

Analysis of budgeting and budgeting control accounting essay



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Edward D. Msangi

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Dedication

To my beloved parents: Daniel and Shikanaeli

For the endless love and support

To the love of my life, Nyamizi,

You were always there for me for the support and encouragement

The following acronyms presented are used throughout this study.

CAG Controller and Auditor General

DED District Executive Director

HODs Head of Departments

IBRD International Bank of Reconstruction and Development

LGAs Local Government Authorities

MED Municipal Executive Director

MOFEA Ministry of Finance and Economic Affairs

MTEF Medium Term Expenditure Framework

NAPA National Academy of Public Administration

NDC Nachingwea District Council

NGOs Non-Governmental Organisation

OPRAS Open Performance Review and Appraisal System

PCCB Prevention and Combating of Corruption Bureau

PPE Plant Property and Equipment

SWOT Strength, Weaknesses, Opportunity and Threats

TNAO Tanzania National Audit Office

PER Public Expenditure Review

PMO-RALG Prime Minister Office-Regional Administration and Local
Government

WB World Bank

Abstract

This study focused on ways in which budgeting and budgetary control impacts Local Government Authorities (LGAs) performance. This study was conducted in Nachingwea District Council (NDC) as case study. The approach used was quantitative one and primary data were collected using self-

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administered questionnaires with closed ended questions. Secondary data were collected by documentary review and the study applied both convenient and judgemental sampling in selecting the sample.

The study has generated a number of discoveries which concluded that; establishment of the role of proper budgeting and effective budgetary control practices and its effects on performance; identification of the factor which limit the proper budgeting and effective budgetary control which may hinder the performance of LGAs. However, this study found out that the current system of system of budgeting and budgetary control practices in LGAs satisfactory but was able to provide some clear suggestion for the prospect of improving the current system. This research also recognized different aspects of performance in relation to the budgeting and budgetary control practices specifically on how these practices can be used as the tool to evaluate the performance. The central findings of the study was on relationship between budgeting and budgetary control and LGAs performance. There is positive correlation between budgeting and budgetary control and LGAs performance as measured by budget discrepancies.

The study puts forward a number of recommendations for improved performance in LGAs and NDC as a result of proper budgeting and budgetary control practices are: LGAs should modernise these practices by means use of software and computers , to invite consultancy to update the personnel responsible for these practice on any new information, involvement of accountants in budget setting, avoid copying the previous budgets as it is and make sure there is budget transparency.

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CHAPTER ONE

1. 0 Introduction

This chapter presents to the readers a variety of issues related to the budgeting and budgetary control in relation to performance in Local Government Authorities (LGAs).

1. 1 Background information of Nachingwea District Council (NDC)

Nachingwea District Council was established on 31st December 1983 when the clerk of the National Assembly signed the certificate of establishment under the terms of the provisions of sections 8 and 9 of the Local Government Act 1982, (District Authorities). It started its operations on 1st January 1984. In accordance with Local Government Authorities' classification, Nachingwea District Council is in class III. The Act clearly states stipulates the basic functions of the authorities:

To maintain and facilitate the maintenance of peace, order and good government within its area of jurisdiction.

To promote the social welfare and economic well-being of all persons within its area of jurisdiction.

To formulate, coordinate and supervise the implementation of all plans, economic, commercial, industrial and social development in its area of jurisdiction.

To monitor and control the performance of duties and function of council by departments, its offices and staff.

To ensure the collection and proper utilization of the revenues of the council.

To make by laws applicable throughout its area of jurisdiction, and to consider and approve by laws made by village councils within its area of jurisdiction.

To consider, regulate and coordinate development plans, projects and programs of villages and township authorities within its area of jurisdiction, so as to ensure the more beneficiaries development and mobilization of productive forces in the village and township authorities and their applications towards; The enhancement of productivity; The acceleration of social and economic development of villages; The amelioration of rural life and to regulate and monitor the collection and utilization of revenue of village councils and township authorities.

To take all necessary measures to provide for the protection and proper utilization of the environment for sustainable development

Subject to laws in force, to do all such acts and things as may be done by people's government at the district level (Act of Parliament 1982)

1. 1. 1 NDC vision

The vision of Nachingwea District Council to have the strong and sustainable social and economic development through stakeholders' participation and appropriate use of available resources and opportunities by the year 2025

1. 1. 2 NDC mission

The mission of Nachingwea District Council is to provide quality and sustainable socioeconomic services in order to improve the quality of life of the people of Nachingwea District through efficient and effective use of resources and good governance.

1. 1. 3 NDC objectives

NDC objectives are in line with those objectives by which Local authorities were established as stipulated by Local Authority Act no. 7 and 8 of 1982. These objectives are fulfilled through implementation of projects allocated by funds or revenue collection

Service improved and HIV and AIDS infections rate reduce

Enhance, Sustain and effective implementation of the National Anti-corruption Strategy

Access and quality of social services improved

Quantity and quality of economic services and infrastructure improved

Good governance and administration services enhanced

Management of natural resources and environment improved

Social welfare, Gender equality and community empowerment improved (Act of Parliament 1982)

1. 1. 4 NDC Strenghts, Weaknesses, Opportunities and Threats (SWOT) analysis

The district council has Strengths, Weaknesses, Opportunities and Challenges in achieving its objectives. The SWOTs are elaborated in the Table 1. 1

Table 1: NDC SWOT Analysis

Strengths

Weaknesses

Well established administrative structures (vitongoji – village – wards – District level)

Presence of few qualified personnel.

Availability of few working gears (transport facilities, buildings).

Fair distribution available extension staff and other staff like primary school teachers and health staff.

Existing good National policies.

Political stability and social cohesion.

Availability of enough fertile land for cultivation and livestock pasture.

Present of potential areas for irrigation farming.

Good networking facilities – roads and air port.

Existence of functioning farmers' associations, groups and cooperatives.

Inadequate training / refresher course for Council staff.

Low production and productivity.

Inadequate funds for the implementation of development activities.

Inadequate and poor functioning of institutional facilities like staff quarters, offices, schools and health infrastructures

High price of agriculture inputs.

Inadequate participation of the communities in development activities.

Weak leadership at the village and ward levels.

Poor socio-economic infrastructure system.

Ignorance on the sustainable use of the available natural resources.

Poor involvement of women in decision making at various levels of leadership and household level.

The Council has limited resource to develop Human resource

Inadequate skills to employees and leaders especially at Ward and Village Levels.

Inadequate working tools and poor condition

Farmers limited with market information and lack of skills on processing of agricultural produces.

Unreliable market prices for agricultural produces.

HIV/AIDS scourge.

Source: NDC Medium Term Expenditure Framework (MTEF) 2012

SWOT analysis of NDC

Opportunities

Threats

Existing Non -Governmental Organizations (NGOs), Institutions and International organization for supporting the district.

Financial support from external donors. .

Availability of huge number of indigenous livestock and fertile land.

Availability of enough labour force.

Plenty of natural resources like forest resources and mineral and wildlife.

Growing culture of community contribution to development activities.

Presence of various education

(Learning) and research Institutions.

Presence of Microfinance Institute to provide credit facilities to farmers

Presence of supportive private sectors such as stockist, NGOs

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Expanding access to market opportunities (due to improvement in roads networks)

Presence of telecommunication networks such as Airtel, Tigo, Zantel, Tanzania

Telecommunications Company Limited (TTCL) and Vodacom and Internetservices

Prevalence of agriculture, livestock and human diseases including HIV/AIDS.

Adverse weather conditions (Frequent droughts).

Entrenched social and cultural practices.

Technological changes.

Widespread of gender inequalities due to complex socio-cultural factors.

Source: NDC Medium Term Expenditure Framework (MTEF) 2012

1. 2 Background information of the problem

This research intends to gain deeper understanding about how budgeting and budgetary control relate to Local Government Authorities (LGA's) performance. LGAs can make a significant contribution to the public welfare through the execution of government policies and the delivery of public services that are important to the people living in certain locality. LGAs special economic advantage lies in the nearness of the community to the decision makers and administrators of the programs that provide services. Local government has the potential to be the most transparent and

answerable level of government in providing services to the community. Strong LGAs fiscal administration enhances full realization of local programs as the citizen welfare are reflected in local programs; so that policies are conducted in a fiscally sustainable way; and so that resources are not lost through inefficient, ineffective, wasteful, or corrupt operations. The potential of responsiveness to the citizenry means little if resources intended to provide services slip into the pockets of politicians and bureaucrats (Shah 2007). Annual budgets for LGAs in Tanzania from domestic sources and grants in total exceed one trillion shillings (Tanzania National Audit Office (TNAO) 2010).

Most of the LGAs are practicing balanced budget which requires close budgetary control. Effective budgeting and budgetary controls are means to proper usage of allocated funds by the central government to the council towards development of the council in question. Effective budgeting and effective level of budgetary control arrangement depend upon a coordinated and efficient system of planning and control of operations. Coordinated and efficient system of budgeting and budgetary control ensures monitoring and execution of planned activities and provides directions and guidance to the council officials and other stakeholders on service delivery during the fiscal year.

In many LGAs; auditing reports have shown budget variances which contribute to poor performance due to lack of proper follow up of budgeting and effective level of budgetary control, embezzlement and haphazard reallocations.

In this study, the researcher analyzes the budgeting process and budgetary control in relation to local government performance for Nachingwea District Council and to examine the links between budgeting, budgetary control and performance.

In discharging their duties, every LGA is charged with the responsibility of passing a detailed budget of the estimates of the amounts expected to be received and expected to be paid by the LGA during the financial year not less than two months before the beginning of every financial year. Every LGA is required to presents the budget performance schedules which compare actual expenditure/income with approved budget as supplementary information to the financial statements.

Budgeting and Budgetary control practices is an important tools of management control and performances measure. It is an important component of improving Local Government performance and comparing current performance with expected performance with the view of attaining equilibrium. In the conduct of the day to day activities of Local Government Authorities, effective budgeting and budgeting control must be the key operating procedure which has to be prioritized. Budgeting and budgetary control has been practiced in LGAs for years but general public and stake holders are increasingly being dissatisfied by the way these councils are run. The LGAs are not only criticized for lack of proper control budget but also for the ill-conceived procedure for planning the expenditure and revenue.

The inefficiencies in budgeting and budgetary control by LGAs have generated dissatisfaction and criticism on council's financial management. In

the most recent report from the Controller and Auditor General (CAG) more LGAs than before received qualified and adverse opinion on their accounts.

The review shows that of all 133 LGAs in Tanzania, 48. 5% had unqualified opinion, 48. 5% had qualified opinion and 3% had adverse opinion. This shows that the number of unqualified opinion has decreased from 77(58%) in the year 2008/2009 to 65(48. 5%) in the year 2009/1020 whereas the number of qualified opinion has increased from 55(41%) in the year 2008/2009 to 65(48. 5%) in the year 2009/2010. The number of adverse opinion has also increased from 1(1%) in 2008/2009 to 4(3%) in the year 2009/2010 (TNAO 2010).

This information portray poor management of funds by local government in Tanzania, the reason is being lack of supervision on the part of council management to supervise and monitor implementation of projects for example Council transfer funds to wards and villages without making follow up. This demonstrates LGA's low capacity in budgeting and in execution of budgetary control which leads to poor performance; this builds up “ the researcher's fundamental problem” to be studied.

1. 3 Statement of the problem

The objectives of LGAs are non-profit. Social, economic and education services are objectives of LGAs which are directed towards individuals or groups which received the said services. The head of departments in LGAs like their counterparts in merchandise business are charged with stewardship of economic resources instead of trying to derive monetary gain. Thus, LGAs as an example of non-profit organization should install

adequate and effective methods and procedures in budgeting and budgetary control practices (Matz and Usry 1984). Since their establishment in the year 1961 to 1965, budgeting and budgetary Control practices in LGAs has been unsatisfactory, marked with mismanagement of public funds and poor collection of revenues resulting to failure on the part of the Council to fulfil the financial and economic goals hence poor performance.

Budgeting and budgetary control practices is crucial as it could lead to council poor performance. A recent review of revenue and expenditure evidenced that, 103 Councils in Tanzania had incurred total expenditure of Tshs. 1, 373, 576, 272, 098 against total income of Tshs. 1, 521,937, 206, 309 recurrent grants. Thirty one (31) LGAs have incurred a total expenditure of Tshs. 451, 774, 320, 398 against total income of Tshs. 426, 419, 510, 511. This results to budgetary variances of Tshs. 148, 360, 934, 211 and Tshs. 25, 354, 809, 887 respectively. Also the review shows that outstanding receivables and prepayments in all Local Governments in Tanzania amounted to Tshs. 44, 059, 104, 038. This signal there is a weak budgeting and budgetary control since Local Government practices a balanced budget (TNAO 2010).

Effective budgeting and budgetary practices is one of major bottleneck for LGAs to engage effectively in economic development of the council which leads to poor performance. The implementation of proper budgeting and budgetary controls will improve performance as it keeps the Council management focused on its programs and objectives of the Council. It is against this scenario, that the researcher found interest in analyzing

budgeting and budgetary control in relation to LGAs performance.

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1. 4 Objectives of the research

In response of the different literature on the concepts of budgeting and budgetary control in connection with performance especially limited research related to LGAs, intention of this research is to identify the relationship between budgeting and budgetary control and performance. The study then tries to check whether the recognized relationship between budgeting and budgetary control and performance is set by the actual budgeting and budgetary control of Nachingwea District Council. The following is a list of the specific objectives of this study:

To identify the role of budgeting and budgetary control in Nachingwea District Council

To identify the factors which limit the proper budgeting and budgetary control in Nachingwea District Council

To explore whether proper budgeting and budgetary control contribute to performance in Nachingwea District Council

To unveil the weaknesses in the current system of budgeting and budgetary control those accelerates the mismanagement of public funds and suggest measures to be to arrest the situation and enable Nachingwea District Council to perform better.

To identify the relationship between budgeting and budgetary control and performance in Nachingwea District council.

1. 5 Research questions

The study was guided by the following research questions;

What are the roles of budgeting and budgetary control in Nachingwea District Council?

What are the factors which limit the proper budgeting and budgetary control in Nachingwea District Council?

How performance is affected by proper budgeting and budgetary control in Nachingwea District Council?

What are the weaknesses in the current system of budgeting and budgetary control which accelerates the mismanagement of public funds and the prospects to improve it?

What is the link between Nachingwea District Council performance and budgeting and budgetary control?

1. 6 Scope of the study

Since the researcher cannot conduct the study at a large scale of say the whole country due to scarcity in financial and time resources, the researcher decided to take Nachingwea District Council as the case study however the methods developed can also be extended to other local government authority operating under similar conditions in budgetary control practices . However, generalization should be avoided.

1. 7 Justification of the study

Local authorities form the grass root of development of Tanzania economy because every citizen lives in a certain local authority. Misuse of public funds by unscrupulous officials or inefficiencies in the collection of revenue or due to lack of enough accounting skills has been widely reported in Tanzania local authorities. This study therefore intends to do the following;

1. 7. 1 For Theory

It can provide additional literature on budgeting and organization performance, to help future scholars a good reference material in the field of finance and investment. It also tries to fill the gap in preceding literature about how budgeting and budgetary control impacts performance in LGAs perspective particularly in Tanzania. It gives a bright insight into the correlation between budgeting and budgetary control and performance in LGAs by academic investigation. Furthermore, the study shows how budgeting and budgetary control practices impacts performance in LGAs performance. Lastly, it expands the existing research with more practical figures. Also the study contributes to LGAs literature, mainly in terms of the performance measurements in LGAs.

1. 7. 2 For Empirical Practices

This current study suggests measures for proper budgeting and budgetary control which will accelerate and by passing the likely problems and weaknesses so as to improve the performance of LGAs. The findings of this study will present Municipal Director (MED), District Executive Director (DED) and Head of Departments (HODs) of Councils with more useful perceptive

about how to apply the budgeting and budgetary control practices within LGAs. The study offer supplementary evidence of budgeting and budgetary control practice towards LGAs in Tanzania. Lastly, the study will facilitate the researcher to acquire more skills on how to conduct research findings and generate solutions to organization problems and also part fulfilment of the requirements of Masters Degree in Finance and Investment of Coventry University.

1. 8 Limitations of the study

The study was limited to the following factors

Time.

The time taken by the researcher do not suffice the collection, analysis and interpretation of data in its best way expected. However the researcher tried his level best to take note of this in order to have good results.

Access to data.

This was one of the problems that the researcher faced along the way. Some documents were confidential that they cannot be accessed with easy. The researcher asked permission to the officials concerned and assured them that data was for the learning purpose only.

Accuracy of data.

The data might not be very reliable due to unscrupulous officials who tend to hide their mistakes. The researcher educated respondents so that they can give reliable and accurate data.

1. 9 Structure of the dissertation

Figure 1. 1 shows the dissertation organization

Figure 1: The organization of dissertationChapter one

Introduction

Introduction about the research site, background of the problem, statement of the problem, justification of the study, scope of the paper, and limitations of the study are explained here.

Chapter two

Literatures review

Literature review on budgeting and budgetary control in relation to performance both theoretical and empirical evidence and conceptual framework and model

Chapter three

Research methods

This chapter gives the overall view of the research methods used to analyze the research problem

Chapter four

Presentation and discussion of findings

Descriptive Data analysis and presentation of the findings in relations to the study objectives and questions are discussed and will be presented

Chapter five

Summary, conclusion, recommendations and policy implications

This chapter provides summary of the findings from the study and conclusion of the study and recommendations either if further study is required.

Chapter six

Critical evaluation

This chapter presents a critical evaluation of the project, it review the appropriateness of the methods used and exploring the lessons learned.

Source: Study Findings (2012)

CHAPTER TWO

Review of Pertinent Literature

2. 0 Introduction

This chapter reviews some of the available literature on budgeting and budgetary control in relation to organization performance. Some basic concepts such as brief history of budget (section 2. 1); budgeting process (Section 2. 2), the budgetary control (Section 2. 3), and performance (Section 2. 4) are defined and explained in this chapter. Furthermore, this literature review also aims to identify the link between budgeting and budgetary control with Local Government Performance (section 2. 5), how

budgeting and budgetary control impact LGA's performance. This helps the researcher to establish a theoretical as well as an empirical base of the study.

2. 1 A brief History of Budget

The English word “ budget” stems from the French word “ bougette” and the Latin word “ bulga” which was a leather bag or a large-sized purse which travellers in medieval times hung on saddle of their horse. The treasure’s “ bougette” was the predecessors to the small leather case from which the finance ministry’s even today in countries like Great Britain and Holland present their yearly financial plan for the state. So after being used to describe the word wallet and then state finances, the meaning of the word “ budget” in 19th century slowly shifted to the financial plan itself, initially only for Governments and then later for private and legal entities (Hofstede, 1968, p. 19). It was then that budget started to be used as financial plans and not just as money bags.

2. 2 Budgeting Process

Budgeting is the process of planning, adopting, executing, monitoring and auditing the fiscal programs for the LGAs for one or more futures years(World Bank (WB) and The International Bank for Reconstruction and Development (IBRD) 2007). The budget process in LGAs is the comprehensive process including all financial bodies linked with it and there are no additional budgetary funds to hamper with financial discipline, clearness, answerability and the struggle against fraud. The process of budget reduces the use of allocated that minimizes the capability to allot resources to areas of main preference.

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Budget as the effective guide was passed to be implemented and serve as the statement of LGAs guiding principles. The process of budgeting in LGAs holds a greater focus on the link with development of guidelines, examining performance and legislative goals. The main intentions of LGAs budgeting is: assisting in planning expenditure to meet policy requirements; policy implementation and control; measuring and monitoring performance; determination of the total expenditure of the LGAs and ensure that it is consistent with total revenues; provide a basis for authorising the basis for budgetary control and satisfaction of statutory requirements (Scholes and Johnson 2001). LGAs budget is not just a statement of LGAs finances but it is the connection between mobilization of funds and accomplishment of LGAs objectives (Schaeffer and Serdar 2008).

LGAs budgets have traditionally been put up on the foundation of incremental line item budgeting practices. The crucial option of the line-item budget is that of spending management and management accountability. Generally, funds spent on line items and staffing levels are described as budgetary input. Hence, a certain type of performance measure can reflect the progress of LGAs with respect to spending in accord with its line item budget. The line item budget give a hand to LGAs officials to in understanding how much they are spending but does not reveal how much is being spent on the actual services delivery(Schaeffer and Serdar 2008).

The process of budgeting in generally involves an iterative cycle which moves between targets of desirable performance and estimates of feasible performance until there is, hopefully, convergence to a plan which is both feasible and acceptable(Emmanuel, Otley, Merchant, 1990, p. 31).

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Budgeting process had grown beyond the financial tool. It is above all managerial tool, in the essence; it is the best tool for making sure that key resources, especially performance resources are assigned to priorities. It is the tool that enables manager to know when to review and revise plans, either because results from expectations or to environmental, economic conditions, market conditions or technologies change, which no longer correspond to the assumptions of the budget (Hope and Frazer 2003). The scholars emphasized that budgets should be used as a tool for planning and control.

In LGAs budget process is the recurring series in which DED or MED develops a service plan to counter the likely circumstances in the forthcoming years; the district fully council reviews the plan and approve it based on the plan; then the district management presents it to MOFEA for approval then the mamangement of the council puts these plans into effects. After approval, MOFEA now is answerable for apportioning, disbursing and cordinating the execution of budgets at all LGAs.