



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

**BUDGET MANAGEMENT AND CONTROL: SPECIAL EMPHASIS ON ETHIOPIAN
ROAD AUTHORITY**

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ID: SGS/0200/2008A

**DECEMBER, 2017
ADDIS ABABA**

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**A THESIS SUBMITTED TO ST. MARY'S UNIVERSITY, SCHOOL OF GRADUATE
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**ST. MARY'S UNIVERSITY
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FACULTY OF BUSINESS**

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APPROVED BY BOARD OF EXAMINERS

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DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of St.Mary's University. All source of material used for the thesis have been duly acknowledge. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

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St. Mary's University, Addis Ababa December, 2017

ENDORSEMENT

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

Tiruneh Legese (Asst. prof.)

Advisor

Signature

St. Mary's University, Addis Ababa December, 2017

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List of acronyms and abbreviations

ETCA.	-----	Ethiopian Transport Construction Authority
ERA	-----	Ethiopian Road Authority
GTP	-----	Growth and Transformation Plan
IMF	-----	International Monetary fund
MoFEC	-----	Ministry of finance and economic cooperation
MTFF	-----	Term Fiscal Framework
CIMA	-----	Chartered of Management Accountants

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Abstract

Budget management and budget implementation involve the process of identification of public needs and the determination of the quality of goods and services to satisfy this need through the political process, by economic analysis with the overall developmental plan objective. This paper assesses the effectiveness of budget management and control in Ethiopian road authority. The researchers investigate the effectiveness of budget management and control and descriptive statistic used to analyze the data from the survey. The methodology employed for data collection is primary source and secondary source. The result revealed that the budget department staffs lack knowledge in order to develop effective budget management and control. The study result also shows that there is a lack of participation of all responsible staffs and other stakeholders in budget preparation and management. In addition to that corruptions in budgets one of the causes of poor performance of budgeting in Ethiopian road authority. The research work therefore, recommend that regular training of the staff of budget, finance and audit departments is necessary to sharpen their skills of implementation of necessary budget procedures. The stakeholders at all level should be adequately participating in the organization budget system. Finally, the budget related corruption should be prevented and controlled to mitigate financial performance weaknesses

Key word: *budget management, budget control and road authority, Ethiopia*

CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

Following the eviction of the Italian occupiers, the Imperial Ethiopian Government was convinced that a Road Agency solely responsible for rehabilitating/restoring and expanding the road network throughout the country had to be established. Accordingly, the Imperial Highway Authority (IHA) was established under proclamation No. 115/1951 as a semi-autonomous agency with specific duties to plan, design, construct, and maintain roads. Responsibilities for construction and maintenance of roads remained under a single autonomous authority (IHA) for 26 years (1951-1977). The Ministry of Transport and Communication turned out to be the supervising authority of ERA. The Ethiopian Roads Authority has been reestablished under proclamation 133/1978 incorporating, among others, the Rural Roads Department in addition to the Highway Department.

In 1980, the Military Government that took power in 1974 reformed the agency into the Ethiopian Transport Construction Authority (ETCA) by proclamation No. 189/1980 and became answerable to the newly formed Ministry of Construction. The proclamation enlarged responsibility of the Authority by expanding its task to incorporate the construction of Airports, Seaports, Railways, and Municipal Roads.

Following the shift from a command-based economy to a market oriented one in 1991, ERA was reestablished by proclamation No.63/1993 with a view to providing a strong administration under the leadership of a Board. As part of its reform, the government assigned administration of rural roads to the regional self-governments and main roads to ERA as part of the Federal Government's responsibility. ERA's role regarding rural roads was then limited to rendering support such as overall network planning, training and technical assistance as required by Regional Governments.

Every country's Government needs financial resources to carry out the responsibility assigned by its people. Specially, in public sectors, these financial resources can be raised by either through tax or non-tax instruments. Unless these financial resources are effectively and efficiently used for the intended purpose, generating of all these sources will have their own disincentive effect in the performance of the economy. To perform these, countries are advised to use Public expenditure management and control systems in appropriate manner. In support of this, the working paper by Alemayehu Geda and Dawit Birhanu (2011) confers that government expenditure in Ethiopia is increasing. However, public revenue as a percentage of GDP has also slowdown in recent years.

Budget can be defined as a detailed financial statement that shows details of anticipated revenue and prepared expenditure, (Yakubu ,2011). Is also a forecast of expenditures and revenue for a specific period of time; usually one year.

Lambe (2012) writing on Budgeting and Planning aptly defines budgeting as a comprehensive and coordinated plan which is packaged by the management of an organization, and expressed in financial terms for the operations and resources of an enterprise for some specific period in the future. Pandey (2008) defines budgetary control as the establishment of departmental budgets relating the responsibilities of the executive to the requirement of a policy, and the continuous comparison of actual budgeted result either to secure desired actions. The objective of that policy is to provide a firm basis for its revision. Thus, a budget could be seen as a plan showing how resources will be required and used over a specific period of time. It represents a plan for the future expressed in quantitative terms. The Institute of Cost and Management Accountants (1999) put the concept of budget in perspective when they defined a budget as, a plan quantified in monetary terms prepared and approval prior to a defined period of time, usually planned income to be generated and expenditure to be incurred during that period and the capital to be employed to attain a given objective.

The management and controlling of government financial resources is crucial because societies need and demands are unlimited whereas financial resources are limited in nature. Expenditure management process is most important political, bureaucratic, technical procedures of

expenditure budget making and implementation decisions undertaken during the fiscal year. The process needs discussion and negotiations among various stakeholders' like: the parliament executives and various relevant parties. The problems and notorious issue related to public expenditure management and controlling are reflected in the budget preparation, approval, execution, and audit phase of expenditure management cycle. Owing to these problems, the main objective of this study is to assess expenditure management and control in Ethiopia by testing the hypotheses listed under the methodology section of this article.

1.2. Statement of the Problem

Failure of many businesses nowadays erupt from the fact that budgets and budgetary control which are the bedrock of any successful business organizations is weak or absent as reported by Ministry of Health, (1977) and Bradstreet, (2004). Such organizations or businesses are characterized by financial, administrative, production, managerial etc., constraints.

More governments in the world are forced to spend more than their economic capacity can maintain, in order to continue finance old programs even when new priorities are judged to be more urgent, and to pay the rising expenses of inefficiently-operated departments (Allen Schick, 1999). He stressed that in addition, many developing countries face special problems in managing public finance. Owing to this problem developing countries exert their effort in the allocation of scarce financial resources to different sectors through Effective expenditure management and control process.

Transparency of fiscal and financial information is another problem for an informed executive, legislature, and public. Scholars show that dumping immense amounts of raw budgetary material on the public does nothing to improve fiscal transparency (Lewis, 2007).

The IMF (International Monetary Fund) Code of Good Practices on Fiscal Transparency emphasizes the importance of clear fiscal roles and responsibilities; public availability of information; open processes for budget preparation, execution, and reporting; and independent reviews and assurance of the integrity of fiscal forecasts, information, and accounts (IMF, 2001). Recently, lack of transparency and accountability has become a serious problem in the public budget allocation and utilization. As a result, the budget process which includes the revenue

phase, to planning and execution, to audit and ex-post oversight was designed (McGee and Gavent, 2010).

(Dejene Tafa and Semeneh Bessie (2016) argued that the causes for miss-utilization of public budget are mainly due to lack incapacitated budget staffs in terms of skill and knowledge in each respective budget offices, lack of knowledge in the use of information (ICT) by management and the experts at each level, inadequate human resources, lack of continuous monitoring and evaluation, lack of commitment of top management, among others. Based on the result obtained and conclusion drawn from the study, due attention should be given by university, managers during budget plan and implementation by capacitating the employees through training and involving all concerned bodies in the budget planning and implementation.

Recently, lack of transparency and accountability has become a serious problem in the public budget allocation and utilization. As a result, the budget process which includes the revenue phase, to planning and execution, to audit and ex-post oversight was designed (McGee and Gavent, 2010).

Usman, et al (2016) argued that Corruption is one of the major problem facing the local government budgeting system in Nigeria. Public servants many a time are cornered to bear an unfair share of the burden of previous mismanagements of re-sources by Political Office holders as expressed by (Secett, 1993). According to Isaksen (2015), Resources are diverted from government offers into private hands. Important expenditures for development and for social safety nets are reduced. Limited funds for priority social sector spending are reallocated to areas that benefit few people.

Ethiopian road authority prepares budget but most of the times the expenditure exceeds the revenue resulting in budget deficits as per Federal auditor general audit report of 2015. This observation encourages me to try to discover appropriate solutions for budget slacking, budget gamming, budget bias and other problems that managers had to deal with. In line with this, the study looks at whether the road authority in Ethiopian can achieve their objectives with or without effective budget and budgetary control systems. It is to find out reasons for budget failure and deficits in Ethiopian road authority where budgetary control is cited as a cause for

poor performance in development process. Audit reports by the Office of the Auditor General for the financial year ending June 2015 showed that Ethiopian road authority whose audit reports were made public had challenges including operating on over usage of budget, flaws in procurement and consequently lack of experienced manpower.

The entire these reviews have implied that, there is a lack of a wide research on budget which investigates the budget management and control in public sectors. In case of Ethiopia, reviewing the budget literature shows inadequate research on the budget management and control regarding to insuring effective financial control in budgetary public sectors. As the result, the above international findings may not be applicable in Ethiopia road authority as research methods and results are influenced by and usually reflect economic, social or legal factors unique to those countries in which the studies took place. Thus, this has motivated the researcher to investigate into the budget management and control on the subject of participation in budget preparation, knowledge and corruption in Ethiopian road authority.

1.3 Research Questions

The study answered the following questions:

1. What are the effects of poor application of budget management and control to Ethiopian road authority?
2. Does transparency of budget exercise in Ethiopian road authority?
3. How skill of staffs improves budget control in Ethiopian road authority?
4. How corruptions affect budget management and control in Ethiopian road authority?

1.4 Objectives of the study

1.4.1 General objective

The primary objective of this study is to examine the effectiveness of budget management and control in Ethiopian road authority depend up on wisely and properly use of budget.

1.4.2 Specific objectives:

Specifically, the researcher tried to achieve the following objectives;

- To examine the causal of poor budgetary management and controls in Ethiopian road authority in its match to development.
- To examine the contributions of competent staffs in effective budgetary control and management in Ethiopian road authority.
- To examine the contributions of participation of key stakeholders in budget preparation in Ethiopian road authority.
- To examine the effect of corruption in budget management and control.

1.5 Significance of the Study

The findings of this study will help a wide range of people. It will enable the top management of ERA, and senior management to be aware of the budget control, and gives perception into how they use the budget to the most efficient in resource control. Furthermore, the study contributes to create responsiveness among the Ethiopian road authority members, management, and any other concerned body on the role of budget management and control to the success of road authority vision. Further, the findings of the study will use in designing proper budgetary management and control policies. Finally, the study will forward the general understanding of budget management and control and form a basis for further research.

1.6 Scope of the Study

The study focuses on the effectiveness of budget management and control in efficient use of limited public resources in Ethiopian road authority and would more successful if it is conduct in all public-sector offices. Because of time and financial boundaries, it is difficult to select all public sectors, and due to this the Ethiopian road authority is selected which are expected to represent all the rest untouched public sectors. The staffs of head office and branch were used to conduct the study. The major activities of the bank are under taken at head office and the majority of the employees also exist at head office. This is the reason why the scope of the study is limited to head office.

1.7 Organization of the Study

In addition to the preliminary page, this research proposal paper consists of three chapters. The first chapter with its sub topics was introductory parts incorporated the background, statement of the problem, research objectives, research questions, significant of conducting the study, and

scope and limitation of the study. The second chapter describes the detail review of related literatures with regard to the budget management and control and the variables which affect budget management and control. The third chapter forwards the methodologies to be used to conduct this study.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

These chapter two reviews the earlier studies related to on budget formulation and implementation in particular types of budget, preparation of budget and budget controls, budget being a tool for measuring financial performance, benefits and challenges of budget and criteria for measuring budget performance.

2.2 Theoretical Review

2.2.1 Conceptual Framework

The term Public sector simply refers to the part of the economy that is controlled by the government for the purpose of providing basic government services (Obara 2013). These services that the government need to provide are so enormous due to increase number of people they service. As economist would put it “human wants are unlimited, but the means to satisfy them are limited”, this therefore calls for the use of an efficient management tools that will harness the limited resources for optimal use. One of the machineries of government that can be used for this purpose is budget. Budget making and budget implementation involve the process of identification of public needs and the determination of the quality of goods and services to satisfy these needs through the political process, by economic analysis with the overall development plan objectives. Government prepares budget in form of public policy to serve as a driver through which her mission could be achieved. As good as our budget is, the performance of which can be measured in terms of accomplishment is nothing to write home about. Budget accomplishment is far from reality and the disparity between budget and accomplishment are so wide and kept on abating as years pass by (Lawyer, 2013).

Several authors have made various propositions and have defined the term budget; from various perspectives, mostly on individual perspectives and experiences. Aseshemic (1997) defined a budget as a financial or quantitative statement of plan to be pursued for achieving given objective. According to Brown and Howard (2002), a budget is a predetermined statement of management policy during a given period which provides a standard for comparison with result

actually achieved. Buyers and Holmes (2000) on their part define a budget as a financial and/or quantitative statement prepared and approved prior to be pursued during that period for the purpose of attaining a given objective. They opined that a complete budget of the future operation of a business involves the matching of sales with production. This is to set an attainable objective and the planning of the work to be carried out and costs to be incurred by the canters into which the business is divided for budgeting purposes.

In the views of Charles (1997) a budget is a quantitative expression of plan of action and an aid to coordination and implementation. This suggest that budgets are designed to carry out a variety of functions; planning, evaluating performance, coordinating activities, implementing plans, communicating, motivating and authorization, thus punctuating the basic element of a result oriented budgetary system. Pandey (2001) posits that a budget is a comprehensive and coordinated plan expressed in financial terms for the operations and resources of an enterprise and for some specific period in the future. According to him, the basic elements of a budget are would include the following:

- It is a comprehensive and coordinated plan.
- It is expressed in financial terms.
- It is a plan for the firms' operation.
- It is a future plan for a specified period.

Olafusi (1998) sums up budgeting in a write-up for the “Nigerian Accountant”, when he defined budgeting as an indispensable tool for effective performance, by which costs are assigned to specific tasks that are planned within a definite time period. To Parker (1997), budgeting is a faith accompli in economic discourse, because resources are scarce relative to need for them. Thus an overall perspective of budgeting is such that, it can be viewed as an instrument that provides a benchmark for the measurement and control of performance, while it equally provides feedback information, which facilitates ability to take corrective measures, based on its relativity to the nature and types of planning.

Cope (1994) views the term budget as a comprehensive plan expressed in financial terms by which an operating programme is effective for a given period of time (usually one year) including estimates of the services, activities and projects comprising the programme, resultant

expenditure requirement and the resources usable for their support. Onuorah (2005) however holds the view that budgeting spells out management plan in quantitative terms. According to him, it also helps to evaluate organizational plans, while at the same time performing two vital management functions namely:

- The formulation of a comprehensive future plan of action;
- It compares actual result with predetermined plan, thus, planning and control (which are two primary functions of management) are also essential features of the budgeting process.

In the views of Lucey (1988) as it relates to the discourse, a budget is the annual process of funds allocation, which should be seen as stages in the progressive fulfillment of the long-term objectives of the organizations. Accordingly, the budgeting process steers the organization towards the long-term objectives defined in the corporate plan. An analysis of the above propositions on the concept of budget reveals that although they have different interpretations they all have a common element. In essence, a budget is a predetermined statement of management policy during a given period, which provides a standard for comparison with the results actually achieved. It involves an estimation of income and expenditure over a period of time, thus the act of preparing a plan and quantifying it financially is known as budgeting. A budget is generally the organization's expectation in the future and it basically involves planning (which involves the control and manipulation of relevant variables - controllable and non-controllable) and reduces the impact of uncertainty. It makes management active to influence the environment in the interest of the enterprise. A budget expresses the plan in formal terms and helps to realize the firm's expectation. It is a comprehensive plan in the sense that all activities and operations are considered when it is being prepared.

2.2.2 Theoretical Model

Budgeting and budgetary control as a key organizational and institutional variable is not a modern phenomenon. However, budgeting and budgetary control are of wide ranging global orientations, to which several models and theories have been associated with overtime, most especially as propounded and opined by various authorities and schools of thoughts. The budget co-ordinates sales, production, finance and all other related areas and it drives executions in a

unified manner. Moreover, budgets enable management to decide on policies with some benefit of hindsight and knowledge of result thereof. Hence, the underlying principle in budgeting and budgetary control is the fact that it is a comprehensive and unified system that serves as a coordinated process which influences every aspect of the business and every section of the organization.

Mcalping (2000) opines that it is important to ensure that the budgeting scheme is comprehensive and effective and that the members of the organization know their responsibilities under the scheme; what is needed to be done, how it should be done and how performance will be measured. He further stated that these requirements are fulfilled through comprehensive matter procedures. According to him, some of the questions that have to be considered in drafting a procedure (among several others) include:

- What budgets are in the scheme?
- Who is responsible for preparing and coordinating them?
- What decision has to be made in the preparation of each budget?
- What information will be required to guide these decisions?
- What are the sources of this information? How will it be collected, analysed and interpreted to establish the facts?

These procedures will be based on a factual approach to decision making and in this connection, it has to be appreciated that decisions based on incomplete information can be misleading as those based on wrong information. Owler and Brown (1965), puts the concept of budget within the theoretical perspective when they opined that budgets are expected to be viewed from a humanistic approach. This is because human aspect of budgeting is much more important than the accounting techniques. The success of any budgetary system depends on its acceptance by those saddled with the responsibilities of managing the budget and the company members who are affected by the budgets. It is not enough to prepare budgets and assign responsibility for them; the behavioral aspect must be appraised. This fact was rightly and succinctly pointed out by Owler and Brown (1965) when they stated that: “It is nevertheless necessary to consider also the behavioral aspects of a system. The system will be ineffective if the people who are operating the system have not been considered and are not asked to participate in it”. To fully appreciate

the theoretical framework of budgeting and budgetary control, the types of budgets, budget administrations and periods (as discussed below) needs to be closely examined.

2.3 Empirical review

2.3.1 Budgets and budget types

Budget had been defined as accounting device used to plan and control resources of operational department of government and divisions, (Abdullahi & Angus, 2012). Budget documents are the most important manifestation of public; they record the outcome of the political process: winners and losers of the political competitions. They delineate government total service effort. As political documents, budget allocates scarce resources among competing social and economic needs. As managerial documents, they specified the wants and means for providing for government services. By establishing the cost for various programs they set up, the criteria by which government programs are to be review and evaluated. Budget has become the main instrument by which government attempt to manage economic growth and development. Budget become accounting instruments by which officials are held accountable for what government does and does not manage to accomplish, (Yakubu, 2011). Public Budget preparation is one of the tedious tasks of any country. The preparation process for the annual budget involved a great deal of energy, time and expense. Hence, it is important that a country must be able to follow accurately all the methods of preparing an annual budget. Budgeting is defined as a form of financial planning and source budget is utilized to impose the strategy of a country. Consequently, a budget is composing of different functional budget that could help a country for such development such as agriculture, technology, tourism, and other budget. The combination of each functional budget made up the capital budget, master budget and even the cash flow budget which consist income and balance sheets, (Smith & Megeary, 1997). In budgeting, the focus is not only to prepare the budget, but more importantly to have a follow up operation for budgeting and to act according to known data. In addition, budget is also known as a financial expression of countries plans for a period of time, (Falk, 1994). It tells where and how the organization we spend money and where the money will come from to pay these expenses. Budget also set limit. Imagine how chaotic an industry or country will be if everyone was allowed to spend as much as they wished on whatever they wanted. Besides setting limit, budget also enables the assurance that the most important needs of a country are meet first and less

important needs are deferred until there are sufficient funds in which to pay for them, (Andrews and Hill, 2003). Even though budget preparation is not the sole things that need consideration in budgeting, the bases of it are still needed in other to have at least close estimation. According to (Abogun and Fagbemi, 2012), the effectiveness of budgeting has a link with the Level of environmental volatility. It means that, how effective budgeting would be in controlling the activities of any organization depends largely on the environmental volatility under which such budget is operated, (Olurankinse et al, 2008), an assessment of the budgeting process in the public-sector leaves much to be desired. The practice today is that a certain percentage is added to previous period's budget to arrive at current budget figures without reference to the environmental inhibitions being encountered or the realities of present day situation. The budgets are centrally prepared and the result passed down the line for all and sundry to implement without questions. Government use budgets as a guiding tool for planning and control of its resources, be it financial or otherwise. The use of budget involves knowing how much money you earn and spend over a period, particularly one year. When a budget of an establishment, department or ministry is created, it means creating a plan for spending and saving money, (Abdullahi and Augus, 2012).

Basically, there are three major types of budgeting systems used by managements of any organization for the purposes of planning and control. These include the, fixed budgeting, flexible budgeting and Incremental budgeting or zero-based budgeting. A fourth classification which encompasses the different type enumerated above includes the master budget.

A fixed budget is a type of budget which does not give room or make provision for changes in the environment. It does not recognize the different behavioral patterns of cost in relation to the various levels. Professor Pogue (1997) in his article titled 'Budgeting as an aid to management performance' viewed fixed budgeting as being based on one level of activity to which the various costs are related thus materials, labor and overhead costs are related to this one level of activity. Control of cost is difficult with a fixed budgeting because if actual activity is different from budgeted activity, then the budgeted costs or yardstick costs, by which actual costs are measured by management information and action becomes meaningless. Fixed budgets is sometime criticized by analysts as being destructive because it establishes expense limit that

cannot be exceeded and again does not give room for comparison between the actual performance and the budgeted result.

The flexible budget on the other hand, is a type of budget which allows changes in original form because expenditures of certain goods and services vary with output at different levels of production and economic activities. Unlike the fixed budget, it shows several levels of activity and recognizes different behavioral pattern of costs in relation to the various output levels. Harper (1999) defines it as a budget which lays down what should have happened in respect of each budget fact, or in view of the actual level achieved. The flexible budget affects the rigidity of the fixed budget, and it basically recognizes that forecast can be wrong. For instance, if the firm makes a poor forecast of sales, it does not limit the usefulness of the flexible budget, primarily because the operating costs under the flexible budget can be related to different level of operating activities. The flexible budget ensures effective controls by recognizing that different costs provisions are necessary to meet different levels of activity in business. It is particularly useful for control purpose with the actual output achieved.

The incremental or zero-base budgeting provides a total approach to budgeting. It commences from the beginning with an appraisal of each function or activity, and subsequently goes on to examine and contract any alternatives. In other words, every item of budgeted expenditure must be examined critically and justified before it is allowed to form part of the budget. Koontz (2003) states that the idea behind this technique is to divide enterprise programs into activities and needed resources and then to calculate costs for each package by starting each program budget from base zero, costs as calculated afresh, thus avoiding the common tendency in budgeting to look only at change from a previous period. Here the budget figure for the next period is altered, bearing in mind the actual outcomes in the current budget period and the projected changes for the view period.

Generally, zero base budgeting is applicable to those functional budgets, which do not involve direct costs. Where direct costs are involved (such as materials and direct wages), they will be controlled by the normal production operation because it would be expected that each item of direct cost had been monitored carefully and its relationship with production established. It is

more applicable to budgets which involve overhead expenditure such as administrative, selling and distribution overheads. In the opinion of Professor Pogue (1997), the zero-base approach to budget primarily centers on:

- Why the cost or activity is necessary in its present form.
- The possibilities of activity or cost alternatives.
- If these alternatives affect product quality or product services.
- Whether these alternatives affect the relationships and inter-relationship with other costs and activities.

On the whole however, zero base budgeting should be a useful tool in budget preparation because it provides the total to the problem. It is pertinent to point out that under each of the types of budgets, they could be further categorized as operating and capital budgets. An operating budget according Harper (1999) is a plan of the day to day use of resources and creation of utilities. It is particularly concerned therefore with materials, labor, overhead, sales cash etc, and it usually runs for a year, the period which is expected to correspond with whatever fiscal year the company is following so that comparison of budget to actual can be made. With respect to capital budgets, Harper (1999) further opined that it is a budget that lays down the planned requirements for the long term running of an enterprise. It indicates the fixed assets, working capital and forms of finance that will be needed over the future years. A capital budget plans the capital structure and liquidity of the enterprise over a long period of time. Capital budgeting is also an investment concept basically because it involves commitment of funds now in order to receive desired return in the future. Capital and operating budgets are well interconnected, since capital budgets can only be developed on the basis of planned operation over the years. At the end of the planning process the capital budget in effect lay down the objectives for each of the sequential operating budgets.

In addition to the types of budgets highlighted above, a fourth categorization includes the master budget. A Master budget, according to some analysts is not a type of budget, but a summary of all functional budgets drawn up by the various functional heads in an organization. According to Ray (1995) a master budget is nothing more than a summary of all phases of a company's plans and goals for the future. It sets specific targets for sales, production, administration, distribution

and financing activities and generally culminates in a projected statement of cash position expression of management plan for the future and how their plans are to be accomplished. The master budget is therefore prepared in the form of a budgeted profit and loss account in which productions, sales and costs estimated for the budget period is incorporated as a single position. Hence, a master budget is simply a network consisting of many separate budgets that are interdependent.

2.3.2 Ethiopian Budgetary Process

Ethiopia has a dual budgeting system in which recurrent and capital expenditure are considered separately. Until recently these two budgets were prepared separately by the Ministry of Finance and the Ministry of Economic Development and Cooperation, respectively. In October 2001, these two ministries were merged to form the Ministry of Finance and Economic Development. The new Ministry determines budget ceilings for federal ministries and agencies and for the regions (Omitoogun and Hutchful, 2006).

MoFEC is the major clearing house for the preparation of the federal budget in Ethiopia, although this is done in consultation with the various ministries that are the beneficiaries of the budget. The responsibilities of the Minister of Finance and Economic Development, as stipulated in the Council of Ministers Financial Regulations No 17/1997, 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 country. Each public body needs to take the initiative to commence budget preparations before they receive the budget call letter from Ministry of finance and economic cooperation (MoFEC) with their budget ceilings, such as development of unit costs (where appropriate), a midyear program review, and the preparation of work plans. Various steps are involved in the process of budgeting in Ethiopia. The first step in the process is the sending of Budget Calls and ceiling notifications to line ministries by the MoFEC. The various line ministries submit their budget request as per the established regulations. After the budget hearing and defense process at the MoFEC, the final budget will be submitted to Parliament by the Prime Minister for approval. 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. After the Council of Peoples Representatives has approved the budget, it is the responsibility of the civil service to implement that budget. Implementation of the approved budget is also known as budget execution (MoFEC, 2006).

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 Ministry of finance and economic development to inform all public bodies of their approved budget. It uses forms to notify each public body of their approved recurrent and capital budget respectively; and between July 8 and 15 (MoFEC, 2006).

Funds are dispersed to ministries each month on the basis of the allotted budget. Every Ministry is required to submit a monthly disbursement request in which it reports the previous month's expenditure, detailing what was spent and how it was used, and makes a request for the next month's allocation through a work plan. The Ministry's Fund Disbursement Department handles the process of fund disbursement for the ministries and keeps records of all transactions. The budget registrar in the Disbursement Authorization 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.

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. 648/2009 and the Financial Regulations No. 17/1997, 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;
- All other transfers must be approved by the authority specified in Part Four of the
- Financial Administration Proclamation No. 648/2009 and the Financial Regulations No. 17/1997.

On the other hand, MoFEC 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 (FDRE, 2009).

Budget supplement-the total approved budget can be increased with the approval of the Council of Peoples Representatives on recommendation of the Council of Ministers. 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. These are also authorized by Part Four of the Financial Administration Proclamation No. 648/2009 and the Financial Regulations No. 17/1997.

Supplementary budgets are coordinated and prepared by MoFED, based on requests or proposals received from public bodies. Public bodies are required to prepare their supplementary budget requests in writing and submit to MoFEC Budget Department. Then, MoFEC 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. MoFEC coordinates the management and control of public funds in Ethiopia. It is this Ministry that keeps the accounts of the federal budget and prescribes regulations on financial management and control for ministries and government agencies. In addition, ministries are required to manage and control funds allotted to them following the central regulations and directives on financial management set out by MoFEC. The regulatory mechanisms of the budget include requirements that:

- a) Budgetary receipts be recorded in the appropriate budgetary account as prescribed in the financial regulations and in a timely manner;
- b) Collected revenue be recorded under the appropriate revenue account;
- c) Expenditure only be 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 MoFEC at the center and regional finance bureau in the regions;
- e) Periodic financial statements be prepared and submitted to the Council of Ministers and regional executive committees by MoFEC at the center and regional finance bureau in the regions;
- f) A consolidated annual report be prepared and sent to the Council of Ministers and regional executive committees by MoFEC and regional finance bureau.

MoFEC can be seen to play a central role in the budgetary process of the country. It controls the formulation and implementation of the budget of line ministries at various levels. During the writing of the Budget Calls, it can make changes in the budget allocation of line ministries after review and analysis of the budget estimate submitted by the ministries. It decides the level of the budget to be recommended to the Council of Ministers. During implementation, it has the power to disburse funds. Through the monthly accounting reports, it scrutinizes the performance of the

ministries 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.

In budget preparation, from a microeconomic or macroeconomic perspective, well consideration of the public expenditure planning and preparation system is vital, not just to exaggerated the proposed spending but to be able to advise policymakers on the feasibility and desirability of specific budget proposals. Because it is much easier to control government expenditures at the "upstream" point of budget preparation than later during the execution of the budget (Potter et. Al, 1999). To understand the budget preparation process in a given country, it is important to:

- A. knows where to find the rules governing the budget preparation process;
- B. From those rules, identify who has the responsibility for what elements of the budget preparation process; and
- C. assesses the basic soundness by judging the budget preparation system against certain internationally accepted standards or "budget principles";

As cited by Leulseged Ageze (2001) following the principle that budget should comprehensively manage public expenditure in all stages of review, approval and appropriation a comprehensive budget is prepared and presented every year. Executive Budget preparation at the federal Ethiopia has to pass through the following stages where its principal tasks are related to each other. The stages are:

1. Preparation of the budget,
2. Subsidy budget notification,
3. Budget Call,
4. Request of the budget,
5. Preparation of the Recommended Budget.
6. Recommendation of the budget.

The timing of each phase of the budget process varies from one jurisdiction to another and sometimes, from year to year. As national level, developments of budget proposal typically begin approximately 18 months before the budget is to take effect. In state and local governments, the lead time is typically shorter: the development of proposal usually begins at least 6 to 12 months before the budget take effect (Nice, 2002). According to Anwar Shah (2007) "expenditure

budget preparation is often viewed as a predominantly an executive role and includes the planning, sometimes referred to as pre-preparation, and the linkage of plans through a Medium-Term Fiscal Framework (MTFF) to Medium –Term Expenditure Framework (MTEF) for annual budget, establishment of priorities and resource spending envelopes.”

In order to prepare a proper budget, three preconditions were recommended by Anwar S. (2007) as follows:

1. The preparation process has to consultative and participatory in order to ensure ownership to both the process and the approved budget;
2. A systematic process of prioritization of programs and expenditures, which is based on informed choices, must take place.
3. Planned outputs, activities, and expenditure allocations in the annual work plan and budget estimates must be realistic, and achievable

2.3.3 Budget Preparation and its purpose

In the view of Williamson (1996) budgets should be prepared to serve the following purposes:

1. Planning

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

2. Coordination

This brings different parts of the budget together, reconciled into a common plan. Budgets are not prepared for the benefit of individuals involved in the process but for the best interest of the business or the stakeholders. Without guidance therefore, managers might make their own decision that will work against the overall objective of the business.

3. Communication

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

4. Motivation

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

5. Control

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

6. Performance Evaluation

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

Williamson (1996) shares the view that, budgets are simply exercises in calculation unless they are used. When an organization draws a budget, it does so as part of a system of budgetary control. The controls are some basic ideas of what the entity wants to do. It prepares budgets to help to achieve those ideas; and then once that is done whatever it is that has to be done, budgetary controls check to see if expenditures are on course.

2.3.4 Budget Approval

As indicated from table one of this paper, Approval of the budget is the second stage of the budget cycle. It starts after executives prepare the budget and proposed to the legislature. The legislature then discusses the budget, which can include public hearings and votes by legislative committees. The process ends when the budget is adopted by the legislature, either intact or with amendments. The budget also can be rejected by the legislature and, in some countries, replaced

by the legislature's own proposal.¹ Effective participation by the legislature in the process of budgeting establishes checks and balances that are critical for accountable and transparent government and to provide efficient public services delivery (Wehner & Winnie Byanyima, 2004). In an ideal world, the legislature has enough time and necessary resources to assess the proposed spending by executives and make adjustment. However, in practice, the political system of a country, legal framework for the budget process may obstruct the impact the legislature can have on the budget. Many legislatures also are hampered by their lack of staff and budget expertise. Nevertheless, these constraints do not close off all options to the legislature. They can engage in budget issues by holding hearings, establishing special committees, requesting information from the executive branch, or having public debates (Wehner & Winnie Byanyima, 2004).

2.3.5 Budget Execution

An execution of the budget is the third stage of the budget cycle. As cited by Schiavo-Campo (2007) the parliamentary decision on the annual expenditure budget ends the budget preparation stage. The following stage, 'the execution of the budget', is when the decisions are implemented in terms of actual financial allocations. Budget execution is the phase where resources are used to implement policies incorporated in the budget. It is possible to implement a well-formulated budget; it is not possible to implement well a badly formulated budget. Good budget preparation comes first, logically as well as chronologically. However, budget execution processes do not come down simply to mechanisms for ensuring compliance with the initial programming (Schiavo-Campo and Daniel Tommasi, 1999). Changes should be accommodated in a way that is consistent with the initial policy objectives to avoid disrupting the activities of agencies and project management. Successful budget execution depends on numerous other factors as well, such as the ability to deal with changes in the macroeconomic environment, and the implementation capacities of agencies (Schiavo-Campo and Daniel Tommasi, 1999).

The implementation stage of the expenditure management process is mainly in the hands of the executive. The finance ministry or treasury usually plays a leading role in assuring that funds are apportioned to spending departments in line with the approved budget. However, this is not always the case. Sometimes, in particular in many developing countries, cash availability

constraints might lead to certain expenditures being cut below voted amounts. Sometimes, funds might be shifted to purposes other than those that were approved. In some cases, this happens at the cost of spending on social services or very critical sectors.

These decisions need to be made in a transparent manner and should be subject to the same scrutiny carried out at the budget formulation stages (Wehner & Winnie Byanyima, 2004). Hence, budget execution calls for:

- ensuring that the budget will be implemented in conformity with the authorizations granted in the law, both in the financial and policy aspects;
- adapting the execution of the budget to significant changes in the macroeconomic environment;
- resolving problems arising during implementation; and,
- Managing the purchase and use of resources efficiently and effectively.

A budget execution system should ensure compliance with budgetary authorizations and should have adequate monitoring and reporting capabilities to be able to identify budget implementation problems promptly while giving flexibility to managers (Salvatore Schiavo-Campo and Daniel Tommasi, 1999)

2.3.6 Managing budget

Public Institution should in theory help to improve allocate efficiency by providing the government with information that facilitates the allocation of funds towards high-performing program and which are preferred by the citizens (OECD and World Bank, 2003).

According to Eze and Ani (1999) Budgeting is a great management tool. Its effectiveness will however depend on how these limiting factors are handled in relation to the various sectional budgets and the master budgets usually when plans are being formulated, there are variations. Some of the factors responsible for these are: when the budgeted fund is inadequate to finance projects, in the area of production when the right supply of labor is not in place, lack of adequate plans capacity as well as scarce resources to carry on the budget and lack of specialization or

skill on the part of the budget officers who are saddled with the responsibility of implementation budget.

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. Schiavo-Campo and Tommasi (1999) noted that it is possible to execute badly a well-prepared budget; it is not possible to execute well a badly prepared budget. 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 sectoral priorities. This requires careful monitoring and evaluation of operational performance both within the armed forces and by civil servants (Ball, 2002). As per Allen and Tommasi (2001), 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.

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 (Schiavo-Campo and Tommasi, 1999).

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 superimposed prioritization by the central agencies.

Notwithstanding those efforts, financial control of commitments is not sufficient to keep expenditures under control.

Managing Cash Flows

According to Allen and Tommasi (2001), 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.

Ball (2002) stressed that cash flow and expenditures should be monitored closely. Methods of verifying the number of individuals employed in the armed forces and the Ministry of defense and of linking salary and wage payments to individual employees facilitates this monitoring

process. As per Allen and Tommasi (2001), often in the past, governments did not pay sufficient attention to issues related to efficient cash management. Budget execution procedures and the management of cash flows focused on issues of legal regularity and compliance, while daily cash needs were met by the central bank.

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 rolledover. 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 FDRE (2009), subject to the directives of MoFED, no disbursements are made out of the approved budget unless the head of the public body or his/her authorized representative submits to the Ministry 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.

2.3.7 Budgetary Controls

According to Eneje (2005) Budgetary control highlights the control of plans by comparing actual results against plans by comparing actual results against plans to identify variance upon which corrective action can be placed. Budgetary Control is defined by the Chartered of Management

Accountants (CIMA) (2007) as the establishment of mechanism authorizing responsibilities of executives to the requirements of a policy and the continuous comparison of actual with budgeted results either to secure by individual action the objective of a policy or to provide a basis for its revision. Hoftsede (1998) defines budgetary controls as planning translated into monetary terms. At the beginning, a budget is a plan and at the end it is a control device for measurement. In the view of Slim (1994) budgetary Controls aims at providing a formal basis for monitoring the progress of the organization as a whole and of its component parts towards the achievement of the objectives specified in the budget. Budgetary controls predetermine plans or standards of output and estimated incomes are compared with actual results and necessary corrective action taken.

Otley (1990) mentions that budgetary control is the main integrative control method for most business enterprises and the organization business plan can be represented financially by the budget. The budget can thus be used as a monitor and control method for the complex issues of the business plan. Lucey (1988) argues that no system of planning can be successful without having an effective and efficient system of control. Budgeting is closely connected with control. The exercise of control in the organization with the help of the budget is known as budgetary control.

The process of budgetary control includes:

- A. preparation of various budgets;
- B. continuous comparison of actual performance with budgetary performance;
- C. revision of budgets in the light of changed circumstances.

The design of budgetary control system is dependent on several factors. These factors determine how easy to exercise controls in an organization. Hoftsede G.H (1998) argues that budgetary controls are easiest in organizations where:

- a. the objectives are clear and unambiguous;
- b. outputs are measurable;
- c. the effects of interventions are known;
- d. the activities are repetitive.

Hoftsede (1998) identifies six types of control which are suited to different situations:

- 1. routine control can be used where all the four conditions above exist;

2. Expert control is needed when the activity is not repetitive but all other conditions are met;

3. Trial and error controls are used when the effect of intervention is not known but all other conditions are met. In budgeting, flexible budgeting and sensitivity analysis are examples of trial and error controls;

4. Intuitive control has to be used where an activity is not repetitive and the effects of interventions are not known. Budgeting for an investment in a project where the market is uncertain is an example of intuitive control

5. Judgmental control is required when the objectives are clear but the outputs are not easily measurable;

6. Political control which is applicable where none of the Hofstede's conditions for easy control applies. Political control uses power structures, rules and rituals the manipulation of scarce resources and negotiation processes. It can be seen in public sector organizations such as Ethiopian roan authority where different Departments are all seeking to meet different objectives, resources are limited and there is high degree of bureaucracy. Budgetary control in this case enable political control take place by providing an opportunity for negotiation and aiding manipulation and control of scarce resources.

Drury (2006) opines that two main budgetary controls exist; these are feed forward and feedback control. The feed forward control comes into being when the predictions are matched against desired outcomes. The purpose of feed forward control system is to anticipate errors or variances before they happen and to take steps to minimize them. The feedback control system is the measure of differences between planned and actual results so that subsequent actions can be modified to achieve the required results. He goes further to say that; the master budget is the budgeted profit and loss and balance sheet for the coming period which will be used as a basis for decision-making and control.

Budgetary control systems are so dependent on internal and external factors which affect the organization and changes in those factors must have impact on the budget. External, political, social and economic changes tend to have a slow effect on organizations as such changes are

often unpredictable and organizations tend to act reactively rather than proactively. For example, in the public sector, changes in the vision of a government from vision 2020 to vision 2015 will have an impact on their budget. Also, economic changes such as the rate of inflation will affect the predictive value of budgets. If these changes occur frequently then organizations will increasingly need to use techniques such as flexible budgeting and sensitivity analysis to the effect of these changes.

Lowe et al (2002) say that while there appears to be general agreement of the behavioral, planning and control or objectives of budget control, its implementation can be problematic. To understand the reason for this, one does not look inside the organization but also at the outside environment and the unpredictable of that context. In both private and public sectors, accountability is being driven down the organization to the level of the individual. Problems of budget control is how to control in an environment where there are also changing patterns both inside and outside the organizations.

Ashford (1989) posits that budgeting can be applied to virtually every situation. It does not matter whether we work in the public or privates sector of the economy. We may work for a profit making business or a non -profit making business. A company may be engaged in trading, manufacturing, or providing a service. In all of these situations, budgeting and budgetary control are utmost importance.

Amoako and Acquah (2008) conceptualize that, for organization to be effective, their budgets must be aligned with their strategies, strategic management and performance. This is supported by Blumetritt (2006), who says there is the need for organizations to integrate their strategic management with their annual budgets. Budgets and budget control measures are used as a tool for various reasons such as:

To set the objective of governmental organizations;

- to achieve measurable results;
- to measure operational processes;
- to achieve accountability.

The control over the budget is also related on the management of which comes in different type of controls. In assuring that the funds are clearly budgeted, the managers' conduct auditing

procedures and financial reporting to observe if there is any evidence of its misuse or to seek the call for additional budgetary allowance.

Havens (2000) posits that different risk and assumptions can be established if there was no internal control on the financial transactions of a business. Resources can be wasted, fraud, inaccurate and erroneous accounting may occur, projects completion could be inefficient coupled with failure to produce timely and reliable financial and management information. All of these risks will lead to the downfall of the organization. Budgetary controls, according to Larson and Madson (1999) are implemented in the public sector to aid management activities of the company's public funds.

In the view of Welch (1998) the relationship between budgetary control system and management over-sight over the public funds should be well-organized and emphasized in the internal control system of the organization. Budgetary control and management over-sight are the hearts of prudent financial management of every organization. Aside from the fact about the control and management, the organizations are guided towards the success in the industry.

The concentration of the unqualified personnel in government office. They got there through politics, so they might not really be the best for job. Most do not have good leadership and management traits. The participation of the people in the budget process is very low to die high illiteracy level and poverty rate. Government official entrusted with the public fund think about them first and misappropriate the fund carelessly. Lack of civil society involvement in budget preparation and implementation problem (Larson and Madson , 1999).

Participatory budgeting has been used as a tool to enhance transparency and accountability by providing citizens with an opportunity to participate in the budget formulation stage. This approach has been successfully applied in a number of countries at the local level and has also shown positive results in the preparation of the national budget in countries like the Philippines, for example (Matthias Morgner,2014). Participation, in appropriate ways, improves the quality of budgetary decisions and provides an essential reality check for their implementation. Predictability, transparency, and participation, in turn, are the essential ingredients of

accountability, which is the key to good budgeting (and good government in general). Accountability entails both the obligation to render accounts of how the budgetary resources have been used and the possibility of significant consequences for satisfactory or unsatisfactory performance (Shah, 2008). Recently, lack of transparency and accountability has become a serious problem in the public budget allocation and utilization. As a result, the budget process which includes the revenue phase, to planning and execution, to audit and ex-post oversight was designed (McGee and Gavent, 2010). Egan (2007) commented that in the administration of a budgetary control program, it is particularly important that the top management does not use budget as a club to pressure employees or as way to blame someone if something goes wrong. He further asserted that using budgets in such negative ways will breed hostility, tension, and mistrust rather than greater cooperation and productivity.

The study researcher concluded that the causes for miss-utilization of public budget are mainly due to lack incapacitated budget staffs in terms of skill and knowledge in each respective budget offices, lack of knowledge in the use of information (ICT) by management and the experts at each level, inadequate human resources, lack of continuous monitoring and evaluation, lack of commitment of top management, among others. Based on the result obtained and conclusion drown from the study, due attention should be given by university, managers during budget plan and implementation by capacitating the employees through training and involving all concerned bodies in the budget planning and implementation (Dejene et al 2016). Pugh (1984) argues that staff capacity to address the information requirements of program budgeting is the main institutional prerequisite. Further, (Tefera Asefa 2015) argued that some of the challenges faced in reforming the budget is Lack of capacity.

Managers in spending ministries can resist change, particularly when it is not clear whether or how PI will be used by the MOF and politicians. In many cases they fear the information will be misused to either publicly criticize programs or to cut funding. They fear being held accountable for results that are not within their control. Alternatively, they can resist reform because of increased demands for the collection of data and burdensome paper requirements. This is especially true if the information it not used at all by the MOF or politicians. The MOF can also reject change by favoring the familiar systems of input control over concentration on PI. The

ministry may fear that change will give it less control over expenditure and spending. In some cases, the PI presented is in fact not relevant or of good enough quality to be used in decision making (Curristine, et al 2007).

The level of participation by the people is highly limited especially the local governments located at the rural areas. The reason is attributed to high illiteracy level and the poverty rate. Thus, the psyche of the people is very low. In addition, there is no law that encourages civil society participation in governance and also no access to information and participation (Ugoh1 and Ukpere, 2009)

The process of budgeting in the state does not involve the public for whom the budget is prepared. For budget to be total and comprehensive, there is the need to involve all stake holders since their opinion also matters and due consideration should be given to them. There is need for participatory budgeting where all the stake holders and budget beneficiaries are allowed to participate and make their own input (Olurankinse, 2013). Fraudulent manipulations with other financial irregularities by government increases poor budget performance by about 8%. Lacks of adequate professional knowledge among budget officers worsen poor budget performance by about large skill gaps, and aid dependence. Others relate to factors such as political and macroeconomic instability, which hinder investment and stifle economic growth. Taken together, these factors weaken the capacity of countries to plan and spend their finances effectively and to make use of sophisticated budget management processes. They often result in budgets that bear little relation to government plans and policies, budget execution that differs significantly from what is actually in the budget, incomplete control mechanisms, and serious delays in budgetary reporting.

According to Eze and Ani (1999) Budgeting is a great management tool. Its effectiveness will however depend on how these limiting factors are handled in relation to the various sectional budgets and the master budgets usually when plans are being formulated, there are variations. Some of the factors responsible for these are: when the budgeted fund is inadequate to finance projects, in the area of production when the right supply of labor is not in place, lack of adequate

plans capacity as well as scarce resources to carry on the budget and lack of specialization or skill on the part of the budget officers who are saddled with the responsibility of implementation budget.

It was observed that, local governments in Nigeria were confronting some challenges which includes; corruption and mismanagement, skilled manpower, state government interference and finance. After the budget has been formulated by the executive, the proposed budget is approved by parliament. Similar to the budget formulation stage, corrupted parliamentarians might amend the budget to the benefit of individuals or interest groups. There is also a risk that parliament does not object to corruption-motivated budget and allocations already included in the draft budget as developed by the executive. In either case, corruption risks at this stage are related to uncontrolled lobbying, political corruption and, in extreme cases, state-capture (Morgner,2014).

According to Matthias Morgner (2014) Tools and approaches for reducing corruption opportunities in the budget approval phase typically include:

- Improvements to the budget calendar. To allow for parliamentarians to scrutinize and debate the draft budget thoroughly, sufficient time is needed. The OECD recommends parliaments should have three months to review and debate the draft budget bill. This period is not always provided for, even in OECD countries.
- Capacity building of parliament's experts and support structure. Often, members of parliament will require support from experts and the parliament's apparatus to properly assess the draft budget in all its complexity. The capacities of the specialists in the apparatus of the parliament may need to be strengthened to improve the quality of the parliamentary debate of the draft budget bill and to properly identify corruption risks.
- Regulating lobbying. The introduction of credible lobby registers and transparency over the business interests of individual members of parliament may be an effective approach and provide an opportunity to increase civil society control over the adoption of the budget in parliament.

According to Isaksen (2015) Corruption in public budget processes is a particularly important type of corruption. Public expenditure - and especially public investment- is known to offer some of the best opportunities for corruption. The most specific consequences of budgetary

corruption are closely linked to government efficiency and effectiveness. Budgetary corruption:

- Misallocates scarce resources. Resources are diverted from government offers into private hands. Important expenditures for development and for social safety nets are reduced. Limited funds for priority social sector spending are reallocated to areas that benefit few people.
- Renders government planning ineffective. Corruption at the implementation stage of the budget process implies that actual spending differs markedly from original expenditure plans.
- Reduces public confidence in the rule of law and undermines government legitimacy. The hold and influence of criminal and corrupt elements in society is increased. Public faith in government and public-sector integrity is diluted.

This study recommends that, all the activities of the various departments of the local government should be planned and coordinated very well to ensure all departments are in harmony so that the effective budget will be realized (Usman, Yusufari, Hamza and Abdullahi,2016)

2.3.8 Gaps in the literature

Limited studies have been conducted in many countries on concerning to budget control [For example, Usman, et al (2016) in Nigeria; Adongo and Jagongo (2013) in Kenya; Egan (2007) in Poland and Secett (1993) in Uk Most of these studies were performed in developed world, and different countries. They were also carried out with different variables, and research methods. These studies motivate researcher to analyze these facts in one geographical or regulatory context for large public sectors. To get an in-depth understanding of these topics, alternative research methods in addition to archival or survey data was requested and used for specific circumstances and countries.

Generally, reviewing of the budget control in public sectors literature shows limited research. It has also maintained that budget control could contribute in effectiveness of budget. The review suggests the following gaps in the literature:

1. Limited prior research has examined concerning the budget control in wide public sectors in one geography;

2. Limited prior research has examined concerning the budget control in budgetary public sectors;
3. Different government agencies were not used. This might be useful in order to gain evidences that are more conclusive.

Thus, this study aims to examine budget control public sectors against struggling in effectiveness of financial control become necessary to add important contribution to global conclusion.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction

The important part of the research activity is to acquire successful research design which shows the logical link between the data collected, the analysis and conclusions to be drawn. It involved a blueprint for the collection, measurement and analysis of data. In this chapter the research design, sampling type, research instrument, the dependent and independent variables applied throughout the research, data analysis method, and finally questions to be send to respondents are included.

3.2 Research Design

The study expects to investigate the role of budget management and control in Ethiopian roan authority. Based on the purpose of the research the nature of the focus area this study used expiratory research design. The study used a descriptive research design because of its essential to describe the characteristics of the object, people, groups, environment and also addressed who, what, when, where, why and how the research are done. In line with a descriptive research design, quantitative data was analyzed by using SPSS. Both questionnaires and interview check list were developed and applied as data collection tools in addition to the organizational records for secondary data. The study areas selected all population, 101 respondents, as a whole. Secondary data obtained from internal audit report and Office of auditor general audit report that concerns budget activity from year 2013 up to 2016 were used to analyze the variables.

3.3 Population

For the purpose of this study; the staffs finance department, plan and budget department, internal audit department, and budget analysts of the authority were used as the target population. Though the population consists of staffs directly and indirectly concerns about budget, the members of the population differed in their professional and occupational groupings. The groupings considered were the various divisions and department in the road authority. Based on the scope identified, the researcher study has the population of Population is 101 based on the knowledge of the budget management and control. Planning and Budget Department budget, finance department and internal audit department are used for the study. From these departments, plan and budget director, senior plan and budget officers, junior plan, budget officers, plan and

budget officers, senior accounting officers, accounting officers, internal audit director, senior internal auditors, junior internal auditors, internal auditors and budget analysts were used for the study.

To collect reliable data, it is important to consider educational background and the experience of the staffs regarding to budget management and control. As the population is small, I will use the population as a sample size.

3.4 Sample size

The Ethiopian road authority Planning and Budget Department budget, finance and internal audit experts (plan and budget director, Senior plan and budget officers, Junior plan, budget officers, plan and budget officers, senior accounting officers, accounting officers, internal audit director, Senior internal auditors, Junior internal auditors, internal auditors and budget analysts) of all population, i.e. 101 were used.

3.5 Data Collection Procedures.

Upon collection, the questionnaires will be coded. They are then fed into Statistical Package for Social Sciences (SPSS) version 20.00. Descriptive data analysis will be conducted to determine the effect of any outliers and missing entries. Frequencies, percentage and mean generate for each variable namely: the competence of budget management, participation in budget preparation, and corruption.

3.6 Data Collection Instrument

These are the steps/process used by the researcher while collecting data using the collection instrument. Questionnaires were distributed to the respondents. These questionnaires are going to delivered by hand to the respondents at their duty stations during working hours personally. They are expected to issued and collected within three weeks to give respondents enough time to answer the questions.

The primary data was employed to accomplish the study, and to collect the data from the respondents to be included in the sample questionnaires. The questionnaires were distributed to

accountants, audits and budget officers. The questionnaires were about the competence of budget management, participation in budget preparation, and corruption.

The instrument included closed and open-ended questions in order to provide both, the possibility to express opinions freely as well as useful framework for answers. The instrument consisted of 2 open and 8 closed questions for the variables. All interviewees have the chance to explain their answers to close questions as well.

In addition, questionnaires are in the form of Likert-Scale type that shows respondents agreement or disagreement by constructing into five-point scale where the lowest scale represent strongly disagree and the highest scale represent strongly agree (Likert, 1932). The questionnaires were adopted and modified from the prior authors and literature review (Hamid, 2012; Baharud-din, 2014). The questionnaires distributed to the respondents were organized in to two parts; the first part comprises the demographic question regarding the respondents, and the second part contains items relating to the competence budget management, participation in budget preparation, and corruption in Ethiopian road authority. Secondary data obtained from internal audit report and audit working paper, internal control system, and Office of Auditor General Audit Report that concerns internal audit activity.

3.7 Methods of Data Analysis

Information obtained from both quantitative data through questionnaires and interview are respectively analyzed carefully. The researcher also used descriptive statics to analyze the quotative data through tables, graphs and percentages and meanings are contextualized, interpreted and expressed in words. To analyze likert scale questions SPSS Version 20.0 was applied. To analyze the open ended and closed-ended questions excel was applied using percentages.

CHAPTER FOUR

4. DATA PRESENTATION, INTERPRETATIONS AND ANALYSIS

4.1 Introduction

As indicated in the previous chapter, the main attempt of this study is to investigate the effectiveness of budget management and control in Ethiopian road authority. Therefore, this chapter presents the analysis and discussions for research findings obtained from the questionnaires. It reports the investigation results obtained from, budget staffs, accountants and internal auditors of the Ethiopian road authority covered in the questionnaire. The discussion begins with the questionnaires' response rate followed by the descriptive statistics of the respondents related questions; like the gender, age, profession, and level of education. Wherever applicable, tables, charts and figures are provided to illustrate and support the findings. In the analysis of the data the research questions raised, frequency and percentage tables based on the Likert type of scale responses of respondents were constructed. The analysis was done based on the research questions.

Data were analyzed using Statistical Package for Social Sciences (SPSS Version 20.0) program through descriptive statistics to provide details concerning question and factors that affect effective budget management and control regarding Ethiopian road authority. Data from questionnaires was summarized, edited, coded, tabulated and analyzed.

Quantitative analysis was used as data analysis technique. Primarily the data were collected through the questionnaires and analyzed by using descriptive statistics for responses to be obtained by using likert scale method, open-ended and closed questions and then tabulated, coded and analyzed to present the research findings. Analysis of the data was based on the competence, participation, corruption and their impact on effective budget management and control.

The study targeted a total population of 101 respondents from which 82 filled in and returned the questionnaires making a response rate of 81%. This response rate was satisfactory to make conclusions for the study. Weisberg, et al (1996) recommended a response rate of 70%.

4.2 Characteristics of the Respondents

4.2.1 Response Rate

The questionnaires were distributed to the senior plan and budget officers, senior accounting officers, senior internal audits, and budget analysts. Four questionnaires (a total of 101 questions) were delivered to Ethiopian road authority staffs. From distribution of 101 questionnaires, 82 were collected (25 from responses plan and budget staffs, 19 from accounting staffs, 23 from internal audits staffs and 15 budget analyst staffs) giving the response rate of 81%. This shows good response rate for all respondents.

4.2.2 Demographic characteristics

Table 1, it implies the major characteristics of the respondents are presented in terms of gender. In term of gender, the study respondents can be classified into 59% as male and 41% as female which suggests that high status jobs in Ethiopian road authority staffs are male-dominated and this is an indication that both genders were involved in this study.

Tabl 4.1. Respondents gender Profile

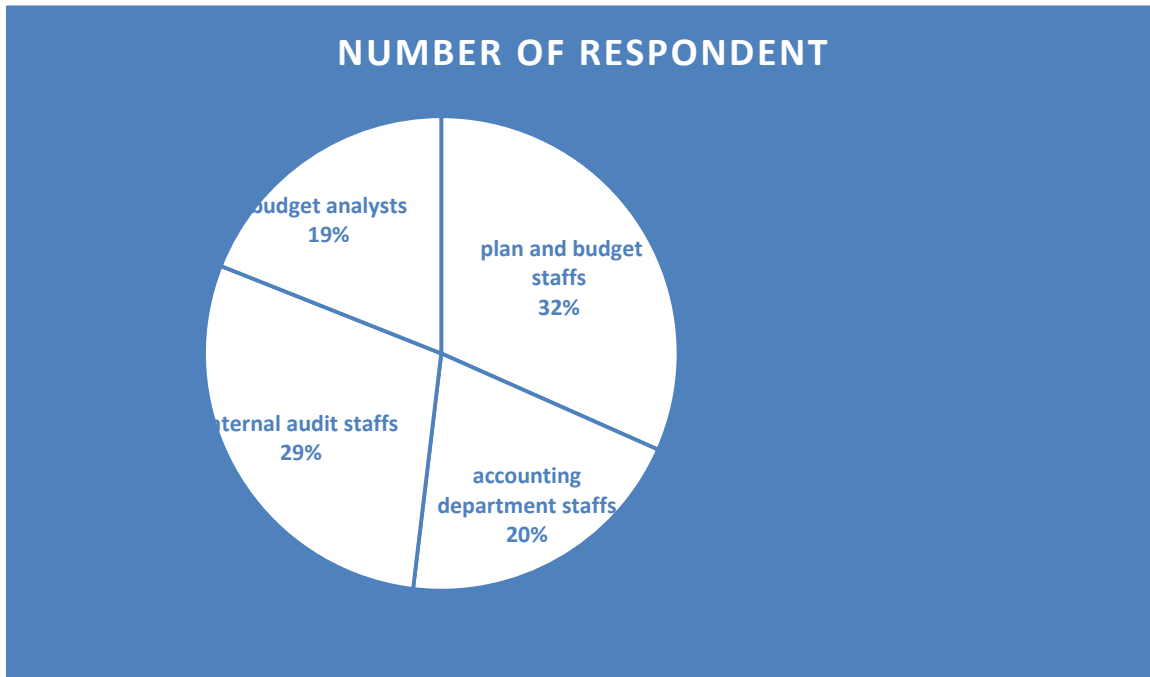
Demographic Questions		Response									
		Plan and budget staffs		accounting department staffs		internal audits staffs		budget analyst staffs		Total	
		Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
Gender	Male	14	56	11	58	15	65	8	53	48	59
	Female	11	44	8	42	8	35	7	47	34	41
	Total	25	100	19	100	23	100	15	100	82	100

Source: Own Survey, 2017

4.2.3 Socio-economic status of respondents

The following chart shows that 23 of the total respondents were auditors and 25 plan and budget officers while 19 and 15 were accounting officer and budget analysts respectively. This shows that budget officers and auditors were dominant participant in responding questions and budget management and control can be clearly answered.

Chart 4.1 Number of Respondents for the available level of position



Source: Own Survey, 2017

The below table 4.2, implies the study requested the respondents to indicate their highest level of academic education. From the findings, it was established that 96% of the respondent indicated their highest level as degree, and 4% of the respondent indicated their highest level as post graduate. This is an indication that most of the respondents focused in this study had university degrees as their highest level of education. These shows the majorities of the respondents were educated and can contribute more for the effectiveness of their intended work. It is also believed to provide more trustworthy information for this study.

In the case of the level of educational background, all accounting officers and budget analysts have bachelor's degree. From both categories, there were no respondents who had diploma other level of educations. These shows the majorities of the respondents have bachelor degree which enables them to provide more reliable information for this study and enable the respondents to have idea of the budget management and control.

Whereas, most senior plan and budget officers and senior audit auditors have bachelor's degree (24, 96%), and (23, 100%) respectively followed by master's degree (1, 7%), for plan and budget officers. All of the respondents have bachelor degree and above which enables them to provide more reliable information for this study and enable the respondents to have idea of the budget management and control.

Table 4.2 Educational background

Questions		Response									
		Plan and budget staffs		accounting department staffs		internal audits staffs		budget analyst staffs		Total	
		Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
Educational level	Diploma										
	Bachelor's Degree	24	96	19	100	23	100	15	100	81	98
	Master's Degree	1	4							1	2
	Total	25	100	19	100	23	100	15	100	82	100

Source: own survey, 2017

The study requested respondents to indicate the number of years they had served for. From the survey, the study established that 19% of the respondents had worked for a period of more than 10 years, 39 % of the respondent indicated that they had worked for a period raging between 6 to 10 years. 33% of the respondents had served for a period raging between 3 to 5 years and 9% work for 1 to 2 years.

Table 4.3 Experience of Respondents

Years of experience	Response									
	Plan and budget staffs		accounting department staffs		internal audits staffs		budget analyst staffs		Total	
	Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
1-2	3	12	2	11	3	13	-		8	9
3-5	10	40	8	42	6	26	2	13	26	33
6-10	6	24	8	42	11	48	7	47	32	39
More than 10 years	6	24	1	5	3	13	6	40	16	19
Total	25	100	19	100	23	100	15	100	82	100

Source: own survey, 2017

The above figure implies, the distribution of years of experience that the respondents had with working in the plan and budget officers' profession was not fairly spread out among the categories. Out of 25 respondents of plan and budget officers, 10 respondents (40 % of total respondents) represent a group that covers 3 to 5 years of experience. This shows that the plan and budget officers are not sufficiently experienced. 24 % of the respondents are found under the range of 6-10 years of experience in planning and budgeting. 12 % of the respondents are found under the range of 1-2 years of experience in planning and budgeting. On the other hand, only 24% of the respondents serves for over 10 years. These imply that the respondents are not well experienced working as planning and budgeting which may make less effective in budget management and control.

In case of professional certification, no respondents have any professional certification. These can imply that there is a lack of broad range of skills and expertise, and ongoing professional development which are crucial to the formation and maintenance of an effective budget management and control activity. Due to lack of this professional certification, budget management and control activities result in ineffective.

Table 4.4 respondents' professional certification

Professional certification	Response									
	Plan and budget staffs		accounting department staffs		internal audits staffs		budget analyst staffs		Total	
	Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
CIA										
CPA			-	-	-	-	-	-	-	-
CMA			-	-	-	-	-	-	-	-
ACCA			-	-			-	-		
No professional certification	25	100	19	100	23	23	15	100	82	100
Other	-	-	-	-	-	-	-	-	-	-
Total	25	100	19	100	23	100	15	100	63	100

Source: own survey, 2017

4.3 Competence

The study implies to establish the level at which respondents agreed or disagreed with the following statements relating to competence of staffs of in Ethiopian road authority. Dejene Tafa and Semeneh Bessie (2016) argued that the causes for miss-utilization of public budget are mainly due to lack incapacitated budget staffs in terms of skill and knowledge in each respective budget offices in their study of Ethiopian University budget. This is true in Ethiopian road authority where the survey result indicated that there is lack of adequate experience in budget management and control. The result show that, 56% and 23% of the respondents disagreed and strongly disagreed respectively on the statement that the operational manager has sufficient skills and awareness to manage the financial resources under their control as shown by mean of 3.9. While, 16% of respondent agreed and 2% strongly agreed with this statement. 4% of the respondents agree somewhat.

Table 4.5 The Competence of staff

No	Code	Statement	frequency					Mean
			Strongly agree	agree	Somewhat agree	disagree	Strongly disagree	
		Competence						
1	C1	The operational manager has sufficient skills and awareness to manage the financial resources under their control	4	10	3	46	19	3.8
2	C2	The road authority budget staffs have adequate knowledge of hardware & software to support the budgeting process.	2	13	0	48	19	3.8
3	C3	Your office provides training to those involved in the planning and budgeting.	7	8	0	46	21	3.8
4	C4	Your office Train budget developers in linking the budget to the strategy.	4	9	0	49	20	3.9
5	C5	The operational manager has expertise in budget management and control	4	12	0	42	24	3.7

Source: own survey, 2017

The above table 4.5 of item 2 point out that the road authority budget staffs has adequate knowledge of hardware & software to support the budgeting processes revealed by mean of 3.8. The result indicates that many responders believe that the road authority does not uses adequate hardware & software to support the budgeting process. (59 % disagreed and 23% strongly disagreed) while small number of responders did not think that (2 % strongly agreed 16% agree). From this analysis it can be concluded that the authority doesn't provide training on hardware & software to support the budgeting process. This is in line with lack of knowledge in the use of information (ICT) (Dejene Tafa, 2016) and hence it reduced capability in producing effective budget management and control. So, Training regarding hardware & software is vital in maintaining the effectiveness of the strategy for budget management and control.

In case of qualification (table 5 item number 3), most respondents (56%) disagreed and 26% strongly disagree as indicated by 4.0 mean. The remaining respondents: 10% agreed, 9%

strongly agreed. Accordingly, the authority doesn't provide training to those involved in the planning and budgeting. According to the information obtained from the interview respondent the major obstacle while preparing budget in the organization is lack of enough training. The road authority planning and budget department has no adequate number of skilled persons to conduct budget analysis effectively and lead to mismanagement of budget and control.

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; 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.

Evidence from the study showed that the road authority train budget developers in linking the budget to the strategy. 60% of the respondents disagreed that the road authority train budget developers in linking the budget to the strategy, and 24% strongly disagree. 11% and 5% agree and strongly agree with the issue respectively. This implied that the road authority does not train budget developers in linking the budget to the strategy. From this response, it is not difficult to understand that Lack of full awareness of how budget is developed make impossible to ensuring effective budget management and control. The study is in line with that Pugh (1984) argues that staff capacity to address the information requirements of program budgeting is the main institutional prerequisite.

Concerning, the question "operational manager has expertise in budget management and control", over half (29% strongly disagree and 51% disagree) of respondents reported that operational manager has expertise in budget management and control as indicated by mean of 3.9. 15 %,4% and 2% of the respondents agree, and strongly agree respectively with this matter. The result shows that the government sector is punctuated with shortages of qualified personnel and staff with deficiencies in professional knowledge and skills. The results of this finding are similar with Suraj kumar (2011) that a budget is based on estimates; it may or may not be true. It is not substitute of management because, the efficiency and utility of the budgetary system

depends on the skill and experience of the management. Similarly, a study on challenges facing budgetary control systems in developed countries by OECD, (2007) showed that budgets fail due to reasons such as budgets used as pressure tool, central decision-making process, lack of job security and managers' lack of training.

As a conclusion, the results indicated the budget and plan staffs' ability in ensuring effective budget management and control is under the problem due to lack adequate competence. The evidence indicated that budget activity is exercised with insufficient skill and experience, little professional certification, and with no training on budget management and control in the Ethiopian road authority. With all these fact, it can be underlined that budget management and control ineffective due to lack of staffs' specialization.

4.4 Budget Participant

Participatory budgeting has been used as a tool to enhance transparency and accountability by providing citizens with an opportunity to participate in the budget formulation stage.

As per the response result in table 6 of item 1 below, it is noted that the budget committee do not include all unit/departmental heads, supervisor and sub-heads that have direct control with the organizational activities as shown by mean of 3.7. Most respondents agreed (62 % disagreed and 20% strongly disagreed) with the statement that the Ethiopian road authority budget committee include all unit/departmental heads, supervisor and sub-heads that have direct control with the organizational activities, whereas 13%agree and 4%strongly agree on this issue. The remaining respondents agree somewhat. In the preparation of a budget, total involvement of all management levels is very important. It is more necessary to get the participation in budgeting, especially at the lowest supervisory level. It is in recognition of this fact that Onourah (2005) posited that "Budgeting is no longer and should not be the sole responsibility of the chief executive budget officer or other top executives in the company. The committee consists of the functional heads with the chief executive as the chairman. The responsibility of operating the whole system is undertaken by a budget officer, who is usually a principal officer of the organization (Pandey, 2002)

Table 4.6 Participations

No	Code	Statements	frequency					Mean
			Strongly agree	agree	Somewhat agree	disagree	Strongly disagree	
II		Participations						
1	P1	The budget committee include all unit/departmental heads, supervisor and sub-heads that have direct control with the organizational activities	2	13	2	44	21	3.8
2	P2	The budget is driven through bottom-up participation	3	11	1	51	16	3.8
3	P3	Document & communicate policies & procedures ensure all stakeholders understand their roles.	5	11	0	44	22	3.7
4	P4	The road authority develop budget collaboratively, involving all stakeholders.	2	11	1	47	21	3.8
5	P5	The road authority communicating plans in an orderly manner throughout the organization.	8	25	2	33	14	4
6	P6	Conduct authority wide meetings to establish budget timelines & responsibilities.	9	26	2	32	13	3.6

Source: own survey, 2017

The data collected as per above table of item 2 implies that the budget is not driven through bottom-up participation. High percentage of the respondents i.e. 54% and 26% choose disagree and strongly disagree respectively. The rest 13% and 6% of the respondents choose agree and somewhat agree. 1% of the respondents agree somewhat. Egan (2007) commented that in the administration of a budgetary control program, it is particularly important that the top management does not use budget as a club to pressure employees or as way to blame someone if something goes wrong. He further asserted that using budgets in such negative ways will breed hostility, tension, and mistrust rather than greater cooperation and productivity. This signified that lack of bottom up budget participation is a challenge for effective budget management and control. The responses are similar with (Pasha, 2007) argument that it is not the budget itself that facilitates communication, but the vital information is communicated in the act of preparing budgets and participation of all responsible individuals in this act.

Concerning the question of document & communicate policies & procedures do not ensure all stakeholders understand their roles as point out by mean of 3.6. 57% of them disagree and 26% strongly disagree. In contrast 13% 2% and 2% agree strongly agree and somewhat agree that document & communicate policies & procedures ensure all stakeholders understand their roles respectively. The study of Matthias Morgner, Marie Chêne(2017) argues chances for the budget being allocated to serve the interests of only a few top-level individuals can be reduced through clearly communicated budget “envelopes” (aggregated amounts for spending units), sufficient time and proper procedures for government negotiations, and a stable system of governance with clearly formulated and balanced powers for each involved actor. Lack of availability of information on budget policies, expenditure and outcomes in Ethiopia road authority discourage citizens ‘participation and deactivate the community to meet budget targets.

For the item number 4, respondents disagreed with idea that the road authority develop budget collaboratively, involving all stakeholders. As pointed out by mean of 3.9. 40% disagree and 17%strongly disagree with this issue that the road authority develop budget collaboratively, involving all stakeholders. In comparison only 30% agreed and 10 % strongly agreed with this statement, while 3% agree somewhat. The result denoted that the road authority does not develop budget collaboratively, involving all stakeholders which make difficult in ensuring effective budget management and control. This is in line with Shah (2007) argues that Participatory budgeting programs also serve as “citizenship schools,” as engagement empowers citizens to better understand their rights and duties as citizens as well as the responsibilities of government. Citizens learn to negotiate among themselves and with the government over the distribution of scarce resources and public policy priorities.

As indicated in the above table, the majority of the respondents think that the road authority communicating plans in non-orderly manner throughout the organization.55% of the respondents disagreed that the road authority communicating plans in an orderly manner throughout the organization. The remaining 34 %, 7 %, and 2% of the respondents choose strongly disagree, agree, and strongly agree in turn. The remaining disagrees on the issue. The result indicated that the Ethiopian road authority lack communicating plans in an orderly manner throughout the organization. This is consistent with that Effective participation by the legislature in the process

of budgeting establishes checks and balances that are critical for accountable and transparent government and to provide efficient public services delivery (Wehner & Winnie Byanyima, 2004).

Regarding to Item number 5, the respondents disagree that the Ethiopian road authority conduct authority wide meetings to establish budget timelines & responsibilities. 48% and 23% disagree and strongly disagree with the stated statement. The remaining respondents 18% agree, 9% strongly disagree and 2%. The result implies that while preparing budget all responsible persons are not meet to discuss on budget issues of budget timelines & responsibilities.

This response is supported by OECD (2014) Good budgeting is supported by, and in turn supports, the various pillars of modern public governance: integrity, openness, participation, accountability and a strategic approach to planning and achieving national objectives. Budgeting is thus an essential keystone in the architecture of trust between states and their citizens.

In general, public participation in the budget process is very limited in Ethiopia. This is because of lack of reliable and adequate information. If public participation in the budget process is limited, the general public in Ethiopia cannot get opportunity to rise what is important for them and the government cannot also know the most and un meet demand of the society. Lack of involvement of citizens in the budget process would minimize a way of improving budget formulation, efficiency in resources allocation and better oversight of the budget process. The level of participation by the people is highly limited Ethiopian road authority.

4.5 Corruption

Table 7 shows how participants responded to questions relating to Budget committee is independent, competent, financially literate, adequately resourced and properly compensated. The results signified that respondents (55%) were disagreed that Budget committee is independent, competent, financially literate, adequately resourced and properly compensated. 24% of the respondents strongly disagreed on the subject matter, while 15% of them agree 6% strongly disagree with this matter. Indubitably, independent, competent, financially literate budget staff is the means to ensure effective budget management and control as per responses.

Strive was also made to know if Funds might be shifted to purposes other than those that were approved. The survey result in Table 5 depicted that 54% of the respondent agreed that funds might be shifted to purposes other than those that were approved and 35% of the respondents strongly agree with this question. 1% of the respondents agree somewhat but the remaining respondents generally disagreed on the matter. All these pointed toward that funds are shifted to purposes other than those that were approved in Ethiopian road authority. Based on this result, it can be easily predicted using fund for unintended purpose is a problem for effective budget management and control. Chukwuma Obara (2013) study in Nigeria identifies that often disregarded in favor of one supplier who is ready to offer a bribe to corrupt officials. Another possible case of corruption is the ordering of goods and services, which are not authorized in the budget. In this case, corrupt officials will simply disregard the budget as approved by the legislature and will purchase, for instance, luxury cars instead of trucks or other needed equipment.

The respondents were asked to give their opinion whether fraudulent manipulations with other financial irregularities by government increases poor budget performance. The survey result which is presented below in Table 4 shows 65% of the respondents agreed that Fraudulent manipulations with other financial irregularities by government increases poor budget performance. 29% and 5% of the respondents strongly agreed, and disagree in turn. The result is similar with study of Michael Schaeffer (2002) result that Poor governance and inefficient, or inadequate, public financial management may result from a number of factors including: lack of efficient institutions, and pervasive institutional corruption.

As referred from Table 5, about 61% of the respondents agreed that Managers frequently request expenditures in excess of budget. and 32% of the respondents strongly agreed. While small number (6% disagree) of respondents disagreed on the issue and the remaining agree somewhat. The result indicates that Managers frequently request expenditures in excess of budget. Matthias Morgner, Marie Chêne (2017) support the study that the allocation of the funds depends on political priorities set and negotiations done at “the top” of the government. Political and executive decision-making power is, therefore, always also the power to control and direct the allocation of funds which lead to ineffective budget management and control.

Regarding to the question that limited funds for priority social sector spending are reallocated to areas that benefit few people, respondents were asked to forward their opinion. 63% and 28% of the respondents agreed and strongly agreed that limited funds for priority social sector spending are reallocated to areas that benefit few people. Whereas 6%, 2% and 1%, disagreed, strongly disagree and agreed somewhat respectively. This in line with Matthias Morgner (2014) finding that corruption risks are related to uncontrolled lobbying, political corruption and, in extreme cases, state-capture public finance in Nigeria.

Table 7: Response on Statements of Corruption

No	Code	Statements	frequency					Mean
		Corruption	Strongly agree	Agree	Somewhat agree	disagree	Strongly disagree	
1	CR1	Budget committee is independent, competent, financially literate, adequately resourced and properly compensated	5	12	1	44	20	3.7
2	CR2	Funds might be shifted to purposes other than those that were approved.	29	44	0	8	1	1.8
3	CR3	Fraudulent manipulations with other financial irregularities by government increases poor budget performance	24	53	1	4	0	1.8
4	CR4	Managers frequently request expenditures in excess of budget.	26	50	1	5	0	1.8
5	CR5	Limited funds for priority social sector spending are reallocated to areas that benefit few people.	23	52	1	5	1	1.9
6	RF6	There is a tradition of overspending of budget and underutilization of budget in your office.	27	49	2	2	4	1.7

Source: own survey, 2017

The respondent clearly states that there is a tradition of overspending of budget and underutilization of budget in your office. Most of the respondents agreed on this issue (60% agree and 33% strongly agree) while small numbers 6% disagree, 1% strongly disagree and 1% somewhat agree. According to the report of the auditor general of Ethiopia, most public sectors

are frequently stated excess/under budget use and unlawful and/or improper utilization of the budget during the stated fiscal year. In the year 2013/2014 budget, from only 99 public organizations over 2.576 Billion Ethiopian Birr was returned back to the treasury having not been utilized. On the other hand, about 235 million birr was over utilized in 37 public organizations. Obviously, such improper budget utilization in public sectors significantly hinders mission and affects the economic development of the country.

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 overestimated budget and unrealistic projections of revenues may lead to budget revisions during budget execution and to a practice known as “repetitive budgeting”. As per Allen and Tommasi (2001), 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.

There are many opportunities for corrupt practices at budget management and control, with corruption risks increasing with the degree of data fragmentation in individual accounts for disbursements and collection. Such fragmentation makes it easier to abuse public funds and result in unsuccessful budget management and control. Further, Corruption in budget management leads among other things to an allocation of resources that lacks democratic legitimacy, which impacts negatively on growth and development road construction sector. The miss- budget management and control bring about fruitlessly planning and public revenues and expenditure management.

Budgetary corruption leads to an allocation of resources that lacks democratic legitimacy. It is then rather corrupt behavior that determines the distribution of budgetary funds to various government departments, and areas and items of expenditure within those departments. Investment in large-scale projects is usually more susceptible to corruption, and "more profitable" for actors, than current expenditure on the maintenance of existing infrastructure (e.g. road renewal) or smaller-scale projects (local health center). Corruption thus leads to a change in the structure of expenditure, and at the same time a decline in the productivity of public

investments and deterioration in the quality of infrastructure. These impacts negatively on growth and development (Tanzi, and Davoodi, 2000)

CHAPTER FIVE

5. SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

This chapter presents a summary of the findings of the study. The conclusions to the main issues of the study and recommendations are also provided. The purpose of this study is to examine the effectiveness of budget management and control in Ethiopian road authority.

This study was carried out in Ethiopian road authority head office. The data were collected through the use of questionnaires and the research paper used descriptive survey. Two open end questions, 8 closed questions and 17 likes scale research questions were developed to guide the study. All questions were analyzed using percentages, frequency and means.

5.1 Finding

Based on the review conducted on related literature, analysis and interpretation of data made, the followings are the major findings of the research work:

- As a whole, budget staffs do not have adequate experience and knowledge in the area of planning and budgeting which help them to ensure effective budget management and control.
- There is a tradition of overspending of budget and underutilization of budget in road authority.
- A fraudulent manipulation with budget irregularities by officials increases poor budget performance.
- Limited funds for priority social sector spending are reallocated to areas that benefit few people and result ineffective budget management and control.
- The study identifies there is a lack of participating of all stakeholders in budget analysis and management.
- The budget committee does not include all unit/departmental heads, supervisor and sub-heads that have direct control with the organizational activities. This will create a forum for lower participation of all relevant stakeholders in the company's budget management process.

5.2 Conclusion

Managing the budget effectively and efficiently in Ethiopian road authority is a challenging and hampered by severe skill shortages, not participating all stake holders in budget processing, and corruption in budget faced with spending requirements that inevitably exceed available resources, the preparation and implementation of a budget can be an arduous task. This has undoubtedly impacted on the performance of our government and consequently slows down economic development.

When budgets are effectively utilized most especially by participation all key stakeholder, it serves as a means of achieving and coordinating organizational plans and actions. It equally serves as a good means of communicating plans to those responsible for their execution, while at the same time motivating managers and employees at all levels and serving as a standard for measuring actual performance. In the operation of road construction, it has been discovered that quite a lower number of the employees know the budgetary system of the company and there exist considerable participation of lower level employees in planning and budgeting and result in poor budget performance.

Core staffs with sufficient knowledge are not in place in order to make possible efficient budget preparation and execution. Capacity constraints such as lack of skilled staff, have adversely affected governments' ability to provide a wide range of budget management functions. Training, staff development, judicious use of foreign advisors, and other capacity development measures must be an integral part of developing a robust budget management system. The study has demonstrated that the Ethiopian road authority staffs' suffering from lack of experience in program budget preparation and implementation.

The allocation of the funds depends on political priorities set and negotiations done at the top of the government. Political and executive decision-making power is, therefore, always also the power to control and direct the allocation of funds and bring about corruption. Thus, the research concluded that the causes for miss-management and control of budget in Ethiopian road authority are mainly due to lack of enough skill man power, lack of enough participation and corruption regarding to budget.

5.3 Limitation of the Study

While this study provides knowledge in the study of budget management and control, it does suffer from a few deficiencies. Owing to the nature of the subject area, i.e., excessive confidentiality, and because of limited access, it was not easy to get all relevant information from respective office. Besides, lack of research studies and availability of sufficient current literature on the topic were some of the constraints. However, the researcher hopes that readers will get some valuable ideas on the subject area. The study assessed only budget participation, corruption, and competence concerning to bringing effective budget management and control.; it did not consider the role of managements, communication and the code of ethics for employees as vital components that may affect budget management and control activities.

5.4 Recommendations

There is a need to increase the level of sensitization among management and employees of Ethiopian road authority on the importance of budgetary management and controls in enhancing the office performance. The process of budgetary control should not only consider sector needs in the planning stage but also parameters within implementing organizations in order to facilitate sound financial standing. It is important not to over subject the process of budgetary management and control to political scrutiny as this may divert the core purposes of a budget. Budgets should not only be used as tool for management and indicators of management, they should also be viewed as practical tools within which organizations should use to enhance their financial goals. In addition, the following recommendations are also forwarded:

- All Staffs of budget department should also be allowed to participate in the budget target setting and process to further enhance its organizational performance.
- Based on the result obtained and conclusion drawn from the study, due attention should be given by road authority officials during budget plan and implementation by capacitating the employees through training and involving all concerned bodies in the budget planning and implementation.
- There should active participation of all the departments in the budget preparation and implementation.

- There should be budget participation where all the stake holders and budget beneficiaries are allowed to participate and make sure their own input and cross check for proper budget implementation.
- Adequate information should be gathered and critically examined using all possible parameters before arriving at budget decision, this will require rigorous appraisal technique and skills and in order to achieve this, the Assembly should use the services of consultants to assist them plan and prepare good budget.
- Since good budget management control contributes to the improvement of management efficiency and high productivity; the budget committee should be educated in the implementation of budget. This would enable them to understand the importance of adhering to actual budget provisions thereby minimizing losses. Thus, budget education should be conducted at regular intervals for all principal officers.
- Governments should invest (train, educate) continually in the skills and capacity of budget plan and program staffs to perform their roles effectively.

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Appendix

ST. MARY'S UNIVERSITY

Title of the Research project: Budget Management and Control: special emphasis on Ethiopian road authority.

Dear Respondents,

A LETTER OF INTRODUCTION

I am conducting a research project under the title “Budget Management and Control: special emphasis on Ethiopian road authority”. The data shall be used for academic purpose only and it will be treated with confidentiality it deserves. The respondents are highly encouraged and persuaded to respond to the statements in this questionnaire in the most truthful and objected way possible. Your participation in facilitating this study will be highly appreciated. Kindly tick in the space provided with the correct answer or supply the required information where, required, please specify and elaborate.

I guarantee that all information supplied will be treated with the strictest confidence and used, only for the academic purpose for which it is intended. Thank you for your cooperation and valuable contribution towards the success of this research work.

Yours faithfully,

Researcher's Address:

Mobile 0910084874

E-mail: workneh999@gmail.com

Addis Ababa

Ethiopia

I. Purpose of this research

The purpose of this survey is to collect data regarding Budget Management and Control in Ethiopian road authority. Your participation will help the researcher to better understand on Budget Management and Control.

II. Extent of anonymity and confidentiality

No personally identifiable information is being collected from and all information you provide will be combined with other respondents' data, analyzed and reported in aggregate. Responses will be kept confidentially at all times, and used for academic purpose only.

III. The personal profiles:

General Instruction: Please indicate your choice by putting “√” mark in the box or supply the required information where, required, please specify and elaborate.

1. Please indicate your gender M F
2. What is your level of position title in your organization? -----
3. What is your highest level of completed academic education?
 Diploma Bachelor's degree Masters' degree
 PHD Other specify it-----
4. What is your highest level of professional certification?
 CIA CPA CMA ACCA
 No professional certification other specify it-----
5. How long have you worked in the organization?
Less than 2 years 3 - 5 years
 6-10 years More than 10 years

IV General Question:

6. Do your organization prepare budget?
Yes No
7. What type of budget is prepared to achieve your organization goals?

8. To what extent do budgeting control enhances management productivity?

- Very great extent
- Great extent
- Moderate extent
- Little extent
- No extent

9. To what extent do budget implementation and their actual performance relate?

- Great extent
- Moderate extent
- Little extent
- No extent

9. Do budget guidelines issued to budget holders assists much in preparation of the next financial year accurately? If satisfied, how can you relate the effectiveness of budgets?

- Fair
- Good
- Very good
- Excellent

10. Are you satisfied with budgets as management tool in your company?

- Yes
- No

11. How much role do budgeting and budget control play in your organization?

- Strong role
- Weak role
- No role at all

12. Do you think that budget officials of your organization are competent enough to ensure effective budget management and control?

- Yes
- No

13. To what Extent an organization's members take part in developing the budget of a responsibility center.

- Great extent
- Moderate extent
- Little extent
- No extent

14. What are the hindrances to an effective budgeting process?

	Please provide your level of agreement or disagreement with the following statements (please mark “√” for each line in the labeled columns) strongly disagree=5, disagree=4, agree somewhat 3, agree=2 and strongly agree=1					
No	Factors	1	2	3	4	5
I	Participation					
1	The budget committee include all unit/departmental heads, supervisor and sub-heads that have direct control with the organizational activities					
2	The budget is driven through bottom-up participation					
3	Document & communicate policies & procedures; ensure all stakeholders understand their roles.					
4	The road authority develop budget collaboratively, involving all stakeholders.					
5	The road authority communicating plans in an orderly manner throughout the organization.					
6	Conduct authority wide meetings to establish budget timelines & responsibilities.					
III	Competence					
1	The operational manager has sufficient skills and awareness to manage the financial resources under their control					
2	The road authority budget staffs have adequate knowledge of hardware & software to support the budgeting process.					
3	Your office provide training to those involved in the planning and					

	budgeting.					
4	Your office Train budget developers in linking the budget to the strategy.					
5	The operational manager has expertise in budget management and control					
IV	Corruption					
1	Budget committee is independent, competent, financially literate, adequately resourced and properly compensated					
2	Funds is shifted to purposes other than those that were approved.					
3	Fraudulent manipulations with other financial irregularities by government increases poor budget performance					
4	Managers frequently request expenditures in excess of budget.					
5	Limited funds for priority social sector spending are reallocated to areas that benefit few people.					
6	There is a tradition of overspending of budget and underutilization of budget in your office.					

