

**THE IMPACT OF BUDGETING AND BUDGETARY CONTROL SYSTEMS IN  
PUBLIC SECTOR ORGANIZATIONS  
(A CASE STUDY OF ASOKWA SUB-METRO)**

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## ABSTRACT

Budget and budgetary control systems are the basic requirements for the proper functioning of organizations and institutions.

The objective of the study is to find the impact of budgeting and budgetary control systems in Public Sector Organizations like Asokwa-Sub-Metro.

The nature of study calls for both primary and secondary data collection. The instruments used to collect the data were based on sampling interviews and questionnaire. The analyses were presented with percentages, bar charts and pie charts.

The study shown among other things that, the use of budgeting and budgetary control system at the Asokwa Sub-Metro had improved their planning and decision making processes but only few stakeholders were involved in the budget preparation and their budgets are not prepared on time.

It is therefore recommended that the Sub-Metro should involve all stakeholders in the preparation of their budget and should be prepared on time.

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## CHAPTER ONE

### INTRODUCTION

#### 1.1 Background of the Study

Budgeting is an important part of an accounting system for organizations. A budget is a plan of action which has been prepared and approved prior to the period when it will be used, detailing in monetary, quantity or other descriptive terms, the event to be accomplished in the budget period. Thus, a budget is a formal statement of the financial statement of the financial resources set aside for carrying out specific activities in a given period of time. The budget helps to co-ordinate the activities of the organization (Botsio, 2002).

Budgets can be prepared for and used by anyone and for anything. This means that a budget can be drawn up for an individual's business, an entire organization, ministries and non-profit making organizations. According to Drury 1992, budgeting can be applied to virtually every situation. It does not matter whether it is public or private company.

Budgetary control on the other hand deals with regulating the activities of the business to follow the pattern that had previously been planned in the budget to ensure that the organization achieves its set goals and objectives. This means that budgetary control is a technique where by actual results are compared with budgets. Any differences (variances) are made the responsibility of key individuals who can either exercise control action or revise the original budgets (Botsio, 2002).

Budget and budgetary control systems are therefore basic requirements for the proper functioning of organizations and institutions. Public Sector organizations are required to prepare annual budgets based on stated format. They are also required to go through a prescribed process for preparation and implementation for transparency and accountability purposes.

In the light of this, budgeting and budgetary control systems have a number of advantages including promoting co-ordination, communication, compelling management to think about the future, defining areas of responsibility, providing basis for performance appraisal, enabling remedial action to be taken as variance emerges, motivating employees by

participating in the setting of budgets, improving the allocation of scarce resources among others (Horgreen et al, 1994).

These, when done in a public organizations, would generate positive results in administration. The Asokwa Sub-Metro, because its relative size makes it a representative of the general situation pertaining to most public organizations in the country was chosen as case study to investigate the impact of budgeting and budgetary control system to find out whether the processes are followed in both the preparation and implementation stages and whether appropriate results are being recorded.

## **1.2 Problem Statement**

The Financial Administration Regulations 1979 (L I 1234) of Ghana, Public Procurement Act 2003 (Act 663) Local Government Act 462 among other documents provide guidelines for prudent financial management of public organizations including Sub-Metropolitan Assemblies. By this provision every public organization is required to prepare and implement its annual budget based on stated regulations and processes. Unfortunately, concerns have been raised about persistent financial mismanagement at the Metropolitan, Municipal and Districts Assemblies.

Some organizations do not prepare budgets for the financial periods. This may be due to the fact that some of the Assemblies do not have the requisite database, staff and logistics for the budget preparation process. This affects accuracy and reliability of the budgets as a management tool. Others may also not follow the timing for the preparation of the budgets and may start spending at the beginning of the year before efforts are made to put up budgets.

In other organizations where they are prepared, some may not follow the processes that have been outlined for the preparation of the budget. Some organizations are still using the incremental system instead of the roll over system. This makes it difficult to keep track on performance as just percentages are added or deducted from the previous figures without recourse to what occurred during the past period. This usually creates problems as on going projects tend to suffer.

The preparation process requires that people who are going to be beneficiaries of the budgets should be involved in the preparation at the Town Council levels. However, some organizations do not involve the people hence their inputs are not considered. In other places

too, budget hearings and approval processes are not adhered to making it difficult for the people to pay their revenue and monitor how the revenue is being spent.

After being prepared, some public sector organizations do not implement their programs based on the budgets. This makes the control functions not properly carried out. Periodic budget reviews to monitor performance are also not considered as a major aspect in budgetary control systems. This prevents accountability and may prevent the people from paying their tolls and other obligations.

In the light of these, it is therefore necessary to find out whether the Sub-Metro prepares its budget, at what time, what processes and who are involved at what stage and whether the implementation of the budget is in line with plan, what budgetary control system exist and their impacts on the operation of the Sub-Metro.

It is expected that this project may be used as a management tool at the Sub-Metro and other public sector organizations. It would help the organizations to know and improve on their budgetary control systems. It will also serve as knowledge to students and provide a basis for further studies in the field of the budgeting. Finally, trainers or consultants may use the findings in designing training programs for Budget and Finance Officers.

### **1.3 Objectives of the Study**

In the light of the above, the research therefore seeks:

1. to find out the legal requirements for budget and a budgetary control system in a public sector organization like Asokwa Sub-Metro.
2. to identify the existing budgetary control systems at the Asokwa Sub-Metro and
3. to assess the impact of budgetary control systems at the Asokwa Sub-Metro.

### **1.4 Research Questions**

Based on the above objectives, the following will serve as research questions.

1. What are the legal requirements for budgeting and budgetary control systems in a public sector organization?
2. What are the existing budgetary control systems at the Asokwa Sub-Metro?
3. What are the impacts of budgetary control systems at the Asokwa Sub-Metro?



4. What needs to be done to improve the existing budgetary control system at the Asokwa Sub-Metro?

### **1.5 Organization of Chapters**

The research has been organized into five chapters. Chapter one includes the background of the study, the problem statement, objectives of the study and the research questions.

Chapter two deals with literature review. In this chapter, the major concepts relevant to the study are discussed.

Chapter three deals with the methodology for the study. It covers the description of the population and sampling procedures, sample size, primary data, data collection methods, data analysis, secondary data and limitations of the study.

Chapter four takes into consideration the results and discussions of the data.

Chapter five is the concluding chapter which deals with the summary of discussions, conclusions and recommendations.

## CHAPTER TWO

### LITERATURE REVIEW

#### **2.1 Budgeting**

In one definition given by Urwin Dictionary of Business, it looks at Budgeting as the process of preparing budgets and exerting budgeting control. Budgeting has also been defined as making plans for the future, implementing these plans and monitoring activities to see whether they conform to the plans (Lucey, 1989).

Furthermore, it has been defined as being concerned with the implementation of programmes within a long term. The programmes here represent various activities to be undertaken by the organization (Drury, 1992).

#### **2.2 Budgeting System**

According to Merchant (1962) a budgeting system is a combination of information flow, administrative process and procedure that is usually an integral part of the short-term planning and control system of an organization. Managers regard budgeting systems as good investment because they change human behaviour and also assist management with information for running the business.

#### **2.3 Budgetary Control**

This refers to all the mechanisms put in place to ensure that given objectives are achieved through the budgets. Sweeney et al, (1997) looks at budgetary control as the establishments of budgets, relating to the responsibility of executives to the policy and the continuous comparison of actual with the objects of the policy or to provide a basis for its revision. Thus budgetary control deals with monitoring performance to attain the set of control documents.

#### **2.4 Types of Budgeting System in Public Sector Organisations**

The budgeting system in Public Sector Organisations includes the following;

#### **2.4.1 Incremental budgeting system**

With incremental budgeting system percentages are added or deducted from the previous figures without recourse to what occurred during the past, this usually creates problems as on going projects tend to suffer.

#### **2.4.2 Roll over budgeting system**

The roll over budget falls under the Medium Term Expenditure Framework (MTEF). It is a three-year integrated, broad based, performance budgeting process.

- \* Multi year is a departure from previous annual budgeting to three year budgeting.
- \* Integrated is the process that integrates both development and recurrent expenditures.
- \* Broad based involves the inclusion of Government of Ghana, Donor as well as Internal Generated Fund resources and
- \* Performance based which is the process on achieving agreed levels of performance or deliverables as spelt out.

### **2.5 Legal Conditions for Budget Preparation and Implementation**

ACT 654 was promulgated to regulate the financial management of the public sector, which prescribes the responsibilities of persons entrusted with financial management in the government. The Act is to ensure effective and efficient management of state revenue, expenditure, assets, liabilities, resources of the government, the consolidated fund and other public funds and to provide for matters related to these. (Act 654, 2003) and these are supposed to be done through the preparation and implementation of budgets.

Section 21 of the Public Procurement (Act 663, 2003) requires every public organization to prepare its procurement plan for approval by the entity tender committee and this is part of budget execution process.

The local Government (Act 462, 1993) part VIII section 94 – 119 gives guidance in the preparation of a budget.

### **2.6 Characteristics of a Good Budgeting System**

For a budgeting system to be effective, it must possess some distinct characteristics. According to [www.fao.org/docrep/W4343E](http://www.fao.org/docrep/W4343E) (05/03/2008), some of these are;

1. Participation: involve many people as possible in drawing up the budget.
2. Comprehensiveness: embrace the whole organization.

3. Standards: base it on established standards of performance.
4. Flexibility: allow for changing circumstances.
5. Feedback: constantly monitor performance.
6. Analysis of costs and revenues; this can be done on the basis of product lines, departments or cost centres.

## **2.7 Budgetary Processes**

A number of stages can be identified in the preparation of plans and budgets. According to Broadbent et al, (1997) the following are the stages in budgetary process.

- \* Identification of key objectives of the organization for the coming year must be communicated to the budget holders in order that management knows which overriding factors to consider when preparing their budgets.
- \* Determination of key or limiting factors; every organization has some factors which limit its growth. In most cases this is the volume of sales or the number of customers.
- \* The preparation of an initial budget will include a product, direct labour budget, production overheads budget, selling and distribution budget, capital expenditure budget and cash budget.
- \* Negotiations of budgeting superiors.
- \* The coordination of these initial budgets by the organization financial staff, in order to ensure that there are no inconsistencies in them.
- \* After the necessary alterations to remove inconsistencies, the initial budgets are consolidated into master budget.
- \* Approval of this master budget by the board of directors or the appropriate top policy makers within the organization.
- \* Ongoing review of budget.

## **2.8 Some of the impacts of Budgeting and Budgetary control System in an Organization**

When budgets are wisely administered, several advantages are derived from; Budgets represent corporate plans, prepared by the people and for the people. Budgeting system compels management to think about the future, which is probably the most important feature of budgetary planning and control system. That is, it forces management to look ahead, set out detailed plans for achieving the targets for each department, operation and ideally each manager, to anticipate and give the organization purpose and direction. Budgeting system also promotes co-ordination and communication, provides a basis for performance appraisal, enables remedial action to be taken as variances emerge, motivates employees by participating in the setting of budgets and improves the allocation of scarce resources. (source: [www.fao.org/docrep/W4343E](http://www.fao.org/docrep/W4343E))

Budgeting within an organization however may face some difficulties and these difficulties are mainly of behavioral nature. Budgets can be seen as pressure devices imposed by management, thus resulting in bad labour relations, inaccurate record – keeping, disputes over resource allocation, departments blaming each other if targets are not attained, waste may arise as managers adopt the view, “we had better spent it or we will lose it” and also managers may overestimate costs so that they will not be blamed in the future should they overspend (Drury, 1992).

### **2.8.1 Planning**

Budgeting prompts management to make an early study of the problems and factors limiting the growth of the business. It keeps management alert on business problems and also improves the quality of decision making. There could be production hold-up, tied-up large cash balance problems arising in future. A discussion of future plans with departmental heads would reveal these problems. Efforts are then made towards their solution before the problems actually occur (Botsio,2002).

### **2.8.2 Guide line**

A budget can serve as a guide line for management decision when unforeseeable or unexpected problems affect, or are likely to affect the business. When the problem occurs the budget can be studied to provide an immediate guideline to the problem, (Rachline et al, 1997).

### **2.8.3 Control**

A budget assists managers in managing and controlling the activities of the organization .By comparing the actual results with the budgeted amount for different expenses, managers can ascertain which cost do not conform to the original plan and thus require attention, (Drury et al,1992).

### **2.8.4 Instrument of decentralization**

According to Gullen (1998) a budget used by top management serves as an instrument for decentralizing responsibility and accountability for costs and revenues among the respective heads of department. Other views of all the departmental management and supervisors to be put across to management and common understanding in the organization.

## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.1 Description of Population and Sampling procedures**

The study would have covered all the thirty (30) policy makers at the sub metro and Eight (8) departmental heads and twenty stake holders but due to the constraints indicated seven (7) assembly members were selected to represent the policy makers, five (5) departmental heads represented workers, eight (8) town council members represented the stake holders. These respondents were randomly picked.

#### **3.2 Sources of Data**

Primary and Secondary data were used for the study.

#### **3.3 Primary Data**

The Primary data was collected from Asokwa Sub-Metro. The main methods used to collect the data were interviews and questionnaires. The analysis of the primary data has been broadly discussed in chapter four.

##### **3.3.1 Interviews**

Both structured and unstructured interviews were employed .The structured interview was done face to face with the view of helping the respondents provide the right answers to enhance the research.

##### **3.3.2 Questionnaire**

Both open ended and close-ended questionnaires were used. Open-ended questionnaires were used to allow the respondents to answer in their own words without limiting them. The close-ended questionnaires were used to facilitate quick responses for the researcher. Both were prepared and distributed to some departmental heads, Assembly members, Town Council members and Government appointees who could not avail themselves for interview due to busy work schedules and other commitments.

#### **3.4 Secondary Data**

Library materials such as textbooks, financial reports and the internets were used to supplement the information to make it more meaningful.

### **3.5 Sample Size**

The questionnaires were distributed to seven (7) assemblymen, five (5) departmental heads and eight (8) town council members. Samples from the workers were also interviewed.

### **3.6 Data collection methods**

Questionnaires were designed and administered to twenty respondents from Asokwa Sub – Metro. The instruments used to collect the data were based on sampling interviews and questionnaire. The analyses were presented with percentages, bar charts and pie charts.

### **3.7 Data Analysis**

For the study to be comprehensive, the data was analyzed with tables, percentages pie charts and bar charts to give it a pictorial meaning.

### **3.8 Limitations to the Study**

The use of the self-administered questionnaire however, may introduce a bias judgment into the sample. This may be due to the fact that respondents to the questionnaire may have a particular interest in the subject and consequently may not be representative of the population.

The time frame for conducting the study was limited hence most the potential policy makers at the sub-metro could not be contacted.

Financial constraint in terms of transportation to some of the government appointees at the Sub-Metro was a problem. The cost of printing was also a problem.



## CHAPTER FOUR

### RESULTS AND DISCUSSIONS

#### 4.1 Legal System that guides the sub-metro in the preparation of its budget.

During an interview with the budget officer and some of the departmental heads, it came to light that the local Government Act 462 (1993) part VIII section 94-119 guides the Sub-Metro in the preparation of its budgets and the budgetary control measures that must be put in place. These guidelines are being followed but the budgets are not prepared on time.

#### 4.2 Type of budgeting system used.

When a question was asked on the type of budgeting system used at the sub-metro, twelve (12) respondents, representing 60% affirmed that they use roll over budgeting system, while eight (8) respondents, representing 40% also said, they used incremental budgeting system.

This information is illustrated in the table below.

Table 1: Type of budgeting systems in Asokwa Sub-Metro.

Budgeting system	Respondents	Percentages (%)
Roll over	12	60%
Incremental	8	40%
Total	20	100%

The above data is illustrated in the pie chart below.

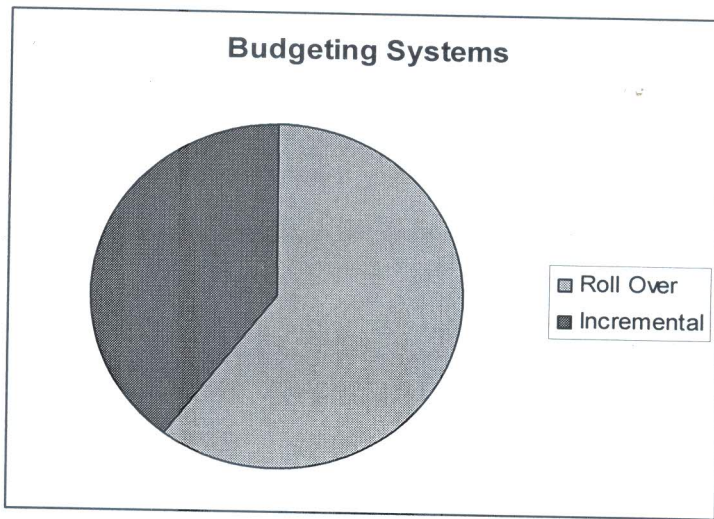


Figure 1: A pie chart showing the type of budgeting systems in the Asokwa Su-Metro.

Source: Survey data 2008.

From the above it can be deduced that, with the use of Roll Over budgeting System there is a clear link between the expenditure, objectives, outputs and activities. This enables the Sub-Metro to make a realistic budget.

#### 4.3 The existing budgeting and budgetary control systems at the Asokwa Sub-Metro.

During an interview with the budget officer and some of the departmental heads, it came to light that;

- \* payment vouchers are sent to the budget officer to check whether they were budgeted for before payments are made.
- \* internal auditors check from their budgets before they append their signatures for payments to be made.
- \* monthly trial balance are sent to the Financial and Administration Committee to check whether the revenue received and expenditure incurred actually reflects what is in the budget.
- \* where circumstances arise in which the operating requirements of departments make it necessary to rearrange the provision for sub-heads, items or sub-items within the ambit of a single head, savings under one classification may be utilized to provide for extra expenditure under another without affecting the total funds to be disbursed from the head.

The existence of the budgeting and budgetary control system at the Asokwa Sub- Metro indicates that the Sub-Metro spends according to its planned budget.

#### 4.4 Involvement of stakeholders in the preparation of the budget

During an interview with some of the Town Council Members who represent the stakeholders, it became known that only few stake holders were involved in the preparation of the Sub-Metro's budget. This does not reflect transparency and accountability.

#### 4.5 Opinion on budgetary control

When a question was asked on their opinion with regards to budgetary control, four (4) respondents representing 20% said that it was a waste of time, fourteen (14) representing 70% also were of the view that budgetary control is very important, while two (2) respondents representing 10% also said they were indifferent to the system. This is illustrated in the table below.

Table 2: Opinion on budgetary control

Item	Respondents	Percentage (%)
It is a waste of time	4	20%
Budgetary control is very important.	14	70%
I am indifferent to the system	2	10%
<b>Total</b>	<b>20</b>	<b>100</b>

The above data is illustrated by the below Bar chart.

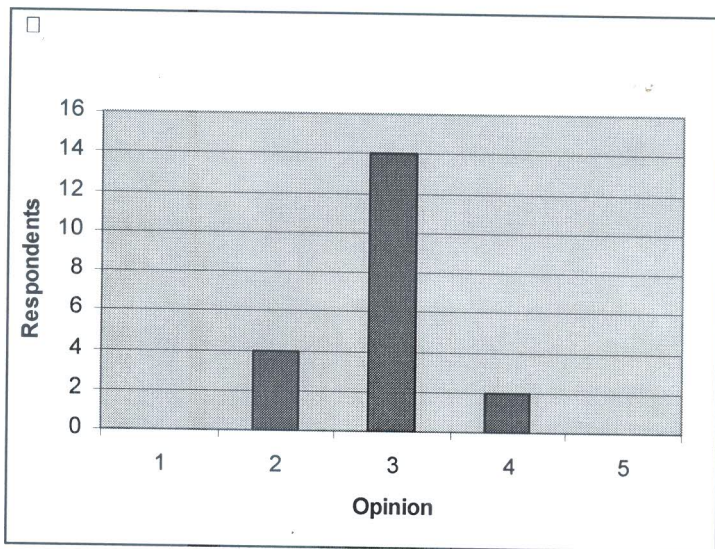


Figure 2: A Bar Chart showing the opinions on budgetary control at Asokwa Sub-Metro.

Source: Survey data 2008.

From the above, the opinion on budgetary control helps to co-ordinate the activities of the Organization.

#### 4.6 The impact of the budgeting and budgetary control system at Asokwa Sub-Metro.

When a question was asked on the impact of budgeting control system at the Asokwa Sub-Metro eight (8) respondents representing 40% said it helps in planning, five (5) respondents representing 25% said it serves as a guideline, five (5) respondents representing 25% also said it helps in controlling and (2) respondents representing 10% said it serves as an instrument for decentralization. This information is illustrated in the table below.

Table 3: The impact of budgeting and budgetary control system.

Item	Respondents	Percentage
Helps in planning	8	40%
Serves as a guideline	5	25%
Helps in controlling	5	25%
Serves as an instrument of decentralization	2	10%
<b>Total</b>	<b>20</b>	<b>100</b>

The above data is illustrated by the below Pie chart.

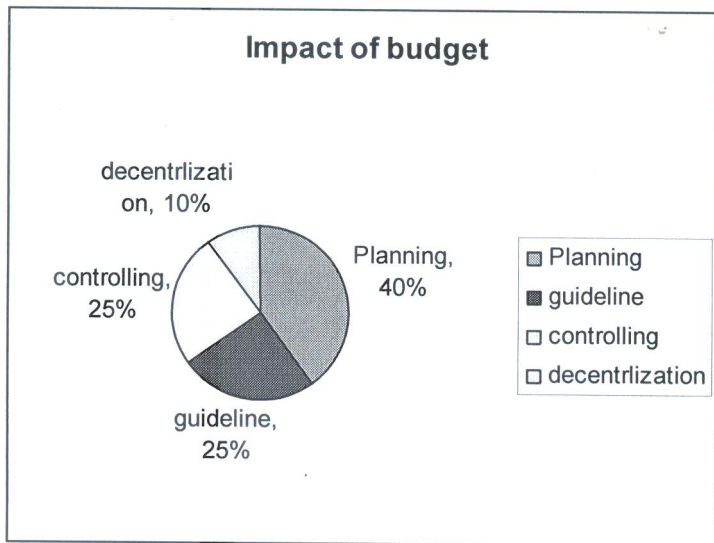


Figure 3: A pie chart showing the impact of budgeting and budgetary control system as Asokwa Sub-Metro.

Source: field survey April 2008

From the above, this means that the use of budgeting and budgetary control system was a major managerial tool for planning and decision making at the Asokwa Sub-Metro.

#### 4.7 Control of variance at Asokwa Sub-Metro

During an interview with the budget officer and some of the departmental heads, it became known that controls charts were set in the various departments. The charts were used to identify the trend in variances. At a point where there were problems, recommendations were made to the departments from the budget officer. This means that, there is proper monitoring of budgeting and budgetary control systems at the Asokwa Sub-Metro.

## CHAPTER FIVE

### SUMMARY, CONCLUSION AND RECOMMENDATIONS

#### 5.1 Summary of Discussions

The main purpose of this chapter was to show the summary of the study and what conclusions and recommendations could be drawn from the data gathered and analyzed.

The study revealed that,

- The roll over budgeting system was used at Asokwa Sub-Metro. This indicates that, there was a clear link between the expenditure, objectives, outputs and activities.
- Budgeting and budgetary control systems exist at the Asokwa Sub-Metro. This enables the Sub-Metro to spend according to their planned budget.
- • Only few stakeholders were involved. This does not reflect transparency and accountability
- There was a co-ordination between the activities at the Asokwa Sub-Metro. This enhances the activities at the Asokwa Sub-Metro.
- The use of budgeting and budgetary control system was a major managerial tool for planning and decision making at the Asokwa Sub-Metro.

#### 5.2 Conclusion

This study was conducted to ascertain the impact of budgeting and budgetary control systems in public sectors organizations.

Even though the legal requirements of the Local Government were adhered to, there were shortfalls which need to be addressed for the smooth running of the activities.

#### 5.3 Recommendations

\* The Sub-Metro should prepare their budget timely in order not to delay the activities of the organization. They should abide by the Local Government Act 462 (1996) part VIII section 94-119 to serve as a guide.

\* The existing budgetary control systems must be adhered to for a smooth running of the organization activities.

\* There should be involvement of the various stakeholders in the preparation of the budget to bring accountability and transparency in the organizations budget.

\* The organization should continue to use the Roll Over budgeting System since there is a clear link between the expenditure, objectives, outputs and activities. This would enable the Sub-Metro to make a realistic budget.

\* The organization should continue to monitor its budgeting and budgetary control systems to correct variances by the application of control tools.

## APPENDIX

### QUESTIONNAIRE DESIGN

This Questionnaire is part of a study conducted by Helena Dufie Amankwah at Christian Service University College.

I will be glad if you can answer the questions below for me all information given will be kept confidential and your response will be used.

**Please answer the Questions by ticking the appropriate one.**

1. Sex      F ( )      M ( )
  
2. Please who are you? ( i) Worker ii) Assembly man iii) Town Council member (iv) Government Appointee
  
3. Does the Asokwa Sub-Metro prepares it's budget    Yes ( ) No ( )
  
4. What legal system guides you in the preparation of the sub-metros budget? (i) Local Government Act 469 (1993) (ii) Any other, please specify  
.....
  
5. What budgeting system do you operate?  
(i) Incremental (ii) Roll Over System
  
6. Who is responsible for the preparation of the sub-metro's budget?  
(i) Budget Officer (ii) Heads of Department (iii) Both
  
7. How often does the Sub-Metro prepares its budget?  
(i) Weekly (ii) Monthly (iii) Quarterly (iv) Yearly
  
8. Does your budgeting system have any impact on the institution?  
YES ( ) NO ( )  
If YES in which of the following ways?  
(i) Helps in planning (ii) Serves as a guide (iii) Helps in controlling (iv) Serves as an instrument of decentralization.



9. What is your opinion about budgetary control as part of the institution management process?  
(i) It is waste of time (ii) It is a very important tools if administered properly (iii) I am indifferent to the system (iv) Any other, please specify.....
10. Do you personally support the use of budget as a performance management tool?  
YES ( ) NO ( )
11. If YES in what way?.....
12. Do you experience variance in your budgeting system?  
YES ( ) NO. ( )
13. If YES how are they controlled?.....
14. Any further comments?.....

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