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# **Factors That Affect the Budget Preparation and Utilization in Ministry of Finance**

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**A project submitted to the Department of Accounting and Finance  
in partial fulfillment for requirements of degree of Master of  
Science in Accounting and Auditing**

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## **Declaration**

I, Tsigie Semachew declare that this project entitled: “Factors That Affect the Budget Preparation and Utilization in Ministry of Finance” and submitted in partial fulfillment of the requirements for the Degree of Master of Science in Accounting and Auditing, is outcome of my own effort & study and that all sources of materials used for the study have been duly acknowledged. I have produced it independently with only guidance and suggestion of the project Advisor. The study complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

Name: Tsigie Semachew

Signature -----

Date -----

## **Statement of Certification**

This is to certify that the project prepared by Tsigie Semachew, entitled: “Factors That Affect the Budget Preparation and Utilization in Ministry of Finance” and submitted in partial fulfillment of the requirements for the degree of Master of Science in Accounting and Auditing complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

**Approved by: Advisor: Abebaw Gualu/ PhD/**

**Signature-----**

**Date-----**

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

Declaration This is to certify that the project prepared by TSIKE SEMACHEW, entitled: “Factors That Affect the Budget Preparation and Utilization in Ministry of Finance” and submitted in partial fulfillment of the requirements for the degree of Master of Accounting and Auditing in Finance complies with the regulations of the university and meets the accepted standards with respect to originality and quality.

Approved by Board of Examiners

----- Advisor	----- Signature	----- Date
----- Examiner (internal)	----- Signature	----- Date
----- Examiner (External)	----- Signature	----- Date

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## **ABSTRACT**

*The study aimed at assessing budget preparation and utilization in Ministry of Finance. Specifically the study focused on identifying the existing condition of plan & budget integration, budget preparation, budget utilization & controlling and performing of internal audit, primary and secondary are used to collect data. Data were presented into tables and charts for easy analysis and discussion of findings, the study findings indicated that budget preparation problems leads to budget utilization problem and it end up with providing feedback for the necessary corrective measures the study concluded that in order to enhance the performance of the ministry there must be properly integrated budget and plan and also properly implement and controlling the budget through encouraging the internal controls and audit performance of the approved budget.*

*Key words: budget, budget preparation, budget utilization.*

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## **List of Abbreviation**

Permanent Budget Committee (PBC)

GTP-Growth and transformation plan

GDP-Gross Domestic Product

MEFF-Macro Economic Fiscal Frame

HPR-House of People Representative

MoFED-Ministry of Finance and Economic Development

MoF-Ministry of Finance

# CHAPTER ONE

## 1. INTRODUCTION

### 1.1 Background of the study

Budget is a quantitative expression of plan of action and aid to coordination and implementation. It is a financial plan that indicates a proposed expenditure for the year and the means of financing them, since budget is a financial plan of any activities. It serves as evaluating performance, coordinating activities, implementing plan and communicating, motivating and authorizing action in governmental and nonprofit organizations. Budget appropriates serve as authoring and ceiling for management action. Budget is also a tool that aids managers in both their planning and control function. However the manager also uses them to evaluable what happened in the past. (Horngren 2006)

For budgeting and utilization processes to be effective and economic, they must be based on well-argued and elaborated plans and program. Contemporary studies show that governments which have effective fiscal rules have stronger budget discipline. These rules focus on formal and informal procedures for preparing and utilizing the budget. (Schick 2007).

Poor performance is often to be found in the weak links between policy making, planning and budgeting. At one level, policy making and planning are unconstrained by what a country will be able to afford over the medium term. At another level, policy making and planning are insufficiently informed by their budgetary implications and by their likely impacts in the wider community. The inadequacy of hard budget restraints on decision makers at the planning and budget formulation stage of the cycle leads to inadequate funding of operations, poor expenditure control and unpredictability in the flow of budgeted resources to agencies responsible for service delivery Malcolm (1998).

Besides to this, for effective use of resources and to gain an understanding of how public funds have been utilized, and how they contribute to government policies, it is important to monitor the results of expenditure. This has led to the establishment of government monitoring and evaluation (M&E) systems. A common feature of such systems involves the Ministry of Finance keeping spending agencies in check by requesting reports on financial and non-financial

performance. The latter is also referred to as the results of government spending, and can be measured at the levels of outputs, outcomes and impacts, which involves defining performance indicators. It is important for governments to define and keep track of indicators to consider what they are trying achieve with their policies and how far they are progressing and to use the information to plan accordingly. For this reason, there is a strong link between budget monitoring (understanding how public resources are being utilized) and performance-based budgeting (Rebecca, Natasha & Imran, 2011).

## **1.2. Statement of the Problem**

There are different budget users in Ministry of Finance and each of the budget users has the responsibilities of preparing and utilizing budget. In budget preparation and utilization there are various type of problem encountering, in the case of Ministry of Finance.

In many of the budget users, gaps are observed in budget planning and utilization, the annual report of Ministry of Finance shows the existence of inefficiencies in budget preparation and utilization. Some of the deficiencies identified in the report are: there is no strong follow up and control by successive leaders on the budget preparation as well as utilization at each respective budget users; each budget users unable to report comparisons of utilized and unutilized budget including the reason why it is not consumed.

On the other hand, Planning and Budget Department of the Ministry, has a lion's share role to follow-up the implementation of budget whether it is prepared and utilized for the intended purpose or not. In this regard, there is no strong way in budget reporting, supervising and controlling system by the ministry budget department for each level of budget users and problems would arise for weak budget preparation and utilization. This problem requires further investigation with scientific approach how the budget preparation and utilization proceeded within Ministry of Finance.

The research concentrated on the assessment of the preparation and utilization of budget in Ministry of Finance. Little has been done to evaluate/determine the causes that probably affect the preparation and utilization of budget in the ministry.

This research thus bridges an evident research gap as there is no document to the best of researcher knowledge that reports any study on the probable causes that may hinder the preparation and utilization of budgeting in the ministry.

### **1.3. Objective**

#### **1.3.1. General objective**

The general objective of this study is to the budget preparation and utilization in Ministry of Finance to provide solutions for the problem.

#### **1.3.2. Specific Objective**

- To review the budget preparation and utilization process.
- To examine the budget preparation and utilization process.
- Evaluate the ministry budget preparation and utilization process.

### **1.4. Scope of the study**

The research is limited to the data obtained from the rates using questionnaires, reports and unstructured interview in Ministry of Finance. Regardless of the budget preparation and utilization, the researcher got information from 24 departments' and 2 project offices budget and plan preparers and also from plan and budget experts of the ministry. Moreover, the study used the budget and expenditure report of the ministry from budget and administration directorate in the ministry which is responsible for public bodies' budget preparation and utilization.

### **1.5. Significance of the study**

The significance of this study is helping the ministry to solve the problems on budget preparation and utilization process which leads to a better budget preparation and utilization that helps to prevent wastage of resources.

If the problem in the ministry is solve it also helps other organizations to improve their budget preparation and utilization process. In addition to that it will help other interested peoples who will do further studies on the area.

## CHAPTER TWO

### 2.1. Introduction

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

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

### 2.2. Concepts of Budget

Horngren Forster and Datan (1997) describe a budget as a quantitative expression for period of time designed for future plan of action by management. A budget can cover both financial and non-financial aspect of these plans and act as a blue – print for the company to follow in the upcoming period. Thus a budget is also an itemized estimate of operating result of an enterprise for a future time period. According to Adams (2009:184), a budget could be defined as a future plan of action for the whole organization or a section thereof. Budget can also be defined as a financial and/or quantitative statement prepared and approved prior of time to be pursued by the organization in order to achieve organizational goals and objective.

Budget has been defined by Reeve & Warren (2008) as an accounting device used to plan and control resources of Operational Departments of Governments and Divisions. Budget also defined by Omolehinwa, Ade (2005) as a financial and/or quantitative statement, prepared and approved prior to a defined period of time, of the policy to be pursued during that period for the purpose of attaining a given objective. A government budget is a financial plan which describes its intention and policies that it would like to pursue in the coming period along with their cost implications. Such a plan describes in detail the estimated receipts and proposed spending under different heads. Indeed, the word 'budget' comes from the French word: bougette which is a small leather bag or wallet containing spending money along with the spending purpose.

### **2.3. The objective of budgeting**

Given that limited availability of resources as compared with competing demand, the process of budget making assumes a critical role in decision making process of government in order to optimize the use of existing resources. The paper of monetary of finance in Amharic vision of Ministry of Finance and Economic Development (MoFED) states that the objective of the budget in three aspects. These are allocation of resource, distribution of resources and stabilization of economy.

The first objective consists of allocating resources between the various function consumption and investment that between the public and private sector. The distributional sector (objective) necessitates the consideration of public expenditure and the income groups that are anticipated to be served. It is the policy maker or government that decides who will be benefited how much from the available resources among the society. This may achieve by expenditure policies such as, subsidies, pension or social welfare schemes as much as taxation on income and capital.

Budgeting may be the most important responsibility of government legislator or manager. Citizens expect, government leaders to prioritize community program and services goals, authorize the expenditure of resources of meet those goals, comply with law over spending appropriations improve the quality of services in the meatier and demonstrate for public funds in the long term.

A good budget should, at a minimum, have majority, 'Buy in' by all affected parties. Logistically, a budgets need to be en acted before the fiscal year begins and be integrated with the financial accounting system so that actual results can be compared to budgeted plans at regular intervals. Integrating the budget in to the accounting system allows management to oversee individual unit performance and react quickly to variances between actual results and budgets plans.

The legalistic view is that a budget is a plan of financial operation embodying an estimate of proposed expenditures for a given period of time and the proposed means of financing them. Budgets may be regarded as devices to aid management in operating an organization more effectively. Governments build budget to demonstrate compliance with laws and to communicate performance effectiveness. (Wilson 2010).

## **2.4. Functions of budgets**

A budget serves several useful functions in organizations. The main functions that budget plays in companies include planning, communication, control and coordination.

These are not the only functions of budget; however, for the purpose of this research we will only focus on these four functions. Each function is separately discussed below.

### **2.4.1. Planning**

Budget plays a crucial role in planning the activities of an organization (Hansen, Mowen & Guan, 2007). It provides detail information regarding what management wish to achieve and how. Therefore, it serves as a plan of action for a company and allows management to identify and determine in advance the amounts and time required to achieve its desired goals. Churchill (1984) stressed that budget, from a planning point of view, harmonizes the company's strategy with its organizational structure, its management and personnel, and the tasks that have to be done to implement the strategy. If the budget is well prepared and implemented, it will translate the company's strategic plans into period-oriented operational goals.

According to Barrett and Fraser (1977), the value of budget in the planning process of a company comes from the fact that budgeting forces management to make detail evaluation on both the general economic situation of which the company is operating and the economic interrelationships among all the company's various activities. Without the budgeting process, the pressures of the daily operating problems may tempt managers not to plan for future operation (Drury, 2008).

### **2.4.2. Control**

During the preparation process and at the beginning of the year, the budget is a planning tool. At the end of the period, it is a control tool (Shim & Siegel, 2008). In this sense, budget is considered as a type of "yardstick" against which the actual performance is evaluated. It is used as a formal mechanism to monitor the progress of organization towards its goals. The objective of budget as a control system is to minimize the difference between actual and desired conditions (Hanson, 1966). The controlling function of budgets is performed by 21 comparing actual

revenue and costs with budgeted ones to identify occurred variances and determine necessary corrective actions (Anthony & Govindarajan, 2007). Variances are analyzed with the purpose to identify the causes and parties responsible, thereafter the responsive actions are taken to correct them if needed.

### **2.4.3. Communication**

Budget serves as a management control tool that promotes the communication of plans and targets in an organization (Upchurch, 2002). The plans and targets are communicated among subunits and between managers and subordinates within the company. A good budget process communicates not only from a top-down but also from a bottom-up perspective (Horngren, Sundem & Stratton, 2002). Further, the plans of management cannot be successfully implemented unless the organization understands these plans, and budget is a useful device for communicating information regarding the plans. According to Drury (2008), it is through the budgeting process that top management communicates their expectations to the middle and lower level management, in order to facilitate better understanding and allow managers to coordinate their activities to achieve these expectations. When top management defined the goals of the organization, these are communicated to other employees through the budget, and the employees and lower-level managers in turn communicate to the top-level management how they plan to achieve the goals and objectives (Horngren et al., 2002).

### **2.4.4. Coordination**

Budgets also serve a coordination role. Since the budgets consist of many subsidiary budgets for different functions of the company on different levels, some inconsistencies may appear when assembling the pieces into an overall budget. During the budget preparation, these incompatibilities are discovered and resolved (Anthony & Govindarajan, 2007). Thereby, budgets help coordinate the activities in the entire organization with the purpose of assuring that the resources are not under- or overused. At a higher level, budgeting coordinate operational plans with investments plans and finance (Arwidi & Samuelson, 1993). Moreover, budgets can serve a coordinating function after the budget period has actually started. If a unit does not meet its budget due to changed conditions, then the knowledge gained during the budget preparation

about interrelations between different activities can be beneficial in developing revised plans and reallocation of resources (Barrett & Fraser, 1977).

## **2.5. Budget preparation**

Maitland (2001) mentions that the process of preparing and agreeing on a budget is a means of translating the overall objectives of the organization into detailed, feasible plan of action. Public budget preparation is one of the tedious tasks that any country should look upon. The preparation process for the annual budget involves a great deal of energy, time, and expense. Hence, it is important that a country must be able to follow accurately all the methods of preparing an annual budget. In budgeting, the focus is not only to prepare the budget, but more importantly to have a follow-up operation for budgeting and to act according to known data. Falk (1994) states that budgets are financial expressions of a country's plan for a period of time. It tells where and how the organization will spend money and where the money will come from to pay these expenses.

He adds that budgets set limits. Besides setting limits, Andrews and Hill (2003) say that budgets also provides the assurance that the most important needs of a country are met first and less important needs are deferred until there are sufficient funds in which to pay for them. Even though budget preparation is not the sole thing that needs consideration in budgeting, the basis of it is still needed in order to have at least close estimation.

Budget preparation helps management focus on the next month or the entire coming year. The budgeting process forces managers to assess current operating conditions and aids in forecasting and implementing needed changes (Anderson,1996).Budget preparation is also an excellent vehicle with which to work with all supervised personnel by requesting their managers and their staffs. At the end of a period the budget helps managers evaluate performance, locate problematic areas, bottlenecks and provide solutions to these problems (David, 1988).

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

Preparing a budget proposal that suggests a set of recommended policies and stays within whatever financial limits are considered politically realistic has been a prominent issue in public budgeting Bunch and Straussman (1993). One approach is to set specific dollar ceilings on budget requests. This approach has the distinct advantage of making agencies prepare requests that include only financially feasible options Lee (1992). This method is often called fixed-ceiling budgeting.

Budget ceilings instruct agencies to request next year's budgets based on certain assumptions, such as their set of priorities regarding rankings. Another approach is for the governor to provide policy guidance in terms of overall priorities and/or guidance by major program. According to Schiavo-Campo and Tommasi (1999) and Allen and Tommasi (2001), the main starting points for the preparation of the annual budget should be a clear definition of fiscal targets and a strategic framework consisting of a comprehensive set of objectives and priorities.

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

## **2.6. Budget utilization**

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

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

## **2.7. Reason for Variations between Budgeted and Actual Expenditure**

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

## **2.8. Concepts of under and over utilization of Budget**

Allen and Tommasi (2001) stated that over utilizations are sometimes caused by non-compliance of budget managers with the spending limits defined in the budget, when committing expenditures. Since cash allocated to spending units for appropriated expenditures is generally controlled, these overruns generate spending arrears. Overruns are often the result of off-budget spending mechanisms (payment from special accounts, etc.). In some countries, payments made through exceptional procedures are not controlled against the appropriations and are therefore an important cause of overruns; lack of compliance can be addressed through strengthening the audit system, and reporting system, and ensuring the effectiveness of the basic budget execution controls. Moreover, overruns can be caused by deficiencies in budget preparation. Sound budget preparation processes and adequate institutional arrangements are a prerequisite for avoiding overruns.

On the other hand, Allen and that Tommasi (2001) expressed in a number of countries, the official budget is under spent, particularly its non-wages expenditure items. This does not necessarily mean that there is good fiscal discipline in these countries. In some countries with poor governance, under spending of the official budget may coexist with large amounts of off-budget spending.

On the whole, in most cases, underutilization as well as over utilization is related to insufficiencies in budget preparation and program preparation. An overestimated budget and unrealistic projections of revenues may lead to budget revisions during budget utilization and to a practice known as “repetitive budgeting”. Peters (1998) identified the following weaknesses in resource allocation and use: poor planning; no links between policy making, poor planning and budgeting; poor expenditure control; inadequate funding of operations and maintenance; little relationship between budget as formulated and budget as utilized; inadequate accounting systems; unreliability in the flow of budgeted funds to agencies and to lower levels of government; and poor cash management.

## **2.9. Internal control**

As explained by Rebecca, Natasha & Imran (2011) internal control systems are the policies and procedures put in place by the management of a government agency in order to ensure the agency achieves its objectives and complies with external laws and regulations. Such policies and procedures tend to cover financial accounting and reporting, performance monitoring, asset management and procurement. Large agencies will have an internal audit unit comprising internal auditors that independently review and report on the implementation of management policies to the head of the agency.

## **2.10. Managing and Monitoring Budget Utilization**

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

are involved in these tasks. The distribution of responsibilities in budget management should be organized according to the agencies' respective areas of responsibility and accountability.

### **2.11. Budget Process Overview in the case of Ethiopia**

As part of the on-going civil service reform programs, the government has introduced Program Budgeting system at the federal level. Prior to the adoption of the Program Budgeting initiative, the country was followed the Line-item budgeting system. From 2006/07 to 2009/10 pilot Public bodies were selected to implement program-based budgeting: and in 2010/11 fiscal year all federal level public bodies switched to program budgeting for shadow program budgeting: and in 2011/12 fiscal year, the program budgeting system was further strengthened and total implemented at federal level.

The main objective of program budgeting system is to allocate resources for output or results, it also shows the relationship between plans and budgets, and coordinates both capital and recurrent budgets. The Line-item budget system on the other hand, focuses only on inputs.

Preparation of budget at Federal level is based on the three stages in the Planning Cycle:

1. The macro-economic and fiscal framework;
2. Notification of the three-year subsidy estimates; and the
3. Preparation of the annual fiscal plan.

These three planning documents must be consistent with higher-level national planning strategies; the latest being the Growth and Transformation Plan (GTP) and sectorial planning strategies.

#### **Stage 1. The Macro-economic and fiscal framework (MEFF).**

MoF is responsible for the preparation and maintenance of a rolling three year Macro Economic and Fiscal Framework, and to have it presented to the Council of Ministers for their approval. MEFF is a three-year forecast of the following:

1. Economic growth and GDP
2. Government revenues and expenditures, and of sources of financing

3. The allocation between federal government expenditures and the total subsidies to regions and administrative councils
4. The allocation between capital and recurrent expenditures for the federal government.

**Stage 2. Notification of the three-year subsidy estimates.**

Using the approved subsidy formula and based on the approved MEFF, MoF will prepare a rolling three year estimate of subsidies to each regional government and administrative council, and notify them of these estimates by November 25 each year.

**Stage 3.Preparation of the annual fiscal plan.**

The final stage of the planning cycle is the preparation of the Annual Fiscal Plan by MoF. The Annual Fiscal Plan is a detailed estimate of the revenue, expenditure (including subsidies) and financing requirements for the coming fiscal year. The Annual Fiscal Plan provides a more detailed and accurate set of estimates than are available from the first year of the MEFF. By definition, the MEFF is a high level macro set of estimates, and the MEFF is prepared early in the planning cycle (i.e. October). The Annual Fiscal Plan on the other hand is built from the bottom up (i.e. from each public body), and is prepared using more recent data on revenue and expenditure trends and forecasts (i.e. in January).

With these three important planning documents available, work can start on the preparation of the annual budget itself.

Preparation of budget has eight stages in the program budget cycle. This are:-

**1. Pre-preparation of budget by public bodies**

Each public body needs to take the initiative to start budget preparations before they receive the budget call letter from MoF with their budget ceilings. There is much preliminary budget preparation work they can carry out prior to receiving the official budget call letter. This preliminary work is dominated by the policy and planning aspects of budgeting; that which differentiates PB from line item budgeting! This preliminary work can be summarized as follows, for federal, organizations.

- Individual organization's ARISIP (a) last year's performance
- Preliminary budgeting based on last year's allocation

## **2. Notification of Annual subsidy to Regions**

Using the approved subsidy formula, MoF prepares the budget for the subsidies to regional governments and administrative councils. MoF will notify each regional government and administrative council of their annual subsidy by February 8.

## **3. Issuing the Budget Call**

The Budget Call is a letter from MoF sent to all public bodies which provides them with the following:

1. Their ceiling for program expenditure for the coming fiscal year;
2. The deadline for submitting their budget request;
3. A review of the policies that affect the expenditure of public bodies;
4. General guidelines for the preparation of the program budget submission; and
5. Detailed instructions and formats for preparing the request for the program budgets.

In deciding the allocations for capital outputs in programs, MoF will consider the progress on implementation of existing projects, whether any new projects have been approved by Government, and the capacity of public bodies to implement the projects in their work plans. In deciding the allocations for recurrent outputs in programs to public bodies, MoF will review the effectiveness of programs in each public body, whether any new programs have been approved by Government and whether there have been any changes to structures of ministries or departments.

The Budget Call informs public bodies not only what their ceilings are and how and when to prepare their budget requests but also, the formats for submitting these requests. MOF will issue the Budget Call letter to all public bodies by February 8 of each year.

## **4. Budget Request**

The 'budget request' stage of the budget cycle begins when public bodies receive the Budget Call. The central task for public bodies during the request stage is to fit their request within the

budget ceiling issued in the Budget Call. Public bodies' request is based on written text (ARISIP) and supporting tables. To "fit" the request, two tasks have to be completed by public bodies:

1. Adjust their PBs to the budget ceiling notified; and
2. Complete the necessary forms for submitting their PB requests to MoF.

## **5. Budget Hearings**

Having received the budget requests from public bodies, and before preparing a draft recommended budget, MoF will conduct 'budget hearings'. These hearings are designed to respond to any issues raised during MoF's initial review of any public body's PB. Officials from each public body will be questioned about their budget requests, and sometimes invited to submit additional supporting information. The information obtained from these budget hearings enables MoF to proceed to the preparation of a draft recommended budget.

## **6. Preparation of the draft recommended budget**

The draft recommended budget is the consolidated budget that MoF prepares and submits to the Council of Ministers. In turn, the Council reviews it and recommends it to the Council of Peoples' Representatives. MoF prepares the draft recommended budget based on the budget requests it has received from all of the public bodies, and from up to date information on resources that will be available to fund expenditures. During this stage, the budget requests from public bodies are reviewed, adjusted and consolidated into a single budget for capital and recurrent expenditure; the new consolidated PB format.

The draft recommended PB budget will be finalized by MoF and printed from the (revised) computerized budget system. MoF is required to submit its draft recommended budget to the Council of Ministers by May 23.

## **7. Recommended budget reviewed by council of ministers**

The Council of Ministers receives the draft recommended budget from MoF, and carries out its own review of that draft recommended budget. The Council of Ministers will carry out its review from the 3<sup>rd</sup> week of May to the first week of June (15 days). The Council of Ministers may ask MoF to make adjustments or revisions to the draft recommended budget before the Council

‘recommends’ it to the House of Peoples’ Representatives. MoF will make these changes using the computerized budget system, and then provide the Council of Ministers with the recommended budget.

The recommended budget must be submitted by the Council of Ministers to the House of Peoples’ Representatives no later than June 7.

The recommended budget is now ready for review, approval and appropriation by the House of Peoples’ Representatives.

#### **8. Legislative approval and appropriation of the budget**

The recommended budget will be presented in a Budget Speech by the Minister of Finance, to the House of Peoples’ Representatives (HPR), on a designated date. After consideration, HPR will send the budget document to the Permanent Budget Committee (PBC) for further scrutiny. PBC, in the presence of MoF officials, will then invite selected stakeholders to finalize consultation on the annual budget. Once approved by the House of Peoples’ Representatives, the ‘recommended budget’ becomes the ‘approved budget’. However, the expenditures proposed in the approved budget cannot be implemented until an appropriation law is also proclaimed by the House of Peoples’ Representatives.

It is important to distinguish between the approved budget and the annual appropriations. The budget that is approved by the House of Peoples’ Representatives is a detailed budget. However, the appropriations are at a more aggregate or global level. An appropriation is a legal mandate to spend money out of the consolidated fund.

The House of Peoples’ Representatives is required to vote on the annual appropriations for the approved budget no later than July 7. The appropriation Proclamation will specify the following; first, for government as a whole:

Total revenue source; both domestic and external;

1. Total federal recurrent expenditure;
2. Total federal capital expenditure;
3. Total of all subsidies to regional governments and administrative councils; and
4. The total subsidy for each regional government and administrative councils.

Then, for each public body (based on PB form 1b):

1. Total budget for each public body;
2. Total budget for each program;
3. Total budget for each output; and
4. Source of funding for each output.

The approved budget includes the appropriation Proclamation, as well as more detailed schedules of the budgeted allocations to and within each public body, and of forecast revenue collections by each public body. The approved budget and the annual appropriations can now be referred to as the Proclaimed Budget, and is published in the NegaritGazeta – ready for implementation. Copies are distributed to all public bodies and made available of the MoF website.

## **2.12. Ministry of Finance Budget Process**

### **2.12.1. Preparation**

The Ministry budget plans are based on the organization mandates and responsibilities that are given by the federal government of Ethiopia. There are twenty four directorates in the ministry that works with their own responsibility for the general objective the ministry. Even if the ministry is the responsible body for all budgetary public bodies budget preparation and utilization it also follow the instructions by the ministry itself how to prepare and utilize its budget.

The strategic planning & management directorate prepare the organization budget based on the needs of those 24 directorates and the 2 projects. The planning department prepares the ministry budget using the program budget concept and the ceiling given by the ministry for all budgetary public bodies.

### **2.12.2. Utilization**

The 24 directorates and the 2 project offices are the major users that hold the direction of the ministry in terms of activities and programs based on the strategy that needs to achieve within five years. These activities and programs are implemented through the whole budget users.

### **2.13. Empirical literature**

The empirical study concerns on previous academic studies on the assessment of budget preparation and utilization practice. In this study there are some researches stated which are done by different researchers as follows.

Doreen, D. (2014) determined the effectiveness of Budgeting process in achieving organizational goals in case of Tanzanian Electrical Mechanical and Electronics service Agency using a case study research design strategy with the objective of investigating how Budgeting process helps organization in achieving its goals.

It was concluded that the role of Budgeting process that make an organization attains its goals should be effective by having active support for Budgeting process from the top management.

Ida HaryantiBintiMohd Noor (2012) studied budgetary participation by focusing on how it affects performance and commitment in order to determine the relationship between budgetary participation and managerial performance with organizational commitment as the intervening variable in a Malaysian public sector organization using a pilot study. The study found that the budgetary participation process implemented does have significant positive effects on managerial performance. Moreover, the intervening variable of organizational commitment has a significant role in mediating the relationship between budgetary participation and managerial performance and organizational commitment leads to improved managerial performance since more committed employees are more motivated and dedicated.

Ida HariantiBintimohd (2012) studied how budgetary participation affects organizational performance with organizational commitment as the intervening variable and the study identified that budgetary participation has a significant effect on managerial performance by enhancing organizational commitment.

Elizabeth (2010) determined challenges of Budget implementation in public institutions by taking University of Nairobi as a case study to analyze whether budget implementation in public institution in Kenya served the multiple roles of planning, controlling, communication and decision making using descriptive research study design. The study established the challenges encountered in budget implementation.

The challenges as found out included insufficient funds, institutional weakness, the method used to allocate budget was unsatisfactory and budget included unattainable targets. The study further found out that the institutions used the budget to serves the multiple roles of planning, controlling, coordination and communication. The study established that participation in budget preparation is another important issue because it reflects degree of consensus and ownership from the persons involved. The study concluded that University of Nairobi faces various challenges in budget implementation especially reduced revenue leading to shortage of available resource for its operation.

Nicoleta (2010) conducted a study on public Budgeting on Republic of Moldova as a case study by reviewing both theoretical and practical analysis done by World Bank with the objectives of illustrating if public Budget is efficient or not and impact of applications of practice. The study found that the general trend concerning the Budget method and procedures is directed to the achievement of results, performance indicators and performance information.

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

1. Lack of proper medium term perspective;
2. Lack of properly integration of capital and recurrent budget;
3. The head of public bodies did not give much attention for preparation of budget;
4. Budget doesn't give incentives for efficiency;
5. During budget utilization performance measures is not applied;
6. The relationship between budget and macro-economic policy framework is insufficient;
7. Preparation of budget based on unreliable data and estimation;
8. The budget system was ineffective to ensure financial accountability; and
9. Involvement of stakeholder and Political commitment in the budget process are limited.

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

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

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

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

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

According to Joshi et al. (2003), examines budgetary planning, control and performance evaluation in developing countries. A questionnaire survey of 54 medium and large sized firms including both listed and non-listed firms was conducted. His findings revealed that most of the firms prepare long-range plans and operating budgets, and use budget variance to measure performance for timely recognition of problems and to improve the next period's budget. Moreover, findings showed that the main purposes of budgeting in most companies are to: maximization and the control performance by investigating variances. Poor cooperation and ineffective planning are the main reasons for not achieving the required standard targets.

### **2.13.1. Research Gap**

Different Researchers were discussed about budget preparation, implementation and control in different sectors. Previous studies show that there is a direct relationship between budgetary participation and performance. It is also indicated that budget preparation, budgetary control and budget implementation significantly influence budget variance. In Ethiopia different researches were conducted in budget preparation, budget allocation, and budget implementation.

Mohammed and Asfaw (2014) publish journal article on government expenditure management and control in Ethiopia. The objectives of the article were reviewing public expenditure management and controlling of financial resources as it is crucial because society's needs and demands are unlimited whereas resources are limited in nature. Therefore, Determinants of budget control in public organizations showed that there is a problem of linking the work plan with expenditure budget preparation. It is also revealed that purchasing of goods and services is not based on the annual action plan by sectors. In other word, this indicated that there is a problem of budget preparation and execution.

On the other hand, In relation to budget approval, the result indicated that Legislature has effective systems of check and balance on public expenditure. The test was also undertaken to check auditor's satisfaction in relation to the support they get from management to conduct their task. The test result indicated that auditors have a problem of motivation with the financial and material support to carry out audit work to achieve their objectives for the accomplishment of organizational goals.

Esayas (2014) study on assessment of budget implementation and control by using qualitative type of research approach at case of Kolfekeranyo Sub-city finance and economic development bureau by using judgmental probability sampling and the author select 20 samples from total of 44 personnel found in the sub-city. The main objectives of the study was to be asses the comprehensive factor that affect budgetary implementation and control system to find potential solution to the problem at sub-city. The results of the studies shows that Even if the sub-city implements its budget effectively, variance were occurred, when compared actual results with budgeted estimation the reason for the occurrence of variance was the sub-city is not perform it activities. Performance report can be effective, especially if it is presented continuously. However, the sub-city constantly presented the performance report. poor database for planning and budgeting, lack of incentives and lack of experienced personnel in the various departments are some of the problems the sub-city encounters in budget preparation and control, operational difficulty, low morale and delays are other problems the sub-city encounters in the budget implementation. There is active participation of all the departments in the budget preparation and implementation as every department submits their inputs into the annual budget proposals.

Ketema (2015) conducted studies on assessment of budget preparation and utilization in the case of Addis Ababa City Administration Health Bureau by taking five out of seventeen budget holders was taken and ten key informants were selected from each budget holders with a total of 50 respondents. The results of qualitative analyses demonstrate that there was no accountability in budget utilization; there are no market oriented cost estimation practices. Lack of adequate and experienced budget experts is other issue that contributes to worsen the problems and also there is no evidence based evaluation mechanisms in the budget utilization at each level of the Health Bureau.

Even if the researches show that there are budget management problems in different sectors in Ethiopia most of the studies concern on the implementation and control. Based on this research gap this research assesses and discuss the budget preparation and utilization mainly on the planning and budget.

## **CHAPTER THREE**

### **RESEARCH DESIGN AND METHODOLOGY**

#### **3.1. Introduction**

This chapter outlines the methodology used in the collection of data and describes the research design, data collection methods, sampling techniques, data analysis and interpretation.

#### **3.2. Research Approach**

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

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

A qualitative research approach uses strategies inquiry including narratives, ethnographies, case studies, observations, interviews, and the results are communicated subjectively through descriptions using words rather than numbers (Creswell,2003). Moreover Qualitative researchers tend to use open-ended questions so that Participants can express their views. Under this method contact with the field of research may be based on interviews, observations, or analysis of documents and other artifacts. In addition, literature studies are performed to the extent required to develop sensitivity in observation and interpretation (Atkinson and Hammersley, 1994).

Finally, a mixed methods approach is one in which the researcher tends to base knowledge claims on pragmatic grounds (e.g., consequence-oriented, problem-centered, and pluralistic). It employs strategies of inquiry that involve collecting data either simultaneously or sequentially to best understand research problem (Creswell, 2009).

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

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

### **3.3. Research Methods**

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

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

#### **3.3.1. Quantitative Approach**

As noted earlier a quantitative approach is one in which the investigatory primarily uses Postpositive claims for developing knowledge, employs strategies of inquiry such as experiments and surveys, and collect data on predetermined instruments that yield statistics data. Survey Research provides a quantitative or numeric description of trends, attitudes, or opinions of a Population by studying a sample of that population.

Even if there are two strategy of inquiry under quantitative approach, this study will use a survey design. Survey method is advantageous for its merit of economy of design and it enables to gather enough information, which may not available from other sources.

### **3.3.2. Qualitative Approach**

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

Thus, in the current study qualitative data is needed to address the final research objective stated as, identifying specific areas of problem in budget preparation and utilization within Ministry of Finance.

### **3.3.3. Research Design**

The types of research used under this study are descriptive. This study describes and critically assesses budget preparation and utilization problems. Descriptive research studies are designed to obtain information, which concerns the present status of phenomenon (Saunders, Lewis, and Thornhill 2007). This approach is chosen because of the researcher would not control the variable but to describe the phenomenon that existed at the time of the study. The use of descriptive research enables the researcher to bring to light the determinants that contribute to the budget control practice. It also describes the extent to which these elements stated above can affect the work of budget control in the public sector.

### **3.3.4. Sampling Design**

#### **3.3.4.1. Target Population**

With this context the population of this study is professional employees of Ministry of Finance. According to MoF, there are about 810 employees. Though, incorporating all employees' idea on the analysis would have been better for conclusion and generalization, economically and operationally it was very difficult to contact all employees in the research. Therefore, taking a representative sample of the population of the employees was found to be feasible.

#### **3.3.4.2. Sampling Technique**

The target population of the study was employees who are working at MoF. As far as sampling is concerned, the researcher used random sampling technique when distributing the questionnaires.

The payroll list of the workers served as the sample frame and sample was taken using judgmental probability sampling technique which can help to select those who work on plan and budget.

#### **3.3.4.3. Sample Size**

As per Glenn (1992) the sample size is very important in order to be representative of the population which ultimately enables to draw generalizable conclusions from selected sample members. The population size of employees working in MoF is 810 employees, from all those 57 of them were selected using judgmental probability sampling and all of them are taken as sample size of the population for this study. Finally the data collected and analyzed from 54 of them.

### **3.4 Survey Instrument**

The types of instruments used to collect data were through questionnaire which contains both open and closed ended questions. The format of the questionnaire was adopted from prior authors and literatures. There is four open ended question that gives the respondent freedom to indicate the area not mentioned in the close ended questionnaire. The close ended questionnaires are developed in three sections.

The first one is on the general aspect of the respondent and the second one is developed based on standard of budget preparation, utilization and controlling to evaluate whether the status and experience of the respondents has the challenge of integration of budget and plan & also used to the reason for budget variation from actual performance and the third one is how to conducting performance audit and internal control are in those samples of MoF.

This section uses questions ranging from strongly agree to strongly disagree. Finally this method of data collection was considered appropriate because the information sought is not publicly available and the employees in MoF are in a good position to know the answers to the questions asked.

### **3.5 Data Sources**

The type of data collection method is a great value to interpret them properly. The data gathered through primary and secondary methods were analyzed using both mixed data analysis methods. The data collected in the course of questionnaire, analyzed and presented through descriptive statistics such as tables, charts, and percentages. Qualitative method of data analysis was also

employed for feedbacks obtained using open-ended questionnaires and unstructured interviews for each of response given by respondent's explanatory way is used.

For possible achievement of the objective of the paper the researcher would use both primary and secondary data, Primary data was obtained from oral interview and questionnaire and observations. Secondary data was collected from that have been already collected and readily available from other sources. It covers all published such as books and journals.

### **3.6 Data Collection Methods**

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

**Questionnaires:** The questionnaire which comprises both close ended and open-ended is prepared in English that respondents easily understand the question and give appropriate answer.

**Interview:** The researcher uses unstructured interview with some senior employees of the ministry to get more explanation for the questions in the close ended questions and also to make more discussion with some of the responsible persons in the organization.

### **3.7 Data Analysis**

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

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

## **CHAPTER FOUR**

### **DATA PRESENTATION AND ANALYSIS**

#### **4.1 General Overview**

In this chapter the data collected from different sources related with budget preparation and utilization of Ministry of Finance has been discussed. The results of the study are discussed by analyzing the results of different sources such as questioner results, unstructured interview, as well as report review document. The data presentation and analysis collected from both primary and secondary sources was analyzed using themes from research questions and objectives. The raw collected data from employees, officials and secondary data sources were categorized, edited, organized and analyzed using both quantitative and qualitative methods. The quantitative data was presented in tables and figures mainly to support the qualitative descriptions this is the way of data analysis.

#### **4.2 Characteristics of the Respondents**

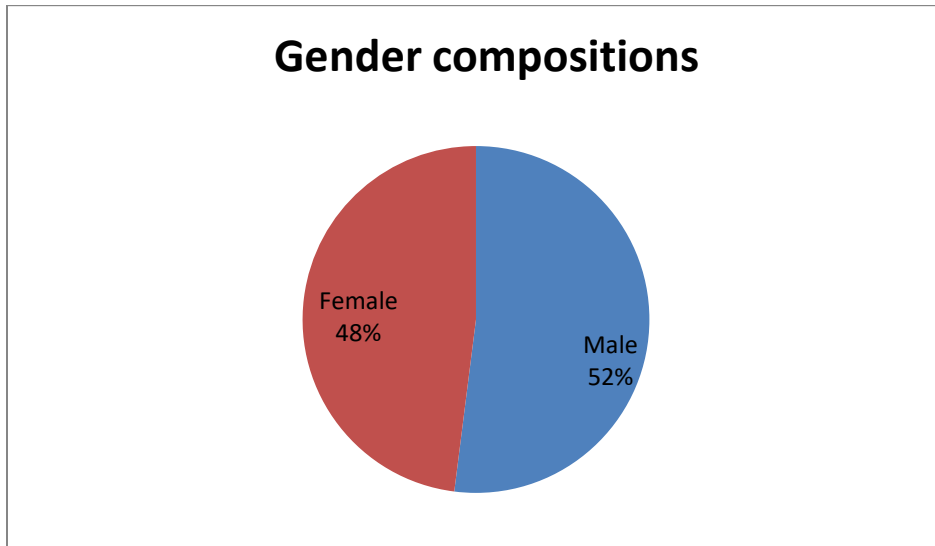
The characteristics of the respondents are presented below as follows in terms of Generally, characteristics such as age, gender, education level, work experience, etc. are being considered as socio-demographics and are being asked in all kinds of surveys.

#### **4.3 Demographic Characteristics of the Respondents**

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

### 4.3.1 Gender Composition of Respondent

Figure 1: Gender Composition of Respondent

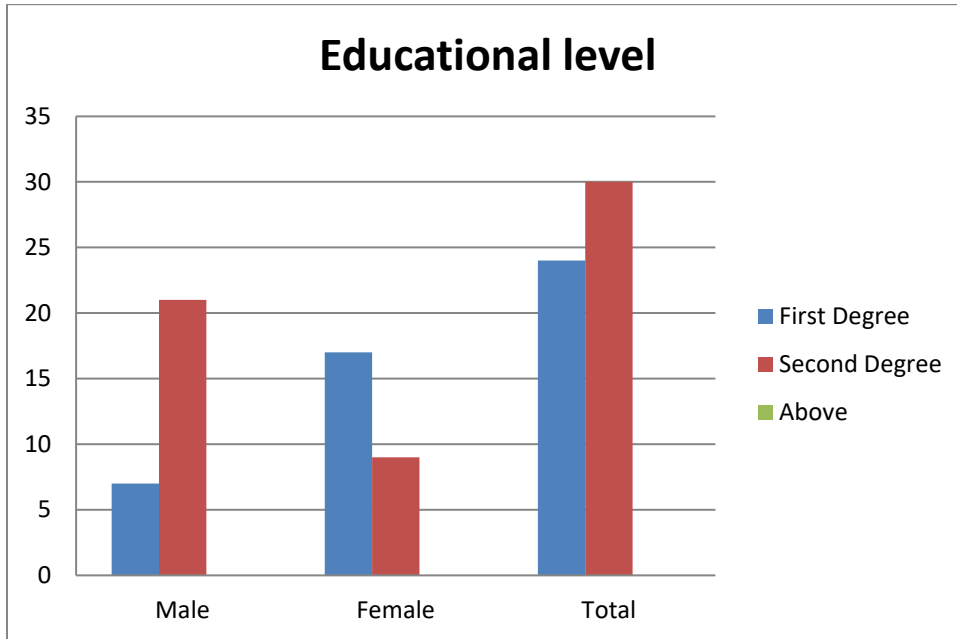


Source: Survey report (2019)

### 4.3.2 Educational Level of Respondents

Related to their education level, it is shown in the figure 4.2.2 below, the majority 30(56%) of them are second degree holders, while 24(44%) of them are first degree graduates. Therefore, since the education level relates to the profession and, we can assume that the information provided by the respondents was valid and reliable.

**Figure 2: Education Level of Respondent**

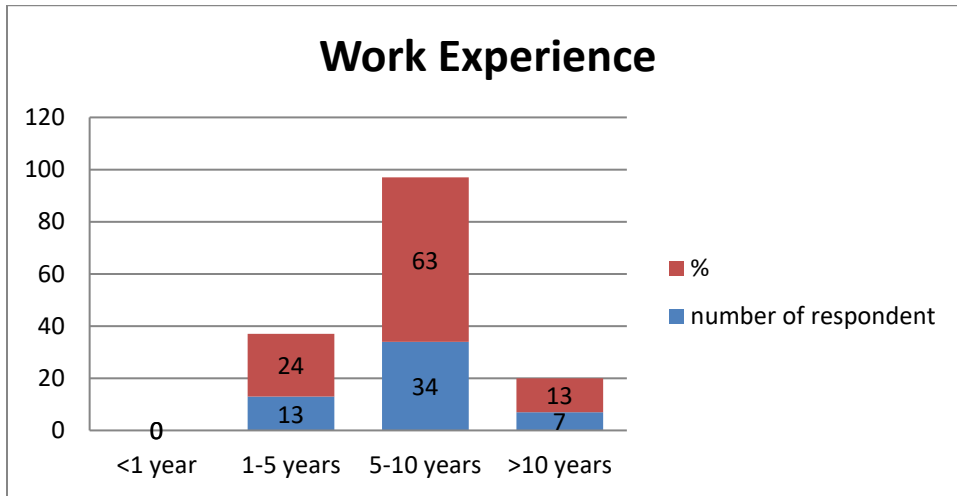


Source: Survey report (2019)

#### **4.3.3 Work Experience**

Concerning the work experience of the respondent shows that, 13(24%) of them have work experience between 1-5 years, 34(63%) of the respondents have work experience of in between 5-10 years, the other 7 (13%) of the respondent has work experience above 10 years. Therefore, as clearly indicated in the shown figure, most of the respondents, 63% have 5-10 of work experiences, therefore easily understand the questioners and fill the appropriate answers budget integration with plan appropriation and actual performance, budget utilization and controlling and auditing performance for allocated budget at MoF.

**Figure 3: work Experience**



Source: Filed Survey (2019)

## 4.2 Budget preparation in Ministry of Finance

Questions containing issues related to budget preparation and utilization were distributed to the selected respondents to assess the budget preparation process in the ministry. The responses of experts were shown as follows in relation to budget preparation and summary of the responses were presented in table 1 below.

**Table 1: response rate on budget preparation**

<b>Part II-QUESTIONS ON BUDGET PREPARATION</b>	<b>Answer</b>	<b>No. of respondent</b>	<b>%</b>
Your Department Prepare its Plan based on the strategic plan of the organization	Strongly Disagree		
	Disagree		
	Moderate	1	2
	Agree	4	7
	Strongly Agree	49	91
	<b>Total</b>	<b>54</b>	<b>100</b>
	Strongly		

Your department has enough number of budget and plan officers who prepare plan and budget effectively	Disagree		
	Disagree	41	76
	Moderate	6	11
	Agree	7	13
	Strongly Agree		
	<b>Total</b>	<b>54</b>	<b>100</b>
You have adequate knowledge and skill to prepare plan and Budget	Strongly Disagree		
	Disagree	3	6
	Moderate	41	76
	Agree	10	19
	Strongly Agree		
	<b>Total</b>	<b>54</b>	<b>100</b>
Your department budget plan is prepared based on reliable data and estimates	Strongly Disagree		
	Disagree		
	Moderate	2	4
	Agree	10	19
	Strongly Agree	42	78
	<b>Total</b>	<b>54</b>	<b>100</b>
All employs of the department participate on budget preparation of your department	Strongly Disagree	29	54
	Disagree	21	39
	Moderate	4	7
	Agree		
	Strongly Agree		
	<b>Total</b>	<b>54</b>	<b>100</b>
There is a tendency of submitting budget request without plan	Strongly Disagree	52	96
	Disagree	2	4
	Moderate		
	Agree		
	Strongly Agree		
	<b>Total</b>	<b>54</b>	<b>100</b>
Your office revises its plan frequently in relation to budget	Strongly Disagree		
	Disagree	3	6
	Moderate		
	Agree	15	28
	Strongly Agree	36	66
	<b>Total</b>	<b>54</b>	<b>100</b>

As we have seen on the above table from the total of 54 respondents 49(91%) of them strongly agree on the existence of budget prepared in relation to plan. i.e. respondents agreed upon on the existence of a relation between plan with budget. On the contrary when we see the question of budget revision, 66 percent of the respondents strongly agreed that they revise their plan frequently in relation to annual budget.

According to Peters (1998) identified the following weaknesses in planning the budget and utilization he stated that when there is poor planning; poor planning and budgeting; little relationship between budget as formulated and budget as utilized and moreover if there is no strong linkage between plan and budget preparation the result will become revision of budget repeatedly. Therefore, if there is a strong relationship between plan and budget we do not expect revision of budget repeatedly.

Besides to this questionnaire, there were answers provided by the respondent's for open-ended questions shown that there were limitations to integrate plan and budget request. As the respondents stated, because of the capacity problem sometime there were some difficulties to assignee the needed amount of budget for the plan. the On the other hand, there is a big problem of understanding the concept of program budget; even if program budget has an advantage to evaluate what outputs are gained on the given amount of budget there is still a problem to bring those ideas on the ground to prepare their budget.

The other problem that is found from the informal discussion is that the top management didn't give attention for it only one person of the department prepares the plan and budget without the participation of the other members. There is also an opportunity that secretaries of the department prepare the plan and budget. This will lead to preparing budget without the exact basis of reasonable estimates and base line data. As recognized from their written response, some departments prepare their annual budget by coping from the previous year budget request.

Most of the respondents agreed on the existence of weaknesses in budget preparation even though there are others who do not agree. Some of the respondents explained that there is over estimation of annual budget and they do not give priority of activities while preparing their plan.

Moreover, most of the time the amount of budget requested for each item is purposely exaggerated. The main reason is they considered as the responsible office for budget approval

allocates budget by reducing some percentage from the initial request. So that, according to their intention, if they submitted actual demand without overestimation, the amount approved for that budget year would become less than what is expected. Of the seven budget experts, all of them stated that Ministry of Finance Plan and Budget department has no adequate number of experienced persons to conduct budget analysis.

Additionally, majority do not agree that the organization prepare their plan by knowledgeable individuals general, the practice of the organization is not on the right truck with the budget preparation principles.

### 4.3 Budget Utilization in Ministry of Finance

According to survey data from experts frequent budget transfer and accumulation of unutilized budget were observed in the ministry. According to Allen and Tommasi (2001), to utilize budget successfully it depends on various factors, such as the executing capability of the agencies or institution concerned. As per the survey result, majority of the respondents in the sample have justified that their existence of under budget utilization as indicated in table 2.

**Table 2: Response rate on budget utilization**

<b>Part III -QUESTIONS ON BUDGET UTILIZATION</b>	<b>Answer</b>	<b>No. of respondent</b>	<b>%</b>
Your department use its budget based on your plan	Strongly Disagree		
	Disagree		
	Moderate		
	Agree	20	37
	Strongly Agree	34	63
	<b>Total</b>	<b>54</b>	<b>100</b>
There is a tradition of overspending of budget in your office	Strongly Disagree	36	67
	Disagree	12	22
	Moderate		0
	Agree	4	7
	Strongly Agree	2	4
	<b>Total</b>	<b>54</b>	<b>100</b>
Your department is criticized for accumulation of unutilized budget	Strongly Disagree	8	15
	Disagree	21	39

	Moderate		
	Agree	25	46
	Strongly Agree		
	<b>Total</b>	<b>54</b>	<b>100</b>
Your department presents timely, explanatory and complete budget utilization report	Strongly Disagree	50	93
	Disagree		
	Moderate		
	Agree		
	Strongly Agree	4	7
	<b>Total</b>	<b>54</b>	<b>100</b>
Budget utilization reports are consistent with plans	Strongly Disagree	50	93
	Disagree		
	Moderate		
	Agree		
	Strongly Agree	4	7
	<b>Total</b>	<b>54</b>	<b>100</b>
There is frequent budget transfer request in your department	Strongly Disagree		
	Disagree	10	19
	Moderate		
	Agree	32	59
	Strongly Agree	12	19
	<b>Total</b>	<b>54</b>	<b>100</b>
There is frequent additional budget request in your department	Strongly Disagree	33	61
	Disagree	15	28
	Moderate		
	Agree	6	11
	Strongly Agree		
	<b>Total</b>	<b>54</b>	<b>100</b>

As it is shown on the table 2 above, on the utilization of budget we can see from the response that 46 percent of the respondents are agreed up on the accumulation of unutilized budget, whereas 39 percent considered as they do not agreed up on it. On the other hand 15 percent of the respondents' have disagreed on the opinion with the underutilization of budget during the period.

The answer for this question also related with the question of frequent budget transfer, as we see on the table 59 percent of the respondents agree that there is frequent budget transfer on the organization. This shows that there is poor planning in the ministry.

According to (ketema, 2013) underutilization is related to insufficiencies in budget preparation and program preparation. An overestimated budget and unrealistic projections of revenues may lead to budget revisions during budget utilization. As it is indicated majority of the respondents also admit occurrence of unutilized budget. Peter (1998) identified that the main weaknesses in resource allocation and use are: poor planning; deficient links between policy making, planning and budgeting; poor expenditure control; inadequate funding of operations and maintenance; little relationship between budget as formulated and budget as utilized; inadequate accounting systems unreliability in the flow of budgeted funds to agencies and to lower levels of government; and poor cash management.

Apart from this, many of the respondents consent that what is planed is not implemented properly. This is because complicated procedure in procurement of items i.e. long procedure hinders the purchasing process at the same time leads to underutilization of budget (finance).

#### 4.4 Budget control in Ministry of Finance

A budgetary control system is a system which uses budgets to control expenditure and to evaluate that budget is spent for the plan.

**Table 3: Response on budget control**

<b>PART IV-Questions on Budget Control</b>	<b>Answer</b>	<b>No. of respondent</b>	<b>%</b>
Your organization has budgetary control system	Strongly Disagree		
	Disagree		
	Moderate		
	Agree		
	Strongly Agree	54	100
	<b>Total</b>	<b>54</b>	<b>100</b>
There is strong monitoring and evaluating team in your organization	Strongly Disagree		
	Disagree	23	43
	Moderate	27	50
	Agree	4	7

	Strongly Agree		
	<b>Total</b>	<b>54</b>	<b>100</b>
The budget contains performance indicators to assess the progress towards meeting the policy goals	Strongly Disagree		
	Disagree	11	20
	Moderate	12	22
	Agree	31	57
	Strongly Agree		
	<b>Total</b>	<b>54</b>	<b>100</b>
Internal auditors of your organization independently conduct their duties and responsibilities	Strongly Disagree	25	46
	Disagree	29	54
	Moderate		
	Agree		
	Strongly Agree		
	<b>Total</b>	<b>54</b>	<b>100</b>
Internal auditors conduct financial auditing to ensure that funds are utilized for the intended purpose	Strongly Disagree		
	Disagree		
	Moderate	21	39
	Agree	29	54
	Strongly Agree	4	7
	<b>Total</b>	<b>54</b>	<b>100</b>
Internal auditors conduct performance auditing to evaluate efficiency and effectiveness of budget utilization	Strongly Disagree	31	57
	Disagree	23	43
	Moderate		
	Agree		
	Strongly Agree		
	<b>Total</b>	<b>54</b>	<b>100</b>
Your organization has mechanism to implement the audit comments	Strongly Disagree		
	Disagree		
	Moderate		
	Agree	42	78
	Strongly Agree	12	22
	<b>Total</b>	<b>54</b>	<b>100</b>

All the respondents 54(100%) ensured that the system is existing and there is a mechanism to implement the comment. However, all of them are not agreed that internal auditors independently conduct their duties and responsibilities. In addition to that from the questioner and informal discussion with respondents the researcher can see that performance audit is not

conduct in the organization by both internal and external auditors. According to Dittenhofer (2001), performance auditing is a means to evaluate the efficiency and effectiveness in budget implementation. In addition, it was indicated that performance auditing is the responsibility of both internal and external auditors. If auditors are not evaluate the efficiency and effectiveness of public spending, this results they become careless in giving attention toward achieving the efficiency and effectiveness in public spending.

From the informal discussion with planning and budget department employs in the ministry the new planning and financial system IFMIS (Integrated Financial Management Information System) helps to improve the budget preparation, utilization and control process in the ministry. The system has an advantage for preparation and utilization through its financial reports and also use as a mechanism for a financial control.

## **CHAPTER FIVE**

### **Conclusions and Recommendation**

## **5.1. Conclusion**

It is known that the study focus on budget preparation and utilization of Ministry of Finance. For this reason, it has been seen relevant literatures review and documents and collected primary and secondary data from the organization. Therefore, the following findings were identified during the analysis.

### **On budget preparation**

- There is an insufficient and inexperienced budget expert.
- There is also lack of capacity development trainings.
- There is a tradition of preparing budget based on the previous year's plan.
- Lack of management attention and support.

### **On budget utilization**

- There is accumulation of unutilized budget.
- There is no clear accountability for unutilized budget.
- There is frequent budget transfer request.
- Departments didn't prepare their own budget report.
- It was prevailed long procedure for the purchase of items.

### **On budget control**

- There is no performance evaluation on budget utilization.
- There is no strong monitoring and evaluation team.
- Internal auditors are not independent.

Lastly, the researcher concluded that the causes for inefficient utilization of budget are mainly due to lack of coordinated effort in purchasing, lack of consistency and delay in purchase processes, inexperienced budget experts in terms of skill and knowledge in each respective budget bureaus and lack of information by management of all to evaluate the budget utilization status which lead towards underutilization of budget.

## **5.2. Recommendation**

The main objective of this project paper is to identify the fundamental causes of MoF Budget preparation and utilization, and suggest possible recommendations to overcome such problems. Therefore, the following recommendations are suggested

- ❖ The organization must assign well experienced and knowledgeable experts on budget and planning areas since their work has a big impact on resource utilization of a country.
- ❖ The ministry must have prepared capacity development trainings to capacitate the workers for a better plan and budget especially on the concept of program budget.
- ❖ There must be clear accountability and also strong monitoring and evaluation team is needed.
- ❖ There must be strong management support and control.
- ❖ Independent internal auditor and strong external auditors also needed in addition to that they must have also conduct performance audit too.
- ❖ Departments must have presented their own budget report rather than giving this responsibility to plan and budget department of the organization.
- ❖ Purchase procedure should be shortened and there should be coordinated effort with other departments.

Finally, Ministry of Finance should take all possible actions to correct the observed weaknesses, and to avoid repetition of the problems in subsequent years.

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**Using a rating of 1 to 5 please indicate your view of the following statement on the budget preparation. Where 5= Strongly Agree; 4= Agree; 3 = Moderate; 2= Disagree; 1=Strongly Disagree**

	1	2	3	4	5
Your department use its budget based on your plan?					
There is a tradition of overspending of budget in your office?					
Your department is criticized for accumulation of unutilized budget?					
Your department presents timely, explanatory and complete budget utilization report?					
Budget utilization reports are consistent with plans?					
There is frequent budget transfer request in your department?					
There is frequent additional budget request in your department?					

**PART IV-Questions on Budget Control**

	1	2	3	4	5
Your organization has budgetary control system?					
There is strong monitoring and evaluating team in your organization					
The budget contains performance indicators to assess the progress towards meeting the policy goals?					
Internal auditors of your organization independently conduct their duties and responsibilities?					
Internal auditors conduct financial auditing to ensure that funds are utilized for the intended purpose?					
Internal auditors conduct performance auditing to evaluate efficiency and effectiveness of budget utilization?					
Your organization has mechanism to implement the audit comments?					

1. What are the weakness observed on the budget preparation and utilization of Ministry of finance?

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2. What are the major challenges in budget preparation and utilization of the bureau?

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3. If there are problems in budget preparation and utilization in the bureau, what are the solutions you recommend?

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4. If you have any additional suggestion or comment?

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