

Budget Performance Assessment of Selected Universities in Ethiopia

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Abstract

This study, Budget Performance Assessment of Selected Universities in Ethiopia, was conducted using government universities and ministry of Finance documents, as case study. Since wants and needs are plenty while resources are limited, every organization tends to find means by which it can get what it wants and needs with the limited resources at its disposal. Therefore, firms seek to adopt the concept of budget performance of their organizations each year to satisfy their needs at the least possible cost and at the fixed time gap. That means operational/ recurrent budget was implemented within one budget year and Capital budget needs five up to ten years gap. The researchers adopted a descriptive research design with data gathered through primary and secondary data. Primary data was obtained from finance managers and budget experts of the universities on voluntary basis and secondary data was obtained from the annual reports of the universities and the centralized documents of Ministry of Finance and Economic Development (MoFED). Budgeting is a useful tool that guides firms to evaluate whether their goals and objectives are actualized. Considering the changing environment in which firms now operate, it can be concluded that budget, and effective planning which is a continuous management activity, should adapt to changes in the dynamic business environment.

Keywords: budget, performance, trend analysis, planned budget, utilized budget

Introduction

The English word 'budget' was derived from the Middle French word 'bougette', which is the diminutive of bouge, a leather bag. At its most basic, therefore, a budget is a small leather bag. During the middle Ages in England, letters of particulars about taxes and spending were brought before Parliament by putting them in a small leather bag (a bougette), which was placed on a table before the assembly. As centuries passed, the word came to be applied to the contents as well as to the bag itself, though originally only in the sense of a group of things (Quick et al., 2001). The meaning of the term has, of course, changed since the days when a country's resources were deemed to be the personal property of the king, along with the political evolution from absolute monarchies to constitutional governments. In most countries today, including a majority of African countries, approval of the budget (the —power of the purse) is the main form of legislative control over the executive, with public money spent only under the law (Shah, 2007).

“Government cannot perform accurately if its budget cannot perform well” (Schick, 2003, p. 99). A budget has been defined by Chartered Institute of Management Accountants (CIMA), as—a financial or qualitative statement prepared and approved prior to a defined period of time for the purpose of attaining a given objective. It may include income, expenditure and the employment of capital. CIMA also defined budgetary control as —the establishment of budgets relating the responsibilities of executives to the requirements of a policy and the continuous comparisons of actual with

budgeted results, either to secure by individual action the objectives of that policy or to provide a basis for its revision (Ibid, 2003).

Budget is also defined as a quantitative expression of a plan of action and an aid to coordination and implementation. The Oxford Advanced Learners dictionary defined budget as an estimate or plan of the money available to somebody and how it will be spent over a period of time. Both definitions emphasized the word plan, but planning itself is found in all aspect of human endeavor, hence planning is a blue print of business growth and a road map for development that helps in deciding objectives, quantitatively and qualitatively. It involves setting a goal on the premise of the objectives and keeping of the resources. The process of planning requires managers of business to act as if they are fortune tellers and attempt to predict the future course of action to be adopted. Such prediction of the so-called fortune tellers will determine whether or not the objectives of the firm will be met.

From these definitions, we can as well state that budget is an aid to making and coordinating short range plan; a device for communicating plan and objectives to various responsibility centers and a basic evaluation of performance. Therefore, it can be said that budget is a parameter which measures the actual achievement of people, departments, ministries and firms, while budgetary control ensures that actual results are positively or negatively in accordance with the overall financial and policy objectives of the establishment.

Statement of problem

A budget is the financial plan which includes the process of preparing, compiling and monitoring financial budget in a fiscal year or in limited years. Managing budget can be a very challenging activity. There is always pressure on expenditure and revenue disbursement and collection respectively. Budget is also a key management tool for planning and controlling a department within an organization. A good budgeting process helps as a management tool to enhance proper financial management project implementation. Failure to plan or poor planning is planning to fail. Universities in Ethiopia compete for limited resources from the government and from their internal revenue.

As Schick (2003) pointed out in his work, budget allocations should not disregard performance; otherwise governments will not be able to perform well. The use of performance measures and information in the budgeting process in public sector organizations is the key issue in which the present work is interested in. Over the years, different labels have been given to this topic, such as performance budgeting, performance informed budgeting, performance based budgeting, results oriented budgeting, and output/outcome based budgeting. Therefore the present study tries to answer the following research questions.

- What are the factors that hinder the universities under study to use their budget 100%?
- How are the top management of the universities under study manage budget against their plan?
- How do managers of the universities control budget implementation against their plan?
- How efficiently do they use the budget software called Integrated Budget and Expenditure Management (IBEX)?

Objective and scope of the study

General Objective of the Study

The general objective of the study is to assess the budget performance of universities under study through financial budget implementation analysis of four-year program budget system. The specific objectives are

- To assess the treatment of the relationship between plan and budget;
- To identify the causes of mismatch between plan and budget;
- To review mechanisms used to ensure the effectiveness and efficiency of budget utilization in the Planning and Budget Department and users;
- To identify budget control gaps and budgetary record departures;
- To indicate whether there is performance audit practice as a means to control budget; and
- To suggest possible recommendations on the observed problems and gaps.

Scope of the study

The study has been conducted with the help of data obtained from selected third generation universities financial and budget annual reports of past four years, (from 2004-2007 E.C). The study has not included first and second generation universities and it focuses on third generation universities. In addition to these, non-financial measurements are not included.

Literature Review

Overruns are sometimes caused by non-compliance of budget managers with the spending limits defined in the budget, when committing expenditures. Since cash allocated to spending units for appropriated expenditures is generally controlled, these over runs generate spending arrears. Allen and Tommasi (2001) stated that overruns are often the result of off-budget spending mechanisms (payment from special accounts, etc.). In some countries, payments made through exceptional procedures are not controlled against the appropriations and are therefore an important cause of overruns. Lack of compliance can be addressed through strengthening the audit system, and reporting system, and ensuring the effectiveness of the basic budget execution controls. Moreover, overruns can be caused by deficiencies in budget preparation. Sound budget preparation processes and adequate institutional arrangements are a prerequisite for avoiding overruns. On the other hand, Allen and Tommasi (2001) expressed that in a number of countries, the official budget is under spent, particularly its non-wages expenditure items. This does not necessarily mean that there is good fiscal discipline in these countries. In some countries with poor governance, under spending of the official budget may coexist with large amounts of off-budget spending. On the whole, in most cases, under spending, as well as overruns, is related to insufficiencies in budget preparation and program preparation. An overestimated budget and unrealistic projections of revenues may lead to budget revisions during budget execution and to a practice known as —repetitive budgeting.

Peters (1998) identified the following weaknesses in resource allocation and use: poor planning; no links between policy making, planning and budgeting; poor expenditure control; inadequate funding of operations and maintenance; little relationship between budget as formulated and budget as executed; inadequate accounting systems; unreliability in the flow of budgeted funds to agencies and to lower levels of government; and poor cash management. As per Federal Democratic Republic of Ethiopia (FDRE), (2009), in managing unspent funds, the unspent balance of an appropriation granted for a fiscal year should lapse and be credited to the treasury account of MoFED (Ministry of Finance and Economic Development) According to Omitoogun and Hutchful (2006), there are a number of factors that can explain why actual expenditure deviates from the levels approved at the beginning of the financial year in any sector. The reasons for deviations may vary over time. Some of the more common causes are: deviation in aggregate expenditure; reallocation of fund during budget implementation; policy changes during the year; an inability to implement policies, programs and projects; and a lack of financial discipline.

Research Methodology

Research Design

This study has employed descriptive financial budget analysis to measure and analyze the data obtained through interview and analysis of budgetary and financial documents. Tables, percentage and frequency were applied

Sources of Data

The study employed primary and secondary data. Primary data has been gathered from managers and budget users through interviews and the secondary data has been obtained from the annual reports of the universities and the centralized documents of Ministry of Finance and Economic Development (MoFED).

Sampling Technique and Sample Size

The third generation Ethiopian universities are 10 in number. Since the number is manageable, the researchers have considered all of them employing the census method and also they have similar budget ceilings, implementation, and

similar budget source which facilitates the research work by reducing complexity. Because of these, all of them were selected by the researchers. This sampling method used or Subjects selected for a good reason tied to purposes of research and that have small samples less than 30, not large enough for power of probability sampling. In addition, judgmental sampling has been used to select the documents for analysis. That is all major budgetary documents in the universities have been considered for analysis where the researchers believe that the documents were important for the area of the study. Primary data was collected from interview with voluntary finance directors and budget experts of the universities on phone and face to face as per the convenience and their choice.

Method of Data Collection

The data was Primary and secondary in nature and it has been collected using Personal document analysis, obtained from MoFED (printed Negerit Newspaper), interviews and questionnaires and also from universities directorates and budget and plan experts of the organizations were selected on judgmental sampling basis based on convenience.

Method of Data Analysis

The data obtained from Primary and secondary sources were analyzed using tables, charts and graphs, by using percentages in SPSS.

Results and Discussions

Table 1.1 Recurrent Budget of third generation universities

No	Name of UNIVERSITY	BUDGET YEAR								Total Budget of each universities. 2012 up to 2015	
		2012 approved B.		2013 approved B.		2014 approved B.		2015 approved B.			
		BIRR	cent	BIRR	cent	BIRR	cent	BIRR	cent	BIRR	Cent
1	METTU										
	Recurrent	20,288,262	00	54,679,109	42	95,526,620	00	126,367,621	40	296,861,612	82
2	WALKITE										
	Recurrent	24,082,347	00	54,798,050	00	108,176,990	00	163,805,910	00	350,863,297	00
3	BULE HORA										
	Recurrent	25,033,455.00		51,102,070	00	104,188,130	00	167,146,820	00	347,470,475	00
4	ASOOSA										
	Recurrent	24,833,244.00		58,556,560		102,825,720		126,648,610		312,864,134	00
5	WACHAMO										

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	Recurrent	26,244,532.00		63,252,790	00	131,663,440	00	164,104,510	00	385,265,272	00
6	DEBRETAB O R										
	Recurrent	22,369,584.00		52,263,340	00	102,765,080	00	160,405,310	00	337,803,314	00
7	AAST U										
	Recurrent	54,528,364.00		94,758,200	00	184,727,020	00	277,022,040	00	611,035,624	00
8	ADIGRAT										
	Recurrent	34,562,147.00		68,675,540	00	115,256,060	00	191,985,710	00	410,479,457	00
9	WOLDIA										
	Recurrent	35,214,587.00		55,058,760	00	101,932,130	00	165,969,830	00	358,175,307	00
10	AMB O										
	Recurrent	48,754,621.00		158,366,250	00	218,164,120	00	272,787,700	00	698,072,691	00
	Total Budget Of Each University	315,911,143.00		711,510,669	42	1,265,225,310	00	1,816,244,061	40	4,108,891,183	82

Table 1.1 shows that the recurrent budget of third universities from their establishment year 2012 up to 2015. The budget was allocated by the Federal Democratic Republic of Ethiopia, Ministry of Finance and Economic Development or MoFED. In this table we can see that the smallest figure of budget Birr 20,288,262.00 were allocated for Mettu university since 2012. In contrast, at the same year /2012/ the highest budget birr 54,528,364.00 were allocated for AASTU/Addis Ababa Science and Technology university. The difference between the two universities depend on their intake capacity of students .At the year 2012 Mettu university takes 300 students and AASTU takes 2500 students. In addition to these the implementation /utilization of budget also depended on the number of students in the university.

Table 1.2 Capital Budget of all third generation universities

N O	Name of UNIVERSITY	BUDGET YEAR								Total Budget of each University 2012- 2015	
		2012 approved B.		2013 approved B.		2014 approved B.		2015 approved B.		BIRR	cent
		BIRR	ce	BIRR	ce	BIRR	ce	BIRR	ce		
1	METTU										
	Capital	4,984,639	00	132,458,336	39	197,335,030	00	273,329,460	00	608,107,465	00
2	WALKITE										
	Capital	135,324,980	00	131,900,600	00	295,932,590	00	295,435,100	00	858,593,270	00
3	BULE HORA										
	Capital	141,539,630	00	166,286,310	00	233,625,640	00	282,658,730	00	824,110,310	00
4	ASOSSA										
	Capital	132,405,070	00	133,142,590	00	233,255,200	00	245,718,300	00	744,521,160	00
5	WACHAMO										
	Capital	143,267,740	00	161,315,850	00	244,810,370	00	275,136,990	00	824,530,950	00
6	DEBRETABOR										
	Capital	136,625,760	00	107,714,000	00	270,761,620	00	300,800,140	00	815,901,520	00
7	AASTU										
	Capital	170,645,810	00	277,731,520	00	430,902,400	00	480,680,470	00	1,359,960,200	00
8	ADIGRAT										
	Capital	143,165,690	00	154,284,940	00	290,556,960	00	334,155,920	00	922,163,510	00
9	WOIDIA										
	Capital	127,016,060	00	175,192,540	00	265,414,100	00	309,997,000	00	877,619,700	00
10	AMBO										
	Capital	150,000,590	00	202,184,230	00	312,621,040	00	380,071,300	00	1,044,877,160	00
	Total Budget of all university	1,284,975,969	00	1,642,210,916	39	1,642,210,916	00	3,177,983,410	00	8,880,385,245	00

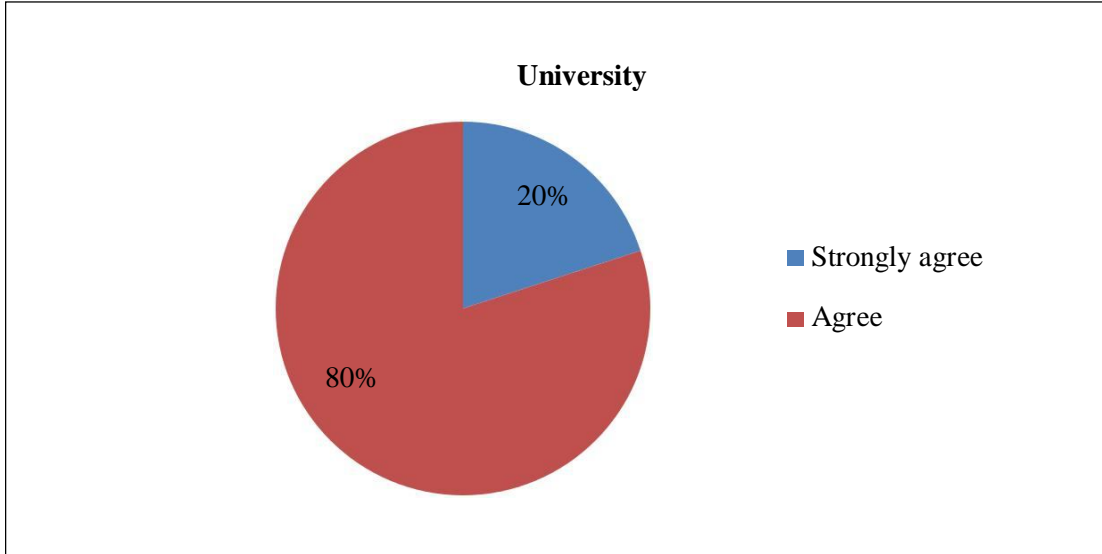
Table 1.2 shows that the capital budget of third generation universities from their establishment year 2012 up to 2015.the budget were allocated by Federal democratic republic of Ethiopia , Ministry of Finance and Economic Development./MOFED/. The capital budget is used to construct the capital projects such as Fixed Assets like buildings (Waste Water treatment Plant, Dormitories Seminars, Dining Halls, Fence, stores...), and infrastructures like road, Internet, Water and Electric power that used for teaching learning activities.

Table 1.3 Recurrent & Capital Budget of Mettu University

Name of University	BUDGET YEARS								Cumulative
	2012 approved B.		2013 approved B.		2014 approved B.		2015 approved B.		
	BIRR	%	BIRR	%	BIRR	%	BIRR	%	2012 up to 2015
METTU									%
Recurrent	20,288,262.00		54,679,109.42		95,526,620.00		126,367,621.40		
Capital	4,984,639.00		132,458,336.39		197,335,030.00		273,329,460.00		
Total	25,272,901.00		187,137,445.81		292,861,650.00		399,697,081.40		
Utilized in Birr	22,142,605.78	87.61	109,668,123.71	58.6	209,126,089.12	71.4	272,599,075.30	68.2	71.45
Unutilized Birr	3,130,295.22	12.39	77,469,322.10	41.4	83,735,560.88	28.6	127,098,006.10	31.8	28.55

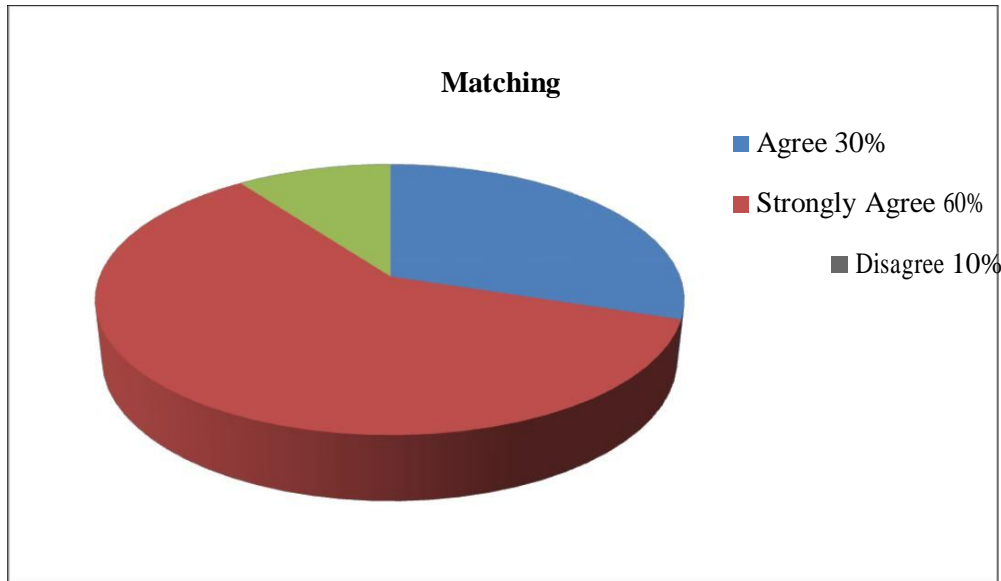
Table 1.3 shows that Mettu University’s recurrent and capital budget of four budget years, from 2012 to 2015.According to the table, from allocated budget the university budget implementation performance were not success. Even in 2013 the utilized percentage is 58.6 only.8.6 percent more than half. The researcher conclude that the university cannot use its budget not 100 percent, even if it cannot use 80 percent between four years. Because there are two factors that hinder them. The first one is internal factors. Such as Smooth and not Continuous follow up of top managements and the interrelation of budget department with its stakeholders , and the second is external factors. This factor is directly related to Contractors and suppliers those agreed to construct different types of buildings and infrastructures to supply different equipment’s respectively. They were delayed for long period of time. So if they do not work according to their agreement the payment was not made, and the budget were transferred back to MOFED at end of budget year. All the rest 9 universities were analyzed and evaluated in this way.

Chart 1.1 Respondents understanding about plan and expenditure preparation



According to above Chart 4.6, 80% of the total; number of respondents strongly agree that they have adequate understanding to prepare plan and budget and 20 % of the respondents were agree that they have understanding to prepare plan and budget. From this one can understand that the all of the respondents have adequate understanding to prepare plan and budget.

Chart 4.18 problem of matching plan with budget .



As it was demonstrated by chart 4.18, almost all (30% and 60% of the population agree and strongly agree) with the idea respectively. Very few portion of the respondents (10%) disagree with this idea. This reveals that there is a significant mismatch between plan and budget in the universities.

Conclusion

In this section, the main ideas of the study were summarized as follows. The study entitled 'Budget performance assessment of selected Universities in Ethiopia—the case of selected Universities in Ethiopia' was aimed at identifying problems related to budget preparation, implementation and control, and thereby recommending appropriate solutions. To do this, the study used Ten universities from the third generation as samples of the study: namely, Mettu University, Wolkite University, Assosa University, Addis Ababa Science and Technology University, DebreTabor, Wachamo , Adigrat, Woldia, Ambo and Bule Hora University. All Universities were purposely selected to easily manage data collection.

The sample size contained 10 respondents from 10 Universities. The value of one respondent is Ten percent. Among these 10 of them were selected for conducting interview from each University. From the data, it was identified that there were many problems related to budget preparation, implementation and control in the universities. As it was understood from the data, the understanding of personnel who prepare plan and budget was not adequate number of professionals in the offices. These ideas support each other. That is to say there was shortage of skilled personnel power to prepare budget in accordance with planned activities.

There, weaknesses directly relate to usage of appropriate data and estimate while preparing budget. Utilizing data appropriately and forecasting budget based on planned activities needs higher level of expertise. Therefore, since there was no adequate number of professionals, one cannot expect reliable use of data and estimates for forecasting. The data also revealed the same. It demonstrated that there was no adequate use of reliable data and estimate in the offices under study.

The other related weaknesses found in the analysis were overestimation of budget. Since there were problems of appropriate use of reliable data and estimate and the number of professionals was adequate, it is expected that there could not be good estimation of budget because it needs expertise greater than first degree. The analysis showed the same; the budget estimated for each program was overestimated. Still, the other related problem is problem of matching plan with budget since this also asks for professional expertise.

In this regard, the budget utilization was not as per he planned activities. There were problems identified in relation to expenditure budget implementation and control. Some of them include preparation of monthly cash flow demand, frequent request for budget transfer and supplementary budget, budget evaluation against main activities, huge expenditure at the end of the budget years, facing budget shortage before year end, weak budget control mechanism, and frequent request for budget adjustments after budget approval and overspending of budget. It was also identified that there were underutilization and weak budget control.

Similarly, it was seen that there were problems regarding expenditure reporting for each period. It was identified that although better expenditure budget documentation, expenditure budget was not accurately charged to the appropriate budget period or budget year. Advance payments for contractors and Suppliers were not charged within the budget year and it recorded as receivables, not as expenditure. The other issues were the budget of universities was centralized and also that the top managers cannot follow up the transactions made every day or every week or every month because there was inability of reading the IBEX database or government budget software.

Recommendations

Based on the conclusion given above, the researchers forwarded the following recommendations thinking that the problems could be solved if the concerned bodies take action based on the recommendations.

- The number of professionals of plan and budget should be improved. The root cause for many of the problems identified was lack of adequate and appropriate professionals in the field of planning and budgeting. Many problems like lack of budget estimation based on reliable data, frequent request for budget transfers and supplementary budget, etc. can be solved by improving the number and the quality of professionals through hiring new and training the existing experts.

- There should be adequate expenditure monitoring and control. The higher officials should strictly follow up the implementation of expenditure to avoid underutilization of budget while the need of using is not satisfied.
- Performance audit should be functional in all Universities of the third generation. Since performance audit is a remedy for efficiency and effectiveness, it should be executed in all Universities of the third generation.
- There should be regular independent (external) audit of expenditure management. The recommendations of external auditors are key ideas for an organization to come out of incorrect trends. Therefore, it is highly recommended that external auditors ought to make overall all audit activities at least twice a year and their recommendations shall be implemented every year they suggest so that improvement can be seen from year to year.
- Top management of the Universities should decentralize the budget to Institutions, collages and Faculties. Secondly they give attention to IBEX, in order to read and to know how daily transactions were made .After they read the software they can see the progress of budget implementation daily, weekly, monthly, quarterly and annually and whether the underutilization occurred.

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