

Addis Ababa University



Research Paper on: The Challenges of Public Expenditure Management in Case of MOFEC

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THE CHALLENGES OF PUBLIC EXPENDITURE MANAGEMENT IN CASE OF MOFEC

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Approval

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Table of Contents

Abstract.....	Error! Bookmark not defined.
CHAPTER ONE.....	Error! Bookmark not defined.
1. Introduction.....	Error! Bookmark not defined.
1.1. Organizational Background of MOFED.....	Error! Bookmark not defined.
1.2. Problem of the Statement.....	Error! Bookmark not defined.
1.3. Objective of the Study.....	Error! Bookmark not defined.
1.3.1. General Objective.....	Error! Bookmark not defined.
1.3.2. Specific Objective.....	Error! Bookmark not defined.
1.4. Research Questions.....	Error! Bookmark not defined.
1.5. Organizations of the Proposal/Study.....	Error! Bookmark not defined.
1.6. Justification of the Study.....	Error! Bookmark not defined.
1.7. The Scope of the Study.....	Error! Bookmark not defined.
1.8. Limitation of the Study.....	Error! Bookmark not defined.
Chapter Two.....	Error! Bookmark not defined.
2. Review of Related Literature.....	Error! Bookmark not defined.
2.1. Introduction.....	Error! Bookmark not defined.
2.2.1. Concepts and Working Definition of the Terms.....	Error! Bookmark not defined.
2.2.2. Working Definition of Public Expenditure Management.....	Error! Bookmark not defined.
2.2.3 Objectives of Public Expenditure Managements.....	Error! Bookmark not defined.
2.2.4. The Budget Execution Cycle.....	Error! Bookmark not defined.

2.2.5 The Budget Cycles.....	Error! Bookmark not defined.
2.2.6 The Budget Execution Cycle.....	Error! Bookmark not defined.
2.2.7 The Expenditure Cycle.....	Error! Bookmark not defined.
2.2.8 Good Governance and Public Expenditure Management	Error! Bookmark not defined.
2.2.9 Accountability within PEM.....	Error! Bookmark not defined.
2.2.10 Why Communicate Budget Information?.....	Error! Bookmark not defined.
2.2.11. Approaches of Budgeting.....	Error! Bookmark not defined.
2.2.12 Budgetary Control.....	Error! Bookmark not defined.
2.2.13 Internal Control.....	Error! Bookmark not defined.
2.3. Theoretical Review.....	Error! Bookmark not defined.
2.3.1 Theoretical Models and Approaches to PFM Reform.....	Error! Bookmark not defined.
2.4. Empirical Review.....	Error! Bookmark not defined.
CHAPTER THREE.....	1
3. RESEARCH METHODOLOGY.....	1
3.1. The Research Methodology.....	1
3.1.1 Population.....	1
3.1.2. Sample Size.....	1
3.1.3. Sampling Method.....	1
3.1.4. Research Type.....	2
3.2. Type and Sources of Data.....	2
3.2.1 Data Analysis and Presentation Method.....	1
3.2.2 Data Collection Instruments.....	1
3.2.3. Validity and Reliability.....	1
3.2.4. Ethical Consideration.....	1

CHAPTER FOUR.....	2
4. Data Presentation, Analysis and Interpretation.....	2
4.1. Introduction	2
4.1.2. Findings and Discussion.....	2
4.1.3. Background of the Respondents	1
4.1.4. Gender of the Respondents.....	1
4.1.5. Educational Level of the Respondents	2
4.1.6. Service year of the Respondents.....	2
4.2. Results and Discussions	3
4.2.1. The Main Cause of the Challenges of Expenditure Management Control.....	3
4.2.2. Corruption.....	3
4.2.3. Lack of experience of Auditors, lack of transparency, accountability and participation during budget allocation and execution.....	3
4.2.4. Allocation of the Budget	4
4.2.5. Is the Budget Allocation Process Participatory?	5
4.2.6. Openness and Transparency in Budget Allocation.....	5
4.2.7. Is the Budget Allocation Procedure Strictly Followed?	5
4.3. Relation of Budget and Expenditure of MOFEC	6
4.3.1. Comparison of Budget versus Expenditure	6
4.3.2. Recurrent Budget.....	6
4.3.3. Capital Budget	8
4.4. Transparency and Accountability in Budget Allocation and Execution	10
4.4.1. Disclosing the Expenditure Budget to Employees and external customers	1
4.4.2. Compliance of Financial Rules and Regulations.....	1
4.4.3. Making Audit Report Available and Open.....	1

4.4.4. Keeping Records of Financial Transactions	1
4.5. Expenditure Budgets Monitoring and Controlling.....	2
4.5.2. Existence of Adequate Employees to Conduct the Audit.....	1
4.5.3. Proficiency of Internal Auditors	1
4.5.4. Independence of the Internal Audit to Give Audit Opinions.....	1
4.5.5. Existence of Performance Audit.....	1
4.5.6. Measures Taken By the Management on the Audit Opinion	1
CHAPTER FIVE.....	1
5. Conclusion and Recommendations	1
5.1. Introduction	1
5.2. Conclusion.....	1
5.2.1. Allocation of Expenditure Budget.....	1
5.2.2. Relation of Budget and Expenditure of MOFEC	1
5.2.3. Transparency and Accountability in Budget Execution	1
5.2.4. Expenditure Budget Monitoring and Controlling.....	1
5.3. Recommendations	2
Questionnaires.....	1
References.....	Error! Bookmark not defined.

Acronyms

MOFEC=Ministry of Finance and Economic Cooperation

ISAC=Information System Administration Center.

EMA=Ethiopian Mapping Agency

PPDS=Public Procurement and Disposal Service

PPA=Public Procurement and Property Administration Agency

GTP=Growth and Transformation Plan

PEM=Public Expenditure Management

WB=World Bank

NPM=New Public Management

NPFM=New Public Finance Management

LM=Line Ministry

MOF=Ministry Of Finance

MOFED=Ministry of Finance and Economic Development

Lists of Tables

Table 2.1.The objective and phases of public Expenditure Management

Table4.1.Percentage Distribution of Respondents by Gender

Table 4.2. Educational Level and Service year of the respondents

Table4.3.Budget Allocation Issue

Table 4.4. Comparisons of approved budget against Recurrent Budget in birr

Table4.5.Capital Budget

Table4.6. Transparency and Accountability in Budget Allocation and Execution

Table 4.7. Expenditure Budgets Monitoring and Controlling

Abstract

The public investment requirement of Ethiopia is increasing rapidly while there are challenges that undermine public sector performance toward achieving the PEM objectives: The critical problems with public expenditure management include lack of accountability and transparency in budget allocation and execution, weak internal control and monitoring in making continuous identification of problems and taking corrective actions when actual result deviate from budgeted. this study aimed to identify and analyze the practical challenges of expenditure management in both recurrent and capital budgets of MoFEC during the GTP period. The study employed descriptive research type approach using both primary and secondary data to answer the research questions. The collected data was analyzed using descriptive statistics. The study found out that MoFEC pursued the program budget procedure for allocating the annual expenditure budget for different programs and directorates. This study also identified that there is overspending and under spending of budget because of weak employee motivation, high turnover, lack of leadership commitment and lack of management alignment. Regarding the effectiveness of monitoring and controlling of expenditure budget, the finding indicated that: Financial reports are not presented in time, internal audit lacks sufficient auditors, the internal auditors are not free of interference & there is no performance audit. The researcher recommends that greater emphasis should be given to the budget allocation process, MoFEC should identify the causes of under spending and overspending, due attention should be given to the enforcement of financial rules and regulations, strengthen the skills & knowledge of employees, should apply performance audit.

Keywords: program budgeting system, Ministry of Finance and Economic Cooperation, Ministry of Finance and Economic Development, World Bank, Public expenditure management, Growth and transformation plan, legislature, Executives and Auditors, Growth and Transformation plane one and two, New public Finance management and International organization of supreme Audit Institutions.

CHAPTER ONE

1 Introduction

This chapter provides a background to the study. The chapter is organized in eight sections. The first Section presents the background of the topic. It describes about the historical background of public expenditure management and the increasing trends of government spending in Ethiopia.

The second section deals with the study's statement of problem. The challenges which undermine public sector performance in connection with maintaining fiscal discipline, appropriate resource allocation according to government priority and efficient and effective service delivery in low income countries including Ethiopia was pointed under this part. The research questions to be investigated were also stated in this section.

Under section three, the general and specific objectives of this study are presented. The fourth section the research questions to be investigated, the fifth section the justification of this study. Following this section, the scope and limitation of this study are presented

Under section six and seven respectively. Finally, the last section briefs about how this study was organized.

1.1 Back Ground of the Topic

Historically, public expenditure has recorded a continuous increase over time in almost every country. However, in spite of the fact that public expenditure has increased rapidly during the last two centuries, or so in almost every state, and in spite of its growing role and importance in national economies, the area of public expenditure remains relatively unexplored (Bhatia, 2008).

Public Expenditure Management approach was put into practice in the early 1980s by World Bank and this approach has been improved to a large extent so far (Rajaram and Krishnamurthy, 2001) as cited by Djurović and Djordjević (2008). In particular, institutional

and administrative arrangements are of great importance. Especially, it has been observed that expenditure allocations, provisions, financial management and evaluations which form the significant units of public expenditure management approach have been followed by the countries at an increasing ratio after the year 2001. Schick (2009) argued that PEM recognizes that even when a government adheres to accepted budget principles; it may fail to obtain optimal fiscal outcomes. In fact, many developing countries have sound budget and financial management systems but still lack fiscal discipline, are unable to reallocate resources in accord with strategic priorities, and operate inefficiently. To achieve its preferred outcomes, a government must manage public expenditures to implement avowed policy objectives. It must create an institutional framework that enhances the probability that actual outcomes will conform to professed targets. PEM casts a broader net that takes into account how public institutions are managed. According to (Schick, 2009) to achieve positive public expenditure outcomes, it is necessary that information, incentives, and other institutional arrangements be properly aligned.

In Ethiopia, government spending has continued to increase and is expected to go up in the upcoming years. And recently, in order to achieve the objective of Growth and Transformation Plan (GTP) (2010/11-2014/15), more than 690 billion birr requirement of resource have been projected. This indicates a 208% increase when compared to the previous (2005/06-2009/10) plan period which demanded about 332 billion birr, (MoFED, 2010). Evidence from the same report indicates that spending on poverty oriented sectors; has been ever increasing in the same fashion as total expenditures do during the period 1960/61-2010/11. Expenditure on these sectors as share of GDP increased from 2.07% in 1960/61 to 12.21% in 2010/11).

These all indicate that adequate system should be developed for efficient spending of the limited budget. Abdu (2014) noted that sound Economic Governance is essential for the achievement of reduction in poverty levels and improvements in economic growth fore Developing countries. Effective public expenditure management and good public financial management are important for efficient and equitable utilization of scarce national resources. Therefore, this research was aimed at assessing the challenges of expenditure management of MOFEC, particularly focusing on the recurrent and capital budget.

1.2 Problem Statement

Ethiopia has been establishing and implementing different social, economic and development policies and strategies over the past two decades. These include, among others the designing and implementation of Plan for accelerated and sustainable development to end poverty (PASDEP) and the growth and transformation plan (GTP).

In addition the country has also been making a great effort to implement and achieve The millennium development goals (MDGs) and objectives which was internationally Developed and ratified by the country.

Every country's Government needs financial resources to carry out the responsibilities assigned by its people. Specially, in public sectors, these financial resources can be raised by either through tax or non-tax instruments. Unless these financial resources are effectively and efficiently used for the intended purpose, generating of all these sources will have their own disincentive effect in the performance of the economy (Abdu, 2014).

Low income countries like Ethiopia have many challenges which undermine public sector performance in connection with maintaining fiscal discipline, appropriate resource allocation according to government priority and efficient and effective service delivery.

However, emphasis was given in this study to the following basic problems determined.

In May 1991, the Ethiopian peoples' revolutionary democratic front (EPRDF) was established after the downfall of Colonel Mengistu's Derg government. This new government designed a market driven economic policy followed by a comprehensive structural and economic reform programs with the support of the International Monetary Fund and World Bank. Even though the state had planned to reduce budget deficit through reorientation of public spending and improving revenue performance, total government expenditure as a share of GDP and the subsequent fiscal deficit has been rising (Tofik,2012).

According to Abdu (2014) the management and controlling of government financial resources is crucial because societies need and demands are unlimited whereas financial resources are limited in nature. Expenditure management process is most important political, bureaucratic, technical procedures of expenditure budget making and implementation decisions undertaken during the fiscal year. The process needs discussion and negotiations

among various stakeholders' like: the parliament, executives and various relevant parties. The problems related to public expenditure management and controlling are reflected in the budget preparation, approval, execution, and audit phase of expenditure management cycle. Owing to these problems, the main objective of this study is to assess the challenges of expenditure management in the Ministry of finance and economic cooperation (MOFEC) as a public body.

Ethiopia is striving to reach a middle income country by (2025) and also to achieve MDGs by 2015. The overall objective of these efforts of the Government of Ethiopia is to bring economic growth and eradicate poverty and consequently improve the living standard of the citizens. Realizing these policies, goals and strategies is a difficult and complex task. This is mainly due to lack of financial resources, problems of resource allocation and inefficient utilization of resources in the public sector (Getachew, 2005).

This in turn is again partly due to lack of integration among policy, planning and budgeting (Zewdu, 2009). Failure to link policy, planning and budgeting leads to poor expenditure control, poor budgetary outcomes and mismatch between budget planning and policy goals (Fozzard & Foster, 2001). The solution therefore, is to create encouraging conditions so that budgetary institutions can plan in advance, have an incentive to do so, and have better information about the goals and priorities of the government via training and development. This results in better control of expenditure and greater efficiency and effectiveness in implementing policies, programs and projects.

In addition, the process of spending the budget is also characterized by lack of accountability and transparency on pattern of spending (Getachew, 2005). Governments allocate resources so as to promote economic development, improve employment and provide social security funds, which require large amount of government budget. On the other hand, there is scarcity of resources. Economic principles provide ideas that resources of any type are limited in supply to meet the ever increasing demands of societies. Hence, they should be better allocated and used efficiently in a way that ensures transparency and accountability to maximize economic and social welfare. The same is true for budget especially for countries like Ethiopia in which significant portion of the budget is covered by external loans and assistances by which the country has no any control over it.

Thus, this study is aimed to address the following basic research questions.

1. How budget is allocated?
2. To what extent planned and actual expenditure of MOFEC related?
3. Is there transparency and accountability in budget execution in MOFEC?
4. Is there effective monitoring and control mechanism on budget process?

1.3 Objectives of the study

1.3.1 General Objective

The general objective of this study was to assess the challenges of expenditure management in the Ministry of Finance and Economic Cooperation of the years 2006 -2009 E.C.

1.3.2 Specific Objectives

The specific objectives of the study were to:

- Identify the procedures used to allocate expenditure budget to each departments & Programs
- Assess and examine the relation between the planned and actual expenditure
- Ascertain the prevalence of accountability and transparency in budget execution
- Examine the effectiveness of monitoring and controlling mechanisms employed

1.5. Justification of the Study

Developing countries, like Ethiopia, should give a big emphasize to the proper utilization of scarce resources especially on public expenditure management and thereby achieve the desired out comes. However, in practice even though countries prepare a good budget and implement accordingly they may fail to achieve what have been planned.

According to ADB, conventional budgeting (CB) differs from PEM in a number of ways. First, PEM focuses on outcomes and sees expenditures as a means to produce outputs which are needed to achieve desired outcomes. CB on the other hand focuses narrowly on expenditures on inputs. It preoccupies government agencies with minute details of line item expenditures with only tangential regard for the actual outcomes that budgets are supposed to promote and support.

Secondly, in emphasizing outcomes, PEM highlights the importance of having the right processes, i.e. those that lead to desired outcomes. CB is “legalistic” in its approach. It seeks to ascertain that agency budgets have been prepared and implemented in accordance with prescribed rules and procedures. From this perspective, a good budget is one which follows rules and procedures accordingly. In contrast, in PEM, a good budget is one that produces outputs that lead to improvements in desired outcomes. If the proper implementation of rules and procedures leads to bad outcomes then from a PEM perspective, the rules and procedures are considered flawed and should be reformed.

Third, under PEM, a balance is struck between the autonomy/flexibility that must necessarily be given to line agencies for them to produce the outputs needed to achieve the desired outcomes and the corresponding accountability of the agencies for producing those outputs. Under CB, discussions between the budget agency and the line agencies focus on the allocation of budgets to line (input) items and correspondingly limits the accountability of agencies to the proper disposition of funds in accordance with the agreed upon allocations. Consequently, the accountability of line agencies is diluted. Even if a line agency fails to meet its mandate, provided it stuck to the agreed upon allocations, it is generally not held accountable for the failure. Therefore, budget preparation needs to be well aligned with expenditure management so as to achieve the desired out comes in a country like Ethiopia where resources are extremely scarce. From this point of view, one can easily understand that it becomes so important to study the challenges associated with budgeting and expenditure management particularly in spending agencies especially at this time, where development and poverty reduction programs are urgent priority.

In general, by analyzing some government ways and procedures of expenditure management, the study becomes helpful to formulate sound expenditure planning and to improve the deficiencies of budget execution in the public sector. Moreover, the research may bring information that may fill the gap of knowledge to the concerned employees and managers of the organization as well as other line ministries and spending agencies of the government. Finally, it may help decision makers to take corrective action as necessary.

1.6. Scope of the Study

This research was designed to assess and solve the challenges of expenditure management facing MOFEC as a spending agency. In Ethiopia there are 21 ministry offices, and MOFEC

was the one responsible for the implementation of this new reform of public expenditure management at federal level. Thus assessing the challenges of expenditure management in MOFEC as a spending agency would give some insights about the gaps and possible solutions to the achievements of public bodies at federal level.

The study does not include other subordinates of MOFEC like Ethiopian Mapping Agency, Public procurement and property service and Public enterprises Trustee Board due to the broadness of the MOFEC organizational Structure which contains two state ministers and 23 Directorates. The study mainly focuses on the challenges in budget preparation, budget execution, mechanisms of monitoring and controlling expenditure, the relation between budget and actual expenditure.

This research focuses on investigating the challenges of expenditure management based on performance of MOFEC during the implementation of GTP program (2010/11 to 2014/15) G.C. Although the federal ministries are 21, conducting a research in one ministry will have a deceptive impact to show the whole picture of the challenges of public expenditure management. The study was limited towards analyzing the expenditure budget of the ministry of finance & economic development. It did not consider the budget of the country as a whole.

1.7. Limitation of the Study

Public expenditure management was not an easy task that require trained human resource, committed government officials, appropriate incentive mechanisms and that goes in line with the level of development of the country. Thus it requires a holistic approach and detailed examination. Such kind of reform brings changes in the outcome of resources devoted to various programs of the country. However, access to some statistical data and information may be a major constraint not to conduct deep study and also forced not to include other organizations in study to support the research adequately. Besides the Federal nature of MOFEC which strongly supports/serves various line ministries and spending agencies hindered to get some directors at the time of collection of data, and this in turn may have an effect not to adequately gather the required data.

The limitations that had been faced in this study were lack of well-organized and adequate secondary data of budget and expenditure report that makes time series analysis difficult, inadequacy of audit reports, un-willingness of respondents to give necessary information and fill the questionnaire, un-availability of interviewee due to various reasons. However, to

overcome these limitations the researcher tried to triangulate the data from different sources to enhance the reliability and validity of the research result.

1.8. Organization of the study

The study was organized into five chapters. Chapter one was the introductory part of the Study and dealt with the background of the study, problem statement, objectives of the study, significance of the study, scope and limitations of the study, description of the study area. Chapter two dealt with Review of related literature which comprises of conceptual review, theoretical review and empirical review. Chapter three considered the research methodology and includes; research design, research approach, type and sources of data, data collection instruments, population and sample design, method of data analysis and presentation, validity and reliability of data and ethical considerations.

Chapter four dealt on data analysis and interpretation of results. Chapter five is the final part of the study and dealt on conclusions and recommendations.

CHAPTER TWO

Review of Related Literature

2.1 Introduction

The purpose of this chapter is to review the existing literatures regarding the different experiences of public expenditure management. The researcher attempted to review different books, journal articles, master's thesis and dissertations etc.

This part of the thesis consists of three major components. The first section presents the conceptual review that describes: the concept of public expenditure management, the role and meaning of public expenditure management, objectives of public expenditure management, the budget cycle, the expenditure cycle, good governance and public expenditure management, accountability within PEM, budgetary control and challenges

of budget spending. The second part is the theoretical review which comprises the Theoretical Models and Approaches to PFM Reform such as expenditure management models and approaches, new public (financial) management (NPFM), public expenditure management, the platform approach and the principal and agent theory. The third section is the Empirical Literature Review that reviewed the public expenditure management practices in different countries.

2.2 Conceptual Review

2.2.1 Concept of Public Expenditure Management

Every country (developed or developing, rich or poor, small or big) needs serious financial resources for its existence. All governments have to: collect resources from the economy, in a sufficient and appropriate manner; and allocate and use those resources responsively, efficiently and effectively. The national budget is the main instrument through which these transactions are planned and carried out (Djurović-Todorović & Djordjević, 2009).

There is no commonly agreed definition of public expenditure management in the literature, for historically it has been only the study of public finance. Fiscal studies were the essence of public finance, and many economists and fiscal analysts focused their studies in terms of fiscal and economic growth. Later, public expenditure itself was defined as one of many forms of government intervention designed to compensate for the failure of markets and to secure distributional equity (Chu & Hemming, 1991,) as cited by Mojtaba & Ghiasi (2014). However, due to the varied results of structural adjustment programs, some studies in the late 1990s focused on the management of public expenditure rather than on public expenditure policies. Potter and Diamond, (1999) consider public expenditure management as the interactions between aspects of budget preparation, budget execution, and cash management so as to achieve fiscal discipline in the control of aggregate expenditure, effective resource allocation and efficient service delivery. DFID (2001) defined public expenditure

management as the way in which public resources are allocated and managed in pursuit of fiscal discipline, strategic prioritization and achievement of value for money. Most authors agree that PEM has three main objectives (Ibid, 2014).

2.2.2 The Role and Meaning of Public Expenditure Management

Allen & Schick (1999) described that Public expenditure management (PEM) is a new approach to an old problem. The problem is the allocation of public money through collective choice. For more than a century, these allocations have been made through the machinery of budgeting—the routines and procedures devised by governments to decide the amounts spent the balance between revenue and expenditure, and the allocation of funds among public activities and entities.

Allen & Tommasi (2001) argued that the budget should be a financial mirror of society's economic and social choices. In order to perform the roles assigned to it by its people, the state needs, among other things, to: (i) collect resources from the economy, in sufficient and appropriate manner; and (ii) allocate and use those resources responsively, efficiently and effectively.¹ Public expenditure management pertains only to (ii), and is thus only one instrument, albeit a key instrument, of government policy.

Allen & Tommasi (2001) also noted that it is fundamental to realize that public expenditure management is country-specific. PEM approaches and recommendations must be solidly grounded on the economic, social, administrative, and implementation capacity realities of the specific country. Like any other technology—from water pumps to agricultural fertilizers to construction—public expenditure “technology” must be appropriate technology, in terms of (i) local factor endowments, (ii) local institutions, and (iii) Real local needs. Hence, any PEM innovation generated abroad must be carefully analyzed in the light of the local context and rejected, adopted, or adapted as needed, particularly important for the analysis of applicability is an evaluation of the country's institutional framework and the availability of relevant and reliable data and sufficient skills. Allen, Schiavo-Campo & Garrity (2004) noted that Public expenditure management includes all the components of a country's budget process both “upstream” (preparation and programming) and “downstream” (execution, accounting, control, reporting, monitoring and evaluation)-including the legal and organizational framework and arrangements for:

- Formulating medium-term expenditure framework
- Forecasting revenue and expenditure
- Linking the budget to policy making

- Preparing the budget
- Managing cash and monitoring expenditures
- Performing internal control and audits
- Accounting and reporting
- Procuring public goods and services and managing assets.
- Assessing performance
- Conducting external audits
- Ensuring oversight by the legislature and other bodies

2.2.3 Objectives of Public Expenditure Managements

According to (Allen Schiavo-Campo and Garrity, 2004). The wide objectives of public expenditure management are to achieve fiscal discipline, allocate resources to use that reflect government policy priorities, and deliver public services efficiently and effectively

Table 2.1 the Objective and Phases of Public Expenditure Management

Objective	Phases
Aggregate fiscal discipline	Budget preparation

Allocative efficiency	Macroeconomic forecasting Budget preparation process Budget approval
Operational efficiency	Budget implementation Budget documentation Budget execution Cash management Accounting and reporting

Source: Adapted from World Bank, 1996, DFID, 2001: Allen and Tommasi, 2001

I. Aggregate Fiscal Discipline

Aggregate fiscal discipline means that public expenditure should be in line with the framework of the macroeconomic goals that are set in advance. In addition such as the level of budget deficit, public debt ratio and emergency funds are determined before the annual budget is prepared (Campo and Tommasi, 1999: Allen and Tommasi, 2001). Many developed countries present macroeconomic indicators in a medium term framework of 3-5 years as a guide for annual budget preparation. Determining the length of term depends on the ability of the country to predict the economic condition in medium term.

In the most developing countries such as medium term projection is still too distant to be workable macroeconomic situation, high inflation rate, and unpredictable.

Because claims always exceed what government is able or willing to spend. Without limits on the totals, unconstrained demands would likely result in chronically high deficits and a progressive rise in the ratio of tax revenues and public expenditure to GDP.

Aggregate fiscal discipline pertains to all key measures of fiscal performance: total revenue, the financial balance and the public debt, in addition to total spending. It makes little sense to establish spending constraints without also deciding revenue totals, budget surplus or deficit, and the debt burden. Typically, therefore, spending discipline is accompanied by constraints on other budget aggregates. If it isn't, the government may find it easier to meet deficit targets by allowing revenues to rise than by reducing public expenditure (ibid, 1999 Page 47 and Page 48).

Constraining the totals is not easy because claimants have a strong incentive to demand all they can get from government. For most claimants, the benefits ensuing from higher government spending outweigh any resulting increase in their tax burden. Inasmuch as program benefits tend to be concentrated while the tax burden is dispersed, particular beneficiaries have more net gain from demanding additional spending than by advocating fiscal constraint. These unbalanced incentives lend self-interested claimants to demand more resources than they would want government to spend. This “common pool” or “tragedy of the commons” problem is exacerbated when programs are debt financed and the government shifts costs to future taxpayers. What constrains claims on the budget is not only the prospect of higher tax burdens (or other costs such as rising inflation or weaker economic growth) but the impossibility of all claimants getting what they want. This impossibility is rooted in a fundamental condition of government: resources are more constrained than demands. Giving everybody what they want would exhaust current revenue and the government’s capacity to borrow. To counteract the inclination of claimants to push for more, governments constrain the spending totals. The question is not whether spending totals should be constrained, but how hard a constraint should be applied. Enforcing aggregate fiscal discipline is a contest between claimants and controllers; the latter can prevail only when decisions on spending totals are made somewhat independently of annual demands on the budget, and when these decisions are enforced by budget rules that limit what claimants can ask for and get, and when controllers are armed with roles and authority that enable them to enforce fiscal discipline. To the extent that budgetary rules and roles differ among countries, governments vary in their capacity to maintain aggregate fiscal discipline.

B) Allocative Efficiency

Efficiency of allocation emphasizes that due to the scarcity of resources, government expenditure should be effectively allocated to sectors by considering medium-term plans, the productivity of sectors, and the balance between sectors. However, inefficiency of budget allocation occurs in many developing countries due to a lack of comprehensive planning and an inability to measure the priority of programs and activities. Both aggregate fiscal discipline and allocative efficiency are achieved at the budget preparation phase, which requires a finance minister to be strong when discussing budget proposals with line ministers and in interactions between the executive and legislative branches in order to issue the annual budget law (Schick 1998a; Campo & Tommasi, 1999; Allen & Tommasi, 2001).

C) Operational Efficiency

One major objective emphasized in the recent literature is operational efficiency, meaning that the budget allocated to line ministries and spending units should be fully utilized to provide the goods and services needed by the public (Premchand, 2005). Therefore spending units set performance indicators and targets as criteria to control the utilization of funds. In contrast to the two previous PEM objectives, operational efficiency needs to be achieved at the budget implementation phase. However, optimal operational efficiency can be attained as long as government properly manages budget execution, cash management, and accounting and reporting. These three objectives are interdependent and governments need to pay adequate attention to each of them (World Bank, 1998).

Operational efficiency is the ratio of the resources expended by government agencies to the outputs produced or purchased by them. The resources can be measured in money terms or in terms of other inputs, such as work hours or years. Output is conventionally measured in volume terms, but qualitative dimensions can also be measured. These include the accuracy of payments (or of other transactions), the timeliness of services, the courtesy with which they are provided, and the satisfaction of recipients.

In measuring set and auditors check the books maintained by the public body. In recent years, the scope of auditing has been broadening to encompass auditing the effectiveness of government programs.

2.2.4 The Budget Execution Cycle

2.2.4.1 Importance of Budget Execution

Budget execution is the phase where resources are used to implement policies incorporated in the budget. It is possible to implement poorly a well-formulated budget; it is not possible to implement well a badly formulated budget. Good budget preparation comes first, logically as well as chronologically. However, budget execution processes are not simply mechanisms for ensuring compliance with the initial programming. Even with good forecasting systems, unexpected macroeconomic developments may occur during

the year, and need to be reflected in the budget. Of course, changes should be accommodated in a way that is consistent with the initial policy objectives so as to avoid disrupting the activities of agencies and project management. Successful budget execution depends on numerous other factors as well, such as the ability to deal with changes in the macroeconomic environment, and the implementation capacities of the agencies concerned. Budget execution involves a greater number of players than budget preparation, and calls both for assuring that the “signals” given in the budget are correctly transmitted, and for taking into account feedback from actual experience in implementing the budget.

Hence, efficient budget execution calls for: (i) ensuring that the budget will be implemented in conformity with the authorizations granted in the law, both in relation to the financial and policy aspects; (ii) adapting the execution of the budget to significant changes in the macroeconomic environment; (iii) resolving problems arising during implementation; and, (iv) managing the purchase and use of resources efficiently and effectively.

2.2.4.2 Budget Execution Systems

Systems for budget execution system should ensure rigorous aggregate expenditure control, but also effective and efficient uses of resources in accordance with budget priorities. Its procedures should be appropriately balanced in order to avoid or resolve operational efficiency; these qualitative indicators can be correlated with the volume of resources or other inputs (Schick & Allen, 1999).

Operational efficiency generally refers to government consumption expenditure in the national income accounts, in contrast to allocative efficiency which covers investment expenditure and transfer payments as well. For example, operational efficiency is concerned with the cost of processing pension claims, but not with the amount paid out in benefits. The distinction is not always clear-cut, however, because operational efficiency often affects program allocations. In unemployment compensation for instance, the volume of benefits paid varies with the efficiency (accuracy, timeliness, etc.) with which claims are serviced. Nevertheless, it is useful to distinguish the cost of producing outputs from the cost of providing a particular level of benefits. The distinction parallels the one commonly drawn between outputs and outcomes (ibid, 1999).

2.2.5 The Budget Cycles

According to Johnson et al. (2008 Page 118) as cited by Nikodimos (2013) the budget cycle consist of four phases: preparation and submission, approval, implementation as well as audit and evaluation. Accordingly, these stages are briefly described as follows.

i. Preparation and submission

The responsibility for budget preparation varies greatly among countries and political systems. In parliamentary system the prime minister typically has responsibility for the budget preparation and submits what is usually called the “government budget” to the parliament. However, preparation authority is not always assigned to the state governors and chief executives. While the majority of governors have responsibility for preparation and submission of budgets, some share of budget preparation authority rests with other elected administrative officers, civil servants, legislative leaders, or some combination of these parties.

According to WB (1998) most budgets are incremental takings the last years allocation as base adding a small percentage for inflation. This approach of budgeting has a shortcoming of mismatch between policies and budgeting. However, preparation can be improved by using MTEF by creating the link between policies and programs, and the resources allocated to their execution (Getachew, 2005).

ii. Approval

The budget is approved by the legislative body, for example parliament, congress or state legislative bodies can approve the budget. The legislative body reviews the executive budget recommendations and often has access to the original agency budget requests, which enables the body to make comparison before giving its approval.

iii. Implementation

Implementation is the action phase of budgeting, in which the plans which are part of the budget are put in to execution by using the resources. Every budget explicitly or implicitly contains plans for the work to be done and the expected achievement from it.

Implementation, then, involves converting those plans in to operations.

However, this stage is not only limited to ensure compliance with the initial programs but also depends on various factors such as the way the budget is prepared, ability to deal with changes with the environment and the implementation capabilities of the agencies concerned. According to Premchand (2007) as cited by Zewdu (2009) an efficient budget execution calls for;

- Ensuring that the budget will be implemented in accordance with the authorization granted
- Adapting the execution to significant changes in the macroeconomic environment
Resolving problems arising during implementation
- Managing the purchase and use of resources efficiently and effectively, and to be according to financial directive

iv. Audit and evaluation

The final phase of budgetary process is audit and evaluation. The major objective of this phase is to bring about significant improvements in the budgetary process, but initially the main goal was to guarantee executive compliance with the financial rules and regulations: particularly to ensure honesty and accountability in disbursing public money and to prevent needless waste. In accordance with this goal, accounting procedures are set and auditors check the books maintained by the public body. In recent years, the scope of auditing has been broadening to encompass auditing the effectiveness of government programs.

2.2.6 The Budget Execution Cycle

2.2.6.1 Importance of Budget Execution

Budget execution is the phase where resources are used to implement policies incorporated in the budget. It is possible to implement poorly a well-formulated budget; it is not possible to implement well a badly formulated budget. Good budget preparation comes first, logically as well as chronologically. However, budget execution processes are not simply mechanisms for ensuring compliance with the initial programming. Even with good forecasting systems, unexpected macroeconomic developments may occur during the year, and need to be reflected in the budget. Of course, changes should be accommodated in a way that is consistent with the initial policy objectives so as to avoid disrupting the activities of agencies and project management. Successful budget execution depends on numerous other factors as well, such as the ability to deal with changes in the macroeconomic environment, and the implementation capacities of the agencies concerned. Budget execution involves a greater number of players than budget preparation, and calls both for assuring that the “signals” given in the budget are correctly transmitted, and for taking into account feedback from actual experience in implementing the budget.

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2.2.6.2 Budget Execution Systems

By referring edited book Allen Rechar and Tommasi Daiel Chapter 7 Page208 the following points clearly stated.

Systems for budget execution system should ensure rigorous aggregate expenditure control, but also effective and efficient uses of resources in accordance with budget priorities. Its procedures should be appropriately balanced in order to avoid or resolve conflicts between these objectives. Aggregate expenditure control requires defining fiscal targets, and is therefore largely concerned with budget preparation. Nevertheless, budget execution procedures must ensure that fiscal targets are effectively enforced and that managers comply with the budget authorized by the legislature. However, this should not consist of replicating the “traditional” budget execution systems, which focus on detailed

input controls, often performed by the ministry of finance. Such an approach is aimed at assuring fiscal discipline, but generally poses two different sorts of problems. On the one hand, excessively detailed controls are time-consuming, make the budget rigid, and do not give managers the flexibility in the allocation of inputs needed to implement their budgets efficiently. On the other hand, traditional compliance controls are not sufficient to ensure fiscal discipline. They tend to focus on cash payments for supplies, while the most crucial problems are often found elsewhere (overstaffing, entitlements, arrears, etc.). Keeping budget execution under control requires effective management control systems, not excessively detailed compliance controls.

2.2.6.3 Overspending and Under Spending

Overruns 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 (payments from special accounts, “below-the-line” accounts, etc.). In some countries, the expenditure procedures can be so cumbersome that “exceptional arrangements” have been created to bypass them. Payments made through these 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 the reporting system, and ensuring the effectiveness of the basic budget execution controls. A comprehensive coverage of the budget is required. Exceptional procedures should be avoided, and in a number of countries this requires simplifying the system of control (Allen and Tommasi, 2001).Page 208 and 210

Overruns can be caused by deficiencies in budget preparation. Elements such as continuing commitments for investment projects and entitlements, or the impact of inflation on wages, are in some countries poorly taken into account when preparing the budget. Also, particular interests and political pressures may affect budget preparation, budget enactment and budget execution. In some countries, the executive or the parliament adopts decrees and laws that have a financial impact on the budget even if they do not concern the budget directly. Regulations are needed in this area. The ministry of finance should review any regulation or draft decision that can have a fiscal impact. Sound budget preparation processes and adequate institutional arrangements are a

prerequisite for avoiding overruns. But in some countries with weak systems of governance, seeking technical solutions of this kind is insufficient without the necessary degree of political commitment and leadership (ibid, 2001).

Allen and Tommasi (2001) stated that in a number of developing countries, the budget is under spent. This does not necessarily mean that there is good fiscal discipline in these countries. In some countries with bad governance, under spending of the official budget may coexist with off-budget spending.

Allen and Tommasi (2001) Page 210 further stated that in a majority of cases, under spending, as well as overruns, is related to insufficiencies in budget preparation and program preparation. An overestimated budget and unrealistic projections of revenues lead to remaking the budget during budget execution.

2.2.7 The Expenditure Cycle

A. Budget Execution

Allen and Tommasi (2001) noted that budget execution is the phase when resources are used to implement policies incorporated in the budget. A well-formulated budget can be poorly implemented, but a badly formulated budget cannot be implemented well. Good budget preparation comes first. Budget execution procedures must ensure compliance with the initial programming, but they are not simply mechanisms for ensuring compliance. Successful budget execution depends on numerous other factors, such as the ability to deal with changes in the macroeconomic environment, the implementation capacities of the agencies concerned, and the problems met in program implementation. Hence, efficient budget execution calls for (a) ensuring that the budget will be implemented in conformity with the legislature's authorizations, (b) adapting the execution of the budget to changes in the economic environment, (c) resolving problems met in program implementation, (d) procuring goods and services and managing efficiently, and (e) preventing any risk of abuse and corruption.

B. Stages of the expenditure cycle Once the budget is adopted by the legislature, the expenditure cycle consists of the following phases:

- *Apportionment of appropriations and release of funds to spending units.* Funds may

be released through notification of cash limits, issue of warrants, funds transfers to impress accounts, and other mechanisms. In some countries, the release of funds includes two steps: (i) apportionment by the central budget office, which consists of defining which part of the appropriation the line ministries and spending units can use; and (ii) allotment by the line ministries and main spending units, which consists of allocating apportioned appropriations to subordinate spending. (Allen and Tommasi, 2001) Page 211

- *Commitment.* The commitment stage is the point where a future obligation to pay is incurred. This stage is very important in budget management, because at this time expenditure decisions become effective. In practice, however, what constitutes a commitment in budget management varies from one country to another and depends on the nature of the expenditure. A commitment consists of placing an order or awarding a contract for specified goods or services to be delivered. It entails an obligation to pay when the third party has complied with the provisions of the contract.
- *Acquisition and verification (or certification).* At this stage, goods are delivered and/or services are rendered and their conformity with the contract or order is verified. Assets and liabilities of the government are increased and recorded in the books, if the country has an accrual accounting system. Expenditures at the verification stage are also called accrued expenditures (e.g. in the US) or actual expenditures (e.g. in some FSU countries). Expenditure at the verification stage entails a liability, and arrears are the difference between expenditures at the verification stage and payments. Recognizing expenditures on a timely basis requires goods and services to be verified as soon as they are delivered. Actually, in some countries, physical deliveries can precede verification by some period of time. Such weaknesses should be identified and addressed (ibid.2001).
- *Payment.* At this stage, payments are made through various instruments such as: cheques, cash disbursed, electronic transfers, debt instruments, barter agreements, deduction from taxes and cash vouchers. The practice of making payments through barter agreements, deduction from taxes and cash vouchers is questionable. Payments through deduction from taxes are frequent in some FSU countries, but have negative consequences on both tax collection and competition among

suppliers. Barter agreements impede competition among suppliers. Cash vouchers should generally be seen as an administrative stage in the expenditure cycle, rather than as a payment mechanism, especially when they are not paid immediately. Payments through cheques are, in most countries, recorded when cheques are issued. Comparisons with bank statements should be systematic. When the float of unpaid cheques is significant, payments must also be reported on the basis of cheques paid.

2.2.8 Good Governance and Public Expenditure Management

Good governance rests on four pillars: accountability, transparency, predictability, and participation. Accountability means the capacity to call public officials to task for their actions. Transparency entails low-cost access to relevant information. Predictability results primarily from laws and regulations that are clear, known in advance, and uniformly and effectively enforced. Participations needed to generate consensus, supply reliable information, and provide a reality check for government action. These concepts are universal in application but relative in nature. Accountability is a must, but it does not become operational until one defines accountability of whom, for what, and to whom. Transparency can be problematic when it infringes on necessary confidentiality or privacy. Full compliance with regulations is not a great advantage if the regulations are inefficient. And it is evidently impossible to provide for participation by everybody in everything and unwise to use participation as an excuse to avoid making tough but necessary decisions. It is also clear that none of these four components can stand by itself: each is instrumental in achieving the other three, and all four together are instrumental in achieving sound development management. For example, accountability mechanisms in the budget process are hollow if financial information is not reliable, and they are meaningless without predictable consequences (Anwar Shah, 2007). Page 54

In the simplest terms, financial accountability is about responsible stewardship for the use of public money. Financial accountability is a means of ensuring that public money has been used in a responsible and productive way. It is about verification of legality and regularity of financial accounts, but also about making sure that value for money has been achieved in the use of resources.

2.2.9 Accountability within PEM

PEM is broadly defined as allocating and using public resources from all sources responsibly, efficiently and effectively (Schiavo-Campo and Tommasi, 1999) as cited by (Pak Kimchoeun and David Craig, 2008). PEM can be understood in terms of principal-agent relationships, wherein principals engage agents to perform some service on their behalf that in turn involves decision making by the agent (Premchand 1993: 86-89). Within this perspective, it is assumed that important decisions on public spending are made by central agencies as the principals (e.g. the MEF and Treasury), which will then be implemented by the relevant agencies (e.g. central ministries and their provincial branches).

2.2.10 Why Communicate Budget Information?

Transparency-which refers to the openness of policy intentions formulation and implementation, is widely recognized as a basic tenet of good governance. To date, more than 60 countries have enacted legislation that gives citizens a legal basis on which to demand information. The Ethiopian constitution clearly places transparency and social accountability among the country's basic principles of governance (MOFED media disclosure, strategy and guidebook).

The single most meaningful policy document of a government, and hence the most in need of transparency, is the budget. Budgets are the concrete expression of government objectives and priorities showing how competing claims on finite resources have been reconciled.

Making budgets transparent brings multifaceted benefits. Budget transparency can:

- > Strengthen policy: with more eyes trained on the budget, weaknesses and strengths of public policies can be identified sooner. When the macroeconomic assumptions of spending plan are published, the public can also scrutinize the factual basis on which allocative decisions are made.
- > Improve government accountability: legislatures, the media, civil society and the general public will be better equipped to hold government administration to account if they are informed about policies, practices and expenditures furthermore, government officials will be more likely to act more responsibly knowing that their decisions and responsibilities are visible to the public eye.

- > Increase faith in government: budget transparency raises awareness of government activities, offering an opportunity for improving public approval. Transparency can also promote social cohesion and bolster the legitimacy of government policy.
- > Improve the investment climate: uncertainty is the greatest deterrent to investment. With a clear understanding of government plan and actions both international and local investors will feel more confident to embark on long term business ventures.
- > Enhance citizen participation: transparency is critical for including citizen participation in the budget process. Openness of the budget process and disclosure of fiscal information is imperative for citizen group to effectively take part in the formulation of spending policy (MOFED media disclosure, strategy and guidebook).

Budget Transparency:

Transparency is generally regarded as a key feature of good governance, and an essential prerequisite for accountability between states and citizens (McGee and Gaventa, 2010) as cited by (Dejene, 2012). According to Kopits and Craig (1998), fiscal transparency is defined as openness toward the public at large about government structure and functions, fiscal policy intentions, public sector accounts, and projections. It involves ready access to reliable, comprehensive, timely, understandable, and internationally comparable information on government activities so that the electorate and financial markets can accurately assess the government's financial position and the true costs and benefits of government activities, including their present and future economic and social implications.

Transparency allows the analysis of state policies and facilitates the identification of weaknesses leading to the implementation of improvements needed. Transparency increases trust in the state as well as enables citizens and civil society to hold the government accountable, which they can only do if they have information on budget policies, practices, expenditures and outcomes (Nigussie, 2012).

Legal Framework for Transparency:

- ❖ Ethiopia has a well-established legal framework governing its budget system that derives from the 1995 Constitution of The Federal Democratic Republic of Ethiopia. The Constitution clearly defines structure, division of powers and

responsibilities among the State organs. These are the structures of the organs of the Federal Government and of the State members.

- ❖ Article 12 (1) of the Constitution, states that ‘the conduct of affairs of government shall be transparent’. Sub Article 2 states that any public official or an elected representative is accountable for any failure in official duties.
- ❖ Furthermore, Article 29 of the Constitution stipulates the ‘right of freedom to seek, receive and impart information and ideas of all kinds, regardless of frontiers, either orally, in writing, or in print, in the form of art or through any media of his choice’. This also includes freedom of press and access to information of public interest. Therefore, this article provides legal basis for any individual, civil society organizations and other stakeholders to access information on budgets and budget processes.
- ❖ The Constitution provides the framework for people’s participation through electoral representation. The House of Peoples’ Representatives is composed of 550 members. The Legislature has clear authority over the approval of budget estimated and expenditure.
- ❖ In general, the meetings of the House of the Representatives are public. The law specifies the condition and the process for having closed sessions. The House shall have a closed session upon the request of the Executive or members and when supported by a decision of more than one-half of the members.
- ❖ The legal frame work has made a provision for the Legislature to maintain an oversight over the Executive in the budget process. However, the practice in Ethiopia remains to be studied.
- ❖ The Office of the Federal Auditor General is established by Proclamation No. 68/1997. The Auditor General upon the recommendation of the Prime Minister is appointed by the House of Peoples’ Representatives. The office is responsible for the inspection of the accounts of all government bodies. Its task is to ensure that expenditures are made in accordance to the approved allocation for the fiscal year and submit report to the House.
- ❖ The Federal Ethics and Anti-Corruption Commission is established by

Proclamation number 235/2001 as an independent Federal Government body. The functions are combating corruption, investigating and prosecuting. The Commission is accountable to the Prime Minister and headed by a Commissioner supported by a Deputy Commissioner. Both are appointed by the House of Representatives upon nomination by the Prime Minister.

2.2.11 Approaches of Budgeting

i. Line item budgeting Classification of expenditure based on categories that are called objects of expenditure and within each category more detailed items is called line item budgeting. According to Elsas(2003) this type of budget focuses on how much money is spent and for what purpose rather than the activity affected or its outcomes. In a line item approach, expenditures for the coming year are listed according to objects of expenditure, or “line items.” These line items are perhaps detailed; specifying how much money a particular agency or subunit will be permitted to spend on personnel, fringe benefits, travel, equipment, and the like. The main focus of such a budget system is to set spending limit in the allocation process and to make sure that spending agencies do not exceed their ceiling limits (WB, 1998).

Mullins and Pagano (2005) argued that despite this approach offers substantial advantages; critics have identified several shortcomings that may make it inappropriate for certain organizational environments. The most severe criticism is that it presents little useful information to decision makers on the functions and activities of organizational units. Since this budget presents proposed expenditure amounts only by category, the justifications for such expenditures are not explicitly stated. In addition, it may invite micro-management by administrators and governing boards as they attempt to manage operations with little or no performance information (Elsas, 2003). However, to overcome its limitations, the line-item budgeting can be supported with additional program and performance information (WB, 1998).

ii. Performance budgeting

According to Elsas (2003) performance budgeting is the classification of expenditures on the basis of specific activities, the number of units performed and their costs. This type of budget concentrates attention on what a work unit does, how frequently it does it, and at what cost unlike to line item budgeting. Recently measures of performance have been

expanded to include more subjective evaluations focused on overall quality of programs and their direct benefits to stakeholders of the spending agencies (WB, 1998).

Elsas (2003) argued that this approach increases the efficiency and effectiveness of government operations by focusing resources toward the most critical and important outcomes, improves operations by linking budget and program performance over time; makes managers more accountable for program decisions that affect budget outcomes and improves understanding and communication about critical issues and priorities relative to budget requests and the use of resources. The major criticism of performance budgeting was that “efficiency”, an important goal in budgeting, is an inadequate criterion for allocation (WB, 1998).

iii. Program Budgeting

Program Budgeting is the classification of expenditures on the basis of programs, significant problems or policy issues each attempts to deal with, and alternatives for dealing with them. This type of budgeting approach focuses attention on the kinds of problems and policy issues in which chief executives and governing bodies are expected to resolve and, the resources needed to resolve them (Elsas, 2003).

Elsas (2003) argued that the spirit of this approach is that makes explicit the goals and objectives of a society and allocates resources to outputs, in a program structure. The program structure is the key to integrating not only planning and budgeting but also, capital and recurrent expenditure. PB also has the advantage of introducing the ability to measure performance. This measurement is through the economy, efficiency and effectiveness of infrastructure and service delivery. Therefore, it also supports public accountability. Ultimately PB can encourage program managers to be more accountable for expenditure to achieve results (Ibid, 2003).

iv. Zero Based Budgeting (ZBB)

According to Elsas (2003) Zero Based Budgeting is a budgeting approach where by the expenditure amount for each line item or program is examined in its entirety each year, regardless of prior funding. Those items that cannot be justified are subject to elimination or significant reduction.

Elsas (2003) argued that the spirit of ZBB is an attempt to change the traditional practice

of providing automatic incremental increases to a department's line items without providing critical analysis to each item. Under this style of budget any and every line item are fair game for budget cuts or drastic reductions. Departments must come to the finance committee and the board and argue why each line item amount was recommended and why it should be maintained at that level. Even personnel positions that have existed for years must be individually justified on an annual basis.

2.2.12 Budgetary Control

There are two methods which are used for budgetary control; auditing and internal control. These methods are presented briefly below.

2.2.12.1 Auditing

Basu (2006) argued that auditing helps organizations to utilize their resources effectively and efficiently through verification of the spending process: as to how the organization adheres to rules as well as regulations in way that enhances accountability and transparency. Effective auditing will contribute in many important ways to the management of governmental resources.

It can:

- > Detect irregularities involving the misuse of public funds and identify related weakness in management controls that may endanger the integrity of the organization in the effective implementation of budgetary and other policy decisions
- > Determine the reliability of reports on budget execution and other financial data
- > Identify instances and patterns of waste and inefficiency that, if corrected will permit more economical use of available budget resources
- > Provide reliable data about program results as a basis for future adjustments in budget allocation

2.2.12.2 The Essence for Effective Auditing

The International Organization of Supreme Audit Institutions (INTOSAI) cited by

Nikodimos (2013) has promulgated standards for the audit of government organizations and operations. These standards or national standards have been adopted by government audit organizations around the world, including almost all SAIs. These standards include:

Independence: the independence of the auditing organization is essential to ensure that its work will not be biased by any relationship it might have to the entity being audited. This is also necessary for internal audit where by the entity responsible must not be part of the finance or treasury function of the agency concerned, and report directly to the senior manager or overseeing financial transactions.

Professional Skills: auditing requires a professional that includes a wide range of technical skills, understanding the types of audits and auditees that the SAI may be required to face. For each individual audit, it is essential that the audit team, as a whole, possess the knowledge and skills required for that particular audit. If the SAI is auditing the financial statement of any entity, the audit team must include a fully qualified financial auditor. In most countries, this ability is evidenced by some type of certification, usually one that is issued following completing of a course of study and successful completion of a related examination (Basu, 2006).

2.2.12.3 Classification of Audits and Auditors

Audits can be classified in different ways. According to Basu (2006) they can be classified in to internal and external. In addition, Dittenhofer (2001) classifies audits in to performance and financial audit.

i. Internal versus external audit

Internal audit: As its name indicates; internal audit is part of a given organization: performed by an internal auditor with a basic knowledge of auditing. It is an audit through which a thorough examination of the accounting process including the whole system is undertaken to check whether transactions are recorded in proper manner and the system is operated as per the rule.

Goodwin (2004) argued that the role of internal audit has been traditionally limited to expressing recommendations on financial statements and related issues of legality,

regularity and fraud. However, this approach does not provide information on waste, inefficiency and ineffectiveness. Increased public expenditure is the need for more rational and informed decision making in the use of resources and growing demand for public accountability of those who manage public resources necessitated a new and expanded scope of audit that is performance audit.

External audit: This type of audit is usually conducted to fulfill the requirement of the provisions of law. Auditors with a basic knowledge and qualification; that are not part of the preparation of accounts or management of the organization can undertake the audit process to verify that the organization is performed its activities as per the law. External auditor is an independent professional who does not have any relationship with the enterprise that may adversely affect his ability to form an objective judgment about the condition of the organization (Ibid, 2004).

ii. Internal versus external auditors

Internal auditors are auditors employed by the organization to carry out an independent appraisal within the organization, which operate as a service to the organization by measuring and evaluating the effectiveness of internal control system. The internal auditor is part of the organization and is typically responsible to the top management of the organization. Managers should use their internal audit unit primarily to perform a continuing assessment of the control systems and as a source of recommendations for improving the effectiveness of those systems. In addition, the internal audit unit can be used to examine apparent irregularities. Its findings can serve both as evidence of the need to strengthen the control systems and as a basis for determining what action may be appropriate against those who caused the irregularity.

External auditors are auditors who are entirely independent of the audited entity. Their duty is to report primarily to third parties (in the case of audit of private companies they report to shareholders; on the case of Government of Ethiopia the external auditor is the office of the Auditor-General which reports to parliament). The role of the external auditor is very different from that of the internal auditor, although the two should cooperate where possible (Basu, 2006). iii) Performance versus financial audit

Dittenhofer (2001) argued that performance auditing is an audit of economy, efficiency and effectiveness conducted by both internal and external auditors that a government

organization, a program, a project, an activity or a function uses its resources in carrying out its responsibilities. Performance auditing provides information to a government organization, program, activity or function by contributing to the accountability that help provide an independent assessment of their performance, helping them improve public accountability. It embraces:

- ❖ Audit of the economy of administrative activities in accordance with sound administrative principles and practices, and management policies
- ❖ Audit of the efficiency of utilization of human, financial and other resources, including examination of information systems, performance measures and monitoring arrangements, and procedures followed by audited entities for remedying identified deficiencies; and
- ❖ Audit of the effectiveness of performance in relation to the achievement of the objectives of the audited entity, and audit of the actual impact of activities compared with the intended impact.

When we come to the financial audit the objective is to investigate to what degree public resources is used, in order to be able to achieve the objectives (Goodwin, 2004). There are two aspects that are very important for a government to be successful. They need to have good policies with good execution but the financial control is also a very important tool for the government to be successful (Ng, 2002).

2.2.13 Internal Control

Basu (2006) argued that internal control system within the organization is established to safeguard assets, check the accuracy and reliability of financial and other data, promote operational efficiency and encourage adherence to the prescribed policies and procedures of the organization. Internal control can also help to ensure reliable financial reporting and compliance with laws and regulations. It is a means of assisting modern organization management in discharging its responsibility.

The objectives of internal control are:

- To eliminate the acts of fraud and error

- To prevent the misappropriation of cash or goods
- To detect fraud or an error promptly
- To ensure that the accounting system provide reliable information (Ibid, 2006).

2..2.13.1 Challenges of Budget Spending

The basic problems that paralyzed the accounting practices and slow of budgetary implementation in budgetary institutions are; inadequate control in public bodies, slow budgetary appropriation provisions, poor finance performance, unethical persons acting outside controls, ineffective control system, lack of focus on corporate governance. According to Ugoh and Ukpere (2009) there are many challenges that undermine public sector performance regarding budget and resulted in the above problems. These include but not limited to;

i. Corruption and mismanagement

Corruption is one of the major problems facing the governments in budget implementation. The popular legend propagated by the some officials is that the governments are always short of funds. No doubt, the heavy funding that runs into billions may not be enough because of the high level of corruption in the public bodies. In addition, it has been observed that most governments do not accord adequate regard to the budget process. The fall out of this situation is the haphazard and unplanned execution of projects. The state governments which would have served as a check are not free from this case. Evidently, there is contract scams in most governments of developing countries. These contracts are inflated and worse still, the projects are not executed and there by defeating the essence of budgets.

ii. Skilled manpower

Majority of local governments today are manned by officials who do not possess the requisite leadership and managerial skills to deliver services to the people. The law of the countries in the world makes it clear the requirement for recruitment. The law puts the minimum educational qualification for the selection into government organizations. However, this principle has not been followed and as such, made the government the dumping ground for unskilled personnel.

iii. Lack of civil society participation

The level of participation by the people is highly limited especially in the local governments located at the rural areas. The reason is attributed to high illiteracy level and the poverty rate. Thus, the awareness of the people is very low. In addition, there is no law that encourages civil society participation in governance and also no access to information and participation. In the absence of this, the civil society, no matter how vibrant and enlightened, cannot achieve anything.

iv. Central/State governments' interference

In some governments with decentralization, their constitution makes it clear the separation of power among the different tiers of the government and makes the local governments responsible to both the federal and state governments. Obviously, this can create friction leading to the neglect of local bodies and becomes challenge for budgetary implementation.

v. Shortage of finance

Finance is another area of concern. Governments allocate resource so as to promote economic development, improve employment and provide social security funds, which require large amount of government budget. On the other hand, it is natural that resources of any type are scarce and affects government spending. Therefore, shortage of finance is another challenge for budget spending.

2.3 Theoretical Review

This sub section presents different theories of public expenditure such as Theoretical Models and Approaches to PFM Reform: Expenditure Management Models and Approaches, New Public (Financial) Management (NPFM), Public Expenditure management, The Platform Approach and The Principal and agent theory.

2.3.1 Theoretical Models and Approaches to PFM Reform

2.3.1.1 Expenditure Management Models and Approaches

During the seventies and eighties, OECD countries and some developing countries started to review the management of their public sector. This led to the development and implementation of the NPM model. By the mid-nineties, academics and practitioners realized that the transferability of these ideas to developing countries was beset with problems, and the need for developing countries to 'get the basics right' before embarking on more complex initiatives was realized (Schick 1998c) as cited by (Pretorius C. and Pretorius N. 2008) . During the same period, the World Bank also reviewed its own approach to providing assistance to budget reforms and developed the Public Expenditure Management (PEM) Approach.

By the beginning of 2000, both developing country governments and donors began to question why PFM and public sector management interventions to improve expenditure management had only achieved limited success. The ensuing search for answers led to the development of methods to: improve country ownership; establish a more realistic pace of change; enhance donor harmonization and recognize the importance of political context. (Ibid 2008)

2.3.1.2 New Public (Financial) Management (NPFM)

NPM introduced not just a different way of managing public services, but also the need for different financial management tools and techniques. Introduced initially in response to widespread public criticism of the public service, the overall ethos of the reforms is greater public sector efficiency and, as Manning (2001) explains, has two key tenets: allowing managers to manage and making managers accountable.

Common objectives of NPM include: i) a management culture and orientation that is customer and results focused; ii) structural or organizational alternatives that promote decentralized authority and control; and iii) the separation of policy making from service delivery. There are also implicit expectations of greater operational efficiency and bureaucratic responsiveness to political principals. Many African countries influenced by donors have also adopted some NPM type reforms, although in most cases with little real progress (ECA 2003) as cited in Pretorius C. and Pretorius N. (2008).

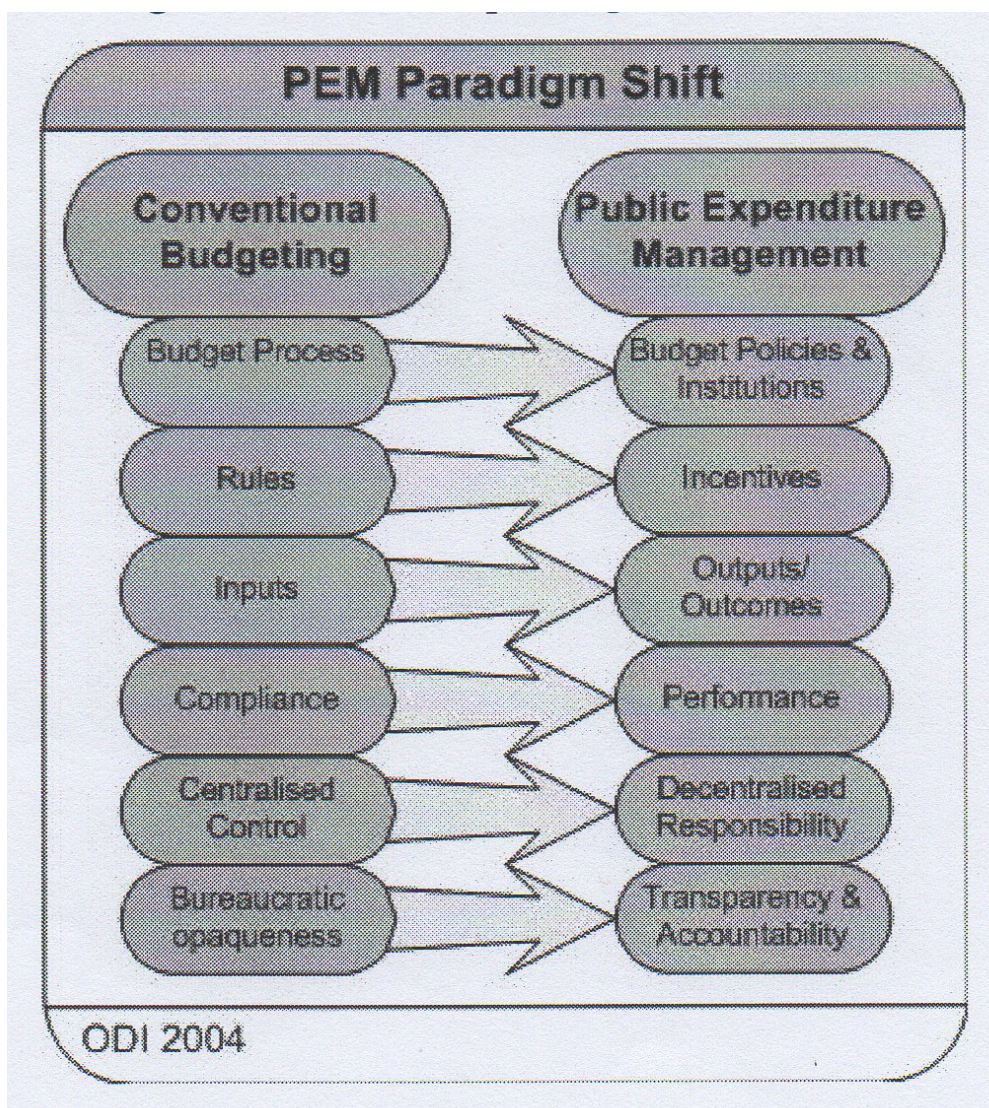
The financial management measures associated with the introduction of the NPM model is often referred to as NPFM, a term that can also not be explained by a single definition or application. Indeed Olson *et al* (1998) describe it more as a reforming spirit aimed at

increasing financial awareness in public sector decision- making and therefore an integral part of the broader public service reforms. Guthrie *et al* (2005) identify five key dimensions to NPFM: i) changes to financial reporting systems (cash to accrual); ii) devolution of budgets; iii) market based costing and pricing systems; iv) a performance measurement approach and v) performance based (internal and external) auditing.

2.3.1.3 Public Expenditure Management

The World Bank's work in public expenditure management evolved from an emphasis on investment efficiency in the eighties to a wider recognition of institutions and governance building. Developed in the late nineties and described then as the contemporary approach to budgeting, the PEM Approach is more a way of viewing public expenditure management. It stresses the need to understand the rules of the game that govern budget formulation and execution, and the way that institutions influence choice and the achievement of government's objectives (Schick, 1998).

Figure 2:2 the PEM paradigm shift

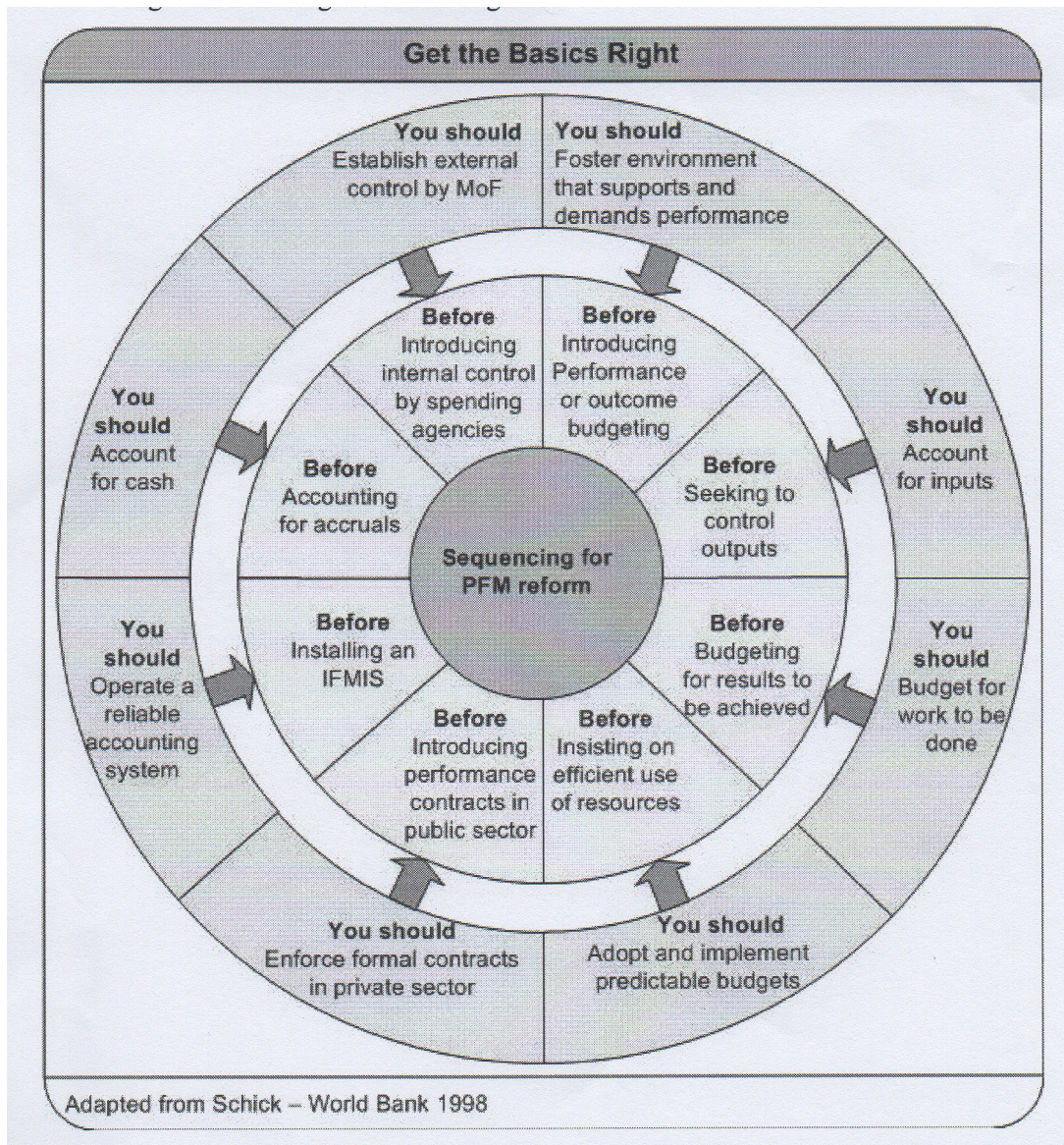


Source: adapted from Allen and Tommasi 2001

As illustrated in Figure 2:2 the focus shifted from the ‘due process approach’ of conventional budgeting to a broader arena, which highlights the importance of the complex web of actors and institutions involved in the budget process, and of linking expenditure with measurable results in terms of outputs and outcomes. In particular, the PEM Approach focuses on incentives and the informal practices and behavior of budgeting. Advocates of the approach emphasize that improvements in public expenditure management require changes in budgetary institutions, the roles of spenders and controllers, the rules under which they claim, allocate and use resources and the information available to them (Schick 1998a). No evaluations of the impact of the PEM Approach on reform implementation could be found.

This philosophy appears simple: focus on the basics on which reform is built, not on particular techniques. Schick argues that the lesson for developing countries from some of the radical reforms of OECD countries is to ‘get the basics right’ (World Bank 1998). *Figure 4* illustrates the issues that he considers important when sequencing reforms.

Figure 2:3 Getting the Basics Right



Adapted from Schick - World Bank 1998

Source: adapted from Allen and Tommasi 2001

In terms of budgetary outcomes, the argument is also that a government needs a realistic sustainable budget (aggregate fiscal discipline) before it can achieve the other objectives of allocative efficiency (doing the right things not merely doing things right) and operational efficiency (Schick 1998). In response to fiscal crisis, developing countries were encouraged to centralize controls e.g. Tanzania in the mid-nineties. It is interesting to note that in contrast, some developed countries adopted the NPM Approach and

decentralized operations.

The World Bank (1998) notes that budget reform cannot always be so neatly sequenced, but still urges reformers to be opportunistic and use performance problems to drive a demand for ‘getting the basics right’. An alternative argument made by Andrews, (2006), is that the emphasis on controls associated with this approach, hinders deeper PFM reform.

In practice, Wescott (2008) cites several instances of where the World Bank has successfully applied the ‘basics first’ philosophy e.g. Bulgaria and Guatemala. He also provides examples of countries where the World Bank did not adopt this approach, instead supporting complex initiatives e.g. accrual accounting in countries such as Jamaica and Paraguay, which were not ready for such sophisticated tools. As Stevens (2004) notes, the problem seems to be that government officials and donors do not have a shared understanding of the term ‘basics’. He asserts that this has led to the implementation of advanced solutions, which have often proved ineffective and inappropriate.

2.3.1.4 The Platform Approach

A study to review measures used by donors to address weaknesses in PFM systems when providing policy-based lending, laid the foundations for the Platform Approach (Brooke 2003) as cited by Pretorius C&Pretorius N (2008). In some ways, it is similar to ‘getting the basics right’ although it takes a more holistic approach to the PFM reform process. It aims to implement a package of measures or activities designed to achieve increasing levels (‘platforms’) of competence over a manageable timeframe (DFID 2005c). The focus of each platform is on an intended outcome (e.g. a credible annual budget) rather than the achievement of a particular output or activity (e.g. production of a budget manual).

2.3.1.5 The Principal and Agent Theory

A well-functioning public expenditure management (PEM) system is considered to be a critical pillar of government efficiency by most practitioners, who place it on par with a low distortion tax system and an efficient tax administration. It is therefore unfortunate that there is so little economic research on the design of PEM systems, especially on the theoretical side. On the empirical side, papers have generally focused on the efficiency of public expenditure in key sectors (health and education), and only a few attempts have

been made to quantify the welfare losses associated with a weak PEM system. They all point to rather high economic costs. For example, a public spending tracking survey in Uganda concludes that only 13 percent of non-salary expenditures earmarked for primary schools reached the intended beneficiaries during 1991-95. The bulk of the allocated spending was either used by public officials for purposes unrelated to education or captured for private gain (Ablo and Reinikka, 1998; Reinikka and Svensson, 2004) as cited by Leruth and Paul (2007).

Interpretation of PEM under the Principal-Agent Theory:

A. The Contract

Leruth and Paul, (2007) have based their analysis on standard principal-agent models involving supervision and have cited (Kofman and Lawarree, 1993, 1996; Khalil and Lawarree, 2003). The authors have essentially focused on the control of LMs or assimilated bodies by the MOF, which is supposed to represent the public interest. LMs can be seen as agents of the MOF (the principal) because they are required to produce a certain level of public output—including the quality of this output—in exchange for their budget appropriation. The pair “expenditure program - budget appropriation” can be interpreted as the two components of the contract between the MOF and the LMs. The objective of the MOF is to induce the LMs into implementing their expenditure programs, while the LMs pursue their own objectives. That relationship entails both hidden actions (e.g., the productive “effort” of the civil servants, possible perquisite consumption, or corruption) and hidden information (e.g., the exogenous productivity of that particular sector of the economy), with the agents having the informational advantage over the principal. Hidden information could also refer to poor program design, which would lead to inefficiency and would be difficult to dissociate from the inefficiency originating from a weak PEM system.

A number of government operations can be assimilated to principal agent relationships. For example, one could consider that the minister (who is the head of the ministry, but also a political appointee) heading the LM is a principal whose objective is to make sure that his agents (the civil servants) implement what he has promised to do. One could also consider that the parliament is the principal, whose objective is to make sure that the government (the executive) implements the government’s program. Yet another example would be to model the central government as the principal, while the sub national

governments are the agents. (Ibid, 2007)

B. Agency Problems

The agency problem arises from the diverging interests of the MOF and the LM, and the latter's informational advantage, both on its own actions and on the current state of nature. As standard in the principal-agent literature, the agent's effort is a necessary component of the production function—but entails some disutility. The agent may take unfair advantage of its superior information: if external conditions are favorable, the LM could exert little effort and produce a low output, while claiming that this low output is due to unfavorable external conditions. The MOF is not in a position to disentangle the two factors unless it uses some form of audit or supervision. There is thus a risk that the LM captures some rent at the expense of the Mo. In the principal-agent literature, this cheating rent generally stems from lowering the level of effort vis-à-vis the compensation received. Rents, and possible reductions in public output, compared to what is economically efficient, constitute the agency costs.

Leruth and Paul (2007) have argued that the principal-agent theory offers a powerful analytical framework to better understand PEM systems and guide their design in developing countries. The model discussed in their paper equally applies to “managerial” systems relying on ex post audits (in the British tradition), or systems relying more on ex ante controls (in many Francophone African countries). It allows for comparisons between institutional settings (e.g., depending on whether or not the MOF is able to commit to a certain audit probability) and types of control (e.g., comparing the effectiveness of ex post audits and ex ante controls) by examining the cost-effectiveness of various tools available to the principal to deter cheating. However, this often entails some productive distortions, which result from a trade-off between economic efficiency, on the one hand, and the cost of control and/or an informational rent, on the other hand. Finally, the authors have interpreted corruption and the lack of governance as “rents” captured by the LMs at the expense of their principal as a result of the informational advantage. By assuming that the agent's effort encompasses productive effort, as well as negative actions such as those related to corruption, they have also linked the model to the literature on collusion in organizations.

The model shows that several regimes can exist and their optimality depends on country specific parameters, hence the importance of basing the choice of a PEM system on a

detailed analysis. Nevertheless, it is possible to draw a few general lessons that can help PEM advisors address some important issues:

- *Ex post controls* (which the authors mostly assimilate to a court of audit in their paper) should be used up to the point where their marginal cost is equal to their return in terms of improved economic efficiency. This will depend on several parameters such as arbitrarily low or ineffective penalties (often the result of social pressure or a weak judicial system in developing countries). Rather than setting up a court of audit (they do not exist in all countries), it may then be profitable to rely on other tools such as external, private audit firms, which increase the cost of cheating for the LMs. In certain conditions, the authors also stress the importance of setting up a court of audit so as to make the commitment assumption credible and, in conjunction with better funding, increase its activities, thereby increasing the deterring aspect of the threat of punishment.
- The effectiveness of *internal controls* is similarly determined by cost-benefit considerations, but money spent on internal controls tends to be more effective than money spent on ex post controls in developing countries. An important parameter is the extent to which these controls can be bypassed, for example through the use of extraordinary procedures. The cost of internal controls should be assessed carefully, taking into account not only the cost of additional controllers or systems, but also the economic cost due to the resulting slowdown of the expenditure process.
- In countries where the efficiency of both internal and external controls is dubious, theory recommends that the LM should be granted an “*informational rent*” in the form of a transfer above the compensation for the effort made. However, in practice, and beyond the difficulty of implementing such schemes in a public sector context in many countries, the efficiency of informational rents may be reduced if appropriate performance measures on which to base the contract between the MOF and the LM are unreliable or even unavailable.
- The model may also help *sequencing reforms*. As causes for the poor performance of the PEM system are identified, it is possible to decide on what measures should take priority. For instance, if the MOF is not in a position to deter cheating by introducing internal controls, nor to grant informational rents, it is trapped in the so-called cheating-inducing regime. A first step could be to announce that private

audit firms will be hired. According to the authors, this would relate to implementing a mixed-strategy equilibrium, which tends to be an easily implementable and cheaper solution (as it incurs no fixed cost) to reduce the extent of cheating. If the country lacks reliable fiscal data, ex post audits are not very effective and the priority should be to reinforce the accounting system, before reinvigorating the court of audit.

2.4 Empirical Review

There have been various studies on the government expenditure management. However, there is no uniform evidence as to the effectiveness and efficiency of expenditure management. Results and evidence about the effectiveness and efficiency of expenditure management and control of governments differ by country, region and level of development, political priorities and categorization of public expenditures.

As noted by Abdu (2014) expenditure management and control is a process that consists of: the preparation of the expenditure budget by Administrative body based on the priorities set; the approval of the budget by the legislature; execution of the budget during the year and the final Auditing by the auditor. Hence, expenditure management processes are not systems which is mechanically run by legal frameworks and rules once established. They are more likely organic processes comprises of different rules, regulations, approaches and methods over time. Abdu (2014) tested four hypotheses in relation to expenditure budget preparation, approval, execution and finally audit. The result revealed that there is a problem of linking the work plan with expenditure budget preparation and the practical implementation of purchasing is not based on the annual action plan by sectors. This result is in line with the suggestion by (Potter et. al, 1999) as cited by (Abdu, 2014) it is much easier to control government expenditures at the "upstream" point of budget preparation than later during the execution of the budget. In relation to budget approval, the result indicated that Legislature has effective systems of checks and balances on public Expenditure. Finally, the test was undertaken regarding to the Auditors satisfaction with the financial and material support to carry out audit work. 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.

Abdu (2014) commented that there should be further stronger the program budgeting system introduced by MOFED in 2004. So that the extent to which programmers achieve

their expected objectives, or “outcomes”. Goods or services may be provided economically and efficiently but, if they do not achieve their intended objectives, the resources used will be largely wasted. Second, to minimize rush spending, especially, purchasing of during the end of the fiscal year, it is good to take the experiences of countries like Australia carries over up to 10% of the remain expenditure to the next fiscal year. Third, the national anti-corruption institution should further strengthened in relation to expenditure management and control. Finally it is better for the legislature to reconcile what is reported and what is actually happened at the grass root level. In addition, auditors should be properly encouraged to do their job effectively and efficiently.

The African Research Review (2009) indicated that as a result of the long-term demands of economic and social development and the short-term effects of recurrent drought, the Ethiopia government expenditures have often exceeded her revenues since the 90's. In the light of the above, there is the urgent need for efficient management and control of government expenditure to ensure Pareto optimality. All government spending has to be approved by the country's legislature to ensure aggregate fiscal discipline, government agencies should be accountable for implementing the spending budget within the limit provided.

To ensure fiscal discipline, any government spending has to be approved by the country's legislature. The cost, allocative efficiency, and operational efficiency of government expenditure packages and related policies are as a result subjected to scrutiny that tends to be detail in many countries. The spending packages are to be made open to the public before the budget could be approved for implementation and execution.

In promoting aggregate fiscal discipline government agencies should be accountable for implementing their spending within their limits for delivering certain output and result for incurred expenditure. According to Nnanna O.J (2007), as cited by (The African Research Review 2009) in development nations and in an increasing number of advanced nations, the basic macroeconomic objective is to ensure a fiscal adjustment, which reduces chronic fiscal imbalances. As a result, the relationship between decentralization and structure fiscal deficits becomes prominent. In most third world nations, the sub national governments are likely to contribute significantly to exacerbate macroeconomic imbalance. In most cases, sub national government spend more than the revenue they generate leading to debt increase. Political forces often compel sub national governments spending on a higher level. Nnanna, O.J (2002) opined that this trend aggregated by poor

public expenditure management system creates difficulty in controlling spending. Consequently, to ensure effective and efficient control of government spending Jhingan, M.L. (2000) opined that maximum social advantage, economy, sanction, flexibility, equality, productivity, neutrality should be inbuilt in the expenditure process. In addition, Nnanna, O.J (2002), states that equity, transparency, accountability and capacity building should be entrenched in expenditure management systems.

As noted by Getachew (2005), Analysis of the policies and practices in public expenditure allocation is difficult in Ethiopia. There is no well-established and comprehensive public expenditure management. The existing documents are mainly empirical, disorganized and unreliable. In different public expenditure review of the country, the IMF noted that budget preparation is not comprehensive; budget does not including off-budget or extra budget funds.

The basis for estimating the expenditure proposal has broadly divided into two parts. The first one is personnel requirement with the salary and allowance scales approved by Civil Service Commission or Board. The second one is concerning about the estimation of operating expenditure, purchase of fixed assets and construction of infrastructure (Getachew, 2005).

The most important issue is not how expenditure code is arranged, but how the government funds are allocated to each sector or program. This statement raises the question of efficiency of public expenditure and priority of government. The efficiency criteria consider that resources should be allocated so as to maximize sector programs while government priority considers that budget should be allocated in accordance with its objectives. But it is possible to reconcile both programs by using budget reforms. Budget reforms such as planning programming and budgeting are expected to handle both political priorities and allocative efficiency.

The recurrent budget allocation is more input oriented and based on arbitrary mechanism and/or based on the last year's appropriations. It lacks policy guidelines, standards and unit costs and performance to estimate current and project cost. The level of spending mainly determines the performance of the activities. Currently, effective medium term expenditure planning does not support capital budget allocation. Public investment project fails to link up government medium term expenditure planning with annual budgeting. This is due to lack of capacity problems and political commitments for improving

budgetary systems of the country (ibid, 2005).

As highlighted by Selam consultants (2013) the first Financial Transparency and Accountability Perception Survey was conducted in 2009 and its findings showed that Citizens¹ awareness of the public budget is very low with uncertainty about where budget decisions are made. Selam consultants (2013) concluded that all Woredas and City administrations of Ethiopia are now posting information on their local budget and service delivery targets and accomplishments. As the country's economy shows a sustained growth, Financial Transparency and Accountability related issues pose a persistent challenge to the development efforts.

CHAPTER THREE

3. RESEARCH METHODOLOGY

3.1. The Research Methodology

Under this topic the approaches/methods that the researcher was used to conduct this research was outlined. Therefore the following were included. These were the population from which the sample was selected, the sample size, sampling method, research type, research approach, type and sources of data, data collection instrument, method of data analysis and presentation, validity and reliability as well as ethical consideration was outlined.

3.1.1 Population

The population for this study was the total 120 employees in five directorates of MOFEC. The Ministry of Finance and Economic Cooperation has two state ministers, 23 directorates, one information system administration Century (ISAC) which were found within the ministry's compound. Therefore for the purpose of this study the target population was the finance and procurement directorate, the internal audit service directorate, the budget directorate, the government account directorate and the inspection directorate of the organization. Employees of these five directorates were randomly selected. Therefore the researcher picks the sample that delivers the best information to satisfy the research objectives in question.

3.1.2. Sample Size

The sample size for this study was 50 individuals from the organization. This means 50 from MOFEC. The entire expert, who was currently working in the finance and procurement directorate, internal audit service directorate, the government account directorate, budget directorate and inspection section directorate, were selected as respondents from the organization. In addition to the above each director from the mentioned directorates was selected for interview.

3.1.3. Sampling Method

Due to the nature and characteristics of the study, random sampling technique was used. This was with an intention of obtaining relevant data from individuals with better information, which

enhances the reliability and validity of the research results. Therefore a total of 50 respondents were selected randomly for the questionnaire.

3.1.4. Research Type

The type of the study design was descriptive research design. This type of the study design was preferred mainly due to in adequacy of the quantitative data (budget and expenditure report) which limits conducting time series analysis using quantitative models. In addition, this study design was selected to obtain information concerning the current status of the phenomena, to describe the practical problems in all situations regarding the topic understudy and for the fact that the aim of the researcher was simply to describe systematically and using numerical description of the challenges of public expenditure management specifically in MOFEC due to time constraint and also to make the study more manageable.

3.2. Type and Sources of Data

All required data for this study was both primary and secondary. The sources of the primary data were the respondents and sources of the secondary data were published and unpublished documents of the relevant organizations. This means of minimizing the researcher's bias. On the other hand, secondary data collection technique was document review of MOFEC financial reports, manuals and internal audit reports.

3.2.1 Data Analysis and Presentation Method

Data which was collected from question native, financial reports and audit reports were analyzed and presented by using various statistical measures such as percentages, frequencies, tables and figures. In addition, qualitative data analysis technique was used for data collected by questionnaire and interview that cannot be expressed in quantitative form. Finally, the findings was interpreted and presented by using descriptive statistics.

3.2.2 Data Collection Instruments

The primary data collection technique was relied on survey method. This survey method was employed questionnaire and semi-structured interview to collect information from respondents and interviewee regarding the topic under the study. Questionnaires with open and closed ended questions were prepared that allowed the respondents to use the easiest language they can with an intention of ensuring the sufficiency of the primary data. In addition, interview questions were prepared in advance, with an intervention of minimizing the researcher's bias.

3.2.3. Validity and Reliability

To make the study as much as possible valid and reliable, attention was given to the following points. Firstly, the sources of the primary data was the staff working in MOFEC particularly the finance and procurement directorate, internal audit service directorate, the government account directorate, budget directorate and inspection directorate. Besides, the primary data was gathered from interviewees who were directors of different directorates of MOFEC.

Regarding the secondary data, the finance and procurement directorate and the internal audit directorates were the main sources. Consequently, budget and expenditure data from the year 2010/2011 to 2015/16 (GTP) period was collected.

3.2.4. Ethical Consideration

Concerning ethical issues attention was given to the following issues. Firstly, to conduct this research the necessary approval and permission was obtained from the accounting and audit directorate. In addition, covering letter was attached to the questionnaire ensuring participants maximum confidentiality that information obtained from them was not disclosed to any third party. Consequently, the respondent's right to privacy and confidentiality was addressed individually. In addition name and other identifying information was not used in the study. Moreover, the researcher was not using the findings of others without acknowledging the writers and researchers.

CHAPTER FOUR

4. Data Presentation, Analysis and Interpretation

4.1. Introduction

This part of the thesis focuses on data presentation and analysis in relation to a study on the challenges of expenditure management in MOFEC. In addition, it covers data interpretation and findings of the study. Moreover, data collected from both primary and secondary sources were analyzed using topic from research questions and objectives. The raw collected data from employees, officials and secondary data sources were categorized, edited, organized and analyzed using both qualitative and quantitative methods. The quantitative data were converted into relevant information using analysis of frequencies and percentages; and was presented in tables and figures mainly to supplement the qualitative descriptions in order of the research question. In addition, it was stated in the methodology part that the researcher planned to conduct interview with five mentioned directorates. However, the directorates so much busy with different tasks, and the researcher were forced to conduct the interview with one director and two higher experts. The interviewees gave valuable ideas for the study which helped to clarify unclear responses of questionnaires' and get additional information mainly to triangulate the secondary data thus the response rate for interview is 100%. The researcher believed that the overall response rate was high enough to continue with the study.

4.1.2. Findings and Discussion

Under this Chapter, the data collected through different data collection methods were discussed and analyzed carefully in order to show and assess the causes of the challenges of expenditure management control and its economic consequence in MOFEC as well as country economy.

As it was indicated in the Methodology in the previous chapters, primarily the questionnaires were prepared and distributed for 50 selected respondents who were accessed from MOFEC different directorates. However, out of 50 questionnaires, 49(98%) were returned. The data

were discussed first, by presenting the background information of the respondents on the causes of the challenges of the expenditure Management and its impact on the country's economy. This in turn followed by information on the measures how the expenditure management challenge should be tackled. A general sum up of the data analysis concludes this section of the paper. In view of that, the findings were presented as follows.

4.1.3. Background of the Respondents

For the Purpose of this study, all the existed experts of five directorates of MOFEC were selected as respondents. Accordingly, a total of 50 respondents were considered for questionnaire, that were finance and procurement directorate, internal audit service directorate the government account directorate, budget directorate and inspection directorate respectively. All the selected experts from the five directorates filled and returned the questionnaire properly. Hence, the study focused on the effectively responded 50 questionnaire with 30 males and 20 females. The distribution of the respondent's gender was shown in the table 4:1.

4.1.4. Gender of the Respondents

The gender of the respondents were presented in table 4.1, indicates that among the respondents 30(60%) were male whereas females comprised only20 (40%). There were more male respondents than females in this study because most of the females respondents were not available at the time of the study and male respondents were found to be more active in this study. In addition to this the gender distribution showed that both male and female were represented in the study and out of 50 respondents filing the questionnaire 60% were male and 40% female as indicated on table 4:1. This was an indication that, in terms of gender, the majority of the respondents were males. This could be attributed to the few opportunities that existed for women in the country such as educational development.

Table 4:1.percentage Distribution of the Respondents By Gender

Gender	Frequency	percentage
Male	30	60%
Female	20	40%
Total	50	100%

Source: Survey data, August 2017

4.1.5. Educational Level of the Respondents

The aim of this study was to analysis the causes of challenges of the expenditure management control and its economic consequence on the country's' economic development. Therefore, this research includes only those respondents who at least have vocational and diploma up to masters' degree. According to the data shown on table 4.2, the highest proportion, which was 33(66%) of the total respondents hold university degree,6(12%) of the respondents had college diploma, 6(12%)have Master's degree and the rest 5(10%) vocational .

4.1.6. Service year of the Respondents

The service year of the respondents included in the survey was presented in the table 4.2.therefore according to the table the highest proportion of the respondents had 11-15 years of experience and 16-20 years of experience this Indicates that the majority of the respondents have greater than 15 and 20 years of experience which constitutes (31)62%.The data also indicates that only (6)12% of the respondents had 5 years of experience. This fact indicates that since the majority of the respondents were with good experience they might gave valuable data and information that increases the validity of the results.

Table 4:2Educational Level and Service Year of the Respondents

Educational level	Sex		Service years			
	Male	Female	0-5	6-11	11-15	16-20
VOCATIONAL	2	3	1	2	2	-
DIPLOMA	2	4	1	2	1	2
BA	21	12	3	5	12	13
MA	5	1	1	4	1	-
total	30	20	6	13	16	15
	0%	0%	2%	5%	2%	0%

Source: Researcher's Field Survey, AUGUST, 2017

4.2. Results and Discussions

This sub section of the study presents the results based on the specific objectives of the study. Accordingly, discussions on the budget allocations, the relation of planned budget with actual expenditure, issues of transparency and accountability, and monitoring and controlling of budget implementation in the ministry were described below. In addition, the challenges that hinder the expenditure management were included within each objective and also presented in summarized way at the end of this chapter.

4.2.1. The Main Cause of the Challenges of Expenditure Management Control

Although the challenges of expenditure management control was a major problem in all over the world, the causes of this problem was different from country to country based on the nature and economy of the country. Here in Ethiopia the main causes of the challenges of expenditure management control were stated as follows according to the interview made with the respondents.

For the interviewee there were numbers of causes of the challenges of the expenditure management control .The most significant were the following. These were” corruption, lack of experience of auditors, lack of transparency, lack of accountability and participation budget allocation and execution and faire of the state control expenditure management by designing strong policy:.

4.2.2. Corruption

Corruption is the main causes of the challenges expenditure management control because it had great impact on the transparency and accountability. This was due to the fact that people were not willing to be transparent and accountable under the pressure of the force corruption or when they were corrupted. This was what most of the interviewee responded.

4.2.3. Lack of experience of Auditors, lack of transparency, accountability and participation during budget allocation and execution.

According to the interview made with interviewee with higher expert of MOFEC there was “great problem incase transparency and accountability during budget allocation and execution for the interviewee because it is difficult to control government expenditure due to beruecracy and corruption ,lack of experience of the auditors, lack of commitment and motivation” .

4.2.4. Allocation of the Budget

How budget allocated was the first research question of this thesis. Based on the data collected using questionnaire and interview, the researcher attempted to analysis and identify how MOFEC allocated the budget to the programs and directorates. The Ethiopia's' planning cycle had three stages. These were, Macroeconomic Fiscal Framework, Multiyear Programming and Annual Fiscal plan.

Table4:3Budget Allocation Issue

No	Questions	Yes		No	
		Frequency	%	Frequency	%
1	Is there a formal Procedure for budget allocation in your organization?	46	92	4	8
2	Is the budget allocation process Participatory?	41	82	9	18
3	Is the budget allocation process open and transparent?	44	88	6	12
4	Is the budget allocation procedure strictly followed, if any?	47	94	3	6

Source: Research's' Field Survey, August 2017

Ethiopia had been experiencing to use the program budget approach for the last 5 years. As stated above in the planning stage of the planning cycle, the annual fiscal plan sets ceiling for federal revenue and expenditure. Once the public bodies were notified their annual budget ceiling, the next steps was allocating the budget to different programs and projects based on the structure and nature of spending agencies so as to achieve their goals and strategic objectives. Respondents were asked whether their organization had formal procedure for allocating the annual expenditure budget to the programs and directorates. As shown in the table4:23above, of the total respondents 46(92%) responded yes but 4(8%) responded no.

The analysis of this data shows that the ministry follows a formal procedure for the budget allocation. Of course this was expected, because MOFEC had a responsibility of initiating different development policies of the country; formulate financial regulations, directives, manuals and procedures to enhance the overall development of the country.

4.2.5. Is the Budget Allocation Process Participatory?

From the total of 50 respondents 41(92%) responded yes for the question, is the budget allocation process participatory? This fact revealed that MOFEC was a public body follows a participator method in allocating its annual budget to the programs and directorates. The response of the interview also shows that in the process of allocating the annual budget representatives who were relevant for budget allocation were invited to involve. However, as shown in table 4:2, from the total 50 respondents 41 (92%) responded yes for the question, is the budget allocation process participatory? But 9(18%) responded no. These two responses indicate that even though the budget allocation process within MOFEC was participatory it may not be fully participatory.

4.2.6. Openness and Transparency in Budget Allocation

For centuries, the Ethiopian Government and Employees had been known to the general public about being secret on budgets and government tasks in general. In the last few years this trend was being reversed especially since the commencement of civil service reform in the country. Revealing activity plans, budgets and even audit findings to the public was becoming more and more the practice of the day (FTA Assessment Report, 2013).

Respondents were asked about whether there was openness and transparency in budget allocation process and of 50 respondents 44(88%) were responded yes and 6(12%) responded no. This analysis revealed that there was openness and transparency in budget allocation process even though there were certain gaps. This was indicated in table 4:2 above.

4.2.7. Is the Budget Allocation Procedure Strictly Followed?

Respondents were asked whether the budget allocation procedure was followed strictly by MOFEC. Of the total respondents asked 47 (94%) were responded yes and 3 (6%) responded no. This indicates that the organization attempted to pursue the procedures in allocating the expenditure budget to different programs and directorates.

Main Findings

The finding revealed that the ministry of finance and economic cooperation pursued the program budget procedure for allocating the annual expenditure budget for different programs and directorates. However, the data showed that involving the employees in budget allocation

process was below the required standard. Furthermore, the required standard of openness and transparency in budget allocation was not achieved

4.3. Relation of Budget and Expenditure of MOFEC

The second research question aimed to answer the question to what extent planned and actual; expenditure of MOFEC related? Based on the collected data, the researcher attempted to analyze and identify the trends of both capital and recurrent budget during the study period, the variation of actual spending against its appropriation, the reasons for the variation and the findings of the study.

The nature and constitute of public expenditure and budget differs across nations depending on economic, social, and administrative realities and culture of specific country.

In addition: analyzing budget and expenditure demands multiple factors to consider. However, for this specific study, comparison between budget and expenditure, proportion of capital and recurrent budget and spending of capital budget were presented consecutively to had better image and to achieve the objective of the study.

4.3.1. Comparison of Budget versus Expenditure

This sub section presents the comparisons of budget and expenditure for both the recurrent and capital budgets and the findings were interpreted based on the reviewed literature and data collected from primary and secondary sources.

4.3.2. Recurrent Budget

Recurrent budget is not one type of budget that can be used to account for daily operational activities that do not have long term nature and exhausted within the fiscal year. Accordingly, table 4.4 below indicates the total approved budge for recurrent budget for MOFEC and the actual yearly spending from its approved. Consequently, the total approved for this budget type increases from year to year throughout GTP period. With reference to the table 4:3 below, in the budget year 2006E.C for instance, the total approved budget was 323,209,881.55million and this shows an increment and finally reaches at about more than 448,016,721.03 million birr in 2009E.C budget year. This was expected because of the increment in the total national budget. Regarding the total actual spending from its respective approval, the amount of recurrent spending was fluctuating year after year. Table 4.4 for example shows the spending pattern was 418,764,873.83 million, 385,561,203.92million, 402,622,404.55 million and 434,780,783.04 respectively for the budget year 2006, 2007, 2008 and 2009. The reasons for

this according to the interview result were” weak employee motivation, high turnover, lack of leadership commitment and lack of management alignment”.

Table4:4 Comparisons of Approved against Actual Spending For Recurrent Budget in 000Birr

Fiscal year	Total Approved	Total Spending	Difference	Percentage of Spending from the Approved
2006	323,209,881.55	418,764,873.83	(95,554,199)	129.5643(>100%)
2007	412,295,107.80	385,561,203.92	26,733,903.88	93.5%
2008	429,604,769.03	402,622,404.55	26,982,364.8	93.7%
2009	448,016,721.03	434,780,783.04	13,235,937.99	97%

Source: Researcher’s Field Survey, AUGUST 2017

The above facts were presented in the following graph in a clear manner. That was for the reasons explained above this graph also shows respective trends of approved, spending made from its approved and budget left over unused. There was a difference in relative amount between the approved and the actual spending of the Ministry for the year 2006 up to 2009; particularly in the 2006 fiscal year the percentage of unused resource is 0% which was more than 95 million birr. In these years the difference of approved and the actual spending was between 50 million and 60 million birr and accounts about 7% unused resource. Consequently, the overall performance of the ministry regarding recurrent budget indicates under spending and over spending during the GTP period. The reason for this according to the response of interview was “low attention and commitment of leadership, low skills and commitment of employee and weak monitoring and evaluation of the utilization of recurrent budget”. This fact indicates that, idle resource had been kept in the ministry that may be used for some other purpose somewhere else and this was a sign of inefficiency which had a negative impact on the spending trend by reducing the expenditure of the respective budget type.

Table4:5

Fiscal year	Total Approved	Total Spending	Difference	Percentage of Spending from the Approved
2006	91,604,173.97	124,674,758.16	33,070,584.19	13.6%
2007	136,472,401.42	128,337,527.00	8,134,874.42	9.4%
2008	166,748,712.65	86,102,227.04	80,646,485.61	51.6%
2009	338,700,000.00	205,668,037.33	133,031,962.67	60.7

Yearly spending. Consequently, the total approved for this budget type increases from year to year except in 2007. With reference to table, in the year 2007 for instance, the total approved budget was 136,472,401.65million and this shows an increment in relative amount and reaches at about more than 338,700,000 million birr in 2009 budget year.

Regarding the total actual spending from its respective approved, the amount of capital spending increased across the years except in year 2007. If one observes table 4.5 for example, the percentage of spending from approved ranges about 9.4% from the year 2007 to the year 2009 in which the trend had a fluctuation all over the study periods.

Main Findings:

Regarding the relation of planned and expenditure of MOFEC, the data showed that there was both under and over spending of recurrent budget throughout the study period. The unutilized budget ranges from 2% to 12% of the approved budget. On the other hand, the capital budget expenditure showed both over spending and under spending. It showed a variation of 13.6% to 60.7% of the actual expenditure from the planned. The reasons for this according to the interview result were “ weak employee motivation, high turnover, lack of leadership commitment and lack of management alignment”.

4.4. Transparency and Accountability in Budget Allocation and Execution

The third research question is aimed to answer the question is there the transparency and accountability in budget execution in MOFEC? The researcher tried to analyze and present the data and findings of the study in relation to this research question.

Transparency is generally regarded as a key feature of good governance, and essential prerequisite for accountability between states and citizens (Mc Gee and GAVENTA, 2010). Transparency allows the analysis of state policies and facilitates the identification of weakness leading to the implementation of improvements needed. Transparency increases trust in the state as well as enables citizen and civil society to hold the government accountable, which they can only do if they have information on budget policies, practices, expenditure and outcomes (Nigussie, 20`12). Hence transparency and accountability are important elements in budget allocation and implementation.

Table4:6

N O	code	Questions	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Mean	S.D
1	TA1	Does the allocated expenditure budget of your organization is made known to all employees?	6	20	14	10	0	3.4	0.9
			12%	40%	28%	20%			
2	TA2	Does your organization disclose its annual budget and actual budget performance to external customers?	6	20	5	19	0	3.3	1.09
			12%	40%	10%	38%			
3	TA3	Does your organization punished officials and employees when they broke the finance rules and regulation?	5	15	20	10	0	3.3	0.89
			10%	30%	40%	20%			
4	TA4	Does your organization strictly respect the financial rule and regulations in budget implementation?	4	8	18	20	0	2.9	1.09
			8%	16 %	36%	40%			

N O	code	Questions	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Mean	S.D
5	TA5	Does your organization made its audit report open to internal and external customers?	9	12	8	22	0	3.2	1.18
			18%	24%	16%	44%			
6	TA6	Does your organization finance and procurement directorate is keep records of events financial transaction?	20	11	9	10	0	3.8	1.14
			40%	22%	18%	20%			
							Total	3.3	

4.4.1 The Budget Allocated was made known to all employees in the Organization

The above table 4:6 of item F1 regarding the proper allocated budget to its employees the data analysis as show by mean of 3.4. The result indicated that there was a better attempt in insuring budget transparency to the employees of the organization.

4.4.2. Disclosing the Expenditure Budget to Employees and external customers

The above table 4:6 of item F2 disclosing annual budget and actual budget performance to external customers the data analysis as shown by mean of 3.4. One way of ensuring transparency in relation to budget execution can be the provision of budget information to both internal and external customers as shown by mean 3.3. The result indicated that external customer's sufficient information on the budget allocated to the organization.

4.4.3. Compliance of Financial Rules and Regulations

The above table 4:6 of item F3 Compliance of financial rules and regulations was very crucial to ensure the accountability of employees and officials in government financial operations the data analysis as shown by mean of 3.3. The result indicated there was better enforcement of financial rules and regulations.

In addition, the above table 4:6 of item F4 regarding whether financial rules and regulations were strictly respected in budget implementation data analysis as shown by mean of 2.9. The result indicated that enforcement of financial rules and regulations were not given much emphasis by the organizations under study.

4.4.3. Making Audit Report Available and Open

The above table 4:6 of item F5 the audits report open to internal and external customers the data analysis as shown by mean of 3.2. The result indicated that there was better in providing the audit report to the employees and the general public by the organization.

4.4.4. Keeping Records of Financial Transactions

The above table 4:6 of item F6 the finance and procurement directorate are keep records of events financial transaction the data analysis as shown by mean of 3.8. The result indicated that strong practice of financial record keeping in the organization.

4.5. Expenditure Budgets Monitoring and Controlling

The final research question of this research aimed to answer the question was there effective monitoring and interview, the researcher attempted to analyze and identify the problems in monitoring and controlling mechanism MOFEC. The findings of the study were also presented.

Table 4:7 Expenditure Budgets Monitoring and Controlling

N	code	Question	Strongly agree	Agree	Neutral	Dis agree	Strongly disagree	mean	S.D
1	MC1	Do you think that there is a regular and timely financial report in your organization?	3	14	3	20	10	2.6	1.26
			6%	28%	6%	40%	20%		
2	MC2	Do you think the management takes coercive measure based on the opinion of the internal audit?	3	20	4	10	13	2.8	1.34
			6%	40%	8%	20%	26%		
3	MC3	Does the performance audit is carried on in your organization?	0	5	4	30	11	2.1	0.83
				10%	8%	60%	22%		
4	MC4	Do the internal auditor in your organization are independent to give any audit opinion freely?	0	5	3	32	10	2.1	0.83
				10%	6%	64%	20%		
5	MC5	Do the internal auditors in your organization have adequate knowledge and skills?	0	5	5	30	10	2.1	0.83
				10%	10%	60%	20%		
6	MC6	Does the internal audit have adequate employees to run the internal audit?	0	4	3	35	8	2.1	0.77
				8%	6%	70%	16%		

Source: Researchers' Field Survey, August, 2017

The above table 4:7 of item C1 point out there was regular and timely financial report produced in MoFEC the analysis as shown by mean of 2.6. The result indicated that the finance and procurement directorate to produce and make available the financial report regularly, there were delays in financial reports.

4.5.2. Measures Taken By the Management on the Audit Opinion

The above table 4:7 of item C2 measures taken by the management on the audit opinion in the data analysis as shown by mean 2.8. The result indicated that the management was not committed to take corrective actions based on the audit opinion.

4.5.3. Existence of Performance Audit

The above table 4:7 of item C3 performance audit was undertaken in MoFEC the data analyses as shown by mean 2.1. The result indicated that there was no effective performance audit undertaken in the organization.

4.5.4. Independence of the Internal Audit to Give Audit Opinions

The above table 4:7 of item C4 the internal auditors in MoFEC were independent to give any audit opinion freely the data analysis as shown by mean 2.1. The result indicated that the activities of the internal audit were not free of interference and consequently there was a problem in giving free audit opinion.

4.5.5. Proficiency of Internal Auditors

The above table 4:7 of item C5 the internal auditors in the organization have adequate knowledge and skills the data analysis as shown by mean 2.1. The result indicated that the internal auditors of the organization had not adequate knowledge and skills to perform effective and efficient audit.

4.5.6. Existence of Adequate Employees to Conduct the Audit

The above table 4:7 of item C6 the internal audit have adequate employees to run the internal audit the data analysis as shown by mean 2.1. The result indicated that the internal audit directorate had insufficient audit staff to undertake the audit functions effectively and efficiently.

Main Findings :- Regarding the effectiveness of monitoring and controlling of expenditure budget, the finding indicated that: Financial reports were not presented in time although there was regular reporting system also internal audit lacks sufficient

auditors to conduct the audit the skills and knowledge of the internal auditors were not adequate, internal auditors were not free of interference and consequently there was a problem in giving free audit opinion and There was no performance audit in the organization.

CHAPTER FIVE

5. Conclusion and Recommendations

5.1. Introduction

Expenditure management and control is a process that consists of: the preparation of the expenditure budget by Administrative body based on the priorities set; the approval of the budget by the legislature; execution of the budget during the year and final year auditing by the auditor. Hence, expenditure management processes are not systems which is mechanically run by legal frame works and rules once established. They are more organic process comprises of different rules, regulations, approaches and methods over time.

Therefore this chapter presents the conclusions drawn and the recommendation offered on the challenges of expenditure management of MOFEC. Therefore, based on the findings of the study conclusions were forwarded as follows.

5.2. Conclusion

5.2.1. Allocation of Expenditure Budget

MOFEC had a responsibility of imitating different developmental policies in the country; formulate financial regulations, directives, manuals and procedures were then used by the public bodies and agencies at federal level including MOFEC. Like other public bodies, MOFEC had also its own expenditure budget which was allocated among different programs and directorates to help to achieve planned goals and objectives.

Accordingly, the survey indicated that MOFEC had formal procedures to allocate its expenditure budget and attempted to follow this procedure in the allocation process. The survey also approved that MOFEC involve different individuals and directorates on the budget allocation process and there was openness and transparency in the budget allocation process. However, although there was weakness in pursuing with expenditure budget allocation process, still there were weakness in pursuing the budget allocation procedure, in participating

employees and the process fully open and transparent.

5.2.2. Relation of Budget and Expenditure of MOFEC

The expenditure budget of MOFEC for both budget types indicated an increasing trend during the GTP period. However, the total actual amount of recurrent spending from its respective approval, fluctuate year after year. The increase in budget and expenditure can be due to different reasons. This includes an increase in national budget. In addition, comparison between budget and actual expenditure revealed that the actual total expenditure was smaller than the total budget for the budget over the study periods except in one budget year for the recurrent budget. However, the percentage difference was being greater in capital budget. This inefficient performance can be justified as low commitment of leadership to administer the budget, shortage of qualified human resource coupled with staff turnover, weak monitoring and evaluation system and weak expenditure control system.

5.2.3. Transparency and Accountability in Budget Execution

Transparency allows the analysis of state polices and facilitates the identification of weaknesses leading to implementation of improvements needed. Transparency increases trust in the state as well as citizens and civil society to hold government accountable.

The survey ensured that there were weaknesses in ensuring transparency and accountability in budget implementation though there were promising efforts.

The survey also ensured that there were weaknesses in complying with the financial rules and regulations, making the audit report available and keeping records of financial transactions.

5.2.4. Expenditure Budget Monitoring and Controlling

Budget is an important instrument of government which is used to achieve development goals and objectives. However, unless properly monitored and controlled it will have a negative impact on the development of the country.

The survey result indicated that there was a weakness in the preparation and presentation of financial reports. Financial reports were very important indicators of status of budget performance.

The survey also approved that there was insufficient number of auditors to carry out effective and efficient audit activities. Besides regarding the proficiency of auditors, some auditors were under qualified i.e. there were auditors that do not hold their first degree.

The prevalence of sufficient independence for the internal audit was one of the key elements for effective auditing. In this regard the survey indicated that there were problems.

Entity's Performance and management in terms of economy, efficiency and effectiveness was evaluated by conducting performance audit. In this regard the survey approved that there was no performance audit and consequently performance report in the organization under the study. However, it was surprising that there was a supervision directorate within this organization which supervises the federal public body's financial performance including performance audit reports.

5.3. Recommendations

Ensuring the sustainability and fast social and economic development was one of the fundamental objectives of developing nations. However, due to lack of financial resources, problems of resource allocation and inefficient utilization of resources in the public sector, an accomplishment of this objective was complex and difficult. Hence government agencies at different levels should better allocate and utilize financial resources efficiently and effectively in a way that ensure transparency and accountability to maximize economic as well as social welfare. Therefore transparent and open budget allocation, effective monitoring and controlling mechanism plays a significant role in achieving this objective. Based on the findings of the study, the following recommendations were offered to assist in improving and minimize the challenges that undermine PEM regarding allocation and execution of government budget in the MoFEC. Moreover, effective budget allocation was a prerequisite for better budget implementation. Hence greater emphasis should be given to the budget allocation process. i.e. all concerned body should fully participate, the budget allocation procedure should be recompiled and the allocation process should be transparent.

In addition to the above unutilized resources doesn't necessarily mean saving. Hence, the MOFEC should thoroughly evaluate the causes of under spending and over spending of both recurrent and capital budget and minimize the gap by encouraging and providing incentives to motivate its human resources. Then transparency and accountability were the major pillars of good governance, especially in government expenditure management these elements were very important. Therefore, MOFEC should give due attention to the enforcement of financial rules and regulations in order to strengthen transparency and accountability in budget implementation. As a result MoFEC should make available the allocated budget and its implementation performance to both the internal and external

customers by using appropriate ways such as mini medias, notice boards public meetings etc. Finally monitoring and controlling of budget implementation was an important function of MOFEC.

To sum-up, MoFEC should improve the level of internal audit independence, the knowledge and skill of auditors and experts of other departments and should also make the performance audit functional. Furthermore the following points were recommended: Great transparency should be initiated for the allocation of resources in the case of cash shortage, the technical language used in the budget should be easily understandable by general public, the media should play an essential role in disseminating budget information to the general public and specialized budget research office attached to the legislature must establish in Ethiopia in order to improve various opportunities intended at improving the legislative ability in the budget approval process, additional time should be allocated because the government sometimes cannot spend money as planned in the budget, for instance, if domestic revenue collection was lower than projected or if donor fund come late or are lower than expected there was a provision for significant budget revision to be made. Information on budget should publicize on time. Timely accessibility and availability of budget information to the general public had far reaching effect in promoting participation, monitoring and evaluation.

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APPENDIX I

Dear Informant,

My name is Amare Deresse Currently; I am a graduate student at Addis Ababa University, School of Business and Economics . I am conducting a study titled “*Challenges of the public expenditure management in case of MOFEC*” as part of the requirement for the successful completion of the Masters Degree in Accounting and Public Finance .

To attain this purpose your honest and genuine participation is very important and highly appreciable. Please be assured that all the information you provide will be kept strictly confidential and will be used only for academic purposes. However, your honest answer to these questions will help me better understand the present challenges of public expenditure management.

I would greatly appreciate your help in responding to this study. Would you be willing to participate? All responses are to be given in Ethiopian context.

Signature (if needed)_____

Thank you for sparing your time to provide me relevant information in the second phase of my study!

Questionnaires

I. Background of the respondents put x mark in the boxes

1. Gender

A. Male

B. Female

2. Educational Level

A. PhD

B. MA

C. BA

D. Diploma

E. Vocational

F. Certificate

G. Others

3. Marital Status

Married

Single

Divorced

II. Say Yes or No

1. Do you know expenditure management?

A. Yes

B. No

2. Do you think that there are challenges for the expenditure management in your organization?

A. Yes

B. No

3. Do you think that there is a challenge in the allocation of expenditure budget in your organization?

A. Yes

B. No

4. Does your organization attach its annual budget and actual performance to external customers?

A. Yes

B. No

5. Does your organization strictly respect financial rules and regulation in budget implementation?

A. Yes

B. No

6. Does your organization punished when the finance rules and regulation broken be employers?

A. Yes

B. No

III. Put right marks (√)

7. Does the allocated expenditure budget of your organization is made known to all employees?

A. Strongly agree

B. Agree

C. Neutral

D. Disagree

E. Strongly disagree

8. Does your organization disclose its annual budget and actual performance to external customers?

A. Strongly agree

B. Agree

C. Neutral

D. Disagree

E. Strongly disagree

2. Does your organization punished officials and employees when they broke the finance rules and regulation?

A. Strongly agree

B. Agree

C. Neutral

D. Disagree

E. Strongly disagree

10. Does your organization strictly respect the financial rule and regulations in budget implementation?

A. Strongly agree

B. Agree

C. Neutral

D. Disagree

E. Strongly disagree

11. Does your organization made its audit report open to internal and external customers?

A. Strongly agree

B. Agree

C. Neutral

D. Disagree

E. Strongly disagree

12. Does your organization finance and procurement director are keep records of events financial transaction?

- A. Strongly agree
- B. Agree
- C. Neutral
- D. Disagree
- E. Strongly disagree

13. Do you think that there is a regular and timely financial report in your organization?

- A. Strongly agree
- B. Agree
- C. Neutral
- D. Disagree
- E. Strongly disagree

14. Do the internal auditors in your organization have adequate knowledge and skills?

- A. Strongly agree
- B. Agree
- C. Neutral
- D. Disagree
- E. Strongly disagree

15. Do the internal auditor in your organization are independent to give any audit opinion freely?

- A. Strongly agree
- B. Agree
- C. Neutral
- D. Disagree
- E. Strongly disagree

16. Does the performance audit is carried on in your organization?

- A. Strongly agree
- B. Agree
- C. Neutral
- D. Disagree
- E. Strongly disagree

17. Do you think the management takes coercive measure based on the opinion of the internal audit?

- A. Strongly agree
- B. Agree
- C. Neutral
- D. Disagree
- E. Strongly disagree

IV. Say Yes or No

18. Is there a formal procedure for budget allocation in your organization?

A. Yes

B. No

19. Is the budget allocation process participatory?

A. Yes

B. No

20. Is the budget allocation process open and transparent?

A. Yes

B. No

APPENDIX II Interview Questions

Dear Informant,

My name is Amare Deresse Currently; I am a graduate student at Addis Ababa University, School of Business and Economics . I am conducting a study titled “*Challenges of the public expenditure management in case of MOFEC*” as part of the requirement for the successful completion of the Masters Degree in Accounting and Public Finance .

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Interview Questions

1. What is expenditure Management?
2. What are the challenges of the expenditure Management in your organization?
3. What are the main causes of the challenges of the expenditure management in your organization?
4. Do you think that your organization has taken action to solve the causes of the challenges of the expenditure Management? If so give your opinion?
5. Does your organization take an action on the challenges of the expenditure management control?
6. Does your organization take an action on the challenges of the expenditure management control?

7. Does the budget allocation in your organization participatory? Transparent? If so give your opinion.
8. Do you think that the following are the main causes of the challenges of expenditure management?
- A. Corruption
 - B. Lack of experience
 - C. Lack of skill of the auditors
 - D. Lack of transparency, accountability and participation during budget allocation and execution
 - E. Failure of the state to control expenditure management control challenges by designing strong policy
9. What is your opinion to tackle the challenges of expenditure management control in your organization?
10. As a director of your organization what are the possible solution do you think to solve the challenges of expenditure management?
11. What are the consequences of the challenges of public expenditure Management?
12. Do you think there is effective monitoring and controlling mechanism on budget process in your organization?

Declaration

The thesis is my original work and has not been presented for a degree in any other university, and that all sources of material used for the thesis have been duly acknowledged.

Amare Deresse

Signature _____

Date _____

Confirmed by Advisor

I confirm that this thesis has been submitted with my approval as the supervisor of the same.

Dr.Abebe

Signature _____

Date _____