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FEDERAL BUDGET ALLOCATION AND CONTROL IN ETHIOPIA: CHALLENGES AND OPTIONS

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Declaration

I hereby declare that the thesis entitled "***Federal Budget Allocation and Control in Ethiopia: challenges and options***" is my original work and has not been presented by any one else for any degree or diploma in any university. All the materials used for the thesis have been duly acknowledged.

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Certification

This is to certify that Assefa Mamecha (ID. GSR 2255/98) has completed his thesis entitled "**Federal Budget Allocation and Control in Ethiopia: challenges and options**" successfully in partial fulfillment of the requirement for the award of Degree of Masters of Public Administration. In my view the work is original effort of the candidate and all the materials used to the research have been acknowledged.

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List of Abbreviations

MoFED	Ministry of Finance and Economic Development
OFAG	Office of the Federal Auditor General
HPR	House of People's Representatives
FDRE	Federal Democratic Republic of Ethiopia
PBB	Performance Based Budgeting
PPBS	Planning Programming Budgeting Systems

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Abstract

The research work attempted to look into the budget allocation and control practices of the federal government of Ethiopia to assess and address the challenges faced by the major budgetary actors (HPR, MoFED and OFAG). Ethiopia as one of the poor countries is striving to ensure sustainable development by allocating its scarce resource (budget) to address the basic social and economic needs of the people. The intervention of the government for the provision of these basic services is very essential and to achieve the development objectives of the country, there should be efficient and effective budget allocation and utilization in the country. It was, therefore, necessary to examine the country's budgetary process focusing on the major budgetary actors.

This study, conducted a survey to generate the required data and information from the targeted government institutions. It was found out that the current budgetary approach (line item approach) of the country has not created a conducive environment to link the budget with the major goals and objectives of public agencies. It was also realized that the budget and public accounts standing committees of the House of peoples' Representatives lack adequate institutional capacities to effectively carryout their roles of analyzing and controlling budget allocation and implementation of the country.

Moreover, the government did not establish a mechanism to follow up the implementation of budgetary audit reports of OFAG to improve the budget utilizations of public agencies. The government has not also given enough attention for the development of performance (value for money) auditing which helps to ensure efficient and effective budget utilization.

Therefore, it was concluded that the government needs to look into other performance related budgetary formats to change the line item approach and it should also think of building the capacities of the major budgetary actors.

Chapter One

Introduction

1.1 Background of the Problem

Public budgeting means making and implementing decisions regarding the acquisition, allocation, and use of resources by government with primary focus on money in the modern era (Nice, 2002). Public budgeting is central to the operation of a government in the modern world where the role of a state is expanding due to technological advancement and increased public demands. As a result governments of both developed and developing countries are increasing their budgets to address the needs of their people, and at the same time the role of their people to participate in budget decisions is also growing. The word public budgeting is some what distinctive than private budgeting at least in democratic countries, in the openness of budgetary decisions to outside influences. Citizens, interest groups, political parties and the mass media, all seek to shape budgetary decisions made by a government.

One of the peculiar feature of public budgeting is the frequent occurrence of serious conflicts (problems) regarding budgetary decisions. How funds be allocated among different programs? What restrictions or regulations should accompany the money? Who are the principal actors in the budgetary process? and What are their roles? are some of the critical issues in government budgeting. Public budgeting almost always involves conflicts among a number of formal and informal groups and individuals who have different views regarding the ideal budget particularly in democratic societies.

Public budgeting in the modern world is also different from private budgeting in that it is subject to a large number of rules, regulations, and procedural guidelines that make the process quite complex and sometimes confusing (Robert, 1999). Public budgeting especially in democracies is hedged about with rules, restrictions, and complex procedures. Specific procedures are usually required to make government budget decisions. Restrictions on how certain funds can be used, how funds can be raised and other aspects of the budget may limit the options of decision makers.

One of the reasons why public budgeting is often controversial and difficult is the fact that we expect it to do a number of different and sometimes in compatible tasks. Improving the budget process's ability to perform on task may erode its ability to perform another task (Nice, 2002). Public budgeting often involves considerable conflict. Supporters of a program clash with the opponents of a program. People who support a program in general may disagree with one another regarding the various aspects of the programs operation. Distributing the costs of government across tax payers is perennial source of controversies.

The problems and controversial issues related to government budgeting are reflected in the preparation, enactment, execution, and review (audit) phases of the budget cycle. The politics of public budgeting is more serious and challenging particularly in federal democratic countries where there is constitutional power and resource sharing among different levels of government. In a decentralized form of government fare and transparent allocation and control of the public budget is the true test of genuine federalism.

In most federally structured countries the major actors in the public budgetary process are the parliament, the ministry of finance, spending

agencies, and the audit institutions. The problems and controversies of the public budgetary process are reflected in these budgetary actors.

The 1994 constitution of Ethiopia established federal form of government. The constitution also established two houses: the Council of Peoples' Representatives and the Council of Federations. Both Houses have their own roles in allocating and controlling the federal budget. The Council of Peoples' Representatives is responsible to allocate the federal budget and control (evaluate) the executive budget utilization, while the House of Federation is constitutionally mandated to establish a formula (criteria) for the division of regional subsidies. The Ministry of Finance and Economic Development is responsible to prepare the federal budget representing the executive while the Office of the Auditor General serves as the controlling arm of the House of Peoples' Representatives in controlling the budget implementation of public agencies. This research will try to identify, analyze and address the federal budgetary process challenges faced by the major budgetary actors focusing on the allocation and controlling problems.

1.2 Statement of the Problem

In developing countries the role of a government in developmental activities is indispensable. In these countries where there is no well developed private sector, state intervention for the provision of basic infrastructures and social goods is very crucial. Government is the leading actor in bringing development in those counties and the most important instrument used by any government to intervene in developmental activities is the budget.

In federally structured countries, budget allocation to different regional states and sector agencies for various activities is a hot political agenda

and source of conflict. How resource/budget/ is shared among competing demands? On what criteria? By whose influence? And how budget is controlled? Who controls? Are often critical questions raised by different interest groups.

Starting from 1994, Ethiopia has been following a federal form of government. Since then, the federal government as mandated by the constitution has been playing a vital role by allocating budgets to regional states and sector agencies. The Council of People's Representatives as the supreme legislative body of the country has the constitutional mandate to allocate budgets to regional governments and control the performance of the executive branch of the government to ensure whether the allocated budget is used /spent/ for planned priority areas of the country. The House of Federation establishes a formula for regional subsidies and the office of the auditor general as the supreme controlling arm of the parliament has the mandate to audit (evaluate) the budget utilization of spending agencies and report to the house. The executive branch has also its own internal audit departments to control the budget spending agencies. But some people and the media argue that the country's budgetary process has faced the following problems. These are:

- Lack of linkage between planning and budgeting
- Lack of adequate institutional capacity on the part of the legislative body to analyze, debate, and challenge (control) the executive in budget allocation and implementation.
- Lack of participation on the part of different interest groups in budget and audit hearings.
- Controversies in controlling /auditing/ regional subsidies between the Office of the Auditor General and the Ministry of Finance and Economic Development

Absence of performance auditing practices to evaluate the efficiency and effectiveness of budget utilization in public agencies

Therefore, this study will try to address the above critical issues to improve the country's federal budget allocation and control mechanisms.

1.3 Objectives of the Study

The main objective of the research is to assess the budget allocation and control challenges of the federal government of Ethiopia focusing on the Council of Peoples' Representatives, the Council of Federation, the Ministry of Finance and Economic Development and the Office of the Auditor General. In specific terms, the research attempts to address the following questions.

1. What does the relationship between planning and budgeting look like in the federal government of Ethiopia
2. What are the roles and relationships of the House of Peoples' Representatives and the House of Federation in allocating subsidies to regional states?
3. What are the mechanisms used by the House of peoples' Representatives to ensure efficient and effective budget utilization of public agencies?
4. What are the causes of executive influence in the budget allocation of the federal government?
5. What are the causes of controversies between the Ministry of Finance and Economic Development and the Office of the Auditor General in controlling regional subsidies?
6. Is there a developed performance Auditing practice as a means for budgetary control in the country?
7. What are the key challenges of budget allocation and control practices of the country?

1.4 Scope and Limitations of the Study

Budget allocation and controlling is a very vast public administration areas that involve different levels of government (federal to local government levels). Citizens, political parties and other governmental and non governmental interest groups have also their own stakes in the public budget. This study focuses on the federal budget allocation and control problems. Because of time and financial constraints the paper focuses only on the allocation and the control problems. The administration (implementation) of the budgets by different sector organizations, regions and local governments is not covered by the study.

1.5 Methodology of the Study

1.5.1 Institutions Involved in the Study

In a federal form of government like Ethiopia the key institutions (actors) of the budget process are categorized into four. These are parliament Ministry of finance, spending agencies and the supreme audit institution. Therefore the research encompasses the council of peoples' representatives, the Council of Federation, Ministry of Finance and Economic Development and the Office of the Federal Auditor General. Since the focus of the study is the allocation and control problems of the federal budget, spending public agencies are not considered in the study. The rationales as to why each institution is selected as subjects for the study are elaborated below.

The council of peoples' Representative is the legislative body that approves federal budget and controls the executive budget implementation. The Council of Federation has a constitutional mandate to design a formula for allocating regional subsidies. And the Ministry of

Finance and Economic Development is responsible to prepare the federal budgets representing the executive branch of the government. MOFED also controls (audits) public agencies' budget implementation. Finally Office of the Federal Auditor General is selected as subjects of study since it is the budget controlling arm of the House of Peoples' Representatives.

Moreover, from the Council of Peoples' Representatives, even though all the members of the house participate in the approval and controlling process of the Federal budget, more emphasis is given to target members of the budget and public accounts standing committees since they are directly responsible to analyze, amend, and control the federal budgets. In the council of Federation, experts who were involved in designing the new formula for regional subsidies are involved in the study.

In the Ministry of Finance and Economic Development experts who work in departments that prepare and audit the budget are selected for the research. The departments selected for the study include general budget department economic budget department social budget department and inspection department.

From the office of the Federal Auditor General professionals who work in both financial and performance audit departments are approached to gather information about budgetary auditing problems of the federal government.

1.5.2 Data Collection and measurement

To conduct the research both primary and secondary data were gathered from the above mentioned institutions.

1.5.2.1 Primary Data Collection

The research by and large relied on primary sources of information than secondary sources. As a result, primary data were gathered from the Council of Peoples' Representatives, the Council of Federation, the Ministry of Finance and Economic Development and the Office of the Auditor General by using questionnaire, interview and personal observation methods.

1.5.2.1.1 Primary Data Collection from the Council of Peoples' Representatives

In order to identify federal budget allocation and control problems, primary data were gathered from the House of Peoples' Representatives through questionnaires and personal interviews. Currently the House of Peoples Representatives has 529 members. Even though the total authorized number of seats is 547, currently the number of parliamentarians is 529 since some members of the opposition parties failed to join the house after election 2005. As a result 53 questionnaires (10% of 529 = 53) were distributed to the members of the house.

The sampling method used to select the target respondents is simple random sampling technique (lottery method). But the researcher faced a problem to access some of the respondents (10%) because they were in field works and in place of them other parliamentarians were deliberately selected.

In addition to questionnaires two personal interviews were administered with the chairman of the public accounts standing committee and the vice chairman of the budget standing committee by using purposeful sampling method since they are directly responsible for budget allocation

and control matters. The questions used for the interviews were unstructured general questions.

1.5.2.1.2 Primary Data Collection from the Council of Federation

To gather primary information about budgetary formula of regional subsidy personal interview was administered with the budget formula advisor of the council of Federation who was the member of the new budget formula study group.

1.5.2.1.3 Primary Data Collection from the Ministry of Finance and Economic Development

To gather primary information on budget allocation and control issues 45 questionnaires were distributed to all professional workers (having first degree and above) who work in four relevant departments of the ministry. As indicated above these departments are directly responsible for budget preparation and control. There fore the sampling technique employed to select the target departments and employees is purposeful sampling method.

1.5.2.1.4 Primary Data Collection from the Office of the Auditor General

Primary data related to controlling (auditing) challenges of the federal budget were also gathered from the Office of the Federal Auditor General by using questionnaire and interview methods. A total of 30 questionnaires were administered to all the professional experts (having first degree or above) of the Auditor General. The sampling method employed to select the target respondents is purposeful sampling. In addition to using questionnaires, primary data were gathered by using personal interview. Personal interview was administered on budget control issues with training and documentation department head of the Auditor General.

1.5.2.2 Secondary Data Collection

In addition to primary information, secondary data were also gathered from the targeted institutions. Parliamentary proceedings (minutes) of the last three years on budget approval and control matters were referred. Debates of the parliamentarians on the federal budget proposals of MOFED and debates on the audit reports of the Auditor General for the last three budget years are referred and analyzed from the proceedings of the House of Peoples representatives.

More over, the constitution of FDRE, financial (budget) proclamations and regulations of MOFED, regulation of the house of peoples' representatives on budget and finance issues, regulations of the Auditor General, budget proclamations of the last three years, proclamations of budget formula are some of the secondary sources of information used by the research. Besides, different books written on public budgeting and control and the experiences of other countries are considered for the study.

Information gathered from the above sources are analyzed by percentages and descriptive analysis techniques.

1.6 Significance of the Study

Ethiopia is a federal state. The country's federal budget enactment and control system is criticized by a number of interest groups. Different interest groups state that the role of the legislative organ in budget allocation and control is minimal. They also magnify the role of the executive branch in the country's budget allocation. It is hoped that this

research will contribute to identify the challenges/ problems/ of the federal budget by independently analyzing the issues.

1.7 Chapter Scheme

This thesis is divided by four chapters. The first chapter covers the introduction part of the study including background of the problem statement of the problem, objective of the study, scope and limitations of the study, significance of the study, methodology, and. The second chapter deals with literature review of theories of public budgeting preparation enactment and control and the experiences of other countries and the Ethiopian budget process strengths and weaknesses and the third chapter will be devoted for data presentation and analysis. The last chapter will cover the conclusion and recommendations of the study.

Chapter Two

Literature Review

2.1 Budgeting:

2.1.1 Definitions and Concepts

According to Robert et. al. (2004) budget is a document or a collection of documents that refers to the financial condition and the future plans of an organization including information on revenues, expenditures, activities and purposes or goals. Historically the word budget referred to a leather pouch wallet, bag or purse (Meyers, 1999). More particularly in Britain the term was used to describe the leather bag in which the chancellor of the exchanger carried to parliament the statements of the financial statement of government.

Budget is a plan expressed in monetary terms covering a specific period of time, usually a year. It is also an instrument that measures the financial results expected from planned activities (Nice, 2002).

2.1.1.1 Public Budgeting

“Public budgeting involves the selection of ends and the selection of meanses to reach those ends. It also involves the division of society’s economic and financial resources between the public sector and the private sector and the allocation of such resources among competing public sector needs (Robert, 2004).

2.1.1.2 Public Budgeting System

Public budgeting systems are systems for making choices of ends and meanses. These choices are guided by theory, by hunch, by partisan

politics, by narrow self-interest, by altruism and by many other sources of value judgments (IBID, 2004).

2.2 Approaches to Public Budgeting

Budget makers have tried a number of different formats to prepare budget proposals. Each approach has advantages and disadvantages and we have to bear in mind that the different approaches /formats/ are not mutually exclusive. Some of these approaches to public budgeting are discussed below.

2.2.1 Lump Sum Budgeting

It is a relatively simple budgetary format which has only a few broad categories each of which is covered by a large chunk of money. For example a nation, using the lump sum format, might have one budgetary item for defense, another for social programs, and another for physical improvements. Here, the entire budget might be only a few pages long. In addition, Lump Sum Budgeting is easy to prepare revise and understand and it focuses attention on broad questions rather than detail issues. It also helps to minimize conflicts. (Nice, 2002)

Lump Sum Budgeting has deficiencies that out weigh its strengths. First, this approach provides little guidance to identify the impacts of budget change on programs or services. It also provides no information regarding the effects of current spending and gives large amount of discretion to the bureaucracy (Greider, 1982). Besides, because it contains little information, it has limited value to serve as an instrument for coordinating different programs or setting social priorities: (Nice, 2002).

2.2.2 Object of Expenditure Budgeting

The second budgetary format /approach/ is the Object of Expenditure budget, sometimes called the line item budget. In this approach, the budget is broken down by departments and agencies and within each agency by what objects the agency spends the money. For instance an agency's total funding could be divided among categories for personnel costs, equipment, maintenance, travel and non equipment supplies (Meyers, 1994).

Advocates of the Object of Expenditure format contend that it has a number of advantages. First it can help reduce unnecessary spending at least in the sense of unnecessary purchases. This approach also gives budgeters more information regarding where the money is going compared to the lump sum format and gives elected officials more control over the bureaucracy. (Anderson, 1994)

On the contrary critics of the Object of Expenditure approach complain that it provides little meaningful information regarding what agencies are actually doing. This approach also tells us little about the programmatic impact of budgetary changes. It can tell us that a cut might mean fewer personnel, but if we know little regarding the activities or accomplishments of agency personnel we will be unsure regarding its effect on services (Ronald, 2004).

2.2.3 Performance Budgeting

In an effort to improve public budgeting, reformers began to advocate performance budgeting in the 20th century. Performance Budgeting is characterized by focusing on the outcomes as well as evaluation of programs by measuring the relationship between resources and results.

It also emphasizes the measurement of government performance by agencies and public servants (Willoughby et. al, 1998).

Critics of Performance Budgeting state that its preparation requires a great deal of effort than Object of Expenditure or Lumps-Sum Budgeting. This approach may also generate additional political conflict by raising disputes regarding what agencies and their personnel should be doing. (Nice, 2002)

2.3 The Budget Cycle

Public budgeting involves a number of different phases that include a variety of participants in each phase. These budget phases include: preparing a budget proposal, enacting the budget, Budget execution and budget review and audit.

According to Nice (2002), the steps in the budget process resemble the components of public policy making. First some one or some group must formulate a budget proposal. This phase corresponds to the formulation of policy options. Secondly, a budget must be formally adopted. This stage corresponds to the adoption of any public policy. Third, a budget must be implemented and executed as any policy. Finally, analysts and decision makers need to determine whether budgetary guidelines and policies were faithfully followed so as to produce satisfactory results. This phase also corresponds to the evaluation phase of policy making. Each phases of public budgeting are briefly discussed below.

2.3.1 Preparing a Budget Proposal

The first phase of the budget process is the development of a budget proposal. In the modern-era, the executive branch of government has normally been responsible at least in a formal sense, although, not all

governments use this approach. Presidents, Governors, Mayors, City Managers, Department heads and other Administrators try to assess the amount of revenues expected to be generated, the cost of current commitments and additional important needs that are currently not being met. Given the wide range of government responsibilities, the complexity of many programs and the difficulty of predicting the future made preparing a budget proposal an enormously difficult job. The difficulty is compounded by the growing expectation, especially since the 1930's that the budget proposal should include analysis of how much work agencies are doing and how much is being accomplished by each program (Nice, 2002).

The executive branch of government usually bears the formal responsibility for developing a budget proposal even though many other participants are likely to be involved. Interest groups often call for additional funding for their favorite programs. Political parties may propose budgetary changes in party platforms during election campaigns. Legislators may recommend budgetary proposals for specific programs and prudent executives are likely to consult with legislators in order to determine whether a particular proposal is likely to receive a friendly reception. (Robert, 2004)

Cooper et. al, (1999) also argue that public demands and court decisions may create pressures to reshape a budget proposal. These numerous participants are likely to have many different views regarding the ideal budget proposal. Coping with those conflicting views is a difficult task especially in larger and more diverse political systems.

2.3.2 Enacting the Budget

After the budget proposal is prepared, the next phase of the budget cycle is the formal adoption of the budget. The legislative branch of government is formally responsible for the approval of revenue and spending bills. But in countries like the United States, the budget proposal adopted by the congress is subject to presidential veto.

Regardless of their formal powers, executives are usually very active in the adoption phase of the budget process. Chief executives try to persuade legislators to approve the budget proposal with relatively few changes although unexpected development may lead chief executives to propose modifications of their own proposals. Lower level executive branch officials also try to influence legislative decisions. Those efforts may include trying to get more money than requested (Donald, 1988).

Nice (2002) also argues that many informal participants are usually active during the adoption phase of public budgeting. Interest groups that are concerned with individual programs will lobby for budgetary policies that conform to the groups' agendas. A political party may also try to influence decision makers to put the party's stamp on the budget. Conversely, most of the general public will not usually be actively involved in the budget process, but decision makers often try to anticipate the public's reaction to budgetary decisions, especially, regarding policies that are likely to be noticed by the public. When the political pressures are numerous and pushed in many different directions, policy makers may have a difficult time in making budgetary decisions.

2.3.3 Budget Execution

After the budget has been adopted by the law making body, it must be implemented. This stage of the budget is usually invisible to most people

and rarely receives much news coverage. Administrative procedures regulate the distribution of money to individual departments and agencies (Ronald, 2004).

Because decision makers cannot always predict the future with perfect accuracy, changing conditions such as the out-break of natural and artificial calamity may require revisions in the budget while it is being executed. Revenues may be lower than expected or higher than expected. Revenue short falls may trigger reductions in spending below what were originally approved changes in public needs or the costs of vital supplies may produce pressures to give additional funding or to reduce their funding. There are a variety of methods that can be used to modify the budget in response to changing conditions.

2.3.4 Budget Review and Audit

After the budget has been implemented, the review and audit phase begins. Traditionally this phase of the budget process emphasizes determining whether budgetary policies and guidelines have been followed.

Since the 1930's, the review and audit phase of the federal budget has expanded in scope to include more emphasis on determining the productivity and effectiveness of government programs. This newer emphasis on productivity and effectiveness has made the review and audit phase a much larger and more complex task and has also made it more controversial. Assessing the efficiency and effectiveness of government programs is often difficult in part because many factors may influence the conditions that government programs are trying to influence. Analyzing the productivity, efficiency and effectiveness also

forces us to examine what we actually want government policies to achieve (Nice, 2002).

On the other hand, Robert (2004) argues that auditing serves a variety of functions in many different forms. One distinction made is between pre-audits and post-audits. The pre-audit occurs before the government commits it self to a purchase and is used to verify whether a certain department has sufficient funds to purchase certain equipment and that department is authorized to.

Post audits generally involve more extensive procedures and often more participants. This form of auditing has been defined as “a systematic collection of sufficient, competent evidential matter needed to attest the fairness of management’s assertions in the financial statements or to evaluate whether management has efficiently and effectively carried out its responsibilities (Robert, 2004).

2.4 Public Auditing Objectives and Organizational Responsibilities

Auditing provides some assurance to investors in both the private and the public sectors that their investments are secure and are being well managed. Another purpose of auditing is ensuring that funds are not subject to fraud, waste and abuse or subject to errors in reporting. (Robert, 2004)

Auditing in government is used to verify the compliance of different directives as well. Accounting systems track receipts and expenditures to ensure that they are handled in conformance with restriction contained in revenue and appropriation bills. Auditing also helps to ensure that an agency doesn’t spend funds on activities that have not been authorized. Another form of compliance auditing involves grants. The federal government needs to check that only appropriate changes have been

made by a state government in the case of a federally funded project or program (Philip et. al, 2004).

Auditing within a government is often performed by several organizations. Internal audits can be conducted periodically to provide information to management to have control over operations. Other audits are conducted by external auditors who can be from a unit answerable to the legislative body.¹ (Robert, 2004; Philip et. al, 2004)

2.5 Types of Audits

As it is stated above, there are pre and post audits as well as internal and external audits. Another way of categorizing audits is on the basis of purposes to be served. Based on this classification, audits can be directed towards finance and/or performance.

According to Robert et. al. (2004) financial audits focus on whether financial statements are prepared by a government accurately to reflect financial transactions and the government's or agency's status. Financial audits also review how financial matters are handled and whether suitable internal controls exist to protect resources. Auditors are concerned with the vulnerability of a financial management system to potential fraud.

As indicated above, the other major auditing function is performance auditing which deals with whether resources are being used efficiently and whether results or objectives are being achieved. The characteristics

¹ For instance, in USA the federal government augmented the auditing function during the 1970's and 80's by creating inspectors general in major federal agencies. Appointed by the president with the advice and consent of the senate inspectors generals are located with in agencies but can only be removed by the president. Inspectors generals are responsible for conducting audits and for investigating possible cases of fraud waste and abuse of government resources [0]

and the differences of financial and performance audits are discussed below.

Any audit agency faces the difficult choice of deciding how much effort and resources should be devoted to the competing function of financial and performance auditing. If the major emphasis is given to performance auditing, fraud and other abuses may become more prevalent; conversely, placing greater emphasis on financial auditing may keep government honest but do little to encourage agencies to fulfill their missions (Ronald et. al, 2004).

In budgetary audit and evaluation phase, the disbursement of public money is scrutinized to assure officials and the public that funds were used in accordance with legislative intent and no money were spent illegally or for personal gain and that public agencies are carrying out programs and activities in the most efficient and effective manner pursuant to legal and institutional constraints (Meyers, 1999).

As it is stated above, financial audits evaluate honesty and correctness in handling money. As the role of government expanded after World War II, more effort was spent to measure the efficiency and effectiveness of government. This led to experiments with performance auditing. In performance auditing, the auditor attempts to ensure that the agency is conducting programs in a manner consistent with the laws and regulations that authorize the program and to determine whether the agency has taken judicious action in resource deployment to attain programmatic ends (Meyers: 1999).

Basically in performance auditing the auditor is attempting to judge efficiency in resource use and effectiveness in program delivery. Findings of performance auditing help policy makers to enhance program outcomes and minimize the resources required to operate the programs.

In most cases, the same agencies responsible for financial audits also conduct performance audits. However, the focus in each audit is different. The audit reports are feedback into the budgetary process and may lead to changes in the laws and rules that guide the program and in the managerial practices of the agency that administers it. Audit findings may also be reviewed in special hearings outside the budgetary system who wants to ensure that agencies behave responsibly and in many cases. In addition, these Audit reports are published and available to the public (Meyers, 1999).

Generally both financial and performance audits help to ensure that a certain jurisdiction is getting the most for its tax dollars. In so doing they help maintain the vital element of trust in government and in those who disburse its monies and create and administer its programs. In performance auditing the performance of an agency or department is measured to ensure the efficiency and effectiveness of the entity

2.6 The Development of Performance Auditing

A government auditor examines that the public expenditure has been incurred and revenue has been collected in accordance with rules regulations and under due authority. It sees that government departments and agencies have observed generally canons of financial propriety. But recently, the traditional scope of government auditing has undergone a change (Lema: 2000).

According to Lema, the following reasons contributed for the changes in the traditional scope of government auditing: These are

- The scope of government activities has expanded. From simple functions of law and order and administration of justice, most

governments are committed to play an active role in socio-economic development of their economies. This has greatly increased the size of public expenditure.

- There are competing claims for resource allocation. The scarcity of resources demands a more rational and informed decision making in public expenditure. As a result there is an urge for receiving full value from the money spent.
- Because of the development of democratic institutions, consciousness of the public and its representatives has increased. There is a growing demand for the accountability of those who manage public resources.

Therefore, an independent agency should review and report on the performance of government departments and agencies as well as their programmes. In response to expectation of public representatives, the supreme audit institutions of a number of countries have expanded the scope of their examination.

2.6.1 Definition and Concepts of Performance Auditing

The performance auditing manual prepared by the Ethiopian office of the Auditor General (1996) defines performance auditing as follows:

“Performance auditing is an assessment of the activities of an organization to see if the resources are being managed with due regard for economy, efficiency and effectiveness and that the accountability requirements are being met reasonable” (PP,8)

In the above definition, the key words are assessment, activities, organization, resources, management, economy, efficiency, effectiveness accountability requirement and reasonableness.²

2.6.2 Comparison Between Financial and Performance Audits

Audit, in general, is an independent examination of the performance of an organization. The examination could be either on the financial performance or on the efficiency and effectiveness of the organizations operations with due regard to the economic usage of resources. However, when we look further there are two types of audits namely financial and performance.

The ultimate result of a financial audit is the expression of opinion on whether the financial statements produced by the organization show the proper usage of funds for the authorized purpose. Hence it is mainly concerted with compliance with rules, regulations, directives, faire presentation of the results of financial performance and book keeping (Lema, 2000).

On the other hand the results from performance audit are recommendations which enhance improvement in efficiency and effectiveness of operations and indicate whether resources are used

² The audit manual further explains the concepts as follows:-

Assessment: - This is to mean that the auditor formulates a judgment on the basis of relevant and reliable evidence.

Activities: - Performance auditing extends to financial as well as non- financial activities of an organization.

Organization: - Performance auditing takes an overview of the activities and functions of an organization asa whole. But in exceptional cases, it may review an isolated project or a programme as well.

Resources: - The resources of an organization consist of budget, main materials and machines performance auditing review all these resources.

Management: - Management covers such functions as planning, organizing, providing resources, directing and controlling performance auditing reviews all these phases of management cycles.

Economy: - Review of an economy is a primary element in performance auditing. Economy means acquiring resources at the lowest cost keeping in view the objectives of the organization.

Efficiency: - Efficiency refers to the relationship of inputs and outputs. It relates to the utilization of resources.

Effectiveness: - It means the extent to which an organization achieves its objective.

Accountability: - Public managers are responsible to carryout the policies of the legislature by translating them into appropriate programs certain resources are provided to them to implement these programmes and they are expected to report back to the legislature the results of their programmes. [0]

economically. In addition to this, financial audit is past oriented while performance audit is future oriented which focuses on management and operational procedures processes, controls and outputs, and results of operations (Ibid, 2000).

2.7 Institutional Arrangements and Principles of Public Auditing

In modern society, public audit institutions are concentrating on the efficiency of the economy and effectiveness of audits which stimulate public discussions about the policy results. Being an impartial expert on public finance, public audit institutions professionally hold government accountable and help to strengthen the legitimacy of the government. To achieve this objective there must be a conducive institutional arrangement that can create favorable public auditing environment.

With regard to institutional arrangements of public audit organizations Bartel et. al, (2002) suggested the following points.

- The mandate of law concerning public auditing should reach as far as possible in order to secure that all aspects of auditing are covered efficiency and effectiveness related to every decision in the public sectors
- The scope of audit objective should be determined in accordance with the criterion of whether or not public funds are directly or indirectly affected
- The publication of audit reports should not be left to the discretion of the immediate principal of the respective audit process because citizens are the true bearers of social cost and the proper principals of auditing.

- Public auditing should not be totally restricted to posterior auditing; interior auditing should be compulsory for public institutions.
- The audit institution must enjoy factual not merely formal independence from its immediate principal. In order to secure factual independence, the audit institution must have free access to all government information and political agenda.
- The audit institution must be adequately endowed with resources. Basically, the audit institution should itself be accountable on its endowment with resources.
- There must be a consistent system of organizing, managing and controlling public funds. This makes the work of a public audit institution easier and more effective and
- Governments' duty of accountability must also comprise its reactions to the audit results so that the audit institutions complaints about defects in the public sector and their suggestions can lead to improvements.

The authors also argue that a public audit institution should be sensitive to its environment and develop a learning capacity to improve the quality of its work. It must also be aware of and responsible for the following matters:

- The utilization of its findings by politicians
- The impact of its reports on the ongoing policies
- The effects of its work on societal preferences (demands on policy outcomes)
- The systematic feedback information about the political and societal reactions to the audits performed.

2.7.1 Principles of Successful Public Auditing

Bartel et. al. (2002) stated the following principles of successful public auditing that are thought to control the deficiencies of controlling and monitoring public activity.

- Public auditing should be performed according to a set of explicit performance standards and standard procedures.
- The performance standards and standard procedures of public auditing should be known and clear to all public sector employees so that they are able to act up to the demands of efficient public administration.
- the audit reports should distinguish themselves by understandability, professionalism, elaborateness, credibility, persuasive power, economic relevance, practical use and reliability.
- The main task of a public audit institution should be primarily the avoidance of systematic defects in the public sector
- In order to avoid repeating the same or similar faults ever again, the audit institution should issue rules of efficient behavior for the standard cases of default so that all the valuable experience of past auditing would be taken into account
- Efficiency is obviously enhanced when the public audit authority checks, improves and unifies the systems of internal auditing of the related species of public organizations.
- Public auditing has to cover all kinds of public activities. This entails a lot of different and sophisticated questions to be answered. Hence the audit institution should obey the principle of "division of labor" and allocate the specific audit tasks according to the "auditors' comparative advantage".

2.8 Budget Transparency and Information

The first challenge to overcome towards a more effective role for parliament in the budget process is access to sufficient, timely, accurate and useful information on the budget. This requirement includes information on the budget proposal, the implementation of the budget and on the internal and external audit of the budget (Krafchik, 2001).

Regarding the budget proposal, the information should include a thorough review of the assumptions backing the budget, the macro-economic policy, and the distribution of spending within departments'. In addition, accurate updates on actual expenditure and revenue against the approved budget assist the parliament to oversight budget implementation (Wehner, 2001).

The other area of information required for effective parliamentary involvement is an auditing. In most countries, an internal government auditor will exist and will provide valuable information on how the government performed relative to its budget plans. In some countries parliament and the public have access to internal audit reports. In most countries, however, no-one outside the executive have access to this information. This justifies the importance of an independent auditing institution (Krfachik et. al, 2001).

The authors also argue that the supervision mandate of an independent audit office is complementary to the supervision mandate of parliament. The audit office should have the power to collect the necessary information on government performance, while the parliament should have the power to use this information to call the government to account.

2.9 Inter Governmental Aspects of Public Budgeting

The most important feature of public budgeting in many countries is the existence of multiple governments within the same country. When those governments have some degree of autonomy from one another, have differing responsibilities and are subject to differing political pressures and incentives, budgetary dynamics may be very different from one decision making arena to another. Besides, the budgetary decisions of one government may be affected in various ways by other governments. Some of the dynamics related to inter governmental public budgeting are discussed below.

2.9.1 Problems with Budgeting with Multiple Governments

Although some aspects of budgetary decision making may be improved by having numerous governments, this may also create a number of difficulties. In relation to these issues David Nice (2002) argues as follows:

“Citizens may be confused or over whelmed by the numerous governments and their even more numerous budgetary decisions. If I am unhappy with a public service or program which officials are responsible, does the fault lie with the national government? My state government? The city or country where I live? Or some other government or locality? Could more than one government be responsible? How can I tell? One person may be affected by the budgetary decisions of dozens of governments”. (PP, 62)

On the other hand, the author argues that budgeting in the context of large number of governments may also lead to problems with externalities or spillover effects, which are effects felt in one jurisdiction because of a decision made in another jurisdiction. In addition, budgeting in the context of large number of governments can create serious coordination problems across governments.³

³ For instance changes in federal aid may complicate state and local budgeting and changes in state aid may complicate local budgeting completion of major transportation project crossing several communities may be delayed if one or two communities pare back funding for the project because of other demands[0].

2.9.2 Intergovernmental Grants

One of the most important developments in public budgeting in federal states is the heavy reliance of state and local governments on grants-in-aid from higher levels of government. States and localities raised the vast bulk of their revenue for the federal governments starting for 1900 (Nice, 2002).

2.9.3 Uses of Intergovernmental Grants

Grants can be used for variety of different purposes and may have a number of different effects. Some of the uses of intergovernmental grants are stated as follows

“Intergovernmental grants are some times used to correct externalities. A higher level of government can raise revenues from all the people who are affected by or contributing to problem and target the revenues to the governments that can resolve the problems. Grants can also help to equalize financial resources and the need for a program or the cost of providing it. A higher level of government can raise more revenues in wealthier areas and distribute that revenue to poorer areas” (Dilger, 1983: PP,38).

In addition, he also argued that grants can enable lower levels of government to remain involved in programs that they cannot afford to finance on their own. Rising public expectations, modern technologies and a lot of other factors have increased the cost of education, health care and other public services. Therefore, state and local officials find that they cannot fund many major programs without outside assistance.

On the other hand, Grants can also enable higher level governments to provide a more uniform standard of service when that seems desirable. It also helps to encourage greater creativity and innovation in policy

making. If higher levels of government are willing help to pay for the development and testing of new policies, the sharing of risks may make officials in lower levels of government more willing to try something new from time to time (Nice, 2002).

The other advantages of grants are the redistribution of wealth and the shift of the burden of financing programs across different income groups. With some exceptions, local governments have little ability to redistribute wealth from richer to poorer people. Because local officials often fear that trying to help the needy will cause the out migration of the wealthy people and businesses to other localities that don't try to redistribute wealth. A higher level government, however, can raise revenue from wealthy individuals and businesses and redistribute that revenue to poorer people.

2.9.4 Types of Intergovernmental Grants

Intergovernmental grants come in a number of varieties depending on the levels of funding and the rules and regulations that accompanied the money. Some of the types of intergovernmental grants are discussed below.

2.9.4.1 General Grant

It is also called general fiscal assistance, and it provides funds that can be spent for almost any purpose. (Ronald et. al, 2004)

2.9.4.2 Block Grants

Block grants provide funding that can be spent only in some broad functional area such as transportation within the area, recipients have flexibility to support roads, high ways mass transportation or other activities related activity. (Ibid, 2004)

2.9.4.3 Categorical Grants

Categorical grants give recipients the least flexibility. They can be used only for a rather narrowly defined purpose, such as drug rehabilitation (Nice, 2002).

2.9.5 Distribution of Grant

Another cluster of issues in grant design involves the distribution of funds. A formula grant allocates funding on the basis of a decision rule that is written into the legislation creating the grant. A very simple formula might allocate state highway aid to counties according to the number of miles of state highway in each county. Conflicts often erupt regarding grant formulas. Decision makers who are skillful in crafting formula may reap great benefits for the people they represent (Dilger 1983).

2.9.6 Mandates on Intergovernmental Grants

One of the more controversial features of intergovernmental relations is the mandate, which is a legal requirement imposed by a higher level of government on a lower level government. Mandates come in many forms. Some mandates are attached to grant funding, recipients must comply with those mandates in order to receive the money. Other, more controversial mandates are legal commands, whether in legislation, administrative regulations, or court regulations that the lower level government is required to obey. A mandate may require provision of a service or adoption of particular policy, may prohibit some action or may require the use of a specific process or procedure in the operation of a program (Kettle, 1993).

Mandates are controversial in part because they may pressure state or local officials to do something that they don't wish to do or that will anger

state or local voters or interest groups. In a federal form of government, many states impose mandates that require localities to use specific budgetary procedures, restrict local choices regarding revenue sources and borrowing as well as limit local budgetary discretion (Nice, 2002).

2.10 Parliament and the Budget: From a Civil Society Perspective

2.10.1 Why Should Civil Society Care?

As it is indicated in the introduction part budget is a key tool to implement policy and any governmental or non governmental organization that attempts to influence policy cannot ignore the budget.

For civil society organizations one of the prime opportunities to engage with policy and budgetary debates is when the budget is presented to parliament for approval, usually this is the first time that the budget proposal is made public and there are opportunities for civil society interventions through public hearings and by using the public attention for advocacy and media campaigns (Wehner, 2003). This means that it is the interest of civil society budget activists to strengthen the role of parliament in the budget process.

At the same time, the above author argues that if budget execution is weak and distorts spending priorities it undermines the meaning of budgets. Therefore, civil society also has an interest that parliament can exercise oversight over execution and to scrutinize audit results to ensure compliance, and the efficiency and effectiveness of spending.

2.10.2 Parliamentary Capacity

From a civil society perspective, some factors are central in determining the role of parliament in the budget process. These factors are legal

frame work and their constraints, and analysis capacity (Wehner, 2003) each of the factors are briefly discussed by the author as follows.

- The legal frame work such as a constitution and organic budget laws shape and constraint the way in which parliament can engage with the budget variables like the system of government established by the constitution and the nature of amendment powers granted to parliament with regard to the budget are critical issues in determining the role of parliament in the budget process. For instance parliamentary systems tend to be by virtue of their design, conducive to cooperative legislative-executive relations.

Parliamentarians have to be empowered to understand and independently analyze the contents of the budget if they are to play a meaningful role in the process. Analysis capacity is necessary to make full use of legal and political space granted to parliament. Some of the key variables that determine the parliamentarians' analysis ability are research capacity, information availability, the strength of parliamentary committees and the amount of time allocated for the budget process. The only possibility for parliament to access independent information and analysis on the budget is through its own research service. Given the size and technical nature of the budget effective budget research services require dedicated and specialized personnel.

2.11 The Role of Parliament in the Budget Process: The Experience of the Republic of South Africa and the Republic of Croatia

As it is stated previously, budget is the most important economic policy tool of a government which provides clear direction of the nation's policy and priority areas. As the representative of the people, parliament is the right organ to ensure that the budget matches the nation's priorities with the available scarce resource. Following the experiences of the Republic

of South Africa and the Republic of Croatia are discussed focusing on the roles of their respective parliaments in the budget process.

2.11.1 The Republic South African

The South African constitution grants parliament the right of an amendment over money bills. The presentation on budget day initiates a legislative review process lasting three to four months. During this stage, committees have two possible points of interaction with the budget. These are the portfolio committee on finance hearing on the over all budget and other portfolio committee hearing on individual votes. In the national assembly the bill is referred to the finance committee which has only seven days to hold hearings and present a report to the house (Krafchick et. al, 2004).

The constitution of South Africa also grants parliament strong powers to hold open hearings and to call government officials and other experts to give explanation. But parliament and its committees don't yet have the right to suggest changes to the budget. In theory, a committee can recommend that the entire budget to be rejected and this could lead to a motion of no confidence or force the government back to the drawing board (ibid, 2004). Following the national assembly process, the bill is referred to the National Council of Provinces (NCOP) for consideration. According to the parliament procedure, the council of provinces can reject the entire budget and force the national assembly to vote again.

2.11.1.1 The Ability of the Parliament to Change the Budget

As Krafchick et. al, (2004) argue the ability of parliament to change budgets depends largely on two sets of necessary conditions; the extent of conferred powers and the effective role of committees in the budget process.

The authors further argue that "conferred powers" refer to the configuration of power vested in the parliament to change the budget. The ability of the parliament to change the budget significantly is most likely when parliament does have some power of amendment. Committees have the right to suggest amendments to the House. In addition, there is sufficient committee time for budget scrutiny and when committees have access to sufficient independent research capacity and to detailed timely departmental information.

South African Institute for Democracy and Budget Information Service, however, rates South African below the minimum in terms of "conferred power". Similarly, Committees don't have the capacity to utilize parliamentary amendment powers effectively. Consequently, the ability of the parliament to change the budget is low.

Moreover, the country's budget process has insufficient mechanisms to bring together informed input from other Portfolio Committees with specific sector knowledge. Besides, South African parliament lacks independent research capacity compared to Germany and Australia.

2.11.2 The Republic of Croatia

The Republic of Croatia is a relatively young state that achieved independence in 1991. According to the Croatia constitution, political power is organized based on the principle of the three way division of power into the legislature, executive and the judiciary (Bratic, 2004).

The key participants in the country's budgetary process are the parliament, the government, the ministry of finance, spending agencies and the national auditing office.

The executive branch of the government prepares and draws up the budget. During the preparation phase of the budget, the ministry of finance played a major role while the role of parliament is negligible. The reason for this, among other things, is the shortness of the time available for parliamentary debate on the budget. A situation of this nature together with the pressure of time under which the budget is most often passed, results in the budget to be passed as proposed by the government being pushed through (Jecici, 2001).

The president of the parliament gives the draft budget submitted by the ministry of finance with the accompanying proposal of the law to all the working bodies of parliament and to all the members for their consideration. At sessions of parliament and sessions of the committees, the budget is debated. After consideration, the working bodies shape their proposals into concrete amendments. The committee on finance and state budget, the legislation committee and other interested working bodies of parliament, after reviewing and debating the budget proposal, will submit their report to the president of parliament (Jecici, 2001).

The parliament and parliamentary committees at the budget debates analyses the government's budget proposal but practice shows that most of the items in the budget as proposed by the government are voted in by parliament and obtain the force law in unchanged form_ (Bratic, : 2004).

2.11.2.1 The Role of the Budget Committee on Finance and State Budget

As Krafchick et. al, (2004) indicates that all the accounts of the budget are supplied to the budget committee which proposes changes to the government which it can accept or reject. At the end, the government sends the budget back again to the budget committee together with the amendments that have been rejected or accepted. The level of

importance of this committee during the budgetary process is shown by the fact that it is only after it has put forward its opinion on the budget bill that parliament can start the debate. If the budget committee gives unavoidable opinion, the parliament will receive the budget committee's opinion. But the budget committee has not enough employees to be actively involved in serious analyses. The research indicated that the committee has only one consultant that provides expert advice. Besides, the membership of particular representatives in a number of committees and the abundance of bills tend to militate against effective and thorough working bodies of the parliament and the budget committee.

To conclude, in Croatia, the executive branch that is the ministry of finance prepares and draws up the budget. In this phase, the parliament has almost no impact while in the voting phase, the responsibilities are upon it. Although the legislature may modify the government's bill in reality, since the ruling coalition has largest chairs in parliament and the fact that most members obey the instructions of their party, the parliament doesn't do so.

2.12 The Strengths and Weaknesses of the Budgetary Process in Ethiopia

2.12.1 Budgetary process in Ethiopia

According to the budget process and preparation project report (1998), of Ministry of Finance and Economic Development (MoFED), the Ethiopian budgetary process at federal level involves eleven steps. Each steps of the budget process is discussed below.

I. Preparation of the Macro Frame Work

The first step of the budget process is the assessment and establishment of fiscal balance (GDP, growth rate etc). This step includes collecting and analyzing information regarding the performance of the economy in the previous fiscal years and economic projections such as growth and revenue estimations for the next year.

II. Allocating Public Expenditure between the Federal and Regional Governments

The amount of subsidy to regional governments will be determined. The decision is usually made in the Prime Minister Office for allocating the shares to the federal and regional governments. The formula for distribution of budget among the regions is done by the Council of Federation. The allocation among regions is principally based on a formula.

III. Allocating Budget between Recurrent and Capital Budget at Federal Level

Depending upon various factors, the Prime Minister Office with the consultation of MoFED determines how much is to be allocated to recurrent and capital expenditure. The decision will depend upon factors such as priority sector, the number and work on progress on going projects, institutional capacity and some other similar factors.

IV. Budget Call and Ceiling Notification

The MoFED provides for each spending public body the recurrent ceiling in the budget call. It prepares a proposal for the total recurrent budget and allocates it to each spending public bodies. The Prime Minister Office reviews the proposal and makes adjustments.

V. Submission of the Budget Proposal to MoFED

Prior to a formal budget hearing, spending public bodies submit their budget proposals to MoFED. Based on these documents, MoFED prepares an issue paper on the major issues at each head level in the proposed budget and discusses the document with the spending public bodies.

VI. Budget Hearing with MoFED

Spending public bodies defend their budget submission in a formal hearing with MoFED. The issue paper is the basis of the hearing. The budget hearing includes Ministers, Vice Ministers and head of public bodies and relevant department heads and budget experts from the spending public bodies and MoFED.

VII. Review and Recommendation by MoFED

After the hearing is over, the budget committee of the MoFED reviews the discussion and makes recommendations. If there is an increase in the ceilings of spending of public body's, the Prime Ministers Office has to approve.

VIII. Submission to the Council of Ministers

The recommended budget is submitted to the Prime Minister Office with a brief note after it is reviewed by a group of Minister and Vice Ministers of economic affairs. The Prime Minister may or may not make amendments and then the budget is sent to the Council of Ministers for discussion.

IX. Submission to the Council of Peoples' Representatives

Once the proposed budget is approved by the Council of Ministers, the Prime Minister presents both the capital and recurrent budgets to the Council of Peoples' Representatives. The budget Committee of the Council reviews and makes recommendations to the council.

X. Notification and Publication

After the budget is appropriated by the Council of people's representatives, it is published in the "Nagaret Gazeta". Spending public bodies are formally notified of their budget for the next financial year.

XI. Allotment

After notification, the public bodies are required to submit their respective allotments, work plan and cash flow to MoFED. After verification, it will be send to the treasury department in form 6 which authorizes the disbursement.

As it is stated above, the main actor in the federal budget process of the country is the Ministry of Finance and Economic Development in collaboration with the Prime Minister's Office. The Council of Federation establishes the formula for regional subsidies and the Council of Peoples' Representatives approves the federal budget.

2.12.2 Strengths of the Budget Process

The budget process and preparation project report (1998) lists the following virtues (strengths) of the Ethiopian budget process

- **Stable and Funded Ceilings:** Budget ceilings are honored and funded which facilitation budget implementation.
- **Hard Budget Constraints:** The approved budget ceilings are respected by spending agencies.
- **Single Budget Preparation:** Only one budget is prepared. This avoids the procedural redundancy of preparing and revised budgets. In addition, there is no repetitive budgeting.

- **Line Item Budget Format:** Line item budget format promotes control. They are also simple to understand. They are linked directly with accounts so that they obscure allocation trade offs which make them well suited to manage resource decisions under extreme fiscal shortages.
- **Improving Expenditure Effectiveness through Fiscal Federalism:** The regionalization policy is moving financial management closer to recipients. Fiscal federalism can improve financial programming.

2.12.3 Weaknesses of the Budget Process

The report also identifies the deficiencies of the budget as follows:

- **Off Budget Financing and Off Ceiling Disbursement:** Budgets are not comprehensive. There is considerable off budget financing of capital expenditure. Even when a development project is listed in the budget, disbursement may be done off ceiling. These practices erode the ability to manage and control expenditures of the budget. These practices also violate the financial law. This is because; the law says no expenditure can be incurred from an appropriation without the approval of the ministry of finance.
- **Practices To Limit Non-Wage Recurrent Costs:** Non-wage recurrent expenditures are grossly inadequate. In addition, they are not appreciated to be complementary and sustaining component of capital expenditure.

- **Capital Budget is Favored:** The ceiling of the capital budget is flexible while the recurrent budget ceiling is resided.
- **Budgets are not Systematically Prepared:** There is not an authoritative budget calendar which establishes the steps of budget preparation.
- **Externally Financed Capital Budget is Uncertain:** The portion of the capital budget, which is externally financed, is uncertain so that the budget will be uncertain.
- **Plans Don't Shape Budgets:** Effective multi-year plans of recurrent expenditures don't exist. Capital planning, on the other hand, is principally not constrained by resource realities. Budgets are not shaped by resource based plans that establish priorities.

Chapter Three

Date Presentation and Analysis

Introduction

As indicated in the methodology part of the research, primary data were gathered by using questionnaire and interview methods from the targeted institutions. The questionnaire method was the major instrument used to gather information from the three institutions (MoFED, HPR and OFAG). The interview method was employed to gather information from the House of Peoples Representatives, the Auditor General and the Council of Federation.

As can be seen in the methodology part a total of 47 questionnaires were distributed to the professionals (experts) of selected departments of MOFED. Out of the 47 questionnaires, 34 (72%) of them were properly filled and returned back to the researcher.

On the other hand a total of 53 questionnaires were distributed to the members of the House of peoples' Representatives and 40 (75%) the questionnaires were filled and returned back to the researcher. Personal interviews were also conducted with two committee chairmen of the house. Another personal interview was also administered with the advisor of the council of Federation. Besides, a total of 30 questionnaires were distributed to the professional workers (experts) of the office of the Federal Auditor General out of 30, 25 (83%) of the questionnaires were filled and returned back to the researcher. Personal interview was also conducted with one officials of OFAG. Following the data gathered through the above instruments are presented and analyzed.

3. Major contents of the Questionnaires

The questionnaire was designed together information that can address the issues raised in the objective of the study. Three types of questionnaires consisting of related questions were designed for the three selected instructions. The questionnaires consist of a total of 51 related questions classified under three major categories.

- ❖ Respondent's profile
- ❖ Budget allocation issues
 - Budget preparation
 - Budget approval
- ❖ Budgetary control issues
 - Financial auditing
 - Performance auditing
 - Issues related to the control of regional subsidy

3.1 Data Presentation and Analysis

3.1.1 The challenges of Federal Budget Preparation, Analysis, and Approval Process

3.1.1.1 Analysis of Data Collected from MoFED on Budget Preparation Issues

Table 1 Summary of Responses On Budget Preparation Issue from MOFED

No.	Question	Items					Total
		Strongly Agree	Agree	No Comment	Disagree	Strongly Disagree	
1	Do you think that MOFED has a mechanism to link (Coordinate) the annual budget proposal with the performance Plans of public agencies?	8 (23.52%)	16 (47.05%)	9 (26.47%)	1 (2.94 %)	0 (0%)	34 (100%)
2	When MOFED Prepares the annual budget of the federal government it conducts proper discussion with spending agencies.	11 (32.35%)	14 (41.17%)	9 (26.47%)	0 (0%)	0 (0%)	34 (100%)
3	The annual budget proposal that would be submitted to the house of peoples' representatives' by MOFED after discussion by the parliamentarians?						
	A. It would be approved (accepted) with out adjustment	2 (5.88%)	14 (41.17%)	3 (8.82%)	12 (35.29 %)	3 (8.82 %)	34 (100%)
	B. It would be adjusted by the house (increased or Decreased)	5 (14.7%)	19 (55.88%)	1 (2.94%)	9 (26.47 %)	0 (0%)	34 (100%)
4	Do you think that spending public agencies seriously analyze their budget in relation to their plans before they submit their budget needs to MOFED.	0%	6(17.64%)	4 (14.7%)	14(41.17%)	10(29.4%)	34 (100%)
5	A. It is said that spending agencies complain about budget shortages, when they fail to achieve their annual work plans. At the same time, they return money to MOFED at the end of the fiscal year.	1 (2.94%)	22 (64.7%)	5(14.7%)	4 (11.76%)	2 (5.88 %)	34 (100%)
	B. For the above problem the cause is the rigidity of financial regulation.	2 (5.88%)	7 (20.58%)	14 (41.17%)	15 (44.11 %)	2 (5.88 %)	34 (100%)
	C. Lack of coordination between plans and budgets	6 (17.64%)	16 (47.05%)	6 (17.64 %)	6 (17.64 %)	0 (0%)	34 (100%)
6	Do you think that the financial regulation of MOFED is flexible enough to transfer budget from one cost centre to the other in relation to the major activities of the agency?	5 (14.7%)	18 (52.94%)	7 (20.58 %)	4 (11.76 %)	1 (2.94 %)	34 (100%)

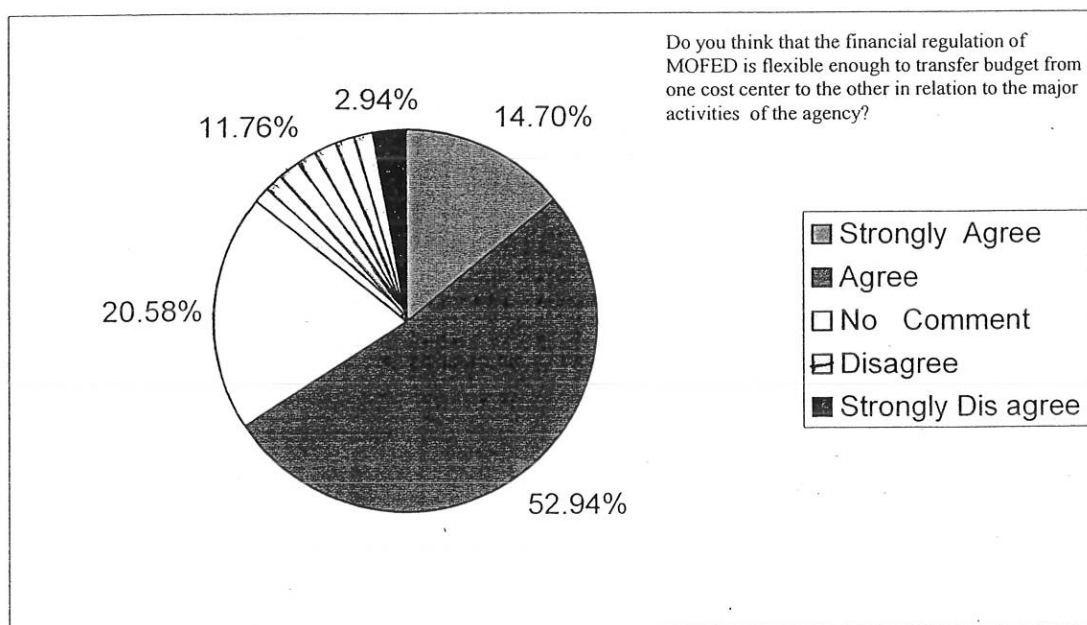
N.B. For simplicity in some questions 'strongly' agree and 'agree' are considered as 'agree' and 'strongly disagree' and 'disagree are taken as 'didn't agree'

As it is clearly indicated in the literature review of the study budget is a means to implement plans. To effectively implement performance plans of an organization budget and work plans of an agency should be coordinated. Regarding the coordination of planning and budgeting (as can be seen in the above table) 71% of the respondents agreed that there is a mechanism used by MOFED to link annual budgets with performance plans of spending agencies. But the problem is since MOFED follows line item approach of budgeting it would be very difficult to link the budget with key performance goals and objectives of the government. As it is indicated in the literature line item approach of budgeting is input oriented and a tool for financial compliance.

Regarding the discussion with public agencies, during budget preparation 74% of respondents agreed that MoFED conducts discussions with officials of public agencies during budget preparation. But 70% the respondents replied that public agencies do not seriously analyze their budget in relation to their plans before they submit the proposal to MoFED. It was also indicated in the open ended questionnaires that one of the problem in budget preparation was that MOFED conducts budget hearing (discussion) with officials of the budget department only. Officials from the planning departments of public agencies don't participate in budget hearing.

On the other hand 47% the respondents confirmed that the annual budget proposal of MoFED to the House of Peoples Representatives were accepted (approved) without any amendment while 44% of the respondents did not agree and 9% of the respondents didn't have any idea on the issues. It was also realized from the interview conducted with the member of the budget standing committee of the House and from the proceedings of the parliament (HOR, 2005) that for the last two

years the executive budget proposals were approved by the parliament with out amending the contents of the proposal.



As indicated in the table (table 1) 67% of the respondents agreed that public agencies return money to MoFED at the end of the budget year and at the same time complain for shortage of budget to complete their annual plans. But 50% of the respondents didn't agree that this was not because of the rigidity of the financial regulation, rather, 64% of the respondents agreed that the reason was lack of coordination between plans and budgets of public agencies. If public agencies return money to the treasury at the end of the budget year and at the same time complain (reason out) budget shortages for not completing their annual performance plans there is a problem of either transferring the budget from one cost centre to the other or lack of coordination between planning and budgeting in the public agencies. But 67% the respondents in MoFED didn't agree that the financial regulation was not flexible enough (rigid) to spend the budget on the major plans of public agencies, rather the majority (64%) of the respondents believe that the

cause of the problem is lack of coordination between planning and budget in spending agencies.

In addition to the multiple questions Respondents of MOFED were asked one open ended question to Mention some budget preparation and allocation problems of the Federal Public agencies. Their responses are briefly summarized as follows.

- The budget preparation of public organizations was not based on the strategic plans of the organizations. Budget requests, were not based on adequate explanations and hard facts. Agencies submit exaggerated budget requests focusing on a limited number of consumption items which are usually not in line with the activities of the organizations.
- Some public agencies do not fully utilize their requested and allocated budgets. As a result agencies rush to wastefully spend the budget towards the end of the budget year.
- Failure to base budget preparation on performance is the other budget Preparation problem that many of the respondents indicated. This is mainly due to the nature of the budget Approach that is, Line item budget approach which focuses on inputs than output.

It was realized from the responses and through personal observation that the government follows line item budget approaches which focuses on inputs than results. This does not create a conducive environment to measure the performances of public agencies⁴.

⁴ Public agencies are those federal government agencies which are directly accountable to the federal government.

3.1.1.2 Analysis of Data Collected from HPR on Challenges of Budget Analysis and Approval Processes

3.1.1.2.1 Questionnaire in Parliament on Budget Allocation Issues

The information gathered from the parliamentarians through questionnaires is presented in this section. The interpretation of the data with respect to each question is done right after the presentation of the data in the following table.

No.	Questions	Items					
		Strongly Agree	Agree	No Comment	Disagree	Strongly Disagree	Total
1	Since budget is the means to implement plans does MOFED submit the budget proposal to the house use the plans of the county?	11(27.5%)	12 (30%)	1 (2.5%)	10 (25%)	6 (15%)	40 (100%)
2	The federal budget proposal that MOFED submitted to the house for the last two years were accepted (approved) by the house with out any content (numerical) adjustment.	11(27.5%)	20 (50%)	1 (2.5%)	1 (2.5%)	4 (10%)	40 (100%)
3	The federal budget proposal that MOFED prepared for the last two years after being evaluated by the budget standing committee was there a time that proposal returned back to MOFED for adjustment	4 (10%)	2 (5%)	8 (20%)	11 (27.5%)	15 (37.5%)	40 (100%)
4	The debate of the parliamentarians on the budget proposal for the last two budget years was.						
	Weak (cool)	7 (17.5%)	18 (45%)	1 (2.5%)	11 (27.5%)	3 (7.5%)	40 (100%)
	Strong (hot)	1 (27.5%)	12 (30%)	11 (27.5%)	5 (12.5%)	1 (2.5%)	40 (100%)
5	Does each public agency include its budget needs when it submits its annual plans to the house.	9 (22.5%)	20 (50%)	2 (5%)	8 (20%)	3 (7.5%)	40 (100%)
6	Was the federal budget approved according to the budget calendar.	13 (32.5%)	18 (45%)	1 (2.5%)	5 (12.5%)	2 (5%)	40 (100%)
7	Are opposition and EPRDF affiliated party members included on the budget and public accounts standing committees of the house	12 (30%)	18 (45%)	3 (7.5%)	5 (12.5%)	2 (5%)	40 (100%)
8	Dose the house gather public opinion on the budget proposal before the budget is approved?	5 (12.5)	7 (17.5%)	4 (10%)	12 (30%)	12 (30%)	40 (100%)
9	If public opinion is gathered on the budget proposal is it used as an input to amend the budget?	4 (10%)	6 (15%)	16 (40%)	10 (25%)	4 (10%)	40 (100%)

Parliamentarians were asked to give their opinion whether MoFED submits the Federal budget proposal with the performance plans of the country, 53% of them responded 'agree' and 'strongly' agree while 45% of them said 'strongly disagree' and 'disagree'. Here the response of the parliamentarians is somewhat controversial. Regarding the linkages of the federal budget with the plans of the country MOFED was criticized by the members of the house for lack of coordination between the budget and the major performance plans of the country (HPR, 2005). It was also learnt from the interview with the vice-chairman of the budget standing committee that MOFED only submits the financial plans (budgets) of the Federal government. But many of the respondents (members of the house) agreed that MOFED submits the budget with performance plans. It was also realized from the budget proclamations of the last three years through personal observation that the budget document (line item format) doesn't contain detail activity plans and objectives of public agencies.

As indicated in the above table, 78% of the house of peoples, representatives agreed that the budget proposals of the last two years were approved by the house without any amendment. According to regulation 3/2006 of the house, the parliament has the right to amend (cut motion)⁵ the budget proposal of the executive. But this was not done on the last two executive budget proposals (HOR, 2006).

In the same manner the majority (65%) of the parliamentarians responded that the Federal budget proposals of the last two years were not returned back to MoFED for adjustment. This was also confirmed in the proceeding of the House (HPR, 2006) that the house couldn't change the contents of the budget. It is stated in the literature review part of the

⁵ Cut motion is the right to propose budget reduction by the member (member) of the House of Peoples Representative.

study that in order to challenge the executive budget proposal amendment power and analysis capacity are essential. As indicated above the House of peoples' representatives has amendment powers. However, the house didn't exercise its amendment power for the last two budget years.

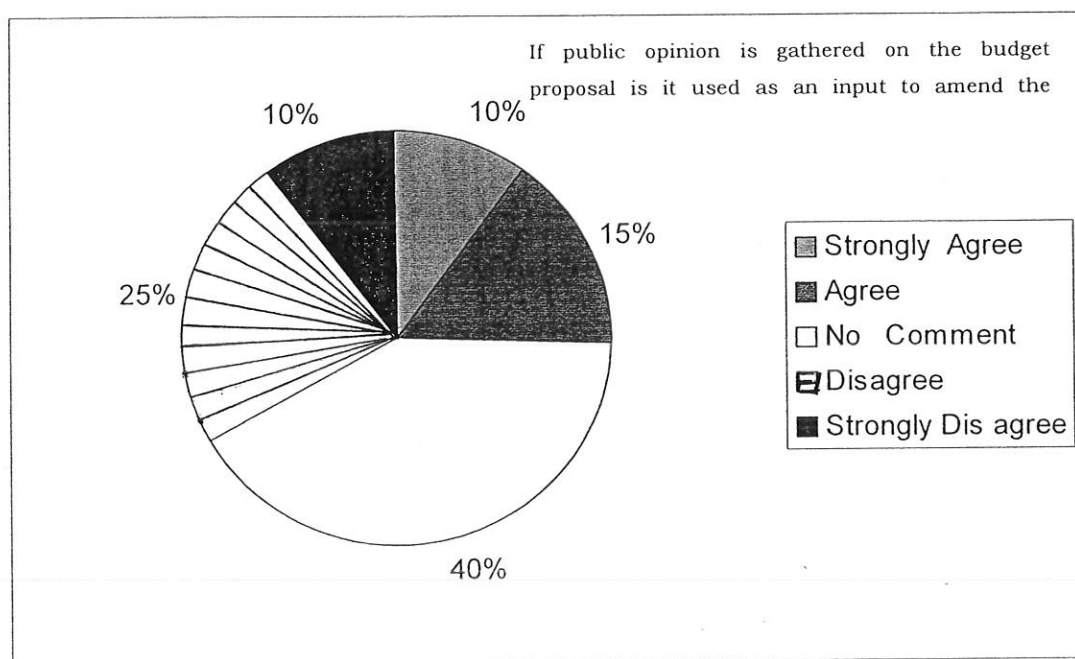
With regard to the debates of the members (parliamentarians) on the budget proposal 62% of the respondents agreed that the debates were weak and 57% of them confirmed that there were hot discussions in the House before budget approval. It was also learnt from the proceedings of the parliament (HPR, 2005, 2006) that the debates on the proposals were not consistent which would further be discussed later.

As indicated in the table above, 72% of the respondents replied 'strongly agree' and 'agree' with regard to the submission of budget needs with performance plans by public agencies to the House. This indicates that public agencies are trying to link their budget needs with their work plans. But the problem is the budgets of the public agencies may not be accepted by MoFED. While their performance plans are approved by the house, the proposed budget of the agencies can be reduced by MoFED. This will affect the performance of the agencies. Work plans and budgets of public agencies are not approved in the same period.

Regarding to the approval of the federal budget according to the budget calendar of the government the majority (77.5) of the respondents confirmed that it was approved based on the budget calendar. But it was realized from the interview conducted with the member of the budget standing committee that the 2006/7 budget proposal was submitted to the house fifteen days late from the time stated in the regulation.

As stated, in the table (table 2) 75% of the respondents agreed that opposition party members and EPRDF affiliated members are included in the budget and public accounts standing committees of the house. It was also realized from the list of the committee members that 8 of the 20 members of the budget standing committee are from opposition and EPRDF affiliated parties and six of the twenty members of the public accounts committee are from the opposition parties. Besides, the chairman of the committee (public accounts) is from the opposition party.

As can be seen from the table (Table 2) 60% of the respondents accepted that the house did not gather public opinion before budget approval. It is stated in the literature review section that budget hearing is one of the mechanism that interest groups and the general public influence policy decisions. But it was realized from the responses of the parliamentarians that the public and other interest groups did not participate in budget hearing to take inputs from them before budget approval.



The parliamentarians /respondents/ were also asked one open-ended question to give their comments on budget allocation problems of the federal government, their responses are summarized below.

- Budget preparation was not based on adequate study and it was based on the previous year's amount without considering issues of utilization and performance of public agencies-taken. Public opinion was not taken as an input in budget allocation.
- Lack of proper performance evaluation mechanism on the part of the House and absence of budget preparation committee in the house. The budget standing committee is involved only in the last stage (approval) of the budget process which minimized the role of the House in budget preparation.
- Failure to align budget with plans and weak budget oversights was the other issue raised by the respondents. Absence of an independent budget monitoring and evaluating agency and lack professional support to the house on budget matters were also stated as the challenges of the budget allocation.

Failure to include the comments and suggestions of the members of the house by MoFED and. Lack of reward and punishment to regions based on performance were also the other challenges.

3.1.1.2.2 Analysis of Interviews in the House of Peoples Representatives on budget allocation Challenges

Interview with the Budget Standing Committee

In order to gather information related to Federal budget allocation issues personal interviews were conducted with the vice chairman of the budget standing committee of the House of peoples' representatives. The data collected from the interviews are summarized as follows.

The first question raised was about the structure of the budget standing committee and the back ground of the members. It was learnt that the budget committee has two sub committees (financial and economics affairs and public enterprise affairs) and the committee has 20 members (12 from the ruling party and 8 from the opposition parties). Out of the 20 members five of them have first degree (2 of them are economic graduates) and the rest have diploma or below. This was also confirmed from the lists of committee members prepared by the House (HPR, 2006).

Regarding the time allocated to the house for analyzing the budget proposal it was learnt that in most of the cases the proposal was submitted, to the house around 15 days before approval, although regulation number 3/2006 (62) of the House of Peoples' Representatives orders that MOFED should submit the budget proposal to the house one month before the budget year.

For the last two years the amount of time allocated for parliamentary debates to analyze the budget proposal was less than the international experience (3 to 4 months) and the time indicated in the regulation No. 3/2006 of the House (at least one month) MoFED was not strictly following the time frame stated in the regulation of the House.

With regard to the participation of civil society organizations and other interest groups in budget hearing it was realized from the discussion that the budget committee has not established any mechanism for the participation of civil societies and other interest groups in budget hearing. It was indicated in the literature review of the study that one way of influencing policy decisions is the budget hearing.

The other issue raised in the interview was about the debates of parliamentarians on the budget proposal. Regarding to the 2004/5 budget the debate was very limited but on 2006/7 budget proposal a

strong (hot) debate was conducted for two days and this was also observed from the proceeding of the parliament (HPR, 2006).

Regarding to the coordination of planning and budgeting it was realized from the interview that MOFED does not submit (include) detail performance plans with the budget proposal. Performance plans are submitted to the house by the respective sector agencies excluding the required budget needs. This indicates that activity plans and resource needs of spending agencies are not properly coordinated.

Plans and budgets of public agencies are submitted and evaluated by the council of people's representatives separately at different times. But it was mentioned that recently the house ordered public agencies to include their budget implementation reports with their performance reports. In relation to the access of the budget standing committee to research and consultancy it was realized from the discussion that the committee has not any access to independent research organizations and it has not any advisor or employed technical staff except one secretary. It was also mentioned in the interview that the standing committee faces a number of technical issues in the budget document difficult to analyze and challenge the executive.

It was indicated in the previous chapter that research capacity of the legislative body is essential to analyze and challenge the executive budget proposal. But this was not adequately available in the legislative body of Ethiopia. Besides, as it is stated above the number of professionals in the budget committee (mainly economists) is very limited (2). Given this capacity of the committee it would be hardly possible to the budget committee to critically analyze and adjust (amend) the budget proposal.

Finally it was realized from the discussion that the budget standing committee of the house evaluated two budget documents of the last year

and the current year. The committee questioned the Minister of finance and economic development particularly about the source financing of the budget but it was not in a position to amend the content of the budget proposal even though it has a legal right to propose a cut motion.

3.1.1.2.3 Parliamentary Debates on the Budget Document

As indicated in the methodology of the research secondary information were gathered from the parliamentary proceedings (minutes) focusing on the discussion agendas conducted on federal budget proposals and audit reports of the last two budget years.

Accordingly, the opinions of both the ruling party and opposition party members of the council of people's representatives on issues of budget allocation, and regional subsidies, are briefly summarized as follows.

Regarding to the 2005/6 budget proposal the members of the house indicated that the Council of People Representatives did not improve the content of the budget proposal other than editorial corrections. But some member appreciated that the budget proposal was submitted earlier to the council of Peoples representatives unlike the previous years (House of Peoples` Representatives (2005). It was stated that the proposal was submitted to the House before fifteen days. As it is indicated in the literature in some countries budget proposals are submitted to the legislative body four months before the approval.

On the other hand the parliamentarians argued that budget utilization reports were not submitted to the house with performance reports of spending agencies of the previous budget year. This has created a problem to evaluate the impacts of the budget. As it is stated in the literature review budget is a means to implement plans derived from government policy priorities. To achieve this objective coordinating,

planning and budgeting is essential. But the proceedings of the parliament indicate that the linkage between the budget and the plans of spending agencies was poor because the budget proposal (2005/6) didn't have detail work plans to be achieved by the agencies.

On the other hand it was learnt from the proceeding of the house that the 2006/7 budget proposal of the federal government was seriously challenged by the members of the House of People's Representatives. Unlike the previous years, the budget document included the budget utilization report of the previous fiscal year at least in general terms. Some of the major activities implemented (achieved) in the previous budget year were explained to the house by the Minister of Finance and Economic Development (HPR, 2006)

As indicated above, one of the issues raised by the parliamentarians was lack of budget utilization report to the house by MoFED and this was improved in 2005/6 fiscal year. As can be observed in the proceedings of the House the 2006/7 budget debate in the house was more vibrant than the preceding budget debates. Thirty one members of the house argued on the budget proposal and the discussion took two days. Particularly issues related to defense budget, formula of the regional subsidies and sources of financing were the major issues seriously challenged by the council, members (HPR, 2006).

As it is stated in the previous chapter of the study, that parliamentary budget committees can propose amendments to the legislative body. In the same manner according to regulation No 3/2006 of the House of peoples' Representatives (article 68) any member or parliament group can propose budget cut motions to the house. But no member or parliament group or committee proposed any cut motion on 2006/7 budget proposal. As a result the budget was approved as proposed by MoFED with out any amendment.

3.1.2 Budgetary Formula for Regional Subsidies

According to FDRE constitution article 62 (7) the council of Federation is responsible to determine the division of revenues derived from joint Federal and state tax sources and the subsidies that the Federal Government may provide to the states. Based on its constitutional power the council of Federation designed a formula for the division of subsidies to regional states. The criteria used to establish the formula were population number (60%) revenue generation (15%) and level of backwardness (25%) (HPR, 2002).

As indicated in the proceedings of the House of Peoples' Representatives, (2006) a new budget formula was designed by the council of Federation in 2003, but the new budget formula was not accepted by some regional states. As a result the regional subsidy was allocated by using the previous formula (HPR, 2006).

But very recently (May, 2007) the council of Federation approved a new budget formula for allocating regional subsidies. Personal interview was conducted with the advisor of the council of Federation who participated in the design of the new formula and it was learnt from the discussion that the new budget formula was designed based on the integration of two elements. These are expenditure needs and revenue generation capacity of the regional states. The summation of expenditures and revenues times the population number of the states would give the percentage share of the total regional subsidy to a state government.

It was also indicated that the new formula which was taken from the Australian model was objective and effort neutral than the previous formula. It was also stated that the objective of the new model is to balance (narrow) the financial capacities of regional states by measuring their expenditure needs and revenue generation capacities. It was also

realized from the discussion that the council of Federation decided that the new formula would be fully implemented with in the coming four years. Until that both the old and the new formula would be used together for allocating the regional subsidies.

The larger share (70-80%) of budgets to regional sates is covered by the federal subsidy (HPR, 2006). Therefore designing faire and objective division criteria to regional subsidies is very essential. Although its objectivity would be proved in the future after implementation the new formula is more realistic than the old criteria since it is based on the expenditure needs and revenue generation capacity of the states. But the challenge would be how to assess the expenditure needs of state governments based on realistic standards.

3.2 The Challenges of Federal Budgetary Control

3.2.1 Analysis of Data Collected from MoFED on Budget Control Issues

A part from the legislative body and the auditor general, the Ministry of Finance and Economic Development controls the budget implementation of public agencies. The ministry has its own inspection department that control (audit) the budget implementation of spending agencies in coordination with the internal audit department of each public agencies. Starting from 2003 internal audit departments of public agencies have been reporting to MoFED and MoFED is responsible to follow up the budget use of the agencies. Following information gathered from MOFED on budget control issues are presented.

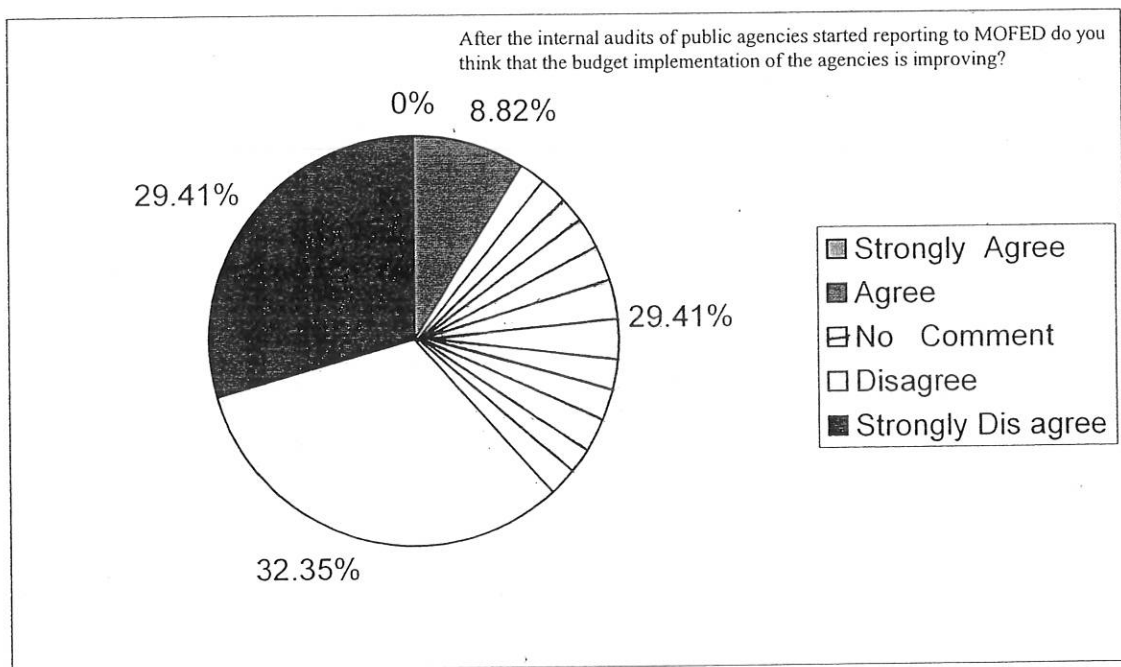
Table 3 Summary of Responses On Budgetary Control Issues from MOFED

No.	Question	Items					Total
		Strongly Agree	Agree	No Comment	Disagree	Strongly Disagree	
7	Public agencies submit budget implementation report to MOFED						
	. Every three months	3 (8.82%)	19 (55.88%)	5 (14.7%)	6 (17.64%)	1 (2.94%)	34 (100%)
	. Semi annually	1 (2.94%)	20 (58.82%)	8 (23.52%)	3 (8.82%)	2 (5.88%)	34 (100%)
	. Annually	6 (17.64%)	22 (64.7%)	2 (5.88%)	3 (8.82%)	1 (2.94%)	34 (100%)
8	Does MOFED Prepare and submit budget implementation report to the house of peoples representatives every year?	7 (20.58%)	21 (61.76%)	3 (8.82%)	2 (5.88%)	1 (2.94%)	34 (100%)
9	Does MOFED have enough capacity (human, material) to audit the budget use of public agencies?	0 (0%)	4 (11.76%)	7 (20.58%)	13 (38.23%)	10 (29.41%)	34 (100%)
10	Do you think that the internal auditors of public agencies independently conduct their responsibilities?	0 (0%)	0 (0%)	11 (32.35%)	13 (38.23%)	10 (29.41%)	34 (100%)
11	After the internal audits of public agencies started reporting to MOFED do you think that the budget implementation of the agencies is improving?	0 (0%)	3 (8.82%)	10 (29.41%)	11 (32.35%)	10 (29.41%)	34 (100%)
12	Does MOFED have enforcing mechanism to implement improve the audit reports of internal auditors of public agencies?	1 (2.94%)	3 (8.82%)	15 (44.11%)	12 (35.29%)	3 (8.82%)	34 (100%)
13	Does MOFED conduct performance auditing to evaluate efficiency and effectiveness of budget implementation?	0 (0%)	1 (2.94%)	2 (5.88%)	20 (58.82%)	11 (32.35%)	34 (100%)
14	Do you think that is possible to ensure the efficiency and effectiveness of budget implementation an agency by conducting only financial auditing?	1 (2.94%)	4 (11.76%)	11 (32.35%)	10 (29.41%)	8 (23.52%)	34 (100%)

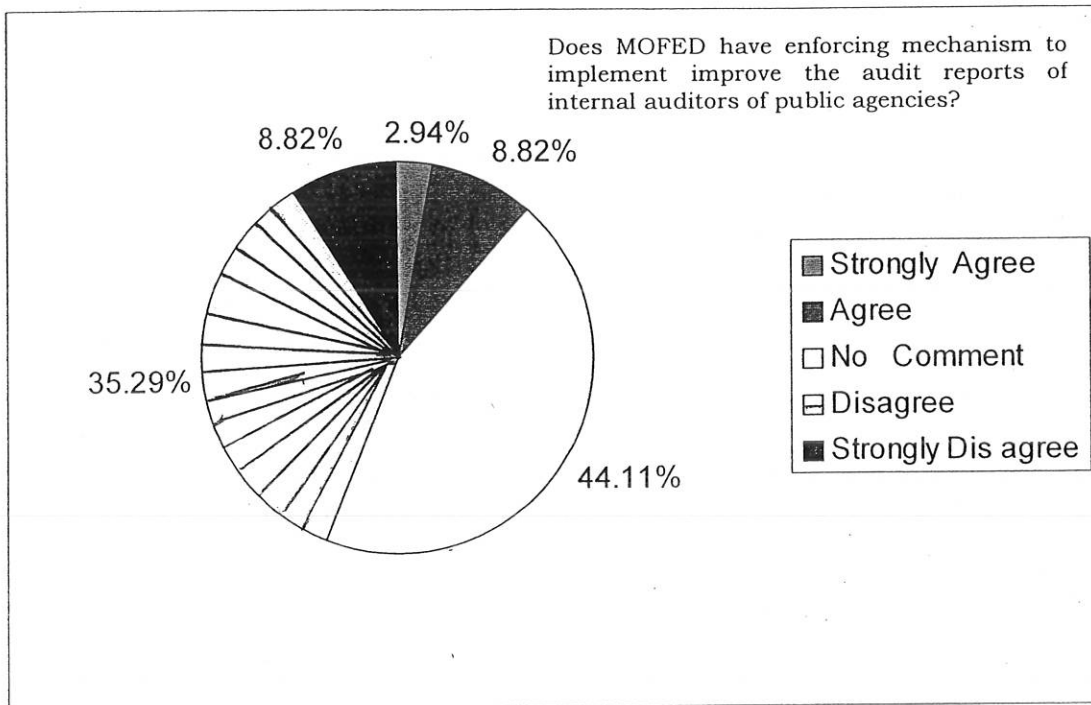
One of the mechanism to control the budget implementation of public agencies is through regular reporting of budget implementation. In relation to this the majority (65%, 62%, 82%) the respondents (table 3) agreed that each public agency submits budget implementation report to MoFED, quarterly, semiannually and annually respectively. 82% of the respondents also confirmed that MoFED reports the annual budget implementation of the country to the House of Peoples' Representatives. The budget reporting mechanism that MoFED established to control budget implementation can serve as one of the control instruments if strictly followed by public agencies because corrective actions can be taken by MoFED on issues of budget transfer, deficit, etc based on the reports of the agencies.

The other budgetary control mechanism is auditing. It was indicated in the literature review that auditing can be categorized into financial and performance auditing. It was also stated that in order to conduct effective auditing the institutional capacity and independence of the audit units is very essential. Regarding the institutional capacity of internal audits of MoFED 67.5% of the respondents agreed that the unit does not have adequate capacity (human and financial) to control the budget implementation of spending agencies. This indicates that MoFED could not establish strong internal auditing department to effectively control the budget implementation of public agencies.

On the other hand 67% of the respondents, (table 3) didn't accept the independence of internal auditors of public agencies. Starting from 2003 internal auditors of public agencies have been reporting to MOFED in order to ensure their independence but the responses of the participants indicated that their independence was not improved. This shows that other efforts should be carried out by MOFED to ensure the independence of internal auditors of public agencies which are currently reporting to MOFED about the budget implementation of their respective agencies.



In a related development, the majority (62%) of the respondents did not agree about the improvement of budget implementation in public agencies after the internal auditors of the agencies started submitting financial audit reports to MoFED. This also indicates that the new financial regulation that made internal audits of public agencies accountable to MoFED has not brought a significant impact in improving the budget implementation of public agencies.



With regard to the follow up of budgetary audit reports by MoFED 44.1% of the respondents (table 3) replied ‘disagree’ and strongly disagree other (44%) replied ‘no comment’. This signifies that MOFED has not established a strong follow up mechanism to enforce public agencies implement budgetary audit reports (recommendations).

As it can be observed from the table (table 3) the respondents were asked whether the inspection department of MoFED conducts performance auditing to ensure the efficiency and effectiveness of budget implementation of public agencies, and 90% of them replied ‘disagree’ indicating that MoFED doesn’t conduct performance auditing up-on public agencies to ensure efficient and effective budget implementation. Besides, 53 % of the respondents [table3] believe that it is not possible to ensure the efficiency and effectiveness of budget implementation in an organization by conducting only financial (compliance) auditing. It was also stated in the literature review part of the study that performance

auditing was the most important control mechanism to ensure the efficiency and effectiveness of resource utilization.

The respondents in MoFED were also asked one open-ended question to comment on budget monitoring and audit issues. Their opinions are shortly summarized below.

- Most federal organizations lack adequately staffed internal audit departments and in some cases federal agencies fail to give due attention to internal audits. There is also a tendency of undervaluing audit matters in some public organizations. It was also stated that there is lack of independence of the internal audits and chronic shortage of trained man power.
- On the other hand it was stated by the respondents that there is failure to compare and contrast the budget (utilized) with impacts because the budget approach is not performance oriented.
- Finally it was stated by the majority of the respondents that there is a failure to correct budget utilization problems based on audit findings.

3.2.1.2 Data Collected and Analyzed from the House of People's Representatives on Budget Control Issues

3.2.1.2.1 Questionnaire in Parliament

Primary data on budget control problems were also gathered from the House Peoples' Representatives through questionnaires. The responses of the parliamentarians are summarized in the following table (table 4) and their responses are interpreted following the table.

Table 4 Summary of Responses on Budgetary Control (Audit) Issues from the Parliament

No.	Questions	Items					Total
		Strongly Agree	Agree	No Comment	Disagree	Strongly Disagree	
10	Does the executive branch of the government submit budget implementation report to the house annually semi annually?	15 (37.5%)	20 (50%)	0 (0%)	5 (12.5%)	0 (0%)	40 (100%)
11	Do the public agencies include budget implementation report with their performance reports when they report to house.	12 (30%)	19 (47.5%)	0 (0%)	8 (20%)	1 (2.5%)	40 (100%)
12	Can we conduct effective performance evaluation with out evaluating how much budget is used to implement the plans	5 (12.5%)	2 (5%)	0 (0%)	18 (45%)	15 (37.5%)	40 (100%)
13	Who is authorized to control (auditor) regional subsidies?						
	A. Office of the federal auditor general	17 (42.5%)	15 (37.5%)	5 (12.5%)	0 (0%)	3 (7.5%)	40 (100%)
	B. Regional audit bureau	7 (17.5%)	10 (25%)	19 (47.5%)	2 (5%)	2 (5%)	40 (100%)
14	Do you believe that there is an independent audit institution in Ethiopia.	9 (22.5%)	17 (42.5%)	6 (15%)	5 (12.5%)	5 (12.5%)	40 (100%)
15	Does the house get timely audit reports about budget implementation of public agencies from the Auditor General.	8 (20%)	13 (32.5%)	4 (10%)	14 (35%)	1 (2.5%)	40 (100%)
16	Does the house have enough advisors on budget and finance issues	0 (0%)	3 (7.5%)	7 (17.5%)	10 (25%)	20 (50%)	40 (100%)
	Does the house have adequate institutional capacity to control the budget implementation of public agencies?	0 (0%)	3 (7.5%)	5 (12.5%)	10 (25%)	20 (50%)	40 (100%)

As indicated in the table above 87.5% of the respondents replied 'strongly agree' and 'agree' with regard to the submission of budget implementation report to the House by the executive. One of the budget control mechanisms is through regular reporting. If the executive regularly reports its budget implementation to the legislative body, it shows that accountability has been established.

In the same manner the majority of the respondents (77.5%) agreed that public agencies include budget implementation report with their performance reports that they submit to the House. It is hardly possible to conduct effective performance evaluation of an agency without evaluating how much budget was consumed by the agency. As a result, performance (plan implementation) should be evaluated with budget implementation. This was also confirmed by 82.5% of the respondents in the House of peoples' Representatives.

With regard to the controlling (auditing) of the regional subsidies 77.5% the respondents agreed that the regional subsidy should be audited by the Federal Auditor General while (in another question) 42.5% of them said that regional audit bureaus are authorized to control (audit) regional subsidies. Controlling the regional subsidies is one of the controversial issues of the federal budgetary process that has brought a conflict between MoFED and OFAG in interpreting the constitutional rights of regional states and the auditor general. The issue is further discussed in the interview section of the paper.

As indicated in the table above, most of the respondents in parliament (65%) believe that there is an independent audit institution in the country while other respondents (25%) didn't agree with them. It was indicated in the review of literature that independence and institutional capacity are critically essential for an audit institution to effectively

control (audit) public agencies. It was also realized from the interview with the officials of the OFAG that the Auditor General is accountable to the parliament and this contributed to ensure its independence.

On the other hand 53% of the respondents (table 4) confirmed that the House of Peoples' Representatives gets timely audit reports about budget implementation of public agencies from OFAG. If these audit reports are enforced by the house and implemented by the public agencies they can contribute much to improve budget implementation of agencies.

More over it was indicated in the review of literature that access to independent research and consultancy were essential to strengthen the capacity of the parliament. But it was confirmed by 75% the respondents that the house has no advisors on budget and finance issues. It was also proved by personal observation that the research department of the House of Peoples Representatives has only one professional staff. In the same manner the majority of the respondents (75%) agreed that the House lacks adequate capacity to control the budget implementation of public agencies. Issues related to institutional capacity are further discussed in the interview section of the paper.

The respondents in parliament were also provided with one open ended question to comment on the problems of budget monitoring and audit. Their responses are briefly summarized as follows.

- The budget report is too general and condensed and the budget evaluation of the house is not as such used as an input for next year's budget.
- Strong resistance to accept criticisms and comments on the part of audited organizations and absence of performance auditing

practices in public organizations. Most of the audits are financial than performance.

- Lack of capacity on the part of the Auditor General to carryout timely and sufficient audits. Internal audits of public agencies are not also strengthened.
- Conflict of responsibility between the federal auditor general and auditor generals of regional states and absence of clear mechanism to monitor subsidies to regional states. Lack of mechanisms for reporting to the budget committees about regional subsidies and lack of coordination between the federal and regional audit offices, were some of the major control problems listed by the majority of the respondents of the House of peoples' representatives.

3.2.2 Interview With the Public Accounts Standing Committee on Budget Control Problems

Like the budget standing committee the public accounts standing committee has 20 members 14 from the ruling party and 6 of them are from the opposition parties seven of the members have first degree one of member has masters degree and the rest have diploma or below. The chairman of the committee is from the opposition party (HPR, 2007). Issues related to the challenges of public budget control in the country are discussed with the chairman and summarized as follows.

It was indicated in the interview that the public accounts committee was established recently before six months. As a result it has not established detail procedures (manuals) of how to control the budget use of public agencies. It was stated that institutionally the committee was not organized even though it has been given large number of responsibilities by regulation no. 3/2006 of the House of Peoples Representatives.

It was also learnt from the discussion that like the budget committee the public accounts standing committee of the house has not any advisor or technical staff. As a result the committee has very limited capacity to carry out its legal obligations. It was further indicated that the public accounts committee was not able to investigate and enforce the audit findings reported by the office of the Auditor General, because of capacity problems. With regard to the follow up of audit findings it was stated that there was no established system to follow up audit recommendations. It was also indicated that there was a legal opening regarding to the enforcement of audit reports. As a result audit findings of last year would be identified in the current year without being improved by the public agencies.

The office of the Auditor General conducts financial auditing on public agencies every year and submits audit reports to the House of Peoples' Representative. At the same time the public accounts committee conducts discussions discuss with the office of the Auditor General on the audit reports annually or semi annually. But neither the public accounts committee or the audit institution checks (follows up) whether the audit recommendations are implemented or not. According to regulation No. 3/ 2006 article 176 (2) the public accounts committee shall investigate and follow up the reports of the auditor general with regard to the effective implementation of any budget allocated by the parliament but, because of lack of experience and capacity problems, the committee is not exercising its responsibility effectively.

On the other hand it was realized from the interview that the public amounts committee did not conduct any audit hearing⁶ beginning from its establishment. As can be see from the literature review, audit hearing plays a constructive role to increase the public awareness about the

⁶ Audit hearing is a situation where by public discussions are conducted on audit reports.

public budget implementation and to improve budgetary fraud and mismanagement.

In relation to the control of regional subsidies it was learnt from the discussion that there was a conflict between the office of the auditor general and MoFED. Constitutionally, the auditor general has the right to control (audit) expenditures allocated by the federal government to regions. But the problem is regional states use the same account for the federal subsidy and for their own revenue which further complicated the problems. It was also mentioned that the sovereignty of regional states must not be questioned but the legal conflict should be addressed. The conflict on controlling regional subsidies is further discussed below.

3.2.2 Debates in the House of Peoples' Representatives on Budget Control (Audit) Report

In the previous section the debates in the House of Peoples' Representatives on the budget proposal of the past two years have been analyzed. The debates of the parliamentarians on the audit reports of the office of the Auditor General are analyzed as follows.

As can be learnt from the proceedings of the House of Peoples' Representatives one of the controversial issues was (that) who controls (audits) the regional grants. The chief Auditor General argued that it is the constitutional responsibility of the office of the Auditor General to audit the grant allocated by the federal government to regional states (HPR, 2006). His argument was also supported by some members of the house. But it was also explained by the chief auditor general that MOFED and Regional governments did not cooperate with his office regarding the control (audit) of regional grants. Since the regional governments are constitutionally Sovereign States, it is up to the regional governments to allocate and control their budgets (HPR, 2006). As can be

learnt from the proceedings of the house, some members argued in favor of the Auditor General and some other parliamentarians supported MOFED.

The constitution of FDRE, article 94 (2) clearly states that the federal government shall have the power of control and audit expenditures of federal grants of states. On the other hand the constitution (articles 3) states that the state is responsible to the people of the state. In addition to this, in a federal form of government, like Ethiopia neither the regional state nor the federal government is accountable to each other. One of the principles of federalism is sovereignty of states. As indicated above the argument of the office of the Auditor General is based on the constitution (Article 94 (2)). In the same manner the Ministry of Finance and Economic Development challenged the office of the Auditor General based on the FDRE constitution and the principle of Federalism. This has brought a legal conflict between the two institutions. The comments of other officials on this issue would be discussed later.

The other critical problem observed in the proceedings of the parliament is the problem of implementing audit reports by spending agencies. Some members of the House asked the chief Auditor general as to who follows up the implementation of audit reports to ensure that public agencies have improved their budget utilization based on the audit findings. The chief Auditor General responded that it is the responsibility of the House of People's Representatives to follow up the implementation of audit reports by the spending agencies and further stated that since there was no established follow up mechanism by the House the implementation of audit reports was unsatisfactory, (HPR, 2006)

It was clearly stated in the literature review part of the study that financial auditing is one of the mechanisms to effectively control public budget implementation. It is also indicated that independent auditing

helps to ensure accountability of spending agencies to the legislative body. But if the recommendations of the audit institution are not implemented by the audited body the above objectives will not be realized. According to regulation No. 3/2006 article 176 (1) of the House of peoples Representatives, the public accounts standing committee of the house is legally responsible to follow up and supervise the effective implementation of any budget allocated by the house of the federal government. But the public accounts committee has not established a follow up mechanism to control the public agencies since it was organized recently.

3.2.2.1 Analysis of Data Colleted from OFAG on Budget Control

Problems

3.2.2.1.1 Questionnaire in OFAG

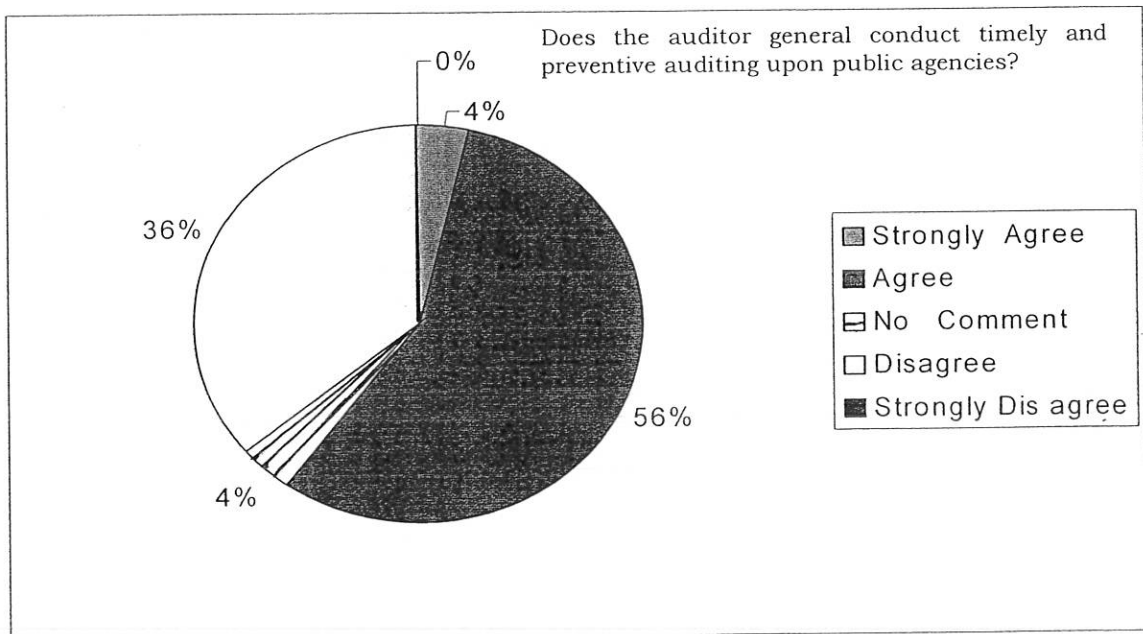
Following, primary information gathered from the professional workers of OFAG on budget control issues are analyzed.

Table 5 Summary of Responses on Financial Auditing (control) Issues from OFAG

No.	Questions	Items					Total
		Strongly Agree	Agree	No comment	Disagree	Strongly Disagree	
1	Do you think that the auditor general has enough institutional capacity (human resource, material etc) in order to control the budget implementation of public agencies?	1 (4%)	8 (32%)	0 (0%)	14 (56%)	2 (8%)	25 (100%)
2	The financial audits conducted by the auditor general:						
	A. Focuses on addressing systematic control problems of public agencies.	5 (20%)	14 (56%)	2 (8%)	4 (16%)	0 (0%)	25 (100%)
	B. Directed to wards fault finding and fraud prevention.	4 (16%)	15 (60%)	0 (0%)	5 (20%)	1 (4%)	25 (100%)
3	Does the Auditor General conduct timely and preventives auditing upon public agencies.	1 (4%)	14 (56%)	1 (4%)	9 (36%)	0 (0%)	25 (100%)
4	Do you think that spending public agencies effectively implement the audit reports of the auditor general	0 (0%)	3 (12%)	4 (16%)	14 (56%)	4 (16%)	25 (100%)
5	Do you think that the budget implementation of public organizations be effectively controlled by conducting financial (compliance) audit	0 (0%)	0 (0%)	0 (0%)	18 (72%)	7 (28%)	25 (100%)
6	Is there any enforcing mechanism established by the house of peoples representatives to implement the audit reports of the auditor general?	0 (0%)	4 (16%)	12 (48%)	2 (8%)	7 (28%)	25 (100%)
7	Do you think that the House is playing significant roles by enforcing public agencies to implement the audit recommendations?	0 (0%)	1 (4%)	7 (28%)	13 (52%)	4 (16%)	25 (100%)
8	Do you think that the federal auditor general established a mechanism to address common system budget implementation problems of spending agencies?	1 (4%)	6 (24%)	4 (16%)	14 (56%)	0 (0%)	25 (100%)
9	Does the auditor general facilitate (conduct) audit hearing to increase the public awareness about the budget use of spending agencies?	2 (8%)	4 (16%)	3 (12%)	13 (52%)	3 (12%)	25 (100%)
10	Do you believe that audit reports of public agencies should be open to the public in order to ensure transparency and accountability	14 (56%)	8 (32%)	1 (4%)	2 (8%)	0 (0%)	25 (100%)
11	Do you think that the auditor general independently conducts its duties and responsibilities?	1 (4%)	9 (36%)	12 (48%)	3 (12%)	2 (8%)	25 (100%)

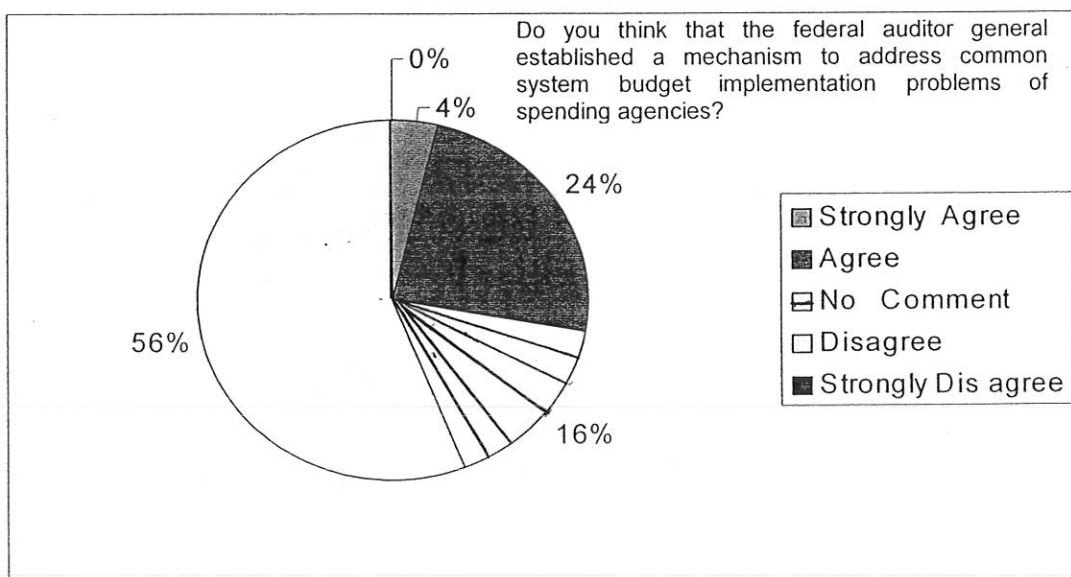
As indicated in the previous sections of the paper institutional capacity of audit institutions is crucial to conduct effective budgetary control. Asked whether OFAG has adequate institutional capacity control (audit) the budget utilization of public agencies 64% the respondents replied 'strongly disagree' and 'disagree'. This indicates that OFAG lacks the required capacity (for ex. human resource) to carry out effective auditing.

As can be seen in the table above over 76% of the respondents in OFAG confirmed that the financial auditing conducted by the office addresses the systematic control problems of the public agencies. On the contrary 76% of the respondents (in another question) agreed that it focuses on fault finding and fraud prevention. It was stated in the literature review part that auditing should focus addressing systematic control problems rather than fault finding. For this the cooperation between the audit institution and the public agencies is desirable.

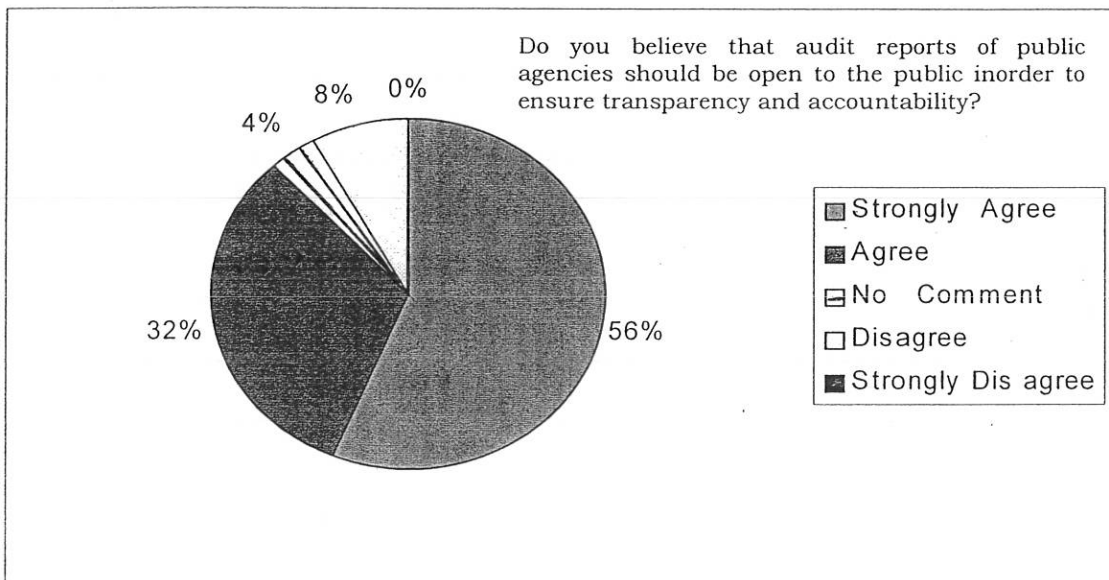


It was also indicated in the review of literature that auditing should be timely and preventive in order to effectively control the budget use of agencies. With regard to this issue the majority of the respondents (60%) agreed that OFAG conducts timely and preventive auditing on their budget implementation. But this would be effective if the audit recommendations of OFAG are implemented by the public agencies. Asked to give their opinions about the implementation of audit reports by the public agencies 72% of the respondents replied 'disagree' and 'strongly' disagree. This indicates that public agencies are not properly implementing the recommendations of OFAG audit findings (recommendations).

On the other hand, respondents in OFAG were asked to know whether the House of Peoples Representatives (where the OFAG is accountable) has established a mechanism to enforce public agencies to implement audit recommendations of OFAG, 36% of the respondents indicated that there was no established follow up system by the house and 48% replied 'no comment'. Besides, 68% of the respondents agreed that the House of Peoples' Representatives was not as such playing significant roles in enforcing public agencies to implement audit reports. This issue is further discussed in the interview section of the paper.



As indicated in the table above most of the professionals (56%) in OFAG confirmed that OFAG did not create a mechanism to improve common systemic budget implementation problems of public agencies based on audit findings. This shows that there was no experience sharing among agencies (like best practices) with regard to budget control matters.



It was indicated in the literature review section of the study that the parliament and supreme audit institutions conduct audit hearings to increase the public awareness about the budget implementation of government organization. But the majority of the respondents (64%) confirmed that this was not practiced in Ethiopia. As stated in the literature, review part the media plays a crucial role to address budget control problems and this is facilitated by audit hearings. In the same manner, 77% of the respondents believe that budgetary audit reports should be open to the public in order to ensure transparency and accountability in government organizations.

Concerning the independence of OFAG 48% of the professionals agreed that it is conducting its activities independently while others (38%) didn't

comment on the issue. As indicated earlier independence is very critical for an audit institution and one way of ensuring independence is accountability. If the supreme audit body is accountable to the parliament it can positively contribute for its independence. In Ethiopia the Auditor General is accountable to the House of Peoples' Representatives.

The respondents of the Auditor General were also provided with one open ended question to list down the major budgetary audit issues (problems) of their organization. The main issues indicated by the majority of the respondents are summarized below.

- Low implementation capacity of the Auditor general was the major problem raised by the respondents. This was aggravated by high turnover of professional workers. It was realized from the proceedings of the parliament that within a year (2005) 64 auditors left the organization (HPR, 2006).
- Lack of proper recording and documentation of expenditures by public agencies was also mentioned as one of the obstacles that the Auditor General faced in controlling (auditing) public agencies.
- The other challenge faced by the audit institution was lack of attention to audit reports on the part of public officials which seriously affected the implementation of the reports to improve (correct) budget utilizations of the agencies. It was also added that there was lack of knowledge of relevant financial laws, rules and regulations on the part of some public officials.

3.2.3 Interview in the Office of the Federal Auditor General on Challenges of Budget Control

Another interview was conducted with head of training and documentation department of the office of the Auditor General who has the experience of working in different positions of both financial and performance auditing. Problems related to budgetary control challenges of the office were discussed with the official and summarized as follows.

Regarding to the institutional capacity and independence of the audit institution it was learnt that since the office is directly accountable to the parliament its independence was not as such a problematic issue. But in terms of capacity it was stated that the office has many internal constraints to carry out preventive auditing upon spending public agencies. As a result the office focuses on compliance auditing and fault finding activities rather than addressing systemic budgetary control problems of public agencies.

In terms of performance auditing, it was learnt from the interview and from personal observation that the Auditor General has a very limited capacity. It has one department responsible for performance auditing with few trained professionals. Only 2-3 performance audit reports are produced by the department in a year. It was further indicated that even though performance auditing was started by OFAG before ten years, it was not developed in the country and the concept is not still clear in some public agencies.

In relation to the implementation of audit reports (recommendations) the official agreed that the follow up mechanism was very poor. He also questions the nature of the auditing practice (compliance and fault finding rather than value adding) to worsen the implementation of audit

findings by the public agencies. Besides, it was underlined that lack of strong public accounts committee in the parliament to follow up the budget utilization of public agencies has contributed to the problem.

Regarding to the control of subsidies to regional states, the official has a different opinion from the chief Auditor General. He argued that even though the constitution says that the federal auditor general audits expenditures allocated by the Federal Government, (article 94(2)) it does not mean that it should conduct detail financial audits in regional states. The official further argued that the conflict lies on the definition of accountability in federalism. For him the control (audit) should be based on agreed upon performance standards like (number of schools or clinics constructed) rather than conducting detail financial audits violating the sovereignty of regional states.

In terms of building the capacity of internal auditors of public agencies and regional states, it was learnt from the interview that the federal auditor general was not playing its role. It is clearly indicated in its mandate that it should provide training on technical and professional audit standards, audit or independence etc. But it was realized that these activities were not adequately carried out by the auditor general.

3.2.4 Performance Auditing Development and Constraints

In the previous sections of the study it was indicated that performance (value for money) auditing is one of the control mechanisms of budget implementation which helps to ensure the efficiency and effectiveness of budget utilization of a given organization. Following, the views of professional workers of OFAG on the practice and development of performance auditing in the country are presented.

Table 6 Summary of Responses on Performance (value for money) Auditing Issues from OFAG

No.	Questions	Items					Total
		Strongly Agree	Agree	No Comment	Disagree	Strongly Disagree	
12	Do you think that the auditor general is conducting adequate performance auditing to ensure efficient and effective budget implementation?	4 (16%)	3 (12%)	2 (8%)	13 (52%)	1 (4%)0	25 (100%)
13	Does the office have adequate institutional capacity (human, budget etc) to conduct performance ace auditing in public agencies?	8 (32%)	4 (16%)	0 (0%)	13 (52%)	0 (0%)	25 (100%)
14	Did the House of Peoples` Representatives pass decisions on performance audit reports submitted by the office for the last two years.	0 (0%)	0 (0%)	15 (60%)	9 (36%)	1 (4%)	25 (100%)
15	Do you think that the auditor general is supporting the internal auditors of public agencies and regions to conduct performance auditing.	14 (56%)	6 (24%)	3 (12%)	0 (0%)	2 (8%)	25 (100%)
16	Some scholars of the field argue that performance auditing is more preferable than financial auditing in order to ensure the efficiency and effectiveness of budget implementation. Do you agree with their view.	6(24%)	10(40%)	5(20%)	2(3%)	2 (8%)0	25 (100%)
17	A. If you agree with the above idea (Q16) do you think that officials of public agencies have the necessary understanding about performance auditing?	6 (24%)	10 (40%)	1 (4%)	5 (20%)	1 (4%)0	25 (100%)
	B. Do you think that performance auditing growing developing in the country.	0 (0%)	4 (16%)	4 (16%)	12 (48%)	5 (20%)	25 (100%)

As indicated in the interview section OFAG started performance auditing before ten years. It was also stated that OFAG is not producing more than three performance audit reports per year which is insignificant compared to the financial auditing activities. As can be seen in the table above 56% the respondents also confirmed that adequate performance auditing was not conducted by OFAG to ensure efficient and effective budget implementation of spending agencies. It was also indicated by the respondents (52%) that OFAG has not adequate institutional capacity (trained manpower, and budget) to conduct performance auditing in public agencies.

On the other hand the majority of the respondents (60%) replied 'no comment' whether the House of peoples; representatives did pass decisions on the performance audit reports submitted by OFAG for the last two years. If decision was not passed by the house upon the reports, it would affect the implementation of the reports by the audited agencies.

One of the mandates of the OFAG is to provide capacity building for the internal auditors of public agencies on auditing practices and techniques. With regard to this issue many of the respondents replied no comment (24%) and disagree' (56%). This shows that OFAG was not providing adequate capacity building supports to the internal auditors of sector agencies and regional states. It was also learnt from the interview with head of the training department of OFAG that OFAG was not fulfilling its mandate in the provision of capacity building to develop performance auditing practices in public agencies.

More over, the majority of the respondents (64%) accepted that performance auditing is more preferable than financial (compliance) auditing in order to ensure (control) efficient and effective budget utilization. On the contrary 60% the professionals replied 'no comment'

and disagree with regard to the understanding of performance auditing by public officials. This indicates that officials of public agencies lack the necessary information about the importance and practice of performance auditing.

On the other hand respondents of the Auditor General were asked an open ended question to comment on the reasons why performance auditing was not developed in the public organizations. Following their opinions on this issue are summarized.

Lack of awareness and exposure among auditors, law makers and officials concerning the importance and techniques of performance auditing was mention as one of the reasons for the under development of performance (value for money) auditing. As a result priority is given for financial audits in public agencies. It was also stated that the OFAG has not worked in the area to create awareness among the public institutions. It was also indicated that no courses are given in higher educations about performance auditing.

Chapter Four

Conclusions and Recommendations

4.1 Conclusions

In developing countries like Ethiopia where there is no well developed private sector government intervention is indispensable to achieve development objectives, and the most important instrument of government intervention in developmental activities is the budget (finance).

One of the challenges that developing countries face to address the basic needs of their people is lack of financial resource. It is quite natural that resources are scarce by their nature. As a result allocating the available resource (finance) for planned priority areas and controlling whether these allocated resources are used efficiently and effectively for planned priority needs of a society is a key factor for achieving development objectives.

The nature of the budgetary approach, the control mechanisms and institutional capacities of budget allocating and controlling public institutions of a country play a significant role for establishing effective public budgeting system.

Ethiopia, as one of the developing countries is striving for achieving sustainable development by allocating its scarce resources for basic social and economic needs of its people. But the country's federal budget allocation and controlling process has faced some challenges as can be seen in the following conclusions drawn from the findings of the study.

- The budgetary approach that the country follows doesn't create a favorable condition for linking the budget with performance goals and objectives of spending public organizations. The line item budget format of the country simply allocates money for inputs without considering what outputs would be achieved. As a result the budget allocation of the country is not effectively shaped and guided by resource based performance goals and objectives that can ensure the accountability of spending public agencies.
- Although, there are some beginnings, the government has not established a strong system where by budgets and performance plans can be analyzed and approved by the legislative body in the same period. Plans and budget proposals are submitted to the House separately by different agencies at different times.
- The survey indicated that the House of Peoples' Representatives did not create a mechanism for the participation of different interest groups, (civil-society organizations, media organizations, and the public at large in budget hearing) to gather inputs for policy decisions.
- The budget standing committees of the House of Peoples' Representatives lacks adequate institutional capacity and technical support to seriously analyze and amend (challenge) the Federal budget proposal. The committee has no access for research and consultancy supports but the necessary legal grounds including cut motions have been established.
- The survey also indicated that internal audit departments of public agencies which are reporting to MoFED lack adequate trained man-power and independence to control (audit) the budget utilization of their respective agencies.

- MoFED has not established a system to follow up the implementation of budget utilization audit reports of internal audits of public agencies. This is partly because of lack capacity (trained manpower) in the inspection department of MoFED and partly due to the tendency of some public officials to under value audit matters.
- The larger share of (70 % to 80 %) the budget of the regional states is financed by the federal subsidy. After years of discussions and revisions, very recently (May 2007) the council of federation approved a new formula for the division of federal grant based on expenditure needs and revenue generation capacities of the regional states that would be fully implemented within the coming four years.
- It was found out by the survey that there is a conflict in interpreting the constitution with regard to the control (auditing) of regional subsidies. Constitutionally (Article 94 (2)), OFAG has the right to audit all expenditures allocated by the Federal government. On the other hand regional states are sovereign and responsible to their people and conducting financial control in the regions by OFAG would be violating their sovereignty. As a result there is no clear mechanism established to control regional subsidies.
- The survey also indicated that the Auditor General lacks adequate trained man power and budget to effectively control the budget utilization of public agencies and to provide capacity building for internal auditors of public organizations and regional states.
- The public accounts standing committee of the House of Peoples Representatives lacks adequate capacity to follow up the budget utilization of public agencies. The committee has no any technical support staffs or access to research activities like the budget committee. Besides, the committee did not design manuals and procedures to follow up the budget implementation of spending

agencies. As a result, the committee is not effectively carrying out its legal obligations stated in Regulation 3/2006 of the House of peoples' Representatives.

- The survey also indicated that the House of Peoples' Representatives (the public accounts committee) did not conduct audit hearing by inviting different interest groups (civil society organizations, media etc) and officials of spending public agencies.
- The government of Ethiopia has not established a follow up system (mechanism) to ensure the implementation of budgetary audit reports (recommendations) by the public agencies. Legally the public accounts committee of the House is responsible to enforce and follow up the implementation of audit reports (submitted by OFAG) by the audited public organizations. But currently (since it was established recently) and capacity problems the committee is not in a position to enforce the audit recommendations. As a result no institution is ensuring (following up) whether public agencies are improving their budget utilization based on the audit recommendations or not.
- The survey indicated that it was not possible to ensure efficient and effective budget utilization of a public organization by conducting only financial (compliance) auditing.
- Performance auditing (value for money auditing) which helps to ensure efficient and effective budget implementation has not developed in the country mainly because of lack of attention and awareness by the concerned bodies (OFAG, MoFED, HPR) and due to the fact that no courses are given in higher education institutions about the concept and practice or performance (value for money) auditing.

4.2 Recommendations

Ethiopia is one of the poor countries which has a very limited experience of parliamentary system. Given these conditions, the study suggests that the following measures must be taken to address the existing budget allocation and control challenges of the Federal Government.

- The Federal Government should exert more effort for linking budget allocation with performance plans. Spending public agencies should clearly state in their performance plans what to achieve by using the allocated budget. They should also avoid planning without having finance by continuously revising their plans. For this the government should also look in to other performance related budgetary formats to change the line item budget approach which doesn't create a conducive environment for coordinating performance goals with budgets.
- The House of Peoples' Representatives should create a favorable situation for the participation of different interest groups (civil society organizations, media organizations, NGOs etc) in budget and audit hearings of the federal government.
- There should be an urgent decision and commitment by the House of Peoples' Representatives to build the capacities of the budget and public accounts standing committees, and, the House should also give attention to strengthen its research department.
- The Federal government should exert more effort to strengthen the capacity of OFAG (in terms of trained manpower, budget etc) and independence of internal audit departments of public agencies.

- MoFED should establish a system to follow up the implementation of internal audit reports of public agencies. Each public agency should submit budgetary audit implementation report to MoFED.
- In order to effectively implement the new division formula of the federal subsidy to regional states, the federal government should think of designing objective and standardized criteria for assessing the expenditure needs of regional states.
- The council of Federation by using its constitutional power of interpreting the constitution (article 62 (1), should interpret the constitution and decide who controls (audits) the regional subsidy to resolve the conflict between MoFED and the Auditor General with regard to controlling (auditing) the regional subsidy.
- The office of the Federal Auditor general should take as one of its major tasks to follow up the implementation of budget utilization audit reports. This should also be incorporated in its mandates. Until the public accounts committee of the House is strengthened OFAG should follow up the implementation of budgetary audit recommendation and submit a follow up report to the Public Accounts Standing Committee of the House for a decision.
- Economic, efficient, and effective budget utilization of a public agency is ensured through performance (value for money) auditing. Therefore the Government should give attention for the development of performance (value for money) auditing in the country. Particularly the office of the Federal Auditor General

should promote the practice and discipline of performance auditing in public agencies and higher educations.

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MPA program

Research Questionnaire

This questionnaire is designed to conduct a research on federal budget allocation and control problems. The study will contribute to identify and address the basic federal budgetary problems of the country to improve the budgetary processes of the country. Therefore the information you provide is very essential to realize the above objective.

Although, the information required from the respondent may not be secret you reserve full assurance that the information you provide would be kept confidential.

Please fill out and respond to all the questions and kindly add more information relevant to the research.

Thank you for your cooperation

Research Questionnaire Designed to Gather Information from the Ministry of Finance and Economic Development (MoFED)

Please indicate your choices by marking /✓/ in the boxes provided against the listed preferences. Finally state your comments for the last two questions

Respondent profile

- Organization _____
- Profession _____
- Education level _____
- Position _____

Key	
1.	Strongly agree
2.	Agree
3.	No comment
4.	Disagree
5.	Strongly disagree

A. Budget preparation Issues

		1	2	3	4	5
1	Do you think that MOFED has a mechanism to link (coordinate) the annual budget proposal with the performance plans of public agencies?					
2	When MOFED prepares the annual budget of the federal government it conducts proper discussion with spending agencies.					
3	The annual budget proposal that would be submitted to the house of peoples representatives by MOFED after discussion by the parliamentarians?					
	A. It would be approved (accepted) with out adjustment					
	B. It would be adjusted by the house (increased or decreased)					
4	Do you think that spending public agencies seriously analyze their budget in relation to their plans before they submit their budget needs to MOFED					
5	A. It is said that spending agencies complain about budget shortages, when they fail to achieve their annual work plans. At the same time, they return money to MOFED at the end of the fiscal year					
	B. For the above problem the cause is the rigidity of financial regulation					
	C. Lack of coordination between plans and budgets					
6	Do you think that the financial regulation of MOFED is flexible enough to transfer budget from one cost centre to the other in relation to the major activities of the agency?					

2. Budgetary Control

7	Public agencies submit budget implementation report to MOFED	1	2	3	4	5
	- Every three months	1	2	3	4	5
-	Semi annually	1	2	3	4	5
-	Annually	1	2	3	4	5
8	Does MOFED prepare and submit budget implementation report to the house of peoples representatives every year?	1	2	3	4	5
9	Does MOFED have enough capacity (human, material) to audit the budget use of public agencies?	1	2	3	4	5
10	Do you think that the internal auditors of public agencies independently conduct their responsibilities?	1	2	3	4	5
11	After the internal audits of public agencies started reporting to MOFED do you think hat the budget implementation of the agencies is improving?	1	2	23	4	5
12	Does MOFED have enforcing mechanism to implement (improve) the audit reports of internal auditors of public agencies?	1	2	3	4	5
13	Does MOFED conduct performance auditing to evaluate efficiency and effectiveness of budget implementation?	1	2	3	4	5
14	Do you think that it is possible to ensure the efficiency and effectiveness of budget implementation an agency by conducting only financial auditing?	1	2	3	4	5

3. Additional Comments

15. Can you mention four problems of budget preparation in public Agencies

1. _____
2. _____
3. _____
4. _____

16. Can you mention five problems of budgetary control in federal public agencies.

1. _____
2. _____
3. _____
4. _____
5. _____

Thank you!

Research Questionnaire Designed to Gather Information from the Council of Peoples Representatives

Please indicate your choices by marking /✓/ in the boxes provided against the listed numbers on the basis of the indicated key.

Respondents Profile
 Sex M _____ F _____
 Ruling party member _____
 Opposition party member _____
 EPRDF affiliated party member _____
 Region _____
 Profession _____

<u>Key</u>
1. Strongly agree
2. Agree
3. No comment
4. Disagree
5. Strongly disagree

A. Federal Budget Analysis and Approval Process

1	Since budget is the means to implement plans does MOFED submit the budget proposal to the house with the plans of the country?	1	2	3	4	5
2	The federal budget proposal that MOFED submitted to the house for the last two years were accepted (approved) by the house with out any content (numerical) adjustment.	1	2	3	4	5
3	The federal budget proposal that MOFED prepared for the last two years, after being evaluated by the budget standing committee was there a time that proposal returned back to MOFED for adjustment?	1	2	3	4	5
4	The debate of the parliamentarians on the budget proposal for the last two budget years was:	1	2	3	4	5
	- Weak (cool)	1	2	3	4	5
	- Strong (hot)	1	2	3	4	5
5	Does each public agency include its budget needs when it submits its annual plans to the house.	1	2	3	4	5
6	Was the federal budget approved according to the budget calendar.	1	2	3	4	5
7	Are oppositions and EPRDF affiliated party members included in the budget and public accounts standing committees of the house.	1	2	3	4	5
8	Does the house gather public opinion on the budget proposal before the budget is approved?	1	2	3	4	5
9	If public opinion is gathered on the budget proposal is it used as an input to amend the budget?	1	2	3	4	5

2. Budgetary control (audit) Issues

10	Does the executive branch of the government submit budget implementation report to the house annually or semi annually?	1	2	3	4	5
11	Do the public agencies include budget implementation report with their performance reports when they report to the house	1	2	3	4	5
12	Can we conduct effective performance evaluation with out evaluating how much budget is used to implement the plans	1	2	3	4	5
13	Who is authorized to control (audit) regional subsidies?	1	2	3	4	5
	A. Office of the federal auditor general	1	2	3	4	5
	B. Regional audit bureau	1	2	3	4	5
14	Do you believe that there is an independent audit institution in Ethiopia	1	2	3	4	5
15	Does the house get timely audit reports about budget implementation of public agencies from the auditor general	1	2	3	4	5
16	A. Does the house have enough advisors on budget and finance issues	1	2	3	4	5
	B. Does the house have adequate institutional capacity to control the budget implementation of public agencies?	1	2	3	4	5

3. Additional comments

17. Mention four problems regarding to the federal budget approval Process of the parliament.

1. _____
2. _____
3. _____
4. _____

18. State three problems regarding to controlling (auditing) the federal budget.

1. _____
2. _____
3. _____

19. State three challenges about the formula and control of regional Subsidies.

1. _____
2. _____
3. _____

Thank you!

**Research questionnaires delegated to gather information from the
Office of Federal Auditor General on Budgetary control problems**

Please indicate your choices by marking /✓/ in the boxes provide against the listed preferences. Finally state your comments for the last two questions

Respondent profile

- Organization _____
- Profession _____
- Education level _____
- Position _____

Key	
1.	Strongly agree
2.	Agree
3.	No comment
4.	Disagree
5.	Strongly disagree

A. Financial Auditing (control) Issues

1	Do you think that the auditor general has enough institutional capacity (human resource, material etc) in order to control the budget implementation of public agencies?	1	2	3	4	5
2	The financial audits conducted by the auditor general:					
	A. Focuses on addressing systematic problems of public Agencies.	1	2	3	4	5
	B. Directed to wards fault finding and fraud prevention.	1	2	3	4	5
3	Does the auditor general conduct timely and preventive auditing upon public agencies.	1	2	3	4	5
4	Do you think that spending public agencies effectively implement the audit reports of the auditor general?	1	2	3	4	5
5	Do you think that the budget implementation of public organizations be effectively controlled by conducting financial (Compliance) audit only?	1	2	3	4	5
6	Is there any enforcing mechanism established by the House of Peoples' Representatives to implement the audit reports of the auditor general?	1	2	3	4	5
7	Do you think that the house is playing significant roles by enforcing public agencies to implement the audit recommendations?	1	2	3	4	5
8	Do you think that the federal auditor general established a mechanism to address common (systemic) budget implementation problems of spending agencies?	1	2	3	4	5
9	Does the auditor general facilitate (conduct) audit hearing to increase the public awareness about the budget use of spending agencies?	1	2	3	4	5

10	Do you believe that audit reports of public agencies should be open to the public in order to ensure transparency and accountability?	1	2	3	4	5
11	Do you think that the auditor general independently conducts its duties and responsibilities?	1	2	3	4	5

B. Performance Auditing

12	Do you think that the auditor general is conducting adequate performance auditing to ensure efficient and effective budget implementation?	1	2	3	4	5
13	Does the office have adequate institutional capacity (human, budget etc) to conduct performance auditing in public agencies?	1	2	3	4	5
14	Did the house of peoples' representatives pass decisions or performance audit reports submitted by the office for the last two years?	1	2	3	4	5
15	Do you think that the auditor general is supporting the internal auditors of public agencies and regions to conduct performance auditing	1	2	3	4	5
16	Some scholars of the field argue that performance auditing is more preferable than financial auditing in order to ensure the efficiency and effectiveness of budget implementation. Do you agree with their view?	1	2	3	4	5
17	If you agree with the above idea (Q16) do you think that officials of public agencies have the necessary understanding about performance auditing?	1	2	3	4	5
	➤ Do you think that performance auditing growing developing in the country	1	2	3	4	5

Additional Comments

18. Can you mention three problems regarding to federal budget auditing (controlling) problems of public agencies

1. _____
2. _____
3. _____

19. State three reasons for the under development of performance Auditing in the country.

1. _____
2. _____
3. _____

20. Mention three problems in relation to auditing regional subsidies.

1. _____
2. _____
3. _____

Thank you!

**Interview Questionnaire Designed to Gather Information from the
official of the federal Auditor General.**

1. Would you mention the types of audits conducted by the auditor
general?

2. Do you think that public agencies implement the audit reports of your
office?

3. Is there any system /mechanism/ established by the house of propels
representatives to enforce public agencies to implement audit reports
(recommendations)?

4. Can you mention the development, importance and practice
performance auditing in the Ethiopian public organizations?

5. Who is legally authorized to control (audit) regional subsidies?

6. Can you comment on the conflicts between MOFED and your office about controlling regional subsidies?

7. If you have additional comments?

Thank you!

**Interview Questionnaire Designed to gather Information from the
Budget Standing Committee of the House of Peoples Representatives**

1. Would you mention the structure background and numbers of members, of the budget standing committee?

2. Does the committee have enough time to analyze and amend the budget proposal submitted by MOFED?

3. Does the committee have employed budget analysts and other technical staffs?

4. Does the committee conduct discussions with MOFED to improve the budget proposal?

5. Do you think that the budget proposal that MOFED submits to the house is linked with the activity performance plans of the country?

6. Does the committee facilitate budget hearing to gather the opinions of the public and other interest group?

7. Does MOFED report to the committee annually or semiannually about the budget implementation of the country?

8. How do you see the institutional capacity of the budget committee to challenge the executive on budgetary issues?

9. If you have additional comments?

Thank you!

Interview Questionnaire Designed to gather Information from the Public Accounts Committee of the House of People representatives

1. Would you mention about the structure, background and numbers of the public accounts committee?

2. Can you state the major duties and responsibilities of the public accounts committee?

3. Can you mention the mechanisms established by the committee to control the budget utilization of the public agencies?

4. Has the committee established a system /mechanism/ for the implementation of audit reports of the auditor general by the spending agencies?

5. Does the committee organize audit hearing to increase the public awareness about budget implementation?

6. What efforts are being exerted by the committee to develop performance auditing in public agencies?

7. Can you mention the role of the public accounts committee in controlling the regional subsidies? What are the challenges in controlling the subsidy?

8. Do you think that the public accounts standing committee has institutional capacity to control the budget implementation of public agencies?

9. If you have additional opinions

Thank You!