



**ST. MARY'S UNIVERSITY  
SCHOOL OF GRADUATE STUDIES**

**ASSESSMENT OF THE BUDGET AND BUDGETARY CONTROL SYSTEMS  
IN ADDIS ABABA WATER AND SEWERAGE AUTHORITY**

**BY  
EMEBET NIGUSSIE  
ID No. SGS/0450/2011A**

**JUNE, 2020  
ADDIS ABABA, ETHIOPIA**

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**A THESIS SUBMITTED TO ST. MARY'S UNIVERSITY, SCHOOL OF  
GRADUATE STUDIES IN PARTIAL FULFILLMENT OF THE  
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**APPROVED BY BOARD OF EXAMINERS**

\_\_\_\_\_  
Dean, Graduate Studies

\_\_\_\_\_  
Signature & Date

\_\_\_\_\_  
Advisor

\_\_\_\_\_  
Signature & Date

\_\_\_\_\_  
External Examiner

\_\_\_\_\_  
Signature & Date

\_\_\_\_\_  
Internal Examiner

\_\_\_\_\_  
Signature & Date

## DECLARATION

I, the under signed, declare that this thesis is my original work, prepared under the guidance of Asmamaw Getie (Asst. Professor). All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

Emebet Nigussie

**St. Mary's University, Addis Ababa**

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Signature

**June, 2020**

## ENDORSEMENT

This thesis has been submitted to St. Mary's University, School of Graduate Studies for examination with my approval as a university advisor.

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Asmamaw Getie (Asst. Professor)  
St. Mary's University, Addis Ababa

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Signature  
**June, 2020**

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## **LIST OF ACRONYMS**

AAWSA	Addis Ababa Water and Sewerage Authority
ETB	Ethiopian Birr
HPR	House of Peoples Representatives
MoFEC	Ministry of Finance Economic Cooperation
NGOs	Non-Governmental Organizations
PBC	Permanent Budget Committee

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## ABSTRACT

*The major objective of this study was to assess the budget and budgetary control systems in Addis Ababa Water and Sewerage Authority. To conduct the study, the researcher used both primary and secondary data sources through questionnaire, interview and annual reports. Target sampling respondents 92 (ninety two), the sampling techniques used non-probability sampling specifically purposive sampling, and data analysis was done using descriptive statistics present text and table. The finding showed that significant number of employee response unreliable budget preparation, less participatory budgeting process, does not give enough time or special attention on budgetary process, and does not efficient implementation budget. Moreover, shortage of foreign currency and unreliable budget planning increase budget variance, weak comparison of budget with actual performance, lack of skill and does not exist strong follow-up budgetary control system, insufficient skilled manpower, lack of conduct performance auditing to evaluate efficient & effectiveness of budget utilization, lack of continuity of auditing functions, and lack of careful administer budget. It was recommended that reliable budget preparation based on the current market assessment and consistently with previous year budget or based on last year approved budget, making good participatory budgeting process, avoid shortage of foreign currency by management quickly request not only National Bank but also Prime Minister Office in order to give solution within a short period of time, make continuous comparison of budget with actual performance report periodically, make strong follow-up on budgetary control system, make sufficient skilled manpower, make conduct performance auditing to evaluation of budget utilization, make continuity of auditing functions, and very carefully administer each revenue collection and expenditure budget based on cash flow and approved budget with authority and responsibility.*

**Key Words:** *Budget Planning, Preparation, Implementation, Utilization, and Budgetary Control.*

# CHAPTER ONE

## INTRODUCTION

### 1.1. Background of the Study

The word budget is the formal an estimate of the likely incomes and expenditures for a definite future period of a firm (Paresh, 2010). It is usually expressed in monetary term because the economic or financial aspects of the business are primary factors powerful managements. All management should be involved in budgeting, the processing of plan future business actions and expressing them as formal plans. Manager who plan carefully and formalize plans in a budgeting process increase the possibility of both personal and company success (John, 2007). Budget is not only crucial for the government and various business organizations but also for individuals. So everyone is very familiar with the budgeting (Palanivelu, 2009).

According to Kiringai, (2002) many developing countries in Africa have engaged in detailed planning exercises of a variety of types in the period after independence and this have resulted in a wide ranges of literature on planning. Little interest be paid to budget controlling even though this is usually documented as the main tool for allocate resources to specific recurrent and growth activities. In latest years, however, budget system has received more attention and literatures on public expenditure management have developed to be more common. The budget is more and more recognized as the key instrument for economic management.

The key purposes of budgets can be translated into planning the use of resource, forecasting the future, assistance in performance evaluation and maximization, assuring the means of communication for the management, controlling the activities of various groups within the firm, motivating employees to achieve performance, controlling performance by investigating variances, resolving conflicts of interest between groups with the organization, pricing decisions and control (Riley, 2012, Oak and Schmidgall, 2009, Cruz, 2007, Ahmad and Suleiman, 2003, and Joshi et al., 2003).

The task of preparing a budget should not be the sole responsibility of any one department. Similarly, the budget should not be simply handed down as top management's final word. Instead budget figures and budget estimates developed through a bottom-up process usually are more useful. Without active employee involvement in preparing budget figures there is a risk these employees will feel that the numbers fail to reflect their special problems and needs. Many companies apply continuous budgeting by preparing rolling budgets. As each monthly or quarterly budget period goes by these companies revise their entire set of budgets for months or quarters remaining and add new monthly or quarterly budgets to replace the ones that lapsed (John, et. al, 2007).

Budgetary control system is a measure to help the management for the allotment of responsibility and authority to provide it with data for taking decision, estimating and future planning, and to prepare the analysis of the variation between estimated and actual performance. In order to ensure effective operation of the budgetary control system, it is necessary that the firm should develop proper basis for fixation of standard with, that is, it should have in operation a system of standard costing. Moreover, the integrated lines of authority and responsibility should be laid out and defined. This is quite essential as the budgetary control system postulates a separation of functions and division of responsibilities (Paresh, 2010).

In Ethiopia context, each public body needs to do budget preparations before they receive the budget call letter from Ministry of Finance Economic Cooperation (MoFEC) with their budget ceilings. There is much preliminary budget preparation work they can carry out prior to receiving the official budget call letter. MoFEC will design to official from each public body will be questioned about their budget request and sometimes invited to submit additional supporting information to proceed to the preparation of a draft recommended budget and submits to the Council of Ministers. In turn, the Council reviews it and submits for the House of Peoples Representatives (HPR) the budget document to the Permanent Budget Committee (PBC) for the scrutiny. PBC officials will invite selected stakeholder to finalize consultation on the annual budget send for

approval. Once approved by the House of Peoples Representatives the recommended budget becomes disburse the required amount of budget (MoFEC, 2010).

This research was conducted to assess the methods, processes and challenges of budget preparation, utilization and control in Addis Ababa Water and Sewerage Authority (AAWSA).

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

Budget planning's a tool that relates to resources that can be used. The necessary for the budgeting is more than the resources for need of governments are those who have. Budget and budget control the budget system provides an integrated picture of the overall budget of the organization. At each government level, budget formulation, approval, expenditure and control system of the government structure requires practicing transparency and accountability on the part of the government in order to avoid waste of resources. It also requires public participation in the full range of the budget process as well as monitoring and tracking budget allocation and utilization at various levels and sectors of development (AAWSA Manual, 2014).

Budget control is that allows for centrally controlled to obtain appropriate information or to give make decision and to monitor over expenditure performance doing compiled budget system, so that any public institution must have maintain approved annual budget utilization using a budget controls record or a spread electronic record system in arrange to properly monitor the budget for the fiscal year, it should have recorded (Regulation, 1/2003). However, research studies like Tilahun, (2010) indicate that budget control is not tight in many organizations and has lead rush expenditure toward the end of the budget year which has effect on the public organization.

A good budgeting process can be used as a management tool to enhance proper financial management and implement. However, in government organizations, including AAWSA, different problems and controversial issues related to budget and budgetary control is observed. These problems are particularly reflected during budget preparation and

implementation stages. To mention some of the problems, particularly in AAWSA there are problems related to failure to allocate sufficient budget for each task during budget preparation, weak procurement, lack of link between planning and budgeting, the misuse of budget, there are many more budget transfers, and lack of follow-up on the revenues, and expenditures report posed a major challenge to the resource management due to a severe budget deficit within the organization. Addressing these issues will help AAWSA navigate in accordance with its guidelines and make the best use of its limited resources.

In general, in AAWSA budget preparation and control is low and not implemented as planned due to lack of strong internal control, lack of comprehensiveness of information included in budget documentation, poor budgetary control resulting in misuses and misapplication of budgets culminating in over expenditures, and no complied data on the type and method of procurement used by the budget users.

The researcher has tried to assess different studies that had been done both globally and locally. According to Jerry, et al., (2008) one of managements main objective is to efficiently control company's operation and to achieve this management make sure that the planned objectives are met. Such control is taking based on budget reports that compare actual results with planned objective. Alice (2012) did a study on the effects 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 influences budget variance.

Tilahun (2010) did a study on budget management and control with special emphasis on Ethiopia Ministry of Defense. 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 problem of experienced man power, application of policy and procedures, lack of monitoring budget timely.

Zebider (2018) did a study on assessment of budget utilization and budget control practices the case of Ethiopian Postal Service Enterprise. According to the result, low



rated practice of regular follow-up, lack of skilled manpower, lack of commitment of management members, and lack of strongly controlling mechanism.

Mulu (2018) assessment of budget implementation and control system: a case of Ethio Telecom South West Addis Ababa Zone, the found that lack of integration work between budget holder and budget approval, budget controlling regarding are not considering divisional activities and work nature, budget evaluation did not provide specific feedback for budget utilize. In addition, the challenge budget preparation and controlling also affects budget utilization of the organization accordingly, organization more affect by underutilization of the estimated budget.

The Ethio Telecom South West Addis Ababa Zone huge corporation so, they have enough budgets, Ethiopia Ministry of Defense and Ethiopian Postal Service Enterprise are source of budget is in government support. Therefore, in above discussion a budget approach is in Addis Ababa Water and Sewerage Authority very difference because of AAWSA more mandates and power as an autonomous self-financing authority.

Though there are different studies conducted in this area, so far as to researcher knowledge, there has been no study which has been done concentrated on budget preparation, budget implementation, budget variance, and controlling system specific to AAWSA, and the study is unique in that the reform on the country identify the challenges to the organization budget utilization; which is one of the biggest budget consuming public sectors in the city. Hence, this study sought to fill the gap by addressing practices, problems, and challenges in the budget and budgetary control system in the organization. In addition, the researcher will focus on examine the problem related to budget preparation and implementation by making comparison between actual performance with budget variance and suggestion and recommendation will be forwarded based on the results to help AAWSA to its improve the budget and budgetary control systems.

### **1.3. Research Questions**

- How did the annual budget planning with the Addis Ababa Water and Sewerage Authority?
- How did the budget preparation with the authority policy and strategy?
- How is the effectiveness of budget utilization?
- What are the budgetary control systems the Authority used?

### **1.4. Objective of the Study**

#### **1.4.1. General Objective**

This study is to assessment of the budget and budgetary control systems in Addis Ababa Water and Sewerage Authority.

#### **1.4.2. Specific Objectives**

- To assess budget planning in AAWSA.
- To assess the processes of budget preparation.
- To examine effective of budgeting utilization.
- To assess budgetary control systems in AAWSA.

### **1.5. Significance of the Study**

This study is help to the authority management redirects their attention to budget and budgetary controlling system is highly essential function. The study was focused on how the budget forecasting in the future, means of communication for the management, controlling performance by investigating variance and review the cause of budget variance systematically and periodically progress report and taking corrective action. Additionally, the research document would also serve as for the policy-makers, government and government stakeholders who have a big concern in the utilities service sector. Beside this, the study was serving as a bridge for future researchers and as an added literature to the existing knowledge who wants to conduct study on related topic.

## **1.6. Scope of the Study**

The scope of this study is limited at AAWSA head office and within eight branch office. The study goes through examine how the budget and budgetary control both revenue collection and expenditure. It was considered public organization; departments focus were budget users and budget holders like planning and budget department, finance department, internal audit department, deputy G/Manager and participative budget. The time horizon of the study covered limited to assess the last ten years (2002 – 2011 E.C) budget and budgetary control system of AAWSA.

## **1.7. Limitation of the Study**

The researcher experienced various limitations in the course of the study. The unwillingness of some respondents to give the necessary information and answer for the questionnaire on time, and it was difficult the managers to have face-to-face communication because of corona virus disease (COVID-19 virus). When the research has been conducted the researcher faced some challenge such as time constraints and lack of available & organized secondary data, and this was the main challenge during the whole research period.

## **1.8. Organization of the Paper**

The study was organized in to five chapters with different characteristics. The first chapter is present with the introduction part that includes background of the study, statement of the problem, research questions, objective of the study, significance of the study, scope of the study, and limitation of the study are discuss. The second chapter of the paper covers the review of related to literature that is relevant to the study. The third chapter focuses research methodology and designs. Chapter four contain with the data presentation and analysis. Finally, the conclusion and recommendation part of the study is presenting in the fives chapter of the paper.

## **CHAPTER TWO**

### **REVIEW OF RELATED LITERATURE**

#### **2.1. Theoretical Literature Review**

##### **2.1.1. Meaning of Budget**

The word budgeting defines as “the processing of allocate an organization's financial resource to its units, activities and investments” (Blumentritt, 2006), while (Horngren et al., 2004), sees budgets as the quantitatively expression of a proposing plans of action by managements for a specified periods and an aid to coordinates what need to be done to implements that plan. Rigorous plan of any economic activities is an essentially elements for the success of that activity. Without planning the activities of any economic entity would detach from surround reality the capacity for provision and plan of any activities in a market economy condition assures the survival and development of this activity (Achim, 2009).

According to Okpanachi and Muhammed, (2013) budget is centrals to the processing of plan and controls which are major activity of managements in all organization. It is seen as documents which predict revenue and expenditure of a particularly economic entity, for a specified period (Ahmed, Suleiman and Alwi, 2003). Budget is based on estimates; it may or may not be true. It is not substitutes of managements because; the efficiency and utility of the budgetary system depend on the skills and experiences of the management. It cannot be executed automatically because continuous effort is necessary for the executions of the budgets. This makes organizational manager to focus more on managements issues than on budgetary control (Surajkumar, 2011).

##### **2.1.2. Objectives of Budgeting**

Budget has always played key roles in managing institutions, both privates and publics, being important control systems in many companies (Ekholm and Wallin, 2000, Merchant and Van Der Stede, 2003). The major objectives of budgeting is to keep

controls of the activity done in an organization by providing a road map for futures activities and setting a series of goals to be achieved and the means to achieves them (Abdel-Kader and Luther, 2006).

Therefore the management's efficiency can be appreciated by the achievements of predefined objectives and the means used to their achievements. Manager is responsible for the realizations of the indicators within their budget and for any variance from the estimated values, cases in which they are required to take remedial action. Budget are used by managements for different uses (Riley, 2012) to control incomes and expenditures, establish priority and set targets in numerical term, provide direction and coordination, so that business objective can be turned into practically reality, assign responsibility to budget holders or managers and allocate resources, communicates target from management to employees, motivate staff, improve efficiency, and monitor performance.

According to Achim, (2009a) budgeting purposes or budget functions are planning operation that ensures the companies' strategic objective's realization. Budgeting process stimulates manager to predict the entire problem before their appearance and there by avoid making hasty decision in the event of certain undesirable situations in the future. We can say that budget "guarantees" that they will plan future operations depending on how it was accomplished the previous budget, taking into accounts all the factor that have influence change regarding previous budget indicator. Coordinating various activity of different types of sub-divisions. Coordination of each employee, and groups interest. Each sub-division of an economic entity has its own objectives and this can lead to situations in which these goals are contradictory in relation to other responsibility centers. So, the budgets have the role to reconciles and regulate these contradiction in favors of the economics entities so that this situation can be prevented. Stimulation of manager from all business level to achieve predetermine goal of each responsibilities center. This budget feature strongly manifests in case of participative budgeting when responsibility center manager can propose various quantitative indicators. Therefore, the budget's indicator is indicator not forced to realize from the centers but settled by mutual

agreements with the managements of each responsibilities center. Controls of currents activity, ensuring discipline according to the business plans. Carefully drafting of budget ensures the optimums standard to compares undertaken activities achievement, to determine deviation and to take measure to eliminate them. The evaluations of plan fulfillment by each responsibilities centers and their manager; managements performance can be appreciated by compare the result with those expected to be achieved; and training managers & other employees from financial services of a company.

### **2.1.3. Importance of Budgeting**

There were conducts a lot of researches regarding the roles and the importance of budget within a company. Different author evidences the facts that budget are the most used tools for plan and control within company in both developed and developing country (Dugdale and Lyne, 2006). Others benefit of budget such as prevent information asymmetry between top manager and lower-level manager, enhancing employees work attitudes, providing motivations to department and committees head and resulting in a greater levels of goal commitment by lower-level manager (Oak and Schmidgall, 2009).

According to Uyar and Bilgin, (2011) the reasons for budgeting, in the order of their importance are control expenses, increase profitability, aid long-term planning, coordinate the operation, aid short-term planning, evaluate performance, motivate managers, and motivate employees and communicate plans with employ.

### **2.1.4. Advantage of Budgeting**

Budgeting is an essentials part of the planning process of a business, but budgets also form an essentials part of the control process. According to Achim, (2009a) budget are considered to be extremely beneficial to company. The usages of budget have a number of advantage such as: require the use of planning in business managements; represent the frameworks for assessing performances due to indicated parameter that the companies need to realizes in order to achieves her objective; promote communications and coordination for engagements and balancing all department and function of the company

in orders to achieves its set objective; undertakes responsibilities center manager to foresee the consequence of decision made or to be taken, budgets representing a landmark in decision-making, managements need to intervene only in situation where there are deviation from budgeted indicators; ensure participation in the planning activities of both managements and performers that drives involvements in achieving or exceeding budgeted indicators.

### **2.1.5. Limitation of Budgeting**

We should also consider the criticisms mentioned by different author regarding the process of budgeting. The most mentioned “black ball” of the budgets is about the time consumed with this activity (Wu et al., 2007). Some authors consider as a problem for budgeting the way budget are used (Horngren at al., 2006). While others sustain the idea that budget process are fundamental flawed (Hope and Fraser, 2003a).

With all this criticism the majority of economic entities continue to use budgets in order to control the realization of establish objectives. This means that budgets, if they are used appropriately and adapted to a company’s needs can be a tool for obtaining value added. The key for this is to implement practices that generate commitment to budgets, adopting clear procedures to prepare budgets, creating linkages to connect the budget with the company’s strategy and analyzing budget variances and taking corrective action. To this we can add the clear definition of managerial responsibilities, drawing up a plan of action for each individual budget and continuous monitoring of performance. The response to all criticism of budgets is found in the multiple roles of budgets that combined can enhance performance (Uyar and Bilgin, 2011).

### **2.1.6. Types of Budget**

Different types of budget have been developed keeping in views the different purposes. Some of the important classification of the budgets is discussed below.

### **2.1.6.1. Classification According to Time**

Based on the time factor, budgets are broadly classified in the following three types (Palanivelu, 2009):

**Long-term Budgets:** These budgets are prepared to show the long term plan of organization. This budget is prepared normally for a period of five to ten years. Example: Capital expenditures budget, researches and developments, long-term finances and etc.

**Short-term Budgets:** Short term budget are those which have to be prepared for periods of one or two years. Example: Cash budgets, material budgets and etc.

**Current Budgets:** Current budget is one which has to be prepared for a very short period says a month or quarter year and is related to the current conditions.

### **2.1.6.2. Classification According to Functionality**

Functional budgets are budgets which relate to any the function of an organization. The following are functional budgets commonly used as:

**Sales Budgets:** According to Paresh, (2010) the sales budget is the foundation on which all the other functional budgets are built up, especially in case of consumer products industry. The sales managers are directly responsible for the preparations and executions of sales budget. Kamukama Nikon (2008) sales budgets indicate the amounts and sale in unit and value the company intended to sales in the coming period and this must be prepared before any other budget was prepared and this budget forms the foundation of all other budgets.

**Production Budget:** The purpose of production budget is to ensure the availabilities of finished goods to meet the demands of the sales department. A well planned and properly coordinated program of production is helpful to management in exercising the control necessary to ensure the proper implementation of the whole budget of program. The production budget tends to ensure the production of finished goods in quantities sufficient



to meet the requirements of the sales budget without the accumulation of excessive inventories (Paresh, 2010).

**Cash or Financial Budget:** Paresh, (2010) the objective of this budget is to show the flow of funds and their requirement. It takes into accounts the amount received from sales cash sales and payment received from debtors as also on account of other financial arrangement made and the payment to be made in cash of both capital and revenue nature. It provides information on the probable profits to be realized during the budgets period and assist the management in making long- term plans for the continuing success of business. In other words, the budget shows weather the arrangement should be made for over draft, loans, and etc. it is also called ways and means budget. According to Larry M. (2010) financial budgets are a company must assessing financing need, including evaluations of potentials cash shortage these tools enables companies to meet with lenders and demonstrate why and when additional support may be needed.

**Selling and Distributions Cost Budget:** The selling and distributions cost budget is a forecast of the costs of selling and distributing the goods during the budget period. The budget is generally based upon the sales volume as per sales budget. However, certain other related information should also be taken into considerations in the preparations of selling and distribution cost budget. The preparations of the selling and distribution cost budget are the responsibility of the sales manager. However, they will be assisted in this work by the advertising manager and the accountant (Paresh, 2010).

**Purchase Budget:** According to Paresh, (2010) this budget provides details of the purchases which must be made during the period to meet the needs of business. A number of factors must be considered in preparing this budget, including the opening and closing stocks, internal manufacture, purchase orders planned before the budget period, maximums and minimums stock quantities. Purchase budgets are essential as they enable the purchase department to plan the purchases in advance in order to take advantage of long-term contracts. It also serves as a guide for timely provision of funds for purchasing and stocking of needed raw materials, components, consumable stores. If materials consumption based on productions budgets is prepared, the purchase budgets can be

prepared by adding the closing stocks and deducting the opening stocks of materials. Arora M. (2006) purchase budget is budget assigned to be prepared by the procurement managers of the organization. It also serves as control device and as a means of measuring efficiency of purchases.

**Personal Budget:** A personal budget incorporates the requirements of direct labor and indirect labor to carry out the budget plan as laid down by the sales, manufacturing, maintenance, research & development and capital expenditure budgets. Main objectives of the personnel budgets are as follows; efficient personnel management; minimization of labor turn over; measurement and stabilization of the ratio between direct labor and indirect labors; provision of a suitable yardstick against which the actual labor force may be compared and controlled (Paresh, 2010).

**Plant Utilization Budget:** Plant utilization budget is a forecast of plant capacities available for future production requirements as specified in the production budget. These budgets are expressed in labor or machine working hour or other convenient units. The following are the main functions of this budget; it indicates the budget machine hour utilization both locally or department wise, machines or groups of machines; over loading on some departments, machine or group of machines, so that alternative course of action like overtime working, sub-contracting, extension of plant can be taken; it shows under loading of some departments (Paresh, 2010).

**Research and Developments Cost Budget:** Research and developments cost budgets is a forecast of the research and development cost to be incurred within a budget period. Such expenses must have prior approval of the management and should be governed by the business objectives. Research costs are incurred for finding out new products, techniques and methods of production and for achieving improvement in them (Paresh, 2010).

**Capital Expenditure Budgets:** Paresh (2010) capital expenditure budget is a forecast of the cost of assets to be procured usually on the basis of the assets requirement budget. The latter is developed from the production budget after taking into consideration the availability of production capacities, probable reallocation of the existing assets and

possible improvement in the production technique. The budget may be split up into different projects in case of costly assets or into groups of assets of identical nature. Separates budget may be prepared for different item of assets such as building, plant and equipment, transport machineries. In the preparation of the budget, the following factors may be given due consideration; whether the requirement is for a long or a short period; whether the existing assets need replacement by identical or improved assets; whether adequate financial resources are available to fulfill the requirements; the period of delay in acquiring the assets; the alternative means of satisfying production requirements. Larry M. (2010) described the capital budgets are budgets that reveal the need for capital expenditure relating to new facilities and equipment. These longer term expenditures decision must be evaluated logically to determine whether investments can be justified and what rate and durations of payback is likely to occur.

**Master Budget:** According to Paresh (2010) the master budgets is a summary budget of the functional budgets. Master budgets are the blueprint showing the proposed activity and the anticipated financial results during the coming year. Before the budget plant is put into over action, the master budgets is considered by the top management and revised if the position of profit disclosed there is not found to be satisfactory. After making suitable revisions, the master budgets is finally approved and put into action. Garrison (2005), master budget is a primary budgets in corporations functional budgets. Master budgets are prepared by the budget officers and it remains with the top level managements. Master budgets are the products that consist of all individual budgets.

### **2.1.6.3. Classification According to Flexible Factor**

Classification according to flexible factor or capacity:

**Fixed or Static Budget:** Carl, (2005) a fixed budget shows the expected results of a responsibility center for only one activities level. Once the budgets have been determined, it is not changed, even if the activities change. Fixed budgeting is used by much company and for some administrative functions of manufacturing companies such as purchasing, engineering and accounting. According to Richard (2006) fixed budget is

budget remains fixed over a given period. It is not altered with the changes in the volumes of productions or activities level attained. Such a budget is usually prepared for expense of fixed nature.

**Flexible or Variable Budget:** Carl (2005) unlike fixed budgets, flexible budgets shows the expected results of a responsibility center for several activity levels. Such budget is especially useful in estimate and control factory cost and operating expense. Richard (2006) describe the flexible budgets is a budget, which is designed to changes as volumes of output change. It also called slid scale budget, flexible budget are schedules of cost or expense which show how each should vary with variations in the volume of activates.

### **2.1.7. Budgeting Process and Preparation**

Budgeting is the process of identify, gather, summarize and communicate financials and non-financial information about organizations future activities. It is an essential part of the continuous planning an organization must do to accomplish its long term goals; each person chain of communication in developing a budget as well as in implementing it. Individuals feel they have a voice in setting the budget targets, they will feel personally motivated to ensures that their departments attain those target and stay within the budget. The key to a successful budget is therefore, participating budgeting a process in which personnel at all level of an organization activity engage in making decisions about the budget (Belverd, 2005).

Budgeting provide standard for evaluating performances can affects the attitude of employee evaluated by them. It can be used to create a positive effect on employee's attitudes, but it can also create negative effects if not properly applied. The budget processes has three important guidelines. First, employee affected by budgets should be consulted when it is prepared or participatory budgeting. Second, goals reflected in budgets should be attainable. Third, evaluation should be made careful with opportunity to explains any failure. Budgeting can be a positive motivating force when these guidelines are followed (John, 2007).

In developing the budgets, each levels of managements should be involved to participate. The advantage of participate budgeting are first, that lower-level manager have more detailed knowledge's of their specific areas and thus are able to provides more accurate budgetary estimate. Second, when lower-level manager participates in the budget process, they are more likely to perceive the resulting budgets as fair. The overall goals is to reach agreements on budgets that manager considers fair and achievable, but which also meet the corporate goals sets by top managements. When these goals are met, the budgets will provide positive motivations for managers. In contrasts, if the manager view the budgets as being unfair and unrealistic, they may feel discourage and uncommitted to budget goals. The risks of having unrealistic budgets is generally greater when the budget is developed from top management down the lower management than vice versa (Jerry, 2008).

According to Pauline (2003), the principal stages of the budgeting process sequences are communicated the detail of objectives and strategy to those responsible for preparation of budgets; Communicate the details of budget preparation procedures to those responsible for preparation of budgets; Determine the limiting factor which restricts overall budget flexibility and forms the focus of budget cascade; Prepare an initial set of budgets; Negotiate budgets with line managers; Accept budgets in final form. Coordinate and review budgets. And carry out ongoing review of budgets as they are implemented.

Budgeting is an outcome cooperative of activities. In the smallest organizations, the task of budget preparation may be entrusted to the accountant. But, in larger concerns the budgets should be prepared by each departmental functional manager and not by the accounts department. A budget committees is constituted, consisting of the departmental heads and headed by an experienced officer, who may be designated as the budget officer that is normally the Finance in Charge or General Manager. It is the functions of the Budget Committee to receive and approve all forecasts, of departmental budgets and submits periodic reports showing comparison of actual and budget. The budget committee may also carry out special studies of deviations from the budget and consider a revision of budget to meet changed business conditions (Paresh, 2010).

The budget process has to be administered effectively in term of plan, final approvals and subsequent monitoring of implementations. A budget committees is usually formed to manage each stages of the budgetary process. The budget preparation procedures will need to be set out in a manual which is available to all participants. A continuing cycles evolve in which initials budget are prepared, negotiation take places with line manager, the initial budget, are revised the final budgets is accepted and later on, there is a review of actual and budgeted performance (Pauline, 2003).

### **2.1.8. Budget Implementation**

Budgetary implementation is guide line that articulate how enterprises or self-perpetuating funds are to be supported, how inter fund borrowing and payment are to be made, how accountability is to be maintained for balancing expenditure with appropriation and the required standard that will govern accounting reporting and auditing (Jerome, 2004).

According to Allen, (2004) a good budget implementation are a realistic budget that is implemented with few significant derivations from plans, low level of corruption in public expenditure, high transparency in public finance, public funds spent for authorized public purpose, reported expenditure corresponds to actual expenditure, reliable external and/or internal controls, spending units have reasonable certainty as to the funds that will have available and a managerial culture that promotes compliance with formal rules. A common problem in implementing the budget such as: the approved budget is unrealistic, so actual spending must be less than authorized budget. They are extra-budgetary funds outside the budget process, hoarded by spending units. A extreme uncertainty concerning available resources, with monthly or quarterly allotments. Funds diverted to unauthorized purposes or private accounts. Significant arrears those are not included in financial statements. Is significance discrepancy between actual and reported expenditure for certain activities. An delayed publication of financial statements.

An efficient budget implementation should be verified that payments are made on time and according to the budgets and the cash plan, without additional prioritization. The use

of modern technology should make it possible to reconcile the need to decentralize controls for efficiency and the need to centralize data on budget execution for expenditure control (OECD, 1997).

#### **2.1.9. Budget Utilization**

Allen and Tommasi (2001), successful budget utilization depends on numerous factors, such as the ability to deal with changes in the macroeconomic environment, and the implementation capacities of the company concerned. As well the budget system should assure effective expenditure control. Too a realistic budget to begin with, a good budget utilization system should have complete budgetary or appropriation accounting system. Budget utilization system must ensure not only accurate aggregate expenditure control, but also efficient and effective uses of resource in accordance with budgets priorities. Its procedure should be appropriately balanced in order to avoid conflicts between these objectives. According to Tommasi (2007), budget utilization is the phases were resources are used to implement policies incorporated in the budget.

#### **2.1.10. Budgetary Slack**

Budgetary slack is building into budgetary estimates of allowance over and above that necessary to achieve a given objectives such as include under optimistic sales target and over estimated expense level (Duncan, 1996).

According to Carl, (2005) indicates undesirable to plan lower goals than may be possible. Such budget “padding” is termed as budgetary slack. Managers may plan slack in the budget in order to provide for unexpected event or improve the appearance of operations. Budgetary slacks can be avoiding it lower and middle level manager are required to support their spending requirement with operational plans. Slack budget can cause employees to develop a “spend it or lose it” mentality. This often occurs at the end of the budget period when actual spending is less than budget. Employees may attempt to spend the remaining budget in order to avoid having the budget cut next period.

### **2.1.11. Revision of Budgeting**

Formal revision to the budget by the government during the fiscal year usually in response to a change in budget conditions or the adopted budget was unrealistic (Allen, 2004).

It is difficult to make accurate forecasts for the implementation of certain programs or for developments in economic parameters such as inflation, interest rate or exchange rates. Some immediate needs that were not foreseen during budget execution may appear during budget execution. To limit the effect of these problems, rules for transfer must be flexible; appropriation for debt services cannot be a spending limit and should be revised according to development in interest rates or the exchange rate contingency reserves may be included in the budget. However, their amount must account for only one up to three percent of the total budget; otherwise, budget execution will involve bargaining the uses of reserves and the budget will become an allocation of reserves (OECD, 1997).

### **2.1.12. Budget Variance**

Budget variance is the difference between budget amounts with actual amount. When the variance is significant in terms of being adverse and favorable, we should emphasize the point that the level of significance applies to both positive and negative feedback scenarios. Favorable variance impressions are good while adverse variances are bad. The level of significance must be investigated and acted upon as necessary (Duncan, 1996).

Standard costs are pre-set costs for delivering a product or services under normal conditions. When the actual cost variance from standard costs, management follow-up to identify potential problems and take corrective actions. Cost variance is the difference between actual and standard cost. A cost variance can be favorable or unfavorable. A variance from standard cost is considered favorable if actual cost is less than standard cost. It is considered unfavorable if actual cost is more than standard cost (John, 2007).



### **2.1.13. Budgetary Control**

Bartle (2008) indicates that budgets today provide a focus for the organization, aid in the coordination of activities and facilitates control. Through budgeting, at both management level and operation level looks at the future and lays down what has to be achieved. Control checks whether the plans are being realized and put into effect corrective measures, where deviation or short-fall is occurring. Bartle emphasized that without effective controls, an enterprise was at the forgiveness of internal and external forces that can disrupt its efficiency, and be unaware; such enterprise will not be able to warfare such forces. When a budgeting and control system is in use, budgets are established which set out in financial terms, the responsibility of managers in relation to the requirement of the overall policy of the company. Continuous comparison is made between the actual and budgeted results, which are intended to either secure, thorough action of managers, the objectives of policy or to even provide a basis for policy revision. Budgetary controls refer to the principles, procedures and practices of achieving given objectives through budgets. The budgetary control system helps in fixing the goals for the organization as a whole and concerted efforts made for its achievements (Scarlett, 2008).

According to Paresh, (2010) budgetary control is planned to help the management in the allotment of responsibility and authority, to assist in preparation of estimates and plans for the future, to help for the analysis of the variance between budgeted and actual results and to develop the basis of measurement of operation of standards with which the efficiency of operation can be assessed. The budgetary control involves the following steps: preparation of budgets for each centre pertaining to the individual responsibilities; actual performance measurement; comparison of actual and budgeted performance to ascertain the deviation as variances; and analysis of the cause of variance and reporting the same to motivation the right people to take the right action at the right time.

An evaluation assists management in identifying problems and taking corrective action if necessary. Evaluation using expected or budgeted performance is potentially superior to using performance to decide whether actual results trigger a need to corrective action. This is because past performance fails to consider several changes that can affect current

and future activities. Changes in economic conditions shifts in competitive advantages within the industry new product development increased or decreased advertising and other factors reduce usefulness of comparison with past results. In hi-tech industries, for instance, increasing competition, technological advances and other innovation often reduce the usefulness of performance comparisons across years. Budget performance is computed after careful analysis and investigates that attempts to anticipate and adjust for changes in important company and economic factors. Therefore, budgets usually provide management an effective control and monitoring systems. Budget uses standards for evaluating performance and can affect the attitudes of employees evaluated by them. It can be used to create a positive effect on employee's attitudes. It can also create negative effects if not properly applied (John, 2007).

A budget is an aid to management; it is not substitute for management. A budget cannot operate or enforce itself. Companies can realize the benefits of budgeting only when managers carefully administer budgets. Effective budgeting depends on a sound organizational structure. In such a structure, authority and responsibility for all phases of operations are clearly defined. The effectiveness of a budget program is directly related to its acceptance by all levels of management. Once adopted, the budget should be an important tool for evaluating performance. Managers should systematically and periodically review variations between actual and expected results to determine their causes and corrective action (Jerry, 2008).

#### **2.1.14. Benefit of Budgetary Control**

It enable economies in the enterprises (Preetabh, 2010), highlighted the benefits of budgetary controls as profit maximization; a budgetary controls aims at maximizations of profit or an organization through, proper plan and coordination of different function, proper control over various capital and revenues expenditures and putting resources into best use. Coordination; achieved through working of different departments and sectors (Waren, 2011) noted that within an organization, different departments have a bearing on one another, this therefore makes coordination of various executive and subordinates necessary in achieving of budgetary targets. Other budgetary benefit as indicated by

(Preetabh, 2010) include: Specific times aims; the plans, policies and goals are decided by the top managements. All effort are put together to reach the common goals of the organizations. Every department is givens a target to be achieved. The efforts are directed towards achieving come specific aims. If there is no definite aim then the efforts will be wasted in pursuing different aims. As a tool for measuring performance, budgetary controls provide comparisons between the budget targets and actual targets and deviation determined; performance of each department is reported to the top management which enables introduction of management by exception (Margah, 2005) assert that budgetary controls are important tools for a county's economy. This is because it allows planning for expenditure thus facilitating systematic spending. Finances are put into optimum use, extending the benefits to industry and national economy. This reduces wastage of national resources.

A budgetary control could help in determination of organizational weakness. According to Merika (2008), the deviations in budgeted and actual performance will an able the determination of weak spots. This enables an organization to concentrate on those aspects where performance is less than stipulated. The management moreover takes a corrective action measures whenever there is a discrepancy in performance. By fixing targets for the employees, they are made conscious of their responsibility. Everybody knows what is expected to do and continues with his work uninterrupted.

According to David (2004) budgetary control therefore provides a means of measuring and evaluating performance for each individual activity with the business as a means of controlling the overall performance of the business. Therefore, budgeting can be seen to be an essential part of planning and control processes within an organization. As such it has the following benefit are it provides a formal way in which the objectives of the organization and its long-term plan can be translated into specific plan and tasks. The providing clear guide lines to managers regarding current operations. It facilitates the comparisons and selection between alternatives course of actions and their evaluation. It provides a means of communicating organizational plans to all members of the organization. Constraints up on production capability are highlighted or limiting factors.

Preparing budgets provides an opportunity to review operations and revise if necessary. And performance at all level of organization can be measured and evaluated against an accepted standard of the budgeted plan.

Achim, (2009a) the most important advantages of budget execution control are useful to managers at different hierarchical levels because it is a daily guide for their activity; allows senior management to achieve a synthesis analysis of the business' activity which allows it to objectively assess low-level managers work; allow the knowledge of the meanings and importance of deviations in comparisons with forecasts, that leads to increased efficiency in key areas of economics managements of the entity; enhances coordination of activities carried out in different functions of the company, allowing decentralization of responsibilities; and leads to technical and economical updating where necessary.

#### **2.1.15. Challenges Affecting Budgetary Control**

Neely (2001) carried out a study on weaknesses of budgetary controls. The study was primarily based on review of empirical literature from similar studies. Neely's finding maintained weaknesses of budgetary control systems which poses a challenges in the use of the systems. These weaknesses included restraining of responsiveness and acting as barriers to change, budgets are rarely strategically focused and often contradictory, they add little value especially given the time required to prepare them, they concentrate on cost reduction and not value addition, they strengthen vertical command and control, they do not reflect emerging network structure that organizations are adopting, they encourage gaming and perverse behaviors, they reinforce departmental barriers rather than encourage knowledge sharing and make people feel undervalued.

According to Prendergust (2002) claimed that budgeting for planning and control purposes have a number of problems. A lot of problem focusing is involved in the budgeting process; the uncertainties in business environment may provide a challenge in bringing out reliable and accurate predictions and could bring meaningful effect to an organization. A study on challenges facing budgetary control systems in developed

countries by (OECD, 2007) showed that budgets fail due to reasons such as budgets used as pressure tool, central decision making process, lack of job security and managers' lack of training.

#### **2.1.16. Installation of Effective Budgetary Control**

The purpose of a budget system is to serve the need of management in respect of judgments and decision it is required to make and to provide a basis for the management function of planning and control (Pauline, 2003). The organization which has to achieve an effective system of budgetary control will need the following steps:

##### **a. Organizational Chart**

According to Palanivelu (2009) a concern must have a well-defined organization chart for budgetary control. It is essential in order to have clear determination of authority and responsibility of each individual. Determination of authorities helps to minimize conflict among the personnel. Richard (2006) the organization chart was depends and the nature and size to the company and the extent of the control desired.

##### **b. Objectives**

It requires clearly defined objectives in terms of both quantity and quality that are sought to be achieved by the system of budgetary control (Palanivelu, 2009).

##### **c. Budget Centre**

Budget centre is a part of the organization for which budget is prepared to cover entire operational activities of the organization. It is necessary for cost control purpose. With the help of the different budget centers performance should be evaluated in an easy manner (Palanivelu, 2009). Chartered institution of management accountant has defined a budget centre as a section of an organization for which separate budget can be prepared and central authority exercised. An organization can be divided into several segments; which are clearly defined for the purpose of budgetary control according to responsibilities of departmental heads (Richard, 2006).

#### **d. Budget Committee**

According to Palanivelu (2009) budget committee should be established for the purpose of incorporation and executions of plans in small organizations either the cost accountant or chartered accountant prepares the budget. The committee consists of various section heads, the chief executive and the budget controller. The ultimate aim of budget committee is to prepare a master budget with the help of the department wise budget which has already been prepared by the departmental executives. According to Richard (2006), in small concern, a budget office or the chief accountant prepare the budget and coordinates all the work involved. In large concerns budget committee is formed consisting at chief executive, budget officer, and budget central example: sole manager, purchase manager, production manager, chief accountant standard, and quality control manager etc. The decision of this committee becomes binding on others and directly responsible to the chief executive and acts as a secretary at the budget committee

#### **e. Budget Manual**

It is a written document which sets out the authorities and responsibilities of persons engaged in regular operational activities. It clearly lays down objectives of the organization and the procedure to be followed by the executives concerned. It is the responsibility of budget officer to prepare and maintain this manual (Palanivelu, 2009). Chartered institution of management accountant a budget manual is a document which sets out the responsible of the person engaged in the routine of and the forms and records required for budgetary control (Burkhead, 2005).

#### **2.1.17. Budget Report and Computerized Budgeting Systems**

Budget reports contain relevant information that compares actual results to planned activities. This comparison is motivated by need to both monitor performance and control activities. Budget reports are sometimes viewed as progress reports or report cards on management's performance in achieving planned objectives. These reports can be prepared at any time and for any period. Three common periods for a budget report are a

months, quarter and year (John, 2007). After developing budgets, many firms use computerized budgeting systems. Such systems speed up and reduce the cost of preparing the budget. This is especially true when large quantities of data need to be processed. Computers are also useful in continuous budgeting. Reports that compare actual results with amount budgeted can also be prepared on a timely basis through the use of computerized system (Carl, 2005).

According to Jerry, (2008) the use of budget reports is based on the belief that planned objectives lose much of their potential value without some monitoring of progress along the well. Budget reports provide management with feedback on operation. The feedback for a crucial objective, such as having meeting budgeted annual sales and operating expenses, monthly budget reports may suffice. Budget reports are prepared as frequently as needed. From these reports management analyzes any differences between actual and planned results and determines their causes, management then takes corrective action or it decides to modify future plans.

## **2.2. Empirical Review**

Manoharan, K. (2017) examined some aspects of budget and budgetary controls system and organizational performance in the case of selected Indian company with the objective of investigating the relationship between budgetary control and organizational effectiveness by using statistical method. The study result that there are strong relationships between budgetary control systems & organizational efficiency and it was concluding that there are some hurdles in proper implementations of budgetary control systems in the organization.

Alice (2012) did a study on the effect of the budgeting process on budgets variances 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 undertake 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 budget affect the achievement 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. Budget preparation, budgetary control and budget implementation significantly influence budget variance.

Nyambura (2014) conducted a descriptive survey on a title, determining the effect of budgetary control on effectiveness of non-governmental organizations in Kenya. The study finding that there is a low positive relationship between budgetary control and performance and planning contributed the highest towards the positive performance of the NGOs followed by monitoring, control and at last budget participation. It was concluded that the NGOs generally have budgetary control at different levels of the organization and most of them have planning, monitoring controlling, controls and budget participation.

Lambe (2015) made systematic reviews of budget and budgetary controls in government owned organizations of Nigerian national petroleum corporation by using descriptive survey research design with the objective of determining how budget and budgetary control affects quality service delivery in government owned enterprises. It was



concluded that budgetary control aids in effective cost control most especially in governments owned organizations.

Andrew, Albert and Ngoze (2016) conducted a study on budgetary control and financial performances in public institution higher learning in Western Kenya using descriptive survey design with objective of investigating the effects of budgetary controls on financial performance in public institution. The study found that budgetary control has statistically significant effects on financial performances in public institution of higher learning in Western Kenya.

Geletaw (2017) conducted a research to investigate the determinants of budget control in the Benishangul Gumzu regional state public organizations using descriptive research design. The study found that the composite measure of information and communication, cost reduction, competent internal audit staff, management support, budget monitoring and evaluation, organizational commitment and budget planning processes for 78 percent (Nagelkerke modified  $R^2 = 0.78$ ) variance for the budget control in the public sector offices. That means, the impact of these seven independent variables contributed for the dependent variable budget control were 78 percent, and the remaining 22 percent were other variables that are not included in this study. It was concluded that existences of effective budget control in the office links with internal control management system, improves organizational effectiveness and efficiency, reduce information asymmetry during decision making, and ensures internal dependability of financial reporting process.

Zebider (2018) did a study on assessment of budget utilization and budget control practices the case of Ethiopian Postal Service Enterprise. The study findings are budget utilization practices in the organization are rated at moderate level, gaps are observed in making regular follow-up and executing projects within the deadline, and lack of adequate skill and experience for some types of projects especially for new developments; e.g branding, postal saving bank, & logistics projects. A budget control practices are the current commitment level of the management toward budget control is insufficient; the number of skilled audit experts to perform strict internal control is insufficient and the budget control mechanism of the firm is in moderate level. It was

conclude that mainly due to low rated practice of regular follow-up, lack of skilled manpower, lack of commitment of management members, and lack of strongly controlling mechanism.

Mulu (2018) assessment of budget implementation and control system: a case of Ethio Telecom South West Addis Ababa Zone the study found that the strategic plan of the company is not effectively communicate to lower level management, the top management reducing the approved budget without negotiation and less participation of lowers level managers, budget holders are not using the approved budget based on the annual plan time's specification and activities; there were time dalliance to accomplish tasks and underutilization of approved budget, top management not focused on budget utilization, budget revision and approval process. Lack of management attention on budget variance, no effective budgetary control that contributes to the achievement of goals and objectives, do not use budget achievement as performance measurement criteria, did not use budget as benchmark for performance evaluation, and did not use measurement & evaluation system of revenue budget performance based analysis. The researcher concludes that lack of integration work between budget holder and budget approval the company did not proposed the needed budget. The organization more affect by underutilization of the estimated budget and relevant reports explained that such underutilization arose from low capacity to utilize approved budget, budget controlling are not considering divisional activities and work nature, and budget evaluation did not provide specific feedback for budget utilize.

Tilahun (2010) did a study on budget management and control with special emphasis on Ethiopia Ministry of Defense. 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 unavailability of adequate and experienced manpower has added for the worsening results of plan and budget preparations disparities. The nature of the institution forces to consider unforeseen situations, additional duties of budget users are not usually backed up by supplementary budgets, 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 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. 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. Audit opinions given by office of Federal Auditor General are signals of the institution's weak compliance with the rules and regulations of the country.

### **2.3. Summary of Literature Review**

Budgets are considered to be the core element of the control process and as result a vital part to the sunshade concept of performance measurement. Review of the related literature shows that there is no single approach to budgeting suitable for all businesses. Instead, the suitability of a particular approach is argued to be contingent upon characteristics of a business including its size, strategy, structure, and also management's perception of the uncertainty of the environment within which the business operates to best link its budgetary control procedures that is planning, monitoring, evaluation, and control.

Generally, as evidenced above, majority of the available observed evidence were on the assessment of budget monitoring and practice, budgetary control and its challenges, the effect of budgetary control on organizational and financial performance of public, private and not for profit organizations. In the above empirical review of literature also shows that there is inconsistent of results of the study on the relationship between budgetary control and organizational performance. This is can be shown from Nyambura (2014) find that budgetary control and performance have a low positive relationship. On the

other way, Manoharan K. (2017) found that budgetary control has a strong relationship with organizational performance. Based on these, this study aims at assessment of the budget and budgetary control systems in AAWSA.

### Conceptual Framework

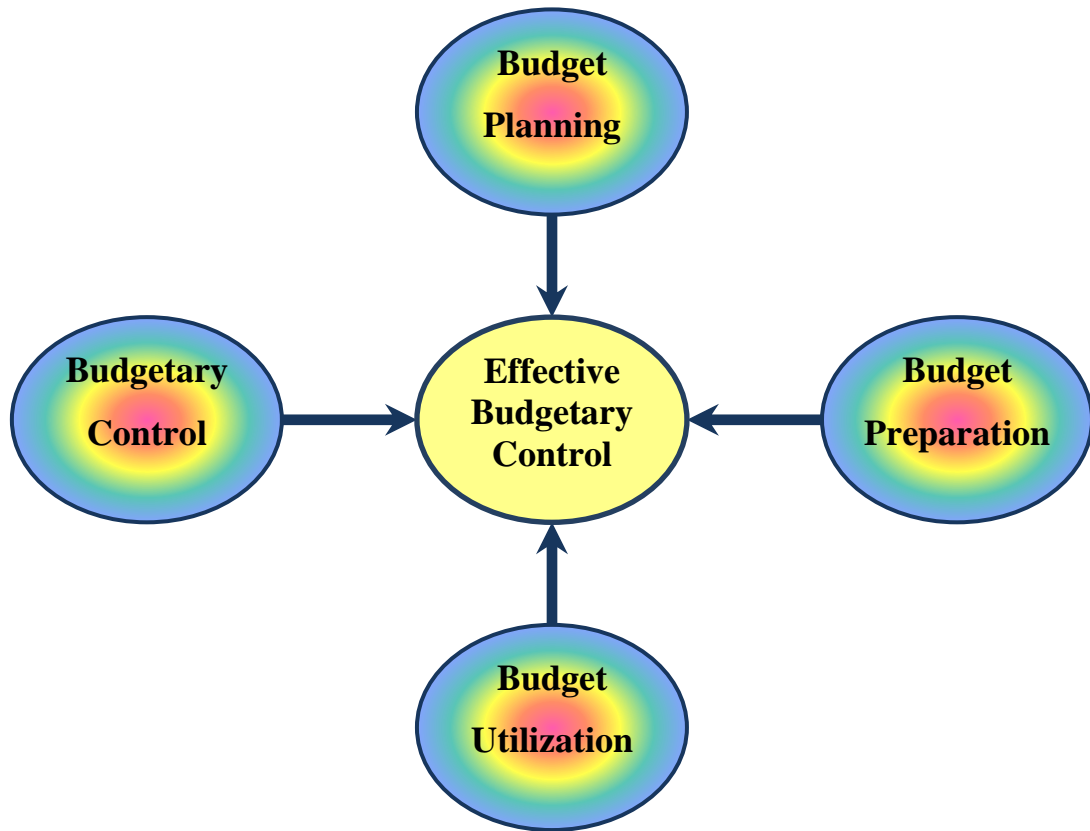


Figure 2.1: Conceptual Framework

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY AND DESIGN**

#### **3.1. Introduction**

This chapter sets out various stages and phases that be followed in completing the study. It involves a blueprint for the collections, measurements and analysis of data. In this stage, most decisions about how research was executed and how respondents were approached, as well as when, where and how the research was completed. Therefore, in this section the research was identifying the procedures and techniques that were used in the collection, processing and analysis of data.

#### **3.2. Research Design**

Research design as described by Creswell (2017) is a plan and structure of investigations so conceived as to obtain answer to research questions. This study was adopted a descriptive research method and the research strategy was case study aimed to assess the budget and budgetary control systems in Addis Ababa Water and Sewerage Authority. The research method used was case study method. The method was focus for conducting both primary and secondary data collection and procedure that was employed for the study. To achieve these objectives, questionnaire, and structure interview were the main tools. Therefore, the case study method was used to collect and analyze the data. According to Robert k. yin (2012) states that case study methods is amongst the most flexible of research designs and is particularly useful in researching issues related to sustainability and institutional systems.

#### **3.3. Types and Source of Data**

Both primary and secondary data sources were used to get all the necessary information for conducting this study. The data that was used in this study was mainly primary data. To get rich information and reliable data, the study used structured interview that was held with the concerned professionals and officials from AAWSA. Information from

interviews was supplemented with secondary data that was collected from AAWSA and other relevant institutions. These include different documentations of AAWSA such as annual plans and reports, magazine and brochures. Moreover, books, journals, thesis and internet were used.

### **3.4. Data Collection Methods**

In this subsection data collection method, methodological procedures and sampling strategy are discussed in detail.

#### **3.4.1. Primary Data**

Questionnaires were used to gather information from the concerned professionals and officials from AAWSA.

Hence, the primary data was come from the distribution of questionnaire prepared both in open-ended and closed-ended format. The close ended questions were designed with scales having five levels as Strongly Agree, Agree, Neutral, Disagree, and Strongly Disagree. The questionnaire also included open-ended questions that help respondent to put their opinion and explain the issues freely. The close-ended questions were providing more structured responses to facilitate tangible recommendations. The open-ended question was providing additional information's that may not be captured in the close-ended questions.

The key informant interview was also administered for collecting information from AAWSA purposively selected experts and officials to get rich information and reliable data. Here, higher experts and officials from the department of Plan and Budget Department, Finance Department, Internal Audit Department and any other relevant position that are believed by the researcher as they are resourceful to give some more information on the ground were selected purposively. This technique provides a greater information or in depth information from the respondents and was more flexible.

### **3.4.2. Secondary Data**

The secondary data sources was gathered from both published and unpublished materials such as proclamation and regulation, manual, office records, annual revenue collection and expenditure budget report, journals, research papers, and books.

## **3.5. Samples and Sampling Techniques**

### **3.5.1. Samples Techniques**

The researcher was employed a non-probability sampling method. That is purposive or judgmental sampling was applied to enable us to get reach information and answer research questions properly. According to Kothari, (2004), purposive sampling is more essential to obtain a typical and representative of the whole universe. As to Sunders et al., (2009) this form of sampling technique is often used in case study research. Since this study is a case study the researcher decided to apply a purposive sampling method. Hence, the criteria that the researcher was used to select the sample of the study is the respondents who used to participate in yearly budget preparation and responsible for its implementation and control.

### **3.5.2. Target Population and Sample Size**

The target population of the study was officials and experts who do have direct and practical bond with budget and budgetary control activities in the organization. Based on this the number of target population is 92 (Ninety Two). Since this number of target population is manageable, the sample size has been taken to be the total target population. Thus, all target population was selected by the researcher as respondent. The reason why this target population selected was due to the fact that it been these budget users were responsible.

Therefore, questionnaire was distributed to all target populations. Hence, the questionnaire was administered with 72 (Seventy Two) budget users and 20 (Twenty) budget holders. That is the total sample size of the study was 92 (Ninety Two). Thus, the

study was a survey where data were collected from head office and 8 (Eight) branch office in AAWSA.

### **3.6. Data Analysis and Interpretation**

The data gathered through primary and secondary methods was analyzed and discussed using descriptive methods. Descriptive statistics such as frequency distribution tables, and percentages were used for the analysis of the data gathered.

Before processing the responses, the completed questionnaires are edited for completeness and consistency. A content analysis and descriptive analysis was employed. The content analysis was used to analyze the respondents' views about the challenges in the budgeting process. Descriptive statistics was used to summarize the data. This was include tables, percentages, and frequencies presentations as appropriate was used to present the data collected for ease of understanding and analysis.

The data was analyzed by using Microsoft EXCEL. So, for the quantitative data, excel spread sheet was used for data entry after data encoding and verification was done manually. After the necessary data cleaning, the data that the researcher found useful for the analysis was used for detail discussion and interpretation.

The results were interpreted comparing with the prior expectations and try to show how they agree or disagree with earlier research works and available literature. Then generalizations that come out of the results were presented or discussed. Finally, the analyzed and interpreted data were presented through texts and tables.



## CHAPTER FOUR

### DATA ANALYSIS AND INTERPRETATION

#### 4.1. Introduction

The study findings were presented to assessment of the budget and budgetary control systems in Addis Ababa Water and Sewerage Authority. This chapter covers data analysis, result and discussion for research finding acquired from the questionnaires, interview, annual revenue collection and expenditure budget report which were designed in line with the research study objective.

#### 4.2. Response Rate

The questionnaires were distributed to 92 (ninety two) respondents in AAWSA. Based on questionnaires distributed for 87 (eighty seven) questionnaires returned and 5 (five) non-response. This represents a response rate of 94.57 percent. This response rate is satisfactory to make conclusions for the study. Therefore, the descriptive statistics results of the study are presented below in formats of texts and tables.

#### 4.3. Demographic Information of Respondents Profiles

Demographically the respondent was asked to classify themselves according to the category of gender, education level, work experience and fields of study.

**Table 4.1: Demographic Information of Respondents**

Item	Category	Frequency	Percentage (%)
<b>Gender</b>	Male	55	63%
	Female	32	37%
	<b>Total</b>	<b>87</b>	<b>100%</b>
<b>Education level</b>	Certificate and below	0	0%
	Diploma	4	5%
	1 <sup>st</sup> Degree	63	72%
	Masters Degree	20	23%
	<b>Total</b>	<b>87</b>	<b>100%</b>

<b>Item</b>	<b>Category</b>	<b>Frequency</b>	<b>Percentage (%)</b>
<b>Work Experience</b>	1 to 5 years	13	15%
	6 to 10 years	17	20%
	11 to 15 year	23	26%
	Above 16 years	34	39%
	<b>Total</b>	<b>87</b>	<b>100%</b>
<b>Field of Study</b>	Accounting	38	44%
	Economics	14	16%
	Management	14	16%
	Statistics	6	7%
	Others	15	17%
	<b>Total</b>	<b>87</b>	<b>100%</b>

*Source: Survey Data, 2020*

From the above information from 87 total respondents, about 55 or 63 percent of the respondents were male and 32 or 37 percent of the respondents were female. With implies to gender issues there were no balance number of male and female employees, which that the participation of female is minimum in the organization.

Regarding the educational level of the respondents the results of the study reveal that the majority of the respondents 72 percent are first Degree holders, while 23 percent of them were Master's Degree holders. The remaining 5 percent of the respondents are Diploma holders. There were no certificate holders among respondents. This is an indication that the respondents are also at adequate education level to understand the concept of budget and budgetary control systems questionnaire.

The study requested respondents to indicate the number of service years they had served for. When we see on the above table, 15 percent of the respondents indicated that they had worked for a period ranging 1 to 5 years, 20 percent of the respondents have stayed for 6 to 10 years, 26 percent of respondents have stayed for 11 to 15 years, and the highest number surveyed 39 percent of respondents have stayed above 16 years experience in their current position, showing the respondents have experienced in their work. Long year of experience shows that there is a relatively lower employee's turnover as results reduces cost of hiring new employees and save times.

Finally, the finding of the study show about qualification of the respondents were composed of from Accounting 44 percent, Economics 16 percent, Management 16 percent, Statistics 7 percent and others fields 17 percent. This result indicates that all respondents have similar understanding on budget and budgetary control system to achieve the authority objective.

#### 4.4. Budget Plan and Preparation

**Table 4.2: Budget Plan and Preparation**

Description	Category	Frequency (N = 87)				
		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Budget preparation begins according to the annual plan.	Frequency	23	41	8	9	6
	Percent	26.44%	47.13%	9.20%	10.34%	6.90%
Budget preparation ends according to the annual plan.	Frequency	17	35	9	20	6
	Percent	19.54%	40.23%	10.34%	22.99%	6.90%
There is problem of matching plan with budget.	Frequency	29	43	6	7	2
	Percent	33.33%	49.43%	6.90%	8.05%	2.30%
Prepares annual revenue and expenditure budget with the help of skilled budget officers.	Frequency	18	44	11	11	3
	Percent	20.69%	50.57%	12.64%	12.64%	3.45%
Budget preparation is based on reliable data with planned objectives.	Frequency	19	42	14	10	2
	Percent	21.84%	48.28%	16.09%	11.49%	2.30%
Budget preparation has a clear procedure which set out in manual.	Frequency	16	49	10	10	2
	Percent	18.39%	56.32%	11.49%	11.49%	2.30%
Your office has developed budgetary process by using participatory budget.	Frequency	13	53	10	9	2
	Percent	14.94%	60.92%	11.49%	10.34%	2.30%
Each developing budget has budgetary classification.	Frequency	19	59	4	5	0
	Percent	21.84%	67.82%	4.60%	5.75%	0%
There is enough number of skilled and experienced budget officers to accomplish budget preparation.	Frequency	16	47	12	10	2
	Percent	18.39%	54.02%	13.79%	11.49%	2.30%
Your office has strong relationship with planning and budget department.	Frequency	24	39	11	13	0
	Percent	27.59%	44.83%	12.64%	14.94%	0%
There is a prepared budget for each center pertaining to individual responsibility.	Frequency	17	49	8	13	0
	Percent	19.54%	56.32%	9.20%	14.94%	0%

Description	Category	Frequency (N = 87)				
		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Your office has applied continuous or rolling budgets.	Frequency	15	46	17	8	1
	Percent	17.24%	52.87%	19.54%	9.20%	1.15%
The length of the budgetary period clearly specified.	Frequency	26	43	6	12	0
	Percent	29.89%	49.43%	6.90%	13.79%	0%

*Source: Survey Data, 2020*

Table 4.2 shows that, the study conducted on the plan and budget preparation above budget preparation begins according to the annual plan where as 73.57 percent of respondents strongly agree or agree, 9.2 percent of respondents have neutral and 17.24 percent of respondents strongly disagree or disagree. The budget preparation ends according to the annual plan indicates that 59.77 percent of respondents strongly agree or agree, 10.34 percent of respondents have neutral and 29.89 percent of respondents strongly disagree or disagree. 82.76 percent of respondents strongly agree or agree with problem of matching plan with budget where as 6.9 percent of respondents have neutral and 10.35 percent of respondents strongly disagree or disagree.

When it becomes about 71.26 percent of respondents strongly agree or agree with preparation of annual revenue and expenditure budget with the help of skilled budget officers where as 12.64 percent of the respondents have neutral or no opinion and 16.09 percent of the respondents strongly disagree or disagree. The majority of the respondents 70.12 percent strongly agree or agree with the budget preparation are based on reliable data with planned objective while about 16.09 percent of them have neutral and 13.79 percent of the respondents strong disagree or disagree. 74.71 percent of the respondents strongly agree or agree with budget preparation has a clear procedure which set out in manual where as about 11.49 percent of them have neutral and the rest of remaining 13.79 percent of the respondent strongly disagree or disagree. About 75.86 percent of respondents strongly agree or agree with developed budgetary process by using participatory budget, 11.49 percent of them have neutral and the remaining 12.64 percent strongly disagree or disagree.

Beside this, the respondent rate of developing budget has budgetary classification 89.66 percent strongly agree or agree, 4.6 percent have neutral and remaining 5.75 percent disagree. However, enough number of skilled and experienced budget officers to accomplish budget preparation indicates that 72.41 percent of the respondents strongly agree or agree, 13.79 percent of respondents have no opinion and 13.79 percent of them strongly disagree or disagree. About 72.42 percent of respondents strongly agree or agree with budget users had been strong relationship with planning and budget department where as 12.64 percent have neutral and the remaining 14.94 percent at respondents disagree.

When it becomes, about 75.86 percent of respondents strongly agree or agree with prepared budget for each center pertaining to individual responsibility while 9.2 percent have neutral and the remaining 14.94 percent of the respondents disagree. As 70.11 percent of respondents strongly agree or agree with applied continuous or rolling budgets where as 19.54 percent have neutral and the remaining 10.35 percent of the respondents strongly disagree or disagree. Moreover, about 79.32 percent of respondents strongly agree or agree with the length of budgetary period clearly specified while 6.9 percent of the respondents have neutral and the remaining 13.79 percent of respondents disagree.

From this data it is possible to infer that significant number of respondents have no opinion about the above plan and budget preparation questionnaire due to: lack of knowledge on budget preparation; lack of enough number of skilled and experienced budget officers; lack of understanding reliable budget preparation; less awareness participatory budgeting process; and lack of budgetary process procedure.

The literature is consistent findings in according to Mulu (2018) the strategic plan of the company is not effectively communicate to lower level management, the top management reducing the approved budget without negotiation and less participation of lowers level managers, budget holders are not using the approved budget based on the annual plan time's specification and activities. Tilahun (2010) findings are the lack of awareness of budget users about the role of plan and budget to the institution; budget holders have various understandings during budget preparations. Unavailability of adequate and

experienced manpower has added for the worsening results of plan and budget preparation disparities.

It is explained from the interviews results are follows. The interview question are does the budget user department given annual budget proposal based on reliable data? We can observe 75% of the interview replied the annual budget based on reliable data where as the remaining 25% replied unreliable budget proposal due to: does not carefully budget planning; lack of participatory budget planning; does not follow detail budget preparation procedure or budget manual those responsible for preparation of budget; does not give enough time or special attention on budgetary process that is lack of understanding; does not communicate detail of objective and strategy to those responsible for preparation of budget; insufficient skilled manpower, lack of adequate training and orientation reliable budget preparation.

On other interview question is what do you believe about the department gives special attention when the budget user proposal reviewed, compiled, summarized and presented for approval? All interview believed that the department see the budget proposal in the relation to the authority objective, develops by work units work program for their achievability, complied and summarized and set its own opinion independently about proposed budget. After this the department and the top management group may over see the work of preparing the proposed budget, discuss, reviews and co-ordinates the budget activity in the authority and submit the final budgets to the board of director for approval. The board can analyze and give opinion the proposed budget in order to assure its fairness. Then, if they can believe that is fair, they can approve the request amount of budget by their signature then signed and submitted to plan and budget department in orders to disburse the required amount of budgets.

In addition to this, what has been done to increase the quality of annual budget preparation? All of the interview forwarded that the management was done the quality of annual budget preparation increased by: reliable annual budget preparation based on skilled and experience budget users with the authority objective; the annual budget preparation must be given enough time or special attention on budgetary process; strong

communication for detail objective and strategy to those responsible for preparation of budget; make good participatory budget process for all respective employee; make detail of budget preparation on procedure or budget manual to those responsible for preparation of budget; giving adequate training and orientation budget preparation; planning and budget department should support continuously budget user departments during preparation.

#### 4.5. Budget Implementation and Utilization

**Table 4.3: Budget Implementation and Utilization**

Description	Category	Frequency (N = 87)				
		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Budget utilization is according to the cash flow.	Frequency	11	31	8	33	4
	Percent	12.64%	35.63%	9.20%	37.93%	4.60%
There is efficient budget implementation.	Frequency	16	42	11	15	3
	Percent	18.39%	48.28%	12.64%	17.24%	3.45%
Both revenue collection and expenditure are made cash flow based on approved budget.	Frequency	29	37	12	8	1
	Percent	33.33%	42.53%	13.79%	9.2%	1.15%
Budget shortage appears during budget year.	Frequency	23	49	6	7	2
	Percent	26.44%	56.32%	6.9%	8.05%	2.3%
There is budget surplus in budget year.	Frequency	16	46	19	3	3
	Percent	18.39%	52.87%	21.84%	3.45%	3.45%
There is mismatching plan with actual budget.	Frequency	19	48	11	9	0
	Percent	21.84%	55.17%	12.64%	10.34%	0%
There are necessary resources or facilities for budget utilization process.	Frequency	11	44	10	20	2
	Percent	12.64%	50.57%	11.49%	22.99%	2.30%

*Source: Survey Data, 2020*

As we can observe from table 4.3 about 48.27 percent of the respondents strongly agree or agree where as about 9.2 percent have neutral and the remaining 42.53 percent strongly disagree or disagree with budget utilization in according to the cash flow. 66.67 percent of the respondents strongly agree or agree where as about 12.64 percent have neutral and the remaining 20.69 percent strongly disagree or disagreed efficient budget

implementation. The respondents 75.86 percent strongly agrees or agrees both revenue collection and expenditure are made cash flow based on approved budget where as about 13.79 percent of them have neutral and the remaining 10.35 percent of the respondents strongly disagree or disagree.

Moreover, the majorities of the participants 82.76 percent strongly agrees or agree budget shortage appears during budget year where as each of 6.9 percent respondents have no opinion and the remaining 10.34 percent of the respondents strongly disagree or disagree. Similarly, 71.26 percent of the respondents strongly agree or agree where as about 21.84 percent have neutral and the remaining 6.9 percent strongly disagree or disagreed the presence of budget surplus in budget year.

Beside this, about 77.01 percent of the respondents strongly agree or agree mismatching plan with actual budget where as 12.64 percent have neutral or no opinion and the remaining 10.34 percent disagree. As 63.21 percent of the respondents strongly agree or agree necessary resources or facilities for budget utilization process where as 11.49 percent have neutral or no opinion and the remaining 25.29 percent strongly disagree or disagree.

From this data it is possible to inter that significant number of respondents has no opinion efficient budget implementation and utilization due to: lack of understanding budget implementation based on cash flow and approved budget; weak reliable planning occurring mismatching plan with actual budget; lack of awareness budget revision; lack of adequate training and orientation on budget implementation and utilization.

This finding are in line with the findings of Mulu (2018), there were time dalliance to accomplish tasks and underutilization of approved budget, top management not focused on budget utilization, budget revision and approval process. Zebider (2018) finding indicates that, gaps are observed in making regular follow-up, and lack of adequate skill and experience for some types of projects especially for new developments; e.g branding, postal saving bank, & logistics projects. Also, a researcher Tilahun (2010) apart from



accountability of the specific budget users, the department takes the lion's share of responsibility for budget preparation and implementation problems.

For the interview question what do you think that there is efficient budget implementation in the authority? The interview 70 percent replied that the implementation budget based on annual approved budget. This approved budget making monthly cash plan or cash flow both revenue and expenditure resources. But the remaining 30 percent replied that does not efficient budget implementation due to: excess planning both revenue collection and expenditure resources; significance discrepancy between actual and budget performance both revenue and expenditure sources; lack of proper monitoring and control; not strong follow-up that is daily not revenue collection and spending resources; lack of communication between leaders at the leadership level.

As indicated on the interview in what way that the authority implement the annual budget? The interview replied that each daily revenue collection and expenditure payments are properly recorded in computer excel program and produced periodically report.

The open-ended questions the respondents there are in general, what should be done to improve your office budget preparation and implementation process? All budget users replied that the budget preparation and implementation process due to: Detail and scheduled investigation should be taken to solve the problem of budget utilization and timely budget utilization; create awareness and strict rules for budget controlling, improve means of controlling budget solution that use connect technologies; don't overlook unforeseen challenges; frequent training to the staff members to have wright's aptitude about budget and trained well human resources; provision of training for budget preparation and controlling experts, equip the department with updated technology and strengthen internal audit practice; creating better organizational communication can increase budget preparation and implementation process; budget preparation should begin and ends with the annual plan by doing maximum effort with the help of experts and the implementation process should be clearly stated and applied; to improve and implementation of budget in organization; set clear cut budget policy, proper budget

allocation with the effective plan, that already planned and professional participation; all payment must be done according to plan and budget, prepare different application and system; dealing with concerned department with reliable supportive document; top management give high attention.

#### 4.6. Budget Variance

**Table 4.4: Budget Variance**

Description	Category	Frequency (N = 87)				
		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
There is budget variance occurring.	Frequency	17	53	8	5	4
	Percent	19.54%	60.92%	9.20%	5.75%	4.60%
Your office identifies the main factor that affects budget variance.	Frequency	12	52	13	8	2
	Percent	13.79%	59.77%	14.94%	9.20%	2.30%
Your office appears external factors that influence budget variance.	Frequency	18	47	12	9	1
	Percent	20.69%	54.02%	13.79%	10.34%	1.15%
Your office sends budget variance in order to take corrective action.	Frequency	17	52	10	3	5
	Percent	19.54%	59.77%	11.49%	3.45%	5.75%

*Source: Survey Data, 2020*

From table 4.4 budget variance above 80.46 percent respondents strongly agree or agree occurring budget variance where as 9.2 percent have no opinion and the remaining 10.35 percent strongly disagree or disagree. However, 73.56 percent of respondents strongly agree or agree with identifies the main factor that affects budget variance, 14.94 percent of respondents have no opinion and the remaining 11.50 percent strongly disagree or disagree. On the other hand, 74.71 percent of respondents strongly agree or agree external factors that influence budget variance and each of 13.79 percent respondents either have no opinion and the remaining 11.49 percent strongly disagree or disagree. Moreover, 79.31 percent of respondents strongly agree or agree with budget variance in order to take corrective action where as 11.49 percent of respondents have no opinion and the remaining 9.2 percent of respondents strongly disagree or disagree.

From this data, it is possible to infer that a significant number of respondents have no opinion on budget variance, the factors influencing budget variance, and how to take management corrective action due to: lack of knowledge of the cost of material increase because of economic inflation and exchange rate; weak awareness of unforeseen events; lack of understanding of reliable budget preparation; lack of knowledge of how to implement management corrective mechanisms.

This finding was consistent with what indicates that Alice (2012) foreign exchange rate fluctuations in the market hinder organizations from effectively managing their budgets while insufficient funds allocated to departments or projects affect budget implementation. Budget preparations, budgetary control, and budget implementations significantly influence budget variances. According to Mulu (2018), lack of management attention on budget variance; and Tilahun (2010) budgets are prepared without considering reasonable estimations and current market prices, the nature of the institution forces budget users to consider unforeseen situations, additional duties of budget users are not usually backed-up by supplementary budgets.

The interviews asked: "do you think that budget variance is occurring in the authority?" All interviewees replied there is budget variance happening due to various reasons. Budget variance is the difference between budgeted performances and actual performance.

The interviews and open-ended questions asked: "what are the main factors that affect budget variance in authority?" All interviewees replied that the main factors affecting budget variance are: economic inflation that increases the price of different purchasing materials; inefficiency in budget planning; unforeseen or unexpected events occurring; lack of coordination if there is no detail check and balance occurring in arithmetic errors; and lack of reliable budget planning.

An open-ended question asked: "what are the budget users' problems?" All of the respondents replied to planning problems and annual demand differences of the government; mismatches between plans and allocated budgets; or budgets allocated without reliable supportive documents; and unplanned inefficiencies.

budget utilization; cash/revenue problem; pure management; unexpected, or extra works, and the quality of material; procurement and foreign currency problem that means increasing price of commodities (items) e.g., spare parts, maintenance cost of car and etc; unexpected expansion of the Addis Ababa city and the activities to coup up with; and extremely high inflation. Therefore, in this interview and open-ended finding that similar results in budget variance factors that affect in authority.

The last interview was in what way that the authority appears budget variance by external factors? All interview replied that the shortage of foreign currency especially foreign purchase of different chemicals, water meter gage, pipe, and fitting; economic inflation that is increasing price of different local purchasing materials.

#### 4.7. Budgetary Control

**Table 4.5: Budgetary Control**

Description	Category	Frequency (N = 87)				
		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Your office has implemented effective budgetary control.	Frequency	16	45	15	9	2
	Percent	18.39%	51.72%	17.24%	10.34%	2.30%
Budgetary control in has a means of important tool.	Frequency	27	41	9	6	4
	Percent	31.03%	47.13%	10.34%	6.90%	4.60%
Authority and responsibility in budgetary control systems are clearly defined.	Frequency	15	49	14	8	1
	Percent	17.24%	56.32%	16.09%	9.20%	1.15%
Budgetary control has to keep track of actual performance to ensure budgeted.	Frequency	11	52	13	7	4
	Percent	12.64%	59.77%	14.94%	8.05%	4.60%
Budgetary control can be used as principle achieving objectives.	Frequency	18	50	7	8	4
	Percent	20.69%	57.47%	8.05%	9.20%	4.60%
Applied continuous comparison between actual with budget performance to investigate the deviation as variance.	Frequency	12	47	14	12	2
	Percent	13.79%	54.02%	16.09%	13.79%	2.30%

Description	Category	Frequency (N = 87)				
		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Your office analyzes the cause of variance and reporting the top management to take right action at the right time.	Frequency	14	46	16	7	4
	Percent	16.09%	52.87%	18.39%	8.05%	4.60%
Budgetary control has a means of measuring and evaluates performance.	Frequency	17	50	10	8	2
	Percent	19.54%	57.47%	11.49%	9.20%	2.30%
Your office has careful administer budgeting.	Frequency	18	50	10	6	3
	Percent	20.69%	57.47%	11.49%	6.90%	3.45%
There is appears budget shortage, mismatching plan with budget, the management review the cause and takes corrective action.	Frequency	17	47	15	6	2
	Percent	19.54%	54.02%	17.24%	6.90%	2.30%
Your office prepares periodically progress budget report as a means of control activities.	Frequency	24	45	10	7	1
	Percent	27.59%	51.72%	11.49%	8.05%	1.15%
There is prepares budget report provide management with feedback on operation.	Frequency	20	47	12	8	0
	Percent	22.99%	54.02%	13.79%	9.20%	0%
There is match total budget revenue collection with total expenditure budget.	Frequency	11	31	11	19	15
	Percent	12.64%	35.63%	12.64%	21.84%	17.24%
Gives adequate training with budget preparation, utilization and controlling.	Frequency	14	40	13	17	3
	Percent	16.09%	45.98%	14.94%	19.54%	3.45%
Effective and efficient uses of resources through the use of budgetary control system improve performance.	Frequency	16	45	8	16	2
	Percent	18.39%	51.72%	9.20%	18.39%	2.30%
There is a regular internal audit practice in your authority.	Frequency	9	50	14	11	3
	Percent	10.34%	57.47%	16.09%	12.64%	3.45%
There are sufficient skilled Internal Auditors to control the budgetary system.	Frequency	5	16	15	29	22
	Percent	5.75%	18.39%	17.24%	33.33%	25.29%
Internal Auditors conduct performance auditing to evaluate efficiency and effectiveness of budget utilization.	Frequency	6	22	31	20	8
	Percent	6.90%	25.29%	35.63%	22.99%	9.20%

Source: Survey Data, 2020

As table 4.5 depicts 70.11 percent of respondents strongly agree or agree effective budgetary control implemented where as 17.24 percent respondents have no opinion and the remaining 12.64 percent respondents strongly disagree or disagree. Similarly, 78.16 percent of respondents strongly agree or agree budgetary control as a means of important tool while 10.34 percent respondents have no opinion and 11.50 percent respondents strongly disagree or disagree. As 73.56 percent of respondents strongly agree or agree authority and responsibility in budgetary control systems is clearly defined, 16.09 percent respondents have no opinion and 10.35 percent respondents strongly disagree or disagree. As 72.41 percent of respondents strongly agree or agree with budgetary control to keep track of actual performance to ensure budgeted where as 14.94 percent have no opinion and the remaining 12.65 percent of respondents strongly disagree or disagree.

Beside this, 78.16 percent of respondents strongly agree or agree with budgetary control can be used as principle achieving objectives, 8.05 percent of respondents have no opinion and 13.80 percent of respondents strongly disagree or disagree. In addition to this 67.81 percent of respondents strongly agree or agree applied continuous comparison between actual with budgeting performance to investigate the deviation as variance while 16.09 percent respondents have no opinion and 16.09 percent of the respondents strongly disagree or disagree. However, 68.96 percent of the respondents strongly agree or agree with analyzes the cause of variance and reporting the top management to take the right action at the right time where as 18.39 percent have no opinion and the remaining 12.65 percent respondents strongly disagree or disagree. As 77.01 percent of respondents strongly agree or agree budgetary control has a means of measuring and evaluates performance where as 11.49 percent of them have no opinion and 11.50 percent respondents strongly disagree or disagree.

Similarly, 78.16 percent of respondents strongly agree or agree with careful administer of budgeting while 11.49 percent of the respondents have neutral and the remaining 10.35 percent of respondents strongly disagree or disagree. Moreover, 73.56 percent of the respondents strongly agree or agree with appears budget shortage, mismatching plan with budget, the management review the cause and takes corrective action where as 17.24

percent each of them have neutral and the remaining 9.2 percent of respondents strongly disagree or disagree. Beside this, the majority of respondents about 79.31 percent strongly agree or agree with prepare periodically progress budget report as a means of control activities, 11.49 percent of them have no opinion and 9.2 percent of respondents strongly disagree or disagree.

About 77.01 percent of respondents strongly agree or agree with preparation of budget report provide management with feedback on operation where as 13.79 percent of them have no opinion and the remaining 9.2 percent respondents disagree. However, 48.27 percent of respondents strongly agree or agree with the total revenue collection match the total expenditure budget where as 12.64 percent of them have no opinion and the remaining 39.08 percent of respondents strongly disagree or disagree. Beside this, about 62.07 percent of respondents strongly agree or agree with adequate training with budget preparation, controlling and utilization where as 14.94 percent have no opinion and the remaining 22.99 percent of respondents strongly disagree or disagree. As 70.11 percent of respondents strongly agree or agree with effective and efficient uses of resources through the use of budgetary control system improve performance where as 9.2 percent of them have no opinion and the remaining 20.69 percent of respondents strongly disagree or disagree. As 67.81 percent of respondents strongly agree or agree with regular internal audit practice in the authority where as 16.09 percent have no opinion and the remaining 16.09 percent of respondents strongly disagree or disagree. About 24.14 percent of respondents strongly agree or agree with sufficient skilled internal auditors to control the budgetary system where as 17.24 percent have no opinion and the remaining 58.62 percent of respondents strongly disagree or disagree. In 32.19 percent of respondents strongly agree or agree with internal auditors conduct performance auditing to evaluate efficiency and effectiveness of budget utilization where as 35.63 percent have no opinion and the remaining 32.19 percent of respondents strongly disagree or disagree.

From the above data analysis it is possible to infer that significant number of respondents have no opinion on the budgetary control system due to: lack of understanding authority and responsibility limitation; lack of awareness continuous comparison of budget

performance budget report; lack of investigating for variance between actual and planned performance; lack of understanding revision budgeting variance forwarded the management to correct an action; lack of knowledge budgetary control systems; lack of knowledge careful administer budgeting; lack of understanding preventive mechanism when occurring budget shortage, mismatching plan with actual budget and corrective action; lack of understanding periodically progresses budget reports as a means of budget management; lack of awareness budget report provide management with feedback operation; lack of effective and efficient uses of resources through the use of budgetary control system improve performance and lack of conduct performance auditing to evaluate efficient & effectiveness of budget utilization; insufficient skilled internal auditors to control the budgetary system; lack of adequate training with budget preparation, utilization and controlling.

A line to findings according to Nyambura (2014) the study finding there is a low positive relationship between budgetary control and performance and planning contributed the highest towards the positive performance of the NGOs followed by monitoring, control, and at last budget participation. The Zebider (2018) findings that, the current commitment level of the management toward budget control are insufficient; the number of skilled audit experts to perform strict internal control is insufficient and the budget control the mechanism of the firm is in moderate level. Mulu (2018) no effective budgetary control that contributes to the achievements of goal and objective, do not use budget achievement as performance measurement criteria, did not use budget as benchmark for performance evaluation, and did not use measurement & evaluation system of revenue budget performance based analysis. In addition, according to Tilahun (2010) Audit opinions given by office of Federal Auditor General are signals of the institution's weak compliance with the rules, and regulations of the country. Planning and budget department does not arrange regular workshops and short term training to improve the skill of budget personnel engaged in budget holders. According to Manoharan K. (2017) finding was inconsistency with budgetary control has a strong relationship with organizational performance.



The interview indicated that what do you think are there a good budgetary control system in the department? As per the interview 65 percent replied there is good budgetary controlling system in the department where as the remaining 35 percent of respondents have not good budgetary control system due to: poor system of controlling mechanism; weak comparison of budget with actual performance; lack of analysis the causes of variance and reporting the management in order to corrective action.

As explained from the interviews are what are the main challenges affecting budgetary control systems in authority? All interview replied that the main challenges affecting budgetary control due to: external factor of economic inflation and exchange rate increase; unreliable budget planning with authority objective; does not giving careful budget planning; lack of strict commitment to the budget on the part of management; weak follow-up that is daily check and balance both revenue & expenditure resources; does not giving enough time or special attention on budgetary process. On the other hand, open-ended questions budget users all of the respondents replied that due to: less accountability and insufficient training, following of old tradition because of unskilled manpower, in addition there is no well framed expert and auditing; the confusion of role and responsibility of finance department and planning & budget department in budgetary control practice that means not owner of budgetary control mechanisms in the organization; unavailability of technological system or lack of automated system that shows day to day budget variance; unplanned activities or poor planning, monitoring and evaluation mechanisms; poor understanding and utilizing budget; inflated or underestimated budgeting.

Interview question, what do you believe is there a careful administer budgeting in the department? About 70 percent of the interview replied that there is a careful administration budgeting up on receipt of the approved budget where as the remaining 30 percent of interview not careful administer budgeting due to: lack of knowledge carefully administer budgeting; lack of budget administration unreliable budget planning; weak following for daily recording the revenue collection and expenditure resources; lack of

budget report periodically preparation; lack of excess planning preventive mechanisms; lack of adequate training and orientation on budget administration.

As implied, what do you think in the department should systematically and periodically prepare budget report that compare actual results to planned activities? All interview replied that the department periodically prepares budget report on excel program that compare budget performance on budgetary account classification on chart of accounts. Such reports may be making on weekly, monthly, quarterly and annually basis so that it will be able to influence subsequently efforts to improve revenue collection and to control expenditure.

What do you think are there the management should systematically and periodically review variations between actual and budget results investigate their cause takes corrective action? The interview replied that the plan and budget department prepares the comparative reports of the budget with the actual results and review the detail analysis as to the cause of any material variance passed to the report top management. The top management may up on receipt of such reports taking appropriate steps to correct any wrong direction in the budget management process. The measure that may be taken will vary depending on the result of the analysis or recommends changes in the program from the rest of the budget year.

Is there a trend of conducting performance audit in the authority? The interview replied that the trend of conducting performance audit in the authority despite the beginning there is a lack of top management focus; shortage of skilled audit manpower and lack of adequate training and orientation audit; lack of decision-making in audit performance and finance.

What are the major challenges observed so far in the audit functions or results in authority? All interview replied that the major challenges observed the audit function due to: lack of continuity of auditing functions; auditable departments are less all earns on the area of audit; preparation of audit documents are not well to give us on time; using over

the budget utilization; lack of strong management and less understanding organization leaders on internal audit department.

Thus, open-ended questions in your opinion, what is the main weakness of budget preparation controlling and utilization? What about the solution? Budget users all the respondents replied to the main weakness of budget preparation, controlling and utilization due to: does not carefully budget planning; does not lead budget preparation procedure; does not give enough time or special attention on budgetary process; unreliable budget preparation; lack of participatory budgetary process that is participatory body without tangible supportive document prepare budget; lack of adequate training and orientation budget preparation, utilization, and controlling. Urgency that is related with high value procurement affects the budget and also unplanned requisitions. Insufficient skilled manpower, less accountability for the misuse of the budget; budget preparations mainly focus on the previous performance and utilization only; preparation of budget based on insufficient information and using it out of plan instead of controlling; lack of follow-up or there is not controlling mechanism from budget planning up to utilization; lack of strong budget monitoring and evaluation; lack of government decision maker's support to solve budget utilization problem and lack of support from top management; it doesn't use scientific methods to prepare a budget for those parts that should get appropriate.

Open-ended questions in your opinion, what are the main challenges affecting budgetary control mechanisms? A budget user all the respondents replied to the main challenges affecting budgetary control mechanisms due to: less commitment by top management, less accountability and insufficient training, following of old tradition because of unskilled manpower, in addition there is no well framed expert and auditing; the confusion of role and responsibility of finance department and planning & budget department in budgetary control practice that means not owner of budgetary control mechanisms in the organization; unavailability of technological system or lack of automated system that shows day to day budget variance; unplanned activities or poor

planning, monitoring and evaluation mechanisms; poor understanding and utilizing budget; inflated or underestimated budgeting.

#### **4.8. Revenue Collection and Expenditure Budget Report Analysis**

In order to undertaken the revenue collection and expenditure the researcher examine the last ten years budget reporting starting from budget year 2002 up to 2011 E.C were included for analysis.

##### **4.8.1. Revenue Collection Budget Report**

The analysis of this revenue collection budget report that compare plan with actual result and develop the basis of measurement to evaluate the efficiency of budget report. Thus, revenue collection budget report the last ten years observed as table 4.6 as follows:

**Table 4.6: AAWSA Budget Year 2002 to 2011 E.C Plan and Actual Revenue Collection Budget Report**

<b>Budget Year</b>	<b>Plan (ETB)</b>	<b>Actual (ETB)</b>	<b>Difference (ETB)</b>	<b>Percentage (%)</b>
2002	260,539,937	200,059,477	60,480,460	77
2003	245,400,000	260,909,000	15,509,000	106
2004	490,000,000	454,600,000	35,400,000	93
2005	554,930,000	364,200,000	190,730,000	66
2006	710,868,494	506,048,871	204,819,623	71
2007	778,047,000	553,250,052	224,796,948	71
2008	791,572,147	692,653,667	98,918,480	88
2009	840,956,423	690,324,240	150,632,183	82
2010	876,505,864	850,157,077	26,348,787	97
2011	1,260,500,007	861,604,457	398,895,550	68

*Source: Annual Report of AAWSA, 2020*

Secondary data analysis is as the most important annual revenue collection performance of AAWSA was analyzed for the ten years period from 2002 to 2011 E.C. As we can observe from table 4.6, budget year 2002 planned to collect ETB (Ethiopian Birr)

260,539,937 (birr two hundred sixty million five hundred thirty nine thousand nine hundred thirty seven). Having this planned the authority actually collected ETB 200,059,477 (birr two hundred million fifty nine thousand four hundred seventy seven). As a result of this, there is revenue collection difference or variance ETB 60,480,460 (birr sixty million four hundred eighty thousand four hundred sixty), when it is express in percentage, actually 77 percent collected and inefficient revenue collection 23 percent. The budget year 2003 planned to collect ETB 245,400,000 (birr two hundred forty five million four hundred thousand) where as the authority actually collected ETB 260,909,000 (birr two hundred sixty million nine hundred nine thousand). This indicates there is difference or variance ETB 15,509,000 (birr fifteen million five hundred nine thousand) when it is express in percentage, actually 106 percent collected and this 6 percent variance achievement that comes the employees and management by making efficiently collection revenue.

Moreover, budget year 2004 planned to collect ETB 490,000,000 (birr four hundred ninety million). Having this planned the authority actually collected ETB 454,600,000 (birr four hundred fifty four million six hundred thousand). Thus, there is variance ETB 35,400,000 (birr thirty five million four hundred thousand) when it is express in percentage, 93 percent collected and this 7 percent variance that comes the employees and management by making efficiently collection revenue. The budget year 2005 planned to collect ETB 554,930,000 (birr five hundred fifty four million nine hundred thirty thousand) where as the authority actually collected ETB 364,200,000 (birr three hundred sixty four million two hundred thousand). Therefore, there is variance ETB 190,730,000 (birr one hundred ninety million seven hundred thirty thousand) between the express in percentage, 66 percent collected and 34 percent inefficient revenue collection.

Budget year 2006 planned to collect ETB 710,868,494 (birr seven hundred ten million eight hundred sixty eight thousand four hundred ninety four). Having this planned the authority actually collected ETB 506,048,871 (birr five hundred six million forty eight thousand eight hundred seventy one). This implies there is variance ETB 204,819,623 (birr two hundred four million eight hundred nineteen thousand six hundred twenty three)

between the express in percentage, 71 percent collected and 29 percent inefficient revenue collection. However, budget year 2007 planned to collect ETB 778,047,000 (birr seven hundred seventy eight million forty seven thousand) where as the authority actually collected ETB 553,250,052 (birr five hundred fifty three million two hundred fifty thousand fifty two). This indicates that, there is variance ETB 224,796,948 (birr two hundred twenty four million seven hundred ninety six thousand nine hundred forty eight) when it is express in percentage, actually 71 percent collected and inefficient revenue collection 29 percent.

In budget year 2008 planned to collect ETB 791,572,147 (birr seven hundred ninety one million five hundred seventy two thousand one hundred forty seven). Having this planned the authority actually collected ETB 692,653,667 (birr six hundred ninety two million six hundred fifty three thousand six hundred sixty seven). Thus, there is variance ETB 98,918,480 (birr ninety eight million nine hundred eighteen thousand four hundred eighty) when it is express in percentage, actually 88 percent collected and inefficient revenue collection 12 percent. Moreover, budget year 2009 planned to collect ETB 840,956,423 (birr eight hundred forty million nine hundred fifty six thousand four hundred twenty three) where as the authority actually collected ETB 690,324,240 (birr six hundred ninety million three hundred twenty four thousand two hundred forty). This indicates that, there is variance ETB 150,632,183 (birr one hundred fifty million six hundred thirty two thousand one hundred eighty three) when it is express in percentage, actually 82 percent collected and inefficient revenue collection 18 percent.

Budget year 2010 planned to collect ETB 876,505,864 (birr eight hundred seventy six million five hundred five thousand eight hundred sixty four). Having this planned the authority actually collected ETB 850,157,077 (birr eight hundred fifty million one hundred fifty seven thousand seventy seven). This implies there is variance ETB 26,348,787 (birr twenty six million three hundred forty eight thousand seven hundred eighty seven), when it is express in percentage, 97 percent collected and this variance that comes the employees and management by making efficient revenue collection. The budget year 2011 planned to collect ETB 1,260,500,007 (birr one billion two hundred

sixty million five hundred thousand seven) where as the authority actually collected ETB 861,604,457 (birr eight hundred sixty one million six hundred four thousand four hundred fifty seven). This indicates that, there is variance ETB 398,895,550 (birr three hundred ninety eight million eight hundred ninety five thousand five hundred fifty) when it is express in percentage, actually 68 percent collected and 32 percent inefficient revenue collection.

From this ten years revenue collection budget report the variance can be occurred due to: shortage of clean water supply, lack of skilled man power on leakage pipe line preventive mechanism, mistaken given by the meter reader, management inefficiency to collect the current and the previous water receivable, lack of control systems and excess plan.

#### **4.8.2. Expenditure Budget Report**

The analysis of this expenditure budget report that compare plan with actual results and develop the basis of measurement to evaluate the efficiency of budget report. Thus, expenditure budget report the last ten years observed as table 4.7 as follows:

**Table 4.7: AAWSA Budget Year 2002 to 2011 E.C Plan and Actual Expenditure Budget Report**

<b>Budget Year</b>	<b>Plan (ETB)</b>	<b>Actual (ETB)</b>	<b>Difference (ETB)</b>	<b>Percentage (%)</b>
2002	215,440,336	214,329,635	1,110,701	99
2003	242,658,569	202,019,700	40,638,869	83
2004	315,000,000	280,700,000	34,300,000	89
2005	554,930,000	359,514,868	195,415,132	65
2006	699,056,730	581,508,756	117,547,974	83
2007	804,485,719	588,741,199	215,744,520	73
2008	1,151,435,600	665,004,821	486,430,779	58
2009	1,324,150,941	709,243,283	614,907,658	54
2010	1,456,424,872	901,434,410	554,990,462	62
2011	1,198,499,850	920,100,655	278,399,195	77

*Source: Annual Report of AAWSA, 2020*

From the above table 4.7, the budget annual report of the organization it reads that the budget, budget year 2002 ETB 215,440,336 (birr two hundred fifteen million four hundred forty thousand three hundred thirty six) was budgeted amount or planned budget and actual budget ETB 214,329,635 (birr two hundred fourteen million three hundred twenty nine thousand six hundred thirty five). This indicates, that there is unutilized amount or variance ETB 1,110,701 (birr one million one hundred ten thousand seven hundred one), when it is express in percentage 99 percent was actual utilized amount and 1 percent variance that comes the employees and management by making efficient utilization budget.

Besides this, budget year 2003, ETB 242,658,569 (birr two hundred forty two million six hundred fifty eight thousand five hundred sixty nine) was budgeted. Having this planned the authority actually expended ETB 202,019,700 (birr two hundred two million nineteen thousand seven hundred) was utilized. This implies, that there is variance ETB 40,638,869 (birr forty million six hundred thirty eight thousand eight hundred sixty nine), when it is express in percentage 83 percent was actual utilized amount and 17 percent unutilized budget. Budget year 2004 ETB 315,000,000 (birr three hundred fifteen million) was budgeted amount or planned budget and actual budget ETB 280,700,000 (birr two hundred eighty million seven hundred thousand). This indicates, that there is unutilized amount or variance ETB 34,300,000 (birr thirty four million three hundred thousand), when it is express in percentage 89 percent was actual utilized amount and 11 percent unutilized amount.

Budget year 2005 ETB 554,930,000 (birr five hundred fifty four million nine hundred thirty thousand) was budgeted amount and actual budget ETB 359,514,868 (birr three hundred fifty nine million five hundred fourteen thousand eight hundred sixty eight). This indicates, that there is unutilized amount ETB 195,415,132 (birr one hundred ninety five million four hundred fifteen thousand one hundred thirty two), when it is express in percentage 65 percent was actual utilized amount and 35 percent unutilized amount. In budget year 2006 ETB 699,056,730 (birr six hundred ninety nine million fifty six thousand seven hundred thirty) was budgeted amount and actual budget ETB



581,508,756 (birr five hundred eighty one million five hundred eight thousand seven hundred fifty six). This indicates, that there is unutilized amount ETB 117,547,974 (birr one hundred seventeen million five hundred forty seven thousand nine hundred seventy four), when it is express in percentage 83 percent was actual utilized amount and 17 percent unutilized amount.

In budget year 2007 ETB 804,485,719 (birr eight hundred four million four hundred eighty five thousand seven hundred nineteen) was budgeted amount and actual budget ETB 588,741,199 (birr five hundred eighty eight million seven hundred forty one thousand one hundred ninety nine). This indicates, that there is unutilized amount ETB 215,744,520 (birr two hundred fifteen million seven hundred forty four thousand five hundred twenty), when it is express in percentage 73 percent was actual utilized amount and 27 percent unutilized amount. In budget year 2008 ETB 1,151,435,600 (birr one billion one hundred fifty one million four hundred thirty five thousand six hundred) was budgeted amount and actual budget ETB 665,004,821 (birr six hundred sixty five million four thousand eight hundred twenty one). This indicates, that there is unutilized amount ETB 486,430,779 (birr four hundred eighty six million four hundred thirty thousand seven hundred seventy nine), when it is express in percentage 58 percent was actual utilized amount and 42 percent unutilized amount.

In budget year 2009 ETB 1,324,150,941 (birr one billion three hundred twenty four million one hundred fifty thousand nine hundred forty one) was budgeted amount and actual budget ETB 709,243,283 (birr seven hundred nine million two hundred forty three thousand two hundred eighty three). This indicates, that there is unutilized amount ETB 614,907,658 (birr six hundred fourteen million nine hundred seven thousand six hundred fifty eight), when it is express in percentage 54 percent was actual utilized amount and 46 percent unutilized amount. In budget year 2010 ETB 1,456,424,872 (birr one billion four hundred fifty six million four hundred twenty four thousand eight hundred seventy two) was budgeted amount and actual budget ETB 901,434,410 (birr nine hundred one million four hundred thirty four thousand four hundred ten). This indicates, that there is unutilized amount ETB 554,990,462 (birr five hundred fifty four million nine hundred

ninety thousand four hundred sixty two), when it is express in percentage 62 percent was actual utilized amount and 38 percent unutilized amount. In budget year 2011 ETB 1,198,499,850 (birr one billion one hundred ninety eight million four hundred ninety nine thousand eight hundred fifty) was budgeted amount and actual budget ETB 920,100,655 (birr nine hundred twenty million one hundred thousand six hundred fifty five). This indicates, that there is unutilized amount ETB 278,399,195 (birr two hundred seventy eight million three hundred ninety nine thousand one hundred ninety five), when it is express in percentage 77 percent was actual utilized amount and 23 percent unutilized amount.

From this ten years expenditure budget report the unutilized amount or variance increase year to year can be occurred due to: the cost of acquiring material increase in economic inflation and exchange rate; unreliable or inefficiency budget preparation; excess planning; tender cancelling because of shortages of foreign currency; employee benefits not being paid on time; poor budgetary control in the organization.

This finding are in line with the findings of Tilahun (2010) 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. According to Mulu (2018), underutilization of approved budget and top management not focused on budget utilization, budget revision and approval process.

#### **4.8.3. Comparison of Actual Revenue Collection and Actual Expenditure Budget Report**

The analysis of that compares actual revenue collection and actual expenditure results and develops the basis of measurement to evaluate the efficiency of budget utilization. Thus, comparison of the last ten years observed as table 4.8 as follows:

**Table 4.8: Comparison of AAWSA Budget Year 2002 to 2011 E.C Revenue Collection and Actual Expenditure Budget Report**

<b>Budget Year</b>	<b>Actual Revenue (ETB)</b>	<b>Actual Expenditure (ETB)</b>	<b>Percentage (%)</b>
2002	200,059,477	214,329,635	107
2003	260,909,000	202,019,700	77
2004	454,600,000	280,700,000	62
2005	364,200,000	359,514,868	99
2006	506,048,871	581,508,756	115
2007	553,250,052	588,741,199	106
2008	692,653,667	665,004,821	96
2009	690,324,240	709,243,283	103
2010	850,157,077	901,434,410	106
2011	861,604,457	920,100,655	107

*Source: Annual Report of AAWSA, 2020*

Table 4.8 shows that, the other most important effective and efficient utilization of budget in AAWSA was analyzed for the ten years period from 2002 to 2011 E.C. The trend analysis reveals that actual revenue collection and actual expenditure for budget utilization performance shows increments for the last ten years. However, comparing to the actual revenue collection and actual expenditure budget performance shows fluctuated trends or shortage of budget. The highest performance compared to the over utilization on 2006 E.C i.e. 115% its over utilize. The least under utilization of budget was recorded on 2004 E.C i.e. 62% it's underutilized.

According to Mulu (2018) finding was line with findings of him. Major finding indicates that, lack of management attention on budget variance, no effective budgetary control that contributes to the achievement of goals and objectives, do not use budget achievement as performance measurement criteria, did not use budget as benchmark for performance evaluation, and did not use measurement & evaluation system of revenue budget performance based analysis.

Interview question, why came the difference of actual revenue collection and actual expenditure budget? Explain how the budget variance was solved. Indicates that 50 percent of the interview replied that there is an evaluation between actual revenue collection and budget utilization where as the remaining 50 percent of interview not evaluation between actual revenue collection and budget utilization due to: the approved budgets are not considered a current market price or shortage of foreign currency because the raw material purchase is in foreign purchase; lack of top management attention on a budget variance evaluation; which means almost there is no performance evaluation on budget utilization; poor budgetary control system. However, the budget department said that there is the over utilized of budget cover to a rolling budget, but indicates that the budget utilization is not monitored and audited.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATION**

This chapter consists summary of finding, conclusion and recommendation based on the study objectives focus on the assessment of the budget and budgetary control systems in Addis Ababa Water and Sewerage Authority.

#### **5.1. Summary of Findings**

The main objective of the study is assessment of the budget and budgetary control systems in AAWSA. In particular, the study investigates how: budget plan and preparation, budget implementation and utilization, budget variance and budget control, revenue collection and expenditure annual report performance the following findings were identified during analysis.

##### **5.1.1. Budget Plan and Preparation**

The analysis of the questionnaires from five measurement scale revealed that the majority of the respondents strongly agree or agree with budget plan and preparation. However, significant numbers of respondents have no opinion and strongly disagree or disagree. On the other hand, about 75 percent of the interview replied that the annual budget preparation based on reliable data where as the remaining 25 percent respondents replied unreliable budget proposal. Moreover, the ten years revenue collection and expenditure budget reports performance shows unfavorable or unutilized budget variance due to: lack of knowledge on budget preparation; insufficient skilled manpower; lack of reliable on budget planning; less participatory budgeting process; does not carefully budget planning; does not give enough time or special attention on budgetary process; does not follow detail budget preparation procedure or budget manual to those responsible budget planning; does not communicate detail of objective and strategy to those responsible for budget preparation; lack of adequate training and orientation on budget preparation.

### **5.1.2. Budget Implementation and Utilization**

The majority of respondents strongly agrees or agrees budget implementation and utilization according to questionnaire. However, significant numbers of respondents have no opinion and strongly disagree or disagree. On the other hand, about 70 percent of the interviews replied that the budget implementation and utilization based on annual approved budget and the remaining 30 percent replied that does not efficient implementation budget. Beside this, the ten years revenue collection and expenditure budget reports performance shows weak budget implementation and utilization due to: lack of skill on budget implementation; reliable budget planning increased mismatching plan with actual budget; weak revision budget mechanisms; not strong follow-up that is daily revenue collection and spending resource; lack of proper monitoring and control; lack of adequate training and orientation on budget implementation and utilization.

### **5.1.3. Budget Variance**

The majority of the respondents strongly agrees or agrees budget variance occurring in authority. However, significant numbers of respondents have no opinion and strongly disagree or disagree. Similarly, all interviews replied that budget variance happening various reason. Moreover, the ten years revenue collection and expenditure budget report performance shows budget variance due to: economic inflation increasing the price of different purchasing materials; tender canceling; unreliable or inefficiency budget preparation; unforeseen or unexpected happening occurring; lack of coordination if there is no detail check and balance arithmetic error; shortage of foreign currency; shortages of clean water supply reduce revenue collection; erroneous given by the meter reader reduce revenue collection; lack of skilled manpower on leakage pipe line preventive mechanisms; management inefficiency to collect the current water and the previous water receivable; and excess planning.

#### **5.1.4. Budgetary Control**

The majority of respondents strongly agrees or agrees budget control according to questionnaire. However, significant numbers of respondents have no opinion and strongly disagree or disagree. On the other hand, about 65 percent of the interviews replied that there is good budgetary control systems in department where as the remaining 35 percent of respondents have not good budgetary control system. Beside this, the ten years revenue collection and expenditure budget reports performance shows weak budgetary control due to: weak comparison of budget with actual performance; lack of investigation budget variance between planned and actual performance; lack of analysis the cause of variance and reporting the management in order to corrective action; weak follow-up budgetary control; lack of carefully administer budget; weak following for daily recording the revenue collection and expenditure resource; lack of monitoring preparation budget report periodically; lack of preventive mechanisms when occurring budget shortage, mismatching plan with actual budget and corrective action; lack of understanding periodically progress budget report as a means of budget management; lack of understanding budget report provide management with feedback operation; lack of conduct performance auditing to evaluate efficient & effectiveness of budget utilization; insufficient skilled internal auditors to control the budgetary system; lack of top management focus and decision-making in audit performance & finance; lack of continuity of auditing functions; auditable departments are less all earns on the area of audit; preparation of audit documents is not well to give us on time; shortage of skilled audit manpower; lack of adequate training and orientation with budgetary control systems.

### **5.2. Conclusion**

Based on the data presentations and analysis in the previous part of the major finding of the study, the researcher could reach on the following conclusion.

Regarding the plan and preparation the study researcher investigates that significant number of respondent have no opinion or disagree about 25 percent of the interview and

the ten years revenue collection and expenditure budget reports performance shows weak and unreliable budget plan and preparation. This is because of lack of knowledge on budget preparation, insufficient skilled manpower; does not carefully budget planning, lack of reliable budget planning, less participatory budget process, does not follow detail budgetary preparation procedure or budget manual to those responsible budget planning, does not give enough time or special attention on budgetary process, does not communicate detail of the objective and strategy to those responsible for budget preparation, and lack of adequate training and orientation on budget preparation.

Regarding budget implementation and utilization the study that there is also significant number of respondents have no opinion or disagree, about 30 percent of the interview and the ten years revenue collection and expenditure budget report performance shows weak budget implementation and utilization due to: lack of skill on budget implementation, unreliable budget planning increased mismatching plan with actual budget, not strong follow-up that is daily revenue collection and spending resources, weak revision budget mechanism, lack of each budget implementation based on approved budget and cash flow.

The majority of respondents strongly agrees or agrees budget variance occurring in authority, similarly, all interview replied that budget variance occurring in various reasons. Moreover, the ten years revenue collection and expenditure budget performance shows budget variance due to: economic inflation increasing price of different purchasing material; unreliable or inefficiency budget preparation; tender cancelling; unforeseen or unexpected happening need for increase expenditure arises; lack of revision on budget variance; not detail check and balance maximize arithmetic error; shortage of foreign currency; shortage of clean water supply reduce revenue collection; erroneous given by the meter reader reduce revenue collection; lack of skilled manpower on leakage pipe line preventive mechanism; management inefficiently to collect the current water and the previous water reachable; and excess planning.



With regard to budgetary control significant number of respondents have no opinion or disagree, about 35 percent of interview and the ten years revenue collection and expenditure budget report performance shows not strong budget are control due to: weak comparison of budget with actual performance; weak follow-up budgets controlling; lack of monitoring budget report periodically; lack of investigation about variance between planned and actual performance; weak analysis the cause of variance and reporting the management in order to corrective action; lack of knowledge carefully administer budget; weak follow-up for daily recording the revenue collection and expenditure resources; lack of budget administration because of unreliable or inefficiency budget planning; lack of conduct performance auditing to evaluate efficient & effectiveness of budget utilization; insufficient skilled internal auditors to control the budgetary system; lack of top management focus and decision-making in audit performance & finance; lack of continuity of auditing functions; auditable departments are less all earns on the area of audit; preparation of audit documents is not well to give us on time; shortage of skilled audit manpower; and lack of adequate training and orientation of budget controlling.

### **5.3. Recommendation**

Based on the finding and conclusion made, the study suggests the following recommendations to the organization.

As implied in the findings of this research proved that the budget plan and preparation recommended to: make reliable budget preparation based on the current market assessment and consistently with previous year budget or based on last year approved budget; make reliable budget preparation giving enough time budgetary process or giving special attention; make carefully budget planning; making good participatory budgeting process; detail follow budget preparation procedure or budget manual to those responsible budget planning; giving enough time or special attention on budgetary process; make sufficient skilled manpower and giving adequate training and orientation to maximize quality budget preparation.

Regarding budget implementation and utilization there were a make reliable budget planning avoiding mismatching plan with actual budget; make strong follow-up daily revenue collection and spending resource; make strong revision adjusting budget unreliable or excess plan; and make each budget implementation based on approved budget.

The budget variance quickly transferring budget on reserve budget account when occurring unforeseen happening; quickly revision on budget variance; strong coordination and detail check and balance avoiding arithmetic error; avoiding shortage of foreign currency by management quickly request not only National Bank but also Prime Minister Office in order to give solution within a short period of time; avoid excess plan; to build additional water dam maximize revenue collection; hired skilled manpower to minimize leakage water to an acceptable level through conducting major studies and replacement of aid pipe lines and creating awareness among the general consuming public to economize water; management efficiently collects the current water and the previous year water receivable; to increase the volume of production including the exploitation of underground water well; giving adequate training on budget variance, cause of variance and factor influencing budget variance.

The budgetary control: make continuous comparison of budget with actual performance and produce budget report periodically; make strong investigation budget variance between actual and planned performance; very carefully administer each revenue collection and expenditure budget based on cash flow and approved budget with authority and responsibility; make strong follow-up budgetary control system; properly check and balance for daily recording revenue collection and expenditure resources detail in to the computer with budgetary account classification on chart of account; make detail analysis the cause of variance and forwarding the management in order to corrective action; make budget transfer on reserve budget account on budget shortage occurring; avoid mismatch plan with actual budget by revision budget mechanism; giving adequate training and orientation on budget implementation, utilization and controlling; make periodically budget report as a means of budget control and management to take appropriate step to

correct any wrong direction in the budget implementation and utilization; make conduct performance auditing to evaluation of budget utilization; make sufficient skilled internal auditors to control the budgetary system and knowledgeable human resource in the department or skilled audit manpower; make audit performance to focus and decide top management; make continuity of auditing functions; make auditable departments are all earns on the area of audit; make preparation of audit documents is to give use on time. The measures that may be taken will vary depending on the result of the analysis or recommended changes in program from the rest of the budget year.

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## APPENDIX A

### St. Mary's University School of Graduate Studies MBA in Accounting and Finance

The main objective of this questionnaire is designed to gather data on assessment of the budget and budgetary control systems in Addis Ababa Water and Sewerage Authority. The data to be collected through the questionnaire is highly valuable to meet the objectives of this study. Please spend a few minutes to complete this questionnaire. The information you supply would be used for academic purpose only and will be kept strictly and confidential.

**Thank you in advance for your cooperation!**

**Questionnaires distributed to the authority budget users.**

#### General Instructions:

- No need of writing your name;
- Please use “✓” sign for closed ended or alternative questions and write your genuine idea on the blank spaces for those open ended or subjective questions.
- Check only one box for each questions unless you are asked to write more than one.

#### Part I: Demographic Information

1. Gender: Male  Female
2. Level of Education: Certificate and below  Diploma   
1<sup>st</sup> Degree  Masters Degree
3. Work Experience: 1 to 5 years  6 to 10 years   
11 to 15 year  Above 16 years
4. Field of Study: Accounting  Economics  Management   
Statistics  Others \_\_\_\_\_



**Part II: Annual revenue and expenditure budget planning, preparation, utilization, and controlling.**

**Hint:** 5 = Strongly Agree, 4 = Agree, 3 = Neutral, 2 = Disagree, 1 = Strongly Disagree

S/N	Description	Measurement				
		5	4	3	2	1
	<b>Plan and Budget Preparation</b>					
5	Budget preparation begins according to the annual plan.					
6	Budget preparation ends according to the annual plan.					
7	There is problem of matching plan with budget.					
8	Prepares annual revenue and expenditure budget with the help of skilled budget officers.					
9	Budget preparation is based on reliable data with planned objectives.					
10	Budget preparation has a clear procedure which set out in manual.					
11	Your office has developed budgetary process by using participatory budget.					
12	Each developing budget has budgetary classification.					
13	There is enough number of skilled and experienced budget officers to accomplish budget preparation.					
14	Your office has strong relationship with planning and budget department.					
15	There is a prepared budget for each center pertaining to individual responsibility.					
16	Your office has applied continuous or rolling budgets.					
17	The length of the budgetary period clearly specified.					
	<b>Budget Implementation and Utilization</b>					
18	Budget utilization is according to the cash flow.					
19	There is efficient budget implementation.					
20	Both revenue collection and expenditure are made cash flow based on approved budget.					
21	Budget shortage appears during budget year.					
22	There is budget surplus in budget year.					
23	There is mismatching plan with actual budget.					
24	There are necessary resources or facilities for budget utilization process.					
	<b>Budget Variance</b>					
25	There is budget variance occurring.					
26	Your office identifies the main factor that affects budget variance.					
27	Your office appears external factors that influence budget variance.					

S/N	Description	Measurement				
		5	4	3	2	1
28	Your office sends budget variance in order to take corrective action.					
	<b>Budgetary Control</b>					
29	Your office has implemented effective budgetary control.					
30	Budgetary control in has a means of important tool.					
31	Authority and responsibility in budgetary control systems are clearly defined.					
32	Budgetary control has to keep track of actual performance to ensure budgeted.					
33	Budgetary control can be used as principle achieving objectives.					
34	Applied continuous comparison between actual with budget performance to investigate the deviation as variance.					
35	Your office analyzes the cause of variance and reporting the top management to take right action at the right time.					
36	Budgetary control has a means of measuring and evaluates performance.					
37	Your office has careful administer budgeting.					
38	There is appears budget shortage, mismatching plan with budget, the management review the cause and takes corrective action.					
39	Your office prepares periodically progress budget report as a means of control activities.					
40	There is prepares budget report provide management with feedback on operation.					
41	There is match total budget revenue collection with total expenditure budget.					
42	Gives adequate training with budget preparation, utilization and controlling.					
43	Effective and efficient uses of resources through the use of budgetary control system improve performance.					
44	There is a regular Internal Audit practice in your authority.					
45	There are sufficient skilled Internal Auditors to control the budgetary system.					
46	Internal Auditors conduct performance auditing to evaluate efficiency and effectiveness of budget utilization					

**Part III: Open – Ended Questions**

47. In your opinion, what are the main weakness of budget preparation controlling and utilization? What about the solution?

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48. What do you think about the main factor that affects budget variance in your office? What about the solution?

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49. In your opinion, what are the main challenges affecting budgetary control mechanisms?

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50. In general, what should be done to improve your office budget preparation and implementation process?

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51. If you have any additional suggestion or comment, please give me!

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Thank You Very Much!!

## **APPENDIX B**

### **Interview Questions for Deputy G/Manager, Planning and Budget, Finance and Internal Audit Departments**

1. Does the budget user department given annual budget proposal based on reliable data?
2. What do you believe about the department gives special attention when the budget user proposal reviewed, compiled, summarized and presented for approval?
3. What has been done to increase the quality of annual budget preparation?
4. What do you think that there is efficient budget implementation in the authority?
5. In what way that the authority implement the annual budget?
6. Do you think that budget variance is occurring in the authority?
7. What are the main factors that affect budget variance in authority?
8. In what way that the authority appears budget variance by external factors?
9. Why came the difference of actual revenue collection and actual expenditure budget?  
Explain how the budget variance was solved.
10. What do you think are there a good budgetary control systems in the department?
11. What are the main challenges affecting budgetary control systems in authority?
12. What do you believe is there a careful administer budgeting in the department?
13. What do you think in the department should systematically and periodically prepare budget report that compare actual results to planned activities?
14. What do you think are there the management should systematically and periodically review variations between actual and budget results investigate their cause takes corrective action?
15. Is there a trend of conducting performance audit in the authority?
16. What are the major challenges observed so far in the audit functions or results in authority?

Thank You Very Much!!