehensive report including details of the emergency expenditure met out of the General Account, within one month of incurring such expenditure.

- b) The emergency expenditure must be included in the following Annual Budget Law or in any following amendments to the State Budget, or must be issued as a separate Budget Law, whichever comes first within three months from the time of drawing such expenditure.

Article (12)

Government Reserve

- a) There shall be a Government Reserve as shall be determined and approved by the Council of Ministers, and established through a special law issued for the purpose.
- b) It shall be permissible to deduct a certain percentage, to be determined in the State Budget each year, from the total revenue estimates and to add to the Government Reserve, together with the net revenues earned from investment of the Government Reserve.

Chapter II : Preparation of the Budget

Section 1: Estimates of Revenues

Article (13)

Utilisation of Revenue

The entire revenues of the State shall be meant to meet the total expenditure of the State and the category of any revenue cannot be reserved to meet any special category of expenditure. Further, the State Budget shall include both revenue and expenditure, and no part of the expenditure shall be deducted out of the revenue, except by law. Further, it is not permissible either to deduct a part of expenditure out of a part of the revenue or to reckon the expenditure after adjusting the revenue against it.

Article (14)

Estimation of Revenue

All ministries and government organizations shall prepare the initial revenue estimates in accordance with instructions to be issued by the Minister. The Ministry shall be advised of these estimates within a specified period of time to be determined by the Minister. Should a relevant ministry or government organization fail to meet this deadline, the Ministry shall estimate these revenues on the basis of the budget for the current year taking into consideration the factors or circumstances that may have effects on the said estimate.

Article (15)

Final Estimates of Revenue

The Ministry shall verify the initial revenue estimates mentioned in the previous article and it shall prepare the final revenue estimates.

Article (16)

Provision relating to Taxes, Fees and Charges

- a) The Annual Budget Law may not include any stipulation that may imply the introduction of a new tax or an increase in an existing tax or an amendment to an

existing law or resulting in a failure to issue a law required to be issued, under the provisions of the Constitution.

- b) All fees shall be levied in accordance with a law which shall also categorize them for the purpose of the levy, and any increase or decrease in the percentages of such categories shall be determined by the concerned Minister with the approval of the Council of Ministers, unless anything to the contrary has been provided by a law. The Council of Ministers may delegate to the Minister the authority to determine the categories of fees and any increase or reduction of their percentage levies.

Article (17)

Government Dues to be First Charge

All sums due to the government will always have the first charge over all other claims against a person or an entity, in any proceedings and disputes.

Section 2: Estimates of Expenditure

Article (18)

Ministries to Prepare Estimates

Ministries and government organisations shall prepare estimates for their expenditure, which shall be accompanied by the necessary documents, statistics and explanatory notes verifying each of the required allocations in the budget. These estimates shall be presented to the Ministry within a period of time to be determined by the Ministry and they shall indicate expenditures divided into categories in accordance with the instructions to be issued by the Minister.

Article (19)

Expenditure for Works of Other Ministries

Should a ministry or a government organization discover, when preparing the proposed budget expenditure, that certain works pertaining to another ministry or government organization have been included in it, the former ministry or government organization shall advise the latter and MOFNE accordingly in sufficient time for the ministry or government organization concerned to include the appropriate financial requirements in the proposed budget.

Article (20)

Delay to Submit the Estimates

Should a ministry or government organization delay to submit the estimate of expenditure within the set period of time, the Ministry shall, after notifying the relevant ministry or government organization concerned, undertake the estimation of expenditures on the basis of the relevant ministry's or government organization's budget for the current year taking into consideration the amendments introduced during the year and other circumstances, pertaining to the relevant ministry or government organization concerned.

Chapter III: Approving the State Budget

Section 1: Budget Discussions & Implementation

Article (21)

Budget Discussions

- a) The Ministry shall discuss with each relevant ministry or government organisation, its expenditure estimates; and coordinate the provision regarding manpower expenditure with the Civil Service Bureau to determine the manpower requirements as would match their plans and programmes.
- b) The Ministry shall be consulted in the event of any dispute between the relevant ministry or government organization and the Civil Service Bureau for resolving such issues. The decision of the Ministry on such disputes shall be final.
- c) The Civil Service Bureau shall obtain the approval of the Ministry before approving any modifications to the manpower strength in any relevant ministry or government organization, if it involves additional financial burden on the State Budget.

Section 2: Budget Approval

Article (22)

Draft annual budget preparation

The Ministry shall prepare the draft budget in accordance with the provisions of this Decree Law, as well as a statement in respect of the financial and economic position of the State, together with a statement regarding the arrangements made for the implementation of the current budget allocations and the effect that it may have on the draft budget.

Article (23)

Financial Period & Multi-year Budgeting

It shall be permissible to prepare the State Budget to include more than one financial year, namely, for a 'financial period'. On the recommendation of the Minister, the Council of Ministers shall determine the duration of the 'financial period' for the purpose of, inter alia, multi-year budgeting.

Article (24)

Submission of the Draft Annual Budget to the House of Representatives

The Minister shall submit the draft annual budget prepared in accordance with the provisions of this Decree Law accompanied by the statements mentioned in this law to the Council of Ministers for approval. The Council of Ministers shall approve the draft budget within a time frame that allows it to be presented to the House of Representatives at least two months before the end of the financial year, and for presentation to the Consultative Council for its consideration in accordance with the Constitution.

Article (25)

Discussion of the Draft Annual Budget

The discussion of the budget in the National Assembly shall be on the basis of the classification of its contents. Any amendments to the draft budget can be introduced with the concurrence of the Government.

Article (26)

Budget Sanction

The State Budget and all Adjustment Budgets shall be issued by law, which will also provide for the appropriation of money in terms of such Budgets.

Article (27)

Delay in Budget Approval

If the law concerning the annual budget was not promulgated before the beginning of the financial year, the previous budget will continue to be in force until the law is issued, and the revenues to be collected and the expenditure to be incurred will be in the ratio of one-twelfth of the previous budget total for each month of the current year.

The Ministry shall issue regulations and instructions to the various ministries stipulating which provisions of the previous budget may continue to be in force, in accordance with the previous paragraphs.

Chapter IV: Implementation of Annual Budget

Section 1: Provisions concerning the Implementation of the Annual Budget

Article (28)

Budget Advice

The Minister shall serve notice of the annual Budget Law after it has been issued, to the relevant ministries and government organizations concerned for implementation.

Article (29)

Regulations and Instructions

The Minister shall issue regulations or instructions concerning the implementation of the budget to ensure that the budget implementation conforms with the provisions of the laws and regulations in operation. These instructions shall be advised to the ministries and government organizations concerned at the time of notifying the Annual Budget Law.

Article (30)

Inter-ministerial Transactions

Financial transactions between the various ministries and government organizations shall be settled in accordance with the regulations or instructions issued by the Minister.

Article (31)

Adherence to the Annual Budget Law

The existence of an allocation in the budget may not serve as a waiver for any of the provisions of the laws, regulations and orders which have come into operation with respect to utilizing the said allocation.

Article (32)

New or Over-expenditure

Any expenditure not included in the budget or in excess of the total estimates approved for each ministry and government organization appearing therein must be effected by law.

The Minister shall issue regulations and instructions to regulate transfer of funds from one chapter of the State Budget to another.

Section 2: Additional Budget, Multi-year Allocations and Lapsing of Provisions

Article (33)

Additional Budget

- a) No ministry or government organization may request for additional allocations unless there are justifiable causes for such requests.
- b) The ministries and government organizations which request such additional allocations shall notify the Ministry of the reasons for such requests. Should the Minister agree to appropriate the required allocation, he shall submit the required draft law to the Council of Ministers.

Article (34)

Budget Amendments

As and when necessary, a draft law for an Additional Budget may be submitted to the Council of Ministers for referral to House of Representatives to provide for any adjustments required due to significant and unforeseen economic and financial events affecting the State Budget for the relevant financial year; or any other special considerations.

Article (35)

Multi-year Allocations

If the nature of any expenditure so requires, certain allocations may be appropriated, by virtue of a law, for more than one financial year. Subject to the provisions of the aforesaid article, the allocations in respect of the above shall be appropriated in the successive annual budgets.

The expenditure mentioned in the foregoing article may be allowed as a separate extraordinary budget which shall be effective for more than one financial year.

Article (36)

Medium Term Budget Projections

The Minister shall, along with the Draft State Budget, submit to the Council of Ministers a statement covering also the following two financial years, consisting of the estimated aggregate revenues and expenditures, the expected surplus or deficit for each financial year as well as the maximum anticipated public borrowings, and a statement regarding the macro-economic indicators for the medium term, which shall be presented to the House of Representatives along with the Draft Budget.

Article (37)

Multi-year Commitments

Relevant ministries and government organisations shall not enter into any contract which may create a financial obligation that exceeds one financial year to the following financial year, unless the Annual Budget Law provides for the appropriation of an allocation for this purpose for more than one financial year.

However, contracts and agreements for projects, goods and services may be concluded for a period in excess of one financial year, provided that the term of such contracts and agreements shall not be more than four years. Should the term of the contract or agreement be more than the aforesaid period, the prior consent of the Minister should be obtained.

Article (38)

Payments Due for Works Done

Payments due for any works which have actually been done or goods and services which have been delivered during the financial year shall be regarded as expenditure, even if procedures for payment of such due payments have not been completed before the end of the financial year for any reason whatsoever. Such payments shall be settled in accordance with the terms and conditions to be determined by the Minister.

Article (39)

Lapsing of Budget Provisions

Except as provided under the provisions of Article 35, 37 and Article 43 of this Decree Law, any allocation which has not been spent, or which has not been committed to be spent during the financial year for which it has been appropriated shall become null and void. However, the Minister shall be competent to transfer in whole or in part any unspent provisions to the succeeding financial year in public interest, under report to the Council of Ministers.

Chapter V : Provisions relating to Project Budget

Article (40)

Project Allocation

The budget approved for projects should not be used to provide permanent employment, except when it is warranted under any special circumstance, and only with the approval of the Minister.

Article (41)

Over-expenditure for Projects

No ministry or government organisation shall exceed the expenditure allocated for any project in a financial year, unless there is a corresponding saving in another project in the same year and adequate justification and the approval of the Minister has been obtained for such transfer.

Article (42)

Excess over Approved Cost

It shall not be permissible to exceed the total approved cost of any project unless there are substantive justifications thereof and after obtaining the approval of the Minister.

Article (43)

Committed Payments

The project budget may be used to cover the committed contract obligations; no payment shall, however, be made for services not provided or supplies not delivered, except within the limits approved by the Minister.

Article (44)

Payments for Delayed Projects

If the handing over of any construction project is not effected according to the schedule during the financial year, payments due with respect to such works may be settled after obtaining the prior concurrence and subject to the terms and conditions to be determined by the Minister, within the limits of the actual costs of the projects in the budget of the financial year.

Article (45)

Rescheduling of Project Expenditure Provisions

It shall be permissible to reschedule the provisions of an approved project in accordance with the nature of implementation of the project, with the approval of the Minister.

Article (46)

Savings in Project Budgets

- a) Any amount allocated for a project, but remaining unspent after the completion of the project shall be deemed as surplus to that project and shall not be used for any other project or the expansion of the same project, unless the additional amount is being spent for any part of the project which was already approved, except with the approval of the Minister.
- b) If the construction of a project approved in the budget of a relevant ministry is either delayed or postponed beyond the financial year concerned, the relevant ministry may utilize the provision allocated for that project for the implementation of another project which also has been included in the budget, with the approval of the Minister, and without exceeding the total allocations for all projects of the ministry for the financial year concerned.

Chapter VI: Budget Accounting and Reporting

Section 1: Accounts and Accounting Control

Article (47)

Reporting by Government Organizations and Entities

The Government Organizations subject to this Decree Law shall submit to the Minister quarterly reports on their activities and development of their financial status including particulars and information specified by the Ministry.

Section 2: Final Accounts and the Budget Performance Reports

Article (48)

Annual Financial Statements and Budget Implementation Reports

Each Minister and the Head of a government organization shall submit to the Ministry, within three months of the closing of the financial year, the audited financial statements representing the final accounts for the year ended, prepared in accordance with the Generally Accepted Accounting Standards, and further, ministers and Heads of government organizations shall submit to the Council of Ministers annual financial reports regarding the implementation of the budget which will include details of the results achieved against pre-determined objectives for the programmes in the budget, with a copy each to the Minister.

Article (49)

Annual Consolidated Financial Statements

The Minister shall prepare the annual consolidated financial statement including the financial information in respect of all ministries and government organisations, representing the final accounts for the year ended prepared in accordance with the Generally Accepted Accounting Standards, and after audit, present it to the Council of Ministers for submission to the House of Representatives within five months of the close of the financial year. After approval by a decision rendered by both the House of Representatives and the Consultative Council, the annual consolidated financial statements shall be published in the Official Gazette, together with their observations, if any, before the end of the following year.

Article (50)

Annual Budget Performance Report

- a) The Council of Ministers all present to both the House of Representatives and the Consultative Council within five months after the close of each financial year, an annual budget performance report for the previous financial year.
- b) The budget performance report referred to in the previous sub-article may include, inter alia, a summary of major programmes of ministries and government organizations, including extra budgetary activities, the level and composition of debts and financial assets, contingent liabilities, tax concessions and quasi-fiscal activities, the results achieved against pre-determined objectives of major budget programmes, and any given performance criteria.

Article (51)

Periodical Reporting to the Council of Ministers

The Minister may periodically report to the Council of Ministers, the progress of the implementation of the State Budget, to provide information reflecting the financial performance and position of the Government and any other relevant matter as determined by the Minister.

Article (52)

Publishing of Financial Information

The Ministry shall publish, within one month after the end of each quarter, in the Official Gazette, information to reflect the financial performance and position of the Government

relating to the relevant period, including a summary of government financial statistics and aggregates concerning the performance of the national economy.

Chapter VII: Internal Control

Section 1: Efficient Budget Management

Article (53)

Rules and Procedures for Efficient Budget Management

The Ministry shall have the responsibility and powers:

- a) To ensure that there is efficient internal audit system to cover all government funds and assets, which is appropriate to the size and requirements of each ministry and government organisation, and;
- b) To ensure that the ministries and government organisations have collected all revenues due to the State and credited them to the Consolidated Fund;
- c) To ensure that the expenditure incurred was within the approved budget and was incurred for the purpose for which it was allocated;
- d) To ensure that all financial accounting rules and regulations are being followed, and;
- e) To ensure the proper utilisation of the resources and inputs, with regard to efficiency, economy and effectiveness.

Chapter VIII: Miscellaneous Provisions

Article (54)

Generally Accepted Accounting Standards & Financial Rules

The Minister shall lay down the accounting standards, basis and financial rules which have to be followed by ministries and government organisations regarding revenues, expenditures, assets and government liabilities.

Article (55)

Obligations of fully-owned Government Companies

Fully-owned Government Companies shall submit to the Minister the following documents:

- a) Their proposed budget, investment plans and their estimated capital budget for the following year, for concurrence, before they are submitted to the authorities competent to approve them;
- b) The final accounts for the year ended, and;
- c) Any additional information which may be specified by the Ministry.

Fully-owned Government Companies shall obtain the prior approval of the Ministry before they avail any capital loans for expansion, modernisation or other similar purposes.

Article (56)

Powers of Appointment

The Minister may, in consultation with the Minister of a relevant ministry or the Head of government organisation concerned, appoint a suitable person to head the Finance Division of that ministry or government organisation and the Minister shall determine his duties and responsibilities.

Article (57)

Currency of Payments

All financial commitments and obligations of the government shall be made in Bahraini Dinars. All ministries and government organisations are required to make all payments, transactions and contracts in Bahraini Dinars except for commitments made in respect of regional and international obligations. However, in special cases where foreign currency payment is called for, the approval of the Minister is necessary.

Article (58)

Inconsistency with this Law

Any provisions which are inconsistent with this law shall be revoked.

Article (59)

Issue of Rules & Regulations

The Minister shall issue rules, regulations and procedures necessary to implement the provisions of this Law and until they are issued, the existing rules, regulations and procedures shall continue to be in force in so far as they are not in conflict with this Law.

Article (60)

Date of Effect

This law, as amended, shall come into effect from the date of its publication in the official gazette.

Signed:

Hamad Bin Isa Al Khalifa. King of The Kingdom of Bahrain

Khalifa Bin Salman Al Khalifa, Prime Minister

Abdulla Hassan Saif, Minister of Finance & National Economy

Issued At Riffa Palace on 6th Shaaban, 1423 Hijra corresponding to October 12th, 2002