THE ROLE OF BUDGETARY CONTROL IN ENHANCING
FINANCIAL MANAGEMENT IN LOCAL GOVERNMENT
AUTHORITIES: A CASE OF KINONDONI MUNICIPAL
COUNCIL

By:

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A Dissertation to Mzumbe University in partial fulfillment of the
requirements for the award of a Masters of Science Degree in Accounting
and Finance (MSc Accounting and Finance)

2013
CERTIFICATION

We, the undersigned, certify that we have read hereby recommend for acceptance by the Mzumbe University, a dissertation entitled ‘The role of budgetary control in enhancing financial management in local government authorities, in partial fulfilment of the requirements for award of the degree of Master of Accounts and Finance (MSC – A & F) of Mzumbe University

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I would like to extend my sincere gratitude to my Lovely God for his blessings towards overcoming all the shortcomings and difficulties which I came across during my studies and preparations of this report.

I also thank my supervisor, Professor Kimeme Joseph for his tireless efforts in assisting me in the course of writing this dissertation. He has been very instrumental for his ideas, challenges and positive criticisms. I must admit that without his advice, this work could not have been fruitful.

Lastly I would also extend my sincere thanks to my Msc Accounting and Finance class mates whose assistance enabled me to gain knowledge in the Accounting and Finance area.
LIST OF ABBREVIATIONS

AO : Accounting Officer
AO : Accounting Officer
CAG : Controller and the Auditor General
HO : Head Office
LAAC : Local Authority Audit Committee
LGA : Local Government Authority
KMC : Kinondoni Municipal Council
PMO : Prime Minister Office
RALG : Regional Administration and Local Government
ABSTRACT

The purpose of the study was designed to examine the role of budgetary control in enhancing financial management in Local Government Authorities. The study was conducted at Kinondoni Municipal Council (KMC). The study employed a case study using a sample of 50 respondents who were purposively selected in which questionnaire and interview were the data collection instruments finally the data were analyzed by using Ms Excel computer program.

The study found that information sharing, budget participation; organizational commitment, role ambiguity and job performance as the characteristic features of budgeting, budgeting and Planning and Analyzing & Feedback are not being effectively practiced at KMC and that there is little impact of budgetary control principles on financial management at KMC.

Finally the researcher recommends the KMC to ensure there is openness in accurate, current, and complete disclosure of the financial results of financially assisted activities in accordance with the financial reporting requirements, to ensure effective control and accountability is maintained for all grant and sub grant cash, real and personal property, and other assets, to maintain records which adequately identify the source and application of funds provided for financially assisted activities, and also to ensure that the terms of grant and sub grant agreements are not followed in determining the reasonableness, allow ability of costs.
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CHAPTER ONE
INTRODUCTION AND BACKGROUND TO THE STUDY

1.0 Introduction

This chapter describes the background information to the research problem with some references. It includes research problem, research questions, research objectives and significance of the study.

1.1 Background to the study

Any organization that is given the responsibility of ensuring human welfare, development and creation of wealth for the citizens, protection of life and property and promotion of societal good through coordinated and cooperative efforts requires a sound financial management in order to achieve its target goals and objectives. One of such organizations is Local Government which does not only require capital but it also needs knowledgeable and skilled personnel to manage efficiently the money which is always insufficient to meet its needs; Ojofeitimi, (2000).

Finance and its prudent management are the bedrock of effective functioning of local government. No one can doubt the need for efficient financial management in any modern local governments require finance to perform their statutory provisions which border on provision of services and bringing about development in their delimited areas. Availability of adequate fund, coupled with efficient financial management constitutes the required catalyst necessary for timely execution and completion of development projects by local government; Ojofeitimi, (2000).
In recent time, lack of funds has often been attributed as the major problem which had hindered effective and successful execution and completion of many public projects at the local government level. However, experience has shown the contrary that poor finance management, rather than inadequate finance is the bane of local governments’ inability to achieve substantial development in their domain; Ojofeitimi, (2000).

Traditionally, considerable importance is attached to what can be the money factor in the functioning of organizations in both public and private sectors. One important issue of concern is usually the management of available financial resources. Generally speaking, a number of various approaches for efficient finance management are available. However, the approach to be adapted must take into account the peculiar nature of the project, its environment, purpose and the public it is meant to serve; Nwankwo, (2004). This is because if a “wrong” or “unpopular” approach is adapted for a particular project, it can mar the project completely.

The different approaches that can be adapted for efficient financial management at the local government level include the following:

The use of budget has been a long standing practice in the local government system. Budgetary control is concerned with ensuring that the financial management plan that has been agreed with the board of management is achieved. Control is effected through monitoring expenditure before and after commitment to prevent under expenditure or over expenditure. An effective use of the budget is good for achieving efficient financial management.
A budget is a plan of activity expressed in financial terms; such plans are often short term, typically covering a period of one year. When approved, the budget becomes an authority to raise the amount of revenue and incur the amount of expenditure stated therein.

Adamolekun 8 summarized the purpose of a budget thus:

- A short term financial plan;
- A political document couched in figures;
- A management tool used for both planning and control;
- A device for ensuring continuous monitoring procedures, and reviewing and evaluating performances with reference to previously established standards;
- A agent to enable management to anticipate change and adapt to it;
- An overall method for improving operation.

Under the supervision of the Prime Minister’s Office Regional Administration and Local Government (PMO-RALG), Local Government Authorities (LGAs) in Tanzania play an important role in the delivery of public services. This is achieved through mobilization of financial resources through taxes and levies, followed by expenditure of those resources towards fulfillment of their mandate (PMO-RALG, 2012).

According to the Local Government Finances Act (1982), the PMO-RALG is the responsible for ‘ensuring the proper management of the finance of the local government authorities. PMO-RALG ensures proper local financial management
through the issuance of local budget guidelines, procedures, and instructions on the
development of the local budget (PMO-RALG, 2012).

LGAs collect roughly 5 percent of all public revenues and are responsible for about
20 percent of public spending. This means that one out of every five shillings spent
in the public sector is spent at the local government level. Revenue collections and
expenditures in LGAs are guided by annual budgets in which annual revenues and
expenditures are estimated (PMO-RALG, 2012).

LGAs issue expenditure guidelines on approved budget, and begin implementation.
It is possible for council directors to alter their approved budget during the financial
year, and this often happens. PMO-RALG monitor LGA accounts, revenues and
expenditures on quarterly basis to ensure that plans budgets are implemented and
executed as planned (PMO-RALG, 2012).

As with central government, the Accounts of all LGAs are required to be audited by
the national audit office (CAG). The Parliamentary Local Authorities Accounts
Committee (LAAC) is responsible for reviewing CAG reports for LGAs and for
holding accounting officers accountable. However, given the multiple sources of
funding obtained by LGAs, can be subjected to a number of inspections and audits
(PMO-RALG, 2012).

Finally, there is the Local Government Capital Development Grant Annual
Assessment conducted in September of each fiscal year for all LGAs. This is the
process by which LGAs are judged against the minimum conditions and performance
measures that determine whether they qualify to receive the Local the Local
Government Capital Development Grant in the subsequent financial year (PMO-RALG, 2012).

Budgets are necessary to prudently manage scarce financial resources and at the same time serve as means of expenditure authorization, control and evaluation base. Profit making organizations consider budgets and budgetary controls important elements in their policy making. The success of local government authorities depend largely on good budget preparation and effective budgetary controls (PMO-RALG, 2012).

LGAs prepare budgets but the degree and extent to which budgets are prepared and formulated into performance budgets vary from each other. Even where formal budgets are prepared their nature and purposes may vary. Financial irregularities in many LGAs in Tanzania erupt from the fact that budgets and budgetary controls are weak or absent (PMO-RALG, 2012). Below is a figure showing the budget cycle in LGAs.
Figure 1.1: Budget formulation, debate and approval of LGAs

Source: PMORALG (2012)
1.2 Statement of the problem

Financial regulations in LGAs require that budgets should be prepared based on availability of resources. LGAs are required to ensure that they generate enough resources to compliment central government grants which are always inadequate. They can also look elsewhere for resources to support their budgets. It means some activities captured in the budget could not be undertaken or could be partly touched.

An annual report prepared by the Controller and the Auditor General (CAG, 2011) revealed that the majority of LGAs prepare budgets but most time the expenditure always exceeds the revenue resulting in budget deficits. The budget deficits occur because of poor budgetary planning, poor budgetary control and lack of ownership and responsibility when it comes to budgetary control.

Poor budgetary planning and control also have other consequences. The consequences are that: revenues may be over-estimated to the extent that the estimated revenue is higher than the actual revenue; expenditures may be under-estimated to the extent that the actual expenditure is higher than the estimated expenditure. This often hinders the ability of LGAs to fulfill their mandates (CAG, 2011)

The CAG (2011) report also concluded that poor budgetary planning and lack of budgetary control systems in LGAs has resulted in embezzlements, mis appropriations and misapplication of public funds. However, no academic study has been previously conducted to establish the role of budgeting as a financial
control tool within KMC as a result, there is a knowledge gap. It is the objective of this study to contribute to filling this gap.

1.3 Objectives of the study

The objectives of the study are in two parts, main and specific objectives.

1.3.1 Main objective

The Main objective of the study was to examine the role of budgetary control in enhancing financial management in local government authorities. Kinondoni Municipal Council being a case of study area.

1.3.2 Specific Objectives.

The study was guided by the following specific objectives;

a) To assess the characteristic features of budgeting that enhances financial management at KMC.

b) To determine the extent to which budgetary control principles are employed to enhance financial management at KMC.

c) To investigate the impact of budgetary controls on financial management at KMC.

1.4 Research questions

The study was guided by the following research questions;

a) What are the characteristic features of budgeting that enhances financial management at KMC?
b) To what extent the budgetary control principles are employed to enhance financial management at KMC.

c) What is the impact of budgetary controls on financial management at KMC?

1.5 Significance of the study

The findings of this study will be useful to the managements of LGAs, accountants, planning officers and other officials involved in budgetary planning, implementation and control in LGAs by helping them to become aware of the role of budgeting as a financial control tool, challenges faced by LGAs in using budgeting as a financial control tool and the consequences of poor budgetary control in LGAs.

The findings of the study will also help the management of LGAs, accountants, planning officers and other officials involved in budgeting to come up with strategies that will help to improve budgetary control in LGAs. The findings of this study will also serve as a guide to policy makers, development workers and stakeholders in Tanzania and the world as a whole.

The findings of the study will also serve as a stepping stone for future researchers on the same or similar topics by providing them with a source of empirical references for studying the role of budgeting as a financial control tool in LGAs in Tanzania. Successful completion of the study will also help the researcher to fulfill the requirements for the award of a Masters degree in Accounting and Finance offered by Mzumbe University.
1.6 Scope of the Study

The study was about providing the general understanding about the characteristic features of budgeting that enhances financial management, the extent to which budgetary control principles are employed to enhance financial management and investigating the impact of budgetary controls on financial management at KMC.

1.7 Limitations of the study

In conducting the study, the researcher expects to face the following limitations;

Time constraints

The researcher faced shortage of time to conduct the study extensively and intensively due to time constraints.

Poor responses

Since budgeting is a sensitive issue and it involves financial matters, some respondents failed to provide the researcher the information requested, hence, lack of sufficient information may hinder the researcher to complete the study effectively. The researcher dealt with this by assuring respondents of confidentiality.

1.8 Delimitation of the study

The researcher employed a manageable sample size so as to save the cost associated with this study as well as budgeting his time for effectively dealing with study.

1.9 Organization of the study

This study is organized and presented in five (5) chapters namely; introduction, literature review, methodology, presentation of findings and summary, conclusion and Policy implications.
CHAPTER TWO
LITERATURE REVIEW

2.0 Introduction
This chapter provides the theoretical base of the study. It also gives readers the result of other studies that are closely related to the study. It relates the study to the larger on-going dialogue in the literature about the topic, filling the gaps and extending prior studies.

2.1 Definition of key concepts

2.1.1 Budget
Frederick (2008) defines budget as plan that is measurable and timely. He also defined budget as financial plans that provide the basis for directing and evaluating the performance of individuals or segments of organizations. Merchant (1981) defines budgeting system as a combination of information flows and administrative processes and procedures that are part of planning and control system.

Drury (2006) defines budget as a plan expressed in quantitative, usually monetary term covering a specific period of time usually one year. In other words, a budget is a systematic plan for the utilization of manpower and materials resources, especially financial resources. In a business organization a budget represents an estimate of future costs and revenues.

Lucey (2006) defines budget in monetary terms as a plan prepared and approved prior to show income, expenditure and the capital to be employed. It may be drawn up showing incremental effects of former budgeted or actual figure, or be compiled by zero -based budgeting. He further argues that budgets help to allocate resources, coordinate operations and provide a means for performance measurement.
Budgets, by definition, have to be prepared in advance and for this reason, they are often referred to in terms of their being part of a feed forward system. Feedback is a term frequently heard both in accounting and ordinary use. According to Hall (2006) feed forward means looking at situations in advance, thinking about the impact and implications of things in advance, and attempting to take control of situations in advance.

Financial management is an important aspect of public administration of every nation and it is one of the elements that make government effective. It involves financial forecasting, financial planning and budgeting, financial reporting and auditing. Budgeting is one of the important tools used by local government authorities in Tanzania to enhance financial control; Hall, (2006).

Blocher et al (2002) stress that in order to ensure sound financial management there should be good planning, accounting and budgetary systems. Without good planning, accounting and budgetary systems, local government authorities risk incidence of financial mismanagement for the meager revenues they collect through spending of funds in a manner that is not governed by rules and regulations.

The term budget appears to have been derived from French word “baguette” which means “little bag” or receptacle or document and accounts. According to the concise dictionary; Lowis and Charles, (2001), the word budget may mean any of the following:

- Contents of bag bundle
- Annual estimate of revenue and expenditure of country or an organization.
Private person’s similar annual estimates of revenue and expenditure.

**Importance of Budget**

Budgets are tools that are used by management in accomplishing their task. According to Drury (2006), when preparing budgets, the management is forced to look to forward and consider how various function of the organization is coordinated. Reasons for producing budgets include; planning for annual income and expenditures to ensure that they are in harmony and ensuring financial control in expenditure.

According to Drury (2008), there are various types of budgets namely; sales budgets, production budget, purchasing budgets, plant utilization budget, capital expenditure budgets, production cost budget, selling distribution budget and cash budget. These types of budgets together make up the sum total of the corporate budget. Thus, the types of budget above can be considered as parts which make up the corporate budget.

Budget is important tools for measuring attainment of companies’ objectives. They show the policies, procedures and priorities that if practiced effectively the goals will be attained. But then if such budget will not be executed well the utilization of resources and result of operations will not be achieved to undertake various decisions so as to be aware of what direction the entity is moving towards goals fulfillment; Hilton, (1999).
A well-prepared budget device used to measure the performance of department or sections. Since standard and targets are set in advance by each department/section operating towards achieving the pre-set targets. At the end of certain agreed period (usually a single or several financial year(s)) the actual performance is compared with the targets, variances calculated and analyzed; Hilton, (1999).

Budgeting is one of strategic tools in resolving some problems facing Tanzania business enterprises. Budgeting can be used by the management of an organization in planning and controlling the activities of the enterprise as an instrument of aiding the management in financial planning and control. As the budget process goes on, it ensures that the companies are in the right track in performing its functions smoothly; Hilton, (1999).

2.1.2 Budgetary Control

Budgetary Control is the process of comparing actual results with planned results and reporting on the variations; Lucy, (1989). Control compares actual performance and budgeted and helps expenditure to be kept within agreed limits.

Budgetary Control is constituted of Budgeting, monitoring and control, analyzing and feedback

2.1.3 Budgeting

Budgeting is the process of preparing and using budgets to achieve management objectives. A budget represents management’s plans of action for future periods of

➢ **Preparation of Budgets**

In large company the preparation of the budget is usually the responsibility of budget committee, normally the chief executive is the chair person of the committee but responsibility of operating the system is undertaken by a budget officer generally is the senior member of accounting staff. Other member of committee may be a representative of various departments; Woelfel, (2007).

As part of budgeting process evaluation is an important step. Budgeting provides a way to plan for profitability, measure performance, control activities, and report progress. Actual accomplishment must be compared with pre determined standards, if the company is to know how well it is moving towards, completion of its plan. The budget itself must be evaluated and revised as the future becomes the present and as expectations changes.

In any business enterprises planning and control are two ingredients involved in managing a company and making a profit.

Woelfel, (2007) provides the meaning of these two concepts as follows: planning is the process that establishes goals and objective and develops a decision model for selecting the means of attaining those goals and objectives. In planning one is required to make choices relating to goals and objectives. On the other hand, control is primarily the task of determining that actions undertaken are in accordance with plans, and using feedback to assure that goals and objectives are being attained.
2.2 Characteristic features of budgeting

Characteristic features of budgeting include budget participation, information sharing, organizational commitment, role ambiguity, and job performance was measured using a survey questionnaire by Parker & Kyj, (2006).

Early study, Stedry (1960) examine the relationship between the types of budget and individual performance. Shields and Shield (1998) reviewed budgetary participative in management studies, focus on the effects of participative budgeting. Budget participation can lead to greater understanding of the budget settings, greater trust in budget targets, and lowering the subordinates fear, apprehension and suspicion of budget targets, Lau & Lim, (2002).

2.2.1 Budget participation

Budget participation has been extensively investigated in management accounting literature using participative budgeting as an independent variable. Participative budgeting can be examined directly with dependent variables such as job performance or satisfaction or associated indirectly, mediated by an intervening variable, with dependent variables; Stedry, (1960), Sheilds & Sheild, (1998), Nouri & Parker, (1998), Fisher et al., (2002) and Parker & Kyj (2006). In general, the current study investigates such a relationship between the manager characteristics and department factors with budget participation as one of the budget characteristics.
2.2.2 Information sharing


Shield & Shield (1998) and Parker & Kyj (2006) support Shields and Young’s (1993) argument that budget participation is used to facilitate the communication of private information from subordinates to superiors. A common assumption in the accounting literature (especially agency theory) is that subordinate managers hold private information regarding their task and know about their operational areas more than do their superiors; Merchant, (1981), Nouri & Parker, (1998), Shields & Shields, (1998) and Covaleski et al., (2003).

The flow of information up-down has also been addressed in the literature; Kren, (1992), Parker & Kyj, (2006) that superiors generally have private information regarding to achieve strategic budget goals which may facilitate the subordinates achievement of those goals; Gladney et al., (2009).

2.2.3 Goal clarity

Goal clarity has been defined in the literature as the extent to which goals are clear, stated specifically and understood by the employees; Kenis, (1979). Another term appears in the literature is role ambiguity. Role ambiguity shows that an employee is uncertain about his role within the organization.

It is argued that participation in the budget setting process has potentially to clarify the role; Chenhall & Brownell, (1988). Several empirical evidences suggest that as intervening variable between budget participation and job performance role ambiguity has a significant negative association with individual performance; Chenhall & Brownell, (1988), Parker & Kyj, (2006).

Parker & Kyj (2006) find not only role ambiguity has a significant negative relationship with job performance but also role ambiguity has negative relation with organizational commitment. Chenhall & Brownell (1988) view the role ambiguity as the extent to which clear information is lacking regarding to the expectations associated with the role, methods, and the consequence of role performance. They argue that through budget participation, subordinates gain information that make their organizational roles clear. They find that budgetary participation help to decrease manager’s role ambiguity and this decrease improves job satisfaction and performance.

Parker & Kyj (2006) suggest that both job performance and organizational commitment is affected directly and adversely by role ambiguity. Further, indirectly role ambiguity affects information sharing through organizational commitment.

2.2.4 Budget adequacy

Parker and Nouri (1998) define budget adequacy as the degree to which manager perceives enough and adequate budgeted resources to fulfill their job requirements. Several accounting studies research the impact of budget participation on budget adequacy; see Merchant, (1981), Parker & Nouri, (1998), as they assume that managers will attempt to participate in the budget process to have adequate resources for their departments.

Various researchers have stated that subordinates participation in budgeting process may well result in the disclosure of private information that could result in more accurate budget; Merchant, (1981), Nouri & Parker, (1998). As Young (1985) explains that budget adequacy differs with slack budget that budget adequacy does not necessarily involve excess resources or biased budget forecasts as occurs in budget slack.

Nouri & Parker (1998) propose that employees with adequate budgetary would support on average exhibit higher performance than employees without adequate budgetary support. They find that budget participation have an effect on job performance indirectly via budget adequacy.
2.2.5 Budget feedback

It is one of the important motivational variables measuring the degree to which budget goals have been achieved; Kenis, (1979). While many researchers have examined the relation between the budget feedback and the performance; see Kenis, (1979), Nouri & Kyj, (2008) and Gladney et al, (2009), none to the knowledge of the researchers, have directly examined the relationship between the manager and department related factors with budget feedback.

Kenis, (1979) finds that budget feedback related positively to the job satisfaction, and budgetary motivation. Gladney et al, (2009) concluded that budget meeting with budget committee members enhances the budgetary communication between the managers and the supervisor in term of budgetary feedback. The current study proposes and tests a direct relation between the manager and department related factor and the budget feedback.

Budgetary Feedback is the feedback about the degree to which department’s managers have achieved their budget goals; Kenis, (1979) and the degree to which superiors (top management) provide feedback to department’s heads about their achievement of budget goals.

The logic behind using budget feedback as variable was explained by Kenis, (1979) that if department’s budget functionary do not know the results of his effort, he will lost any feeling of success or failure and incentive for better performance. Flamholtz et al, (1985) has studied the feedback as a control mechanism, explained that the
information which is needed in order to correct individual behavior, is given to individual by the feedback.

Budget feedback could be either direct “face to face meetings” or indirect through reports or written explanations. Further, face to face meetings provide opportunities for supervisors to explain directly the reasons for their budget decisions to the subordinate manager and to provide feedback for the manager’s achievement of budget goals. Gladney et al., (2009) and Flamholtz et al. (1985) stated that feedback information could be either specific to the work goals or general, or about work behaviour or work outcomes. Thus, the feedback process information may depend on the nature of the work goals or on the measurement system; Flamholtz et al., (1985).

2.3 Budgetary Control Principles

Budgetary Control is the process of comparing actual results with planned results and reporting on the variations; Lucey, (2006). Control compares actual performance and budgeted and helps expenditure to be kept within agreed limits.

Budgetary Control is constituted of Budgeting, monitoring and control, analyzing and feedback

2.3.1 Budgeting

Budgeting is the process of preparing and using budgets to achieve management objectives. A budget represents management’s plans of action for future periods of an organization; Drury, (2002), Pandey, (1994). Extensive use of budgeting has been documented in studies of Scarborough et al., (1991). They have largely highlighted
the significant emphasis, which diverse types of organizations in various countries, put on budgeting systems, as key elements of management control.

Increasingly, however, there appears to be a paradigm shift in the management accounting literature, while there are still advocates of budgeting, critics argue that the traditional budget is no longer appropriate given changes in technology and the rapidly changing business environment; Kaplan, (1988), (1990), Johnson and Kaplan, (1987). Proponents of budgeting argue that budgets have several important roles. Blocher (2002), for instance argued that budgets help to allocate resources, coordinate operations and provide a means for performance measurement. Hilton (1999) agrees with this view and claim that the budget is most widely used technique for planning and control purposes.

The Institute of Cost and Management Accounts defines a budget as a plan quantified in monetary terms, prepared and approved prior to a defined period of time, usually showing planned income to be generated and/or expenditure to be incurred during that period and the capital to be employed to attain given objectives; Mordi, (2000). Budgeting involves the preparation of an itemized financial statement showing what the expenditures are going to be over a given period, usually a year. The budget may also show what income the institution is likely to generate during the same period.

Cole (1995), noted that fundamental to the success of any organization, is drawing a budget plan and putting it in operation. Further, notes that creating a budget is
important as it enforces an organization to carefully consider the expected demand for its products, services and the resources required to meet that demand.

It also translates the higher priorities for the organization into the appropriate resources required to achieve those priorities, as it would be difficult to allocate resources due to scarcity without a budget plan. It creates the baseline against which actual results can be compared, budgets act as a basis for measuring performance in organizations and help in directing the activities of the organization hence giving earlier signals on variances in sufficient time to take corrective actions. Clarke and Toal (1999) too are of the opinion that budgets are till essential and can for example, be incorporated as part of the financial component of the balanced scorecard. Pierce and O’Dea (1998) also subscribed to the view that budgets are still relevant to today’s business environment.

Budgeting serves functions of financial and management control. Financial control results to the control of financial resources while management control ensures that the activities of the parts of the organization are coordinated; Otley, (1987). Budgets coordinate the activities of the parts of the organization, through this; the objectives of the organization are harmonized with the objectives of the parts or departments. Budgets facilitate coordination through communication of information about plans to managers and employees; Nassolo, (1997).

Budgets perform the function of control, which is the art of comparing where you are (actual performance) to where you are supposed to be (Budgeted) so that corrective action can be taken. It is necessary to ensure that plans as laid down in the budgets
are being achieved. Through control, organizational activities are monitored and performance is evaluated; Sebbi, (1994), Lewis, (1996). Budgeting at the local level is intended to improve service delivery by shifting responsibility from policy implementation to the beneficiaries and promotion of local skills. This is intended to place emphasis on transparency and accountability in the management of public affairs; Dannilo, (2002).

2.3.2 Planning

Planning as part of the Budgeting system involves a long range planning, strategic planning and short term planning; Sizer, (1989). Further, emphasizes that short term budgeting must accept the environment of today, and the physical human and financial resources at present available to the organization. Planning involves selecting objectives and action to achieve them. It is looking ahead and preparing for it, which links it to budgeting. Through planning the organization is able to assess where it is supposed to be in terms of objectives and goals. This comes from the information system; Lewis, (1996), Stoner, (1996)

Good planning is characterized by clear objectives and goals. It must be simple and comprehensive. The plan should be well balanced and flexible so as to incorporate changes in the resources and should be time bound. Properly covered plans tell what, when and how something is to be done; Chandan, (1995), Bhatia, (1996). Sound planning mentions priorities and the planning control cycle. Since there are so many activities to be performed, it’s imperative that they are listed in order of preference.
Budgets are put in place in advance of the budget periods based on anticipated set of circumstances or environment. The major decisions are made as part of the long term planning process; Selznick, (1988). Benefits of budgeting accrue to the whole organization if both the short and long term consequences of the budgets are considered; Otley, (1987). However, the annual budgeting process leads to the refinement of those plans, since managers must produce detailed plans for the implementation of the long range plans. Without the annual budgeting process, the pressures of day to day operating problems may tempt managers not to plan for future operations; Scott, (1987).

2.3.3 Monitoring and Control

Budgetary Monitoring and Control is a deterrent process against misappropriation of funds in terms of procedures and rules that establish the boundaries of financial behavior.

According to Drury (2002), budgetary monitoring and control process is a systematic and continuous one which, is characterized by the following stages: Establishing targeted performance or level of activity for each department of the organization by way of setting targets to be achieved enhances the monitoring of the organizations performance. Communicating details of the budgetary policy to all the stakeholders for easy appreciation of the set targets and objectives enhances ownership of the results achieved at end of the day.
Monitoring actual revenue or cost data this is done by way of continuous comparison of actual performance with the budgeted performance and regular reporting of variances to the responsible officers. This helps in asserting the reasons for the differences between actual and budgeted performance and taking the suitable corrective action. The “bottom top” approach of budgeting allows participation of all levels of management in the decision making process. Negotiations then begin between the corporate office and department heads to finalize budgetary figures.

The budgetary process then shifts to a "tops down" approach, where the corporate office has ultimate control to set the final budget. Through this process of monitoring, analysis and control, the problem of "ratcheting" is generally avoided; Kelly, (2003).

A budgetary monitoring and control process assumes that expenditure must agree with the budgeted plans and maintains information about expenditure. Financial control is also one of the most important aspects of budgeting. By means of budgetary control, which means comparing actual results with planned results and reporting on the variations, a control frame is set for management; Kelly, (2003).

This frame points to managers to track flow of resources accurately and consistently. This calls for continuous control process through the year, and not just at the end of a budget period. The objectives of control are to plan the policy of an organization, to coordinate the activities of the organization so as to achieve the targets set.
According to Briston (1981), financial control and monitoring ensure efficient and cost effective program implementation within a system of accountability. He however, noted that the existing financial control arrangements must be complemented by further improvements in the overall program monitoring for better budget implementation in accordance with approved work programmes.

2.3.4 Control

Control basically provides the ex ante motivation to achieving the budget and the ex post reinforcements necessary to ensure future motivation; Kerr, (1979). Hence the perception of variances as extremely important and valid measures of performance is upheld. The evaluation of budget performance should be based on a comparison of actual performance with an adjusted budget to reflect the current circumstances of the environment under which managers are actually operating in. A budget therefore, assists managers in monitoring and controlling the activities for which they are responsible.

By comparing the actual results against the budgeted amounts for different categories of expenses, managers can ascertain which costs don’t conform to the original plan requires their attention. This process enables management to operate a system of management by exception, which means that a manager’s attention and effort can be concentrated on significant deviations from the expected results. Thus enabling managers to identify inefficiencies and appreciate control action thought to remedy the situation. By means of budgetary control that is, comparing actual results with planned results and reporting on the variations, a control frame is set for
management. It helps expenditure to be kept within the planned limits; Alesina and Perotti, (1996).

Carr, (2000), argues that in order to achieve the expected output results, monitoring and evaluation is necessary. Monitoring and evaluation maintains stability under many competing forces, hence important to lower local government effectiveness Hokal and Shaw, (1999). However, Hokal and Shaw continued to note that monitoring and evaluation requires only raw data to test and examine performance which is time consuming yet contributes little to performance.

2.3.5 Analyzing and Feedback.

Budgetary Analysis

Analysis is the process of examining variances by subdividing the total variance into smaller parts in such a way that management can assign responsibility for any off budget performance. An aspect of variance analysis is the need to separate controllable from uncontrollable variances. A detailed analysis of controllable variances will help the management to identify the persons responsible for its occurrence so that corrective action can be taken.

Through variance analysis it is established whether over expenditure is caused by deliberate actions or inadequate controls by management; Arora, (1995). It is imperative that staff learns that their adverse variances are be analyzed, that unjustified expenditure will not pass without punishment. This will increase staff care as to the use of resources in performance of tasks and in so doing control costs and the associated variances.
According to Glautier, (1997) and Fang, (1998), a budget variance requires analysis, investigation and correction. The analysis of the budget variance necessitates splitting up the variance into two components of standard costs i.e. quality standard and the price standard.

The primary function of evaluation reward aspect of budgetary control is to provide the ex ante motivation to achieve the budget and the ex post reinforcement necessary to ensure future motivation; Kerr, (1979). This is what makes variances to be perceived as extremely important and valid measures of performance.

Performance evaluation of budgets should be based on comparison of actual performance with an adjusted budget to reflect the circumstances of the environment under which managers actually operate. A budget assists managers in managing and controlling the activities for which they are responsible by comparing the actual results against the budgeted amounts for different categories of expenses, managers can ascertain which costs do not conform to the original plan and thus require their attention.

According to Kreitner (1989), corrective action is necessary when the final results deviate from plans. The gaps are addressed through punishment of those staff that spends more than the budget without good reason. In situations where gaps were not anticipated and they occurred, it is necessary to redraw the budget so as to have the objectives match the cost incurred and this is feedback control.
**Budgetary Feedback**

Feedback is an important role of budgeting for attaining the expected quality and standards in planning, control and leadership and staffing. According to Cook (1968), feedback is generally positively associated with budget performance. It focuses on the extent to which employees have achieved expected levels of work during a specified time period. The reports should be simple and suitable for the level of understanding for the user. They should be presented promptly to enable timely actions to take place. Reports should be accurate to enable the making of corrective decisions based on the reports. However, the extreme accuracy should not be at the cost of promptness. It has to be noted that the principle of exception should be utilized where possible.

Budgetary Control is not effective unless there is continuous flow of budget reports. These reports should be prepared at regular intervals (say monthly) to show comparison of actual performance with that budgeted. Such reports may be presented to heads of budget centers, showing favorable or unfavorable variances from budget figures. These heads of budget centers should explain these variances to the top management so that necessary corrective action may be taken; Arora, (1995).

According to under down (1997), a good budget system should be integrated with the standard cost system. Where standard costing system is used it should be integrated with the budget programme in both budget preparation and variance analysis.
2.4 Empirical literature review

Likwembe (2001) in his study on participatory planning and budgeting in Local Government authorities in Tanzania emphasized that, participatory approaches to planning and budgeting are not the direct opposite of conventional planning. With appropriate facilitation to top-down development plans/activities can be introduced to local people; implemented, monitored and evaluated in a participatory way.

Audrey (2000) in his research problem on effectiveness of budgeting at the Lutheran church found that; the Lutheran church faces the problem of computer resources which lead to delay in preparation of monthly reports. Consequently, corrective action cannot be made from information received late. There are problems of coordination between productive and non-productive departments.

Pembe (2003) in his study an assessment of budgeting and budgetary control system with focus on the Institute of Rural Development Planning based at Dodoma, he concluded that; there is persuasive evidence provided by empirical observation that the IRDP has succeeded in achieving its objectives by the use of the budget to the extent that it has a strong base for carrying out its vision, mission, goals and objectives.

This observation arises from the fact that IRDP uses the cash budget which has its foundation in the MTEF system, a system which has been adopted by the Tanzanian Government, Ministries and departments. This is despite the fact that the MTEF system is more time consuming and involves detailed analysis and resources. Moreover, the system may lead to resistance to restructuring of organizational functions and activities.
It was found that Government Institution such as IRDP have to exercise budgetary control systems in order to restrict observance of procedures for expenditure of resources made available, and the budgetary control must not be done by management alone but rather it should be participatory. He also recommended that there are areas that should be addressed in order to assure the effectiveness of the budgetary control system.

Effective budgeting is directly linked to performance of Organizations. Performance of organizations is measured by its productivity, efficiency in service delivery, quality of customer service, revenues collected, generated and ultimately, profitability. It is thus assumed that the effective the budgeting process of the organization, the more profitable the organization becomes; Lowis and Charles, (2001).

One of the factors that hinder the effective budgeting as a financial planning and control tool is lack of appreciation of the importance of budgeting; Lowis and Charles, (2001).

Many organizations conduct their budgeting processes in ad-hoc manner. Also, lack of knowledge and skills in budgeting results in misallocation of organizational resources and waste of hard earned revenues and low profitability; Lowis and Charles, (2001).

Another factor that hinders effectiveness of budget as a financial planning and control tool in organizations is lack of continuity. For a budget to be effective, it
must show continuity with previous budgets. Lack of continuity results in misallocation of funds; Lowis and Charles, (2001). Another obstacle to effective budgeting as a financial planning and control tool is lack of decentralization in the budgeting process. Lack of decentralization results in lack of control, vast diversion of revenues thus, many organizations have failed to use budgeting as a financial planning and control tool.

From the literature reviewed in this study, it is clear that budget plays a very important part as a tool for financial planning and control. However, for a budget to be effective, the budgeting process must be total corporate exercise. A budget cannot be successful unless there is a proper feedback system. Also, the budgeting process must be conducted by qualified personnel.

2.6 Conceptual framework

Figure 2.1 below demonstrates a more detailed view of the role of budgetary control as a financial management tool. As shown in the figure below; effectiveness of budgetary control as a financial management tool depends on adherence to Budgeting and Planning, Monitoring and Control and Analyzing & Feedback and effective practice to ensuring Budget participation, Information sharing, Goal clarity, Budget adequacy and Budget feedback.
The above model holds that budgetary control process such as budgeting and planning, monitoring and controlling and feedback are essential practices in enhancing the financial management of organizations. It is thus assumed that budget participation, information sharing, goal clarity, budget adequacy and budget feedback are the main determinants of the financial management performance of the organization.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the overall research design, location of the study, sample of the study, sample size, sampling techniques that were used to select respondents, nature of the study, data collection techniques that were used to collect information and data analysis as well as sources of data collection techniques.

3.2 Research design

This study used a case study research design. Case study means a plan for collecting and observing data about a particular social unit in its natural setting. The researcher used case study due to limited amount of time available to conduct the study. Also, the researcher adopted both, qualitative and quantitative research approaches. The qualitative approach helped the researcher to examine the effectiveness of budget as a tool for financial planning and control at KMC. The approach was more exploratory and inventive in nature. The researcher opted for this approach as it enabled him to examine in detail through questions and discussion with staffs at KMC.

3.3 Area of the study

The study was conducted at the Head Offices of KMC which are located in Kinondoni area in Dar es Salaam. The study focused on the Accounts and Finance Department of the organization which is responsible for preparation of budget of the organization in cooperation with other departments.
3.4 Population of the study

The population for this study included the Council Director, the council executives, the members of the accounts and finance department and members of staff from the operations department and procurement department of KMC.

3.5 Sampling techniques

The researcher purposively selected 50 respondents from among the population of members of staff of KMC based on their familiarity with the issue of budgeting. Among the respondents, 1 of them was the Council Director (Warrant holder) who is responsible for holding a council meeting for finance and planning, 4 of them were the council executives who are responsible for preparing draft council plan and budget and submit them to Regional Secretariats, 15 were the members of the Accounts and Finance Department and 30 respondents were ordinary members of staff from the Operations Department and Procurement Department of KMC.

3.6 Data gathering instruments

During the study both primary and secondary data collection methods were used. Primary data collection methods that were used include observation, questionnaires and interviews. Secondary data collection method that used was documentation.

3.6.1 Questionnaire

In this study questionnaire was used to collect information from respondents on the impact of promotion on employee performance. The researcher used questionnaires because they can cover large samples at low cost.
3.6.2 Observation
The researcher observed on how members of staff of KMC perform their day-to-day activities. Observation method was used because it allowed the researcher to see the situation by him.

3.6.3 Interview
Both, group and individual interviews were conducted with respondents by using open ended and closed ended interview questions. This method enabled the researcher to supplement information obtained by using questionnaires.

3.6.4 Documentation
Documentation method was used because it enabled the researcher to get ready-made data and information by passing through various documents such as; financial reports, accounting manuals and past budgets prepared by the municipal council.

3.7 Data Reliability and Validity
In order to ascertain reliability and validity of data collected during the study, the researcher conducted a pilot study where by questionnaires were distributed to 5 respondents so as to identify questions that might be unclear or ambiguous to the respondents. This allowed for corrections to be done before questionnaires are distributed to the larger sample.

3.8 Ethical considerations
Ethical approval was based on the Mzumbe University. The study participants were provided with written informed consents detailing the study, the risks and benefits, and emphasis on the protection of confidentiality.
3.9 Data management and analysis

After data has been collected using methods listed above, the data were analyzed by using statistical package for social sciences (SPSS). The findings were presented by using words, numbers and percentages in the form of tables, charts and graphs. Data analysis and interpretation enabled the researcher to get a clear understanding of the research findings and use those findings to arrive at a conclusion and make recommendations.
CHAPTER FOUR
PRESENTATION OF FINDINGS

4.0 Introduction

This chapter describes the analysis and discussion of findings from the collected data guided by research objectives and research questions mentioned in chapter one. The chapter includes the characteristics of respondents; it further provides descriptions of assessment of the characteristic features of budgeting that enhances financial management at KMC, determination of the extent to which budgetary controls Principles are employed to enhance financial management at KMC and identification of the impact of budgetary controls on financial management at KMC.

4.1 Characteristics of respondents

4.1.1 Sex of respondents

Figure 4.1 below summarizes the sex of respondents who were involved in this study. The result indicated that majority of respondents about 38 out of 50 equivalents to 76% of all respondents were male while 12(24%) respondents were female. However no comparative reference has been found in other Municipal councils regarding this finding.
4.1.2 Education level of respondents

Table 4.1 below summarizes the age of respondents who were involved in this study. The result indicated that majority of respondents about 36 out of 50 equivalents to 72 % of all respondents have attained a diploma education level, while 14(28%) respondents attained a Degree level. This implies that majority of respondents have low education level.
Table 4.1: Education level of respondent

<table>
<thead>
<tr>
<th>Education level</th>
<th>Frequency N=50</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>University degree</td>
<td>14</td>
<td>28</td>
</tr>
<tr>
<td>High school or diploma</td>
<td>36</td>
<td>72</td>
</tr>
<tr>
<td>Secondary education</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Primary education</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>50</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

4.1.3 Level of work experience of respondent

Figure 4.2 below summarizes the age of respondents who were involved in this study. The result indicated that majority of respondents about 30 out of 50 equivalents to 60% of all respondents have eleven or more years working experience while 14(28%) respondents have period between 6-10 years working experience and the remaining 6(12%) respondents have between 1-5 years working experience. This implies that majority of respondents have long work experience.
4.2 Characteristic features of budgeting that enhances financial management

4.2.1 Awareness of the characteristic features of budgeting

The figure 4.3 below shows the responses by the respondents on awareness of the characteristic features of budgeting. Participants were asked to state if they were aware of the characteristic features of budgeting.

In their reply it was found that about 42 out of 50 equivalents to 84% of all respondents they positively responded that they are aware of the characteristic features of budgeting while 8(16%) respondents they negatively responded. This implies that majority of respondents are aware of the characteristic features of budgeting.
According to the result in the figure 4.3, it was found that majority of respondents are aware of the characteristic features of budgeting.

### 4.2.2 Characteristic features of budgeting

Figure 4.4 below shows the responses by the respondents on characteristic features of budgeting. Participants were requested to mention the characteristic features of budgeting.

In their reply it was found that 15(30%) mentioned information sharing, while 13(26%) listed budget participation, 10(20%) states organizational commitment, 8(16%) mentioned role ambiguity and 4(8%) mentioned job performance. This
implies that information sharing, budget participation, organizational commitment, role ambiguity and job performance are the characteristic features of budgeting.

Figure 4.4: Characteristic features of budgeting

![Bar chart showing frequency of characteristic features of budgeting]

According to the result in the figure 4.4, it was found that information sharing, budget participation; organizational commitment, role ambiguity and job performance are the characteristic features of budgeting.

The finding resembles those of by Parker (2006) who listed characteristic features of budgeting as budget participation, information sharing, organizational commitment, role ambiguity, and job performance was measured using a survey questionnaire.
4.2.3 Challenges of budgeting in financial management

Table 4.2 below shows the responses by the respondents on challenges of budgeting in financial management. Participants were requested to agree or disagree accordingly regarding the existing challenges of budgeting in financial management in KMC.

In their reply it was found that 47(94%) respondents strongly agreed that there is a Lack of training, followed by 45(90%) respondents who strongly agreed that Staff lack competence/knowledge of budgeting techniques, 41(82%) respondents strongly agreed that there is a lack of management support and 40(80%) respondents strongly agreed that there is a lack of experienced staff in the budgeting function.

This implies that among others the main challenges of budgeting in financial management in KMC include; Lack of staff training opportunities, lack competence/knowledge of budgeting techniques, lack of management support and lack of experienced staff in the budgeting function.
Table 4.2: Challenges of budgeting in financial management

<table>
<thead>
<tr>
<th>Challenges</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Shortage of staff</td>
<td></td>
<td>38(76%)</td>
<td>12(24%)</td>
<td></td>
</tr>
<tr>
<td>b) Lack of management support</td>
<td>41(82%)</td>
<td>09(18%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>c) Lack of cooperation from other departments</td>
<td>07(14%)</td>
<td>43(86%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>d) Lack of training</td>
<td>47(94%)</td>
<td>3(6%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>e) Lack of independence</td>
<td></td>
<td>27(54%)</td>
<td>23(46%)</td>
<td></td>
</tr>
<tr>
<td>f) Limited/lack of resources</td>
<td>36(72%)</td>
<td>14(28%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>g) Staff lack competence/knowledge of budgeting</td>
<td>45(90%)</td>
<td>5(10%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>h) Lack of experienced staff in the budgeting function</td>
<td>40(80%)</td>
<td>10(20%)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

According to the table 4.2, it was found that the main challenges of budgeting in financial management in KMC include; Lack of staff training opportunities, lack of management support and lack of experienced staff in the budgeting function.

The finding are inline with those by Lowis and Charles (2001) who hold that many organizations conduct their budgeting processes in misallocation of organizational resources and waste of hard earned revenues and low profitability due to lack of knowledge and skills in budgeting.

The finding are also inline with those by Horngren, (1997) who asserts that factor that hinders effectiveness of budget as a financial planning and control tool in organizations is lack of Lack of management support. For a budget to be effective, it
must it must highly be supported financially and technically. Thus, many organizations have failed to use budgeting as a financial planning and control tool.

4.3 Extent to which budgetary control principles are employed to enhance financial management

4.3.1 Extent to which budgetary control principles are employed

Table 4.3 below shows the responses by the respondents on extent to which budgetary control principles are employed in KMC. Participants were requested to determine the extent to which budgetary control Principles are employed.

In their reply it was found that 50(100%) respondents they said that Information sharing at KMC is never being conducted effectively, while 48(96%) respondents they said that budget is not adequate enough to suit the demand at KMC, 46(98%) respondents said that budget participation is not being effectively practiced at KMC and 37 (74%) respondents said that budget feedback is never being effectively practiced. This implies that Information sharing, budget participation and budget feedback have never been effectively practiced and that the budget is not adequate enough to suit the demand at KMC.
Table 4.3: Extent to which budgetary control Principles are employed

<table>
<thead>
<tr>
<th>Statement</th>
<th>1 - Never</th>
<th>2 - Sometimes</th>
<th>3 - Often</th>
<th>4 - Always</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Budget participation is being effectively practiced at KMC</td>
<td>46(98%)</td>
<td>04(8%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b) Information sharing at KMC is being conducted effectively</td>
<td>50(100%)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c) There is goal clarity regarding budgetary control</td>
<td>20(40%)</td>
<td>30(60%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>d) Budget is adequate enough to suit the demand at KMC</td>
<td>48(96%)</td>
<td>2(4%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>e) Budget feedback is being effectively practiced</td>
<td>37(74%)</td>
<td>13(26%)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

According to the results in the table 4.3, it was revealed that Information sharing, budget participation and budget feedback have never being effectively practiced and that the budget is not adequate enough to suit the demand at KMC.

The finding contradicts with what was found by Cook (1968), who argues that feedback is an important role of budgeting for attaining the expected quality and standards in planning, control and leadership and staffing. He further asserts that feedback is generally positively associated with budget performance as it focuses on the extent to which employees have achieved expected levels of work during a specified time period.

The finding contradicts with Arora (1995) who found that budgetary Control is not effective unless there is continuous flow of budget reports. These reports should be
prepared at regular intervals (say monthly) to show comparison of actual performance with that budgeted.

The results showed that Budget is not adequate enough to suit the demand at KMC. The finding contradicts with; see Merchant, (1981), Parker & Nouri, (1998), who hold that adequate budget has impact achieving the intended organizational goals.

The finding contradicts with Nouri & Parker (1998) who propose that employees with adequate budgetary support on average exhibit higher performance than employees without adequate budgetary support. They found that budget participation had an effect on job performance indirectly via budget adequacy.

The results showed that Budget participation is not being effectively practiced at KMC. The finding contradicts with Chenhall & Brownell (1988) they argue that through budget participation, subordinates gain information that make their organizational roles clear. They further argue that budgetary participation help to decrease manager’s role ambiguity and this decrease improves job satisfaction and performance.

The finding contradicts with Lau & Lim (2002) who content that budget participation can lead to greater understanding of the budget settings, greater trust in budget targets, and lowering the subordinates fear, apprehension and suspicion of budget targets.
The results showed that Information sharing at KMC is never being conducted effectively.


However the finding contradicts with Shield & Shield (1998) and Parker & Kyj (2006) who support Shields and Young’s (1993) argument that budget participation is used to facilitate the communication of private information from subordinates to superiors.

The finding contradicts also with Nouri & Parker, (1998); Shields & Shields, (1998); Covaleski et al., (2003); and Parker & Kyj, (2006) who posit that budget participation may enable subordinates and superiors to communicate their private information leading to better decision-making and budget.

4.3.2 Level of practice of budgetary control principles

Table 4.4 below shows the responses by the respondents on level of practice of budgetary control principles. Participants were requested to state level of practice of budgetary control principles.

In their reply it was found that 47(94%) respondents, argued that Analyzing & Feedback is none practiced at KMC, 44(88%) respondents, argued that budgeting and Planning is lowly practiced at KMC, while 38(76%) respondents, argued that
budgetary Monitoring and Control at KMC is moderately conducted. This implies that budgeting and Planning and Analyzing & Feedback are not being effectively practiced at KMC.

Table 4.4: Level of practice of budgetary control principles

<table>
<thead>
<tr>
<th>Budgeting principles</th>
<th>None</th>
<th>Low</th>
<th>Moderate</th>
<th>High</th>
<th>Very High</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Budgeting and Planning is being effectively practiced at KMC</td>
<td></td>
<td>44(88%)</td>
<td>16(32%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b) Budgetary Monitoring and Control at KMC is being conducted effectively</td>
<td></td>
<td>12(24%)</td>
<td>38(76%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>c) Analyzing &amp; Feedback is being effectively practiced at KMC</td>
<td>47(94%)</td>
<td>03(06%)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

According to the results in the table 4.4, it was revealed that budgeting and Planning and Analyzing & Feedback are not being effectively practiced at KMC.

The results showed that budgeting not being effectively practiced at KMC .The finding contradicts with Blocher (2002), who asserts that budgeting have several important roles. For instance argued that budgets help to allocate resources, coordinate operations and provide a means for performance measurement.
The finding contradicts with Hilton (1999) who claims that the budget is most widely used technique for planning and control purposes.

The finding contradicts with Mordi, (2000) who argues that budgeting involves the preparation of an itemized financial statement showing what the expenditures are going to be over a given period, usually a year. The budget may also show what income the institution is likely to generate during the same period.

The finding contradicts with Cole (1995), who noted that fundamental to the success of any organization, is drawing a budget plan and putting it in operation. Further, notes that creating a budget is important as it enforces an organization to carefully consider the expected demand for its products, services and the resources required to meet that demand.

The finding contradicts with Clarke and Toal (1999) these opinions that budgets are till essential and can for example, be incorporated as part of the financial component of the balanced scorecard.

The finding contradicts also with Otley, (1987) who asserts that budgeting serves functions of financial and management control. Financial control results to the control of financial resources while management control ensures that the activities of the parts of the organization are coordinated.

The finding contradicts also with Nassolo, (1997) who holds that budgets coordinate the activities of the parts of the organization, through this; the objectives of the organization are harmonized with the objectives of the parts or departments. Budgets
facilitate coordination through communication of information about plans to managers and employees.

The finding contradicts also with Dannilo, (2002) who posits that budgeting at the local level is intended to improve service delivery by shifting responsibility from policy implementation to the beneficiaries and promotion of local skills. This is intended to place emphasis on transparency and accountability in the management of public affairs.

The results showed that Planning is lowly practiced in KMC. The finding contradicts with what Lewis, (1996) Stoner, (1996) who found that through planning the organization is able to assess where it is supposed to be in terms of objectives and goals.

4.4 Impact of budgetary control principles on financial management

Table 4.5 below shows the responses by the respondents on impact of budgetary control principles on financial management at KMC. Participants were requested to assess impact of budgetary control principles on financial management at KMC.

In their reply it was found that 45(90%) respondents, disagreed on accurate, current, and complete disclosure of the financial results of financially assisted activities is made in accordance with the financial reporting requirements, while 40(80%) respondents, disagreed on effective control and accountability is maintained for all grant and sub grant cash, real and personal property, and other assets, 32(64%) respondents, disagreed that KMC maintains records which adequately identify the
source and application of funds provided for financially assisted activities, 48(96%) respondents, disagreed that terms of grant and sub grant agreements are followed in determining the reasonableness, allow ability, and allocability of costs. Hence the range of percent of disagree is 64%-90%. This implies that there is low impact of budgetary control principles on financial management at KMC.

Table 4.5: Impact of budgetary control principles on financial management

<table>
<thead>
<tr>
<th>Impact</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Accurate, current, and complete disclosure of the financial results of financially assisted activities is made in accordance with the financial reporting requirements.</td>
<td></td>
<td>45(90%)</td>
<td>5(10%)</td>
<td></td>
</tr>
<tr>
<td>(b) KMC maintains records which adequately identify the source and application of funds provided for financially assisted activities.</td>
<td></td>
<td>32(64%)</td>
<td>18(36%)</td>
<td></td>
</tr>
<tr>
<td>(c) Effective control and accountability is maintained for all grant and sub grant cash, real and personal property, and other assets.</td>
<td></td>
<td>40(80%)</td>
<td>10(20%)</td>
<td></td>
</tr>
<tr>
<td>(d) The terms of grant and sub grant agreements are followed in determining the reasonableness, allow ability, and allocability of costs.</td>
<td></td>
<td>02(04%)</td>
<td>48(96%)</td>
<td></td>
</tr>
</tbody>
</table>
According to the results in the table 4.4, it was revealed that there is little impact of budgetary control principles on financial management at KMC. The finding disagrees with what was found by Lowis and Charles, (2001) who posit that effective budgeting is directly linked to performance of organizations which is measured by its productivity, efficiency in service delivery, quality of customer service, revenues collected, generated and ultimately, profitability. They further assert that the effective the budgeting process of the organization, the more profitable the organization becomes.
CHAPTER FIVE
SUMMARY, CONCLUSIONS, AND POLICY IMPLICATIONS

5.0 Introduction

This chapter provides the summary of the study, conclusion and recommendations.

5.1 Summary of the study

This study was designed to examine the role of budgetary control in enhancing financial management in local government authorities in which the following specific objectives were included;

a) To assess the characteristic features of budgeting that enhances financial management at KMC.

b) To determine the extent to which budgetary control principles are employed to enhance financial management at KMC.

c) To investigate the impact of budgetary controls on financial management at KMC.

The study employed the following research questions;

a) What are the characteristic features of budgeting that enhances financial management at KMC?

b) To what extent the budgetary control principles are employed to enhance financial management at KMC.

c) What is the impact of budgetary controls on financial management at KMC?

Finally this study employed a total sample size of 50 respondents through purposive sampling procedure in which questionnaire and interview were the data collection
instruments while data analysis was done by employing a Ms Excel computer program.

5.2 Summary of the key findings

With regard to the characteristic features of budgeting that enhances financial management this study found that;

- Majority of respondents are aware of the characteristic features of budgeting and mentioned information sharing, budget participation, organizational commitment, role ambiguity and job performance as the characteristic features of budgeting and Lack of staff training opportunities, lack competence/knowledge of budgeting techniques, lack of management support and lack of experienced staff in the budgeting function as challenges of budgetary control.

With regard to the extent to which budgetary control found that Principles are employed to enhance financial management this study found that;

- Budgeting and Planning and Analyzing & Feedback are not being effectively practiced at KMC as Information sharing at KMC is never being conducted effectively, budget is not adequate enough to suit the demand at KMC, budget participation is not being effectively practiced at KMC and budget feedback is never being effectively practiced. Analyzing & Feedback is none practiced at KMC, budgeting and Planning is lowly practiced at KMC, budgetary Monitoring and Control at KMC is moderately conducted.
With regard to the impact of budgetary control principles on financial management this study found that;

- There is little impact of budgetary controls principles on financial management at KMC as no accurate, current, and complete disclosure of the financial results of financially assisted activities is made in accordance with the financial reporting requirements, there is no effective control and accountability is maintained for all grant and sub grant cash, real and personal property, and other assets, the KMC does not maintain records which adequately identify the source and application of funds provided for financially assisted activities, the terms of grant and sub grant agreements are not followed in determining the reasonableness, allow ability of costs.

5.3 Conclusions

Basing on the findings this study found that;

- Information sharing, budget participation; organizational commitment, role ambiguity and job performance as the main characteristic features of budgeting.

- Budgeting and Planning and Analyzing & Feedback are not being effectively practiced at KMC as Information sharing at KMC is never being conducted effectively, budget is not adequate enough to suit the demand at KMC, budget participation is not being effectively practiced at KMC and budget feedback is never being effectively practiced.
There is little impact of budgetary controls principles on financial management at KMC as no accurate, current, and complete disclosure of the financial results of financially assisted activities is made in accordance with the financial reporting requirements, there is no effective control and accountability is maintained for all grant and sub grant cash, real and personal property, and other assets, the KMC does not maintain records which adequately identify the source and application of funds provided for financially assisted activities, the terms of grant and sub grant agreements are not followed in determining the reasonableness, allow ability of costs.

5.4 Policy implications

5.4.1 Recommendations for practice

The Local government needs to recognize these challenges and taking immediate action to intervene the problems regarding budgetary management aspects in the Municipal council through the following practical measures;

- To offer training opportunities to staff employees to ensure that they gain competency on the financial management field.
- To support department of finance through allocating significant budget to ensure smooth running activities of the department.
- It is recommended therefore that financial managers to be accountable and very responsible to public funds by ensuring that Information sharing is conducted effectively, budget is adequate enough to suit the demand, budget participation is effectively practiced and budget feedback is effectively
practiced. Analyzing & Feedback is practiced, budgeting and Planning is practiced, budgetary Monitoring and control are conducted.

- It is recommended that the KMC authority to ensure there is openness in accurate, current, and complete disclosure of the financial results of financially assisted activities in accordance with the financial reporting requirements, to ensure effective control and accountability is maintained for all grant and sub grant cash, real and personal property, and other assets, to maintain records which adequately identify the source and application of funds provided for financially assisted activities, and also to ensure that the terms of grant and sub grant agreements are not followed in determining the reasonableness, allow ability of costs.

- The government budget is indeed a key and strategic tool that is used to provide services to the public. The processes and activities involved in budget management require attention of all stakeholders to ensure efficiency, accountability and transparency.

5.4.2 Recommendations for further study

Assessment of effectiveness of budgetary control in enhancing financial management in local government authorities is enhanced as the priority area for further study by other researchers regarding financial management in local governments.
References


Chenhall, R. H. and P. Brownell (1988). The Effect of Participative Budgeting on Job Satisfaction and Performance:


Kelly, (2003). Vice President, Marketing and Sales AUL, Interview, November.


Unpublished Dissertation Submitted to the University of Dar es salaam Business School.


APPENDIX I

QUESTIONNAIRE

Dear Respondent,

This questionnaire has been prepared to collect data for a research study titled: “The Role of Budgeting and Budgetary Control in Enhancing Financial Management in Local Government Authorities (LGAs): Case Study of Kinondoni Municipal Council (KMC)”. Kindly respond to the questions attached as accurately as possible. The information you provide will be strictly confidential and shall only be used for academic purpose. The researcher will not disclose the identity of the respondents under any circumstances.

Please tick (v) in the bracket or/and fill in the blanks provided. If the space is not enough write on the back of this paper.

PART I: PERSONAL PARTICULARS

1. What is the highest level of education you have attained?
   
   (a) University degree
   
   (b) High school or diploma
   
   (c) Secondary education
   
   (d) Primary education

2. What is your level of work experience?

   (a) 1- 5 years
   
   (b) 6- 10 years
   
   (c) 11 years or more
3. Have you received any training on budgeting?
   (a) Yes ________
   (b) No ________ (  )

4. What is your level of awareness on budgeting?
   (a) Fully aware
   (b) Partially aware (  )
   (c) Not aware

**FINANCIAL MANAGEMENT**

i) Are you aware of the characteristic features of budgeting?
   (a) Yes (  )
   (b) No (  )

ii) If the answer in (i) is yes, mention them

.................................................................
.................................................................
.................................................................
.................................................................

iii) Is there any link KMC’s between budgetary controls and the budgeting characteristics known to you?
   (a) Yes (  )
   (b) No (  )

iv) Below is the table with statements for which may exist at KMC to varying degree. Please indicate your position by putting a check mark (v) in the appropriate box.
<table>
<thead>
<tr>
<th>Statement</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Budget participation is being effectively practiced at KMC</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b) Information sharing at KMC is being conducted effectively</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c) There is goal clarity regarding budgetary control</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>d) Budget is adequate enough to suit the demand at KMC</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>e) Budget feedback is being effectively practiced</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**BUDGETARY CONTROL PRINCIPLES**

v) Rank the rate at which KMC abides to budgetary principles.

<table>
<thead>
<tr>
<th>Budgeting principles</th>
<th>1 None</th>
<th>2 Low</th>
<th>3 Moderate</th>
<th>4 High</th>
<th>5 Very High</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Budgeting and Planning is being effectively practiced at KMC</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b) Budgetary Monitoring and Control at KMC is being conducted effectively</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c) Analyzing &amp; Feedback is being effectively practiced at KMC</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
**IMPACT OF BUDGETARY CONTROLS.**

vi) What do you regard to be the impact of effective budgetary controls on financial management at KMC?

<table>
<thead>
<tr>
<th>Impact</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Accurate, current, and complete disclosure of the financial results of financially assisted activities is made in accordance with the financial reporting requirements.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(b) KMC maintains records which adequately identify the source and application of funds provided for financially assisted activities.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>© Effective control and accountability is maintained for all grant and sub grant cash, real and personal property, and other assets.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(d) Actual Financial information are related to performance or productivity data</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(e) The terms of grant and sub grant agreements are followed in determining the reasonableness, allow ability, and allocability of costs.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(f) KMC complies with federal and state laws and regulations, local ordinances and other legal requirements.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
vii) What do you regard to be challenges of budgeting in financial management at KMC?

<table>
<thead>
<tr>
<th>Challenges</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Shortage of staff</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b) Lack of management support</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c). Lack of cooperation from other departments</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>d) Lack of training</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>e) Lack of independence</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>f) Limited/lack of resources</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>g) Staff lack</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>competence/knowledge of budgeting techniques</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>h) Lack of experienced staff in the budgeting function</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
APPENDIX II

SCHEDULE OF ACTIVITIES

The table below is the schedule, which shows the time and activity that the researcher will spend during the whole period of the research, starting from January, 2013.

<table>
<thead>
<tr>
<th>ACTIVITY</th>
<th>DURATION (IN MONTHS)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Preparation of the materials for research e.g.</td>
<td></td>
</tr>
<tr>
<td>questionnaires</td>
<td></td>
</tr>
<tr>
<td>Making arrangements and appointments with</td>
<td></td>
</tr>
<tr>
<td>respondents.</td>
<td></td>
</tr>
<tr>
<td>Distributing questionnaires to respondents.</td>
<td></td>
</tr>
<tr>
<td>Conducting interviews with respondents</td>
<td></td>
</tr>
<tr>
<td>Collecting questionnaires and review of</td>
<td></td>
</tr>
<tr>
<td>collected data</td>
<td></td>
</tr>
<tr>
<td>Preparation and presentation of research</td>
<td></td>
</tr>
<tr>
<td>report</td>
<td></td>
</tr>
</tbody>
</table>
**APPENDIX III**

**BUDGETS FOR THE RESEARCH STUDY**

<table>
<thead>
<tr>
<th>Item</th>
<th>Particulars</th>
<th>Amount in TShs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Stationery</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>4 Reams of plain paper</td>
<td>4 Reams of plain paper</td>
</tr>
<tr>
<td></td>
<td>TShs 9,000 @</td>
<td>9,000.00</td>
</tr>
<tr>
<td></td>
<td>Other Stationeries (pens, ruler, pencils, etc)</td>
<td>Other Stationeries (pens, ruler, pencils, etc)</td>
</tr>
<tr>
<td></td>
<td>TShs 25,000</td>
<td>25,000.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td>65,000.00</td>
</tr>
<tr>
<td><strong>Photocopying</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Questionnaires 5pgx 40</td>
<td>50 @ page</td>
</tr>
<tr>
<td></td>
<td>TShs 50 @ page</td>
<td>10,000.00</td>
</tr>
<tr>
<td><strong>Typing and Printing</strong></td>
<td>45 pages (Proposal) x 2</td>
<td>1,000 @ page</td>
</tr>
<tr>
<td></td>
<td>80 pages (Report) x 4</td>
<td>80 pages (Report) x 4</td>
</tr>
<tr>
<td></td>
<td>Binding (Report) x 4</td>
<td>Binding (Report) x 4</td>
</tr>
<tr>
<td></td>
<td>TShs 1,000 @ page</td>
<td>1,000 @ page</td>
</tr>
<tr>
<td></td>
<td>TShs 30,000 @</td>
<td>30,000.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td>550,000.00</td>
</tr>
<tr>
<td><strong>Transport</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>For 6 Months</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Three days a week</td>
<td></td>
</tr>
<tr>
<td></td>
<td>TShs 10,000 @ day</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>560,000.00</td>
</tr>
<tr>
<td><strong>Meals</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>For 6 Months</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Three days a week</td>
<td></td>
</tr>
<tr>
<td></td>
<td>TShs 10,000 @ day</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>560,000.00</td>
</tr>
<tr>
<td><strong>Telephone Follow-ups</strong></td>
<td>For 6 Months</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Three days a week</td>
<td></td>
</tr>
<tr>
<td></td>
<td>TShs 10,000 @ day</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>560,000.00</td>
</tr>
<tr>
<td><strong>Miscellaneous</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Internet search</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Assistants’ allowances</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Etc</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>500,000.00</td>
</tr>
<tr>
<td><strong>Sub – Total</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2,805,000.00</td>
<td></td>
</tr>
<tr>
<td><strong>Contingency (10%)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>280,500.00</td>
<td></td>
</tr>
<tr>
<td><strong>GRAND TOTAL</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>3,085,500.00</td>
<td></td>
</tr>
</tbody>
</table>