

**Assessment of Budget Management and Control Practice in  
Amhara Region:**

**A Case Study at Regional Sector Bureau Level**



**INDIRA GANDHI NATIONAL OPEN UNIVERISTY (IGNOU)  
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*ETHIOPIA*

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

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## **CERTIFICATE OF ORIGINALITY**

This is to certify that the research work titled "Assessment of Budget Management and Control Practice in Amhara Region" is an original work of the student and is being submitted in partial fulfillment for the award of the Master's degree in Business Administration of Indira Gandhi National Open University. This report has not been submitted earlier either to this University or any other University/Institution for the fulfillment of the requirement of a course of study.

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I would like to thank the almighty God for helping me in the successful accomplishment of this study.

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## **Abstract**

This study assesses the Budget Management and Control Practice in Amhara Region using the budget user sectors found at Regional Sector Bureau Level as a case study. The lack of research on this topic, coupled by the sign of improper budget management in the region has been a major motivation to carry out this research. The effectiveness and efficiency of budget and budgeting in discharging governments various functions depend on the crucial role of budget management and control, which is the main task of budget user sectors PBD, and BoFED PBD in particular. Although the region has prepared sound budget guide book and launched IBEX accounting information system to improve its budget process, several problems remain unsolved with regard to the budget process in the public sectors.

Eighteen budget user sectors and thirty six respondents are selected and used for the study using purposive sampling technique. Both primary and secondary data have been used for the study through questionnaire to thirty six respondents and review of the sectors consolidated quarterly and annual reports. Moreover, BoFED BPD experts and ORAG audit experts were included in collecting primary data through structured questionnaire. SPSS statistical software, charts and percentages are used to present and analyze the data. The descriptive and qualitative analyses demonstrate that there was no strict accountability which allows creating sense of institutional budget perception. The IBEX budget control module is not implemented and manual budget expenditure ledger card is not maintained therefore, committed budget is not recorded. There is no reasonable cost estimation practice. Lack of adequate and experienced budget workers. Lack of regular follow up and support by BoFED are some of the issues that contribute to worsen the problems.

Setting guideline alone is not sufficient to bring the desired outcome unless I). Budget executing bodies directly involved in the process; and made accountable for all non compliance of the budget guide book, II). BoFED's regular follow-up and awareness creation programs. Therefore, in order to improve the region's budget process, this study assess and identify the degree, intensity and causes of problems and indicate the responsible officials to take any possible remedial actions to rectify the problems and avoid the repetition in the subsequent years.

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## **List of Acronyms**

BoFED	Bureau of Finance and Economic Development
ORAG	Office of Regional Auditor General
IA	Internal Audit
ANRS	Amhara National Regional State
PBD	Planning and Budget Department
MoFED	Ministry of Finance and Economic Development PB Public Body
DSA	Decentralized Support Activities project
OECD	Organization for Economic Co-operation and Development
PEFA	Public expenditure and financial accountability

## CHAPTER ONE

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### 1.1. Introduction

Government has several policies to implement in the overall task of performing its functions to meet the objectives of social & economic growth. For implementing these policies, it has to spend huge amount of funds on administration, development and welfare projects & various other relief operations. In the 20th century, a high proportion of economic activity is controlled directly or indirectly by various levels of government (federal or central state, local, etc.). Thus, the budget has been taken on a number of other functions as well as on the simple monitoring of the overall revenue and expenditure of government. Expenditure programs are now planned in a considerable detail, but the sheer scale of public spending raises major control problems, and varying systems of control has been tried in different countries.

A major challenge faced by many African countries is to enhance the credibility of the budget by reducing the gap between planned and actual spending. According to the PEFA framework a well-performing public financial management system ensures that the budget is 'implemented in an orderly and predictable manner and there are arrangements for the exercise of control and stewardship in the use of public funds WB, (2013). It was also asserted that poor budget execution can undermine fiscal policy, distort allocations and undermine operational efficiency Ablo&Reinikka, (1998); Stasavage&Moyo, (2000). At the same time, however, overly rigid execution rules can be detrimental to performance Campos&Pradhan, (1996); Blöndal(2003).

Sound financial management is essential if the government is to have effective, efficient and economical use of scarce resources to the approved required purposes. The management and controlling of public financial resources is crucial because society's needs and demands are unlimited whereas resources are limited in nature.

For budgeting and expenditure control processes to be efficient and economic, they must be based on well-argued and elaborated plans and programs. Contemporary studies show that governments which have effective fiscal rules have stronger budget discipline. These rules focus

on formal and informal procedures for preparing, adopting, and implementing the budget. Schick,(2007).

As population and public demand in government services increase from time to time, government expenditure budget is also increasing and the bigger the budget, the more important it is that strict accounting discipline is adhered to. Otherwise massive waste and fraud will be a likely outcome. Competent financial management practices do not ensure that everything is fine, just that the major flaws can be found. Chan,(2008).

In Ethiopia, there are eleven administrative states for which annual expenditure budget is managed and controlled individually. The Amhara National Regional State is the third largest state in Ethiopia, with an estimated area of 157,077 square km, located in the north-western part of Ethiopia. It is bounded by the Afar, BenshangulGumuz, Oromiya and Tigray regions in the east, southwest, south and north respectively, and Sudan in the northwest. Its population is 15 million, as estimated in 2004. The capital city is Bahir Dar, located on the shores of Lake Tana, major tourism attractions, known for its very old monasteries and out of which the Blue Nile flows.WB, (2014).

The structure of the government is similar for all regional governments in Ethiopia. Therefore, the federal Ministry sectors have their equivalents in Amhara region at regional level in the form of sector bureaus located in Bahir Dar and their offices in the zones, woreda and city administrations (also known as rural and urban woredas) form the level of government immediately below the regional government level. There are 167 rural woredas, and 38 urban woredas. The woredas are grouped under 10 zones, mainly representing different nationalities. WB, (2014).

From the perspectives of policy instruments & budget process, all the sectors found in the region at the three administrative levels share the same characteristics of resource administration & control process. This means that, the same broad set of rules & procedures are applied in all the sectors and there is no different form of budgeting for the sectors found at regional bureau level.

From the perspectives of source of finance, the region's annual budget is approved first by the federal government from four sources which are; from federal government subsidy, from the regional internal revenue collection, from external assistance and loan. These four sources of finance are added up to determine the annual budget. After receiving the federal government total approved budget, the regional government council approves the total budget from each source and then the region's BoFED appropriates aggregate budget for all the sectors found in the region at regional bureau level and woreda level. Then the regional sector bureaus apportion this budget to the sector at the regional level and their branches found at zonal level by each budget line items. Similarly the WoFED receives the aggregate budget from the region and apportions by each budget line items to branch offices found in the woreda. The sectors for which budget is approved are called budget users or cost centers which are responsible for the preparation, administration, implementation and control of the budget assigned to them.

From the reporting perspective, all the budget user sectors budget information must be reported to BoFED every month and there it will be consolidated to produce annual report. However, as a result of the pooling system the region is using, not all budget user sectors are report producers or some budget users are not reporting units. That is, they do not have their own individual accounting and budget administration department that produce reports. Therefore, their budget reports are produced by the Poole sector bureaus that have accounting and budget experts department.

Since 2003 the regional government has made reform on its financial management system especially on accounting and budget control system. **DSA, Support (2003)**. However, although the region has developed rules and procedures for budget management and control in the reform, still poor program breakdown, poor budgetary and fiscal control processes, procedures and practices are faced by the budget user. In general, the problems and controversial issue related to budget management is reflected in the budget preparation, approval, execution and budget control stage.

In light of this information, this study investigates the Amhara Regional Government bureaus, institutions and authorities 'Budget Preparation, Execution and Control Practice as elaborated in the next paragraphs.

## **1.2. Statement of the problem**

BoFED is required to prepare the region's long, medium and short term development plan to be executed by the Regional Government on the basis of the country's development strategies and follow up its implementation upon approval. In order to achieve this strategy as intended, all the regional government budgetary institutions are also required to prepare and implement their own short, medium and Long-term strategic plans according to their missions and objectives. The sectors should also prepare their annual budget based on their annual plan which is extracted from their long run strategy. ANRS Proclamation (No. 176/2010)

One of the responsibilities of budget users is managing and controlling their budget in compliance with the regions broad set of rules and procedures to improve the way of doing things.

However, preliminary assessment on different audit reports of ORAG, financial reports of BoFED and financial reports of the budget user sectors show that there are several problems remain unsolved with regard to the budget preparation, execution, and control in various budget user sectors. The following are some of the problems summarized in ORAG Audit findings summary and BoFED Consolidated Financial Statements (2008 up to 2013):

- ✓ In many of the budget users, gaps are observed in preparing their annual plans as per their strategy.
- ✓ In some budget user sectors although annual work plan is prepared, it is not in line with the real existing situation and the budget prepared is not realistic this cause significant amount and frequent budget transfer and adjustment work.
- ✓ In budget using sectors there is no job description that makes lower employees responsible for problems regarding budget execution except the sector head approves the use of the budget.

- ✓ In many of the budget user sectors budget control subsidiary and general ledgers are not maintained.
- ✓ There regional governments in collaboration with the federal government have launched Integrated Budget and Expenditure software system (IBEX) for accounting and budget control since 2008. However the budget control modules which can record commitments and provide timely information become is not implemented in many of the public bodies.
- ✓ In many of the budget user sectors cash flow & expenditure comparison is not properly done and with this regard, there is under & over spending of the budget.
- ✓ In some budget user sectors books of the accounting records are incomplete and there is irregular account balances on their reports presented to BoFED.
- ✓ Financial reports are not prepared and submitted to BoFED in compliance with the report submission time set by the region.
- ✓ In some public body the financial statement was not provided for audit in time.
- ✓ The internal auditors assigned in the budget user sectors do not follow and support the budget and accounts department experts due to lack of professional skill.
- ✓ On the other hand, there is lack of strong follow up and control by the region's Planning and Budget Department of BoFED. Therefore, in order to improve the region's budget process, this study assess and identify the degree, intensity and causes of problems and indicate the responsible officials.

### **1.3. Research questions**

This study focuses on the following main research questions:

- Do the budget user sectors have their own strategic plan from which annual plan is extracted and does it have tight relationship with the annual budget?
- What is the frequency of revising the annual action plan of the budget user's and what are the causes of large and frequent budget transfers and the causes of over and under budget utilization by the budgetary units?
- What type of control mechanisms exist in budget user sectors for budget execution and control and what are the weaknesses observed in this area?

- What mechanisms exist in Planning and Budget Department of BoFED to take corrective action on the weaknesses of budget reports and how frequent training is given to budget experts of sectors?
- What type of auditing is under taken in the budget user sectors by ORAG?

## **1.4. Objective of the study**

### **1.4.1. General Objectives**

The objective of the study is to assess the Budget Preparation, Execution and Control Practice of the region; as well as to locate the intensity and causes of key problem areas that seek attention and improvement by responsible body

### **1.4.2. The specific objectives**

The specific objectives of this study are to:

- ✓ Ascertain whether the budget user sectors have their own strategic plan from which annual plan is extracted and review its tight relationship with the annual budget.
- ✓ Identify the frequency of revising the annual action plan of the budget user's and what are the causes of large and frequent budget transfers and the causes of over and under budget utilization by the budgetary units.
- ✓ Evaluate the suitability and adequacy of control mechanisms for budget execution, the weaknesses observed in budget execution and review the existence and functioning of IBEX budget control soft ware or existence of manual budget subsidiary and general ledger records for budget control.
- ✓ Review the existence and mechanisms by which Planning and Budget Department of BoFED take corrective action on the weaknesses of budget reports and its provision of appropriate training timely?
- ✓ Review the existence of performance auditing practice to evaluate the effectiveness and efficiency of the sectors budget utilization or annual financial audit by the region's auditor general or by the sectors internal audit department and evaluate the reports?



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

The researcher believes that the result of this research project would have the following significances.

- At large, the study may be used by the regional government responsible body, BoFED, in addressing the intensity and causes of key problems related to budget preparation, execution and control process of the region.
- The study may contribute to create awareness among BoFED leaders, and any other concerned body working on the issues of the region's Budget Preparation, Execution and Control Practice to the success of the region's vision.
- This paper may be used as an initiation for those who are interested to conduct a detailed and comprehensive study on such similar topics region wide by including the regional government public institutions which are not budget receivers from BoFED.

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

All government organizations need effective budget management and control mechanisms. However, for the sake of effectiveness and efficiency, and to manage the limited study time this study is proposed to focus only on the budget management and control process of the government budget users sectors found in Amhara region using the past eight consecutive years information. Therefore, the study will not represent the budget users found at federal level, other region and it will not also represent the regional government organizations which are not budgetary. This means that, the conclusions and recommendations that result from the study represent only the Amhara regional government budget user sectors budget management & control practice who present report to regional bureau of finance and economic development.

## **1.7. Organization of the Study**

The organization of this thesis is divided into five chapters. The first chapter shall be an introduction, which contained the background of the study, statement of the problems, objectives of the study, research design & methodology, significance, scope of the study and organization of the study; the second chapter describes literature review in Amhara regional sectors bureau

budget, which is relevant to the topic under investigation. The research design and methodology are presented in the third chapter. The data presentation, analysis, and interpretation are presented in the fourth chapter. The last fifth provides summary of findings, conclusion and recommendations for budget users of regional sectors bureau and for the Planning and Budget Department of BoFED on the study.

## CHAPTER TWO

### Literature Review

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#### 2.1. Introduction

The budget embodies management's plans to meet public expectations. Robert Bland describes the complex set of budgeting objectives in this way:

The budget document and its preparation and adoption express the basic political values of a government. Budgets reflect the compromises negotiated in the contentious process of budget adoption. They guide public administrators, defining government's economic and political role in a community and sanctioning, as well as limiting, administrative action. Budgets not only represent plans for the future, they also mold that future by the policies they contain. The budget is a tool for holding administrators accountable for performance expectations. Earl R. Wilson (p 530)

The purpose of budget is to implement the policy which is formulated by management to attain the given goals and objectives. It is one of the most popular devices used for planning and controlling institutions. When we say planning, it is deciding what should be done and how it should be done, while control is assuring that the desired results are obtained. Therefore a budget, as a planning device provides a detailed plan of action for attainment of the institutions objectives and goals. In planning many problems are anticipated in advance and solutions can be designed through research and studies. Budgeting as a controlling device ensures that plans and objectives are correctly implemented. This means that actual performance regularly monitored the result compared with the first plan and knows the variances. Budgetary control is a systematized effort and gives information to the management whether the plan has been achieved or not. Budgetary control is not possible without planning Nebiyu (1999, 158).

All countries have an annual program of public expenditure allocation, in which those responsible for individual programs argue for greater allocations for their activities and those

responsible for raising the money attempt to control the amount allocated. In practice, the results of this process depend as much on the political weight of individuals in charge of a spending program as on an objective assessment of its desirability. The normal practice is to take as a base what each program spent the previous year and then argue about incremental changes, rather than (as under zero-base budgeting) to consider each program in its totality. This creates perverse incentives, in that departmental heads that have saved money in one area in a particular year have an incentive to spend more in other areas in order to protect next year's total budget. IMF (1999)

Traditionally the budget is presented to allow scrutiny (by taxpayers, voters, and the legislature) of the resources raised by government and the uses to which these will be put. The publication of a budget thus performs the role of generating accountability for the actions of government at various levels. Historically, the focus of budgets has been to ensure that expenditures and revenues are properly authorized; more recently, the budget has been developed as a framework within which complex decisions on the allocation of resources can be made more effectively. IMF (1999)

In order to deal with the increasing complexity of government's role, most countries have experimented with a variety of forms for the budget and its presentation. Among the more important of these are the administrative budget, the current and capital budget, program and zero-base budgeting, and the full-employment budget. The variety of budgeting methods is extended to the types of efficiency measures used to increase value for money and to the alternative methods of projecting expenditures in cash, volume, and cost terms. IMF (1999)

## **2.2. Planning and Budget**

Budget is most important information document of the government. One part of the government's budget is similar to company's annual report. This part presents the overall picture of the financial performance of the government. The second part of the budget presents government's financial plans for the period up to its next budget.

The term **budget** is derived from the French word "Budgette" which means a "leather bag" or a "wallet". It is a statement of the financial plan of the government. It shows the income & expenditure of the government during a financial year.

"A budget is a quantitative expression of a plan of action prepared in advance of the period to which it relates. It is a plan expressed in terms money prepared and approved prior to the budget period which show income, expenditure and capital to be employed Lucey (1993)

According to Tayler, "Budget is a financial plan of government for a definite period".

According to Rene Stourm, "A budget is a document containing a preliminary approved plan of public revenues and expenditure".

**Planning** comprises selecting organization goals and strategies, predicting results under various alternative ways of achieving those goals, deciding how to attain the desired goals, and communicating the goals and how to achieve them to the entire organization. (Cost accounting 14<sup>th</sup>ed).

### **2.2.1 Importance of planning for an Organization**

No meaningful programming or budgeting can be done without the existence of a long term or strategic plan, just as no meaningful plan can exist in the absence of a guiding policy. The plan is essentially the document that specifies the measurable outputs that organizations will produce in pursuit of government's objectives against the identified financial allocation within the medium term expenditure framework. It incorporates the strategic plan, the programmers and the budget. The plan provides the framework for the performance agreement between the public bodies and the Head of Departments. **Le Roux, (2002); Omitoogun and Hutchful, (2006).**

- For an organization to be successful, it must plan its financial activities well in advance. It must estimate its income and expenditures using historical data of activities in the past and allow for anticipated future trends. The first function of budgeting is planning.

- Forward planning forces managers to formally consider alternative future courses of action, evaluating them properly and deciding on the best alternative.
- Planning encourages managers to anticipate problems before they arise giving them time to consider alternative ways to overcome them when they do arrive. Izhar, (1990)

In general, the organizational plan, which should be a stable but flexible document over time, should include the following elements.

- The strategic profile of the organization consisting of its mission, vision, critical success factors and value system.
- The analysis and critical assumptions underlying the strategic plan.
- A clear statement of the required organizational capabilities.
- The supportive capital acquisition plan, the facilities plan and the personnel plan.
- The administrative outputs required for the management including the provision of organizational policy, strategies, programs and budgets.
- The identified short to medium term operational force employment tasks of the organization. Le Roux, (2002).

There are three principal bases for public expenditure planning: cash, volume, and cost. The cash basis is concerned simply with the projected money expenditure on the services involved. Most social benefits, for example, must be paid to anyone who is entitled to receive them, and this means that the government cannot control directly the amount of the expenditure.

The volume basis is concerned with the planned output of public services. The difficulties of measuring output, however, have already been noted. More often the planning process, assuming that changes in inputs are associated with changes in outputs, operates with reference to the cost basis of programs.

The basis for most expenditure planning is therefore the number of public employees already in place and the volume of goods and services purchased in the base year. This, multiplied by base year prices, gives the input volume in the base year.

Cost measures, however, merely reflect the cost of a given input; controlling public expenditure in cost terms without taking full account of the relative price effect's change may lead to inappropriate volume responses or, more commonly, spiraling costs as existing input volume is maintained. IMF, (1999)

## **2.3. Budgetary Process**

There are four stages in the budget process at any level of jurisdiction these are budget preparation, budget approval and appropriation (legislative process), budget execution (implementation process), and budget control (performance monitoring audit and evaluation process). This study is proposed to focus on the practices during preparation, execution/accounting & control. IMF, (1999)

### **2.3.1. Budget preparation**

The first phase of PEM is budget preparation, which commences with planning and setting macroeconomic targets and ends with enactment of the budget law. In many systems, sequences and time tables are set in advance and this guidance should be followed as a due process before the beginning of the new fiscal year. **Campo & Teommasi, (1999)**. Forecasting the macroeconomic outlook, determining affordable total government expenditure, sending out a budget circular, preparing and submitting budget proposals, reviewing and negotiating budget proposals, and approving budget appropriations by parliament are some stages of budget preparation. **Allen & Tommasi, (2001)**, but the practice in each country varies depending on the system of government and the relative roles of finance ministers and parliament. **Potter & Diamond, (1999)**. To support the effectiveness of the budget preparation phase, the roles between key participants, such as executive and legislative institutions, the finance ministry, and line ministries, should be made clear so as to provide optimal interactions.

A full understanding of the budget planning and preparation system is essential, not just to derive expenditure projections but to be able to advise policymakers on the feasibility and desirability of specific budget proposals, from a macroeconomic or microeconomic perspective.

The responsibility for preparing the budget usually lies with the bureau of finance with input from the line budget user sectors and some smaller spending agencies. This exercise is normally controlled by a central budget department located in the BoFED, or sometimes in a separate budget ministry. **IMF, (1999)**

### *2.3.1.1 The basic steps in budget preparation systems*

In principle, the basic steps in a standard budget preparation system comprise the following:

1. The first step in budget preparation should be the determination of a macroeconomic framework for the budget year (and ideally at least the next two years). The macroeconomic projections prepared by a macroeconomic unit in the ministry of finance or elsewhere, should be agreed with the minister of finance. This allows the budget department within the ministry of finance to determine the global level of expenditure that can be afforded without adverse macroeconomic implications, given expected revenues and the level of deficit that can be safely financed.
2. The second step should be the allocation of this global total among line ministries, leaving room for reserves (a separate planning and a contingency reserve as explained below) to be managed by the ministry of finance.
3. The next step should be for the budget department to prepare a budget circular to give instructions to line ministries, with the indicative aggregate spending ceiling for each ministry, on how to prepare their estimates in a way that will be consistent with macro objectives. This circular will include information on the economic assumptions to be adopted on wage levels, the exchange rate and price levels (and preferably differentiated price levels for different economic categories of goods and services).
4. Step four is the submission of budget estimate by line ministries to the budget department. Once received there needs to be an effective "challenge" capacity within the budget department to test the costing of existing and any new policy proposals.
5. The next step comprises the negotiations, usually at official and then bilateral or collective budget users, leading finally to agreement.



6. Finally, step six is Cabinet endorsement of the proposals for inclusion in the budget that will go to parliament. IMF (1999)

### **2.3.2. Budget Approval**

Ethiopia has a well established legal framework governing its budget system that derives from the 1995 Constitution of the Federal Democratic Republic of Ethiopia. One of the powers and duties of the budget user sectors is to submit budgetary requirements to the concerned government organ and supervise allocations thereof are put to work.

The parliament reviews the executive's budget proposal. Most parliaments have the power to make amendments to this proposal during the review. After the review, the budget is enacted into law by the legislature. BoFED, (2003).

### **2.3.3. Budget Execution**

While budget preparation and approval is mainly about planning, budget execution primarily involves management. Budget execution is the phase where resources are used to implement policies incorporated in the budget. It is noted that it is possible to execute badly a well-prepared budget; it is not possible to execute well a badly prepared budget. **Schiavo-Campo and Tommasi (1999)**

Good budget preparation comes first, logically as well as chronologically. However, budget execution requires more than simply assuring compliance with the initial budget. It must also adapt to intervening changes, and enable operational efficiency. Procedures for controls are needed, but should not hamper efficiency nor lead to altering the internal composition of the budget, and must focus on the essential while giving spending agencies flexibility to implement their programs.

Once a budget has been approved by the legislature and monies appropriated, the goal is to ensure the efficient and effective use of resources to implement organizational priorities. This requires careful monitoring and evaluation of operational performance of the public sectors. **Ball, (2002).**

Successful budget execution depends on numerous factors, such as the ability to deal with changes in the macroeconomic environment, and the implementation capacities of the agencies concerned. Budget execution involves a great number of players than budget preparation, and calls both for assuring that the “signals” given in the budget are correctly transmitted, and for taking into account feedback from actual experience in implementing the budget. **Allen and Tommasi (2001)**

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

Budget execution system should ensure rigorous expenditure control, but also effective and efficient uses of resources in accordance with budget priorities. Keeping budget execution under control requires effective management control systems, not excessively detailed compliance controls. The budget system should assure effective expenditure control.

In addition to a realistic budget to begin with, a good budget execution system should have complete budgetary/appropriation accounting system. It is necessary to track transactions at each stage of the expenditure cycle (commitment, verification, payment) and movements between appropriations or budget items. Effective controls are at each stage of the expenditure cycle.

Moreover, a budget implementation and a cash plan must be prepared, but should be based on budget estimates and take into account existing commitments. Internal controls are generally preferable and a strong monitoring and auditing system is mandatory. When payment processing and accounting controls are decentralized, a central control on cash is required. When payment processing and accounting controls are centralized, a system is needed to assure that payments are made in a timely manner and according to the budget and the cash plan, without super imposed prioritization by the central agencies. **Schiavo-Campo and Tommasi, (1999).**

#### ***2.3.3.1. Budgetary Accounting Records***

To keep budget execution under control, a comprehensive and timely system for monitoring budget transactions is required. It is necessary to systematically register and track the uses of appropriations.

At the beginning of the budget period, the Estimated Revenues control account is debited for the total amount of revenues expected to be recognized, as provided in the operating budget. The amount of revenue expected from each source specified in the operating budget is recorded in a subsidiary ledger account so that the total of subsidiary ledger detail agrees with the debit to the control account, and both agree with the adopted budget. If a separate entry is to be made to record Estimated Revenues, the general ledger debit to the Estimated Revenues control account is offset by a credit to Budgetary Fund Balance. With the exception of Encumbrances, the budgetary accounts have normal balances that are the opposite of the corresponding operating statement accounts. For example, since the Revenues account has a normal credit balance, the Estimated Revenues account has a normal debit balance. The use of opposite account balances facilitates budgetary comparisons and makes it easy to determine whether actual amounts are under or over the budgeted amounts. The Encumbrances account has the same normal debit balance as the Expenditures account because an encumbrance represents a commitment prior to expenditure. **Earl R. Wilson (p 74 & 86)**

In Serbia, for instance, the Treasury is responsible for keeping a record of all transactions executed from the treasury single account. In this treasury ledger, there is a full record of all payments according to an organizational, functional, and source-of-financing classification. In addition to the treasury ledger, first-line budget-users are required to keep accounting records of their own operations and the operations of subordinate second-line budget-users. Through this records, it is possible for budget-users to submit a report on the basis of the charts of accounts for the budget system, and, consequently, to satisfy the requirement for specific information. Finally, the Treasury produces reports on the execution of the budget. **OECD, (2009).**

Sound budgetary accounting requires a double-entry bookkeeping system to record movements between budgetary accounts, namely, budgetary resource accounts (e.g. appropriation,

apportionment, allotment); commitments; expenditures at the verification stage; and payment accounts. A double-entry bookkeeping system ensures that outflows match inflows.

In countries that monitor only payments, an immediate action could be to implement an obligation register and a subsidiary book for outstanding payments. However, the objective should be to implement a comprehensive budgetary accounting system eventually. **Schiavo-Campo and Tommasi (1999)**

#### ***2.3.3.2. Over spending and under spending of Budget***

The ability to implement the budgeted expenditure is an important factor in supporting the government's ability to deliver the public services for the year as expressed in policy statements, output commitments and work plans. The indicator reflects this by measuring the actual total expenditure compared to the originally budgeted total expenditure. **WB, (2008)**

Overruns are sometimes caused by non-compliance of budget managers with the spending limits defined in the budget, when committing expenditures. Since cash allocated to spending units for appropriated expenditures is generally controlled, these overruns generate spending arrears.

Overruns are often the result of off-budget spending mechanisms (payment from special accounts, etc.). In some countries, payments made through exceptional procedures are not controlled against the appropriations and are therefore an important cause of overruns lack of compliance can be addressed through strengthening the audit system, and reporting system, and ensuring the effectiveness of the basic budget execution controls. Moreover, overruns can be caused by deficiencies in budget preparation. Sound budget preparation processes and adequate institutional arrangements are a prerequisite for avoiding overruns. **Allen and Tommasi (2001)**

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

On the whole, in most cases, under spending, as well as overruns, is related to insufficiencies in budget preparation and programmes preparation. An overestimated budget and unrealistic projections of revenues may lead to budget revisions during budget execution and to a practice known as “repetitive budgeting”. **Allen and Tommasi (2001)**

Weaknesses in resource allocation and use are : poor planning; no links between policy making, planning and budgeting; poor expenditure control; inadequate funding of operations and maintenance; little relationship between budget as formulated and budget as executed; inadequate accounting systems; unreliability in the flow of budgeted funds to agencies and to lower levels of government; and poor cash management. **Peters (1998)**

According to the region’s financial management, the unspent balance of an appropriation granted for a fiscal year should lapse and be credited to the treasury account of BoFED, (2003)

#### ***2.3.3.3. Managing Cash Flows***

Control of cash is a key element in macroeconomic and budget management. However, for budget management purposes, it must be complemented by an adequate system for managing commitments, and it is not a substitute for sound budget preparation. Cash management has the purpose of: controlling spending in the aggregate; implementing the budget efficiently; minimizing the cost of government borrowing; and maximizing the opportunity cost of resources. **Allen and Tommasi (2001),**

Cash flow and expenditures should be monitored closely. Methods of verifying the number of individuals employed in the public bodies and linking salary and wage payments to individual employees, facilitates and other operations. **Ball (2002)**

One of the measures used in Swedish budgetary system in order to improve cash management allows spending agencies to carry forward their unused appropriations. This is designed to avoid end-of-year spending surges; increase discipline among managers, since any overspending in the year gets carried over as well; and give rise to efficiency gains in agencies.

To prepare monthly cash plans it is necessary to monitor both payments and commitments, in order to avoid arrears generation or delays in payment. Except under special circumstances, cash planning must be in line with budget forecasts. In some countries, the budget department prepares a budget implementation plan, which shows forecasts of expenditures by quarter or six-month period, and then the treasury department prepares a cash plan. In other countries, there is only one financial plan prepared by the treasury. Whatever the method used, the budget implementation plan and cash plan should be prepared for the entire fiscal year, and regularly updated and rolled over. The cash plan must be consistent with the budget implementation plan and should be updated every month. To avoid arrears generation, monthly cash limits should be consistent with quarterly cash and annual commitments limits. **Allen and Tommasi, (2001).**

According to the BoFED finance directives no disbursements are made out of the approved budget unless the head of the public body or his/her authorized representative submits to BoFED cash flow and cash requirements. Payment instructions based on the cash flow requirements of the public body may only be given to a bank taking into consideration the revenue collected by the Government and the work program of the public body. BoFED (2003)

### **2.3.4. Budgetary Control**

The fourth stage in the budget process/cycle is budget control/performance monitoring. This involves monitoring activities in terms of annual public bodies' reports and audit reports to the parliament, i.e., accounts for expenditure, evaluate and audit. This stage provides information that can be feed into future plans, **IBP (2006):P.120-135.**

Control comprises taking actions that implement the planning decisions, deciding how to evaluate performance, and providing feedback and learning to help future decision making.

Measuring actual performance informs managers how well they and their subunits are doing. Linking rewards to performance helps motivate managers. **(Cost accounting 14th ed)**

When enacted into law, an appropriation is an authorization for administrators to expend financial resources on behalf of the government not to exceed the amounts specified in the

appropriation ordinance or statute, for the purposes set forth in that ordinance or statute, during the period of time specified. An appropriation is considered expended when the authorized liabilities have been incurred. Penalties are imposed by law on an administrator who expends more than appropriated or who makes expenditures for any purpose not covered by an appropriation or after the authority to do so have expired. Prudence therefore dictates that each purchase order and each contract be reviewed before it is signed to determine that a valid and sufficient appropriation exists to which the expenditure can be charged when goods or services are received. If the review indicates that a valid appropriation exists and it has an available balance sufficient to cover the amount of the purchase order or contract being reviewed, the purchase order or contract legally may be issued. When a purchase order or contract has been issued, it is important to record the fact that the appropriation has been encumbered in the amount of the purchase order or contract. The word encumbered is used, rather than the word expended, because the amount is only an estimate of the liability that will be incurred when the purchase order is filled or the contract executed. **Earl R. Wilson (p 93)**

#### ***2.3.4.1. Budget Ledger Card***

- ✓ Maintains the adjusted budget by line item, type of budget, by sub agency/project and source of finance
- ✓ Records commitments
- ✓ Shows unutilized budget (remaining budget not committed)
- ✓ Expenditure is incurred only if there is an available budget.
- ✓ Actual expenditure does not exceed the adjusted budget.

#### **KEY CONTROLS**

- ❖ Prior to signing the budget approval on SPV/PV/JV:
- ❖ Check availability of budget from BLC
- ❖ Update commitments
- ❖ Update balance not committed
- ❖ Ensure all budget transfers and budget supplements are recorded in the BLC on a timely basis

#### ***2.3.4.2. The Integrated Budget and Expenditure System (IBEX)***

The Integrated Budget and Expenditure System (IBEX) is a financial information system that has been designed and developed to automate and support public finance in Ethiopia and is introduced in Amhara Region since 2008. It is comprised of different modules including a Budget, Accounts, Budget Adjustment, Budget Control, Accounts Consolidation and Administration Module.

- The Budget Module is used to prepare annual budgets for budgetary institutions (BIs), to consolidate data of a specified region and to help manage the preparation of the budgets through the different phases of budget preparation. Its main functions include managing the budget structures of regions, recording recurrent and capital budget data, recording budget ceilings and commitments and producing numerous reports for budget preparation and management.
- The Budget Adjustment Module caters for changes to the budget during budget execution. It specifically enables the recording of budget transfers and budget supplements and the subsequent production of the adjusted budget.
- The Budget Control Module is used to control spending according to the approved budget. It specifically allows for the recording of commitments made and payments received against or towards a particular budgetary institution.
- The Accounts Module manages the tracking of revenues and expenditures for budgetary institutions. More specifically, the Accounts Module records the financial transactions of budgetary institutions, captures the aggregated monthly accounting reports and provides accounting reports in the form of ledgers, financial statements, management reports and transaction listings. The functionality of the Accounts Module mirrors that of the procedural manuals. *Ibex manual uses guide, (2005)*

#### **2.3.5. Financial Reports, and Audit**

Accounting and reporting systems are crucial for budget management, financial accountability, and policy decision making. Traditionally, government accounting was aimed at assuring compliance and proper use of public monies. For this purpose, the cash budget, and cash and



commitment accounting provide an adequate framework. **Schiavo-Campo and Tommasi (1999)**,

On the other hand, auditing, together with internal controls and evaluation, consists of processes and mechanisms that are designed to ensure that planning, budgeting and use of public resources conform to a country's laws, pursue the objectives defined by parliament and government and are linked to the real world programmes of operations. **Allen and Tommasi, (2001)**.

#### ***2.3.5.1. Financial Reporting Systems***

Regardless of the accounting system and the quality of the accounts and financial records, certain minimum reporting standards should be met in any country. Such reports might include some or all of the following elements: major policy issues in the public body or agency concerned; goals and objectives of the public body and policy measures undertaken Or proposed to meet these objectives; programs, projects, and activities of the public body; fiscal performance and financial statements; and performance indicators and targets. **Allen and Tommasi, (2001)**.

With regard to Ethiopia, the head of each public bodies at all level levels of the government in the country keeps financial records of their responsibility centers in a form directed by MoFED and is required to prepare monthly financial reports covering Hamle one to Sene thirty showing the financial transactions of the public bodies then submit to MoFED and finance offices found in all levels of the government in the country. And MoFED finally consolidate all public bodies closed account balances and close the treasury annual accounts and submit annual report to the parliament and to the auditor general within three months after the end of the fiscal year **FDRE, (2009)**.

The same procedure is practiced in Amhara region in that all the public bodies/budget user sectors prepare their respective responsibility centers monthly report and submit it to BoFED within five days of after the completion of the month for which the report is prepared. BoFED finally consolidate all the sectors reports and submit to MoFED. Quarterly and annually closed reports.

### **2.3.5.2. Auditing Public Bodies Budget Practices**

Audit of the public sector has the important function of giving the ultimate decision-makers (parliament and government) and/or citizens' regular assurance of the quality of reports to show how taxpayers' money has been spent, and the management of assets and liabilities under the public sector control. **Allen and Tommasi, (2001).**

Nowhere in the world is the relationship between auditor and auditee an easy one. By definition, their respective interests generate the potential for conflict. Within government administrations, those activities which are secret or politically sensitive are most likely to expect exemption from, or special treatment in, the conduct and reporting of outside audits **OECD, (1996).**

Internal audit department is required to conduct internal audit activities at specific intervals to evaluate the performance of the public body and to ascertain that public money and public property are used for intended purposes, and submitting audit reports to the head of the public body and follow-up measures taken based on audit findings. In addition to internal audit, each public body's annual closed accounts is required to be regularly audited by the Office of Federal Auditor General (OFAG) and must submit to the House of Peoples' Representatives the audit report together with its performance report of the period within one month from the receipt of the last year audit inspection report. **FDRE (2009)**

## **2.4. Budgetary Process of the Amhara Region's Budgetary Institutions**

According to the regions budget administration manual, the region's budget process involves the four budget cycle stages which are: I. executive budget preparation, II. Legislative adoption, III.Executive implementation and IV.audit and evaluation stages. These stages are in general classified in two phases: budget preparation phase one & budget preparation phase two.

### **2.4.1. Budget preparation.**

The first step in the process is the sending of Budget Calls and ceiling notifications to public bodies by the BoFED. The various public bodies submit their budget request as per the established regulations. After the budget hearing and defense process at the BoFED, the final budget will be submitted to Parliament.

BoFED is the major clearing house for the preparation of budget in the region, although this is done in consultation with the various public bodies that are the beneficiaries of the budget. The responsibilities of BoFED, as stipulated in the region's Financial Regulations No 176/1997, consist of formulating and issuing directives that detail government financial policies in all areas of government finances; developing and maintaining appropriate standards of work and conduct for application throughout all public bodies; internal auditing functions; and preparing a financial plan for the region.

Each public body needs to take the initiative to commence budget preparations before they receive the budget call letter from BoFED with their budget ceilings, such as development of unit costs (where appropriate), a midyear program review, and the preparation of work plans.

#### **2.4.2. Budget approval.**

Approval is the detailed review of the budget to ensure that it accords with the government policy the council at each jurisdiction reviews the recommended budget and may approve the budget with or without adjustments.

The finance offices at each jurisdiction advise public bodies on the approved budget to make appropriate adjustments (if any) and prepares a draft budget proclamation that is presented to the regional parliament for appropriation.

It is important to distinguish between the approved budget and the annual appropriations.

The budget that is approved by the Council of Peoples Representatives is a detailed budget, i.e., by public body, sub-agency, project, expenditure item, etc. However, the appropriations are at a more aggregate level. An appropriation is a legal mandate to spend money out of the consolidated fund or treasury.

### **2.4.3. Budget Implementation**

After the Council of Peoples Representatives has approved the budget, it is the responsibility of the public bodies to implement that budget.

Implementation of the approved budget is also known as budget execution (BoFED, 2003).

The implementation phase of the budgetary process covers not only measures for disbursing funds already allocated but also the monitoring of how funds are spent to ensure that they are used judiciously and for the intended purposes.

It is the responsibility of BoFED to inform all public bodies of their approved budget on or before Hamle Seven EFY.

Funds are dispersed to the budget user sectors each month on the basis of the allotted budget. Every budget user is required to submit a monthly disbursement request in which it request fund for the next month's allocation through a work plan. The BoFED's fund disbursement/ treasury department handles the process of fund disbursement for the public bodies and keeps records of all transactions. The budget registrar in the treasury department records the original budget, all transfers and supplementary budgets, the disbursements made and any undisbursed allocation.

Each public body is required to enter details of its approved budget onto their budget expenditure subsidiary ledger cards for each budget institution, sub-agency, or project. The cards are used to keep track of approved budget, budget adjustments/transfers, supplements, and commitments in the IBEX soft copy or in manual hard copy.

Although planning and budget processes should be thorough and attempt to anticipate needs of the next year, not all future circumstances can be foreseen with accuracy. When the situation demands, the approved budget can be legally adjusted during the year to adapt to unforeseen circumstances. Budget adjustments are not desirable and can be avoided by proper planning and budgeting.

There are two types of budget adjustment permitted by law: budget transfer and budget supplement.

- **Budget transfer:-** moving budgeted funds between public bodies, budget institutions, projects or items of expenditure, without changing the total approved budget.

Budget transfers between public bodies, budget institutions, projects or items of expenditure are authorized by the Financial Administration Proclamation No. 176/2003 subject to certain restrictions and the required level of approval or authorization.

These include:

- ✓ No transfers are permitted from other recurrent expenditure to salaries, wages or allowances;
- ✓ No transfers are permitted from the capital budget to the recurrent budget;

On the other hand, BoFED is empowered to transfer funds within items of expenditure of the recurrent budget; and budget from one capital project to another within a public body BoFED, (2003).

- **Budget supplement:-** the total approved budget can be increased with the approval of the Council of Peoples Representatives on recommendation of the regional Council. It is additional authority to spend beyond the original approved budget.

During a budget year, while an approved budget is in the process of being implemented, it is possible that

- ✓ An unforeseen or urgent need for increased expenditures arises, (e.g. a natural disaster);  
or
- ✓ A new project, not included in the original approved budget, is approved for commencement during the budget year;
- ✓ Additional resources become available (e.g. from external assistance or loans) that can fund increased total expenditures, including any new projects.

Any of these circumstances may require additional expenditures during the budget year by a public body beyond those in the approved budget. In these situations a supplementary budget and appropriation are required.

Supplementary budgets are coordinated and prepared by BoFED, based on requests or proposals received from public bodies. Public bodies are required to prepare their supplementary budget requests in writing and submit to BoFED Budget Department.

Then, BoFED notifies public bodies of their approved supplementary budget. Subsidiary ledger card must be kept up to date by public bodies so as to show the correct adjusted budget and to prevent any overspending or over commitment of funds available should be recorded through IBEX soft ware record or manual hard copy record.

BoFED coordinates the management and control of public funds in the region. It is this bureau that keeps the accounts of the regional budget and prescribes regulations on financial management and control for public bodies and government agencies.

In addition, the public bodies are required to manage and control funds allotted to them following the central regulations and directives on financial management set out by BoFED. The regulatory mechanisms of the budget include requirements that:

- a) Budgetary receipts are recorded in the appropriate budgetary account as prescribed in the financial regulations and in a timely manner;
- b) Collected revenue is recorded under the appropriate revenue account;
- c) Expenditure only is made in compliance with the financial regulations;
- d) All books of accounts be closed each month and a monthly receipt and disbursement be prepared and submitted to the regional BoFED.
- e) Periodic financial statements be prepared and submitted to the regional Council and regional executive committees by BoFED;
- f) A consolidated annual report be prepared and sent to the regional Council and regional executive committees by BoFED. BoFED, (2003)

BoFED can be seen to play a central role in the budgetary process of the region. It controls the formulation and implementation of the budget of public bodies at various levels. During the writing of the Budget Calls, it can make changes in the budget allocation of budget users after review and analysis of the budget estimate submitted by them. It decides the level of the budget to be recommended to the Council. During implementation, it has the power to disburse funds. Through the monthly accounting reports, it scrutinizes the performance of the budget users in budget implementation, and it can decide on the level of funding to be authorized for disbursement. It can also approve transfers and recommend supplementary allocations.

## 2.5. Budget Calendar of the region

**Table 1:- BUDGET CALENDAR OF THE REGION**

No.	Cycle/Parts/Stages	Ethiopian Calendar	Responsible Institutions
<b>I</b>	<b>Budgeting Preparation Stages</b>		
1	Prepare and submit estimated budget ceiling with call to public bodies at regional bureau level	Yekatit 18	BoFED
2	Receiving federal budget subsidy	Ginbot 7	BOFED
3	Notification of recommended budget ceiling to public bodies at regional bureau level	Ginbot 12	BoFED
4	Preparation of budget request	Sene 8	PB
5	Prepare and approve the recommended budget	Sene 23	BoFED
<b>II</b>	<b>Legislative Adoption</b>		
1	Approval of the recommended budget	Sene 24	Cabinet
2	Appropriation of the approved budget	Sene 30	Council
<b>III</b>	<b>Executive Implementation</b>		
1	Notification of the approved budget	Hamle 8	BoFED
2	Implementation of the approved budget	Hame 9 to Sene 30 next year	PB
<b>VI</b>	<b>Audit and Evaluation Stages</b>		ORAG

Source: BoFED, (2003)

## **2.6. Empirical Study**

According to Yimer (2011) in his study on Ethiopia and two east African countries budget practices and procedure by focusing on the different phases of budget cycle and cross cutting issues such as budget transparency and participations, the overall assessment of the level of transparency in the area which is broadly linked to the different phases of budget cycle, the relevant budget information is very poor in Ethiopia, Kenya and Uganda. Lack of availability of information on budget policies, expenditure and outcomes in the three countries discourage participation and deactivate the budget users to meet budget targets efficiently.

Three of the countries do not meet the OECD's standard, but they meet the IMF more generous deadline with respect to the timing of publication of audit account take place. The budget formulation stage is dedicated to the drafting of budget documents by the executive in order to translate policy initiatives in to resource allocation decision across the numerous activities. This process is guided by the Central Budget Authority (CBA) usually based on the Ministry of Finance. Central budget authority (CBA) in Ethiopia imposes only suggested or indicative limits or ceilings on the initial spending request by line ministries during the drafting stage of the budget process.

In general, participation in the budget process is very limited in Ethiopia, Kenya and Uganda. This is because of lack of reliable and adequate information. If participation in the budget process is limited, the countries cannot get opportunity to rise what is important for them and the government cannot also know the most and un met demand of its society.

The role of legislative in the budget process varies among countries. In Ethiopia the legislature has unrestricted power to amend the budget. In the case of Kenya and Uganda, the legislature may only decrease the existing expenditure or revenues specially the legislature cannot increase existing items not create new ones. In Uganda and Kenya, legislature has access to specialized research unit. In Ethiopia, there is no specialized budget research office attached to the legislature to conduct analysis. Absence of specialized budget research unit would decrease opportunities to improve the budget process.



In exceptional circumstances, it should necessarily allow spending on items that are not included in the approved budget. Ethiopia and Kenya include a central reserve fund in connection with exceptional circumstances. On the contrast, Uganda has no contingency reserve. Since, there is no contingency reserve in Uganda the government might not provide immediate responses for exceptional circumstances like flood and draught. BerhanuYimer, (2011).

## **CHAPTER THREE**

### **Research Design and Methodology**

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#### **3.1. Research Design**

To achieve the objective of the study, the researcher has used descriptive research type (which is a cross-sectional design) so as to conduct the study in a most feasible manner. Descriptive research is a type of research that is primarily concerned with describing the nature or conditions and degree in detail about the present situation and it is marked by the prior formulation of specific research questions and substantial amount of the research problems are already known S. Shajahan, (2005; p63). Cross-Sectional Design is a type of research design involving the collection of information from any given sample of population elements only once. S. Shajahan, (2005); p70).

The researcher used this kind of study to acquire sufficient information regarding Budget Preparation, Execution and Control Practices of the region so as to formulate rational and sound conclusion and recommendation for the proposed study. In addition the study design included the following:

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

The key to a successful research is to identify appropriate type of data collection methods to gather relevant and usable data. Therefore, the objective of the study is achieved by using mixed research design. Mixed methodology is purposefully selected because both qualitative and quantitative data collection methods have their own weaknesses & strengths it makes sense to use different data collection methods within one study to cancel out the method effects that will lead to greater confidence in the study result. S. Shajahan, (2005).

### **3.3. Population and Sample of the Study**

A two stage sampling design was used to determine 36 (thirty six) total population first and second, to select a sample of 18 (eighteen) budget user sectors found at the regional sector bureau level for this study. The justifications are as follows:

The population of the budget users of the region includes sectors which are found at the region's all administrative levels. There are about 41 budget users at regional bureau level with only 36 (thirty six) main reporting units or sectors which produce and submit their own and pooled sectors budget and accounting reports to BoFED monthly. These thirty six sectors are responsible for all budget user units' budget preparation, execution and budget control practices at regional level. From the nature of the regions administrative levels, the budget user sectors are inhabited all over the corners of the region; that is, they are located in the regional bureau and their replica at zonal & woredas level. Therefore, it was not economical or not convenient to consider all budget users located in the region's three administrative levels due to their reporting procedure which is pooling and their spread. The sample is purposive sampling because although the budget users are very large in number, are perfectly homogeneous in their nature of budget administration & control, that is, all the budget users found in the region at the three administrative levels shares the same characteristics of resource administration & control process. This means that, the same broad set of rules & procedures are applied in all the budget sectors. In addition all the budget users which are cost centers do not have individual accounting and budget department which is responsible for reporting because of the regions financial and budget report administration system which is pooling system. The basic assumption behind purposive sampling is that with sound judgment and suitability of strategy, one can choose the items to be involved in the sample and thus develop samples that are reasonably representative of the population. Thus, the study has selected sample from the 36 reporting units which are budget users sectors at the regional bureau level.

Yamane (1967:886) provides a simplified formula to calculate sample sizes. According to this, a sample size is defined as the subject or part of the entire population of the study from which we select a few objects (people) in the population for observation and then apply what was observed

to the entire population of the study when the population of the study is a finite one by using the following formula.

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

Where:

n = is sample size

N = total population, and (e) = 0.05 or 5% level of precision or allowance of random error.

If the population is small then the sample size can be reduced slightly. This is because a given sample size provides proportionately more information for a small population than for a large population.

$$n = \frac{n_o}{1 + \frac{(n_o - 1)}{N}}$$

Where  $n_o$  :-is the first calculated sample size and N is the total population.

Therefore, to find the total sample (n) let's calculate based on the above formula

$$n_o = \frac{36}{(1 + 36(.05)^2)} = 33.03$$

Since the computed sample size is not a whole number, round up and use 34 which are almost equal to the total population. But using the second formula above, the sample size was reduced

to:

$$n = \frac{34}{(1 + (34 - 1)/36)} = 17.74$$

By rounding up the sample size for the study was 18 or 50% of the total population.

According to the region's standard of reporting, budget users sectors are classified under four strata's based on service functions. Therefore the study has used proportionate sampling strategy (a method for gathering participants for a study) because the population is composed of several subgroups that are different in number. The sample size of each stratum is proportionate to the population size of the stratum. This means that each stratum has the same sampling fraction. (www.alleydog.com)

There are 14, 12, 9 and 1 elements found in strata 1, 2, 3 and 4 respectively. The fourth strata has only one element and therefore the element was directly selected as a sample and deducted from sample size and population size in order to get formula for the sample proportion of the rest three strata as:

$(n-1) / (N-1) = 17/35$  and then multiplied by each elements of the three stratum

**Table 2:-** SAMPLE PROPORTION OF EACH STRATUM SAMPLE SIZE AND THE RESULT IS PRESENTED IN THIS TABLE.

Population By Function	Population of Stratum	Sample proportion	Calculated Sample size	Sample size
Administration and general service	14	$(17/35)*14$	6.80	7
Economic Service	12	$(17/35)*12$	5.83	6
Social Service	10	$(17/35)*9$	4.86	5
<b>Total</b>	<b>36</b>			<b>18</b>

Accordingly, a total of 18 (eighteen) budget users at the regional bureau level which have their equivalent sectors in zone and woredas were selected that is, 7, 6, and 5 from the first, the second, and the third stratum respectively. The selection criteria was based on the sectors last 8

(eight) years approved budget significance purposefully because the bigger the budget the more important it is that strict accounting and budget discipline is to be adhered to otherwise massive waste and fraud will be the likely outcome. Chan, K, (2008)

### **3.4. Sources and Instruments of Data Collection**

Information collected for this study is from three sources such as: the region's selected budget user sectors budget and accounting experts (who were considered as implementers of the budget) interview and the sectors office data, 2<sup>nd</sup> the region's BoFED Planning and Budget Department budget & planning experts interview who were considered as an oversight body of the budget user sectors and the bureau's consolidated annual reports data of the budget user sectors selected; and finally 3<sup>rd</sup> the region's ORAG audit managers, department heads interviews who have audited the budget users in different years, audit opinions and consolidated audit findings of the budget sectors selected. Therefore, both primary (through interview) and secondary data sources (through document review) were used.

Respondents for interview questionnaire were considered from the three sources as follows:

- The region's BoFED Planning and Budget Department budget and planning experts' size is 5 (five) because are easily manageable, the sample was considered the total population purposefully because they are considered as an oversight body of the budget user sectors Budget Preparation, Execution and Control Practice.
- The budget expert and the sectors budget and accounting department head which are in the 18 (eighteen) budget users selected or 36 (thirty six) (2\*18) respondents were purposefully considered because they are viewed as having direct knowledge and an oversight body of their own sector's Budget Preparation, Execution and Control Practice.
- On the other hand, ORAG is organized into four line departments which are: Administration and General Service, Economic Service, Social & other Service and Performance Audit Department. Based on their responsibility for the 4 (four) budget users function 2 (two) from each audit service departments (2\*4) 8 (eight) the audit manager and the department head was selected because the audit managers and

department heads are responsible for the review, sign and release of all junior auditor's audit reports of the budget user sectors by reviewing the audit working papers.

Once the total respondents from each source of information were determined, the primary data was collected through a structured questionnaire as well as personal interview. The questionnaire was distributed to 36 (thirty six) individuals who were from the 18 (eighteen) budget users, another questionnaire was also be distributed to 5(five) budget experts of Planning and Budget Department of BoFED and to 8 (eight) ORAG officials; in total 49 (forty nine) questionnaires were distributed. Personal interview was also conducted with the officials of Planning and Budget Department. The questionnaires for budget users contain general information related to planning, budget preparation, execution, control and recording. The questionnaire for BoFED experts included information about capacity building & their controlling mechanisms to support budget user sectors. On the other hand, questioner for ORAG included information about the budget users' efficiency & effectiveness of budget management & control practice that they have evaluated in their performance audit & audit opinions in their financial audit reports.

Most of the items in the questionnaire was designed as closed-ended although some open-ended questions that gave opportunity to the respondents in writing their fillings regarding the study. SPSS Likert scales of the questions data was applied in collecting the data from all respondents. The scale was leveled as: "Strongly Agree", "Agree", "Neutral", "Disagree", and "Strongly Disagree". Moreover, "Yes" and "No" forms were also used to assess the intensity and cause of key problems in the regions budgetary process. [www.simplypsychology.org](http://www.simplypsychology.org) Likert (1932)

Secondary data collection tool were also used in collecting data from books, internet (i.e., e-journals, web articles), documents also reviewed on BoFED manuals, audited annual reports, proclamations, and regulation and also ORAG audit reports & summary of different years audit findings were considered to assess budget deviations from the actual. More over the, secondary data collected include sample years covering 2006 to 2013 closed & audited financial statement accounts of the region's budget users which is found in BoFED data base. These sample years data were selected purpose fully because IBEX accounting system software which the regional government accounting & budgeting system is using was launched since 2005; and therefore,

yearly consolidated budget and expenditure data of all the regions budget users is easily accessible from the system. And the study did not include 2014 budget year because although the accounts are closed and auditing is on progress, it is not publicized to date of this study.

### **3.5. Methods of Data Analysis and Interpretation**

The type of data collection method is of great value to analyze and interpret the collected data properly. The data gathered through qualitative and quantitative methods was analyzed, interpreted and reported. The secondary data collected in the course of the study was analyzed and presented using descriptive statistics such as tables, charts and percentages and interpreted to show budget deviations. The primary data collected in the course of the study was also presented and analyzed using SPSS, tables, charts, and percentages were used to show the reliability of responses and cause and intensity of key problems. Finally, both the data will be consolidated, analyzed and interpreted to reach at reasonable conclusion and recommendation.

### **3.6. Technique of verification**

The questionnaire and interview were developed by the researcher to assess the situation of budget management and control practice in the case of Regional Sector Bureau which is found in Amhara Region. In the instrument validation process the questionnaire was distributed for budget experts for comment and it had been developed according to their comments. On top of this, reliability and validity of finding tried to be ensured by using variety of data collection approaches in combination i.e. the weakness of one approach is offset by the strength of other. As well as it would strengthen the validity of the results. Then the research started with survey, followed by unstructured interviews and which in turn followed by revision of documents and reports.



## **CHAPTER FOUR**

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### **4.1. DATA PRESENTATION AND ANALYSIS**

This chapter discusses the analysis of data collected from various sources related with the Amhara National Regional State Budget Preparation, Execution and Control Practice. The data were presented and analyzed according to the flow of budgetary process starting from planning and budget preparation, followed by implementation or execution, and control. The presentation started with an overview of the region's budget user sectors current budget process.

As indicated in the introductory part of the paper, statistical package for social science (SPSS) application has been applied to analyze the data. The descriptive analyses were also supported by the open-ended responses given during the collection of data, interview responses, reports, and literature reviews.

### **4.2. Characteristics of Respondents**

The sample respondents used in this paper are classified into three categories: first, budget users selected from samples of all the budget holders at regional bureau level; second, budget experts of BoFED Planning and Budget Department; and third, Audit Managers & Audit Department heads from the Office of Amhara Regional Auditor General (ORAG).

Structured questionnaire attached in Appendix 2-4 were sent to 36 respondents in samples of 18 budget user sectors as listed in Appendix 1, 32 of the respondents (88.9%) have filled and returned the questionnaires properly. The questionnaires were distributed to and filled by budget and planning department officers and finance officers in each budget users sectors. The samples of respondents were based on seniority of the employees.

Below are the characteristics of these respondents in terms of gender, education level, and service year.

**Table 3:- GENDER VS LEVEL OF EDUCATION –RESPONDENTS FROM BUDGET HOLDERS**

Gender	Level of Education						Total
	12th grade or less	Certificate	Diploma	Bachelor degree	Masters Degree	Doctorate Degree	
Male	0	0	1	17	1	0	19
Female	0	0	1	11	1	0	13
<b>Total</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>28</b>	<b>2</b>	<b>0</b>	<b>32</b>

As observed from the above response table, the number of male respondents (59.4%) was moderately higher than that of female (40.6%). In addition to this, the number of male with bachelor degree (60.7%) also moderately higher than that of female (39.3%). However, there was equal number of respondents with diploma and masters degree level and gender category, 1(one) from each.

**Table 4:- LEVEL OF EDUCATION VS SERVICE YEAR RESPONDENTS FROM BUDGET HOLDERS**

Level of Education	Service Year				Total
	Less than 5 years	6 to 10 years	11 to 15 years	Above 15 years	
Diploma	0	0	1	1	2
Bachelor Degree	8	12	5	3	28
Masters Degree	0	2	0	0	2
<b>Total</b>	<b>8</b>	<b>14</b>	<b>6</b>	<b>4</b>	<b>32</b>

From table 4, percentage of the respondents based on their service years is distributed as: 43.75% are 6 to 10 years of which 85.71% are bachelor and 14.29% are masters degree holders, 25% are of less than 5 years experience and are all bachelor degree holders, 18.75% are with service year 11 to 15 and of which 83.33% are bachelor degree holders and 16.67% diploma holder and

finally 12.25% are 15 years experience of which 75% are bachelor degree holders with 25% diploma holder. This service years experience with level of education is considered by the researcher as a good information source.

Other than to budget users, further questionnaires were distributed to 8 (Eight) Audit managers and department heads the Office of Regional Auditor General, who are responsible for supervision, review and authorization of all audit works and reports prepared by the ORAG junior auditors assigned in the budget user sectors annual and special audits in recent years.

**Table 5:- GENDER VS LEVEL OF EDUCATION- RESPONDENTS FROM ORAG**

Gender	Level of Education						Total
	12th grade or less	Certificate	Diploma	Bachelor degree	Masters Degree	Doctorate Degree	
Male	0	0	0	2	5	0	7
Female	0	0	0	1	0	0	1
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3</b>	<b>5</b>	<b>0</b>	<b>8</b>

As observed from the above response table, the number of male respondents (87.5%) was significantly higher than that of female (12.5%). In addition to this, the number of male with bachelor degree 66.67% outweighed that of female number which is 33.33% by almost half. However, there was 100% number of male respondents with masters degree level and there are no respondents' who have qualification less than bachelor degree and with more than masters degree.

**Table 6:- LEVEL OF EDUCATION VS SERVICE YEAR RESPONDENTS FROM ORAG**

Level of Education	Service Year				Total
	Less than 5 years	6 to 10 years	11 to 15 years	Above 15 years	
Bachelor Degree	0	0	2	1	3
Masters Degree	0	0	2	3	5
<b>Total</b>	<b>0</b>	<b>0</b>	<b>4</b>	<b>4</b>	<b>8</b>

*Source: Survey data*

Among the 8 respondents who supervise, review and authorize the release of budget user sectors audit report, are 50% were experienced with service of 15 years and above, and 50% were experienced with 11 to 15 years. And are 37.5% bachelor degree holders and 62.5% of the whole respondents were qualified with masters degree. The researcher again considers the mix as a better information source.

Finally, the researcher sent 5 questionnaires to be filled by budget experts who work at BoFED Planning and Budget Department which has the oversight role in the budget users sectors of the region.

**Table 7:- GENDER VS LEVEL OF EDUCATION –RESPONDENTS BOFED PLANNING AND BUDGET DEPARTMENT**

Gender	Level of Education						Total
	12th grade or less	Certificate	Diploma	Bachelor degree	Masters Degree	Doctorate Degree	
Male	0	0	0	3	1	0	4
Female	0	0	0	1	0	0	1
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>4</b>	<b>1</b>	<b>0</b>	<b>5</b>

From the above table, the number of male respondents 80% was significantly higher than that of female 20%. In addition to this, the number of male with bachelor degree 75% outweighed by more than half that of female number which is 25%. However, there was 100% number of male respondents with masters degree level and there are no respondents' who have qualification less than bachelor degree and with more than masters degree.

**Table 8:- LEVEL OF EDUCATION VS SERVICE YEAR - RESPONDENTS FROM BOFED PLANNING AND BUDGET DEPARTMENT**

Level of Education	Service Year				Total
	Less than 5 years	6 to 10 years	11 to 15 years	Above 15 years	
Bachelor Degree	0	1	3	0	4
Masters Degree	0	0	0	1	1
<b>Total</b>	<b>0</b>	<b>1</b>	<b>3</b>	<b>1</b>	<b>5</b>

*Source: Survey data*

Among the 5 respondents of BoFED Planning and Budget Department, 20% were experienced with service of 15 years and above, 60% were experienced with 11 to 15 years and again 20% were experienced with 6 to 10 years. And are 80% bachelor degree holders and 20% of the whole respondents were qualified with masters degree. It seems that the department is occupied with more educated professionals and with moderate sound of experiences. Four of the five respondents were bachelor degree holders and one with masters.

### **4.3. Overview of the Current Regional Budget User Sectors Budget Process**

As per the 2003 budget guideline, the region's budget is categorized as recurrent budget and capital budget. The budget calendar starts on July 8 (Hamle 1) and ends on July 7 (Sene 30) The budgeting system is program based system in which budget is allocated for each cost centers or programs based on expenditure line items. There are four main expenditure line items. These are:

- personnel services,
- operating goods and services,
- fixed assets and construction and
- subsidies, grants and other payments

The Regional Budget User Sectors are regional offices that hold budget to implement their regional mission. Their annual budget is approved based on the institutions annual work plan which is extracted from their strategic plan according to priorities of the regional government needs.

As a result of the institutions limited budget ceiling and in order not to create burden on the regional economy, the budget system gives priorities to those works that need urgent accomplishments. BoFED has prepared a budget guidebook, called Amhara national regional state Budget Preparation and Management Working Manual, in January 2003 that constitutes budget calendar, how to prepare budget request, execute, and control the allocated budget for each fiscal year. With this guide book BoFED has prepared budget and finance administration proclamation and directives, designed different formats that are used in budget process. The proclamation and the directives give successive budget user sectors officials in the region the power and responsibility to administer and control their own budget.

In addition, in order to improve the region's Budget Preparation, Execution and Control Practice, BoFED in collaboration with federal ministry of finance has launched since 2008 IBEX soft ware (Integrated Budget and Expenditure System) a financial information system which has been designed and developed to automate and support public finance in Ethiopia. It is a power full and essential soft ware with different functional modules for example, budget module used to record approved budget, budget adjustments, budget commitments, budget comparison reports; and accounts module used to record all financial transactions, produce financial reports, and a module used to consolidate all budget user sectors budget and financial reports at regional BoFED level or at any jurisdiction required.

In general, the regional government has made different reforms to improve the Budget Preparation, Execution and Control Practice of the region which is one of the issues of the region's strategic plan to contribute its share towards the development agenda in the region and then to the country.

#### **4.3.1. Planning and Budget Preparation of public bodies**

While BoFED prepares leading strategic plan at a regional level, budget holder sectors are required to set up their own leading plan based on the region's strategy and from this leading plan they are required to prepare their own annual work plan. Based on the work plan, the sectors prepare estimated budget for their sectors. BoFED submit to the sectors temporary budget estimate ceiling then the sectors adjust their budget to this ceiling and present budget request to BOFED. The annual budget ceiling for the sectors is then temporarily decided by BoFED. Finally, the whole temporarily decided budget demand of the budget user sectors is consolidated by BoFED and sent to the regional council for discussion and approval. Note that, the consolidated budget is not merely the sum of budget holders' request, but it is tuned to the strategic plan of the regional government.

In general, the guide requires budget holders to: give priority to those works which can play essential role in the sectors objectives through minimum cost, support their request with justification, present only within the permitted budget standard, and consider previous year budget performance. Public funds are earmarked for defined priorities; funds are spent accountably; and domestic constituencies are appropriately informed about the intentions of the government in each institutional matter. BoFED, (2003)

Having said the objective of budget in principle, let us see the response of the sample budget user sectors in relation to plan and budget preparation. Fourteen questions were forwarded on the preliminary part of budget process-plan and budget preparation. The summary of the response looks like the information in following table.

**Table 9:- BUDGET USERS' RESPONSE RATE ON PLAN AND BUDGET PREPARATION**

No	Facts Part II Plan & Budget Preparation	Measurement (%)					Total
		Strongly agree	Agree	Neutral	Disagree	Strongly disagree	
1	Your office has adequate understanding to prepare plan & budget.	28.1	31.3	3.1	37.5	0.0	100.0
2	Your office has adequate number of professionals who prepares plan & budget.	12.5	28.1	3.1	56.3	0.0	100.0
3	Your office have written & approved strategic plan which is prepared based on the region's strategic policy requirement.	46.9	43.8	9.4	0.0	0.0	100.0
4	Your office have written & approved annual plan which is extracted from its strategic plan.	43.8	37.5	9.4	9.4	0.0	100.0
5	Your office prepares its annual budget based on the annual work plan.	31.3	31.3	3.1	18.8	15.6	100.0
6	There is a tight relationship between the annual plan & the budget.	31.3	31.3	3.1	18.8	15.6	100.0
7	Annual plan of your office is revised frequently in relation to the approved budget of the sector.	25.0	37.5	3.1	15.6	18.8	100.0
8	The budget demand request prepared & presented to BoFED is based on the annual work plan.	37.5	46.9	6.3	9.4	0.0	100.0
9	The sector's budget is prepared based on reliable data & estimates.	18.8	40.6	6.3	25.0	9.4	100.0
10	The budget prepared for each program line item is over estimated.	3.1	28.1	9.4	34.4	25.0	100.0
11	The budget prepared for each program line item is under estimated.	21.9	37.5	6.3	18.8	15.6	100.0
12	There is a tendency of submitting initial budget demand request without annual work plan.	9.4	18.8	3.1	59.4	9.4	100.0
13	Your office prepares annual cash flow requirement based on its approved budget.	53.1	40.6	6.3	0.0	0.0	100.0
14	The annual cash flow requirement of your office is revised quarterly.	37.5	28.1	9.4	25.0	0.0	100.0

Source: Survey Data



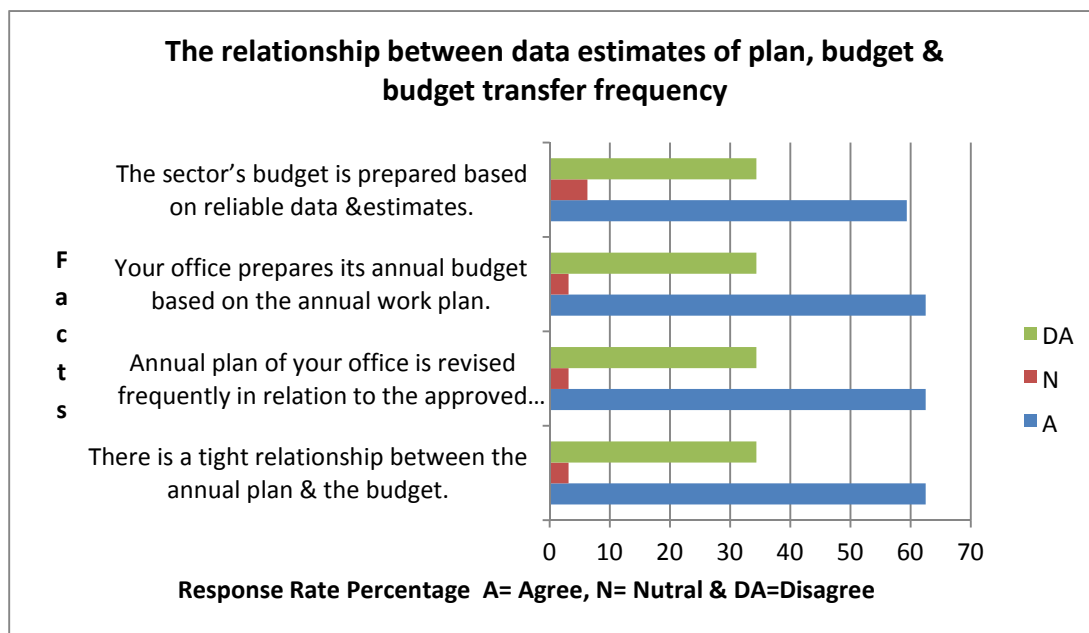
As it can be seen from the table above, although the experts response indicate the existence of positive relationship between planning and annual budget preparation but it still they indicate the existence of problems in each of the selected budget user sectors. In the fact that is, plan and budget preparation knowledge, 37.75% of the respondents disagree that their respective sectors have adequate knowledge; and in adequacy of number of professionals, 56.25% of the respondents disagree that there is adequate number of professionals in their respective sectors.

In question of the budget prepared for each program line item is over /under estimated 31.25% of the respondents agreed that there is over estimation and 59.37% disagreed that it is over estimated. Their responses indicate the existence of gap in budget preparation that will cause budget transfers and budget adjustment in their respective sectors.

For the fact that says tendency of submitting budget request without annual work plan, 68.75% of the respondents disagreed the existence of submitting budget request without work plan on the other hand 28.12% of the respondents agreed on its existence. Still this is a clue for existence of problem in planning and budgeting.

For the facts of plan and budget relationship, the same number of respondents 62.5% agreed that their sector's budget is prepared based on annual work plan and it is tightly related to the work plan; at the same time the respondents agreed that they revise their plan frequently in relation to annual budget; in addition 59.37% of the respondents agreed that their plan is prepared based on reliable data estimate.

**Chart 1:- The relationship between data estimates of plan, budget & budget transfer frequency**



*Source: survey data table 5*

Some of the responses contradict with each other in that, if the plan is prepared based on reliable data estimates and the budget is prepared based on this plan and still if there is a tight relationship between the plan & the budget then an office does not generally make frequent plan revision in relation to its budget and if not frequent transfer is expected.

**Table 10:- THE RELATIONSHIP BETWEEN ANNUAL PLAN AND ANNUAL BUDGET**

		There is a tight relationship between the annual work plan and the annual budget					Total
		Strongly agree	Agree	Neutral	Disagree	Strongly disagree	
Annual plan of your sector is frequently revised in relation to the sector's annual budget	Strongly agreed	8	0	0	0	0	8
	Agree	2	10	0	0	0	12
	Neutral	0	0	1	0	0	1
	Disagree	0	0	0	5	0	5
	Strongly disagree	0	0	0	1	5	6
<b>Total</b>		<b>10</b>	<b>10</b>	<b>1</b>	<b>6</b>	<b>5</b>	<b>32</b>

*Source: SPSS cross tabulation out put*

In addition to the chart above, the researcher has made test to check the reliability of the responses for the existence of a tight relationship between the annual work plan and the annual budget. As it can be seen from table 8, 8 respondents (25%) strongly agree in common to both the presence of tight relationship between annual plan and budget and on the existence of frequent revision. the other measures also confirm the same result.

Therefore, the responses were given arbitrarily without considering or knowing the real situation of their office, or they were not voluntary to reveal the exact problem. The researcher has verified (as indicated in budget execution section of this study) this by using the sectors annual approved budget & actual expenditure reports.

On the other hand, the open-ended data indicated that there were mismatch between plan and annual budget. According to the respondents, the mismatch between plan and budget is due to lack of adequately qualified professionals in planning & budget preparation, less attention is given to the preparations of plan and budget by concerned sectors department heads & the

process do not allow the participation of operational level employees. They are forced to revise plan to include new activities, unforeseen activities and failing to consider the current market price of the budget year based on the previous year current economic condition of the region. Such practice has resulted in preparing budget without the basis of reasonable estimates and data.

Moreover, assignment of expertise is based on individuals service years instead of their efficiency. The non merit based selection and assignment of experts cause the shortage of skilled manpower or plan expert exacerbated the problem. As recognized from their written response, some sectors present their annual budget by coping simply from the previous year budget request because of inexperience.

Further, the budget users plan does not consider the appropriated budget of the region and economic situation of the region. Adequate orientation is presented rarely about plan and budget preparation by the concerned bureau BoFED.

Plan and annual budget preparation are two faces of a cent. To achieve mission of the budget user sector, flexible strategic plan has great value. What is complained by the budget users is infrequent revision of the strategic plan (or rigidity) periodically has put in burden on annual plan of units. Nevertheless, according to Le Roux (2002), the public bodies plan should be a stable but flexible document over time that comprises the administrative outputs required for the management of the sectors function including the provision of sartorial policy, strategy, plans, program and budgets. Budget users are provided additional

The plan and budget was prepared without the participation, discussion, and approval of concerned units and persons. As a result, presenting exaggerated budget, overlooking programs, excess number of budget transfer and adjustments happened; the prepared budget did not include the relevant issues and the sectors strategic plan fully; Presentation of budget demand without work plan; not following fixed budget calendar in presenting budget demand are some of the main problems mentioned in this process.

Literatures indicate that bad practices in budget preparation will invariably lead to a number of dysfunctional practices in budgeting Shah, (2007).

Besides the budget user sectors, four questions were forwarded to BoFED Planning and Budget Department experts on the preliminary part of budget process-plan and budget preparation. Their response detailed in the following table.

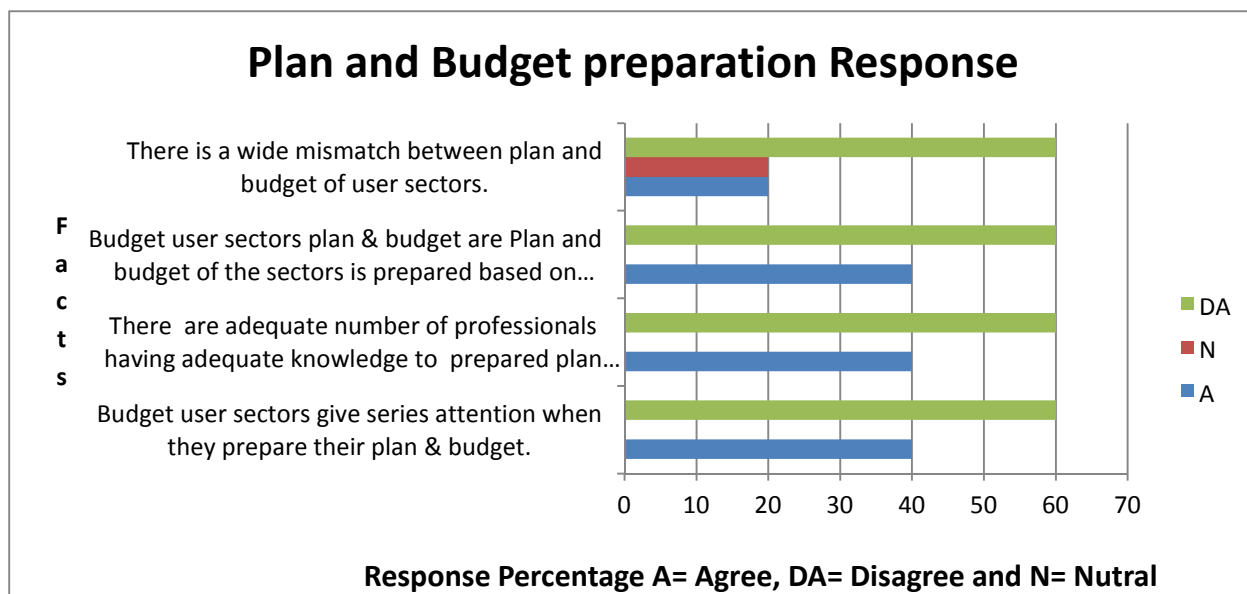
**Table 11:-** BoFED EXPERTS’ RESPONSE RATE ON QUESTIONS OF PLAN AND BUDGET PREPARATION

No	Facts Part II Plan & Budget Preparation	Measurement(%)					Total
		Strongly agree	Agree	Neutral	Disagree	Strongly disagree	
1	Budget user sectors give series attention when they prepare their plan & budget.	0	40	0	60	0	100
2	There are adequate number of professionals having adequate knowledge to prepared plan and budget.	0	40	0	60	0	100
3	Budget user sectors plan & budget are Plan and budget of the sectors is prepared based on realistic and valid assumptions.	0	40	0	60	0	100
4	There is a wide mismatch between plan and budget of user sectors.	0	20	20	60	0	100

*Source: survey data*

The experts confirmed in majority, that budget users have limitations in: budget preparations, timely submissions of budget requests, and on the validity of assumptions taken in preparing the annual budget as it is summarized in the following table.

**Chart 2:- Plan and Budget preparation Response**



Source: table 10 above

The chart clearly indicates that more than 40% of the planning and budget experts agreed on the existence of weaknesses in budget preparation even though there are others who do not agree on the subsistence of the problems.

60% of the respondents disagreed that the budget user sectors planning and budget department has no adequate number of skilled persons to conduct budget analysis effectively the same percentage disagree that they pay serious attention and their plan & budget are realistic, based on valid assumptions & prepared by knowledgeable individuals. At the same time again 60% of the respondents agreed that there is a wide mismatch between their plan and budget.

In the open ended questions attached the experts expressed the difficulty in compiling and analyzing budget requests of the sectors and moreover, some budget holders prepare their annual budget ambitiously. They do not give priority of activities while preparing the financial plan. Besides, most of the time the amount of budget requested for each line item is deliberately exaggerated. The reason is due to the assumption that the office responsible for budget approval allocates budget by reducing some percentage from the initial request. Therefore, according to

their intention, if they submitted actual demand without overestimation, the amount approved for that budget year would be less than what is expected.

To support the existence of budget preparation problems, the researcher has used annual reports of the selected budget user sectors found at regional bureau level to show approved budget deviations percentage to adjusted budget. The reports are closed and audited which are consolidated by regional BoFED annually for eight consecutive years.

**Table 12:- APPROVED BUDGET DEVIATION PERCENTAGE TO ADJUSTED BUDGET.**

PBs	Eight consecutive years deviation percentage of approved budget to adjusted budget							
	2001	2002	2003	2004	2005	2006	2007	2008
111	5.88	13.86	16.68	55.06	50.15	(67.55)	29.71	(0.63)
159	(11.29)	(79.42)	27.89	(40.76)	(97.78)	(1.72)	(31.60)	(24.66)
152	4.38	14.85	54.03	72.95	26.07	(41.97)	(89.92)	(28.90)
129	(15.15)	(17.98)	(102.36)	(55.14)	(5.17)	9.09	8.28	12.71
127	(24.47)	(8.53)	(185.26)	(79.05)	(275.11)	(14.96)	(2.15)	(22.51)
122	(13.50)	(14.02)	(262.42)	40.91	13.59	(23.26)	32.22	17.04
121	5.19	(12.80)	46.50	(12.95)	(105.44)	1.94	7.46	(0.74)
273	-	(28.71)	-	6.75	(7.03)	(97.02)	3.02	(16.21)
221	(0.25)	(15.25)	(65.90)	(19.29)	(112.63)	38.29	(7.76)	5.07
211	16.26	6.77	21.21	19.53	(14.93)	(141.69)	(6.96)	(8.35)
232	(4.45)	(15.71)	(5.13)	(44.91)	27.77	51.43	33.72	42.71
277	0.06	(77.54)	3.06	63.62	33.82	28.39	0.76	(2.54)
219	3.16	(13.39)	(44.56)	(29.31)	10.04	(51.83)	16.81	6.13
311	5.29	(62.26)	48.83	32.21	10.90	(12.80)	(14.84)	(1.27)
341	(21.63)	(30.53)	(71.68)	(51.76)	55.52	71.80	6.19	11.54
313	(10.16)	(16.60)	58.78	30.68	55.17	25.80	11.25	(0.23)
331	31.44	(41.16)	6.85	31.01	85.32	(37.06)	(165.73)	(47.67)
416	(8.02)	(2.50)	21.13	45.47	(12.42)	65.36	44.03	40.66

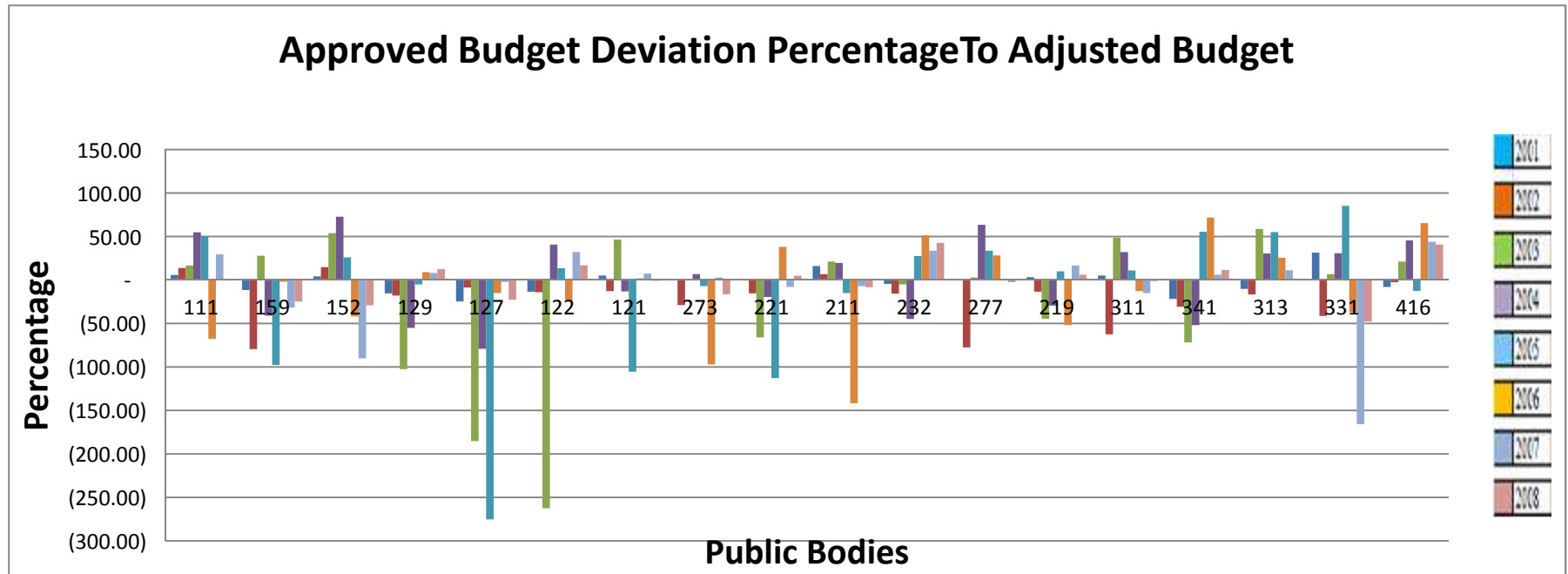
Source: AmharaBoFED annual report.(percentage is calculated by the researcher)

The entire approved budget of all the budget users is set for recurrent and capital expenditures. According to table 11 in all the sectors there is a negative or a positive deviation percentage from approved budget to adjusted budget and the trend is increasing and decreasing over the sample years. As it is revealed in chart 6 in all of the sectors there is a positive or a negative deviation percentage indicating that approved budget was over estimated (Positive deviation Percentage) and approved budget was under estimated (Negative deviation percentage. The deviations are still supporting the idea that there is problem in planning and budget preparation process of the sectors.

At regional sector bureau level all sectors aggregate approved budget deviation percentage to adjusted budget has risen by an average of (123.33%) and by 52.73% from year to year. This shows that there is an aggregate of 123.33% under budgeting and 52.73% over budgeting practice at regional bureau level. Relevant reports explained that such over and under budgeting practice rose due to lack of experts with adequate knowledge of planning and budget preparation in budget use sectors, budget user departments do not pay series attention in that, they do not discuss with the operational level experts on plan preparation, in some cases they simply copy and pest the last years plan and use it for the current year.



**Chart 3:- Approved To Adjusted Budget Deviation Percentage**



Source: AmharaBoFED Consolidated Closed and Audited Annual reports.

### 4.3.2. Budget userSectors Budget Utilization, Evaluation and Follow-up

As it is described in the literature review part of this study, successful budget execution depends on numerous factors, such as the implementation capacities of the agencies concerned. Every budget user unit has the obligation to register on IBEX the daily inflow and outflow budget movement and maintain the balance on the ledger prepared for this purpose. The budget user sector has also the responsibility to submit monthly report to BoFED. Further, the budget holder is required to utilize the allotted budget for the specified period only.

However, according to the report revealed by the Planning and Budget Department and Treasury department of BoFED from 2003 to 2013 consecutive years, the following problems were observed in budget execution for successive budget years.

Little supervision and control by the budget user sectors leaders and their successive subordinates; Unable to present monthly reports timely and although some sectors present reports timely, the report lacks quality in that, irregular account balances and over/under budget performances, and Unable to make continuous and expansive evaluation in order to correct the observed problems etc.

In addition to this, response rate of the fifteen questions presented to budget users sectors' on budget implementation and evaluation practice is presented in the following table.

**Table 13:- BUDGET USERS' RESPONSE RATE ON BUDGET IMPLEMENTATION AND EVALUATION**

No	Facts	Measurement					Total
	Part III Budget implementation & control.	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	
1	Your office is notified its approved budget e on or before Hamle 8 of the new budget year for execution.	0	6	2	6	18	32

No	Facts	Measurement					Total
	Part III Budget implementation & control.	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	
2	Your office prepare monthly cash flow requirement based on approved annual action plan.	16	13	1	2	0	32
3	Your office utilizes its budget for activities approved in the annual plan.	11	16	2	3	0	32
4	Your office has adequate control mechanisms over its annual budget and regular control	19	11	0	2	0	32
5	Your office has implemented the IBEX budget control module to manage all budget balance changes & commitments for each cost centers and item of budgeted expenditures.	0	9	0	14	9	32
6	Your office maintains manual budget ledger card to manage all budget balance changes & commitments for each cost centers and item of budgeted expenditures. (if no IBEX is used)	4	8	0	16	4	32

No	Facts	Measurement					Total
	Part III Budget implementation & control.	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	
7	The office prepares frequent budget transfer.	9	10	2	6	5	32
8	Your office executes high proportion of the annual budget expenditures at the end of or near year end.	7	12	2	6	5	32
9	The office confronts budget shortage during the budget year.	7	16	1	8	0	32
10	There is a tradition of over spending on some items & under spending on other items of expenditure.	3	18	2	5	4	32
11	The budget implementation & control of your sector is adequately sufficient.	2	9	1	18	2	32
12	Proper training on budget control procedures & on IBEX budget control soft ware is adequately given by BoFED planning & budget department.	5	9	0	11	7	32
13	Adequate follow up & support is given to your office's budget management & control practice by BoFED.	0	13	1	11	7	32

Source: Survey data

According to the survey result, for the fact, the approved budget of your sector arrives on Hamle 8 for execution, 75% of the respondents disagree that the approved budget is notified as prescribed on the budget calendar and they have added in the open ended questionnaire that BoFED do not notify them their approved budget on time and it sometimes it delays up to two to three months and they are forced to use 1/12<sup>th</sup> of the last year's budget for recurrent budget and postpone the capital budget executions.

For the question your office has regular control over its annual budget execution, 93.75% of the respondents agreed that there is a regular control over the budget execution. On the other hand for the questions on implementation of IBEX budget control module to record commitments/manual expenditure budget subsidiary ledger card, 71.85% of the respondents disagree that they have implemented IBEX to record commitments for all purchases, advance payments and for any contract signed by their sectors. Similarly, 62.5% of the respondents disagree that they have implemented IBEX to record commitments for all purchases, advance payments and for any contract signed by their sectors. This shows that the officers have denied the existence of budget implementation and control weaknesses in their respective offices. In general a good budget execution system should have a complete budgetary/appropriation accounting system. It is necessary to track transactions at each stage of the expenditure cycle (commitment, verification, payment) and movements between appropriations or budget items. Effective controls at each stage of the expenditure cycle cannot exist without IBEX or manual budget ledger card, BoFED, (2003).

For the question, the office prepares frequent budget transfer, 59.37% of the respondents agreed that there is a frequent budget transfers and 34.37% of the respondents denied the existence of frequent budget transfer. As per BoFED budget administration guide line, although the approved budget can be legally adjusted through transfer and supplement during the year to adapt to unexpected circumstances, these budget adjustments are not desirable and can be avoided by proper planning and budgeting.

For the fact concerning budget utilization 90.62% of the respondents agreed for the utilization of approved budget based on the annual plan. On the other hand, 48 percent of them assure the

execution of surge expenditure towards the end of budget year. From this point, these responses contradict to each other. Thus, the researcher realized that the report of the sectors was correct. According to the response compiled from the open-ended questions, majority of the respondents admit the occurrence of surge expenditure in that, sometimes, suppliers delay to provide the service or the item after they won the bid. Other respondents reacted that the problem arises from the lack of proper monthly cash flow plan and purchase program. Sometimes, purchase is not executed on the basis of time table. That is why rush expenditure occurs towards the end of the budget year.

For the fact of confronting budget shortage during the budget year and for the fact under/over spending, 71.87% of the respondents agreed that they confront budget shortage and 65.62% of the respondents agreed that they confront a tradition of over spending on some items & under spending on other items of expenditure. Accordingly, Allen and Tommasi (2001) expressed in most cases, under spending, as well as overruns, is related to insufficiencies in budget preparation and program preparation. An under estimated budget and unrealistic projections of revenues may lead to budget revisions during budget execution and to a practice known as “repetitive budgeting”.

For the fact adequacy of control mechanisms and budget implementation & control sufficiency, 93.75% of the respondents agreed that there is adequate control mechanisms over its annual budget and regular control on the other hand 62.5% of the respondents disagreed that the budget implementation & control of their respective sectors is sufficient. Thus, the reply provided in line with the questions can be an indicator for the presence of gaps.

**Table 14:- ADEQUATE AND STRONG BUDGET CONTROL MECHANISM VS BUDGET IMPLEMENTATION AND CONTROL SYSTEM SUFFICIENCY (SPSS)**

		The budget implementation and control system of your sector is sufficient.					Total
		strongly agree	agree	neutral	disagree	strongly disagree	
Your sector has adequate and strong budget control mechanism.	strongly agree	2	9	1	7	0	19
	agree	0	0	0	11	0	11
	disagree	0	0	0	0	2	2
<b>Total</b>		<b>2</b>	<b>9</b>	<b>1</b>	<b>18</b>	<b>2</b>	<b>32</b>

*Source: Survey data SPSS out put*

However, the researcher believes that if there is strong budget control mechanism in an office, the question of sufficiency should not arise because just it has been already designed to be strong. Thus, there are contradictory responses.

SPSS cross-tabulation test has conducted by the researcher has made test to check thereliability of responses the sector has adequate and strong budget control mechanism and the sector's budget implementation and control system is sufficient.

As it is depicted in table 10, 18 (56.25%) of the respondents both agree on the existence of adequate control mechanism and on the other hand, disagree that budget implementation and control system is sufficient. Thus, there are contradictory responses.

As supporting to the respondents opinions, Peter (1998) identified that the main weaknesses in resource allocation and use are: poor planning; deficient links between policy making, planning and budgeting; poor expenditure control; little relationship between budget as formulated and

budget as executed; inadequate accounting systems; unreliability in the flow of budgeted funds to agencies; and poor cash management.

In addition to the budget user sectors questionnaire is also distributed to BoFED planning and budget department experts to view their perception on budget execution, monitoring and evaluation of budget users sectors and their response is presented in the following table.

**Table 15:-** BoFED PLANNING & BUDGET EXPERTS RESPONSE ON BUDGET EXECUTION, EVALUATION AND FOLLOW UP

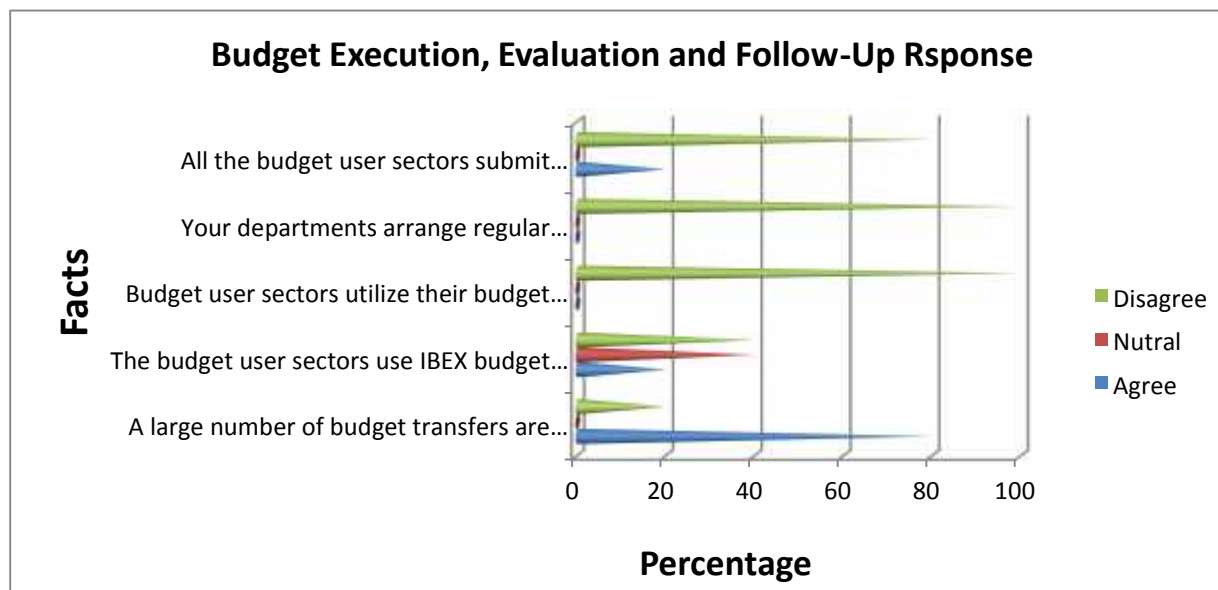
No.	Facts	Measurement					Total
		Strongly agree	Agree	Neutral	Disagree	Strongly disagree	
1	A large number of budget transfers are made by user departments during the budget year.	1	3		1	0	5
2	The budget user sectors use IBEX budget control software module or manual budget & expenditure control ledger card. (if IBEX is not used).	0	1	2	2	0	5
3	Budget user sectors utilize their budget according to their plan.	0	0	0	1	4	5
4	Your departments arrange regular awareness creating workshops to solve observed problems.	0	0	0	3	2	5
5	All the budget user sectors submit budget implementation report to BoFED as per the calendar.	0	1	0	4	0	5

Source: survey data

The major duties and responsibilities of BoFED Planning and Budget Department are: budget formulation, preparation, allocation, distribution and control. With this aspect, budget experts have stated their perceptions as depicted in the following chart.



**Chart 4:- Budget Execution, Evaluation and Follow-Up Response**



Source: Table 14

The chart clearly revealed that 100% of the respondents disagreed that the BoFED Planning and Budget Department arrange regular workshops and short-term training to improve the skill of budget experts working in budget user sectors. In the open ended questions the experts has added that field visit is also rarely made and in general, although continuous budget change adjustment requests, idle cash, networking problems with budget users, lack of efficient experienced manpower are among the problems causing discrepancies in budget utilization, the department did not made regular support for budget users. Their justification is lack of adequate number of professionals in the department.

The more common causes of budget and expenditure deviations are:

- deviation in aggregate expenditure;
- reallocation of funds during budget implementation;
- policy change during the year;
- an inability to implement policies, programs and projects; and
- Lack of financial discipline. Omitoogun and Hutchful, (2006).

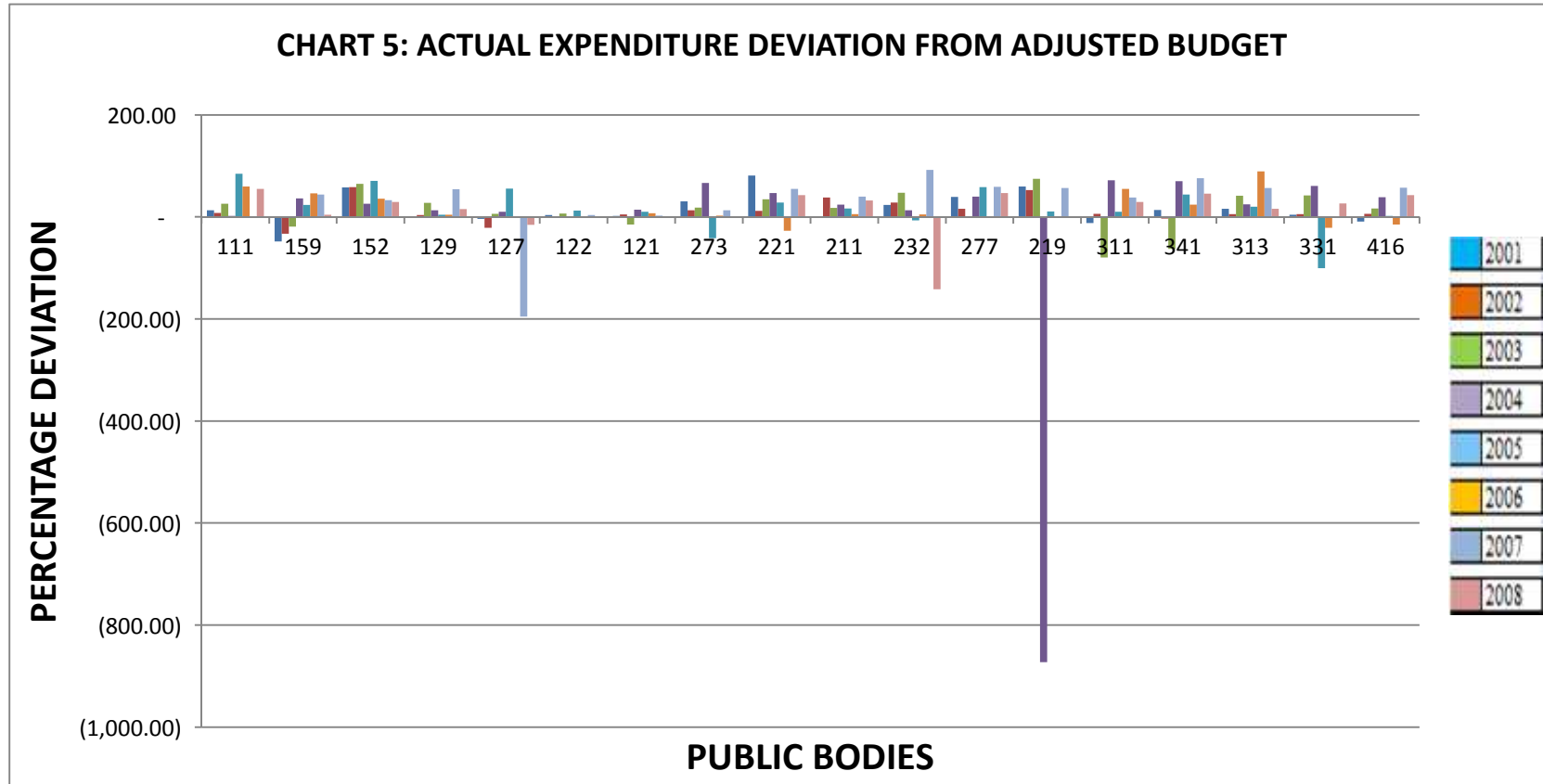
To support the existence of budget implementation problems, the selected budget user sectors found at regional bureau level closed and audited annual reports which are consolidated by regional BoFED indicates the following approved budget percentage deviation to adjusted budget for eight consecutive years.

**Table 16:- ADJUSTED BUDGET VS ACTUAL EXPENDITURE DEVIATION PERCENTAGE**

PBs	Adjusted Budget Vs Actual Expenditure Deviation Percentage							
	2001	2002	2003	2004	2005	2006	2007	2008
111	13.07	7.96	25.57	1.68	84.74	59.62	0.65	54.98
159	(48.12)	(32.90)	(19.18)	36.52	23.24	45.97	43.64	4.42
152	58.04	58.33	65.08	25.84	70.84	35.55	32.88	29.42
129	(0.69)	3.44	27.35	12.96	4.45	4.56	54.36	15.38
127	(4.06)	(21.24)	6.13	10.21	55.25	1.43	(195.13)	(15.52)
122	3.88	1.54	6.53	0.48	12.46	1.08	3.60	0.24
121	2.01	4.60	(14.90)	14.28	10.35	7.20	2.49	1.42
273	30.71	12.78	18.07	66.73	(41.78)	2.52	13.06	(2.38)
221	81.38	11.58	34.48	46.69	27.86	(27.21)	54.99	42.66
211	(0.33)	38.11	17.48	23.87	16.24	5.45	39.61	32.01
232	23.43	28.24	47.27	13.30	(6.50)	4.61	92.37	(141.87)
277	39.14	15.77	(0.64)	39.69	58.60	0.50	59.11	46.56
219	59.78	52.75	74.47	(872.87)	10.64	0.71	56.90	0.07
311	(11.92)	6.29	(79.44)	71.81	9.97	54.64	38.01	29.13
341	13.54	(3.06)	(62.90)	70.09	43.68	24.22	75.67	45.87
313	16.20	5.67	41.48	24.90	20.09	89.03	56.89	15.96
331	4.09	5.25	41.87	60.96	(100.41)	(21.52)	0.03	26.19
416	(9.11)	5.97	16.65	38.74	2.02	(14.82)	57.08	42.59

*Source: AmharaBoFED Annual Report (Percentage is calculated by the researcher)*

**Chart 5:- ACTUAL EXPENDITURE DEVIATION FROM ADJUSTED BUDGET**



Source: Table 15

The entire adjusted budget of all the budget users is set for recurrent and capital expenditures. According to the above table, at regional level in all the sectors there is under or over utilization of approved budget and the trend is increasing over the sample years. As it is revealed in chart 6 in majority of the sectors there is a positive deviation percentage indicating that there is budget under utilization. The reverse is true for those sectors which have a negative deviation percentage. The deviations are still supporting the idea that there is problem in the sectors budgetary practice.

At regional sector bureau level, all sectors aggregate unspent budget has risen by an average of 75.89% from year to year. Relevant reports explained that such underutilization arose from delay of foreign procurements; incompleteness of payment documents, delay in approved budget notification at the start of the budget year, advance payments made to contractors and suppliers during a budget year is not settled and recorded as expenditures until the contracts is completed; and low capacity of experts. At the same time, at regional level all the sectors aggregate over spent budget has risen by an average of 75.55% from year to year and as reports explain this arose due to, some receivables paid from previous year's budget is recorded as current month expenditures, lack of capacity to make proper recordings. As the researchers investigation however, almost all the selected sectors do not maintain manual or IBEX budget control soft ware to make timely budget commitment and adjustment records.

Under spending does not necessarily mean that there is good fiscal discipline in the country. Sound budget preparation processes and adequate institutional arrangements are a prerequisite for avoiding these discrepancies. Allen and Tommasi,(2001).

#### **4.3.3. Budgetary Records, Reports and Audit**

The region's budget management and control manual requires each budget user sectors to have up to date budgetary records by using IBEX accounting software and submit any budget deviation information timely to BoFED in order that BoFED's data base is updated and reconciled with the sectors' data base. In addition to the information, the sectors are also required to submit monthly quality accounting report to BoFED within five days after the month for

which report presented is completed. This report includes: Revenue report, Budget and Expenditure performance for each cost centers and for each items of expenditures, Transfer report, Receivables report, Payables report and Trial balance report. With regard to auditing, the internal auditors of the sectors should consult and provide adequate support to the budget and accounting experts on budgetary balances & on producing quality reports.

On this regard, response of the seven questions presented to budget users sectors' on Budgetary Records, Reports and Audit practice is presented in the following table

**Table 17:- BUDGETARY RECORDS, REPORTS AND AUDIT PRACTICE**

No.	Facts	Measurement					Total
	Part III. Reporting & Auditing	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	
1	All budgetary expenditures of your sector are properly recorded timely & documented.	10	10	0	9	3	32
2	All expenditures of your sector are properly charged to proper accounting period.	14	6	0	5	7	32
3	Your sectors budgetary & financial reports presented to BoFED are, complete, with quality and timely.	9	13	2	6	2	32
4	Your office's financial statements are regularly audited by internal auditors.	4	5	1	18	4	32
5	Your office's internal auditors	4	4	2	18	4	32

	have adequate professional knowledge to support you on budgetary recordings and report preparation.						
6	Your office's financial statements are regularly audited by ORAG.	5	7	1	15	4	<b>32</b>

*Source: survey data.*

Based on this response sheet, for the fact timely recording and documentation and charging budgetary expenditures to proper accounting period, 62.5% of the respondents agreed on the existence of on both timely recording of budgetary expenditure and charging to proper accounting period. On the other hand 37.5% of the respondents disagreed on the existence of both timely recording of budgetary expenditure and charging to proper accounting period. The minority's justification is that, most of them stressed in open-ended written responses that delays of cash transfer letters, delays in bank debit and credit advices, delays in foreign purchases create burdens on the recording system. Thus, it is not possible to say that payment is executed always based on full documents and evidences. In addition to this, because advance payments made from previous year's budget are recorded as current year's budget expenditure, again it is not possible to say all budget year expenditure are charged to proper accounting period.

As per the researcher's view on BoFED's consolidated reports their response is correct more over because the budget user sectors expenditure commitments records for all contracts signed and purchases are were supported by computerized systems or manual budget ledger card it is not possible to say budgetary records are timely & complete.

For the fact, complete and timely submission of financial reports, 68.75% agreed that complete timely financial reports are presented to BoFED and 25% disagreed that complete timely quality financial reports are presented to BoFED.

In contrast to the majority's response BoFED's quarterly financial management evaluation report indicates that there is a delay in monthly report submission by some sectors and even the timely submitted reports lack quality e.g. Irregular account balances, incorrect account code, incorrect cost center or project code etc.

For the fact that that is concerning regular audit by IA; and knowledge adequacy, 68.75% of the respondents disagreed that the financial statements are audited by their internal auditors; and the same percentage of respondents denied the adequacy of IA knowledge.

As to the researchers review of IAs' profile although there are some competent IAs, the majority of them are less competent employees who are waiting for their retirement age and most of them are assigned on this position deliberately when the sectors head believe that they are not fit to other posts in the sectors, this shows there is a perception problem with sector heads on the usefulness of IA.

#### **4.4. Audit of Budget User Sectors**

Audit of the region's government office can be performed by: IA at a sector level, ORAG at regional level and OFAG at federal level.

The Amhara Regions Auditor General Re-Establishment Proclamation number (186/2003) has given Office of the Regional Auditor-General the responsibility and authority to undertake financial and performance audits of all the regions government budget user sectors at least annually. The proclamation stipulates the penalties for anyone who obstacles or try to obstacle the work of the Auditor-General through deliberate presentation of false documents or denial of access to required information.

The audit is to ascertain that the sectors budget management and property administration practice is in accordance with the rules & regulations set by the region and to report annually or as required any findings or performance inefficiencies to the regional council.

Keeping this in mind, the researcher sent questionnaire to 8 (eight) auditors who are the region’s ORAG audit managers, department heads who examined the selected sectors during the past eight years. The analyses of these responses are provided as follows:

**Table 18:-** AUDITORS RESPONSE ON THE BUDGET USERS BUDGET MANAGEMENT AND CONTROL

No.	Fact	Agree/Yes	Disagree/No	Total
1	Does ORAG conduct performance audit?	3	5	8
2	Do you think that the audited sectors implement the audit findings of your office timely?	2	6	6
3	You think that the internal audit function of the budget sectors have adequate knowledge to support budget experts?	1	7	8
4	Do ORAG have regular training scheme to support those internal auditors?	1	7	8

*Source: survey data.*

For the question of performance audit provision, 37.5% of the respondents agreed but 62.5% disagreed that their office conduct performance audit. They have justified in the open-ended question that, the department conduct performance audit selectively and not covered in all the sectors because of in-adequacy in number of professionals. In addition to this, they have strongly recommending budget user sectors to strengthen the knowledge of their IAs to conduct performance audit by their own.

For the question audited sectors implement the audit findings timely, 75% of the respondents disagree and 25% agreed on timely implementation of audit findings. They have justified in the open-ended question that, in most of the sectors it is not implemented timely due to different reasons like, lack of follow up by the regulatory bodies & no action has been taken on those who delay, lack of commitment by leaders & experts, staff turnover, due to some management members involvement in committing the finding; etc.



For the question of IAs knowledge adequacy, 87.5% of the respondents disagreed that the IA function of the budget sectors has adequate knowledge to support budget experts. For this they have described in the open-ended question that, due to misperception by managers in some sectors proper attention is not given to the function, in addition because the internal auditors direct responsibility is to the sector head, even if the auditor have good professional knowledge due to frustration of latter penalty from some bosses the IAs are not motivated to disclose some problem areas and support the experts.

For the question of capacity building, 87.5% of the respondents disagreed that. ORAG have regular training scheme for IAs. Their justification in the open-ended question is that, training of budget user sectors IAs the responsibility of BoFED's IA core process. But ORAG can do that only by BoFED request. For this the researcher has reviewed BoFED IA's core process report that the process arranges regular training to the sectors IAs but the very problem is the turnover of the experts in the sectors.

In addition to the above the ORAG auditors has mentioned in the open-ended questions that ORAG conducts both financial and performance audit in budget user sectors although the degree of coverage varies. In contrast to the performance audit coverage, in financial audit the office has covered all the budget user sectors in the region. But still there is a resource gap to conduct financial audit annually in all the sectors. Therefore, based on existing risk factors significance the office sets priorities and perform the audit in each sector annually, with two, three.....five years.

With regard to some common important problems regarding Budget Preparation, Execution and Control Practice, the ORAG auditors has mentioned in the open-ended questions that there is lack of documents of budget transfer made, lack of clear disclosure of budget committed to purchases and any contracts signed, reporting of expenditures in inappropriate budget year and source of finance, under usage of budget in some line items and over usage in other line item within one cost center and under budget utilization in one cost center and over budget utilization in another cost center or project which are under the responsibility of the same budget user sector; etc.

In relation to the financial audit opinion usually given to the sectors, the ORAG auditors has mentioned in the open-ended questions that no unqualified audit opinion is given to date of this study for the sectors at regional bureau level; and the most given is qualified audit opinion.

## **CHAPTER FIVE**

### **SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION**

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BoFED has made different reforms to improve its budget and financial management implementation and control mechanisms since 2003. In contrast to the government's effort, still there are problems on Budget Preparation, Execution and Control Practice of the budget user sectors in the region.

The objective of the study was to assess, and analyze publicly available data on the Budget management and Control Practice of the Amhara region; as well as to locate the key problem areas that seek attention and improvement by responsible bodies.

This chapter presents summary of findings, conclusion, and forwards recommendations derived from the data presentation and analysis made in the previous part of this study under three major topics which are: First, Planning and Budget Preparation; Second Budgetary Records, Budget Execution and Control; and finally third Reports and Audit.

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

The following major findings were obtained:

##### **5.1.1. Summary of findings under Planning and Budget Preparation**

- BoFED has prepared a budget management and control manual January 2003 that guides how to plan activities, prepare budget request, execute, and control budget by the budget user sectors and has also launched IBEX accounting information system software to automate the region's accounting and budgetary record information up date and efficient; and has given continuous trainings on its implementation.

- It was found that 37.75% of budget user respondents ascertain that their sectors have no adequate understanding to prepare plan and budget due to service years based assignment of expertise instead of efficiency based and at the same time 56.25% of them ascertain that there is no adequate number of professionals to prepare plan and budget in their respective sectors due to high employee turnover.
- It is found that 31.25% and 59.37% of budget user respondents assured that there is over estimation in some cost centers and over estimation in other cost center found in a sector.
- It is found that 28.12% of the respondents witnessed the existence of submitting budget request without annual work plan,
- Even though the majority of the respondents replied a positive relationship between plan and budget, it was invalidated that 25% the respondents strongly agree in common to both the presence of tight relationship between annual plan and budget and on the existence of frequent revision.
- It is found that 34.37% of the respondents ascertained that their plan is prepared based on unreliable data estimate.
- The plan and budget are prepared without the participation, discussion and approval of responsible units and is not tightly based on the sectors strategic plan.
- Field visit and continuous workshops or short term training is rarely made on planning and budget preparation.

#### **5.1.2. Findings on budgetary records, Budget execution and control**

- It is found that 75% of the respondents witnessed that the annual approved budget of their sectors is not notified to them as prescribed on the budget calendar. It sometimes delays for more than a month and two months.
- It is found that, 71.85% of the respondents ascertain that IBEX budget control module is not implemented in their respective sectors.
- It is also found that from the 71.85 none IBEX budget control module implementers 62.5% of the respondents' witness that they do not maintain manual budget.

- Therefore in 62.5% of the respondents sectors both IBEX budget control module and manual budget expenditure ledger card is not maintained.
- It is witnessed that in about more than 62.5% respondents sectors there is no tracking of budgetary transactions at each stage of the expenditure cycle.
- 59.37% of the respondents witnessed that there is frequent budget transfers in their sectors respective sectors.
- 48% percent of the respondents assure that there is high proportion of budget expenditure during the fourth quarter of the budget year in relation to the other quarters of the budget year.
- Field visit and continuous workshops or short term training is rarely made by BoFED experts to follow and support the implementation of budget guide book and IBEX software.

### 5.1.3. Findings on Reporting and Audit

- It is evidenced from BoFED's consolidated report that there is a delay in monthly report submission by some sectors and even the timely submitted reports by some sectors lack quality; for example, submission of a report with irregular account balances; incorrect account code, incorrect cost center or project code etc.
- Annual reports of the region's BoFED treasury accounts consolidation department documents was viewed by the researcher that there was a delay in the regions annual accounts closing due to the delay in consolidated budget information.
- It is ascertained by 68.75% of the respondents in the budget user sectors that the financial statements of their sectors is not audited by their internal auditors; also the same percentage of respondents again witness the weakness of their internal auditors' knowledge to support budget experts.
- Because of perceptual problem by management members special attention is not given to IAs department.
- It is found that Performance audit is not undertaken by ORAG in the majority of budget user sectors; but in relation to the financial audit, ORAG has covered all the budget user sectors in the region but annual coverage is still not reached.

- It is assured by the ORAG auditors that the maximum quality audit opinion usually given to the budget user sectors at regional bureau level during the selected sample years is qualified audit opinion and no high grade opinion was seen in the sample year.

## **5.2. Conclusions**

### **5.2.1. Conclusions under Planning and Budget Preparation**

- There is a weakness in preparing annual plan and annual budget of budget user sectors.
- Budget is over estimated in some cost centers and over estimated in other cost center found in a sector and at the same time there is a tradition of over and under spending of budget in some budget line items.
- There is a tendency of submitting budget request without annual work plan in some sectors,
- There is a frequent budget transfers in all the sectors.
- In some of the sector annual plan is not prepared based on reliable data estimates that take in to account the previous year's data and the current and future economic situation of the region.
- Annual plan of some sectors was simply copied from the past year plan; and the even the plan prepared by some sectors is not realistic it is prepared to fulfill BoFED's requirement. Therefore, it can be concluded as a hope list.
- The plan and budget are prepared without the participation, discussion and approval of responsible units and is not tightly based on the sectors strategic plan.
- BoFED's continuous workshops or short term training is rarely made on planning and budget preparation issues.

### **5.2.2. Conclusions on budgetary records, Budget execution and control**

- BoFED do not notify annual approved budget of the budget users according to the budget calendar set by the region.

- IBEX budget control module is not implemented in more than 70% of the budget user sectors
- Both IBEX budget control software and manual budget expenditure ledger is not maintained in more than 62.5% of the respondents' sectors.
- In more than 62.5% respondents sectors, Commitments are not recorded for budgetary purchases, Purchase orders, contracts signed, advance payments made by the sectors. This means there is no tracking of budgetary transactions at each stage of the expenditure cycle.
- There was a frequent budget transfers in all the sectors that cause additional work burden on budget expert departments.
- There was high proportion of budget expenditure during the fourth quarter of the budget year in relation to the other quarters of the budget year.
- Field visit and continuous workshops or short term training is rarely made by BoFED experts to follow and support the implementation and control practice of the budget user sectors budget experts.

### 5.2.3. Conclusions on Reporting and Audit

- Even though there is a frequent budget transfers made by sectors, the changes in the sectors budget data base is not timely submitted to BoFED budget depart to update and reconcile the sectors data base with that of BoFED.
- Monthly reports was not submitted to BOFED by some sectors on or before the prescribed due date. Even the timely submitted monthly reports by some sectors lack quality of information; for example, submission of a report with irregular account balances; incorrect account code, incorrect cost center or project code etc.
- It is concluded that there was a delay every year in closing regional consolidated annual reports by the region's BoFED treasury accounts consolidation department due to the delay in consolidated budget information by BoFED's planning and budget department.
- The budget user sectors financial statements were not audited by their internal auditors regularly.

- The role of IAs was not well known by majority of the sectors management members and because of perceptual problems by these members special attention is not given to IAs department.
- It was concluded that Performance audit is not undertaken by ORAG in the majority of budget user sectors; but in relation to the financial audit, ORAG has covered all the budget user sectors in the region but annual coverage is still not reached.
- Although annual audit was not regularly conducted, the audit opinion issued to the budget users sectors audited by the ORAG auditors during the last eight budget years were "subject to" or "except for" qualified audit opinion due to findings on budget and property management problems.

### **5.3. Recommendations**

The following recommendations are suggested to the concerned bodies of the region's budget user sectors to overcome the Budget Preparation, Execution and Control Practice weaknesses observed in the sectors, and suggest possible recommendations to overcome such problems.

#### **5.3.1. Recommendations to plan and budget preparation:**

- The budget user sectors should assign appropriate individuals based on their efficiency instead of their service years to select individuals who have adequate knowledge in preparation of plan and budget.
- BoFED should provide short-term trainings and workshops periodically to develop uniform skills among budget workers.
- Plan and budget preparation process should be participatory with lower level workers instead of putting only sector heads and department heads.

#### **5.3.2. Recommendations to budgetary records, execution and control:**

- BoFED should arrange and provide regular field visit and continuous workshops or short term training to follow and support on the budget implementation and control practice of



the budget user sectors budget experts and take immediate action on problems and avoid its replication.

- IBEX budget control soft ware (if not manual expenditure budget subsidiary card) should be used by every budget user sectors to capture and manage every changes in their annual approved budget timely.
- Commitments and expenditures should be recorded timely for all budgetary purchases, Purchase orders, contracts signed, advance payments made by the sectors. This means there should be tracking of budgetary transactions at each stage of the expenditure cycle.
- Year end rush purchase expenditures should be minimized to the minimum possible by making purchases an integral part of annual work plan.
- There should be collaboration between BoFED and budget user sectors to design and implement some merit-based incentives, to be employed thereby strengthen accountability and responsibility of experts and reduce turnover.
- BoFED and the sectors should arrange experience sharing programs between equivalent sectors in the region and with other regions.

### **5.3.3. Recommendations on Reports and Audit**

- Timely and quality budgetary information monthly accounting reports should be presented to BoFED.
- ORAG should consult with the regional council with regard of its limited number of its employees and other resources; in order that it can accomplish its establishment responsibility by conducting performance audit in all budget user sectors and increase its annual coverage of financial audit
- The audit findings and opinions suggested by the ORAG should be considered thoroughly and timely response should be given for the findings.

In general, BoFED and budget user sectors should take all possible and remedial actions to rectify the observed weaknesses, in budget preparation, implementation, and control process at the regional level and to avoid repetition of the problems in subsequent years in all the three levels of jurisdiction. As a result, the intentions of the respective sectors strategy and the regions

strategic intentions will be achieved with efficient cost utilization provided that the region's budgetary process is fully internalized among budget holders.

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## List of Appendices

**Appendix 1:** Sample of Budget Holders with number of questionnaires distributed, collected, and response rate

No.	Selected Budget User Sector	BI Code	Sample taken	Responses
1	Office of the spokes person	111	2	2
2	Mass-Media Enterprise	159	2	1
3	Bureau of Finance and Economic Development	152	2	2
4	Amhara Prisons Administration	129	2	2
5	Amhara Police Commission	127	2	2
6	Amhara Supreme Court	122	2	2
7	Amhara Bureau of Justice	121	2	2
8	Rural Roads Authority	273	2	2
9	Bureau Of Water and Mineral Resources	221	2	2
10	Bureau of Agriculture	211	2	2
11	Micro and Small Enterprises Development Agency	232	2	1
12	Work & Urban Development Bureau	277	2	1
13	Environmental Protection, Land use and Administration Authority	219	2	2
14	Bureau of Education	311	2	2
15	Bureau of Health	341	2	2
16	Technical & Vocational	313	2	1
17	Youth Culture and Sport Bureau	331	2	2
18	Others	416	2	2
Total			36	32
Total Response rate			88.89%	

## **Appendix 2**

### **I. Questionnaires to the budget user sectors budget & finance department employees.**

#### **Part I. Demographic information**

This questionnaire is designed to collect information for the research I am undertaking as a partial fulfillment of my post graduate degree. Therefore, any of your response to the questions will be used only for academic purpose and is kept confidential.

Hence, your genuine response to the questions is very important to the validity of the study and to suggest the right way forward to the problems identified in the research.

Thank you in advance for your golden time.

Please indicate your choice by putting the symbol ( $\surd$ ), where you think that it is appropriate, in the boxes provided to each preference and comment where necessary.

Please indicate your;

1. Gender:                                 Male                Female
2. Level of education:       Certificate       Diploma            Bachelor Degree       Masters Degree        Doctorate Degree
3. Service year:            ≤ 5 years       6 to 10 year's     11 to 15 year's     above 15 years

No	Facts	Measurement					Comment if any
	Part II Plan & Budget Preparation	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	
1	Your office has adequate understanding to prepare plan & budget.						
2	Your office has adequate number of professionals who prepares plan & budget.						
3	Your office have written & approved strategic plan which is prepared based on the region's strategic policy requirement.						
4	Your office have written & approved annual plan which is extracted from its strategic plan.						
5	Your office prepares its annual budget based on the annual work plan.						
6	Your office's annual budget is ready for execution before or at the start of the budget year.						
7	There is a tight relationship between the annual plan & the budget.						

8	Annual plan of your office is revised in relation to the approved budget of the sector.						
9	The budget request prepared & presented to BoFED is based on the annual action plan.						
10	The sector's budget is prepared based on reliable data & estimates.						
11	Budget prepared for each line item is over estimated.						
12	Budget prepared for each line item is under estimated.						
13	There is a tendency of submitting budget request without annual plan & approved budget.						
14	Your office prepares annual cash flow requirement.						
15	The annual cash flow requirement of your office is revised quarterly.						
	<b>Part III Budget implementation &amp; control.</b>						
1	The regional council presents the approved budget of your office is on or before Hamle 7 of the new budget year for execution.						



2	Your office prepare monthly cash flow requirement based on approved annual action plan.						
3	Your office utilizes its budget for activities approved in the annual plan.						
4	Your office has regular control over its annual budget.						
5	Your office has implemented the IBEX budget control to record commitments for each item of budgeted expenditures.						
6	Your office maintains manual general & subsidiary ledger card to record commitments for each item of budgeted expenditures.						
7	The office prepares frequent budget transfer.						
8	The office returned any budget surplus to BoFED before or at the end of third quarter of the year.						
9	Your office executes high proportion of the annual budget expenditures at the end of or near year end without action plan.						
10	The office confronts budget shortage during the budget year.						

11	There is a tradition of over spending on some items & under spending on other items of expenditure.						
12	The budget implementation & control of your sector is adequately sufficient.						
13	All expenditures of your sector is properly recorded & documented.						
14	All expenditures of your sector are properly charged to proper accounting period.						
15	Proper training on budget control procedures & on IBEX budget control soft ware is adequately given by BoFED planning & budget department.						
16	Adequate follow up & support is given to your office's budget management & control practice by BoFED.						
	<b>Part IV Reporting &amp; Auditing</b>						
1	Timely, complete & quality financial report is presented to BoFED by your sector.						
2	Your office's financial statements are regularly audited by internal auditors.						

3	Your office's financial statements are regularly audited by ORAG.						
4	Your office's internal auditors have adequate professional knowledge to support you on budget preparation & control practice.						
5	Performance audit is conducted to assess your office's budget management & control practice efficiency & effectiveness.						
7	High grade audit opinion (unqualified audit opinion) is submitted by ORAG for the financial statement audit of previous years.						

**Open ended questionnaires**

1. What would you suggest about the causes of the mismatch between budget and plan in your office, if there is any? What about the solution?\_\_\_\_\_

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2. In your suggestion, what weaknesses does your office face with regard to budget and account records?\_\_\_\_\_

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3. In your opinion, what are the main weaknesses observed in your office in relation to plan and budget preparation process?\_\_\_\_\_

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What are the main weaknesses observed in your office in relation to budget execution, monitoring and controlling, if any?\_\_\_\_\_

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4. Would you point out the weaknesses, if any, that should be corrected by your sector or by Planning and Budget Department of

BoFED? \_\_\_\_\_

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5. In general, what should be done to improve the budget preparation; execution and control process of your sector?

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6. Please indicate any other comment if any.

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### Appendix 3

#### **Questionnaire to the planning & budget department experts of BoFED.**

##### **Part I. Objective of the questionnaire**

This questionnaire is designed to collect information for the research I am undertaking as a partial fulfillment of my post graduate degree. Therefore, any of your response to the questions will be used only for academic purpose and is kept confidential.

Hence, your genuine response to the questions is very important to the validity of the study and to suggest the right way forward to the problems identified in the research.

Thank you in advance for your golden time.

##### **Part I. Demographic information**

Please indicate your choice by putting the symbol ( $\checkmark$ ), where you think that it is appropriate, in the boxes provided to each preference and comment where necessary.

Please indicate your;

1. Gender:                                      Male                      Female
2. Level of education:                      Certificate                      Diploma                      Bachelor Degree                      Masters Degree                      Doctorate Degree
3. Service year:                       $\leq 5$  years                      6 to 10 year's                      11 to 15 year's                      above 15 years

No	Facts	Measurement					Comment if any
	Part II Plan & Budget Preparation	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	
1	Your office has adequate number of professionals that can conduct effective planning & budget analysis.						
2	Your office sometimes faces difficulty in compiling & analyzing plan & budget requests of budget user sectors.						
3	Budget user sectors give series attention when they prepare their plan & budget.						
4	Budget user sectors plan & budget are realistic, based on valid assumptions & are prepared by individuals who have adequate knowledge.						
5	There are some problems in planning & budget preparation practice of budget users.						
6	There is no staffing problem in your department due to organizational structure.						

7	The approved budget of budget user sectors is notified to them on Hamle 7 of the new budget year.						
8	Your department has a frequent visit to the budget users sectors to support & follow up the correctness of recorded budget.						
9	A large number of budget transfers are made by user departments during the budget year. And their proportion is high during the fourth quarter of the budget year.						
10	There is a significant deviation between approved & adjusted budget of the budget user sectors.						
11	There is a wide miss- match between plan & budget of the budget users.						
12	The budget user sectors do not maintain manual general & subsidiary budget & expenditure ledger card OR they do not use the IBEX budget control soft ware.						
13	A large proportion of purchase expenditures are made during						



	the third & fourth quarter of the budget year.						
14	Budget user sectors utilize their budget according to their plan.						
15	Your departments provide timely feed back to budget users to correct any problem detected in their budget practice.						
16	All the budget user sectors annual budget is summarized by your department timely in order that the annual accounts are closed before the dead line.						
17	At the end of each budget year, your department evaluates all the budget problems faced by all users during the year to give feed back to the users not to repeat in the future.						
18	There is a regular awareness creating work shops or training for the budget user sectors budget & planning officers.						

19. Please comment what you feel should be improved by BoFED& all the budget users on the Region's Budget management & control practice. \_\_\_\_\_

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## Appendix 4

### 1. Questionnaires to ORAG audit managers & department heads.

This questionnaire is designed to collect information for the research I am undertaking as a partial fulfillment of my post graduate degree. Therefore, any of your response to the questions will be used only for academic purpose and is kept confidential.

Hence, your genuine response to the questions is very important to the validity of the study and to suggest the right way forward to the problems identified in the research.

Thank you in advance for your golden time.

#### Part I. Demographic information

Please indicate your choice by putting the symbol ( $\checkmark$ ), where you think that it is appropriate, in the boxes provided to each preference and comment where necessary.

Please indicate your;

1. Gender:                                  Male                  Female
2. Level of education:                  Certificate                  Diploma                  Bachelor Degree                  Masters Degree                  Doctorate Degree
3. Service year:                   $\leq 5$  years                  6 to 10 year's                  11 to 15 year's                  above 15 years
4. Would you mention the types of audits undertaken by your office?

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5. Which of these mentioned types of audit are conducted in budget user sectors of the region?

6. How often does your office conduct audit activity in the budget user sectors?

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7. Does ORAG conduct performance audit to evaluate efficiency & effectiveness of the regions budget management & control practice? Yes No if no why?

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8. What type of audit opinion is usually given to the budget user sectors financial audit of your office? Standard unqualified Unqualified Qualified Disclaimer Adverse

9. Would you mention some common important problems your office has summarized in different year's audit findings regarding budget management & control practice of budget user sectors?

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10. Do you think that the audited sectors implement the audit opinion your office finds timely? Yes No if not what do you think the

reason? \_\_\_\_\_

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11. Do you think that the internal audit function of the budget sectors have adequate professional capacity to support budget experts? Yes No if not what do you think the reason?

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12. Do ORAG have regular training scheme to support those internal auditors? Yes No if not what do you think the reason?

\_\_\_\_\_

\_\_\_\_\_

Please comment what you feel should be improved by BoFED& all the budget users on the Region's Budget management & control practice.