

**ST.MARY'S UNIVERSITY**  
**FACULTY OF BUSINESS**  
**DEPARTMENT OF ACCOUNTING**

**ASSESSMENT OF BUDGET**  
**IMPELMENTATION AND CONTROL**  
**SYSTEM IN CASE OF KOLFE KERANYO**  
**SUB-CITY**

**BY**

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**SMU**

**ADDIS ABABA**

**ASSESSMENT OF BUDGET  
IMPELMENTATION AND CONTROL  
SYSTEM**

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## DECLARATION

We, The Undersigned, Declare that this senior essay/project our original work, prepared under the guidance of AtoALULA HAILU. All source of materials used for the manuscript have been dully acknowledged.

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# CHAPTER ONE

## Introduction

### 1.1 Background of the Study

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

They used budget as a bench mark measure for estimated or desired performance against which they compare actual performance against which they compare actual performance. ( Horngren 2006)

A budget can function as advice not only for planning and co-ordination but also for control. Whereas budgetary control is use of comprehensives system of budgeting to aid measurement in caring out its functions of planning, co-ordination and control operations. A budgetary control is one of the important tools of control. It involves a constant checking and evaluation take corrective actions where ever necessary.(pasha 2007)

Comparing budget sets with actual activities, performance evaluation and control of budgets are designs in way that increases efficiency and effectiveness. Effective planning is important to the success of all business. Financial planning is an important part of business planning process. The financial operation of business is called budgeting. A written financial plan of business for a specific period of time expressed in dollars is called budgets.

Budget is a detailed plan which sets out, in money terms the plans for income and expenditure with respect to future period of time. It is prepared in advance of time period and is based on the agreed objective.

### **1.1.1 Budget in Ethiopia**

Budgeting in Ethiopia since the imperial period, has been initiated by the government starting the budget cycle each year on the first day of October 11 by issuing a collator budget proposals. Supposedly the various ministries and agencies adhered to dead hones in completing the budgetary process. These organizations submitted current and capital budget proposal to the ministry of finance. The council of ministries prepares all requests. The ultimate power for approval issued annual budget calls in July or August with preliminary information and guidance. The new guide lines require ministries and agencies to complete their proposals by January, when budget hearing will begin.

### **1.1.2 Budgeting process**

The budget process include all these stages, Peterson summarized the budget process into three phases; analysing, fitting, and implementing. The analysis phase is the assembly and integration of financial data which might include processes from the formulation of macro-economic and fiscal frame work to the allocation of expenditure budget between federal and regional governments to fitting phase is the process of prioritizing activities to fit with policy and reducing a budget to a ceiling. Referring to the budgeting processes outlined above this might range from the processes of allocation of federal government expenditures budgets between recurrent and capital budget down to the submission of the budget to the council of peoples representatives, The final paste, implementing, is distributing and using the allocation, i.e. the notification and publication of the budget, allotment and the monitoring processes.

### **1.1.3 Background of the Company**

Kolfekeranyo Sub-city is one of the largest Sub-city in Addis Ababa, the Sub-city includes 15 woreda within 61.25 square kilo meter surface area. The total population estimated to 546219. Out of this 220859 of them are male and the remaining 235360 has women. Spatial analysis is concerned with the pattern and association that exist with the largest sub-city in term of the number of population and populated density.

The finance of kolfekeranyo sub-city bureau performs following important function to success its objectives Mission and vision. It coordinates and directs activities of revenue Agency, Environmental protection, policy studies, education, police, health centers, cultural and sport, construction, urban agriculture and plan commission. The bureau prepares and submits to the consoled data annual budget along a supplement teary as may necessary up on analyzing current budget proposed.

This bureau also prepares and submits budgetary allocation formula based on the decentralization principles budget administration, implement same up on approval inspect the expenditure of budget subsidy allocated to the sub-city.

## **1.2 Statement of the problem**

The sub-city overall performance depends on properly designs assessment of budget implementation and control systems. The sub-city always prepared annual budget for the current year activities. Budget is quantitative expression for set period of line and planned or proposed future plan for action management. The planned budget should guide by the period of time chosen for future budget. Budgets are prepared for material needed, to purchase raw material /for Manufacturing firms/and for material known the desired levels of inventories. In developing budgetary process, recognition must be given to board of directors or higher officials the organization

The real purpose of budgeting should have several advantages. It guides monitoring the flow of the sub-city activity at all. It also enhances the quality of the service that has control and accountability each participant through internal and external relations of managers to its employees and concerned parties at a whole. Related factors that are behind preparation of budget and the challenges faced in the implementation of the planned activities their consequence creates great impact on the sub-city. Problem of budgeting is not the only preparation, but also on implementation. Andmany of the organization would not prepare budget according to their plan and thus this problem faces a series unfavorable budget variance.the study focuses in the factors that affect budgetary implementation and control system sauce as experience of managers and higher officials, un expected rate inflation, amount of budget and

ability of the organization to fore cost control these factors.the factor concrete deviation between the budge teal results and the actual respects.

From this point of view the researcher wants to investigate the following basic questions would be answered in this study;

S What are the challenge preparation and implementation budget?

S Does the sub-city effectively implement budget and what problems affect?

S What type of budget was used by the sub-city?

S What are problem of budget deficit?

S Does variance occur of the budgeted amount and actual?

S Who is responsible to prepare budget?

### **1.3 Objective of the study**

#### **1.3.1 General objectives**

The general objective of this study was to be asses the comprehensive factor that affect budgetary implementation and control system to find potential solution to the problem.

#### **1.3.2 Specific Objectives**

The specific objective of the study was:

S Identify factors that affect budget implementation and control system.

S To identify problems of budget deficit.

S To assess the challenge preparation and implementation budget.

S To examine factor that hinder the effective budget.

S Evaluate the budget utilization of sub-city.

S To investigate any variance of the budgeted amount and actual.

### **1.4 Significance of the study**

The significance of this study is helping the organization managers to investigate and solve the problems of budget implementation and control and also it significant to the community. Moreover, it help to compare the theoretical effectiveness of performance budgeting and

principle with the amended one. It also used for various parties for a wide picture of how theoretical concepts are applicable in actual practice of the organization.

## **1.5 Scope and Limitation of the study**

### **1.5.1 Scope of the study**

The scope of this study had been limited to the administration office, budget implementation particularly in the Kolfekeranyo Sub-city, because the Sub-city is wide in population and demographic aspects. In addition, the study was limited to factors that affect budget implementation and control system of Kolfekeranyo sub city. The study cover the year 2004-2005 fiscal year.

### **1.5.2 Limitation of the study**

In conducting this study the researcher faced several problems which have negative impact on this paper. The study doesn't cover all the Sub-city activities because the Sub-city is wide in population and demographic factor and also the study use only two years budgeting data because of difficult to collect every year budgeting data and the Sub-city wide characteristics.in addition to this in the case of data collection there are some respondents are not interesting to give true information that is needed for the study. The reason might be due to the confident of the information and also lack of transportation cost and time.

## **1.6 Organization of the paper**

The paper was contains chapter one introduction, chapter two literature review, Chapter three analysis and discussion data and the end chapter four conclusion and recommendation in accordance with investigation.

## **1.7 Research Methodology and Design**

### **1.7.1 Area of the study**

The study was to assess the budget implementation and control system of KolfeKeranyo Sub-city which is located in Addis Ababa city.

### **1.7.2 Research design**

For this research, a descriptive design type of research to be used. In other words, the research was designed in order to describe the existing budget implementation and control system of KolfeKeranyo sub-city.

### **1.7.3 Types of data and source**

The researcher has been used two types of data. This is primary and secondary data in organizing the study and mainly to come up with some empirical results, annual data for sequence of 2 years and collected from internet and from various books. The main source of the data for accomplishing this studies the sub-city annual financial reports. It also uses other different research paper for the purpose of full up of the procedure and system they design.

### **1.7.4 Method of Data Collection**

In the data collection process different data collection method had been used in the study. According to the source of data that has been collected to conduct the researcher had been collected two different types of data collection procedures have been used. These are primary data that is questionnaires and interview. The secondary data has been collected from different sources, such as the sub-city financial report reference books and other research materials, magazines, personal documents, public and official documents:- such as records, journals and magazines and newspapers reports. Among personal documents letters, memories and diaries are an important secondary data and these data are organized in both quantitative and qualitative method. For the quantitative data the analysis part is conducted through percentage and tables regarding the qualitative type of data explanation take place briefly manner.

### **1.7.5 Sampling Design**

The sample selection carried out by a researcher so that it is reliable as to the representation of the total population who are believed to be worker of the organization. The eligible respondents were budget experts, managers, accounts economic and other that have some responsibility in the sub-city. Hence the research sample unit was containing a sample unit of 44 total personnel in the sub-city by using probability judgmental sampling 20 of them are selected. Within the sub-city an effort was to be made to interview the individual this are managers, budget experts, senior



officers and other that have some responsibilities in the organization who is most familiar with the budget preparation and individuals who concern the budget section.

The techniques that are going to be implemented for the study were census technique. This technique of sampling is selected, because it enables to get accurate and sufficient information.

### **1.7.6 Methods of Data Analysis and preset**

After data collection, we used different accounting tools such as percentage and a table was used to analyze and interpret the data and information in order to describe the annual financial report of the Sub-city. And also used different system among them editing, coding and tabulation. Editing to be used to involve the inspection of questionnaires on a raw data and necessary for each questions and defecting the most glaring omission in accuracy detail.

Coding is a technical procedures by which data are categorized through coding the raw data to transferred in to symbolic usually numerals. They may be tabulated and counted. This can be by specifying the categories in to which remains to be place. The number would be depending up on the number of question on the questionnaires.

Tabulation can be consists of simply counting the number facts that fall in to various groups. It communication the result of the study, can be used for several purpose it is facilitated determining the empirical distribution.

# CHAPTER TWO

## Literature Review

### **2.1 Budget and Budgeting concept**

This part tries to review the nature and importance of budget, as well as, its measurement system. Virtually every one has heard the term budgeting and has concept of its meaning. Like many accounting terms; budgeting is used commonly in our daily language. For example every one might have heard that the mass media reports budgets of administrative regions, budget of Federal government, budget of private company and budget of different government units. This concept is raised for the purpose of introducing the basic frame work of the budget.

More about budget can be defined by different scholars. Different scholars defined budget in different managers. However most of them have come up with similar connotation of budget and budgeting some of the definitions selected represented below.

To deal with, it is important to begin on the meanings of the essence and purpose of budget. The word budget is derived from the French word “boguette” meaning a small bag or pouch. The oxford dictionary defines a budget as “a statement of the probable revenue and expenditure for the ensuring year with functional proposal funded there on” it is also defined as a financial or quantitative statement prepared prior to define period of time.

A budget is a plan showing the company’s objectives and how management is intend to acquire and use resources to attain objectives.

Another scholar defines the word “budget” originally meant the most buy of the public purse (small bag). This served as a receptacle for the revenue and expenditure of the state.

A budget is a formal listing of the expenditure and reviews of a governmental unit. It is a financial plan for the future. The budget are legally binding up on administrators has led to the incorporation of the budget and budgetary accounts of very small governmental units of government and the US government on the other hand is quite complex. In the general fund and

in special revenue fund and all other funds required by state laws to adopt a budget and the budget document records the decisions that have been made through the political interaction of citizens, legislators, bureaucrats and public executives, budgets perform several functions help us control the government and also improve the accountability, management and planning of public sector activities.

The budget also a planning tool and it forces people to compare the benefits of various projects with the cost of such project and may therefore put such people in a better position to make wise decisions. Modern budget procedures contain projections of expenditure and revenues. ( Wilson 2010)

### **2.1.1 The objective of budgeting**

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

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

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

A good budget should, at a minimum, have majority, 'Buy in' by all affected parties. Logistically, a budgets need to be en acted before the fiscal year begins and be integrated with the financial accounting system so that actual results can be compared to budgeted plans at regular intervals. Integrating the budget in to the accounting system allows management to oversee individual unit performance and react quickly to variances between actual results and budgets plans. The legalistic view is that a budget is a plan of financial operation embodying an estimate of proposed expenditures for a given period of time and the proposed means of financing them. Budgets may be regarded as devices to aid management in operating an organization more effectively. Governments build budget to demonstrate compliance with laws and to communicate performance effectiveness. (Wilson 2010).

### **2.1.2 Historical Development of Ethiopian Budget**

Ethiopian starts the practice of government budget early at the regimes of Hailesilase. However, at the beginning, it was not structured in such a way as to permit efficient financial administration, but through time period continuous modification of the budget system was made before it attained its present status.

The budgetary system varied in diffident regimes based on the administrative structure each government followed. In centralized system, resource allocation and financial administration is the major responsibility of central government. The budget would be formulated and resources allocated by the central government. The entire spending process was also under a closer supervision of executive bodies at central government.

In a decentralized governmental structure on the other hand, the responsibility of financial administration is developed in to autonomous and semi-autonomous governmental unit like ministry offices, regional and local governments.

Ethiopians budgeting systems reach to this current situation, after a number of modifications. This modification were approved by the constitution of the country. The Federal Democratic Republic of Ethiopia (FDRE) constitution defines the budget system and its structure briefly under article 65 and proclamation No.1/1995, 57/1996 and 17/1997.

### **2.1.3 Characteristics of Budget**

As per the definition shown above a budget has the following characteristic;

1. It is a quantitative statement expressed in terms of money.
2. To as prepared in advance and approved prior to a definite period of time during which it is to operate.
3. If relates to future. In other words budgets are prepared for future implementation.
4. A budget is prepared for the implementation of the policy formulated by the management for the purpose of attaining a given objective.

The institute defines budgetary control as the establishment of budgets relating to the responsibilities of executives of the requirements of a policy and the continuous comparison of actual with budgeted results, either to secure by individual action the objectives of the policy to provide firm basis for its revision. (Arifprssa, 2007).

### **2.1.4 Budget and budgeting cycle**

A budget is a quantitative expression of proposed plan of action by management for specified period and aid to coordinating what needs to be done to implement that plan. A budget can concern both financial and non-financial aspect of the plan and serves as blueprint for the company to follow in an upcoming period. A budget that covers financial aspect quantifies, management's expectation regarding income, cash flows, and financial position. Just as financial statement be prepared for future period

Well managed companies usually cycle through the following budgeting steps:

1. Planning the performance of the company as a whole, as well as planning the performance of its subunit.
2. Provide a frame reference, a set of a specific expectation against which actual result can be completed.
3. Investigating variation from plans. If necessary, corrective actions to flows investigation.
4. Planning again, in light of feedback and changed condition ( Horngren 2006 ).

### **2.1.5 Advantages of budget**

S Compares strategic planning and implementation of plans.

- S Provides success the company's goal of objectives.
- S Motivate managers and employees.
- S Provide a frame work for judging performance.
- S Promotes co-ordination and communication among sub units within the company ( Horngren 2006) .

## **2.2 Types of Budget**

Budget as a process and a system has different features and applications. Even through many of them have common feature, they also manifest significant differences. Since budget express plan and an organization may have a large verity of plans: there are many type of budget.

### **2.2.1 Line item budgeting**

is a traditional approach to budget and the one that is most likely present in some portion of every government's budget to days is line item or object of expenditures budgeting.

A simplistic approach to budgeting line item is called incremental budgeting in essence an incremental budget is derived from current year's budget by adding amounts expected to be required by line items ( Wilson 2010) .

### **2.2.2 Performance budgeting**

The evaluation of the concept of a budget from "an estimate of proposed expenditures and the proposed & means of financing them "to an operating plan" it was a mutual accompaniment to the development of the concept professional management in public administration ( Wilson 2010).

### **2.2.3 Program budgeting**

is a term same times used synonyms with performance budget the term is none generally used to referred to a budget performance /format that discloses the full costs of programs or function without regarding to the numbers of organizational units that might be involved in performing the various aspects of a program or function.

Program budget address the fundamental issues of whether in program should exist at all and how to allocate scarce resources among competing programs the integration of planning

programming budgeting and accounting has considerable appeals has to persons concerned with public administration because an integrated system should, logically, provide legislators and administration with much better information for the management of governmental resources than has been provided legislators separate systems.

#### **2.2.4 Entrepreneurial budgeting**

another evaluation that resources it's even further from the preview of the accounting departments is entrepreneurial budgeting an approach that position budgeting so that it's the responsibility of the highest level person in the government most often the client of activities officers in this approaches strategic plans, in centimes and accountability are merged in to the budget and communicated to the citizens as a package.

#### **2.2.5 The Zero based Budgeting**

The Zero-based budgeting (ZBB) approach is one that forces managers to assess the value of and to justify the connection of each activity under their supervision. Zero-based budgeting is a combination of thought and action processes, a series of budget units is developed. Each unit consists of descriptions;

- (1) The project or activity.
- (2) The expected level of accomplishment
- (3) The advantages of retaining the activity and
- (4) The consequences of eliminating it, as well as dollar estimators of alternative ways of performing it. An important aspect of Zero- based budgeting is the consideration given to each level of «accomplishment » that is likely to result from an activity. The

Advantages of ZBB are:-

- ✓ The largest, amount of effort and paper work required to important and update them.
- ✓ Resistance , on the part of managers and
- ✓ The inability of managers to accept the idea of reduction in the scope of their activities.

The idea of certain governmental activities was un thinkable to many persons inside and outside the governments.

(Razek, 2006)

### **2.2.6 Fixed budget**

A fixed budget is prepared for a particular activity to present the cost details. This types of budget is not of much help to the management as no adjustment is made to the cost for the difference in the level of activity. (Arora, 2003).

### **2.2.7 Static versus a Flexible Budget**

Before we well in to the details of how flexible budgeted serve as tools to control overhead costs. Let's first see the difference between a static and a flexible budget briefly in the discussion that follows.

### **2.2.8 Static Budgets**

The static or inflexible because they are based on fixed levels because they are based on fixed levels of future activity. Recall that the master budget is based solely on the level of planned activity. Because of its rigid dependency on a single estimate of volume /for example, one volume of sales activity), the master budget is frequently called estates budget. In other words, the matter budget remains static or stays the same when the volume of activity changes. The statue budget approach is suitable for planning purposes, by it is inadequate for evaluating how well costs are controlled. If the actual activity during a period differs from what was planned, it would be misleading to simply compare actual costs to the static budgets. If activity is higher than expected, the variable costs should be higher than expected. With static budgets, the reformed actual results compared against anticipated results at what might be two different levels of volume. (yohannes 2005)

### **2.2.9 Flexible budget**

A Flexible budget is not based on only one level of activity. Instead, a flexible budget covers arrange of activity with in which the firm may operate, flexible overhead budgets is defined as a detailed plan for controlling overhead costs that is valid in the firm's relevant range of activity. Thus flexible budget is prepared to different levels of activity within a firm's relevant range and is designed to change as volume of activity changed.



Flexible budgets take in to account changes in costs that should occur as a consequence of changes in activity. Flexible budgets provide estimates of what cost should be for any level of activity within a specified range. When flexible budget is used in performance evaluation actual costs are compared to what the costs, should have been for the actual level of activity during the period rather than to the budgeted costs from the original budgets. ( Johannes 2005)

## **Operation of Flexible Budgetary control**

A flexible budget may be operated under two controls;

- I. Flexible Budget without standard costing
- II. Flexible Budget with standard costing
  1. What Flexible budgetary control is not operated in conjunction with standard costing the variances cannot be explained in detail but they can be reflected only in total. As a result, it will be difficult to come to a valid conclusion as the variances will not be much information.
  2. When standard costing and flexible budgeting are operated, simultaneously, the technique of determination of flexible budget allowance for fixed over heads is different from that when standard costing is not insistence.

### **2.2.10 Cash Budget**

The cash budget presents the expected in flows and out flow of cash for a day week a month or a longer period.

Data from the various operating expenses budget; affect the cash, the direct materials purchases budget and the operating expenses budget affect the cash budget. In addition, the capital expeditor budget divided policies and plans for equally or long term debt financing also affect the cash budget. In the cash budget, receipts are classified by source and payments by purpose the estimated cash balance of the end of the period is them compared with the minimum balance required by operations. Any expected excess or deficiency can thus be determined. (Fees, warren, 1984).

## **2.3 Budgetary control**

Budgetary control is a use of comprehensive system of budgeting to aid management in carrying out its functions of planning, coordinating, and controlling operations. A budgetary control is one of the important tools of control. The institute defines budgetary control as “the establishment of budgets relating to the responsibilities of executives to the requirements of a policy, and the continuous comparison of actual with budgeted results, either to secure by individual action the objectives of that policy or to provide a firm basis for its revision.” Budgetary control of revenue to establish accountability for revenue and permit budgetary control, actual revenues should be recognized in the general ledger accounts of governmental funds credits to the revenue account (offset by debits to receivable accounts for revenues that are accrued or y debits to cash for revenue recognized when received in cash). The general ledger revenues accounts is a control account supported by revenues subsidiary ledger accounts kept in exactly the same detail as kept for the estimated revenues subsidiary ledger accounts. ( Pasha. 2007).

## **2.4 Budgetary Accounts**

Budgetary accounts generally should not be needed for permanent funds because transactions of the result in changes in the fund principal only incidentally by definition, the principal be appropriated or expended. However, public purpose expendable trust funds may be required by law to use the appropriation procedure to ensure adequate budgetary control over the expenditure of fund assets since they are accounted in special review funds. If the appropriation procedure is required, the use of the other budgetary accounts discussed earlier in this recommended. ( Wilson 2010)

## **2.5 Objectives of budgetary control**

### **2.5.1 Planning**

A budget is a plan of action which provides a detailed plan over a definite period of time. By planning in advance a business can anticipate many problems much before they arise and solutions can be sought through a careful study. in other wards it compels the management to think a head to anticipate and prepare for the future possibilities. Thus most business

emergencies can be avoided by planning. In brief, budgeting forces management to think a head to anticipate and prepare for the anticipated conditions. (Pasha, 2007)

### **2.5.2 Coordination**

Coordination is the process whereby different divisions of a concern work in harmony to achieve the objectives of a business. a comprehensive budgetary control requires that these plans be formally laid down in the budget and copies to be circulated among the different departments for proper information and functioning. Therefore should be coordination with the budget of production. Similarly, production budget should be prepared in coordination with the purchase budget and so on. ( Pasha, 2007)

### **2.5.3 Control**

Control is necessary to ensure that plans and objectives as laid down in the budgets are being achieved. Control, as applied to budgeting is a systematized effort to keep management informed of whether planned performance is being achieved or not. For this purpose a comparison is made between plans and actual performance. The difference between the two is reported to management for taking corrective action( Pasha, 2007)

### **2.5.4 Communication**

A budget is a communication device. The approved budget copies are distributed to all management personnel which provides not only adequate understanding and knowledge of the programmes and policies to be followed but also gives knowledge's about the restrictions to be adhered to. It is not the budget itself that facilitates communication, but the vital information is communicated in the act of preparing budgets and participation of all responsible individuals in this act.(Pasha, 2007)

### **2.5.5 Motivation**

A budget is useful device for motivating managers to perform in line with the company objectives. If individuals have actively participated in the preparation of budgets, it acts as a strong motivating force to achieve the targets. ( Pasha, 2007)

## 2.6 Organization for budgetary control

For effective budgetary control a sound and efficient organization is essential. The following proximitities to be considered in a sound system of budgetary control:-

1. Budget centres: a budget centre is a section of the organization for which separate budgets can be prepared and control exercised.
2. Organization chart: There should be a well-defined organization chart for budgetary control. This will show the lines of responsibility of each executive and his position in relation to others. The designs of an organization chart will vary depending up on the nature and size of individual business.



### Organization chart for budgetary control

3. Budget committee: in small companies, the preparation of budget in the responsibility of the cost of management accounts

Budget committee is composed of executives in charge of major functions. The Chief Executives generally act as chairman and the accountant as the budget officer. The main functions of budget committee are:-

1. To help departmental managers by submitting past information to prepare budgets.
  2. To receive and review the budgets the budgets relating to different functions
  3. To decide general policies of management in relation to the budgets.
  4. To recommend action to be taken on the of variance analysis
4. Budget Manual: it is a document which sets out, inter, alia, the responsibilities of the persons engaged in the routine of and the forms and records required for, budgetary control.
5. Budget period: it is the period for which budgets is prepared and used which may then the sub divided in to control periods. One of the following types of budget periods is generally uses.
1. Long period say up to 10 or 20 years
  2. Fiscal period which is ordinarily a year or
  3. Short period say a week or a month

The reins no hard and fast rule in selecting the appropriate budget period. However, the selection is influenced by the following two factors.

- a. The nature and type of business , and
- b. The control aspect.

6 Level of activity: it is essential to establish a normal level of activity since it forms the basis of the budget. (Bhabatosh Banerjee 2006).

## **2.7 Budgetary control of Encumbrances and expenditures**

When enacted in to law, an appropriation is an authorization for administrators to expend financial resources on behalf of the government not to exceed the amounts specified in the appropriation ordinance or statute, for the purposes set forth in that ordinance or statute, during the period of time specified.

Expenditures and the liability account must both record at the actual amount the government agrees to pay the vendors who have filled the purchase orders. The fact that estimated and actual amounts differ causes no accounting difficulties as long as goods or service are received in the same fiscal period as ordered. The encumbrance procedure is not necessary for every types of expenditure transactions.

The administrators of governments need accounting systems designed to provide at any given time during a fiscal year comparisons for each item in the legal appropriations budget of the amount appropriated, the amount of outstanding encumbrances, and the cumulative amount of expenditures to this date. The net of the three items is accurately described as unencumbered unexpended appropriations but can be labeled more simply as available appropriations or available balance. In order to provide needed comparisons, classifications of expenditures and encumbrances must agree with the classification of appropriations mandated by law. In most cases, budgetary control over expenditures follows the logical flow depicted below:

Appropriation ----- encumbrance ----- expenditure ----- disbursements

At intervals during the fiscal year, a schedule of budgeted and actual expenditures and encumbrances should be prepared to inform administrators and members of the legislative branch of the data contained in the subsidiary ledger records. (Wilson 2010)

## 2.8 International control systems

The council of minister's financial regulation No. 17/1997 defines internal control systems as:

*"The plan of organizational and all the coordinated methods and measures adopted by management to safeguard assets ensure the lines, accuracy and reliability of accounting data, promote operational efficiency and maintain adherence to regulation and directives. "*

The two main constituents of internal control system are the administrative and the financial Accounting: control

The administrative control comprises the procedures and records that are concerned with decision making process leading to management's authorization of events. on the other hand, the financial control consists of the plan of an entity, producers; and records that deal with protection of assets and the consistency of financial records ascertains logical plan of an entity, new designed and accounting configuration, an internal audit function, and quality and training of personnel's as among the indispensable factor to reinforce internal control arrangement.

Strong system of internal control is very essential in achieving certain goals of an organization. Internal control includes all the procedures and actions taken by an organization in order to manage the expiating assets, ensure conformity with organizations policy and governmental rules, evaluate operating efficiency and ensure precise and reliable operating data and accounting records.

## **2.9 The Need of budgetary control**

Planning and control of operation and related resources and their costs are the keys of good management profit. Planning is important to all success full profit oriented company of part of budgeting program. The objective of budgetary controls

*S* To forecast future financial and non-financial transaction and events.

*S* To develop information that is accurate and as meaning full to the receipted possible.

## CHAPTER THREE

### 3.1 Data analysis and presentation

In this section, a detailed description of employee characteristics, presentation and analysis of data is presented. The data gathered through questionnaire and interviews after that it is analyzed and presented in tabular forms. The researcher distribute 20 questioners all of the questionnaire are returned.

### 3.2 Characteristics of respondents

It is appropriate to know the characteristics such as educational background and their work position of the sub-city employees. This enables us to know the experience and educational level of the respondents within the sub-city. Table 3.1 shows the composition of respondents with respect to their age and educational level.

Table 3.1 Composition of respondents with respect to their age and educational level

No	Item	Respondents	
		No	%
1	Age		
	Less 25	3	15
	26-35	7	35
	36-45	6	30
	Above 45	4	20
	Total	20	100
2	Educational level		
	Master	2	10
	Degree	11	55
	Diploma	7	35
	12 grade complete	-	-
	8 grade complete	-	-
	Total	20	100

(Source: Data Collected from questionnaires)



As we can see from Table 3.1, the age compositions of the respondents have higher value within 26-35 age interval followed by 36-45, above 45 and less than 25. From these researchers conclude; most of the respondents lie within 26 -35 age range.

In addition to the age composition of the respondents, Table 3.1 shows educational composition of those respondents. Out of 20 respondents 55% of them are degree holder followed by 35% of diploma and 10% of master holder. This implies that the sub-city have are more of degree and diploma holder employeeand which is an indication of the fact that greater number of the respondents known about about budgeting processes and budgetary controls.

### 3.3 Type of budget used by the sub-city

Budget in major companies span a period of one year or below. However this may vary from one company to another. The researchers gather information about budget span of the sub-city.

Based on from the three opposing budget types, the researcher wants to investigate which one more applicable in the organization. to get appropriate answer for this question which is taken 20 sample respondents from employees of the sub-city.

Table 3.2 Response on the type of budget used within the sub-city

Response what type of budget used by the sub-city?	Response flexible	fixed	Percent (%)
A. Flexible	3		15%
B. Fixed		17	85%
Total			100%

(Source: Data Collected from questionnaires)

From the analysis of the above table we can understand that what looks like the respondents reply to questions are the majority of the respondent says the sub-city uses fixed budget due to

the reality of the advantages. The response which is the above table shows 17(85%) was fixed budget used the sub-city and the other 3(15%) said that the sub-city uses flexible budget.

The reason fixed budget was chosen by the sub-city was

- Fixed budget can preferable on the project level of the sub-city.
- It is most appropriate when changes in the amount of goods and services obtainable directly affect availability of resources and expenditure needs.
- Practical activity was achieved.
- It helps to the management as no adjustment is made to the cost for the difference in the level of activity and also the sub-city also used a flexible budget in the sub-city payroll system of the sub-city.

In addition the researchers understand the sub-city uses fixed type of budget and also uses flexible budget in many purposes. The reason flexible budget was chosen by the sub-city in many cases because of it was flexible budget can adoptable to any given set of operational conditions, it is also more realistic and Practical activity was achieved.

Table 3.3 Analysis of budget procedure

Is the sub-city uses all of the budgets procedure?	No of respondents	Percentage (%)
Yes	17	85%
No	3	15%
Total	20	100%

(Source: Data Collected from questionnaires)

The above table indicates that 85% (17) of respondents said that the sub-city use all the budget procedures the remaining 15% (3) respondents said that the sub-city not use all procedures.

Most respondents say the sub-city was use appropriate budget procedure. The sub-city budgeting objective was on the different aspects. The major concerns of the budget were projecting availability of the funds. To implement the capital and expenditures types.

The procedure the sub-city follows up to prepare budget was bottom to up and vice versa and most of the time quantitative procedure was used. It is the measurement of quantity or amount that is the sub-city activities. It is applicable for phenomenon that can be expressed interims of quantity.

The procedure followed by the sub-city was top to bottom and vice versa due to top officials participate in budget processing activities and gave appropriate instructions to concerned lower level worker. Bottom level workers were participated by supplying customer based information to upper level officials and commented upper level officials when unnecessary action was occurred.

Table 3.4 Response on effective budget implementation

Response	Response	Percentage (%)
Does the sub-city effectively implement the budget?		
Yes	15	75%
No	3	15%
Neutral	-	-
May be yes	2	10%
Total	20	100%

(Source: Data Collected from questionnaires)

From the above table we can observe the questionnaire majority of the respondents that is 15(75%) said the sub-city used its budget appropriately. But the remaining was which is 3(15%) are said that the sub-city does not implement its budget effectively and 2(10%) was may be used said due to uncontrollable nature.

This indicates that the majority of respondents said the sub-city effectively implement the budget this implies the sub-city effectively implement the budget.

**Table 3.5 Response on problems and challenge occurred during budget implementation**

Type of response	Number of response	Percent (%)
Is a Problem occurred during implementation?		
Yes	17	85
No	3	15
Total	20	100

(Source: Data Collected from questionnaires)

About 85% respondents who are involved in budget preparation said they encounter problems during budget preparation. They argue that the budget is only a plan developed in advance prior to the budget period and listed these as the problems in budget preparation.

1. They argue that it is difficult to meet requirements in the various departments in terms of experienced personnel, incentives, appropriate inputs from the various departments and computers. They said further that with all these constraints the staff is committed in the discharge of their duties in budget preparation.

2. Poor database for planning and budgeting statistical data collection for planning and budgeting according to 45% of the respondents who are in management is difficult and existing data for planning and budgeting is about 25% inaccurate. This makes budget formulation quite difficult.

As to whether problems are encountered in budget preparation, 70% of the respondents agreed, while 30% did not agree. According to the respondents who agree some of these problems included operational difficulty, low morals and delays. The respondents who did not agree said lack of in depth knowledge on the budget implementation hampered proper implementation of budgets at the sub-city and various departments. The other reason is that people with expertise were not involved in the implementation of budgets.

### **3.3.1 What Problem occurs in Implementation of budget?**

The interviewee's replied that the main problem faced for the sub-city while in implementing the budget the office turnover of employee, skill gap or lack of skill man power, scarce of resources, and incompatibility between the Expected budget by the sub sector and the budget of the sub-city.

Generally, the sub-city has faced with the above problems when it implements the budget.

**3.3.2 Responsibility to prepare budget in the sub-city**

The sub-city budget was prepared and takes responsibility by the sub-cities top level budget officers. The respondent’s response shows that the budget was prepared by corporate budget planning and administration department and the responsibility taken by it.

Table 3.6 Response on budget plan preparation and taking responsibility at the end of the budget year

Type of response	No of respondent	Percentage (%)
Is the sub-city takes responsibility its budget preparation?		
Yes	17	85%
No	3	15%
Total	20	100%

(Source: Data Collected from questionnaires)

Based on the above table the sub-city was prepared and take responsible at the end the majority of the respondents that is 17(85%) was said the sub-city properly prepared and used. The remaining was that is 3(15%) was said the sub-city preparation of budget is does not known by the lower level servants and this indicates that the sub-city take responsibility its budget.

The problem that occurred on preparing of the sub-city budget was lack of formalization between employees of the sub-city because the upper level officials are does not concern to lower level servants.

- Difficult to meet requirements in the various departments in terms of experienced personnel, incentives, appropriate inputs from the various departments and computers.
- Lack of activate flow of essential information from top to bottom and vice versa.
- Unforeseen circumstance.

**Table 3.7 Response on the period of time the planned budget can be run**

Respondents How does the budget it run?	Amount of response		For semi annual	Percentage (%)	
	for a month	For a quarter		For a year	
Yes	-	-	-	20	100%
No	-	-	-	-	-
Total	-	-	-	20	100%

(Source: Data collected from questionnaires)

Based on the above table we can observe that the respondents reply concerning on their response 100 % ( 20) respondent are said the sub-city used its budget for a year.

This indicates that the sub-city use annual budgeting system.

**Table 3.8 Response on budget deficit occurrence**

Types of response	of respondent	Percentage
Is the budget deficit occur in the sub-city?		
Yes	4	20
No	16	80
Total	20	100

(Source: Data collected from questionnaires)

From the above table out of the total of 20 respondents about 4(20%) of respondents replied budget deficit occur within the sub-city. 16(80) is response not occurring.

This indicate that the researcher can understand the budget deficit occur within the sub-city is medium. The causes are inaccurate and inadequate data for budgeting, lack of and inadequate education on financial liabilities of the people. Low financial and non-financial motivation so that the sub-city control this problem by using to develop many activities.

**Table 3.9 Response on budget planning and controlling process**

No	Items	Respondents	
		N <sup>o</sup>	%
1	Do you participate in budget planning and utilizing?		
	Yes	15	75
	No	5	25
2	If your response for question N <sup>o</sup> 1 above is yes in which types activities?		
	Administrative	2	13.5
	Project/ capital	4	26.5
	Planning and utilizing	3	20
	other	6	40
	Total	15	100
3	If your answer for question 1 above No what is your reason?		
	It is not your responsibility	3	60
	Only special workers participate	2	40
	Because of random selection	0	0
	Total	5	100

(Source: Data collected from questionnaires)

The above table clearly indicated that 15(75%) of respondents replied that they have participated in budget planning, controlling and utilization of the sub-city. On the other hand 5(25%) of respondents indicated that do not participate in budget activities. This implies majority of the respondents participated in the sub-city planning and controlling department.

In the same table 2(13.5%) of respondents responded that they are participating in the preparation of budget for administration function, 4(26.5%) of respondent replied that they prepare capital budget under taken in the sub-city and 3(20%) of respondents told that they have participated in the preparation of general budget and controlling function and the remaining are participated other type budget.

For question No 3 in the same table above employees that do not take part in budget planning, utilizing and allocating because 3(60%) of the respondents reveled that it is not their responsibility and 2(40%) of the respondents said that budgeting activity was given for only special workers.

The above table indicates the respondents classify in planning and controlling groups. This covers expenditure for the service like executive's legislation, judicial function and physical affairs and public orders. Capital budget are budget that related to different activities that have a specified objectives for the achievement of certain goals and it is useful in key managerial function such as planning coordinating and indicates the society concerned what decisions have made of the organizational objectives.

### **3.3.3 Applied of Budgetary control in the sub-city**

To the question as to how are budgetary controls applied at the sub-city, respondents who are part of the management and budget committee said budgetary controls are applied at kolfekeranyo sub-city through ;

- Preparing of a budget on a given format and according to budget guidelines.
- Adherence to budget guidelines and procedures.
- Allocation of resources according to budget guidelines.
- Checking if expenditure is on course.
- Making continuous comparison of actual results with budget results.

### **3.4 Variance analysis**

Comparison of actual results with planned or budgeted goals has been concerned as an important part of the control process in the kolfekeranyo sub-city. The most important features of performance report were the reposting of difference between actual result and planned goals in



different projects. Variance may occurred by appropriately implemented the budget and actual result of the sub-city.

Table 3.10 Response on variance occurrence and comparison with the actual budget

Types of response Is the sub-city comparison actual with budget?	No	Percentage (%)
Yes	20	100%
No	-	-
Total	20	100%

(Source: Data collected from questionnaires)

The variance that was occurred in the sub-city was unfavorable to the sub-city (show table 3.13)the respondents of the sub-city gave their response to this idea all of them are said that 20(100%) occur to sub-city. Relating to this would like to investigate why variance was occurred in the sub-city. The reason for occurrence of variance was

- Unforeseen circumstance e.g. unexpected revenue capital.
- Improvement of the general administrative policy of the sub-city.
- Increase civil servants participation in the sub-city and create awareness about their responsibility

### **3.5Performance reports**

Performance report is not satisfaction unless there is a sustainable flow of reports. These report would be formulated at regular manner based on the sub-city performance each month, quarter, semiannual and annually. To show the difference of actual with the budgeted ones, Such types of reports showing satisfactory or fair or unsatisfactory (unfair) variance from different budget angles based on this for how many times does the sub-city prepared performance report within a year all respondents gave their response on the following table.

**Table 3.11 Response on the number of performance report preparation within a year**

Respondents How many times prepare performance report?	Every month	Every quarter	Every semi annual	Every year	%
A. Yes	-	16	-	-	80%
B. No	-	4	-	-	20%
Total	-	20	-	-	100%

(Source: Data collected from questionnaires)

Based on the above table we are concluded that the sub-city was prepared performance within a quarter. Because the respondent said that 16(80%) of are reply their response on a quarter and 4(20%) of employees also said that they have don't know about the performance of the sub-city.

From this the essential features of performance report was the reporting of variance among actual and planned results occurred. So that, we would like to known when the sub-city takes the measure action in order to control the variance. To obtain reliable answer for this issue would analysis the following tables and gain their answer.

**Table 3.12 Response on the duration of a measure action is taken**

Participants Does taken measure of action?	Response			Percentage (%)	
	Immediate	Quarterly	Semi annual	At the end of the year	
Yes	-	16	-	-	80%
No	-	4	-	-	20%
Total	-	20	-	-	100%

(Source: Collected from questionnaire)

Based on the above table evaluating measure action is do not simple task, it needs very critical and needs very high attention. Among the total employee 16 (80%) was said that taking measure action was performed three month later from the variance occurred and the other 4 (20%) said

that they do not know to take action. From the above table I would think that variance was occurred in the sub-city and to know the degree of the variance was positive or negative its impact on the performance of the organization concerned respondents gave their response to this opinion positive one.

- They give quick and quality service to their citizens.
- To be better responsible to their task.
- Built the overall preparation of the sub-city.

### **3.6 Expenditure Budgeted Analysis**

Expenditure spent on operational activities or running activities of different departments, agencies and different types of projects. These expenditures of course, are concerned with the current year operation expenditures. The following table shows the recurrent budget of two consecutive years.

Table 3.13 Adjusted and actual budget expenditure of year 2004 and 2005 E.C

	particulars	Project located woreda	2004(e.c)	2004(e.c)	variance	2005(e.c)	2005(e.c)	variance
			Adjusted budget	Actual		Adjusted budget	actuals	
1	school	3	2200000	1765	2198235	3000000	1919271.60	1080728.40
2	school	13	-	-	-	2400000	1792232.84	607767.16
3	Health center	1	378710	377318.40	1391.60	1951000	1950831.99	168.01
4	Health center	6	2416100	1934685.46	481414.54	1449000	1284140.27	164859.73
5	Health center	3	2697540	2476765.70	220774.30	-	-	-
6	Produced center	6	6000000	5874761	125239	8450000	5752285.04	2697714.96
7	Produced center	12	9600000	3130269.37	6469730.63	2000000	1833307.74	166692.26
8	recreation	3	625000	54381.29	570618.71	2545000	2533816.54	11183.46
9	Mixing health center	13	2258803	1757031.43	501771.57			
10	Worda 2 school	2	5000000	2194377.54	2805622	6200000	5514624.60	685375.40
11	Jemo school	4	-	-	-	1100000	1011707.77	88292.23
12	library	-	-	-	-	3689280	3600379.81	88900.19

(Data collection from the sub-city financial report)

As clearly described in the above table the performance responses of the budgetary report of the sub-city for fiscal year from (2004 -2005) was written in the organizational document in detail description forms. However for the research purpose the researchers have taken the sub-city expenditure area.

The expenditure budget of the sub-city as shown on the table indicates a two year expenditure budget that is 2004 and 2005 e.c. The budget is prepared based on the resources available to the project of the sub-city .During these years the budgeted figures for expenditure budget items are always higher than the actual budget resulting in deficit.

## CHAPTER FOUR

### SUMMARY, CONCLUSION AND RECOMMENDATION

#### 4.1 Summary and conclusion

##### 4.1.1 Summary

The research has revealed how the sub-city implements and controls their budgets and the problems they face in the implementation and control of their budgets. The major findings of the study are summary: zed as follow

S Respondents selected for this study have knowledge about budget and implementation.

S the sub-city always used annual budget. Therefore, effective implementation of the budget enables to achieve the desired objectives as a result of this majority respondents, which is 15(75%) believed that the effective implementation of budget, whereas the remaining respondents which is 3(15%) it can concluded that the sub-city did not effectively implemented its budget.

S 85% respondents said they encounter problems budget during budget preparation and implementation.

S When variance occurred, it is required to take measure action by informing to all employees of the sub-city in order to achieve better result and the desired objective. So that, majority of respondent that is 15(75%) known when measure action was taken, the remaining respondents that is 5(25%) are did not known when measure action was taken. It would be concluded that majority of the respondents of the sub-city known when measure action was taken.

S 20% of respondents replied budget deficit occur within the sub-city.

S The sub-city prepares annual budget at the first quarter of every year.

S 80% of respondents known the sub-city were prepared performance report within quarter and when the sub-city takes measure of action in order to control the variance.

##### 4.1.2 Conclusion

^ As the deviation is auto lack of commitment of the workers and partly due to the absence of qualified personnel stats. The personal are not conscious about the internal as well as the external environment. So they don't consider the changes.

- S Even if the sub-city implements its budget effectively, variance were occurred, when compared actual results with budgeted estimation the reason for the occurrence of variance was the sub-city is not perform it activities. Performance report can be effective, especially if it is presented continuously. However, the sub-city constantly presented the performance report.
- S poor database for planning and budgeting, lack of incentives and lack of experienced personnel in the various departments are some of the problems the sub-city encounters in budget preparation and control, operational difficulty, low morale and delays are other problems the sub-city encounters in the budget implementation.
- S There is active participation of all the departments in the budget preparation and implementation as every department submits their inputs into the annual budget proposals.

## 4.2 Recommendation and suggestions

Based up on the data findings and conclusions made, the researcher suggests the following recommendation for the problem.

- S The sub-city should intensify financial capacity building for budget officers, Finance and Administration and the Management. There is the need for continuous training on budgeting to ensure that officers keep abreast of the new developments in the field of public finance budgeting. It is imperative that there must be capacity building in budget controls at all levels if effectiveness is to be attained. Capacity building should be continuous process and among other things should include how to evaluate budget performance and deal with budget deficits. Training in financial management would ensure that budget control is not regard as only management function but as an act of financial discipline.
  - S 15% of the sub-city respondents do not believe surely the effective implementation of the budget. It is does not simple matter it is advisable to exist clear and open communication among managers, employees and as well as all concerned departments of the sub-city for better performance and to become the achievement of the sub-city goal.
- Inaccurate and inadequate data for budgeting, inadequate education on financial liabilities and Low financial motivation

- S The top management should give orientation for employees about the budget implementation.
- S The sub-city environment should be suitable and attractive to controlled some extent of unforeseen circumstances and externalities unless otherwise impossible to achieve the targeted goal of the sub-city.
- S the sub-city also must use the cost management principle, which is used to develop the activities of financial performance to assess budget deficit.
- S To make better control in the finance, computerization must have to install and start work with the new system and also use of good accounting system, will provides the organization standard reporting of budget implementation and control system.
- S Adequate information should be gathered and critically examined using all possible of the Parameters before arriving at budget decision, this will require rigorous appraisal technique and skills and in order to achieve this, the sub-city should use the services of consultants to assist them plan and prepare good budget.

Appendix

St Mary University
Department of Accounting
Questionnaire

Dear respondent

The purpose of this questionnaire is to collect data for requirement for partial fulfillment of B.A degree in Accounting. The researcher request You to answer the question truly all information You provide will be kept with Confidential and will not be used for other purpose except for intended research purpose. So please answer the question as honestly and objectively as possible. I would also like to thank you in advance for your cooperation and scarification of your time.

N.B

- There is no need of writing your name.
- Make put [V] mark in the box, which you think is an appropriate response.

Respondent's profile

- 1. Sex M F
2. Age Less than 25 26-35 36-45 Above 45
3. Educational level 12 complete Diploma Post graduate Degree PHD Current position

Question

- 1. What type of budget do you use? Flexible Fixed static other specify
2. Does the sub-city use all budget procedures? Yes No
3. Who is responsible to preparation of the budget? Financial department Management department All of together other body's



4. Does the sub-city effectively implement its budget?

Yes  Certainly  No  Many years Neutral

5. Do you encounter any problem during implementation of your budget?

Yes  No

6. What is the problem faces about budget implementation? How the problems are solved? Are there any problems that cannot be solved? Why?

Specify \_\_\_\_\_

7. Does the sub-city take responsibility of budget at end?

Yes  No

8. For how long does the budget it runs?

For three month  For / semiannual  For year

9. How many times do you prepare a budget performance report in a year?

Every month  Every three month

Every six month  Every year

10. Have their a budget deficit been the sub-city?

Yes  No

11. Do you participate in budget planning and utilizing?

Yes  No

12. If your response for question N° 11 above is yes in which type of activities?

Administrative  planning and utilizing

Project /capital  other type

13. Does variance occurred when you compared the budget with actual?

Yes  No

14. If your answer for Question No 13 is yes specify the reason for the occurrence of variance.

15. If your answer for Question No 13 is yes is the variance fair?

Yes  No

16. If variance occurs when do you corrective action?

Immediately  3 months later  6 month later  At the end of year

17. Which type of budget system is more preferable for you?

Flexible  Fixed  other



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