



**ADDIS ABABA UNIVERSITY  
COLLEGE OF BUSINESS AND ECONOMICS  
DEPARTMENT OF ACCOUNTING AND FINANCE**

**Assessment on Budget Implementation and Controlling:**

**Case of Addis Ababa City Administration Finance and Economic Development Bureau**

**A Project Submitted to the Dep't of Accounting & Finance in Partial  
Fulfillment of the Requirement Master of Science in Accounting &  
Auditing**

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**March .2018**

**Addis Ababa Ethiopia**

## **Declaration**

I undersigned declare that this project research is my original work and has not been presented for a degree in any other university, and all the materials used for this study have been duly acknowledged.

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## ABSTRACT

*The study aimed at assessing budget implementation and controlling in enhancing performance of the Addis Ababa city administration of finance and economic development Bureau. Specifically the study focused on identifying the existing condition of plan & budget integration, budget and expenditure, budget utilization & controlling and performing of audit for approved budget in the transformation plan, assessing the trend of budget performance of Addis Ababa city administration of finance and economy development from the year 2003-2009E.C and to determine the contribution of budget performance of the finance and Economy development Bureau, primary and secondary are used to collect data. Data were presented into tables, graphs and charts for easy analysis and discussion of findings, the study findings indicated that budget implementation & controlling starts with identification of the objectives and it end up with monitoring, adjustments and providing feedback for the necessary corrective measures the study concluded that in order to enhance the performance of the Bureau there must be properly integrated budget and plan of the Bureau and also properly implement and controlling the budget through encouraging the internal controls and audit performance of the approved budget.*

**Keywords:-** Budget, Budget implementation and control, performance audit

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## **Abbreviation**

1. BoFED Bureau of finance and economic development
2. GTP Growth and transformation plan
3. BI budget Institution
4. OFAG Office of auditor General
5. TOR Term of reference
6. MTEFs Medium expenditure frame works

## **CHAPTER ONE**

### **1. Introduction**

This study presents the assessment of budget implementation and controlling in Addis Ababa city administration of finance and economy development Bureau. This chapter tries to cover the background of the study; budget cycle, a statement of the problem; objective of the study; research questions; significance, scope and limitation of the study.

#### **1.1 Background of the study**

Budget is a document or financial plan of any organization be it government, non-government or private institutions. In all of the above type institutions, budget is used for allocating scarce resources among the different priorities of programs or activities. It consists of both revenue and expenditure. There are different ways of budget management practiced by the different types of organizations. Budget is central to realizing the national objectives, goals and programs linked to the role of government or public institutions in financial matters.

To achieve this, Ethiopia reformed the budget structure since 1996 E.C under the government's civil service reform program with the intention of changing the process and structure of budgeting with aim of improving budget management and implementation within the government body. The process of the reform is about how budgeting is done whilst the structure is what should be done. There are several new elements in the reform such as new chart of accounts, budget classification system and coding of budget transactions for an activity that should fit with the accounting system and new formats.

Annual summary of revenue and expenditure /Annual account/ is a financial statement of a single economic entities composed of several legal entities, funds and account groups in one statement. It is the annual report required by the Government Accounting Standard Board to be prepared by every governmental entity as a matter of public record.

Annual summary of government revenue and expenditure annual report is to review annual report concerning the government receipts and expenditures, assets and liabilities as well as the financial statistical data and submits auditor comments there on to the House of

Peoples' Representatives, expenditure classification and the presentation of the expenditures in the budget require special attention in budget and policy formulation. Equally important is the approach to design different programs that aim at public service delivery.

Basically the task of budget allocation is simple: allocate funds among government programs until an additional dollar moved to any program yields an additional return to society equal to the return lost from the program from which that dollar was taken. That is the public sector equivalent of the familiar resource allocation rule for profitability in business operations. The beneficiaries of the various government programs do not often the same people. Hence, the simple public program allocation rule may only be a glimmer in the politics of budget policy. Nevertheless, the budget process is where choices get made from among program alternatives. Some budget classifications may make the allocation choices more likely to improve conditions of society.

## **1.2 Budget Cycles in the bureau**

This cycle or system ensures greater accountability for decisions. It also allows decision makers to modify the budget for efficiency and effectiveness. The budget cycle has three phases: executive preparation, legislative approval and budget execution.

The budget execution: at the beginning of the fiscal year, bureaus carry out or execute their approved budget. Spending is monitored by the bureau and the executive budget office in order to ensure that appropriations are not overspent. This was usually done through the use of accounting software that is designed to ensure that spending is within authorized amounts. Monthly, quarterly, and midyear budget reports were issued to that provide comparisons between actual revenue received to date and revenue projections actual expenditures compared to appropriations. If revenue projections were off the target, modifications should be made to ensure that the budget is balanced. Budget short falls can cause serious operating and personnel problems for bureau heads.

A weak budget system and a poor budget choice aggravate social problems. More over even, where budgets are allocated to reach the poor and vulnerable groups, the funds may not reach the intended beneficiaries due to weak expenditure and program/financial management. All these factors justify the need for effective budget management (mathur.1996).

### **1.3 Statement of the problem**

In recent times, Addis Ababa city administration of finance and economic development bureau have performed poorly due to that they lack effective and efficient budgets implementation and budgetary control systems to adequately allocate resources to meet the BoFED goals and maximize the performance of the bureau .

Addis Ababa city administration of finance and economic bureau recognize they need to have a well-developed and comprehensive budget implementation and controlling system in order to minimize budget variances and maximize efficiency. It is common knowledge that Public utilities in BoFED are not performing up to the expectations for which they are established. The fact that mostly they are run how much budget allocated from governments rather than out of the result of their performance has given rise to the problem of hiding inefficiency in these BoFED. Hence, management shy away from clearly defined goals or targets against which results or performance can be compared during the budget period.

Budget is basically used to prepare plans on how to go about its future operations and as a way of assessing the performance of the BoFED, through making comparisons of actual results against budgeted results

According Asefa (2007) the critical challenge and controversial issue related to public budgeting is reflected in the budget preparation, approval, implementation and controlling stage of the budget cycle.

Lack of budgets in planning and control has required in the indiscriminate use of fund meant for more viable activities, budgetary goals are not realized due to low level of understanding of the budget system by middle and low level of management staff.

The bureau of the finance and economic development needs to bring rapid and sustainable economic development in budget performance. Therefore the research concentrated on the assessment on budget implementation and controlling in Addis Ababa city administration bureau of finance and economic development, In this situation the study attempted to fill the knowledge gap by assessing on implementation and controlling system in enhancing the performance budget utilization and controlling in BoFED.

## **1.4. Objectives of the study**

### **1.4.1 General objective**

The General objective of the study is to assess the budget implementation and controlling practice in BoFED

### **1.4.2. Specific objective**

- ❖ To assess the integration of planning and budgeting
- ❖ To assess the reason for mismatching of the budget and plan
- ❖ To examine budget utilization and controlling in BoFED:, and
- ❖ To see how auditing is performed in BoFED for Allocated Budget

## **1.5 Research Questions**

- A.** How to integrate plan with budget at BoFED?
- B.** How budget utilized and controls in the BoFED?
- C.** How do BoFED perform auditing for the allocated budget?

## **1.6 Significance of the study**

As far as the significance of the study is concerned the following importance.

- Initially, the primary importance of this study was used for understanding the actual practices of integrations of budget and plan, utilization and controlling of the budget Addis Ababa City administration of Finance and Economic Development Bureau (BoFED).
- After this research, the next beneficiary will be the society, which is the final consumer from fair distribution of the resources.
- Finally, the researcher develops their ability to dig out the problems and providing recommendations as well as other readers or researchers may be benefited from this research paper.

## **1.7 Scope of the study**

The present study deals with challenges on the implementation, and controlling the studies covered seven year (2003-2009EC) in Addis Ababa city administration finance and economic development bureau.

This paper would have focus on the annual summary of actual budget and it's expenditure in City Administration of Addis Ababa BoFED and also users of that have under control by BoFED such as other Agencies/bureau and sub-cities administration. It will gives emphasis on integration of plan and budget,apropriation and actual performance manpower

problems, problem of action taken on the audit findings , timeliness on annual report and performance of auditing on allocated budget for the finance and economic bureau .

### **1.8 Limitations of the Study**

While conducting this paper the researcher was facing the following limitations: -

- Budget constraint.
- Lack of available and organized secondary data
- Limited access, it was not easy to get all relevant information from respective offices.
- The unwillingness of some respondents to give the necessary information and answer for the questioners on time.
- lack of research studies and availability of sufficient current literature on the topic

## CHAPTER TWO

### 2. Literature Review

#### 2.1. Introduction

This chapter tries to see the analysis of the existing knowledge and other researchers' works from library, different websites, research papers and other documents in order to know the concept of budget, budget approval, budget implementation and budget control and some empirical literatures are discussed.

In this part, assessment of related theoretical literature from different books written by different scholars on the basic concept of the government budget implementation and controlling was presented to identify and analysis documents consisting of information associated with the research problem being investigated.

#### 2.2. Theoretical literature review

##### 2.2.1 Definition & Concepts of budget

**Budgeting** is the process of creating **a plan to spend your money**. This spending plan is called **a budget**. Creating this spending plan allows you to determine in advance whether you will have enough money to do the things you need to do.

Government has several policies to implement in the overall task of performing its functions to meet the objectives of social & economic growth. For implementing these policies, it has to spend huge amount of funds on defense, administration, and development, welfare projects & various other relief operations. It is therefore necessary to find out all possible sources of getting funds so that sufficient revenue can be generated to meet the excepted expenditure.

Budget is most important information document of the government; one part of the government's budget is similar to company's annual report. This part presents the overall picture of the financial performance of the government. The second part of the budget presents government's financial plans for the period up to its next budget. So, every citizen of a nation from the common man to the politician is eager to know about the budget as they would like to get an idea of the:-

1. Financial performance of the government over the past one year.
2. To know about the financial programs & policies of the government for the next one year.
3. To know how their standard of living will be affected by the financial policies of the government in the next one year

### **2.2.2 Type of budget**

Government budget basically classified according to the characteristics of the organization in such situation there are two types of budget recurrent and capital budget

#### **2.2.3.1 Recurrent budget**

A recurrent budget tracks ongoing revenues and expenses that occur on a regular basis, be they monthly, quarterly, semiannually, or annually. Also known as an operational budget, a recurrent budget includes line items such as wages, utilities, rent or lease payments, and taxes. It also includes purchases that are expected to last for less than a year, such as office supplies. A recurrent budget can help a company manage its money and come up with strategies for cutting day-to-day costs.

#### **2.2.3.2 Capital budget**

A capital budget is used to evaluate potential investments or expenditures for specific projects or purposes. When a company draws up a capital budget, it is typically doing so to determine whether it makes financial sense to acquire a specific asset -- e.g., a warehouse or a piece of equipment -- or to pursue a new project. Capital budgets cover purchases that are expected to last more than a year. The amount a company spends on such purchases is known as a capital expenditure.

When a company creates a capital budget, it is usually with the goal of growing the business or increasing its value in the long run. However, the benefits of acquiring new purchases or pursuing special projects must be weighed against the costs involved.

### **2.2.4 Budget Preparation**

Maitland (2001) mentions that the process of preparing and agreeing on a budget is a means of translating the overall objectives of the organization into detailed, feasible plan of action. Public budget preparation is one of the tedious tasks that any country should look upon; the preparation process for the annual budget involves a great deal of energy, time, and expense. Hence, it is important that a country must be able to follow accurately all the methods of preparing an annual budget. In budgeting, the focus is not only to prepare the budget, but more importantly to have a follow-up operation for budgeting and to act according to known data. Falk (1994) states that budgets are financial expressions of a country's plan for a period of time. It tells where and how the organization will spend money and where the money will come from to pay these expenses. He adds that budgets set limits. Besides setting limits, Andrews and Hill (2003) say that budgets also provides the assurance that the most important needs of a country are met first and less important needs are deferred until there are sufficient funds in which to pay for them. Even though budget preparation is not the sole thing that needs consideration in budgeting, the basis of it is still needed in order to have at least close estimation.

As per Shah (2007) preparation of the budget usually takes many months and involves all public institutions: the Ministry of Finance manages the process; the Cabinet/President sets or approves the policy priorities, line ministries plan and advocate for their resource needs and the legislature reviews and approves the final plan. Preparation is at the heart of the political process: it is the decision on how to allocate the state's limited resources to competing demands.

Preparing a budget proposal that suggests a set of recommended policies and stays within whatever financial limits are considered politically realistic has been a prominent issue in public budgeting Bunch and Straussman (1993). One approach is to set specific dollar ceilings on budget requests. This approach has the distinct advantage of making agencies prepare requests that include only financially feasible options Lee (1992). This method is often called fixed-ceiling budgeting. Budget ceilings instruct agencies to request next year's budgets based on certain assumptions, such as their set of priorities regarding rankings. Another approach is for the governor to provide policy guidance in terms of overall priorities and/or guidance by major program.

According to Schiavo-Campo and Tommasi (1999) and Allen and Tommasi (2001), the

Main starting points for the preparation of the annual budget should be a clear definition of fiscal targets and a strategic framework consisting of a comprehensive set of objectives and priorities.

As Schiavo-Campo (2007) stated a successful budget preparation process combines top-down direction and bottom-up planning. The overall budget envelope and sector/ministry spending ceilings are usually set by the Ministry of Finance and the Cabinet/executive in accordance with policy objectives. These are then communicated to the line ministries, which are responsible for preparing their respective sector budgets. Through an iterative process of review, debate and bargaining, a consolidated budget is hammered out. A budget proposal is then presented to the legislature, where it is debated and negotiated with the executive and eventually passed into law.

### **2.2.5 Budget Utilization**

Once a budget has been approved by the legislature, the government embarks on the challenging task of spending funds. Utilizing public funds effectively to meet stated policy objectives while ensuring value for money is often just as challenging than planning how to spend it. Several reviews of Public Financial Management performance in developing countries show that countries score significantly better on budget preparation than on budget utilizing. According to Schiavo-Campo and Tommasi (1999) budget utilization is the phase where resources are used to implement policies incorporated in the budget. As they argued, it is possible to utilize badly a well-prepared budget; it is not possible to utilize well a badly prepared budget.

As per Allen and Tommasi (2001), successful budget utilization depends on numerous factors, such as the ability to deal with changes in the macroeconomic environment, and the implementation capacities of the agencies concerned. Besides to this, the budget system should assure effective expenditure control. In addition to a realistic budget to begin with, a good budget utilization system should have complete budgetary/appropriation accounting system. It is necessary to track transactions at each stage of the expenditure cycle (commitment, verification, payment) and movements between appropriations or budget items Schiavo-Campo and Tommasi (1999).

## **2.2.6 Managing and Monitoring Budget Utilization**

As indicated by Tommasi (2007) there should be distribution of responsibilities for budget utilization, budget appropriation management rules and budget revisions, various special issues related to budget utilization, and the monitoring of budget execution. At the same time budget execution covers both activities related to the implementation of policies and tasks related to the administration of the budget. Both the central agencies (the ministry of finance, the ministry of planning in a dual budgeting system, and the prime minister's office) and the spending agencies are involved in these tasks. The distribution of responsibilities in budget management should be organized according to the agencies' respective areas of responsibility and accountability.

## **2.2.7 Concepts of over and underutilization of budget**

According to Allen and Tommasi (2001) stated that over utilizations are sometimes caused by non-compliance of budget managers with the spending limits defined in the budget, when committing expenditures. Since cash allocated to spending units for appropriated expenditures is generally controlled, these overruns generate spending arrears; Overruns are often the result of off-budget spending mechanisms (payment from special accounts, etc.). In some countries, payments made through exceptional procedures are not controlled against the appropriations and are therefore an important cause of overruns; lack of compliance can be addressed through strengthening the audit system, and reporting system, and ensuring the effectiveness of the basic budget execution controls. Moreover, overruns can be caused by deficiencies in budget preparation, Sound budget preparation processes and adequate institutional arrangements are a prerequisite for avoiding overruns. On the other hand, Allen and that Tommasi (2001) expressed in a number of countries, the official budget is under spent, particularly its non-wages expenditure items. This does not necessarily mean that there is good fiscal discipline in these countries. In some countries with poor governance, under spending of the official budget may coexist with large amounts of off budget spending.

## **2.2.8 Reason for variation between budgeted and actual Expenditures**

As per Omitoogun and Hutchful (2006), there are a number of factors that can explain why actual expenditure deviates from the levels approved at the beginning of the financial year in any sector. The reasons for deviations may vary over time. Some of the more common causes are deviation in aggregate expenditure; reallocation of fund during budget implementation; policy changes during the year; an inability to implement policies, program and projects; and a lack of financial discipline contribute for variation in budgeted and actual expenditure, lack of day to day monitoring and controlling commitment and weak transparency, accountability and participatory on planning and implementation of government budget.

## **2.2.9 BUDGETARY CONTROL**

The institute of cost management accountant defined budgetary control as the establishment of budget relating to the responsibilities of executive to the requirement of a policy and the continuous campaigned of accrual budgeted results either to by individual's actions the objectives of the policy is to provide a basis for provision.

The two basic functions, of budgeting deals with comparison of actual results with the budgeted data, evaluation for difference and the taking of corrective action to adjust for difference when necessary. The comparison of budget and actual data could occur only after actual accounting data have been accumulated.

Omolehinwa (2004) sees budgeting control system which uses budget as a planning in controlling all aspect of services. Preplanning is a cardinal facture of budgeting control and that each budget has the action of the people their performance and the cost they incur. Budgeting control from the perspective of management or exception stated that budgeting control is a tool which enables management to consider only items that do not go according to plan and to concentrate on exceptions. However, Godwin (2001) sees budgeting control as a system which uses budgets as a means of planning and controlling all aspect of services. Preplanning is a cordial facture of budgeting control. The plan is represented in the master budget. Each segment of the master budget is covered by a functional budget. However, he presented what as considered as landmark in budgeting analysis as it relates to Nigeria. He stressed on the relationship between accounting and budgeting he was of the

view that accounting system and budget are built around the organization structure and both are information system concerned with the same operation and financial situation. The budgeting process helps to organize and formulate the planning required for these operations express objectives and then, becomes a means to measure the extent to which the plans have been achieved. Budgetary control is planned to assist management in the following ways:

- ❖ In the allocation of responsibility and authority.
- ❖ To aid in making estimate and plans for the future.
- ❖ To assist in the analysis of variations between estimated and actual results.
- ❖ To develop basic of measurement or standards with which to activate the efficiency of operations. He is of the view that management use of budget for control involves comparison of actual and budget figures for each division by the budget committee followed by regular conference with supervisors and departmental heads in order to analyze variance and to inaugurate steps to correct unsatisfactory operation or to revise the budget.

Emeka (2009) emphasized on the importance of budgets, and noted that the assessment of budget is only one of phrase of comprehensive system of budgetary control. He was of the view that no matter how carefully budgets are comprised; they will be largely ineffective run less an efficient routine is in operation for comparing result with the budget and explaining the cause variations.

Budgetary control can be operated without standard costing all the budgeting control is facilitated where standard cost is in operation. However, it would be difficult to operate a system if standard costing of budgets are not in use. Budgetary cannot relate to expenditure to persons who incurs it so that actual expenses can be compared with budgeted expenses.

The use of budgetary control provides a co-ordination factor in business. Its importance as a tool of management can be deduced from the foregoing discussion. It could be seen that it is as significant in planning as it is in control with budget oppression. Here actual performance is compared with budget outcome and favorable or unfavorable variance determined. The cause of this variance is sought out and checked thus enabling management to plan it future operations.

Ama (2003) explains budget control for a cool for planning while budgetary control services as the yard stick for the measuring actual performance with that budgeted through the analysis of variance. For budgetary process to be effective the participation of top management is not only required but the true participation, co-operation and understanding of the middle and tower management is also comparative.

### **2.2.10 Limitation of budgetary control system**

**Estimates:** Budgets may or may not be true, as they are based on estimates. The assumptions about future events may or may not actually happen.

**Rigidity:** Budgets are considered as rigid document. Too much emphasis on budgets may affect Day to day operations and ignores the dynamic state of organizational functioning.

**False Sense of Security:** Mere budgeting cannot lead to profitability. Budgets cannot be executed automatically. It may create a false sense of security that everything has been taken care of in the budgets.

**Lack of coordination:** Staff cooperation is usually not available during Budgetary Control exercise.

**Time and Cost:** The introduction and implementation of the system may be expensive.

## **2.3 Empirical literature review**

The empirical study concerns on prior academic research on the assessment of budget implementation and controls practice. In this case there are certain empirical studies undertake by different researchers related to the budget implementation and controls discussed in the following

According to Getachew (2006) conducted a study on the analysis of medium term expenditure planning and budget allocation in Ethiopia stated that, even though there have been several attempts to address the weaknesses of the Ethiopian budgetary system and try to resolve conflict between annual budget perspectives with medium term planning horizons, successful modern budgeting system remains a continuous problem of the country. In addition, Getchew explained that, the main problems of the Ethiopian budget process systems were:

1. Lack of proper medium term perspective;
2. Lack of properly integration of capital and recurrent budget;
3. the head of public bodies did not give much attention for preparation of budget;
4. Budget doesn't give incentives for efficiency;

5. During budget utilization performance measures is not applied;
6. the relationship between budget and macro-economic policy framework is insufficient;
7. Preparation of budget based on unreliable data and estimation;
8. the budget system was ineffective to ensure financial accountability; and
9. Involvement of stakeholder and Political commitment in the budget process are limited.

In line with this Abdu (2009) conducted a study on the assessment of budget process in kobbo woreda. The main aim of the research was to enhance understanding on the government budget preparation, budget approval, budget implementation and budget control. The study concludes that there is a problem in preparation of medium term expenditure planning and Priority setting was not according to the national and regional objectives. The legislature did not make any serious deliberation and has no influence in the priority setting of the budget. With regard to the budget implementation, even though the public sectors preparing the action plan for purchasing of goods and services it is not practical operational. Finally the researcher identifies that there was no well qualified and professional auditor. Most of the time sectors were not audited on time. The audit standards like professional skills, and independence were not properly functioning.

According to Horngren, Sundem, Stratton, Burgstahler & Schatzberg, (2008) state that, recent surveys show just how valuable budgets can be. They assert that, a study of more than 150 organizations in North America listed budget preparation and utilization as the most frequently used as most important part of budget process. One of the usefulness of the process of budgeting forces manager to become a better administrator and puts planning in the fore front of managers' mind.

In the same book, Horngren et al., (2008) also point out that the result of a survey carried out in the same place (North America) shows that most managers still agree that good budget preparation and utilization, correctly used as significant value to management. They reported that over 92% of the 150 companies in North America prepared and utilized budget and remarked budget process as the top among the top activity expected from management. In the same view in a roundtable discussions organized by CIMA and ICAEW in 2004 on "The traditional role of budgeting process in organization", it is stated that budgeting and the accompanying process are indispensable and that, research in organizations seems to suggest that this is a commonly held view.

It was further stated that, traditional budget process remains widespread. Some claim that as many as 99% of European companies have a budget in place and no intention to abandon it (Kennedy & Dugdale 1999, cited in CIMA-ICAEW, 2004). Consistent with this, Anand (2004) in a survey carried out in India found out that good budget process as one part of management control system is wide spread. Precisely, 88.7% of the respondents in their study prepared budgets. They assert that nearly all the companies in Australia, Japan, UK, and USA prepare budgets (Asada et al., 1989, Blayney & Yokoyama, 1991, Chenhall & Langfield 1998 all cited in Anand et al., 2004).

On the contrary, research also shows that over 60% of companies claim they are continuously trying to improve the budgeting process to meet the demands set for management in creating sustainable value (Ekholm & Wallin, 2000, cited in CIMA-ICAEW, 2004).

According to Bourne (2004), Cranfield University in 2001 teamed up with Accenture's finance and performance management service line to undertake a large worldwide review of planning and budgeting. They focused on 15 companies in the US and Europe which had already made adjustments to their budgeting practice. In addition, the researchers reviewed over 100 academic and practitioner books on the subject. The result showed a widespread dissatisfaction with the budgeting process (Bourne

According to Afemikhe (2003), these three elements of value for money can be described for budget controls and implementation as follows:-

- A. Economic is the practice by management of the virtues of thrift and good housekeeping. An economical operation acquires resources in appropriate quality and quantity at the lowest cost.
- B. Efficiency is making sure that the maximum useful output is gained from the resources devoted to each activity, or alternatively, that only the minimum level of resources are devoted to achieving a given level of output. The efficiency of an operation could be said to have increased if either lower cost were used to produce a given amount of output, or a given level of cost has resulted in increased output.
- C. Effectiveness is ensuring that the output from any given activity is achieving the desired results. There is, therefore, the need to establish that the desired goals are being achieved in order to evaluate effectiveness. The type of interrelationship among these three elements is that all of them must be in place before the assessment of value for

money can be complete. Right things must be done, using the right method and at minimum cost. For instance, as much as effectiveness is linked with the achievement of set objectives, it is also important to expect that the objectives are achieved by the application of the right methods that is, efficiency. The use of a sledge hammer to kill a housefly, though effective is not efficient. The application of value for money concept to auditing leads to the concept of Value for Money (VFM) audit. It is applicable to both the private and public sector, but more emphasis has been placed on its application to the public sector. It is related to the extent to which funds are spent economically, efficiently and effectively. It is also referred to as Comprehensive Audit or Efficiency Audit.

Turyakina (2004) pointed that, budgets play a highly important role in performance evaluation. Attaining corporate objectives is per amount to success. Performance of any organization is often evaluated by measuring success in meeting the budget objectives. When budget is successfully implemented and executed will enable realization of company objectives and once this has been done the organization is said to have achieved at performance level. Thus, efficient budget management is important for smooth performance of any organization.

In a study, Douglas (1994) used a case study approach and found that budgeting places high importance on budget-actual- comparison for performance evaluation purpose; both at corporate and subordinate levels. Moreover, there are other factors that influence motivation to perform; participation in the whole budgeting process that is involvement of all employees, from subordinate to corporate level in preparation of budget. Budgeting and budgetary control mainly forms and give an organization the structural support to achieve its goals and objectives and maximizing performance through effective resource allocation.

A study by Joye and Blayney (1990) found that budget variances were used by 93% of respondents for setting goals and evaluating performance by Australian firms.

Guilding et al. (2000) found that accountants in New Zealand and United Kingdom tend to see variances from budget as being important and performance appraisal was based mainly on budget achievement.

According to Joshi et al. (2003), examines budgetary planning, control and performance evaluation in developing countries. A questionnaire survey of 54 medium and large sized firms including both listed and non-listed firms was conducted. His findings revealed that

most of the firms prepare long-range plans and operating budgets, and use budget variance to measure performance for timely recognition of problems and to improve the next period's budget. Moreover, findings showed that the main purposes of budgeting in most companies are to: maximization and the control performance by investigating variances. Poor cooperation and ineffective planning are the main reasons for not achieving the required standard targets.

### **2.3.1 Research Gaps**

Different scholars were discussed in the theoretical as well as empirical literatures in order to identify government budget implementation & controls in the public sectors. In many developing countries, including in Ethiopia different researches were conducted in the medium term expenditure planning, budget allocation, budget implementation and auditing and also to some level of extent stated. There are different problems of budgeting in Ethiopia at national and regional level. On the other hand, those studies have a drawback in showing how government budgets are implemented in public sectors; to examine the linkage between public sector's plan and budget and to identify the major challenges faces in the budget implementation of the public sectors. This is because; the political views of public budgeting are more difficult, particularly in federal democratic republic countries like Ethiopia where there is a legitimate power and resource distribution among different levels of government. The FDRE constitution established in 1994 adopted various proclamations in order to administer and manage economic and social development. The Proclamation No 7/1992 stated that, the decentralized regional states recognize the right to prepare, approves, implement and control; their economic and social development policies and strategies, control their expenditure planning. Therefore, it is important to study the distribution of financial resources, where development and poverty reduction programs are urgent priorities to address sustainable development goals at this time. Therefore, the purpose of this research is to assess and discussed the budget implementation & controls mainly on the plan & budget integration, appropriation and actual budget performance, utilization and controlling limited recourse and performing audit for allocated budget and how it looks like, in Addis Ababa city administration in BoFED.

## **CHAPTER THREE**

### **3. Research Methodology**

#### **3.1 Introduction**

This section states what was really performed and how the study was accomplished describing the type of the research design used and procedures chosen for collecting data & making analysis together with the reasons behind their application in detail as well as in practical terms

#### **3.2 Research objective**

The main objectives of this study are to assess the budget implementation and controlling practice in Addis Ababa city administration of finance and economic development Bureau.

#### **3.3 Research Approaches**

Research approaches are mechanisms of attaining research objectives. The approaches are Adopted to achieve the best possible of the research objectives. Research approaches are also adopted based on the feasibility of the selected approaches. The common research approaches are quantitative, qualitative and mixed research approaches.

Quantitative approach uses surveys of cross-sectional or longitudinal using self-administered semi structured questionnaires or structured interviews for data collection, with the intent of generalizing from a sample to a population (Babbie, 1990).

A qualitative research approach uses strategies of inquiry including narratives, ethnographies, case studies, observations, interviews, and the results are communicated subjectively through descriptions using words rather than numbers (Creswell, 2003, p.186-187). Moreover Qualitative researchers tend to use open-ended questions so that

Participants can express their views. Under this method contact with the field of research may be based on interviews, observations, or analysis of documents and other artifacts. In addition, literature studies are performed to the extent required to develop sensitivity in observation and interpretation (Atkinson and Hammersley, 1994).

Finally, a mixed methods approach is one in which the researcher tends to base knowledge claims on pragmatic grounds (e.g., consequence-oriented, problem-centered, and

pluralistic). It employs strategies of inquiry that involve collecting data either simultaneously or sequentially to best understand research problem (Cresswell, 2009).

The data collection also involves gathering both numeric information (e.g., on instruments) as well as text information (e.g., on interviews) so that the final database represents both quantitative and qualitative information. The advantage of a quantitative research approach may be limitations for a qualitative approach and vice versa.

Mixed research approach, is supposed to tap the limitations of quantitative and qualitative approaches, based on pragmatic knowledge claims (Sale et al, 2002). The goal for researchers using the mixed methods approach is to draw from the strengths and minimize the weaknesses of the quantitative and qualitative research approaches by combining them (Carrie, 2007).

### **3.4 Research Methods Adopted**

The study uses both quantitative and qualitative approaches. According to Creswell (2003) each approach has limitations which are possible to be minimized using the combined research approach. For example quantitative approach may cause bias in reliability of findings because of the nature of research problem, non-representativeness of sample or the nature of questionnaires that predicts clue. In addition it is difficult to minimize the impact of human behavior using quantitative approach. Joseph (2006) justified that qualitative techniques can increase a research's depth of understanding of the phenomenon under investigation. Qualitative approach is exploratory and flexible in nature to identify problems that are affected by human behavior. Regardless of the above advantage, qualitative research design has its own demerits: lack of standardized rules reduces the objectivity of the findings, the personal view and stand of the researcher may induce bias in the interpretation of the data, and the findings cannot be statistically generalized for a broader population under investigation (Creswell, 2003).

Hence, the combined methods are aimed to complement one another and gather reliable information to draw representative outcome and conclusion.

#### **3.4.1 Quantitative Approach**

As noted earlier a quantitative approach is one in which the investigatory primarily uses

Postpositive claims for developing knowledge, employs strategies of inquiry such as experiments and surveys, and collect data on predetermined instruments that yield statistics data. Survey Research provides a quantitative or numeric description of trends, attitudes, or opinions of a Population by studying a sample of that population. Even if there are two strategy of inquiry under quantitative approach, this study will use a survey design. Survey method is advantageous for its merit of economy of design and it enables to gather enough information, which may not available from other sources.

### **3.4.2 Qualitative Approach**

Qualitative research approach is a means for exploring and understanding individuals or groups scribe to a social or human problem (Creswell, 2009). Qualitative research is typically used to answer questions of complex phenomena.

Thus, in the current study qualitative data is needed to address the final research objective stated as „identifying specific areas of problem in budget utilization and controlling within the BoFED

### **3.4.3 Sample Design**

According to research scholars, sample shouldn't be too large to be economical and shouldn't be too small to keep validity of findings. Accordingly this study used two sampling stages. Therefore the researcher is to collected data from BoFED 20 employees (including top management body), from Sub-cities council head of budget and finance committee plus 8 of the committee members, from Audit Bureau Auditor general, deputy auditor general, Audit manager and the audit team of consolidated financial statements and the researcher also collect data three employees from each Sub cities totally the study sixty (60) respondents wants collected and analysis the data.

### **3.5 Survey Instrument**

The survey instrument contains both open and closed ended questions. There is one open ended question that gives the respondent freedom to indicate the area not mentioned in the close ended questionnaire. The close ended questionnaires are developed in three sections. The first one is on the general aspect of the respondent and the second one is developed based on standard of budget utilization and controlling and to evaluate whether the status and experience of the respondents has the challenge of integration of budget and plan &

also used to the reason for budget variation from actual performance and the third one is how to conducting performance audit and internal control are in those samples of BoFED This section uses questions to finance and internal audit employees with response ranging from strongly agree to strongly disagree. Finally this method of data collection was considered appropriate because the information sought is not publicly available and the finance department employees including internal auditors in the BoFED are in a good position to know the answers to the questions asked (see the instrument in appendix I).

### **3.6. Data Sources**

The type of data collection method is a great value to interpret them properly. The data gathered through primary and secondary methods were analyzed using both mixed data analysis methods. The data collected in the course of questionnaire, analyzed and presented through descriptive statistics such as tables, graphs, and percentages. Qualitative method of data analysis was also employed for feedbacks obtained using open-ended questionnaires and structured interviews for each of response given by respondents of budget user staffs and Addis Ababa City Administration Finance and Economic Development Bureau & sub cities Budget Experts and from Audit Bureau Auditor general in explanatory way.

For possible achievement of the objective of the paper the researcher would use both primary and secondary data, Primary data was obtained from oral interview and questionnaire from in charge, and higher official and observations and Secondary data was collected from These include data that have been already collected and readily available from other sources. It covers all published such as books, journals, statistics, financial reports & Review all available financial law, regulations, and directives, accounting manuals, guide line and annual reports and articles and journals about GTP, including from different books of Faculty of Business and Economics (FBE) library would be used as a source of information to the study.

### **3.7. Sampling Techniques**

The researcher would use judgmental sampling technique is used to gather data. Because it was believed that judgmental sampling was more representative and appropriate to gather the necessary data for this particular research.

### **3.8. Data Collection Methods**

In order to gather the data, the researcher employed both open and closed questionnaires since it is more convenient and easy to collect the required information.

**Interview:** the bureau of finance and economic development plan, budget, monitoring and evaluation process owners, Sub-cities council head of budget and finance committee, Audit manager and the audit team of consolidated financial statements & some budgetary institutional finance officers interviewed.

**Questionnaires:** two types of questionnaires that one is for plan, budget, monitoring and controlling process employee and the other for Finance core process and Modern Internal Audit Core Process employees. The questionnaires which comprise both close ended and open-ended is prepared in English that respondents easily understand the question and give appropriate answer.

### **3.9. Data Analysis**

According to the researcher, the appropriate method of analysis for the study is descriptive method. Categorization or separations of data set was also a form of analysis to make the data easily manageable. Organizing, editing, ordering and manipulating the data were provided descriptive information that answered questions in the problem defined. The study has attempted to describe consistency in the analysis of data. The research employs quantitative data analysis, such as percentage, simple tables, charts and qualitative methods.

Both ways of budget implementation and controlling practice the data analysis is based on the reply by the respondents on their degree of agreement or disagreement with each of the Questions on a Likert response scale (Likert, 1932) however the analysis is based on how many responses of the respondents is close to this expected value

### **3.10 Expected result and output of the study**

The researcher tries to enhance the economically, effectively and efficiently utilization of budget for development and also mitigate the existing problem to sustaining rapid and equitable growth, therefore the expected result on this study is they may be improper

utilization of budget with lack of continues controlling and taking corrective action for poor management .

To measure budget performance, they need to monitor the extent to which budget estimates match actual results. This helps ensure financial control and identify where change is required. Monitoring budget accuracy is the responsibility of all managers, effective monitoring of budget performance requires that managers be provided with relevant, timely and accurate information appropriate to their level of responsibility. It also requires managers to provide feedback in a timely manner about underlying causes and effects of budget variations, as well as planned actions to manage variations.

The effectiveness of internal financial reporting is likely to be enhanced when reports are prepared for each level of budget accountability and summarized appropriately for each level of management.

## **CHAPTER FOUR**

### **DATA PRESENTATION AND ANALYSIS**

#### **4.1. General overview**

In this chapter the data collected from various sources related with budget implementation and controlling of Addis Ababa City Administration finance and economic development office has been discussed, the researcher focuses on data analysis and presentation in relation to a study Assessment on Budget Implementation and Controlling in Growth and Transformation Plan (GTP) of City Government of Addis Ababa Bureau of Finance and Economic. The data presentation and analysis the data that collected from both primary and secondary sources was analyzed using themes from research questions and objectives. The raw collected data from employees, officials and secondary data sources were categorized, edited, organized and analyzed using both quantitative and qualitative methods. The quantitative data was converted into relevant information using analysis of ratios, frequencies and percentage; and was

Presented in tables and figures mainly to support the qualitative descriptions this is the way of data analysis.

#### **4.2. Response Rate**

As it has been clearly shown in the methodology part of the research, the total sample of the target population was sixty (60). Based on this, the researcher has distributed the questioners related to Integration of planning and budgeting, the challenge of the variation budget and planning, implementation and control & performance auditing for allocated budget from BoFED 15 employees (including top management body), from Sub-cities council head of budget and finance committee plus 7 of the committee members, from Audit Bureau Auditor general, deputy auditor general, Audit manager and the audit team of consolidated financial statements and three employees from each Sub cities planner, accountants and internal auditors for controls for appropriately utilization of limited resource.

The researcher 22 questioners were distributed to sixty (60) target people 54(90%) of the respondents were filled and returned back to the researcher and 22(100%) questioners were properly collected.

### 4.3. Characteristics of the Respondents

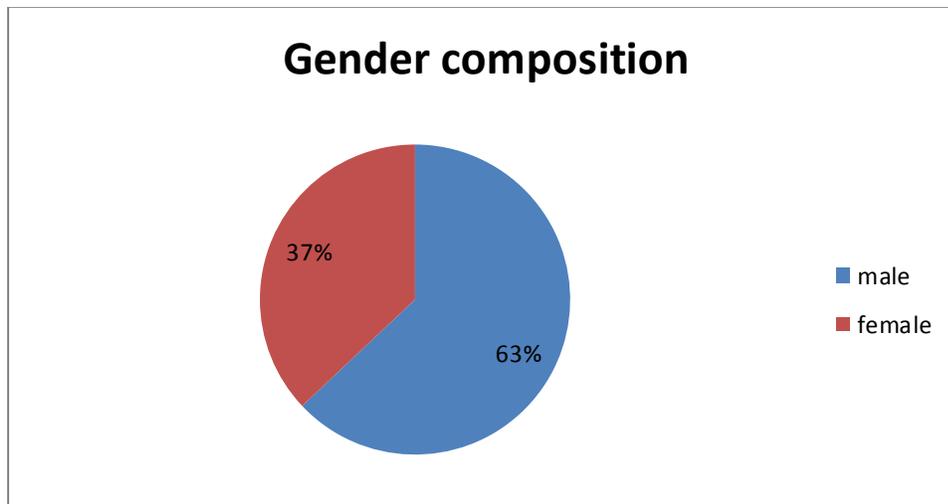
The characteristics of the respondents are presented below as follows in terms of Generally, characteristics such as age, gender, education level, work experience, etc. are being considered as socio-demographics and are being asked in all kinds of surveys.

### 4.4. Demographic Characteristics of the Respondents

Demographic Characteristics of the Respondents those Socio-demographics are nothing more than characteristics of a population.

#### 4.4.1 Gender Composition of the Respondents

Figure 4.1: Gender compositions of respondents

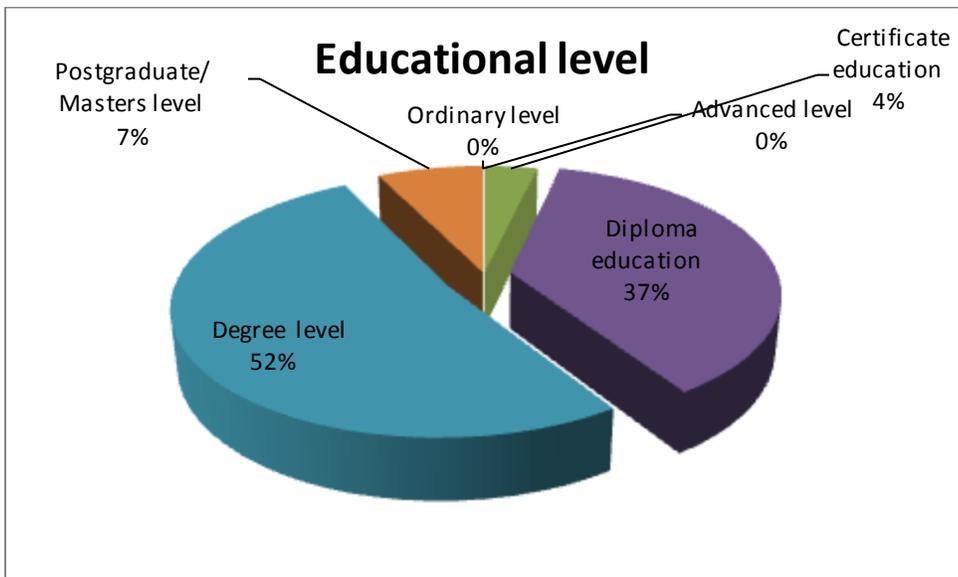


Source: Filed Survey (2017)

#### 4.4.1.2 Educational Level of Respondents

Related to their education level, it is shown in the figure 4.2 below, the majority of the 28(52%) of them are first degree holders, while 20(37%) of them are diploma graduates. Moreover, respondents 2(4%) are certificate 4(7%), are master's degree and above. Therefore, since the education level relates to the profession and, we can assume that the information provided by the respondents was valid and reliable.

Figure 4.2: Educational Level

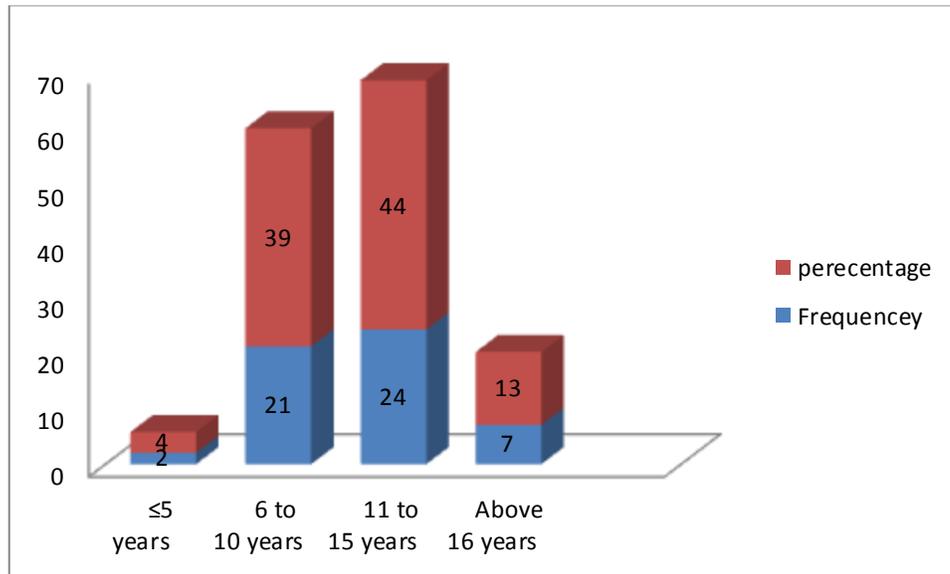


Source: Filed Survey (2017)

#### 4.4.1.3 Work Experience

Concerning the work experience of the respondent shows that, 2(4%) of them have work experience of less than 5 years, 21(39%) of the respondents have work experience of in between 6-10 years, whereas, 24(44%) of the respondents have work experience in between 11-15 years. Finally, the other 7 (13%) of the respondent has work experience above 16 years. Therefore, as clearly indicated in the shown figure, most of the respondents, 44% have between 11-15of work experiences, which may have a positive impact in the total activity of the BoFED because of the respondent have a lot of work experience and they know very well rather than 6-10 years' work experience relatively and also the others, therefore easily understand the questioners and fill the appropriate answers budget integration with plan appropriation and actual performance, budget utilization and controlling and auditing performance for allocated budget at BoFED.

**Figure 4.3 Work Experience**



Source: Filed Survey (2017)

### 4.5 Integration of Planning and budgeting

Integrated planning supports strategic decision-making by providing a comprehensive view of resources and commitments that ensures the alignment of financial and capital resources with academic priorities. Prior to adopting integrated planning, fragmented planning activities occurred across the city.

Therefore the city of finance and economic development bureau requiring line agencies to define their mission, objectives and activities and linking expenditure to measures of performance in terms of outputs and outcomes. Accordingly, the following questions were asked to see whether there is integration between planning and budgeting in the BoFED having said the objective of budget in principle, let us see the response of the sample planner and budget holders in integration to plan and budget preparation. Four (4) questions were forwarded on the preliminary part of integration of budget with plan and budget requested.

**Table 4. 1 Integration of planning and budgeting**

No	Questions	Strongly agree	Agree	Neutral	Disagree	Strongly Disagree	Mean	STDEV.S
1	Medium term expenditure Frame work ((MTEFs)) is	6 13%	18 31%	0 0%	30 56%	0 0%	18	12

	prepared in each spending agency.							
2	The bureau has mechanism to link the annual budget proposal with the physical plans of budgetary institutions.	32 59%	14 26%	0 0%	8 15%	0 0%	18	12.5
3	There is strong relationship between project planning and formulation of capital budget in every spending agency	0 0%	25 47%	11 20%	11 20%	7 13%	12	7.9
4	You have adequate understanding to prepare plan and budget	7 13%	0 0%	18 33%	25 47%	4 7%	10.7	9.75

Source: Field survey, (2017)

#### 4.5.1 Existence of Medium Term Expenditure Frame work

The above table 4.1 show that on the issue of integration of planning and budgeting on the MTEFs approach from the total 30 of the respondent is dis agree therefore According to MTEF approach which is explained in the above in detailed, the researcher asked whether this approach is prepared in each spending agency or not. Consequently, majority of the respondents 30(56%) dis agree and 17(31%) agree with statement. On the other hand, 2(13%) becomes strongly agree with the statement. Based on these responses, we can understand that the city government expenditure management system does not involve medium term perspective which can indicate there is lack of highly integration to the medium expenditure frame work prepared in each spending , therefore in the BoFED prioritized the resource to utilized properly is not well integrated accordingly expenditure frame work.

#### 4.5.2 Linking of the annual budget to physical plan

Linking of annual budget to physical plan 32(59%) of respondents strongly agree and 14(26%) agree that there is a mechanism to link the annual budget proposal with the developmental plans of spending agencies. On the other, 8(15%) of respondents disagree that there is no mechanism. The reason for this according to open- ended interview questions is that BoFED have already started program budgeting within some budgetary institution. In addition, through the city government adopted program budgeting in some spending agencies, its implementation is limits' to some bureaus, but most bureaus and sub cities of the City administration are still using the line item budgeting approach. AS we know line item budgeting is input oriented and a tool for financial compliance and control. Moreover, evidence from secondary data ensured that there is low utilization of capital budget that can be an indication for lack of integration between plan and budget. In

addition to the fact that there is in some sub cities there is low linkage of budget with physical plan the reports that show and the auditors that recommend them, Instead of this the city administration of finance and economic development there is a gap b/n budget and physical plan linkage specially at the beginning of the budget year.

#### **4.5.3 Relationship between project planning and formulation of capital budget**

Project planning is concerned with identification of projects that are expected to be undertaken in every year and this plan should be linked with the capital budgeting. Accordingly, the researcher asked respondents to rate about, the relationship between project planning and formulation of capital budget. Consequently, majority of the respondents 25(47%) agree and 11(20%) neutral and 11(20%) disagree that the project planning is linked with capital budgeting. However, 7(13%) strongly disagree that there is relationship between the two but thirteen percent of the respondents are strongly disagree there for they are lack of the planning and formulation capital budget in some extents. In addition, it was revealed from responses for open- ended questions that BoFED does not submit performance plan with the budget proposal, Performance plan is submitted by spending agencies themselves to their respective bureau. This indicates that, the activity of capital budgeting and project planning is not well integrated.

#### **4.5.4 Adequate understanding to prepare plan and budget**

During budget preparation, trade-offs and prioritization among programs must be made to ensure that the budget fits government policies and priorities. Next, the most cost-effective variants must be selected. Finally, means of increasing operational efficiency in government must be sought. None of these can be accomplished unless financial constraints are built into the process from the very start then daily activities for budget administration rest mainly with the spending agencies themselves. Therefore, to achieve sufficient resource allocation there should be proper analysis of the budget preparation by spending agencies. Accordingly, regarding the proper analysis of the budget by the spending agencies the majority of the respondents is 25(47%) disagree, 8(33%) neutral, 7(13%) strongly disagree and 4(7%) of the respondent strongly disagree that public agencies analyze their budget in terms of government priority. It was also indicated on the responses for open-ended questions that the problems in budget preparation are, BoFED does not give sufficient time for budget hearing and also does not try to check whether spending agencies are requesting budget for the plan they have. In addition, spending agencies do not have

appropriate standard and unit cost to prepare their budget. This all have a negative effect on the preparation thus spending trend.

**4.6. Budget and expenditure of the City administration**

The nature the budget differs across nations to nations because of economic, social, and administrative realities and trends of the specific country therefor multiple factors to consider to analyzing budget and expenditure , Comparison between of appropriations and actual spending of recurrent and capital budget, the proportion of capital and recurrent budget, and; Growth and Transformation plan (GTP) budget and actual budgeting Comparison are presented consecutively to achieved the objective and to identified the variation of budget and plan for low budget utilization performance.

**4.6.1. Comparison of budget versus expenditure**

The comparison of budget and expenditure for both types (recurrent and capital) for presenting and analyzing the consecutively improvement for the city budget utilization performance according to the city monitoring and evaluation criteria.

**4.6.1.1.. Recurrent Budget**

A recurrent budget tracks ongoing revenues and expenses that occur on a regular basis, be they monthly, quarterly, semiannually, or annually. Also known as an operational budget, a recurrent budget includes line items such as wages, utilities, rent or lease payments, and taxes. Recurrent budget is used to daily operational activities that do not have long term nature and exhausted with in the fiscal year.

**Table 4.2 comparison of appropriation and actual spending for recurrent for recurrent by budget years**

Fiscal year	Total appropriations	Total actual spending	Difference	Percentage of spending from the appropriations
2003	3,744,793,361.91	3,361,854,754.59	382,938,607.32	90%
2004	4,104,406,858.75	3,575,639,341.40	528,767,517.35	87%
2005	5,380,047,361.11	4,678,800,610.56	701,246,750.55	87%
2006	7,201,658,548.33	6,439,752,800.13	761,905,748.20	89%
2007	9,290,312,178.29	8,423,862,700.88	866,449,477.41	91%
2008	12,360,696,489.63	10,460,631,984.88	1,900,064,504.75	85%
2009	14,389,683,746.02	12,737,673,146.66	1,652,010,599.36	89%

Source: BoFED

Table 4.2 shows the total appropriations for recurrent budget for the city government and the actual yearly spending from its appropriations. Consequently, the total appropriation for this budget type increase from year to year because of the increment in the total national budget and especially since city governments have responsibility for design, manage and follows up of the implementation of various reforms

Regarding to the total actual spending from its respective appropriation, the amount of spending, increases across the years, the reason for this according to the interview result is that, there is an increment in the prices of goods and services, new housing development projects, the salary increment made nationwide and new employees are joined the city as a result of new organizational structure allowed recently budget year and improvements employee performance. There is 3-6 % of difference therefore there is no a significant difference in absolute amount between the appropriation and the actual spending of the city administration, the percentage of spending shows somewhat uniform pattern. However as open-ended question and the fact that the annually report show there is idle budget Display at the end of the budget year than means there is low linkage of plan and budget as discussed above.

For example the total spending for the year 2003 is less than the approved budget of the particular year. The difference is birr 382,938,607.32 which is about 10% of the total budget approved for the respective year. In a similar fashion, the total spending made during the year 2009 is birr **1,652,010,599.36** less than the appropriation. This also account for about 11% for the total approved budget. This fact can be justified as the percentage change in utilization is small due to the fact that, both budget and expenditure indicates similar pattern.

The city administration of the budget increased year after year so that as show table 4.1 appropriation of recurrent budget against spending is incrementing trend therefor there is an increasing of a difference, so they city have a variation of budget with plan according to setting priority strategies but not the fact that show there is a difference of budget performance.

#### **4.6.1..2. Capital Budget**

Capital budgeting, and investment appraisal, is the planning process used to determine whether an organization's long term investments such as new machinery, replacement of machinery, new plants, new products, and research development projects are worth the funding of cash through the firm's capitalization structure.

Capital budgeting makes decisions about the long-term investment of a organization's capital into operations. Planning the eventual returns on investments in machinery, real estate and new technology are all examples of capital budgeting. The table 4.2 show that the total appropriations of the capital budget for the city government and the actual yearly spending. Consequently, the total appropriations for this budget type increases from year to year. According to the respondents for interview questions, the main reason for this continuous increment is the Government to give due attention for developmental activities and increasing Tax revenue consists of the income received from different taxes and other duties levied by the government in Growth and Transformation Plan by lunched huge project for specific operation to fulfill the demands of the public in the city.

**Table 4.3: Comparison of appropriations and actual spending for Capital budget**

<b>Fiscal year</b>	<b>Total appropriations</b>	<b>Total actual spending</b>	<b>Difference</b>	<b>Percentage of spending from the appropriations</b>
<b>2003</b>	<b>5,686,750,579.77</b>	<b>3,413,705,065.68</b>	<b>2,273,045,514.09</b>	<b>60%</b>
<b>2004</b>	<b>7,731,933,608.43</b>	<b>4,748,241,496.45</b>	<b>2,983,692,111.98</b>	<b>61%</b>
<b>2005</b>	<b>10,660,052,927.37</b>	<b>7,856,585,221.92</b>	<b>2,803,467,705.45</b>	<b>74%</b>
<b>2006</b>	<b>14,637,262,374.24</b>	<b>11,573,604,601.99</b>	<b>3,063,657,772.25</b>	<b>79%</b>
<b>2007</b>	<b>18,978,109,594.03</b>	<b>12,351,032,401.22</b>	<b>6,627,077,192.81</b>	<b>65%</b>
<b>2008</b>	<b>19,444,148,646.37</b>	<b>11,552,915,494.39</b>	<b>7,891,233,151.98</b>	<b>59%</b>
<b>2009</b>	<b>21,010,316,253.98</b>	<b>14,690,386,115.97</b>	<b>6,319,930,138.01</b>	<b>70%</b>

Source:BoFED

On the above table 4.3 Regarding to the total actual spending from its respective appropriation; the amount of spending, increases across the years. If one observes table 4.2 for example, the spending growth ranges from above birr 3.4 billion for the year 2003 to above birr 14.69 billion in the year 2009 in which the trend has an increment all over the study periods. Despite the fact that, the overall spending of the city government regarding capital budget shows an increasing trend like its appropriations, its percentage of utilization is not attractive.

The above facts are presented in the following graph in a clear manner. This graph shows respective practices of the appropriation, actual expenditure and budget left over unused. Despite, all show an increasing trend there is a significant difference in absolute amount between the appropriation and the actual spending of the city government. Unlike to the trend of appropriation, actual spending and budget, the percentage of spending from the appropriated amount shows uniform trend over the study periods. As it is clearly evident from the above table the utilization of the capital budget was 60% in 2003 this figure increasing to 61% in 2004 perhaps it is minimum, then increasing at increasing rate to 74% in 2005 and increase to 79% in 2006 & in 2007 decrease in 65% and continues to 2008 decrease 59% the again increase 70% in 2009 fiscal years this show a waving of budget utilization for the reason of insufficient integration of plan & budget formulation of capital budget.

This show there is an idle budget rather than recurrent budget there for as open-ended discussions there is a low formulation of planning budget and poor project management, lack of skill and low political commitments for project evaluation and no timely taking corrective action the auditors that recommend and suggest solution.

#### **4.6.1.3. Proportional of Capital and Recurrent Budget**

Differentiating the proportion of each budget type is very important to evaluate whether the city government gives due emphasis to developmental or non-developmental activities.

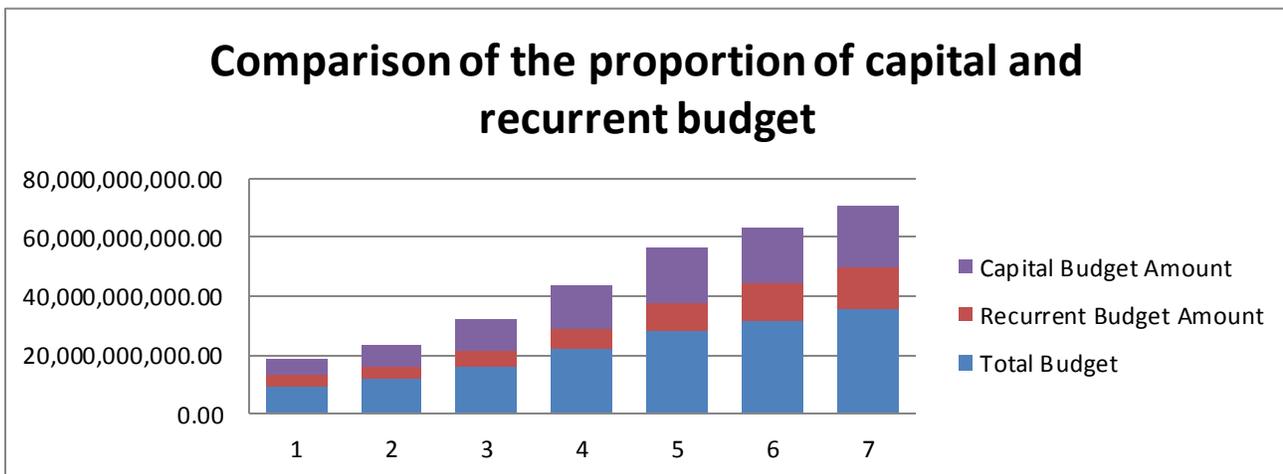
**Table 4.4 Comparison of the proportion of capital and recurrent budget**

<b>Fiscal year</b>	<b>Total Budget</b>	<b>Recurrent Budget</b>		<b>Capital Budget</b>	
		<b>Amount</b>	<b>Percentage</b>	<b>Amount</b>	<b>Percentage</b>
<b>2003</b>	<b>9,431,543,941.68</b>	<b>3,744,793,361.91</b>	40%	<b>5,686,750,579.77</b>	60%
<b>2004</b>	<b>11,836,340,467.18</b>	<b>4,104,406,858.75</b>	35%	<b>7,731,933,608.43</b>	65%
<b>2005</b>	<b>16,040,100,288.48</b>	<b>5,380,047,361.11</b>	34%	<b>10,660,052,927.37</b>	66%
<b>2006</b>	<b>21,838,920,922.57</b>	<b>7,201,658,548.33</b>	33%	<b>14,637,262,374.24</b>	67%
<b>2007</b>	<b>28,268,421,772.32</b>	<b>9,290,312,178.29</b>	33%	<b>18,978,109,594.03</b>	67%
<b>2008</b>	<b>31,804,845,136.00</b>	<b>12,360,696,489.63</b>	39%	<b>19,444,148,646.37</b>	61%
<b>2009</b>	<b>35,400,000,000.00</b>	<b>14,389,683,746.02</b>	41%	<b>21,010,316,253.98</b>	59%

Source: BoFED

The proportion of the capital and recurrent budget Based on this idea table 4.3 above indicates a general decreasing and increasing trend for recurrent and capital appropriations respectively. Accordingly, the recurrent budget has been a proportion of 40% in 2003 and declined to 39% in 2008 but increased 41% in year 2009 Ethiopian budget year. Capital budget on the other hand, indicated a rapid increment from 60% in 2003 to 61% in 2008 but it is decrease 59% in 2009 budget years. How ever the city more focused for infrastructure and developmental activities, the fact and the city annually report indicate but there is a problem on project implementation and controlling on the other hand there is huge amount of increment of budget instead of this there is an increment of budget difference comparatively to recurrent budget, general the above table show the city administration more focus for developmental infrastructure in the form 2003-2009 Ethiopian budget on the other hand there is more idle budget in the capital budget rather than recurrent budget and recently the annual report of the BoFED 2009 G.C also show there is lack of capital budget utilization and controlling due to weak project managements .

**Figure 4.4 Comparison of the proportion of capital and recurrent budget**



Source: survey Data

#### 4.7 approving of budget according to I plan

A full understanding of the budget planning and preparation system is essential, not just to derive expenditure projections but to be able to advise policymakers on the feasibility and desirability of specific budget proposals, from a macroeconomic or microeconomic

perspective. It is much easier to control government expenditures at the "upstream" point of budget preparation than later during the execution of the budget.

Thus, fiscal economists and general budget advisors need to know: - what is the framework in which budget decisions are made, who is responsible for planning and preparing the budget, what are the basic steps, how can changes in budget plans be programmed and targeted?

The nature and constitute of public expenditure and budget differs across nations depending on economic, social, and administrative realities and trends of the specific country. In addition: analyzing budget and expenditure demands multiple factors to consider ,For such situation the researcher needs to understand or what look likes the city administration of ministry of finance and economic development (BoFED) to analysis the fact seven (7) questioners is forwarded as follows

**Table 4.5 approving of budget according physical plan**

	<b>Questions</b>	<b>Strongly Agree</b>	<b>Agree</b>	<b>Neutral</b>	<b>Disagree (No)</b>	<b>Strongly</b>	<b>Mean</b>	<b>Stdev.S</b>
1	The city administration BoFED has adequate number of professionals (budget officers) who prepare plan and budget	0 (0%)	14 (26%)	0 (0%)	22 (41%)	18 (33%)	18	4
2	The city administration BoFED revising their plan according to their approved budget	15 (28%)	25 (46)	0 (0%)	14 (26%)	0 (0%)	18	6.08
3	In the city administration BoFED, there is a variation of plan with budget		44 (80%)		10 (20%)		27	24.04
4	Sub-cities analyze their budget properly in terms of their transformational plan.	7 (14%)	0 (0%)	18 (33%)	25 (46%)	4 (7%)	13.5	9.75
5	The offices prepare its annual plan based on its strategies documents of city administration	9 (17%)	20 (37%)	0 (0%)	25 (46%)	0 (0%)	18	8.19

6	Budget is prepared based on reliable data and reasonable estimated cost.	17 (31%) )	11 (20%) )	0 (0%)	0 (0%)	26 (49%)	18	7.55
7	There is a tendency of submitting budget request without plan.	0 (0%)	8 (14%) )	0 (0%)	16 (30%)	30 (56%)	18	11.14

#### 4.7.1 Availability of skilled man power to prepare the budget & plan

Manpower Planning which is also called as Human Resource Planning consists of putting right number of people, right kind of people at the right place, right time, doing the right things for which they are suited for the achievement of goals of the BoFED. Human Resource Planning has got an important place in the arena of industrialization. Human Resource Planning has to be a systems approach and is carried out in a set procedure.

In the city the availability of skilled man power is the basic for preparing of budget according to the analysis the majority of the respondents, 22(41%) disagree and 18(33%) strongly disagree on the issue. On the other hand, 14(26%) agree on the issue. It was also revealed from the responses for open ended questions and audit report that the main challenges regarding skilled man power to planning and budgeting are;

- ❖ Turnover of employee
- ❖ Lack of training
- ❖ Low commitment of leadership
- ❖ Too ambitious
- ❖ Lack of momentum in the short term &
- ❖ Lack of rewards for best performance etc.

Therefore in the city there is a variation of budget with plan, the main cause of the variation according to open-ended interviews is:-

- ✚ The city they does not take corrective action as the auditors recommend and suggest
- ✚ Budgets are too rigid and prevent fast response
- ✚ Lack spending budget according to the priorities &
- ✚ Monitoring and evaluation is not performed constantly etc.

#### **4.7.2 Revising of plan according to approved budget**

The majority of the respondents replied a positive relationship between the two Variables (plan and budget) on table 4.4 an office that has plans which are systematically linked to the annual budget does not generally make frequent plan revision in relation to budget, the respondents, from table above, the 25(46%) ,15(28%) agree and strongly agree respectively on the other hand 14(26%) no revising of plan according to approved budget timely in both the presence of systematic linkage between plan and annual budget and no strongly revision in city administration of finance and economic development Bureau. Therefore, the responses were given arbitrarily without considering or knowing the real situation of their office, or they were not voluntary to reveal the exact problem. On the other hand, the open-ended data indicated that there were variation between plan and annual budget. According to the respondents, due to the variation between plan and budget, they would be forced to revise plan to include new activities. Less attention is given to the preparations of plan and budget. The cause for the variation of budget was mainly attributable to failing to consider the current market price at the beginning of the budget year.

As recognized from their written response, some sub cities present their annual budget by coping simply from the previous year budget request because of inexperience. Further, what the budget users plan does not consider the appropriated budget of the institution and economic situation of the country. Adequate orientation is presented rarely about plan and budget revising by the concerned bureau. What is complained by the budget users is infrequent revision of the strategic plan (or rigidity) periodically has put in burden on annual plan of units, Budget users are provided additional duties (which are new and outside of the annual plan) to be executed from their budget without supplementary funds. It, thus, produces further burden on the available budget, According to the report revealed by the Planning and Budget Department of BoFED in 2009 E.C annually, the problems were observed by budget users in connection with revising of plan according to approved budget is an estimation of project expense it is never accurate and the problem is bring to at the implementation phase.

#### **4.7.3 The existence of matching of plan and budget**

The majority of the respondents 44(80%) and 24(20%) is yes and no respectively therefor in the city there is a variation of appropriation and spending, in the open -ended interviews and According to the report revealed by the Planning and Budget Department of BoFED in

2009 E.C annual report, the following problems were observed by budget users in Coordination with plan and budget preparation for instance the following problem also addressing:-

- ❖ The plan and budget was prepared without the fully participation, discussion, and approval of concerned units and persons. As a result, presenting exaggerated budget, overlooking programs, excess number of budget transfer and adjustments happened
- ❖ The prepared budget did not include the relevant issues and the institution's strategic plan fully
- ❖ Presentation of budget demand without work plan for some extents
- ❖ Lack of Reasonable and acceptable predictable inflation
- ❖ Lack of revising budget with plan constantly etc. in such situation there is a variation of budget and plan at the city administration of finance and economic development bureau.

#### **4.7.4 Sub cites properly analysis of budget based on transformational plan**

The daily activities for budget administration rest mainly with the spending agencies themselves. Therefore, to achieve proper resource allocation there should be proper analysis of the budget preparation by spending agencies. Accordingly, regarding the proper analysis of the budget by the spending agencies 25(46%) disagree and 18(33%) of the respondent neutral and 7(14%) strongly agree and 4(7%) strongly dis agree that public agencies analyze their budget in terms of government priority. It was also indicated on the responses for open ended questions that the problems in budget preparation are, BoFED does not give sufficient time for budget hearing and also does not try to check whether spending agencies are requesting budget for the plan they have. In addition, spending agencies do not have appropriate standard and unit cost to prepare their budget. This all have a negative effect on the preparation thus spending trend

#### **4.7.5 Preparing of annual plan based on its strategies document**

To achieve mission of the institution, flexible strategic plan has great value as it is depicted on the table 4.3 above key informants were asked about the preparation of plan whether it is related with strategies document or not. As we have seen on the above table from the total of 54 informants 25 (46%) of them disagree 20(37%) of them agreed and also 9(17%) strongly agree on the existence of plan prepared in relation to budget. From the responses the two ideas contradict with each other because the responses of the two questionnaires have almost near to equal rate of percentage. As recognized from their

written response, some budget users units prepare their annual budget by coping from the previous year budget request because of inexperience. Furthermore, they explained that budget users plan does not consider the approved budget of the City bureau and overall there is seldom orientation given about plan and budget preparation according to strategic plan by BOFED Budget department for the budget users. Both of the plan and annual budget preparation are synonymous. To achieve mission of the Organization, flexible strategic plan has great value for such situation 25(46%) dis agree because of there is lack of accountability and transparency but some budgetary institution can follow their annually plan according to city administration strategies plan.

#### **4.7.6 Preparing budget reasonable & estimated cost**

A good cost estimate is unbiased. It should not be made by someone who would over- or under-state the numbers. The cost estimate should clearly define the purpose of the activities, what it will accomplish, what assumptions are made, how long the estimate is valid, and how much the project will cost. It should show all interested parties everything relevant, without holding back information. The estimate should be flexible, adaptable and provide a range of the costs involved. Cost estimates start out broad, and as various stages are completed, they are more accurately defined in such situation the city administration of finance and economy development is reasonable & estimated cost according to the respondents.

The majority of the respondents is 26(49%) strongly disagree, 17 (31%) is strongly agree 11(20%) agree this show that such practice has resulted in preparing budget without the basis of reasonable estimates and data. The effect was reflected on purchase process. During procurement, budget shortage occurred at the time of bid. Moreover, the shortage of skilled manpower or plan expert exacerbated the problem.

The respondents' answers are summarized as the follows: greater part of budget experts agreed on the existence of weaknesses in budget preparation without reasonable and estimated cost even though there are others who do not agree. Some of the respondents explained that some budget users prepare their annual budget by over estimating. And they do not give priority of activities while preparing the financial plan. Moreover, most of the time the amount of budget requested for each item is purposely exaggerated. The main reason is they considered as the office responsible for budget approval allocates budget by reducing some percentage from the initial request. So that, according to their intention. In addition to this the cause for the revision of budget was mainly contributed by failing to

consider the amount of budget needed for the fiscal year at the beginning of the budget year. On the other hand, other departments are considered that plan is always prepared by the planning department only and they left out for themselves. Such situation has resulted in preparing budget without the exact basis of reasonable estimates and base line data.

#### **4.7.7 Submitting of budget with plan**

If the budget requests do not cover expected expenditures based on the proposed work, the reviewers may question the reasonableness of the request and possibly eliminate some of the items or personnel costs. If they submitted actual demand without overestimation, the amount approved for that budget year would become less than what is expected. Of the budget experts, all of them stated that city administration Plan and Budget Department has no adequate number of skilled persons to conduct budget analysis. Moreover, for the question on the budget preparation majority 30 (56%) strongly disagree and 16(30%) disagree and 4(7%) agree that budget users prepare their financial plan based on realistic, valid assumptions, and by knowledgeable individuals there for around half of the respondents is strongly disagree for submitting of budget without plan, therefore there is submitting of plan with budget.

#### **4.8 Implementation and controlling issues of public spending**

Budgetary or appropriation accounting consists of tracking and registering operations concerning appropriations and their uses. It should cover appropriations, apportionment, any increase or decrease in appropriations, commitments/obligations, expenditures at the verification/delivery stage, and payments, budgetary accounting is only one element of government accounting system, but it is the most crucial for both formulating policy and supervising budget implementation. In particular, weaknesses in budgetary accounting and recording make quality analysis of the performance, outputs or outcomes impossible. Most developed countries keep registers for their transactions at each stage of the expenditure cycle, or at least at the obligation stage and the payment stage. This, whatever their accounting system or budget execution procedures. Many developing countries keep similar registers, either at the spending agency level or through centralized control procedures. However, in both cases, budgetary accounting presents inadequacies. On the one hand, when registers are kept by agencies, information is not systematically available at the level of the Ministry of Finance, which would need it to supervise budget implementation. In practice, in some of these countries budgetary accounting covers only payments. On the other hand, where control procedures are centralized, sometimes information on budget

execution concerns administrative steps that do not correspond to the stages in the expenditure cycle such "administrative" information is useless for analyzing budget implementation. In spending agencies keep books on an "accrual" basis such arrangements, despite their advantages, created difficulties in the timely monitoring of payments according to the budget classification. Therefore, in these spending agencies efforts are currently focused on the implementation of a system of monitoring payments.

The benefits of monitoring either obligations or expenditures at the verification stage or the payments stage are sometimes debated. Actually, information is needed at each stage of the expenditure cycle and can be easily compiled, thanks to developments in electronic technology. Adequate recording of appropriations, revisions in appropriations, transfers between appropriations, actual spending, etc. is a prerequisite for good management. In several developing countries, it is difficult to know exactly which budget is being implemented, because decisions concerning allocations and reallocations of appropriations are contained in various circulars and are not gathered into a single document. The budget implementation plan should be updated regularly to take into account decisions concerning appropriations.

**Table: 4.6 budget utilization and controlling**

	<b>Questions</b>	yes	%	n	%	Me an	Stde v.S
1	Do budgetary institutions use their budgets based on their planned cash flows?	30	56%	24	44%	27	4.24
2	Do sectors frequently ask budget transfers?	36	70%	18	30%	27	12.73
3	Do you have a budgetary control system which enables the budgetary institutions to report on their budgeted and actual expenditure?	54	100%	0	0	27	38.18

4	Does your bureau prepare timely, explanatory and complete budget implementation reports to city administration council?	14	26%	40	74%	27	18.38
5	Do budgetary institutions keep complete and reliable budgetary records?	25	46%	29	54%	27	2.83

#### 4.7.1 Budget utilization based on cash flow

During implementation stage, spending agencies are required to prepare to the cash budget and required to act accordingly. Regarding utilization of budget based on cash flow, majority of the respondents 30(56%) ensured that budgetary institutions do use their budgets based on their planned cash flow or cash budget. However, 24(44%) responds that sectors do not used their budget based on cash flow. On the other hand, evidences from financial reports ensured that majority of the budget is spent on the increased and decrease pattern but there is variation of each budget year. Moreover, responses from the open ended question and interviewed indicate that there is practice to use their budget on timely based on their cash budget except some sub-cities and institutions. These all can result the budget to be under spend, hence affects the spending trend, however the main advantages of utilization of budget based of cash flow that helps determine whether cash balances remain sufficient to fulfill regular obligations and whether minimum liquidity and cash balance requirements stipulated by banks, it also helps to determine whether too much cash is retained that could be nothing rather than using for effectives activities.

Budget utilization based on cash is basic issue for city administration of finance and economy development Bureau as the interview they controlling the budget by system of integrated budget and expenditure system (IBEX)

#### 4.8.2 Budget transfers

When carrying out the action the beneficiary may adjust the estimated budget by budget transfers between items of eligible costs but once budget is proclaimed, expenditure is supposed not to exceed the approved budget. However, what so ever properly formulated budget exists, the future may not be as expected. Budget transfer should not be the main function of budgetary institutions. However, under certain circumstances and urgent situations public bodies are permitted to perform the transfers. But, if transfers are frequent it may be due to inadequate preparation of the budget. The researcher analysis in the above table 4.4 36(70 and 18(30%) responds yes and no for frequent transfer request respectively. Therefore there is a budget transfer special at the end of the budget year

because of less commitment on planning, budget preparation, over and underutilization of budget, lack of revising of budget according to approved budget and rarely submitting of budget without plan also a critical problem on budget utilization, however on the open-ended interviews there is a way of transfer budget request permitted by law but the some sub cities has been more requested rather than the law permitted special at the end of the budget year.

#### **4.8.3 Budget control system**

Budgetary control is the process by which budgets are prepared for the future period and are compared with the actual performance for finding out variances, if any. The comparison of budgeted figures with actual figures will help the management to find out variances and take corrective actions without any delay and a control technique whereby actual results are compared with budgets. Any differences (variances) are made the responsibility of key individuals who can either exercise control action or revise the original budgets. A budgetary control system is a system which uses budgets to control expenditure. According to budget administrative manual of the city government the basic features of this system includes:

- ❖ Planning the activities to achieve the objectives which include the preparation of budgets.
- ❖ Recording the actual expenditure incurred
- ❖ Comparing actual costs(results) against the plan(budget)
- ❖ Investigating material variables
- ❖ Taking corrective actions and
- ❖ Reviewing and revising plans in the light of changing circumstances or changes that have been taken place.

All the respondents 54(100%) ensured that the system is existing. However, interview with the Finance and Modern audit core process owner ensured that, despite the fact that the system is established, there are challenges in adherence to it because uncertainties activities occurred due to illegal action made for the unbudgeted operation & in the open-ended question the experts address the following limitation of budget controls :-

- It is really difficult to prepare the budgets accurately under inflationary conditions.
- Budgets are prepared for the future period which is always uncertain. In future, conditions may change which will upset the budgets. Thus, future uncertainties minimize the utility of budgetary control system.

- Budgetary control is only a management tool. It cannot replace management in decision-making because it is not a substitute for management.
- The success of budgetary control depends upon the support of the top management. In some extents there is lack of support from top management, then this will poor.

#### **4.8.4 Submission of reports on their budgeted and actual expenditure**

Submission of a reporting is one of the systems that controlling the budget, therefore the city government BoFED is expected to submit financial reports to city government council quarterly; so that the legislative body can take corrective action as the case may be. The researcher asked a question whether BoFED is discharging its responsibility or not. The analysis show 14(26%) of the respondents said yes 40(74%) of respondent said no. therefore there is delayance the submission of budget utilization report on timely basis and also in open-ended interview supporting the issue, In addition to the Finance and Modern audit core process owner ensured that, the focus of the report is only on financial aspect and does not include physical performance of projects. Because the reporting system is focused on financial performance rather than physical performance and also there is a delay of report to submit the concerned body and there is not corrective action taken immediately by the top management the fact also supporting and the experts addressing the problem and annually reports shows.

#### **4.8.5 Availability of complete budgetary records**

To compare actual spending with the approved budget and to take corrective action if actual spending deviates from budgeted. The analysis show, 29(54%) respond no. On the other hand, 25(46%) respondents ensured that there is no budgetary institutions maintain proper budgetary records. On the contrary, evidence from the audit reports of Finance and Modern audit of the city government of BoFED ensured that there are budgetary institutions which do not maintain complete budgetary records. Instead of this there is a problem of completed recording of a budgetary data due to the following factors:-

- Poor budget preparation
- Lack of necessary and completed document
- Requesting payment without approved budget
- A trend of high request budget transfer at the end of budget year.

#### 4.9 performances of auditing and internal controls for allocated budget

Performance auditing is a systematic, objective assessment of the accomplishments or processes of a government program or activity for the purpose of determining its effectiveness, economy, or efficiency. This determination, along with recommendations for improvement, is reported to managers, ministers, and legislators, who are responsible for enacting the recommendations or ensuring accountability for corrective action. Performance auditing is an important building block with which to improve accountable and responsive governance of public resources. As government programs continue to grow in magnitude and complexity, public sector auditing has evolved and extended its scope beyond mere financial or compliance audits to the auditing of performance to support policy makers in their oversight role. Performance auditing is a very new development in the history of auditing. Its growth parallels the evolution of politics and public administration from a one-dimensional focus on control of inputs (resources) toward broader attention to accountability for outputs and outcomes. This evolution of auditing represents both a means by which auditors can continue to be relevant and a move toward fulfilling their accountability role in governance.

**Table: 4.7 performing of auditing for allocated budget**

	<b>Questions</b>	<b>Strongly agree</b>	<b>Agree</b>	<b>Neutral</b>	<b>Disagree</b>	<b>Strongly disagree</b>	<b>Mean</b>	<b>Strd</b>
1	The bureau has adequate internal audit controls system to ensure that funds are utilized for the intended purpose.	29 (54%)	7 (13%)	18 (33%)	0 (0%)	0 (0%)	18	11
2	All budgetary institutions and Sub-Cities have adequate internal control audit section/unit.	0 (0%)	29 (54%)	14 (26%)	7 (13%)	4 (7%)	13.5	11.15
3	Internal auditors of budgetary institutions independently conduct their duties and responsibilities.	7 (13%)	0 (0)	18 (33%)	25 (46%)	4 (7%)	13.5	9.07
4	BoFED have enforcing mechanism to implement (improve) the audit comments of the Auditor General of the City Administration of Addis Ababa	15 (27%)	23 (43%)	0 (0)	16 (30%)	0 (0%)	18	4.36
5	Internal auditors conduct performance auditing to evaluate	14 (26%)	0 (0%)	33 (61%)	7 (13%)	0 (0%)		

#### 4.9.1 Adequacy of internal control

Controls can be evaluated and improved to make the city administration of finance and economy development performance run more economically, effectively and efficiently to use the limited resources and Internal control is the methods and procedures within the organization established to safeguard assets, check the accuracy and reliability of financial and other data, promote operational efficiency and encourage adherence to the prescribed policies and procedures of the organization. In addition, it can also help to ensure reliable financial reporting and compliance with laws and regulations. Based on the idea, the researcher asked to rate the respondents whether there is adequate internal control or not. According to the respondent, 18(33%) and 7(13%) become neutral and agree respectively. On the other hand, majority of the respondents 29(54%) strongly agree on the issue. However, evidence gathered from plan, budget, monitoring and evaluation sub process owner in the bureau did not have stable human resource skills manpower and the requirement of the position or job specification in BPR study did not relevant criteria with the position of the requirements. This indicates that there is no well-functioning adequate internal control system, hence affects the spending trend by either reducing or increasing the expenditure other than real amount.

#### 4.9.2 Internal audit section in each budgetary institution

The existence of internal audit section helps an organization to conduct thorough examination of the accounting process including the whole system and helps whether transactions are recorded in a proper manner and system is operated efficiently. Accordingly, a question about existence of internal audit section in all budgetary institutions is asked. Consequently, most of the respondent 29(54%) and 14(26%) are agree and neutral respectively on the issue. On the other hand, respondents of 7(13%) and 4(7%) are disagree and strongly disagree respectively on the issue. This indicates that, its existence can contribute a lot towards the good management of public expenditure, if it operates as per the principles of auditing and have a positive impact on the spending trend but they are not well structured and organized.

### **4.9.3 Independence of the internal auditors**

An 'internal audit' can be critical to the successful operation and growth of any Bureau before the external audit team even begins to add their value. According to the bureau Internal Auditors "internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps a bureau accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes."

The mere existence of internal audit section in budgetary institutions becomes worthless unless its auditors perform their duties and responsibilities independently. Based on this essence of auditing, respondents were asked to rate about the independence of internal auditors. Consequently, majority of respondents 25(46%) and 18(33%) are disagree and neutral respectively, on the other hand, 7(13%) becomes strongly agree on the matter and 4(7%) strongly disagree. This indicates the independence of internal auditors in the city government becomes not as per principles. Therefore, if auditors lack independence, they cannot perform their duties properly. Lack of proper audit will lead to failure in implementing the budget properly. This in turn may increase expenditures or underutilize the budget, misusing of budget & increased transfer of budget in such situation in the bureau there is not good independence of internal auditors there for the transaction of a bureau is affects the spending trend, Besides their independence auditors should possess the required professional skill to perform their duties properly. Accordingly, a question regarding the professional skill of the internal auditors was asked to respondents show table 4.6. This indicates that internal auditor in the city government do not possess the required skill and knowledge that enables them to perform their duties properly. This in turn may increase expenditure of the city government than the approved budget.

### **4.9.4 Timely improvement the recommendations of the Auditor General**

Budgeting is a cyclical decision-making process for allocating limited fiscal resources to achieve organizational priorities and objectives over a specific time period there for they needs to improve the audit comment on the timely basis by using systematic mechanize to follow the budget implementation according to approved budget or not in such situation in the city administration, Accurate and timely implementation of the recommendation of the external auditors report eliminates waste, corrects inefficiencies and in general improves

organizational performance. Accordingly, a question whether BoFED has mechanism to improve comments forwarded by the Auditor General of the city government has been asked to respondents. Consequently, 23(43%) and 15(27%) are agree and strongly agree on the issue respectively. On the hand, some of the respondent 16(30%) becomes disagree on the issue. In addition, evidence from Modern internal audit core process owner, the city government has started from Integrated Budget and Expenditure System (IBEX) had a simple mechanism to implement as comments of the Auditor General of the City Administration, in some extents there is lack of improvement as they recommends.

#### **4.9.5 Conducting performance audit by internal auditors**

Performance auditing is an independent auditing process aimed at evaluating the measures instituted by management or the lack of these measures to ensure that, Resources have been acquired economically and utilizing efficiently and effectively.

According to Dittenhofer (2001), performance auditing is a means to evaluate the efficiency and effectiveness in budget implementation. In addition, it was indicated that performance auditing is the responsibility of both internal and external auditors. Accordingly, respondents were asked whether the inspection section of budgetary institutions conducts performance auditing or not. Consequently, the majority of the respondents 33(61%) and 14(26%) are neutral and strongly agree on the issue. On the other hand, 7(13%) becomes disagree on the issue. If auditors fail to evaluate the efficiency and effectiveness of public spending, this results implementers to become careless in giving attention toward achieving the efficiency and effectiveness in public spending. This fact again can lead toward rush yearend spending and budget to left used that affects technical efficiency and failure to implement the projects that affect outcome thus the effectiveness.

## **CHAPTER FIVE**

### **Conclusions and Recommendation**

#### **5.0. General Overview**

This chapter provides the findings and recommendations based on the stated in the objectives and research questions. The study focused on assessment of the budget implementation and controlling in the Addis Ababa city administration in the case of ministry of finance and economic development Bureau (BoFED). For this reason, it reviewed relevant literatures and documents and collected data from the targeted population. Therefore, during the analysis the following findings were identified basically, the study focuses Assessment on budget implementation and controlling and identifies the challenges that hinder the plan and budget integration, budget and expenditure, implementation and controlling & auditing performance in the city administrative budget based on evidence from the BoFED of city government. To achieve the objectives of the study, the researcher employed mixed research approach and used both primary and secondary data sources. This is because to ensure the sufficiency of data and for triangulation purpose so that reliability and validity of the findings of the research becomes enhanced. Therefore, based on the finding of study conclusions are forwarded as follows.

#### **5.1. Conclusions**

The survey ensured that all budgetary institutions integration of plan and budget their activities based on their plan but Planning and Budget Department does not arrange regular workshops and short-term training to improve the skill of budget personnel engaged in budget holders and for the adequate understanding of budget preparation , The Department takes the Lion's share of responsibility for budget integration problems so that is difficult for linking the budget with the performance goals and objectives of budgetary institutions in the city administration of BoFED.

The budget expenditure in both budget types indicated & decreasing & increasing trend all over the study periods. The reasons for such kind of for variation budget according to physical plan there is lack of preparing annual plan based on strategies document and also lack of reliable and reasonable estimated cost to properly prepare the budget. In addition to this there a tendency of submitting budget without plan However, such kind of activities is

improved from time to time in recurrent budget but in capital budget is not because of the variance is increase in relatively to recurrent budget so there is idle budget in the cause of Comprehensive, coordinated and adequate budgetary reporting system is not a prerequisite for good budget implementation and controlling.

In addition to other there is high budget transfer requesting & there is no implement properly a control system that's why some budgetary institutions fail to submit reports timely and lack of complete recording.

Therefore BoFED fails to take corrective action when actual results deviate from plan, Moreover the system of reporting is fragmented in that BoFED submitted to administrative council only the financial performance and physical performance of projects is submitted by the budgetary institutions themselves. This resulted in failure to correct the problem timely and budget to be left unused.

In the Bureau there is a control system the survey also ensured that but there are deficiencies in the internal control system implementation practically in the independence and professional skill of internal auditors is doubtful? Besides, internal auditors do not perform performance auditing which adversely affect the efficiency and effectiveness of public spending, Therefore is the fund lack of properly utilizing for intended purpose.

## **5.2. Recommendation**

The main intention of this project paper is to identify the fundamental causes of BoFED Budget implementation and control weaknesses observed in budget users, and suggest possible recommendations to overcome such problems. Therefore, the following recommendations are suggested

- The expenditure management of the BoFED is supposed to have medium term frame work by encouraging budgetary institutions to prepare and implement properly.
- The preparation of the budget to be based on adequate controls and professional skilled manpower.
- Budget prepared based estimated & reasonably cost and revised budget according to their plan.
- According to Allen and Tommasi (2001), budget execution involves a great number of players than budget preparation. Thus, the role of decision making should be given to

lower level units to build responsiveness and accountability on efficient utilization of their budgets.

- The opinions suggested by the Office of Federal Auditor General should be considered thoroughly.

Finally, the bureau should take all possible and remedial actions to rectify the observed weaknesses, and to avoid repetition of the problems in subsequent years. As a result, the vision of the institution to build competent employees with efficient cost utilization will be undoubtedly achieved provided that its budget implementation and controlling is fully internalized among budget integration with plan, taking corrective action, properly utilization of budget and auditing performance and internal control in the city administration of finance and economic development bureau.

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## APPENDICES

### Appendix 1: QUESTIONNAIRE

**Dear respondent,**

This questionnaire is designed to assess on “Budget implementation and controlling in Addis Ababa city administration Bureau ”: A case study of bureau of finance and economic development (BoFED). The questionnaire intends to collect information for academic purpose only and be regarded confidential.

In order to make this study successful, the researcher kindly requests you to fill in the Questionnaires brought to you.

#### **PART 1: DEMOGRAPHIC INFORMATION**

1. **Gender (please tick)** Male\_\_\_Female \_\_\_\_\_

2. **Level of Education (please tick)**

A. Ordinary level\_\_\_\_\_

B. Advanced level\_\_\_\_\_

C. Certificate education\_\_\_\_\_

D. Diploma education \_\_\_\_\_

E. Degree level\_\_\_\_\_

F. Postgraduate /Masters level\_\_\_\_\_

3. **Work experience (please tick)**

✚ ≤5 years \_\_\_\_\_

✚ 6 to 10 years \_\_\_\_\_

✚ 11 to 15 years \_\_\_\_\_

✚ Above 16 years\_\_\_\_\_

**Appendix 1 questioners To assess the integration of budget and planning (please )**

1. Medium term expenditure Frame work ((MTEFs)) is prepared in each spending agency?

(A) Strongly agree (B) agree (C) neutral (C) disagree (D) strongly agree

2. The bureau has mechanism to link the annual budget proposal with the physical plans of budgetary institutions.  
(A) Strongly agree (B) agree (C) neutral (C) disagree (D) strongly agree
3. There is strong relationship between project planning and formulation of capital budget in every spending agency?  
Strongly agree (B) agree (C) neutral (C) disagree (D) strongly agree
4. You have adequate understanding to prepare plan and budget?  
(A) Strongly agree (B) agree (C) neutral (C) disagree (D) strongly agree

**Appendix 2 questioners To assessing reason for mismatching of budget and plan at BoFED (please tick)**

5. The city administration BoFED has adequate number of professionals (budget officers) who prepare plan and budget?  
(A) Strongly agree (B) agree (C) neutral (C) disagree (D) strongly agree
6. In the city administration BoFED revising their plan according to their approved budget?  
(A) Strongly agree (B) agree (C) neutral (C) disagree (D) strongly agree
7. In the city administration BoFED, there is a variation of plan with budget?

Yes  No  No comment  "yes", in your opinion, what are the reasons for variation plan and budget?

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8. Sub-cities analyze their budget properly in terms of their transformational plan?  
(A) Strongly agree (B) agree (C) neutral (C) disagree (D) strongly agree
9. The offices prepare its annual plan based on its strategies documents of city?  
(A) Strongly agree (B) agree (C) neutral (C) disagree (D) strongly agree
10. Budget is prepared based on reliable data and reasonable estimated cost.  
(A) Strongly agree (B) agree (C) neutral (C) disagree (D) strongly agree

11. There is a tendency of submitting budget request without plan?

(A) Strongly agree (B) agree (C) neutral (C) disagree (D) strongly agree

**Appendix 1 questioners To examine budget utilization and controlling in BoFED (please tick)**

12. Do budgetary institutions use their budgets based on their planned cash flows?

Yes  No  no any comment  if "No", in your opinion, what is the reasons not using budget based on cash flow?

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13. Do sectors frequently ask budget transfers?

Yes  No  No comment

14. Do you have a budgetary control system which enables the budgetary institutions to report on their budgeted and actual expenditure?

Yes  No  No comment

15. Does your bureau prepare timely, explanatory and complete budget implementation reports to city administration council?

Yes  No  No comment

16. Do budgetary institutions keep complete and reliable budgetary records?

Yes  No  No comment

**Appendix 4 questioners To see how auditing is performed in BoFED for Allocated Budget (please tick)**

17. The bureau has adequate internal audit controls system to ensure that funds are utilized for the intended purpose.

(A) Strongly agree (B) agree (C) neutral (C) disagree (D) strongly agree

18. All budgetary institutions and Sub-Cities have adequate internal control audit section/unit?

(A) Strongly agree (B) agree (C) neutral (D) disagree (E) strongly disagree

19. Internal auditors of budgetary institutions independently conduct their duties and responsibilities?

(A) Strongly agree (B) agree (C) neutral (D) disagree (E) strongly disagree

20. BoFED have enforcing mechanism to implement (improve) the audit comments of the Auditor General of the City Administration of Addis Ababa.?

(A) Strongly agree (B) agree (C) neutral (D) disagree (E) strongly disagree

21. Internal auditors conduct performance auditing to evaluate efficiency and effectiveness of budget utilization?

(A) Strongly agree (B) agree (C) neutral (D) disagree (E) strongly disagree

22. What are the major challenges observed so far in the audit functions (results) in

BoFED? \_\_\_\_\_

Any comment

**Thank you for your time!!!**

