

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

**BUDGETING AND BUDGET MONITORING PRACTICE IN NGOs OPERATING IN
ETHIOPIA**

BY:

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**A THESIS SUBMITTED TO THE SCHOOL OF GRADUATE STUDIES OF ADDIS ABABA
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A thesis submitted to the school of graduate studies of Addis Ababa University in partial fulfillment of the requirement for the degree of Master of Science in Accounting and Finance

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Statement of declaration

I, Yesuf Ahmed, have carried out independently a research work on “Budgeting and budget Monitoring practice in NGOs operating in Ethiopia” in partial fulfillment of the requirement of the MSc program in Accounting and Finance with the guidance and support of the research advisor.

This study is my own work that has not been submitted for any degree or diploma program in this or any other institution.

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Statement of Certification

This is to certify that Yesuf Ahmed has carried out research work on the topic entitled “Budgeting and Budget Monitoring Practice in NGOs operating in Ethiopia” is my own original work, which has not been presented for degree in this or any other university and that all sources of materials used for the thesis have been properly acknowledged.

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ABSTRACT

Budgeting is about making plans for the future, implementing those plans and monitoring activities to see whether they conform to the plan. The purpose of this study is to evaluate the effect of budgeting and budget monitoring practice in NGOs operating in Ethiopia. The study focused on budget development, monitoring and implementation activities undertaken during the project cycle periods. To achieve the objectives of the thesis, convenience sampling method was used and selected twenty charity organizations. Managers of the sample organizations were communicated to identify the key staffs that are responsible in the budgeting process according to the structure of each organization. 81 staffs are taken as respondents from Program, Finance and support service departments of the organizations out of 102 staffs who were recommended by the organizations managers. A self-administered questionnaire was distributed to respondents. Secondary data was also collected from budget performance reports, financial statements and manuals. As the findings show, the overall budgeting system in the sample organizations missed the participation of concerned staffs. Participation of staffs in budget development helps to achieve the purposes of budget such as coordination, communication and motivation in the process of achieving the expected performance level. So it is recommended that the charities should participate concerned staffs in budget development, budget monitoring and implementation.

Key words: Budget preparation, budget monitoring and Budget implementation.

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Chapter One

1. Introduction

The introduction part includes the background of the study, statement of the problem, research question and objective of the study, significant of the study, scope, limitation and organization of the study.

1.1 Background of the study

Budgeting and budget monitoring is a fundamental event of non-governmental organizations financial management framework. 'Effective budgeting significantly contributes to the achievement of the goals and objectives' Brook soon (2000:9). Budgeting should facilitate effective utilization of available funds, improve decision making, and provide a bench mark to measure and control performance, increase general communication and analysis within the organization and establish understanding between managers about goals and objectives. Budgeting clarifies organizations competitive priorities, advantages and strategies in the future.

A good budgeting process incorporates a long term perspective, establishes linkages to organizational goals, focuses budget decision on results and outcomes and promotes effective communication with stakeholders. According to Drury.C (2011), 'budgeting process creates an opportunity for subordinates to become involved in planning and performance measurement, process that is traditionally perceived to the role of top management. Usually the senior and experienced staffs of the organization are involved in developing the budget'. They should be in a position to take responsibility for all the financial aspect of a project. In monitoring the budget during the period, managers compare budgets with actual results to identify favorable and unfavorable variances in order to take corrective actions. This helps managers to gain insight why the actual results differ from the planned performance and assist them in their planning and control decisions in the implementation of projects to deliver outputs and successful achievement of objectives.

Alice (2012) states that budget implementation is about transformation of numbers in the budget books in to actual delivery of outputs and successful achievement of organizational Objectives. The road to successful implementation of projects is full of obstacles that must be overcome. One basic problem is that most project managers know more about project formulation than implementation and budget monitoring. They are trained to plan not to implement plans. The difficulty could occur in the way of communicating their thoughts and plans to others, so as to enable them attain desired objectives.

The key use of variance analysis is in determining performance evaluation. Performance is attributed by efficiency and effectiveness. The most important task of variance analysis is to understand why variances arise and then to use the knowledge to promote learning and improve performance. The non-government organizations use variance analysis also to report to the donors the reasons for the deviations. Some level of deviation from the budget is tolerable otherwise variance needs to be investigated.

Although the basic project management principles and processes are the same, project managers face a number of challenges in managing budgets and implementing projects. There are environmental constraints that hinder the project operation within which include bureaucracy, budget rigidity and stakeholder's diversity. The extent to which any budget target is achieved will essentially include the realism of the budget figures, which is a function of the capacity to accurately predict variables present during the budget implementation period.

Non-government organizations in Ethiopia have overall goals or vision that they are established to achieve. An organization must ensure all its departments work towards achieving a common goal. The performance of the different parts will be interrelated. Each segment manager must know his role and how to interact with the other organization. To achieve the goals, Organizations develop strategies which could be short term or long term. A strategic plans need to include a financial plan or the budgets that will be needed to achieve the plans. The strategic plans are further broken to annual plans and hence annual budgets. The annual plans details all the activities that will be undertaken during the fiscal year. In NGOs set up, annual plans besides being broken in to activities, the activities are

grouped to make a project. Therefore various projects make up the annual plan of the organizations. The success of non-government organizations can be measured by the extent to which it implements its projects to impact the beneficiaries. To implement different projects NGOs receive funds from different sources/donors that can be managed according to the rule and regulation of the donor as well as the government of Ethiopia to support the people in developmental priority sectors such as health, education, agriculture, capacity building and environmental protection.

The government of Ethiopia enacted Proclamation No. 6/2009 to provide for the registration and regulation of charities and societies. 'The Proclamation recognizes three forms of charities and societies organizations which may be established as either charities or societies. These are "Ethiopian Charities or Societies," "Ethiopian Resident Charities or Societies," and "Foreign Charities or Societies" based on the place of their incorporation, their source of funding or the nationality or the place of residence of their founders'(Chelkeba, 2012). The Charities and Societies Agency is established as an institution of the federal government to enable Charities and Societies organizations to develop and achieve their purposes in accordance with the law and ensure accountability and transparency in the operations of charities and societies.

According to tracking trends in Ethiopia's civil society's information bulletin no.2 (2013), 'non-government organizations are operating in Ethiopia for many years working on relief, charity, welfare and delivery of service programs which have demonstrable impact on beneficiaries. They implement innovative and pilot new projects at community level that can be taken over and scale up success full experience by the government to maximize the benefit of the society. Taking in to account government development priorities, non-government organizations reach remote areas to fill gaps that cannot be addressed by the government due to infrastructure and economic backwardness. The civil society sector plays an important role in the development of Ethiopia. 'One of the most recent attempts to assess the impact of CSOs on beneficiaries found in the period 1997-2001, CSOs in Ethiopia have served almost 17 million people out of which 10, 50 million men and 6, 32 million females with 10,000 jobs created during the same period'. The charities and societies organizations involve in different sectors such as health, child affairs, education, social support, capacity

building, environmental protection, agriculture and professional associations in 1626, 986,754, 640,531, 420, 395 and 357 numbers of projects respectively' Tracking trends bulletin (2013).

Owing to this fact, the focus of this study is to examine the effect of budgeting and budget monitoring as a management tool for enhancing financial management in NGOs operating in Ethiopia according to the procedure of grant management and donor agreement stipulated in the contract to implement projects. Moreover, it identifies the problems that face in the process of budgeting and budget monitoring to give possible recommendations.

1.2. Statement of the problem

“A budget is the process of preparing, compiling and monitoring financial budgets. It is a key management tool for planning and controlling a department within an organization” (Brook son 2000:6). Budgets are the yardstick of any organization whether for profit making or not. Success of operations depends on how well they plan and implement the plans. Budgets are financial plans. Thus the budgeting process is very important to any organizations. A good budgeting process helps as a management tool to enhance proper financial management and project implementation. Failure to plan or poor planning is planning to fail. NGOs in Ethiopia compete for limited resources from the donors. Budget also indicates the direction of the organization in moving for the future and used to forecast the future hence good for planning.

Most non-government organizations in Ethiopia do value budgeting and budget monitoring in managing funds to implement projects to support the poor. Budgets are done for allocation of resources and mobilization of funds through proposals to donors. NGOs have a master budget that guides their resource allocation and mobilization in preparing budget proposals to receive funds from donors. However, all NGOs no matter the size of its operation have all elements of budgeting process and monitoring variances to take timely decision. ‘Some NGOs find themselves under pressure and prepare a budget hurriedly without proper consultation with concerned staffs and also fail to document how the budget

is prepared it therefore become a challenge at the next stages of implementation and monitoring the plan ‘(Alice,2012: 12).

“Non-government organizations enter in to contractual agreement with donors where they undertake development work on their behalf with several conditions stipulated in the agreement. One of the conditions is that the NGOs implement projects as per the agreed up on budget and activities with a tolerable range allowing 5- 10% deviation” (Alice, 2012:9). Regardless of all the effort to follow the agreement, NGOs are at times unable to undertake the activities as per the plan resulting funds underspent or overspent. NGOs may be forced to request no cost extension in cases of underspent and cost extension in cases of overspent with possible budget amendment which can be considered as ineffective in implementing projects in accordance with the agreement stipulated with the donor. These results jeopardize the good relationship between the NGOs and its donors. Underspent funds are returned to the donor and overspent funds are not refunded to the NGOs. It is therefore an area of concern why non-government organizations are unable to implement the budget they prepare through the implementation of consistent budget monitoring to control the burn rate comparable with the implementation of the planned activities .

Budget implementation is a challenge to many organizations because they are expected to make forecasts taking the unforeseen needs in to account during budget proposals or costs estimate that is changed significantly over time. Budget holders who are responsible for the management of the grant do not practice regular budget monitoring to prevent possible over and underspends which is the key stage in the grant management cycle. The finance department is also responsible to maintain updated records in the financial system to provide reliable data to support the budget holders in discharging their responsibilities. These activities need to be done on an ongoing basis to keep the organizations sustainable and ensure proper budget management.

Most of the studies that have been done are of the view that there are challenges in budgeting and implementation in many organizations.

Yahya N. (2008) explores on the effect of budgetary participation and performance (BPP) relationship in a public sector organization in a developing country, Malaysia. The results suggest that budgetary participation has a direct relationship with managerial performance.

Alice (2012) did a study on the effect of the budgeting process on budget variance in non-governmental organizations in Kenya. The study concluded that budget preparation, budgetary control and budget implementation significantly influence budget variance.

Bogale T. (2010) did a study on budget management and control with special emphasis on Ethiopia ministry of defense for his thesis in Addis Ababa University. The aim of the study was on the process by which military budgets are developed, implemented, recorded and monitored. The researcher concluded there are inefficiencies in budget implementation due to problems of experienced man power, application of policy and procedures, lack of monitoring budget timely.

This study therefore sought to establish if the non-government organizations are affected by similar challenges of budget management like other sectors in Ethiopia and will pay interest on the budgeting and monitoring process. The reason for conducting a case study of charity organizations in Ethiopia is to understand the practice of budgeting and budget monitoring as tool to manage over and underspends in project budget implementations.

1.3. Basic research questions

The study focused on the following basic research questions on the evaluation of budgeting and budget monitoring as a management tool in NGOs operating in Ethiopia and to provide achievable suggestions and recommendations for NGOs specifically budget holders, finance and project staff. This research tried to answer the question what is the practice of budgeting and budget monitoring to manage budget variances in NGOs. It in turn pursues to answer the following research questions:

1. What is the level of participation of NGOs' staffs in the budget process and budget monitoring practice?
2. What is the practice of NGO staffs to apply the tools in the process of budget preparation, budget monitoring to control variances to discharge roles and responsibilities?

1.4. Objectives of the study

The study has general and specific objectives described as follows.

1.4.1 General objective

The general objective of the study is to examine the practice of budgeting and budget monitoring as a management tool for managing variances in NGOs. The research pursues to describe budgeting processes and budget monitoring practices in NGOs and the conditions that result good budget implementation and adequate cash flow.

1.4.2 Specific objectives

The study has the following specific objectives.

1. To examine budgeting and Budget monitoring practices of NGOs as a management tool to control variances.
2. To determine level of participation of staffs in the budgeting and budget monitoring practice.
3. To describe the role applied for budgeting and budget monitoring as a tool in budget management.

1.5. Significance of the study

This research is significant to NGOs, budget holders, finance and other project staff to identify the major problems on budgeting and budget monitoring as a management tool to manage variances in NGOs. Taking this in to consideration, therefore, the study has the following major significances:

1. It would enrich the knowledge of NGOs on budgeting and budget monitoring.
2. It provides baseline information about NGOs' current practice of the budgeting process and budget monitoring in managing donor funds.
3. NGOs can get inputs to improve their budgeting and budget monitoring practices in implementing donor funded projects.
4. It can be used as additional sources for NGOs budgeting and budget monitoring practice in Ethiopia.
5. It provides some highlights for those who want to carry out in-depth study in the future concerning NGOs' budgeting and monitoring to improve the budget implementation.

1.6. Scope of the study

There are 3077 Charities and societies organizations registered by the federal charities and societies agency as of September 30, 2014. The list was obtained from mapping study of non-state actors in Ethiopia (2014). The study emphasizes on the evaluation of budgeting and budget monitoring practice as a management tool to manage variances in Charity Organizations. Moreover, the study is confined to examine the practice of those charities which have head offices in Addis Ababa.

1.7. Limitation of the study

The Study has focused on budgeting and budget monitoring of charity organizations which have head offices in Addis Ababa. The study doesn't cover the entire civil society organizations more specifically Societies are not the subject matter of this study and the reference to CSOs/NGOs are only to charities organizations. As a result the same conclusion cannot be drawn to the entire civil society organization.

1.8. Organization of the study

The study is organized into five chapters. Chapter one covers the background of the study, problem statement, objectives of the study, research questions, significance of the study, scope of and limitation of the study. Chapter two review literatures on budgeting process

and budget forecasting budgeting approaches, good practice in budgeting, role of budgeting and budget monitoring and reporting budget performance, analysis and explains budget variances, linkage of financial management and budget being a tool for measuring financial performance and empirical studies on budgeting. Chapter three is about the methodology used in the study. It covers the research design, population, sample and sampling procedures, data collection instruments and analysis methods. Chapter four is about data presentation findings and analysis while chapter five provides the conclusions and recommendations.

Chapter Two

2. Literature review

2.1 Introduction

This chapter two reviews the earlier studies and literature related to budgeting and budget process, implementation, budget forecasting budgeting approaches, good practice in budgeting, role of budgeting and budget monitoring and controls, budget variance, linkage of financial management and grant management.

2.2 Budgeting and the budget process

Budgeting is the process of preparing, compiling and monitoring financial budgets. It is a key management tool for planning and controlling a department within an organization. 'Budgeting creates a framework within which individuals, departments, and whole organizations can work. Budgets encourage individuals and departments to look and plan ahead using a standardized agenda that can enhance effective communication of their objectives' (brook son: 2000). Budgets also provide a focus for evaluation of the various aspects of an organization in a controlled fashion.

According to the Australian audit office better practice guide (2008), developing and managing budgets is a fundamental element of an organization's financial management framework. Effective budgeting will significantly contribute to the achievement of an organization's goals and objectives. Organizations use budgeting to establish and communicate funding priorities, support decision making, set financial controls, and monitor and report financial performance. Effective budget processes, which underpin the efficient allocation of resources, enable organizations to more readily identify and respond to changes in environmental conditions and organizational priorities. Budget shows also an organization's expected financial performance, financial position and cash flows disaggregated by area of responsibility. Developing budget involves making decisions on the allocation, use and administration of resources to achieve the organization's objectives.

Effective budgeting processes typically involve a series of integrated activities designed to align: organizational planning; financial responsibility, accountability and authority; budgeting and reporting; resource allocation; and the monitoring and evaluation of budgeting performance. Budgets as financial plans that set out anticipated revenues and estimated expenditures over a certain period of time have long been in use. Organizations have made budgets the central part of their planning and control system. Budgeting enables to coordinate the allocation of resources through internal communication while at the same time serving as a means of expenditure authorization and evaluation base has made budget the most important tool to enhance managers performance when running an organizations. Budgeting, planning and reporting processes have a cascading effect within an organization as strategic goals and priorities flow to operational areas. It is important to allocate budgets consistent with the organization's financial management framework and aligning with managers' specific responsibilities.

The budgeting process give an opportunity to the managements at all levels and in different departments to meet, discusses and relate their targets to each other. Organizations are most successful if everyone works together to meet common goals rather than each manager acting individually to build their own empires. The co-ordination process helps managers get an understanding of how each activity relates to the whole, which is very important for them to achieve organizational objectives.

The various activities within an organization require to be coordinated by preparation of plans of actions for future periods. Lucey (2002) emphasize the importance of budgeting to an organization and indicate that no goal of an organization can be achieved without planning. Top managers provide the strategic directions of the organization and select the strategic option that have the greatest potential of achieving the organization objectives. Long-term plans should be developed to implement the strategies and of course the financial implication is defined through projections.

“Generally, a budget translates the long term plans of an organization into annual operating plans. The budgeting process therefore involves reviewing the projections of the long term plans and revises them in the light of more recent information” (Drury, 2006). As such,

Drury states that the budgeting process cannot be viewed as being purely concerned with the current year but must be considered as an integral part of the long-term planning process as it is influenced by decisions taken in the past and has implications on programs that will be undertaken in future. The budgeting practice comprises the whole budget cycle process which entails the philosophies adopted to guide preparation of a budget, the approval process and the mandate for implementation.

The keys to a successful budgeting process as provided financial management essentials hand book by Lewis (2012), on practical financial information for non-government organizations are that first clearly identify programmatic objectives that are aligned with the mission and strategic plan, determine the financial resources needed and available to achieve program goals, involve staff and board members in the process to improve accuracy of information and commitment to the plan, document indicating the assumptions and formulas and finally customize the process to suit your organization.

The budget part of a proposal identifies total project costs and estimates the application of this monetary value during various phases of the project. The budget can only be developed after the proposed project has been planned at a detailed activity to be implemented to achieve project goals. It also requires that the proposal writer has a good understanding of the rules and regulations of the funding agency to which the proposal will be submitted. How the budget is prepared depends on the complexity of the project and the instructions of the funding agency. Funding agencies are concerned not only with the total amount of money requested but also if the request is realistic and well justified. Correct presentation of the budget can help to create respect for the Project manager in the minds of the funding agency. The budget must conform to the goals and the narrative of the proposal indicated in the detail activities plan.

2.3 Budget forecasting and budgeting approaches

2.3.1 Budget forecasting

Forecasting is an essential part of budgeting process. Brook son (2000) states that considerable truth that the budgeting process of applying forecasting skill than anything else. To establish realistic budgets it is important to forecast a wide range of factors.

Financial planning is both a strategic and operational process linked to the achievement of objectives. It involves building both longer term funding strategies and shorter-term budgets and forecasts. It lies at the heart of effective financial management. Financial planning does not start with budgets and numbers. Effective budgets can only be produced as a result of good underlying plans. It is impossible to start a financial forecast without a clear idea about what it is you want to do and how you intend to do it. The budget is a critical part of any negotiation with donors. The budget sets out in detail what the organization will do with a grant, including what the money will be spent on, and what results will be achieved. For good cash and financial management, cash reserves are essential as there will always be times when grants are delayed or unexpected expenses occur. The cash flow forecast helps managers identify those times when cash levels become critical. It predicts the flow of cash in and out of the organization throughout the year by breaking down the master budget into smaller time periods, usually one month.

The cash flow forecast indicates whether it has sufficient cash in the bank to meet all of its obligations needs as they arise according to the plan. The cash flow forecast is also useful where the organization maintains substantial cash reserves which need to be invested wisely to generate investment income.

The process of preparing a meaningful and useful budget is best undertaken as an organized and structured group exercise. The budget process involves asking a number of questions:

1. What are the objectives of the project?
2. What activities will be involved in achieving these objectives?
3. What resources will be needed to perform these activities?
4. What will these resources cost?
5. Where will the funds come from?
6. Is the result realistic?

Once the budget has been agreed and the activity implemented, the process is completed by comparing the budget with the eventual outcome.

2.3.2 Budgeting techniques

According to Lewis (2012), there are two main methods to build a budget in non-governmental organizations that is incremental and zero-base budgeting in the process of proposal budget preparation.

Incremental budgeting- This approach bases any year's budget on the previous year's actual, or budgeted, figures with an allowance for inflation and known changes in activity levels. It has the advantage of being simple and quick to implement. It is most useful for organizations where activity and resource levels change little from year to year. This approach does not encourage fresh thinking and may perpetuate existing inefficiencies. It also makes it difficult to justify the figures to donors since the original calculations may be long forgotten.

Zero-based budgeting (ZBB) - This approach is to start with a clean sheet with a zero base. Zero-base budgeting does not refer previous experience and starts with next year's targets and activities. ZBB requires satisfactory budget justification to all the resource requirements. This process may suit organizations going through a period of rapid change and those, like NGOs, whose income is activity-based that is going to be implemented in the project periods. Zero-based budgets are more accurate to non-government organizations budgeting since they are based on the detail of planned activities. This approach imposes much greater workload on managers than incremental budgeting approach.

Activity-based budgeting

Activity based budgeting system is a special form of Zero-base budgeting and is frequently used in the NGO sector to prepare project budgets and is favored by many donors. ABB is a method of budgeting based on an activity framework and utilizing cost driver data in the budget setting and variance feedback processes. Lucey (2002) described ABB as a planning and control system which seeks to support continuous improvement. It is a development of

conventional budgeting system and is based on activity analysis technique. ABB identifies the cost drivers and gathers costs into cost pools. ABB is based on the premises that it is activities which drive costs and the aim is to control causes (drivers) of costs directly rather than the costs themselves. In the long-run, costs will be managed and better understood and that not all activities add value so it is essential to differentiate and examine activities for their value adding potential.

Top down or bottom up approach

“A budget is a financial plan that relates directly to the activities of the organization. It is important that those who will be responsible for budget monitoring and project implementation are closely involved with preparing the budget. If this is not done, the budget will surely be less accurate and the staff less likely to appreciate the need to spend within budget in the process of implementation to control variances or to reach fund-raising targets” Lewis (2012: 32). Where operations staff are involved in setting their budgets it is described as ‘bottom up’ budgeting and ‘top down’ budgeting where budgets are imposed by senior managers. Many non-government organizations employ a mix of top down and bottom up approaches to prepare budget proposals to different donors.

2.4 Good practice in budgeting and its purposes

2.4.1 Good practice in budgeting

According to Lewis (2012) good practice in budgeting has the following common characteristics that enable the organization good budgeting process and implementation.

Clarity

Different people will need to use the budget for different purposes, they should be able to understand it and adapt it, when necessary without any additional explanation beyond what is written down. Clarity and accuracy is key factors. So it is important to keep notes on budgeting assumptions and how calculations have been made during the preparation of the budget.

Timetable

There are several stages involved in preparing a budget before it can be submitted for approval to the governing body, so it is a good idea to prepare a budgeting timetable and commence the process early. This could be up to six months before the start of the financial year, depending on the size of the organization and what approach has been adopted to prepare the budget.

Budget headings

When setting a budget for the first time or when reviewing a budget, it is important to pay attention to the organization chart of accounts. This is because the budget line items also appear in the books of account and on management reports. The budget items and accounting records should be consistent then it will be easy to produce monitoring reports during the project implementation periods. One way of achieving consistency is to design a budget Preparation Sheet for your organization, which will act as a document and prompt staff to include all relevant costs. It will list all of the main types of income and expenditure that a project or department might have in a typical year. In addition to their format non-government organizations use different donor budget formats as per the requirement to submit budget proposals.

Estimating costs

It is important to justify calculations when estimating costs. Even if you use the incremental method of budgeting, do not be tempted to simply take last year's budget and add a percentage amount on top for inflation and other budget raising factors. While last year's budget could be helpful as a starting point, it could also be very misleading and contain historical inaccuracies. One of the best approaches is to make a list of all the inputs required and specify the number and unit cost of each item to produce a summarized budget for each line item and is very easy to update if units or costs change.

Contingencies

Try to avoid the practice of adding a 'bottom line' percentage for contingency costs on the overall budget. As a rule, donors do not like to see this and it is not a very accurate way of

calculating a budget. It is better to calculate and include a contingency amount for relevant items in the budget that is justifiable and reasonable. Adding a percentage on the bottom of a budget is difficult to justify and to monitor during the implementation periods.

Forgotten costs

There is a tendency in the non-government organizations world to under-estimate the true costs of running a project for fear of not winning the project funded by different donors. Reasonable costs such as staff costs, project startup costs, vehicle running, equipment maintenance and audit costs should be included in the budget for the purpose of implementation of the project.

2.4.2 The role and purposes of budgeting

“Budgeting creates a framework within which individuals, departments, and whole organizations can work. Budgets encourage individuals and departments to look and plan ahead using a standardized agenda that can enhance effective communication of their objectives. Drafting assorted budgets and collating them can help co-ordinate and motivate employees. Budgets also provide a focus for evaluation of the various aspects of a business in a controlled fashion” Brook son (2000:7).

In the view of Brook son (2000) budgets should be prepared to serve the following purposes:

1. Planning

There is the likelihood that managers may be tempted not to plan for future operations because of day to day pressures and operating challenges. The budgeting planning process ensures that managers do plan for future operations, and that they consider how conditions in the next year might change and what steps they should take now to respond to these changed conditions.

2. Coordination

This brings different parts of the budget together, reconciled into a common plan. Budgets are not prepared for the benefit of individuals involved in the process but for the best

interest of the business or the stakeholders. Without guidance therefore, managers might make their own decision that will work against the overall objective of the business.

3. Communication

Everyone in the budget preparation chain must be aware of their input to the success of the entity's financial plan. This will ensure that all are made accountable for the implementation of the budget. This will also help in coordinating all budget activities for smooth implementation of the plan.

4. Motivation

The budget provides a standard which managers will evaluate their performance with. If they meet their targets regularly, they may be motivated to go for a higher target. If budget are dictated from above and imposed on those who are to implement the plan, it will rather not motivate workers and may be resisted. It can also serve as a useful device for influencing management behavior and motivating managers to perform in line with the organizational objectives.

5. Control

Planned activities can be compared to the actual so that effort will be concentrated on ascertaining the reasons behind the differences. By investigating the reasons for the differences, managers may be able to identify inefficiencies such as the purchases of inferior quality materials. Appropriate control action will then be taken when reasons for inefficiencies have been found.

6. Performance evaluation

As a manager you will like to evaluate your own performance even if you are not assessed by your superior. However performance is often evaluated by measuring a manager's performance against budget and the ability to achieve the targets would lead to promotion or bonus. The budget thus provides a very useful means of informing managers of how well they are performing in meeting targets that they have previously helped to set.

Budgets are simply exercises in calculation unless they are used. When an organization draws a budget it does so as part of a system of budgetary control. The controls are some

basic ideas of what the entity wants to do. It prepares budgets to help to achieve those ideas and then once that is done whatever it is that has to be done, budgetary controls check to see if expenditures are on course.

2.4.3 Characteristics of a budget.

Gregory (2005) gives characteristics of a good budget. According to him, a good budget is characterized by the following:

- A. Participation – involves many people as possible in drawing up a budget;
- B. Comprehensiveness- embrace the whole organization;
- C. Standards – based it on established standards of performance;
- D. Flexibility – allows for changing circumstances;
- E. Feedback – constantly monitor performance;
- F. Analysis of costs and revenues – this can be done on the basis of product line, departments or cost centers.

2.5. Budget monitoring and reporting budget performance

2.5.1 Budget monitoring

Budget monitoring is the continuous process by which we ensure the action plan is achieved, in terms of expenditure and income. Australian audit office better practice guide (2008) describes that budget monitoring ensures that resources are used for their planned purposes and are properly accounted for to internal or to external bodies. This is to ensure the economic, effective and efficient use of resources and the identification of potential opportunities, problems and taking of corrective action'. The budget holder is ultimately responsible for monitoring the budget but they may delegate authority to other members of staff as sub budget holders. The frequency of budget monitoring is depending on each individual budget holder's requirements. The budget holder or authorized delegate should monitor the budget at a frequency with which they are comfortable to ensure they are confident that they are in control of the budget and are on track to achieving the planned position. The process should be continuous and should be able to be performed on demand and in as close to real time as possible.

Budget holders monitor and evaluate actual results against approved budgets to guide current and future decision-making and hold managers accountable for performance. Key processes to effectively manage approved budgets include:

1. **Monitoring and reporting against internal budgets:** on a consistent and regular basis to assess whether targets are being met, to guide decision-making and enforce accountabilities;
2. **Revising budgets:** through a controlled and coordinated process that maintains clear lines of accountability between budget estimates and actual results;
3. **Forecasting to manage gaps between budget estimates and actual results** to quickly identify and respond to changes in the external environment or internal activities; and
4. **Reviewing and improving internal budget processes** by monitoring the accuracy and timeliness of budget setting processes to identify areas for improvement.

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

2.5.2 Reporting budget performance

Reporting processes follow the monthly financial close and typically involve the finance area preparing or releasing details of actual results against budget to line management for evaluation and explanation. Results of this process are summarized and provided to senior management to assist decision-making at the organization level and to the department of finance and deregulation to enable whole of project performance reporting. It is important

that results of senior management's review and analysis of budget performance are communicated to relevant operational managers.

Reviewing actual results against budget estimates on a regular basis (monthly for most organizations) using a process that is understood across the organization is critical to effective monitoring and reporting of budget performance. Careful design of financial reports is fundamental to effective review and analysis of budget versus actual information. The effectiveness of internal financial reporting is likely to be enhanced when reports are prepared for each level of budget-accountability and summarized appropriately for each level of management.

Lewis (2012) states that better practice NGOs provide managers with details of actual results against budgets in regular bases. Standardizing reporting across each project is ideal and is made easier when managers source actual and budget data directly from the same financial system. Routine reporting of detailed information on individual projects, such as milestones, percentage of completion and phasing of total projected costs, provides decision-makers with useful information on current and future impacts of project activity. In NGOs with a large number of projects, this information should be presented on a summarized basis with more detailed information provided by exception, that is, where projects are not progressing to plan.

Managers with budget holding responsibility are generally in the best position to assess current and expected budget performance for functions under their control or stewardship. In addition to year-to-date and monthly budget-to-actual results, it is important that managers have direct access to reports which show:

1. Out-year forward estimates to examine future risks and prospects.
2. Comparative results for the same period in previous years to assist with the identification of trends that may affect current and forecast budget performance.
3. Key financial ratios and percentage comparisons of budgeted and actual to highlight key issues.

4. Budget-to-actual data on underlying drivers for example, budget-to-actual staffing numbers.

It is also useful to identify external factors that impact budget performance and monitor them regularly. Results of such analysis could be provided to relevant managers to consider into their analysis of program and budget performance to take corrective actions based on the situation.

2.5.3 Phasing the budget to provide meaningful comparisons

Phasing involves apportioning the approved budget over sub-periods within the relevant budget Period according to a recognized pattern of expenditure or revenue indicated in the detail implementation plan. Budgets are typically phased using monthly intervals. Phasing the budget assists managers with the timely identification and analysis of budget variances. In phasing the current year budget, it is important to adjust for known fluctuation factors where material, including where cash and accrual timings differ. To support the rolling assessment of budget impacts it is useful to prepare phasing's for the next one to two financial years.

Advantages of comparing actual year-to-date results to a properly phased budget include:

1. Removing known timing variances, which allows managers to focus on real or unanticipated variances.
2. Identifying likely underspends or overspends before year-end so that management can take appropriate action to deliver outputs within legal limits, including the redistribution of resources where appropriate.
3. Early detection of errors in monthly financial reporting processes, for example, where accrued revenues and expenses are unreported for one or more months.
4. Greater precision in forecasting the organization's working capital needs and
5. Identifying ineffective or unnecessary expenditure within the organization such as disproportionate unplanned capital or operating spending towards the end of the financial year to meet annual budget targets.

Budget holders are commonly in the best position to identify factors influencing budget phasing as they are aware of the day-to-day activities of the project. Analysis of historical data also assists managers to identify trends, including seasonal impacts.

2.5.4 Analyze and explain budget variances

In addition to monitoring and reporting actual to budget results, it is important to evaluate and explain reasons for variations. This involves considering what changed since the budget was established, why and more importantly, implications for the project and, where relevant, the organization and community.

Table 2:1 Issues to consider when analyzing budget variances

Purpose	Description
Accountability for variances	Understanding and explaining why the variance has occurred and what is being done to manage it. This often includes an assessment of the validity of original planning assumptions.
Management of variances	Evaluating implications of the variance for future financial performance and financial sustainability of the organization and the outcomes, outputs and programs provided by the Organization and taking appropriate management action.
Continuous improvement in budgeting	Utilizing variance information to improve budgeting practices.
Continuous improvement in outcome, output and program delivery	Utilizing variance information to assess the efficiency and effectiveness of current service delivery mechanisms and Improve current budgeting practices.

Source: Australian National Audit Office, better practice guide (2008:47)

In addition to the focus on accountability and management of individual budget variances, taking formal reviews of consolidated variance information on a regular basis enables budget holders to challenge underlying budget assumptions and estimation techniques. The explanation of budget variances supports and guides decision-making when accompanied with sufficient non-financial information such as:

- a. Focuses on key financial results.
- b. Refers to the influence of underlying key planning assumptions such as salary rates, indexation factors, and productivity gains or drivers such as quantity, price, and timing rather than merely the nature of the variances.
- c. Identifies causes of variances, including the extent to which they are due to internal or external factors.
- d. Identifies impacts on the organization and key stakeholders in output terms with an assessment as to whether the impacts are permanent or temporary;
- e. Clearly identifies what, if any, action will be taken to address or manage variances and expected outcomes of those actions; and
- f. Projects expected impacts on the area's, budget holder and non-government organizations key financial results for the current and future financial years, including an assessment of risks associated with the projected outcome.

It is important to monitor whether the variance is temporary or whether it will have ongoing consequences. If the variance is ongoing, assessing the impact on the current year budget and future years will assist the organization determine whether remedial action is required. Forecasting is a useful means of projecting revised outcomes without changing the underlying budget. The availability of internal guidance on the analysis and explanation of budget variances helps ensure a consistent approach to commentary across the organization. The extent of analysis and explanation undertaken is dependent on the size of the budget variance, its complexity and any likely impacts on the project current year or future activities.

2.6 Linkage of financial management and budget

2.6.1 Financial management in NGOs

Financial management in non-government organizations is characterized by proper financial planning and monitoring systems. The organizations operate in a rapidly changing and competitive environment. To survive in this challenging environment, managers need to develop the necessary understanding and confidence to make full use of financial management tools.

Financial management is not just about keeping accounting records. It is an important part of program management and must not be seen as a separate activity left to finance staff. Financial management entails planning, organizing, controlling and monitoring the financial resources of an organization to achieve objectives.

In practice, financial management is about taking action to look after the financial health of an organization which involves:

1. Managing scarce resources

NGOs operate in a competitive environment where donor funds are increasingly scarce. We must therefore make sure that donated funds and resources are used properly and to the best effect, to achieve the organization's mission and objectives.

2. Managing risk

All organizations face internal and external risks which can threaten operations and even survival. Risks must be identified and actively managed in an organized manner to limit the damage they can cause.

3. Managing strategically

Financial management is part of management as a whole. This means managers must keep an eye on the bigger picture looking at how the whole organization is financed in the medium and long term, not just focusing on projects and programs.

4. Managing by objectives

Financial management involves close attention to project and organization objectives. The financial management process **plan, do, review** takes place on a continuous basis.

Table 2: Financial management process plan, do, review

Plan	When an organization starts up, it sets its objectives and planned activities. The next step is to prepare a financial plan for the costs involved in Undertaking the activities and where to obtain funds.
Do	Having obtained the funds, the program of activities is implemented to achieve the goals set out in the planning stage.
Review	The actual situation is compared with the original plans. Managers can then decide if the organization is on target to achieve time scales and budget. The learning from the review stage is then taken forward to the next planning phase, and so on.

Source: Financial Management Essentials: A Handbook for NGOs (2012:3)

Financial management involves financial planning and implementation to build longer term funding strategies and shorter-term budgets and forecasts which lies at the heart of effective financial management. Financial management is a multi-faceted, comprehensive set of interlocking skills and systems involving all the components of budgeting, cash flow, procurement of goods or services and financial reporting with regular monitoring and financial controls in place.

An effective manager must integrate and carefully monitor these aspects of an organization's operations, balancing competing processes and concerns to ensure that the organization has adequate resources at all times. Financial management is about analyzing financial performance, identifying ways to use resources efficiently and finding creative means to use resources in order to generate additional resources.

As stated by Claussen, C. (2012) on capacity building for financial management literature review book, it is cited from the National Endowment for the Arts (2011), there are seven characteristics of financially healthy non-profits. They are:

1. Sufficient income to ensure stable programming;
2. Internal source of cash or ready access to cash in times of shortfall;

3. Engaged in income-based, rather than budget-based, spending;
4. Retains a positive cash fund balance (surplus);
5. When deficit does occur, there are accumulated surpluses sufficient to cover the current year's deficit;
6. Has established (or plans to establish) an operating reserve to finance growth and cash shortfalls;
7. The board and management hold themselves responsible for the financial stability of the organization.

2.6.2 Grant /award management

According to non-government organizations award/grant management manual, grant management has a cycle. The cycle is useful tool for visualizing the steps that are generally followed from the time that a project is conceived, approved, implemented through until when it is finally closed. The grant life cycle follows concept not development, proposal budget and narrative development, grant agreement, pre award authorization letter, implementation, monitoring and evaluation, donor reporting and close out are the key activities that are accomplished during the project period. Each activity includes guiding principles and detailed process steps, roles & responsibilities.

2.7 Empirical Studies

Researches have been conducted about budgeting process and implementation by different researchers.

Yahya N. (2008) explores on the effect of budgetary participation and performance (BPP) relationship in a public sector organization in a developing country, Malaysia. The study also attempts to examine whether organizational commitment and perception of innovation mediate the BPP relationship.

The results suggest that budgetary participation has a direct relationship with managerial performance. Thus the public sector, even bureaucratic and mechanistic organizations

should encourage budgetary participation as it is evidenced to have an effect on performance. The results also suggest that budgetary participation indirectly affects managerial performance through the mediating variable of organizational commitment (OC). However, the results do not support managers' perception of innovation (POI) as a mediating variable in the budgetary participation and managerial performance relationship, although budgetary participation is positively related to POI. It is an interesting finding that in a public sector organization, at least in a mechanistic organization like the Ministry of defense (MINDEF), further initiatives may be required, such as reward schemes, in order for POI to have an effect on performance.

Alice (2012) did a study on the effect of the budgeting process on budget variance in non-governmental organizations in Kenya. The aim of the study was to enhance understanding of the donors and NGOs of the challenges they may face in implementing projects budget by identifying gaps of budgeting preparation, budget implementation and budget control. The study concluded that the process of budget preparation in NGOs, budget preparation involves forecasting of the expected confirmed income. To some extent they are done in relation to the documented process, which is referred. The budgets are approved by the senior management before execution and are based on the organization's annual plans, strategic plan and overall goal. The NGOs undertakes budgetary control involving coordination among the various departments achieved through communication and consultation. Solutions to problems revealed by budgetary control are developed to some extent; budget review to capture the reality during implementation is also done. In addition, there is some reference to budget before undertaking any activity to ensure funds availability; and reports on budget variance are shared with budget holders and senior management. In conclusion, during implementation of budget in NGOs; change of project staff or implementers of budgets affect the achievements of the budgets; there may be tendency by user department to adhere to budget process; in some period budget include unattainable targets or standards; foreign exchange rate fluctuations in the market hinders organization to effect their budgets while insufficient funds allocated to department or projects affect budget implementation. In conclusion, budget preparation, budgetary control and budget implementation significantly influence budget variance.

Bogale T. (2010) did a study on budget management and control with special emphasis on Ethiopia ministry of defense for his thesis in Addis Ababa University. The aim of the study was on the process by which military budgets are developed, implemented, recorded and monitored. The researcher targeted all budget holders in the ministry of defense for his study. The researcher concluded the following points based on his analysis.

- Even if Ministry of national defense issued budget guideline, the concerned body did not move to enforce the practicability of the rule. If it were, the above summary findings would not occur.
- Unavailability of adequate and experienced manpower has added for the worsening results of plan and budget preparations disparities.
- Lack of awareness of budget users about the role of plan and budget to the institution.
- Budget holders have various understandings during budget preparations.
- Budgets are prepared without considering reasonable estimations and current market prices.
- The researcher concluded that the causes for idle cash are mainly due to the lack of consistent purchase programs which lead to rush expenditure towards the end of the budget year.
- Although the nature of the institution forces to consider unforeseen situations, additional duties of budget users are not usually backed up by supplementary budgets.
- Planning and Budget Department does not arrange regular workshops and short term training to improve the skill of budget personnel engaged in budget holders.
- Apart from accountability of the specific budget users, the department takes the lion's share of responsibility for budget preparation and implementation problems.
- Although much deviation has not been observed in budgetary records, the adoption of modified cash basis of accounting system has not been implemented fully.
- There is no carrot-and-stick strategy. No incentive mechanism is employed for good performers, and punishment as well for poor achievements unlike what is observed in other counterparts.
- Audit opinions given by Office of Federal Auditor general (OFAG) are signals of the institution's weak compliance with the rules and regulations of the country.

Yimer (2011) did a study on evaluation of budget practices of Ethiopia in comparison with two east African countries. The aim of the study was to assess similarities and differences between Ethiopia and two east African countries with respect to budget practice and procedures. The researcher concludes that the general public in Ethiopia cannot significantly involve in the country budget process and citizens have no access to monitor and evaluate the budget performance. Factors that limit citizens' participation in the budget process are limited accessibility to budget information; budget language and country population. Lack of involvement of citizens in the budget process would minimize a way of improving budget formulation, efficiency in resources allocation and better oversight of the budget process.

There is a legal stand for transparency such as the constitution however, budget information is not available for citizens in accessible, timely and clear and easy to use manner. Government has a duty to make an effort to increase budget transparency because; it allows citizens to properly assess government financial position and performance. Scarcity of budget information might decrease the level of public participation in the budget decision process.

Andrew Goddard, (2004), on budgetary practices and accountability habitus, *Accounting, Auditing & Accountability Journal*, Vol. 17 Iss 4 pp. 543 – 577 provides an in-depth understanding of the way in which Accounting, particularly budgeting in local government interacts with perceptions of Accountability. The study has revealed the importance of the budgeting system for achieving accountability and governance. This shows the importance of budgeting in discharging accountability and responsibility. This helps for the design and use of budgets and for governance systems and structures.

2.8 Chapter summary and Research gaps

To sum up budgeting is the process of preparing, compiling and monitoring financial budgets which starts with forecasting. Organizations use different budgeting approaches and techniques to develop budgets. Budgeting has its own role purposes such as planning,

coordination, communication, motivation, and control and performance evaluation. Budget monitoring is the next process in the grant management cycle and it is a continuous process by which we ensure the action plan is achieved.

Previous studies in other developing countries in public sector organizations show that there is a direct relationship between budgetary participation and performance. It is also indicated that budget preparation, budgetary control and budget implementation significantly influence budget variance.

Moreover, studies that has been conducted in government organization specifically ministry of defense shows that inefficiencies in budget implementation due to problems of experienced man power, application of policy and procedures, lack of monitoring budget timely.

Based on this the focus of this study is to understand the practice of budgeting and budget monitoring process like other developing countries in the non-government organizations as well.

Chapter Three

3. Research Design and Methodology

3.1 Introduction

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

3.2. Research Design

The researcher used descriptive study design to answer the research questions. Robert k. Yin (2012) states that case study method is amongst the most flexible of research designs and is particularly useful in researching issues related to sustainability and institutional systems. The method attempted to collect primary and secondary data from members of a population and described existing phenomenon through questionnaire and referring to secondary data resources such as budget versus expenditure reports, grant management manuals, budgeting procedures and policies about the budgeting and budget monitoring process in NGOs.

3.3. Study population

The federal charities and societies agency registered 3077 Charities and societies organizations as of September 30, 2014 in accordance with Proclamation No. 621/2009. 'The Proclamation recognizes three forms of CSOs, which may be established as either charities or societies. These are "Ethiopian Charities or Societies," "Ethiopian Resident Charities or Societies," and "Foreign Charities or Societies" based on the place of their incorporation, their source of funding or the nationality or the place of residence of their founders' (Chelkeba, 2012). The study comprised of all these NGOs in Ethiopia over the last three years 2012-2014. The list was obtained from mapping study of non-state actors in Ethiopia. These organizations are spread all over the country and vary from small organizations operating locally, to international ones with regional programs. They range from organizations run by small teams of volunteers to mega organizations with hundreds of fully paid staff of diverse professions and sophisticated systems and processes.

Moreover, prior assessment was made to identify the population of respondents from the sample organizations who are responsible for budget development, budget monitoring, and implementation according to the size and structure of the organizations. A total of 102 staffs were identified as respondents as per the recommendation of the organizations managers.

3.4. Sampling techniques

The sampling technique used is convenience sampling method. ‘Convenience sampling helps to gather useful data information that would not have been possible using probability sampling techniques which require more formal access to lists of populations’ (Mugera, 2013:3). The researcher selected twenty sample (17 international and 3 local) charity organizations for the study. The subjects were selected just because they were easiest to recruit for the study. These organizations have implementing different developmental and emergency projects through regional sub offices that benefit the poor at large. Sample charity organizations were selected which offices have spread over countrywide and therefore the researcher feel that Addis Ababa office (head Offices) data would represent all other offices of the organization as budgeting activities to raise funds is normally a centralized process at the head office. Further, the selected organizations work in partnership with local NGOs and they influence the budgeting process adopted by the partners. Moreover, the requirement in budgeting to raise funds from different donors and budget monitoring procedures in accordance with grant management cycle is applicable to all NGOs regardless of the size and number of the organizations.

To determine the population of the respondents the researcher communicated the manager of the sample organizations to identify the departments and key staffs who are responsible and can provide information based on their experience to the questionnaire in budget preparation, monitoring and implementation according to the structure of each organization. Accordingly a total of 102 staffs were recommended to participate as respondents. Eighty one (81) staffs were selected assuming a 95% confidence interval and a five percent margin of error from different departments. Stratified random sampling technique is used to select the respondents according to the size of the sample organizations and departments.

According to Yamane (1967:886) as cited by Israel D. (1992), the following formula is used to calculate the number of respondents:

$$n = \frac{N}{1 + N(e)^2}$$

n= Sample size

N= the population size

e= Margin of error that is (5%)

3.5. Data gathering instruments

Both Primary and secondary data was collected for the purpose of this study. The primary data for this research was collected through questionnaires which were self-administrated. In order to determine the effect of budgeting and budget monitoring as a management tool for enhancing financial management in NGOs in Ethiopia, a self-administered questionnaire were distributed to employees involved in the budgeting and monitoring process. This enabled the researcher to get adequate and accurate information from people with related experience. The researcher used structured questionnaires as data collection instrument. Budget variance analysis reports, and financial statements also used as sources of secondary data.

3.6. Method of data analysis

Depending up on the volume of data collected through the instruments applied for this research, the analysis is made using statistical software SPSS version 20 and Microsoft Excel. Table's graphs, charts and percentages are used to analyze the data.

3.7 Chapter Summary

To sum up, this chapter summarizes the research design and methodology, the research population, sampling technique and the data analysis methods.

Chapter Four

4. Data Analysis, Results and Presentations

4.1 Introduction

This chapter presents analysis and findings of the study as set out in the research methodology. The study findings are presented to establish the effect of budgeting and budget monitoring as a management tool for enhancing financial management in non-government organizations operating in Ethiopia. The data was gathered from sample organizations through questionnaire as data collection instrument. Budget variance analysis reports, financial statements are used to collect secondary data. Based on this, table's graphs and charts are used to present the facts of the study.

4.2 Reliability analysis

The researcher communicated the managers of the sample organizations to identify departments and key staffs who were involved in budgeting and budget monitoring. The purpose of identifying the key staff was to examine the appropriateness of the research instruments to be used in collecting the required data and determine the participants. According to Mugenda and Mugenda (2003), the quality of a research study depends to a large extent on the accuracy of the data collection procedures and the instruments or tools used to collect data must yield the type of data the researcher can use to accurately answer his or her questions. The questionnaire is developed and shared. Comment is received from the advisor and experts that have experience in managing finance and grant for long years. The questionnaires were also analyzed to find out whether the methods of analysis are appropriate.

Table 4.1: Summary of the measurement reliability (Cronbach's Alpha)

Category of questionnaire	Cronbach's Alpha	No of Items
Budget preparation	.816	6
Budget monitoring	.909	11
Budget implementation	.861	11

Source: survey 2015

‘Reliability is a fundamental issue in any measurement scale. Scale reliability is considered as the proportion of variance attributed to the true score of the latent construct ‘(DeVellis, 2003). It is usually measured by internal consistency reliability that indicates the homogeneity of items comprising a measurement scale. Internal consistency gives the extent at which items in a model are inter-correlated. Thus, high inter-item correlations explain that the items of a scale have a strong relationship to the latent construct and are possibly measuring the same thing. Usually, the internal consistency of a measurement scale is assessed by using Cronbach’s coefficient alpha.

According to Craig S. Wells (2003), it is recommended that if a measurement scale having a Cronbach’s coefficient above 0.70 is acceptable as an internally consistent scale so that further analysis can be possible. Since alpha value is above 0.7, the study instruments yielded fairly reliable data for this research. Thus measuring the data on budgeting and budget monitoring as a management tool for enhancing financial management is reliable and valid.

4.3 Response rate analysis

The study targeted 20 charity organizations to collect the research data. Managers of the sample organizations were communicated to identify the departments and key employees that contribute in budget preparation and monitoring according to the structure of each organization who can provide information based on their experience and responsibility. A total of 102 staffs were identified as the population of the study. Questionnaire is given to eighty one (81) sample staffs that are selected as respondents from Program, Finance and support service departments of each organization based on sampling technique. Seventy nine (79) staffs have responded to the questionnaire. That is ninety eight (98%) of the respondents returned the questionnaire properly. Two employees did not respond to the questionnaire because they were on field for long time.

All the sample organizations are requested to provide their annual budget and expenditure variance analysis and financial reports to analyze the variance for three years 2012 -2014. Out of the 20 sample organizations, fifteen (75%) of the organizations provide annual budget and expenditure variance analysis report for three years from 2012 -2014. The

organizations provide reports for three years because some of the organizations were on process of merger, restructuring and re-registration by charities and societies agency in accordance with the new government Proclamation No. 621/2009 in the year 2010 and 2011. And it was the time to revise the intervention sectors as per policy requirement.

4.4 Analysis of respondent’s demographic information

The sample organization managers were communicated to identify the departments and key staffs that take part in the budgeting and budget monitoring process. Based on the recommendation of the managers, departments and key staffs who have the experience are selected to respond to the questionnaire from program, finance/grant and support service departments of the sample organizations according to the organizational structure. This helps to get the experience from different from different departments that they are responsible for the implementation of project budgets.

Table 4.2 Department of respondents in the organization

Departments	Frequency	Percent	Valid Percent	Cumulative Percent
Valid program	29	36.7	36.7	36.7
Finance/Grant	29	36.7	36.7	73.4
Supportive Service	21	26.6	26.6	100.0
Total	79	100.0	100.0	

Source: SPSS output from survey data, 2015

As indicated on the above table 29 (36.7%) from program, 29 (36.7%) from finance/grant and 21 (26.6%) from support service departments are responded to the questionnaire. According to the data, 24 (30.4) females and 55 (69.4%) males respond to the questionnaire as shown on the table below.

Table: 4.3 Gender of the respondents

Gender	Frequency	Percent	Valid Percent	Cumulative Percent
Valid female	24	30.4	30.4	30.4
male	55	69.6	69.6	100.0
Total	79	100.0	100.0	

Source: SPSS output from survey data, 2015

Moreover, 31(39.2%) of the respondents have one to three years of services in the organizations. And 43(54.4%) of the respondents have more than three years' experience in the organization as shown in the following table.

Table: 4.4 Respondents years of service in the organizations

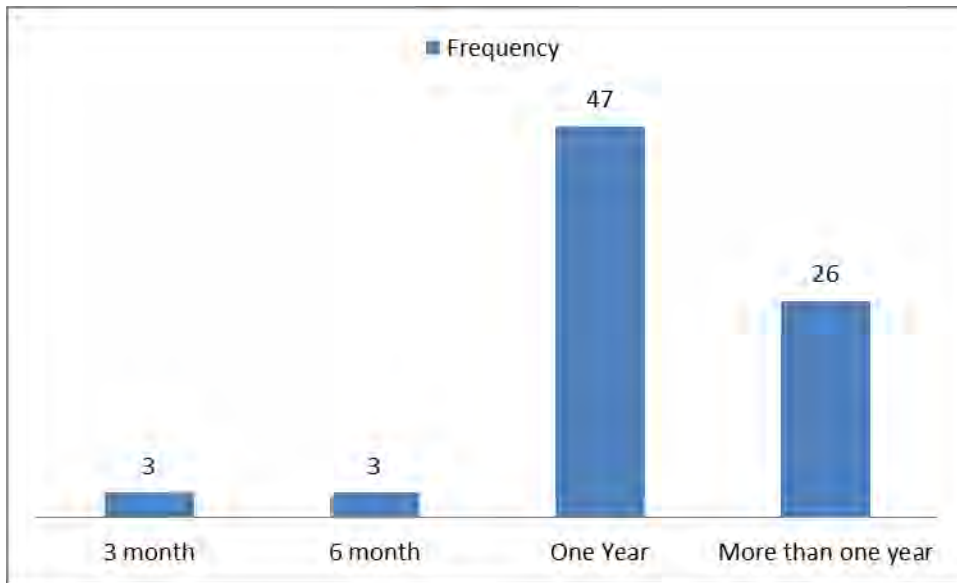
	Freque ncy	Percent	Valid Percent	Cumulative Percent
Valid Less than one	5	6.3	6.3	6.3
1-3 years	31	39.2	39.2	45.6
More than 3 years	43	54.4	54.4	100.0
Total	79	100.0	100.0	

Source: SPSS output from survey data, 2015

This helps to get relevant answer from the staffs that have experience in budget development, budget preparation and project budget implementation that is used as an input to answer the research questions.

4.5 Analysis of time dimension the organizations budget cover

Chart 4.1 Time dimension covered by organizations budget

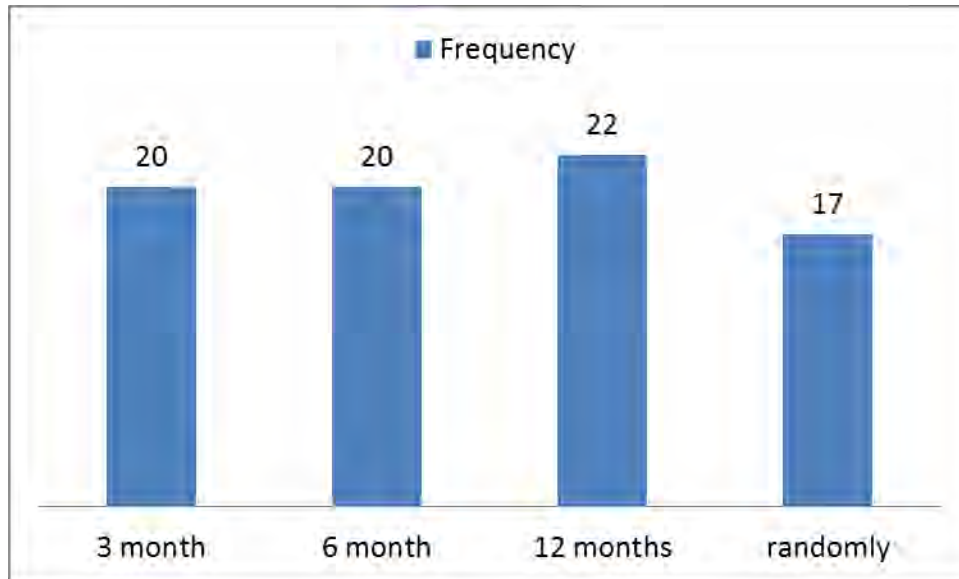


Source: survey 2015

From the findings, 47(60%) of the respondents indicated that the organization budget covered a time dimension of one year and 26(33%) of the respondents indicated that the organization covered a time dimension of more than one year. This indicates that the time dimension of the budget period is dependent on the implementation periods of projects. It can be short term or long term.

As indicated on chart 4.2 , 25% of the respondents indicated that the budget is reviewed every 3 months, 25% of the respondents indicated that the budget is reviewed every 6 months, 28% of the respondents directed that budgets are reviewed every one year, 21% of the respondents indicated that budget is reviewed randomly as shown below.

Chart 4.2: Frequency of budgets review



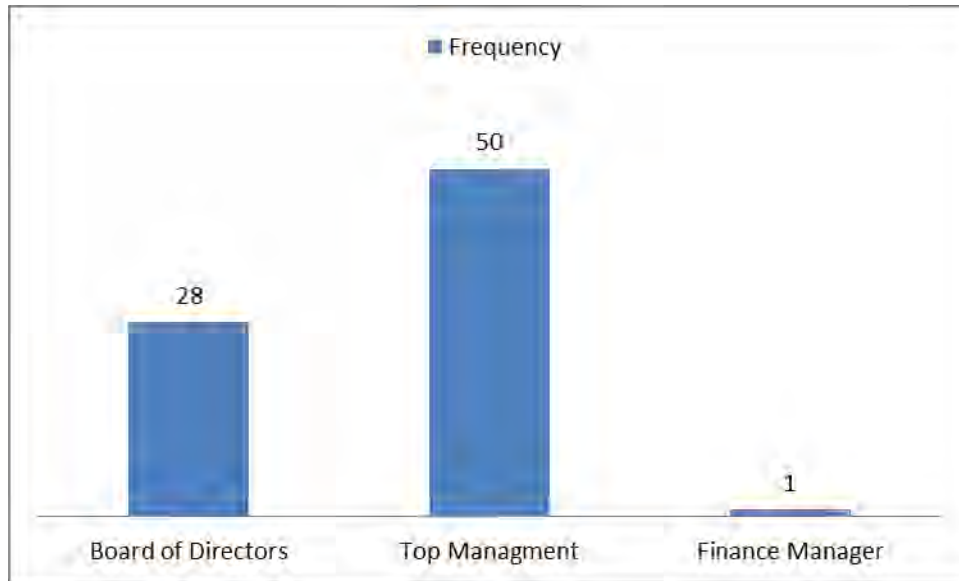
Source: SPSS output from survey data, 2015

The review of budget depends of the implementation period of projects and size of the organizations. Emergency projects which are implemented in short periods are reviewed in shorter periods and multiyear project periods are reviewed in longer periods compared to the shorter ones.

Most budgets are approved by the top management according to the risk level and scheme of delegation (63%), while 35 % of the respondents indicated that the budget approval is

done by board of directors/trustees as shown in the following chart. This implies that budgets are approved by the top management before execution of the project activities according to the level of delegation in the organization structures.

Chart 4.3: Who approves the final decision on budget proposals.



Source: survey 2015

4.6 Analysis of participation of staffs in the budget development process

Respondents are asked if they are participated in the process of budget development to raise funds from different donors that they are responsible for budget implementation.

Table 4.5 participation of responsible staffs in budget development

	Frequency	Percent	Valid Percent	Cumulative Percent
yes	15	19.0	19.0	19.0
Valid No	64	81.0	81.0	100.0
Total	79	100.0	100.0	

Source: SPSS output from survey data, 2015

As shown on table 4.5, 64(81%) of the respondents indicate that their organization do not participate responsible staffs in budget development that they are responsible for implementation. And only 15(19%) of the respondent indicate that their organization participate staffs in budget development to raise funds from different donors. As indicated

on the open-ended questions organizations do not participate their staffs because of urgent call for proposal information from donors, the top management develop the budget to submit with in the deadline to the donor. This indicates that most of concerned staffs responsible for budget implementation are not participated in the budget development process to raise funds. This indicates that the organizations are usually used top down budget approach. According to Gregory (2005) the first good characteristics of a good budget is participation. Participation of staffs in budget development helps to achieve the purpose of budget. Staff participation helps to coordinate, communicate, and motivate the implementers to expected performance level.

4.7 Analysis of capacity building training in budgeting and budget monitoring

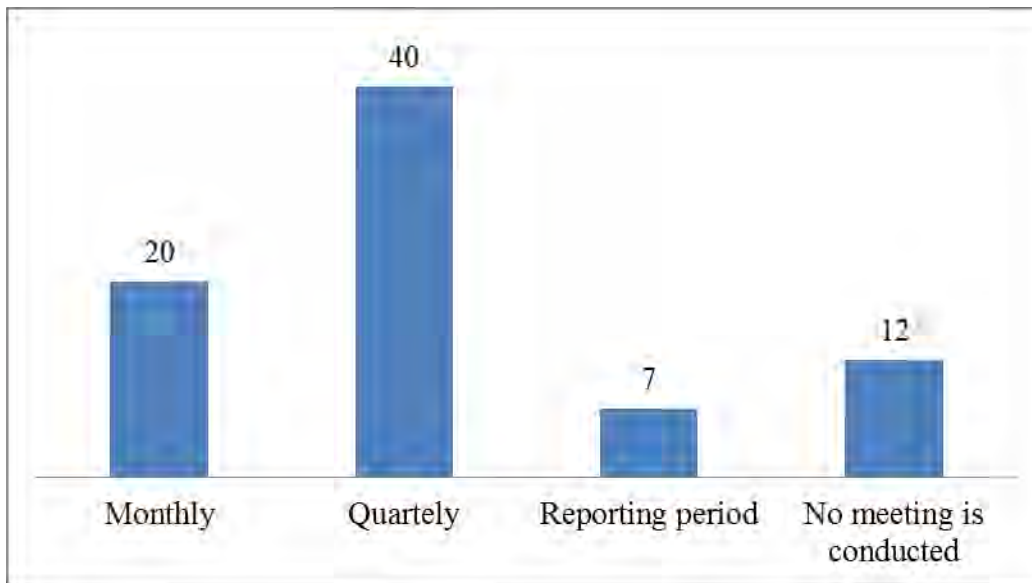
Table 4.6 Capacity building training

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	37	46.8	46.8	46.8
No	42	53.2	53.2	100.0
Total	79	100.0	100.0	

Source: SPSS output from survey data, 2015

The above table shows that 37(47%) of the respondents indicate that their organization give regular capacity building training in budgeting and budget monitoring. On the other hand 42(53%) of the respondents indicate that there organizations do not give regular capacity building training on budget development and budget monitoring. This shows that the provision of capacity building training on budgeting and budget monitoring is not the same. According to the findings, 25% of the respondents indicated that monthly grant review meeting is conducted, 51% of the respondents indicate that quarterly grant review meetings is conducted, 9% of the respondents indicate that grant review meeting is conducted during reporting period and 15% of the respondents indicate that no grant review meeting is conducted with staffs to evaluate the status of budget implementation in line with the detail implementation plan as shown in the following chart.

Chart 4.5. The timing of grant review meetings



Source: SPSS output from survey data, 2015

This indicates that the timing to conduct grant review meeting is not uniform in the organizations. This indicates that there is poor coordination, communication, to solve the problems in the process of budget implementations.

Table 4.7 shows that 73(92.4%) of the respondents indicate that their organization has policy and procedures in budgeting and budget monitoring. Only 6(7.6%) of the respondents indicate that there is no policy and procedures in budgeting and budget monitoring in their organizations. This implies that most of the organizations have their own policy and procedures in budgeting and budget monitoring. This helps the organizations to in budget development, budget monitoring and budget implementation in line with the organizations policy and procedures.

Table 4.7 Policy and procedures in budgeting

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid yes	73	92.4	92.4	92.4
Valid no	6	7.6	7.6	100.0
Total	79	100.0	100.0	

Source: SPSS output from survey data, 2015

Table 4.8 reveals that 44(55.7%) of the respondents indicate that their organization has requested no cost extension from donors over the period 2012 to 2014 due to underspends of the budget implementation during the planned period. 35(44.3%) of the respondents indicate that their organization do not request no cost extension from donors while implementing project budgets. This illustrates that majority of the organizations has requested no cost extension from donors. This implies that the organizations face underspends during budget implementation process and the project activities are not implemented in accordance the agreement with the donor. So that organizations are forced to request no cost extension for additional periods with the same budget to accomplish the project activities. This sign of ineffective implementation and put endanger the smooth relationship between the donor and the NGOs.

Table 4.8 Request no cost extension from donor

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid yes	44	55.7	55.7	55.7
No	35	44.3	44.3	100.0
Total	79	100.0	100.0	

Source: SPSS output from survey data, 2015

According to the findings, 45(57%) of the respondents indicated that they observed over or under spends more than the allowable range of the donor for a specific project over the year 2012 to 2014. 34(43%) of the respondents indicated that they do not observed over or under spends more than the allowable range of the donor for a specific project during project budget implementation. Most of the respondents indicate that over and underspent more than the allowable range is observed in their organizations as shown in the below table. Timely budget monitoring and variance analysis is very important to prevent over and under spends. This indicates that most of the organizations do not do timely budget versus actual expenditure comparison to prevent over and underspends timely.

Table 4.9 Over or underspends more than the allowable range

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid yes	45	57.0	57.0	57.0
No	34	43.0	43.0	100.0
Total	79	100.0	100.0	

Source: SPSS output from survey data, 2015

4.8 Analysis of budget versus expenditure report by finance department/system

Respondents are asked about the provision of budget versus actual report by the finance department/system regularly to budget holders to do budget monitoring and variance analysis. 88.6% of the respondents have indicated that budget versus actual is provided by the finance/system regularly for budget monitoring and variance analysis. 9% of the respondents indicate that budget versus actual is not provided by the finance/system regularly for budget monitoring and variance analysis. In addition to this respondents indicate that there are cases where committed costs are not included in the financial reports to do variance analysis. Poor quality information misleads decision making to take corrective actions.

Table 4.10 Budget versus actual report by finance department/system

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	70	88.6	88.6	88.6
No	9	11.4	11.4	100.0
Total	79	100.0	100.0	

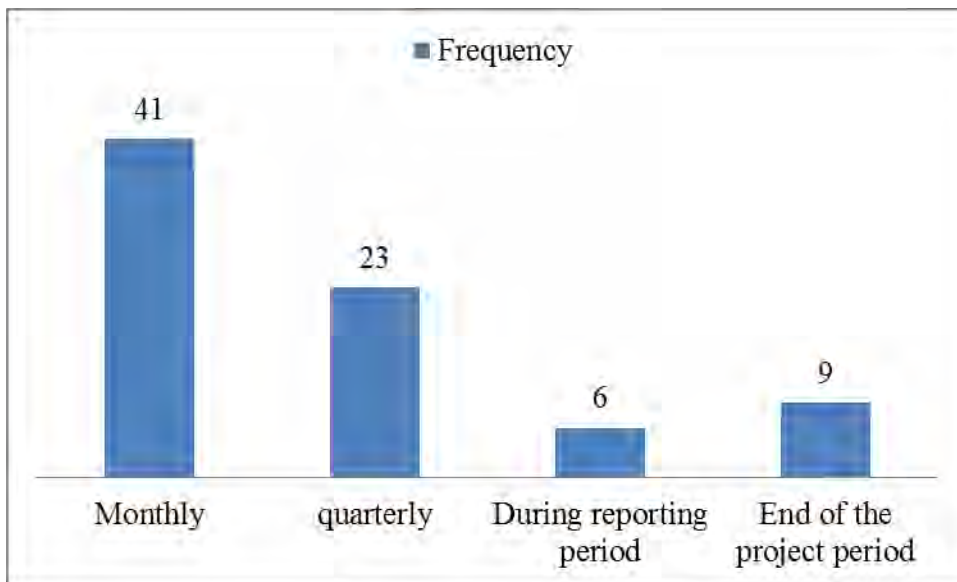
Source: SPSS output from survey data, 2015

4.9 Analysis of budget monitoring and variance analysis by budget holders

Chart 4.6 shows that 51.9% of the respondents indicated that budget holders monitor their

budget and do variance analysis monthly, 29.1% of the respondents indicate that budget holders monitor their budget and do variance analysis quarterly, 7.6% of the respondents indicate that budget holders monitor their budget and do variance analysis during reporting period, 11.4% of the respondents indicate that budget holders monitor their budget and do variance analysis at the end of the project period to control over and underspends. This implies that the organizations do not have regular budget monitoring and variance analysis schedule to control over and under spends on time. This leads managers to make passive decisions to take corrective actions on identified problem and gaps.

Chart 4.6 Budget monitoring and variance analysis by budget holders



Source: SPSS output from survey data, 2015

From the findings, 79.7% of the respondents indicated that budget holders and finance rephrase project budget, 20.3% of the respondents indicate that budget holders and finance do not rephrase project budget based on identified gaps and variance analysis for future improvement as shown on the below table. Rephrasing budget and mapping to donor accounts in such a way that follows the pattern of expenditures and implementation of activities in accordance the detail implementation plan helps to compare actual results with the planed one in a given period time.

Table 4.11 Budget holders and finance rephrase project Budget

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid yes	63	79.7	79.7	79.7
No	16	20.3	20.3	100.0
Total	79	100.0	100.0	

Source: SPSS output from survey data, 2015

4.10 Analysis of budget Preparation

The respondents are invited to indicate their level of agreement on the following statements in relation to budget preparation. The responses are rated on a five point Likert scale where: 1 indicate no extent; 2 less extent; 3 some extent; 4 large extent and 5 very large extent. The level of score was analyzed which shows the agreement level designed by Best (1977:174). The frequency, mean and standard deviation are generated from SPSS as illustrated in table below.

Table 4. 12: Budget Preparation in NGO's

	1	2	3	4	5	Mean	SD
Budgets are prepared with reference to the organization annual plans, strategic plan and overall goal.	0	1	9	39	30	4.24	.702
Budgets are used to allocate the resources efficiently.	0	3	7	43	26	4.16	.741
All staff or functions of the organization are involved in budget preparation.	7	25	24	17	6	2.87	1.09
The budgeting process starts with preparation of forecasts of the expected confirmed income.	1	8	11	30	29	3.99	1.02
The organization has documented budgeting process (budget notes) which is referenced during the process	0	1	28	27	23	3.91	.835
The budgets are always approved by the senior management before any execution.	0	1	9	27	42	4.39	.741
Grand mean						3.93	

Source: SPSS output from survey data, 2015

From the findings, the respondents point out to a large extent that budgets are always approved by the senior management before any execution [4.39]; they agreed to a large extent that budgets are used to allocate the resources and are prepared with reference to annual plans, strategic plan and overall goal, the organization has documented budgeting process which is referenced during the process. The findings further showed that, to large extent the process starts with preparation of forecasts of the expected confirmed income [3.99]. However, all staffs are not involved in the process of budget preparation (2.87). In general NGOs have a good budget preparation process as revealed by a mean of [3.93].

4.11 Analysis of budget monitoring

The respondents were requested to indicate their level of agreement on the following statements in relation to budget monitoring. The responses are rated on a five point Likert scale where: 1 indicated no extent; 2 less extent; 3 some extent; 4 large extent and 5 very large extent. The level of score was analyzed which shows the agreement level designed by Best (1977:174). The frequency, mean and standard deviation are generated from SPSS is illustrated in table below.

Table 4.13: Budget monitoring in NGO's

	1	2	3	4	5	Mean	SD
The approved budgets are shared with all departments and budget holders and ensure they are understood.	1	5	25	38	10	4.10	.794
Leadership and support provided by managers to the subordinate throughout budget execution is effective.	1	5	25	38	10	3.65	.833
While striving to implement project the budget holder consider how their action affect achievement of the set target of the organization as a whole.	0	9	28	28	13	3.58	.900

Coordination among the various departments during budget execution is achieved through clear communication and consultation.	4	16	24	27	8	3.24	1.05
There is always reference to budget before any request to undertake an activity is approved to ensure that there are adequate funds.	1	5	15	32	26	3.97	.946
Recording of actual result is accurate and timely.	1	12	14	37	15	3.67	.996
Budget vs actual comparison and identification of variances is done regularly.	0	10	15	29	25	3.87	1.00
Budgets are reviewed as need arises to capture the reality during implementation.	1	3	18	42	15	3.85	.818
Reports on budget variance are shared with budget holders and senior management.	0	0	17	35	27	4.13	.740
Variances are investigated and justified to take timely corrective actions.	0	13	22	23	21	3.66	1.05
The organization develops solutions to problems revealed by budget monitoring.	4	4	28	35	11	3.65	.833
Grand mean						3.76	

Source: SPSS output from survey data, 2015

As the result shows the respondents moderately agreed that budgets are reviewed as need arises to capture the reality during implementation [M=3.85], leadership and support provided by managers to the subordinate throughout budget execution is effective [M=3.65], recording of actual result is accurate and timely to some extent [3.67]. The respondents agreed to some extent that while striving to implement project, the budget holder consider how their action affect achievement of the set target of the organization as a whole [3.58], coordination among departments during budget execution is achieved through clear communication and consultation [3.24]. In addition, they agreed that there is always reference to budget before any request to undertake an activity is approved to ensure that there are adequate funds [3.97]. And the respondents moderately agreed that budget versus

actual comparison and identification of variances is done regularly [3.87], variances are investigated and justified to take timely corrective actions [3.66] and the organization develops solutions to problems revealed by budget monitoring [3.65]. Moreover, respondents agreed to high extent that reports on budget variance are shared with budget holders and senior management [4.13] and the approved budgets are shared with all departments and budget holders and ensure they are understood to a high extent [4.10].

The result showed that in relevance to budget monitoring in NGOs, there are moderate efforts in review of budgets and variance analysis as need arises to capture the reality during implementation; the leadership and support provided by managers to the subordinate throughout budget execution is effective; recording of actual result is moderately accurate and timely; while there is reference to budget before any request to undertake an activity for approval. The approved budgets are shared with all departments and budget holders and ensure they are understood to a high extent

4.12 Analysis of budget Implementation

The respondents were required to point out their level of agreement on the following statements in relation to budget implementation. The responses are rated on a five point Likert scale where: 1 indicated no extent; 2 less extent; 3 some extent; 4 large extent and 5 very large extent. The level of score was analyzed which shows the agreement level designed by Best (1977:174). The frequency, mean and standard deviation are generated from SPSS is illustrated in table below.

Table 4.14 Budget implementation

	1	2	3	4	5	Mean	SD
In some period budget include unachievable targets or Standards	6	7	28	22	16	3.44	1.14
The budget contain uncertainty which hinders effective implementation	2	14	30	19	14	3.37	1.05
Insufficient funds allocated to department or	5	15	17	14	28	3.57	1.32

projects affect budget implementation.							
Institutional weakness could hinder effective Budgeting process.	3	7	13	25	31	3.94	1.12
The budget process is time consuming and expensive and may become instable before implementation.	6	6	31	25	11	3.37	1.06
There may be tendency by user department to adhere to budget process just to comply with organization or donor requirement.	0	3	27	29	20	3.84	.854
New projects or donors have different budgeting guidelines and come with new set of rules which take time to learn and can be a challenge to budget implementation.	1	10	11	28	29	3.94	1.07
Foreign exchange rate variations in the market hinder organization to execute their budgets.	6	9	15	30	19	3.59	1.19
Stakeholders Priority and emerging situations at ground level affect the implementation of budget.	0	2	15	28	34	4.19	.833
Change of project staff or implementers of budgets affect the achievements of the budgets.	2	3	15	37	22	3.94	.925
Late start of projects in processing local agreements hinders the budget implementation.	2	1	10	26	40	4.28	.919
Grand mean						3.77	

Source: SPSS output from survey data, 2015

Table 4.14 showed that the respondents moderately agreed that new projects or donors have different budgeting guidelines and come with new set of rules which take time to learn and can be a challenge to budget implementation [3.94], the budget contain uncertainty which hinders effective implementation [M=3.37], and change of project staff or implementers of budgets affect the achievements of the budgets [3.94]. From these findings it is clear that during implementation of budget in NGOs; new projects or donors have different budgeting guidelines and come with new set of rules which take time to learn and can be a challenge

to budget implementation; the budget contain uncertainty which hinders effective implementation and change of project staff or implementers of budgets affect the achievements of the budget.

From the result respondents moderately agreed that insufficient funds allocated to department or projects affect budget implementation [3.37], Institutional weakness could hinder effective budgeting process [3.94]. The budget process is time consuming and expensive and may become unpredictable before implementation [3.37]. There is a tendency by user department to adhere to budget process just to comply with organization or donor requirement [3.84]. The respondents highly agreed that late start of projects in processing local agreements hinders the budget implementation [4.28] and stakeholders Priority and emerging situations at ground level affect the implementation of budget [4.19].

4.13 Budget and expenditure performance analysis

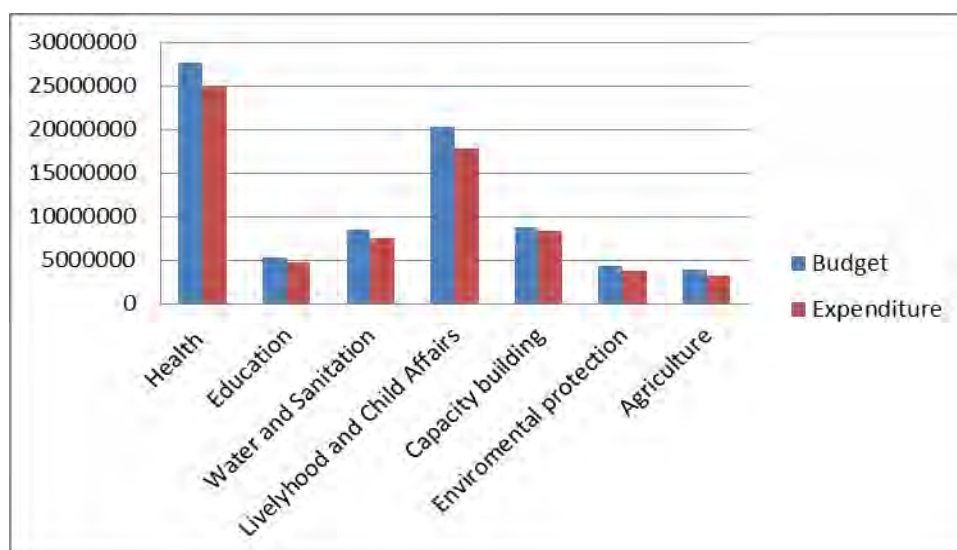
All the sample organizations are requested to provide their annual budget and actual expenditure variance analysis. Fifteen (15) organizations provide consolidated annual budget and expenditure variance analysis reports for the period of three years from 2012 - 2014. The organizations provide reports for three years because some of the organizations are on process of merger, restructuring and the year 2010 and 2011 was the time of re-registration by the federal charities and societies agency in accordance with the new government proclamation NO 621/2009. And it was the time to revise the intervention sectors as per policy requirement. Based on this the consolidated budget versus expenditure data collected from the organizations is summarized in accordance with the intervention areas of health, education, water and sanitation, livelihood and child affairs, capacity building, environmental protection, agriculture for the years 2012, 2013 and 2014 on tables. The budget performance of each year is analyzed on charts based on intervention sectors, amount of budget and expenditures to show the annual budget versus expenditure performance of the organizations. Moreover, the total budget and expenditure of each year is analyzed on table and chart to evaluate the changes in budget and expenditures of the years under consideration as follows.

Table 4.15 Consolidated annual budget versus expenditure report in USD

	Year	2012			
		Intervention /Sector	Budget	Expenditure	Remaining Balance
1	Health	\$27,722,000	\$24,839,980	\$2,882,020	90%
2	Education	\$5,300,000	\$4,760,000	\$540,000	90%
3	Water and Sanitation	\$8,500,000	\$7,550,000	\$950,000	89%
4	Livelihood and Child Affairs	\$20,315,200	\$17,860,063	\$2,455,137	88%
5	Capacity building	\$8,824,300	\$8,340,842	\$483,458	95%
6	Environmental protection	\$4,347,750	\$3,792,748	\$555,003	87%
7	Agriculture	\$3,892,000	\$3,281,580	\$610,420	84%
		\$78,901,250	\$70,425,213	\$8,476,038	89%

Source: survey 2015

Chart 4.7 Budget versus expenditure 2012



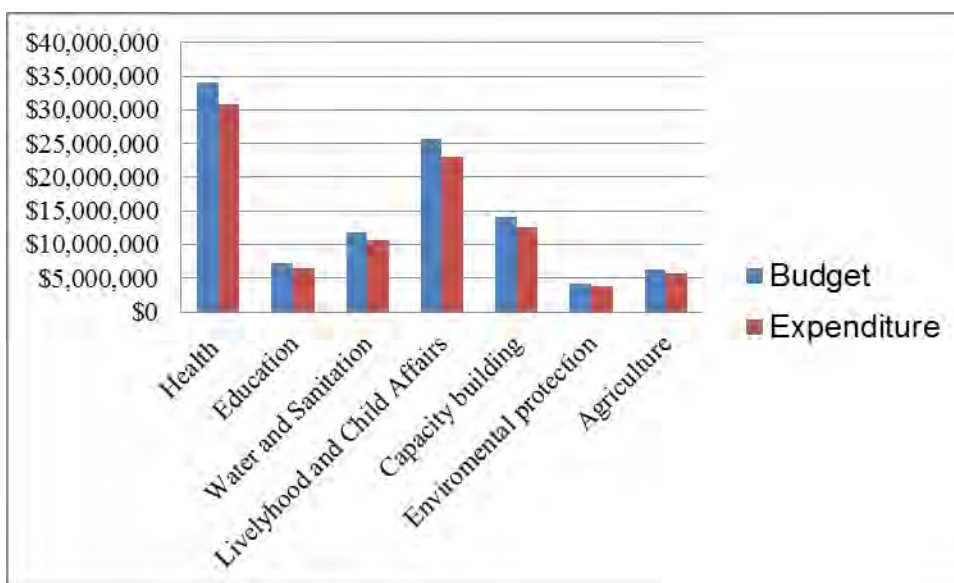
Source: survey 2015

Table 4.16 Consolidated annual budget versus expenditure report in USD

	Year	2013			
		Intervention /Sector	Budget	Expenditure	Remaining Balance
1	Health	\$34,000,000	\$30,760,400	\$3,239,600	90%
2	Education	\$7,300,000	\$6,497,000	\$803,000	89%
3	Water and Sanitation	\$11,900,000	\$10,591,000	\$1,309,000	89%
4	Livelihood and Child Affairs	\$25,666,440	\$23,126,586	\$2,539,854	90%
5	Capacity building	\$14,029,160	\$12,622,556	\$1,406,604	90%
6	Environmental protection	\$4,251,000	\$3,784,620	\$466,380	89%
7	Agriculture	\$6,302,400	\$5,723,268	\$579,132	91%
		\$103,449,000	\$93,105,430	\$10,343,570	90%

Source: survey 2015

Chart 4.7 Budget versus expenditure 2013



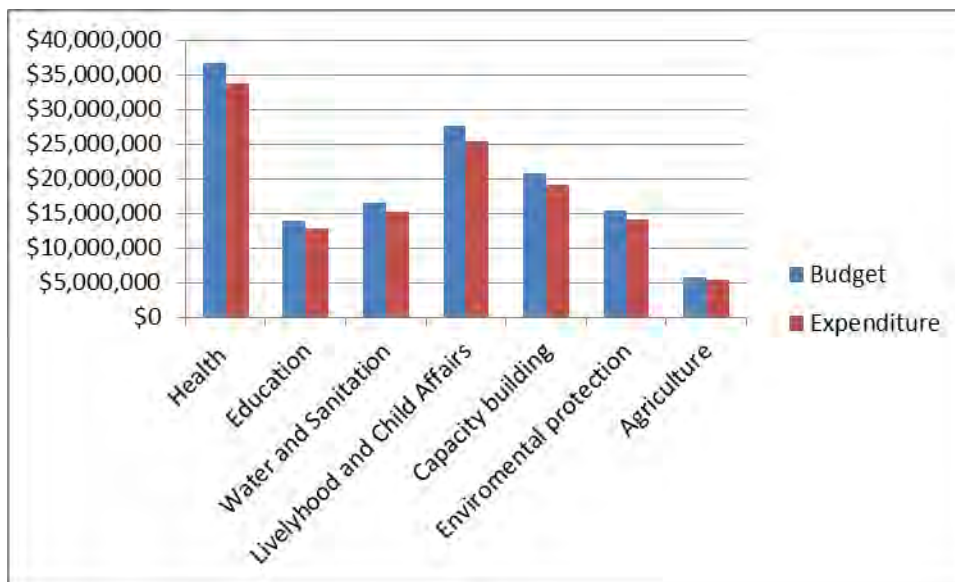
Source: survey 2015

Table 4.17 Consolidated annual budget versus expenditure report in USD

Year	Intervention /Sector	2014			
		Budget	Expenditure	Remaining Balance	%
1	Health	\$36,600,000	\$33,637,000	\$2,963,000	92%
2	Education	\$13,950,000	\$12,834,000	\$1,116,000	92%
3	Water and Sanitation	\$16,590,000	\$15,262,800	\$1,327,200	91%
4	Livelihood and Child Affairs	\$27,576,440	\$25,446,182	\$2,130,258	92%
5	Capacity building	\$20,779,160	\$19,119,994	\$1,659,166	91%
6	Environmental protection	\$15,326,000	\$14,100,160	\$1,225,840	92%
7	Agriculture	\$5,802,400	\$5,351,804	\$450,596	92%
		\$136,624,000	\$125,751,940	\$10,872,060	92%

Source: survey 2015

Chart 4.7 Budget versus expenditure 2014



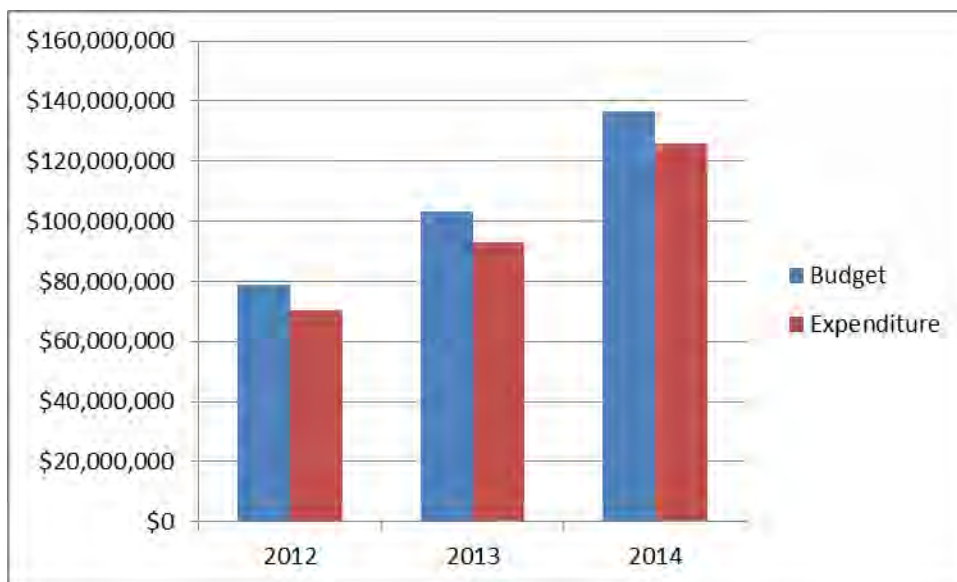
Source: survey 2015

Table 4.18 Consolidated annual budget versus expenditure report in USD 2012-2014

Year	2012-2014			
	Budget	Expenditure	Remaining Balance	%
2012	\$78,901,250	\$70,425,213	\$8,476,038	89%
2013	\$103,449,000	\$93,105,430	\$10,343,570	90%
2014	\$136,624,000	\$125,751,940	\$10,872,060	92%

Source: survey 2015

Chart 4.8 Summary of budgets versus expenditure 2012-2014



Source: survey 2015

From the result, it is presented that NGOs allocate their yearly budgets in different sectors of project activities as project budget makes the master budget. These project activities include health, education, water and sanitation, livelihood and child affairs, capacity building, environmental protection and agriculture. According to the result shown on the table and charts, the total budget was \$78,901,250, \$103,449,000, \$136,640,000 and the total expenditure was \$70,425,213, \$93,105,430, \$125,751,940 in the year 2012, 2013 and 2014 respectively.

The change of the budget and expenditure performance is increasing from the year 2012 to 2014 as depicted on the summary chart. The budget is increased by 31%, 32% and the expenditure is increased by 32%, 35% for the years 2013 and 2014 respectively considering the year 2012 and 2013 as base years as shown on the summary consolidated budget and expenditure report analysis table. As indicated on the consolidated budget versus expenditure performance result shows underspent. The cumulative percentage is 89%, 90% and 92% in the year 2012, 2013 and 2014 respectively. It is also clear that the NGOs have invested more funds on health sector, livelihood and child affairs, capacity building and water and sanitation sectors compared to the other sectors as shown on the tables and charts.

4.14 Summary of findings

Non-government organizations have their own policies and procedures in place in budget preparation, budget monitoring and implementation to identify the role and responsibility of staffs in different departments in reference to the organization annual plans, strategic plan and overall goals. Budgets are prepared and approved by top management or board of trustees as per the structure of the organizations. Based on the nature of the project, NGOs budget dimension covers one year or more periods which are reviewed at different times in accordance with the project period that covers short term or multiyear.

1. The NGO staffs that are responsible for the management of the budget do not participate on budget preparation. As indicated on the open-ended questions organizations do not participate their staffs because of urgent call for proposal information from donors, the top management develop the budget to submit with in the deadline to the donor. This indicates that most of concerned staffs responsible for budget implementation are not participated in the budget development process to raise funds. According to Gregory (2005) the first good characteristics of a good budget is participation. Participation of staffs in budget development helps to achieve the purpose of budget such as coordination, communication and motivation in the process of achieving the expected performance level. The preparation of project budget is based on call for proposal and direction of donors to compete for funding from different donors. This hinders the planning of activities and fund raising

process to make up the budget in a sustainable manner and for decisions on the type of intervention sectors.

2. Regular grant review meeting is not conducted with key staffs from different departments who have the responsibility to implement the components of the project to ensure integrity and timely delivery of outputs as per planned activities and budget. This shows that the timing to conduct grant review meeting is not uniform in the organizations. This indicates that there is poor coordination, communication, to solve the problems on time in the process of budget implementations.
3. Majority of the respondents indicated that their organizations have requested no cost extension from donors. This implies that the organizations face underspends during budget implementation process and the project activities are not implemented in accordance with the agreement with the donor. So that organizations are forced to request no cost extension for additional periods with the same budget to accomplish the project activities. This is the result of ineffective implementation of budget which jeopardizes the smooth relationship between the donor and the NGOs.

Moreover, Most of the respondents indicate that over and underspent more than the allowable range is observed in their organizations during budget implementations. This indicates that most of the organizations do not do timely budget versus expenditure analysis to prevent over and underspends timely.

4. Most of the respondents indicated that budget versus actual is provided by the finance/system regularly for budget monitoring and variance analysis. However, there are cases where committed costs are not included in the financial reports to do variance analysis. Poor quality information misleads decision making to take corrective actions.

5. The result shows that organizations have no standardized time for monitoring budget and doing variance analysis regularly. Some of the organizations monitor their budget and variance analysis monthly and some do quarterly, during interim reporting time and end of the project periods. This leads to make passive decisions that limit the managers to take

corrective actions to prevent unfavorable variances. The finance department is responsible to maintain updated records in the financial system to provide reliable data to support the budget holders in discharging their responsibilities. Recording of actual results should be accurate and timely.

6. In the Likert scale questions of budget preparation analysis the average mean [3.93] shows good/high category for budget preparation of results. However, participation of staffs in the budget processing process falls in the average category which needs future improvement.

7. In the Likert scale questions of Budget monitoring the average mean is [3.76] which shows good/high category for budget monitoring. However, coordination among the various departments during budget execution is achieved through clear communication and consultation in the average category. This indicates that during budget implementation there is poor coordination and communications.

8. In the Likert scale questions of Budget implementation the average mean is [3.77] which shows good/high category for budget implementations. There are internal and external factors which affect the budget implementation process which has to be taken in to account. According to the result the budget include unachievable targets and the budget contains uncertainty to effective implementations are the internal factors with low results deviating from the mean. On the other hand, Stakeholders Priority and emerging situations at ground level affect the implementation of budget and late start of projects in processing local agreements the external factors with low results deviating from the mean which hinders the budget implementation.

9. From the result that NGOs allocate their yearly budgets in different sectors of project activities as project budget makes the master budget. These project activities include health, education, water and sanitation, livelihood and child affairs, capacity building, environmental protection and agriculture.

The change of the budget and expenditure performance is increasing from the year 2012 to 2014 as depicted on the summary chart. The budget is increased by 31%, 32% and the expenditure is increased by 32%, 35% for the years 2013 and 2014 respectively considering the year 2012 and 2013

as base years as shown on the summary consolidated budget and expenditure report analysis table. As indicated on the consolidated budget versus expenditure performance result shows underspent.

Chapter Five

5. Conclusions and Recommendations

5.1 Introduction

This chapter presents conclusions and recommendations of the study based on the findings, research questions and objectives of the study.

5.2 Conclusion

The study focused on the practice of budgeting and budget monitoring as a management tool for managing variances in NGOs operating in Ethiopia to answer the following research questions:

- 1 What is the level of participation of NGOs' staffs in the budget process and budget monitoring practice?
2. What is the practice of NGO staffs to apply the tools in the process of budget preparation, budget monitoring to control variances to discharge roles and responsibilities?

Budgeting and budget monitoring is a fundamental event of non-governmental organizations financial management framework. Effective budgeting significantly contributes to the achievement of the goals and objectives. Financial management in non-governmental organizations is characterized by proper financial planning and monitoring systems. NGOs operate in a rapidly changing and competitive environment. To survive in this challenging environment, managers need to develop the necessary understanding and confidence to make full use of budget management tools during the grant management cycle.

Budgeting creates a plan within which individuals, departments, and the whole organizations can work together. Developing budgets and organizing it helps to coordinate and motivate employees. A budget includes several related financial management issues such as costs for activities, staff members, a plan of action for making expenditures, the number and kinds of human resources required to implement the program and the amount of money needed to achieve the organization goals and objectives. According to the result, however, the overall budgeting system in the sample organizations misses the important participation of concerned staffs. According to previous studies that budgetary participation

has a direct relationship with managerial performance. The organizations should encourage budgetary participation as it is evidenced to have an effect on performance.

At the time of budget implementation process budget monitoring is the continuous process by which we ensure the action plan is achieved in terms of expenditure and income. This is to ensure the economic, effective and efficient use of resources and the identification of potential opportunities, problems and taking of corrective action. Responsible staffs should monitor the budget at a frequency in which they are comfortable to ensure they are confident that they are in control of the budget and are on right track to achieve the planned position. Effective managers who are responsible for budget management must do regular budget monitoring to ensure that assumptions on which the budget was based is reasonable and the resources needed are available. The process of variance analysis with justification is key task to control underspent or overspent with clarification. Then the manager is able to decide on the best course of action such as budget revision, request prior approval from donor, raise more funds or reschedule the detail implementation plan that results smooth communication with donors, government and the community at ground level. From the study it is clear that organizations have no standardized time for monitoring budget and doing variance analysis regularly. Some of the organizations monitor their budget and variance analysis monthly and some do quarterly, during interim reporting time and end of the project periods. This leads to make passive decisions that limit the managers to take corrective actions to prevent unfavorable variances. The organizations operate in a rapidly changing and competitive environment. To survive in this challenging environment, managers need to develop the necessary understanding and confidence to make full use of budget management tools to manage variances on time.

The other very important issue in the budget management process is conducting budget review meetings with different parts of the organization. This helps to evaluate the status of budget in line with the detail implementation plan. According to the findings, grant review meeting is not conducted regularly with key staffs in different departments of the organizations who have the responsibility to implement the components of the project. Budget monitoring meeting gives the opportunity to assign tasks to different departments, staffs, evaluate the status of assigned tasks and accomplished one, identify related problems and give possible solutions. Regular review of actual

results against budget estimates on a regular basis, monthly for most organizations, using a process that is understood across the organization is critical to effective monitoring and reporting of budget performance. Taking formal reviews of consolidated variance information on a regular basis enables to challenge underlying budget assumptions, estimation techniques and put coordinated efforts for the achievements of objectives. Conducting regular grant review meetings with community and the government also helps to solve the problems related to external factors such as late start of projects in processing local agreements and stakeholders Priority and emerging situations at ground level which hinders the implementation of budget according to the detail implementation plan.

Careful design of financial reports is also fundamental to effective review and analysis of budget performance information. The effectiveness of financial reporting is enhanced when reports are prepared for each level of budget-accountability and summarized appropriately for each level of management. The finance department of the organizations should provide managers with details of reliable actual results against budgets in regular bases. Standardizing reporting across each project is important and is made easier when managers depend on actual and budget data directly from the same financial system. Reporting of detailed information on individual projects, such as milestones, percentage of completion and phasing of total projected costs provides decision-makers with useful information on current and future impacts of project activity. In organizations with a large number of projects, this report should be presented on a summarized basis with more detailed information provided by exception, that is, where projects are not progressing to plan in order to make corrective decisions.

Finally it is good to understand that effective budget processes, which support the efficient allocation of resources, enable organizations to identify and respond to changes in environmental conditions and organizational priorities. Budget shows also an organization's expected financial performance, financial position and cash flows allocated by area of responsibility. Developing a budget involves making decisions on the allocation, use and administration of resources to achieve the organization's objectives.

5.3 Recommendations

Based on the study findings and conclusions on budgeting and budget monitoring practice of NGOs in managing budget variances which involves planning and implementation, the following recommendations are made.

1. Budgets inspire individuals and departments to look and plan forward using a determined timetable that can enhance effective communication of their objectives and provide a benchmark to measure performance. The non-government organizations should involve those staffs who will be responsible for budget monitoring and project implementation in preparing the budget. This helps to increase the accuracy of budget and motivate the staff to spend within budget in the process of implementation to control variances or reach fund raising targets.
2. Budget monitoring and variance analysis should be made on regular bases in line with the monthly close of financial system to compare budget versus expenditure by budget holders and finance who are responsible for managing the projects budget and activities with clear justification and action points. So that managers are able to prevent over or underspends timely and take corrective actions.
3. To ensure integrity of different departments in the process of project implementation, the non-government organizations should conduct regular grant review meetings with different departments such as program, finance, logistics and human resource to ensure smooth communication and timely delivery of outputs as per planned activities in accordance with the requirements of the donor and management. Measuring budget accuracy and timeliness on continuous basis and conducting more formal reviews are two ways to identify areas for continuous improvement.
4. The finance department is also responsible to maintain updated records in the financial system to provide reliable and timely report to support the budget holders in discharging their responsibilities. In some organizations the finance department do not provide budget versus actual reports in regular bases to support budget holders in monitoring their budget. The

study recommends that organizations finance department should keep reporting budget versus actual expenditures to support the monitoring of revenue and expense levels in operating activities. It also ensures that cash outflows and inflows remain at adequate levels.

Finally the researcher suggested the above recommendations. The recommendations are crucial to improve budgeting and budget monitoring practice as a management tool for enhancing financial management in the NGOs. This is because the recommendations are forwarded based on the results of the findings in the process of budget preparation, budget monitoring and implementation for enhancing financial management in the sample organizations.

Moreover, the researcher would like to recommend that future studies should be carried out to establish the challenges related to the budgeting process among the NGOs operating in Ethiopia.

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

Questionnaire to Key Staff

A post-graduate student of Addis Ababa University masters in accounting and finance program. As part of academic work the survey is on budgeting and budget monitoring as a management tool for enhancing financial management in NGOs operating in Ethiopia. Please spare few minutes of your time and respond to the questionnaires below as honestly as you can. Information provided by you is for academic purposes only and will be treated as private and confidential.

Kindly answer the following questions by ticking the appropriate box and give your answer or suggestion when appropriate.

PART I: General Information

1. Position-----
2. Would you please specify your department in the organization
Program
Finance or Grant
Support Service Department
3. Sex Female Male
4. Your years of service in the organization?
Less than 1 year
1-3 Years
Above 3years
5. What is the time dimension does your organization budget cover?
3 months
6 months
1 year

More than 1 year

Not specific

Other specify-----

6. How often are the budgets reviewed in your organization?

3 months

6 months

1 year

Randomly

No revisions are done.

Others Specify-----

7. Who approves the final decision on budget proposals?

Board of Directors/Trustee

Top Management

Budget Committee

Finance Manager/ FD

Others specify -----

8. Does your organization provide capacity building training in budgeting and budget monitoring for enhancing financial management to budget holders, finance and others?

Yes

No

If you have different view please specify-----

9. Do your organization participate concerned staffs in the budget development process that are responsible for the implementation of budget?

Yes

No

If your answer for question number 9 is no, what is the reason-----

10. When do grant meeting conducted with staffs to evaluate the status of budget implementation in line with the detail implementation plan?

Monthly

- Quarterly
- During reporting period
- At the end of the project period
- No meeting is conducted

Do you have different view, please specify-----

11. Are there policies and procedures in place in budget preparation, budget control and implementation to identify the role and responsibility of staffs in different departments?

- Yes
- No

12. Do you request no cost extension from a donor for projects that you have implemented in your Organization?

- Yes
- No

13. Did you observe over or under spends more than the allowable range of the donor for a specific project that your Organization have implemented?

- Yes
- No

14. Is budget versus actual report is provided by the finance department/system regularly to budget holders to do budget monitoring and variance analysis?

- Yes
- NO

Could you specify if you have different view-----?

15. When do budget holders monitor their budget and do variance analysis to control over and underspends?

- Monthly
- Quarterly
- During reporting period
- At the end of the project period

Do you have different view, please specify-----

16. Do budget holders and finance rephrase the budget based on identified gaps and variance analysis for future improvement?

Yes

No

Do you have different view, please specify-----

PART II: SPECIFIC QUESTION TO RESEARCH

17. Budget Preparation

Indicate your view on the following statements on budget preparation to your organization.

Using a rating of 1 to 5 please indicate your view of the following statement on the budget preparation. Where 5= very large extent; 4= To large extent; 3 = some extent; 2= to less extent; 1=to no extent

	1	1	3	4	5
Budgets are prepared with reference to the organization annual plans, strategic plan and overall goal.					
Budgets are used to allocate the resources.					
All staff or functions of the organization are involved in budget preparation.					
The budgeting process starts with preparation of forecasts of the expected confirmed income/grants.					
The organization has documented budgeting process (budget notes) which is referenced during the process					
The budgets are always approved by the senior management before any execution.					

18. Budgetary Monitoring

Using a rating of 1 to 5 please indicate your view on the following statement on the budgetary control. Where 5= very large extent; 4= To large extent; 3 = some extent; 2= to less extent; 1=to no extent

	1	2	3	4	5
The approved budgets are shared with all departments and budget holders and ensure they are understood.					
Leadership and support provided by managers to the subordinate throughout budget execution is effective.					
While striving to implement project the budget holder consider how their action affect achievement of the set target of the organization as a whole.					
Coordination among the various departments during budget execution is achieved through clear communication and consultation.					
There is always reference to budget before any request to undertake an activity is approved to ensure that there are adequate funds.					
Recording of actual result is accurate and timely.					
Budget vs actual comparison and identification of variances is done regularly.					
Budgets are reviewed as need arises to capture the reality during implementation.					
Reports on budget variance are shared with budget holders and senior management.					
Variances are investigated and justified to take timely corrective actions.					
The organization develops solutions to problems revealed by budgetary control.					

19. Budgeting Implementation

Using a rating of 1 to 5 please indicate your view on the following statements on budgeting process and its effect on variance. Where 5= very large extent; 4= to large extent; 3 = some extent; 2= to less extent; 1=to no extent

	1	2	3	4	5
In some period budget include unattainable targets or Standards					
The budget contain uncertainty which hinders effective implementation					
Insufficient funds allocated to department or projects affect budget implementation.					
Institutional weakness could hinder effective budgeting process.					
The budget process is time consuming and expensive and may become volatile before implementation.					
There may be tendency by user department to adhere to budget process just to comply with organization or donor requirement.					
New projects or donors have different budgeting guidelines and come with new set of rules which take time to learn and can be a challenge to budget implementation.					
Foreign exchange rate fluctuations in the market hinder organization to effect their budgets.					
Stakeholders Priority and emerging situations at ground level affect the implementation of budget.					
Change of project staff or implementers of budgets affect the achievements of the budgets.					
Late start of projects in processing local agreements hinders the budget implementation.					

Thank you for your time and cooperation

