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Effects of Budget Process on Public Financial Management: A Survey of Public Universities in Kenya

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Abstract: **Educational Institutions have an overall goal or vision that they are established to achieve and must ensure that its departments work towards that common goal. Since the performance of the various departments will be interrelated in many ways, each head of department must know not only his/her own role but also how it interacts with the rest of the institution.**

A budget was one of the most critical tools of resource management, which ensures rationality in spending of the available yet limited resources. The budgeting process of an institution affects public financial management and it is important therefore that an institution adopt efficient budgeting processes that will be able to provide more accurate results of the institutional financial management.

The research study aimed to evaluate the effects of budget process on public financial management: a survey of public universities in Kenya. The research aimed to identify the stage of budget process and the effects of the budget process on public financial management. The targeted population totalling 328 from Technical university of Mombasa, Pwani University, University of Nairobi and Moi University involved management and parties involved in the budget process. A sample of 30% of each strata population was taken totalling to 99.Data collection was done using questionnaires. This research used descriptive statistics, percentage, mean and standard deviation. The findings from the study drew conclusions that public sectors should consider to use during budge processes to ensure prudent financial management.

Keywords: **Effects, Budget, Process, Public, Financial, Management.**

1. INTRODUCTION

1.1 Background of the study:

A budget is a record of the revenues and expenditures of an institution during a given period of time. It shows what the institution intends to do during that period and how it intends to finance these activities. The budget itself is the result of the budgeting process, the way in which decisions about the use and funding of public resources are made. (Premchand, 2007). An effective budget pursues three partially competing objectives that is maintaining fiscal discipline, allocating resources in accordance with policy priorities and efficiently delivering services, or 'value for money'. Budgets should be comprehensive, transparent and realistic. In order to promote PFM objectives, a budget should contain the following elements: a macroeconomic framework and revenue forecast, a discussion of budget priorities, planned expenditure and past outturns, a medium-term outlook and details on budget financing, debt and the government's financial position (Shapiro , 2010).

1.2 Budgeting process:

The budgeting process is an integral part of both planning and control. Budgeting is about making plans for the future, implementing those plans and monitoring activities to see whether they conform to the plan (Thomas, 2000). The budgeting process consists of activities that encompass the development, implementation, and evaluation of a plan for the provision of services and capital assets (Drury, 2000). A good budgeting process incorporates a long-term perspective, establishes linkages to organizational goals, focuses budget decision on results and outcomes and promotes effective communication with stakeholders. Budgeting is strategic in nature and not a matter of balancing revenues and expenditure every year.

1.3 Statement of the problem:

Over the years there has been irregularities discovered in public sector spending which includes flouted tendering rules, spending on up planned activities, cases of embezzlement of public funds, delay in disbursement of budget support funds that lead to periodic cash flow problems of public sectors resulting to ineffective service delivery.

A good budgeting process will ideally translate to a good project. Failure to plan or poor planning is planning to fail. The research therefore aims to evaluate the budget process effect on public financial management.

1.4Objectives of the Research Study:

1.4.1 General Objective:

The general objective of the study was to evaluate the effects of budget process on public financial management

1.4.2 Specific Objectives:

1. To determine the effects of budget preparation on public financial management, a survey of public universities in Kenya.
2. To assess the effects of budget execution on public financial management a survey of public universities in Kenya.
3. To examine the effects of budget monitoring on public financial management a survey of public universities in Kenya.
4. To identify the effects of budget reporting on public financial management a survey of public universities in Kenya.

1.5 Research Questions:

In order to meet the research objectives the study will be guided by the following research questions.

1. What is the effects of budget preparation on public financial management at public universities in Kenya?
2. What is the effect of budget execution on public financial management at public universities in Kenya?
3. What is the effect of budget monitoring on public financial management at public universities in Kenya?
4. What is the effect of budget reporting on public financial management at public universities in Kenya?

1.6 Justification the study:

It was expected that the findings and recommendations of this study will: Help heads of departments at the institutions to be well conversant with all processes that the budget goes through. Assist heads of institutions in enforcing budget reforms to ensure budget compliance and consequently effective public financial management in public sectors. Contribute to the body of knowledge on effects of budget process on public financial management.

2. LITERATURE REVIEW

2.1 Introduction:

This literature review seeks to identify themes in the literature relating to budget process and its effect in public financial management with the aim of illuminating the possible issues on increasing organization's service delivery.

2.2 Theoretical Review:

2.2.1 Theory of Control:

Adequate control is very essential to every organization be it individual or government owned all over the world. This is because if there is no adequate control of resources in the organization, it will be practically impossible to appropriate budgets and accounting practices becomes a waste. The theory of control specifies the obligations of government institutions in providing social and basic amenities to the citizens.

2.2.2Theory of Motivation:

Motivation is the force that initiates, guides and maintains goal-oriented behaviors. If managers and subordinates are to be motivated to achieve higher levels of performance, it is not enough that a budget or financial target represents a specific quantitative goal but essential that these targets are accepted. It is impossible to specify exactly the optimal degree of difficulty for targets since task uncertainty, personality factors, cultural and organizational issues will all affect this

2.3 Conceptual Framework:

For the purpose of this research, the independent variables are budget preparation, budget execution, budget monitoring and budget reporting whereas; the dependent variable is public financial management.

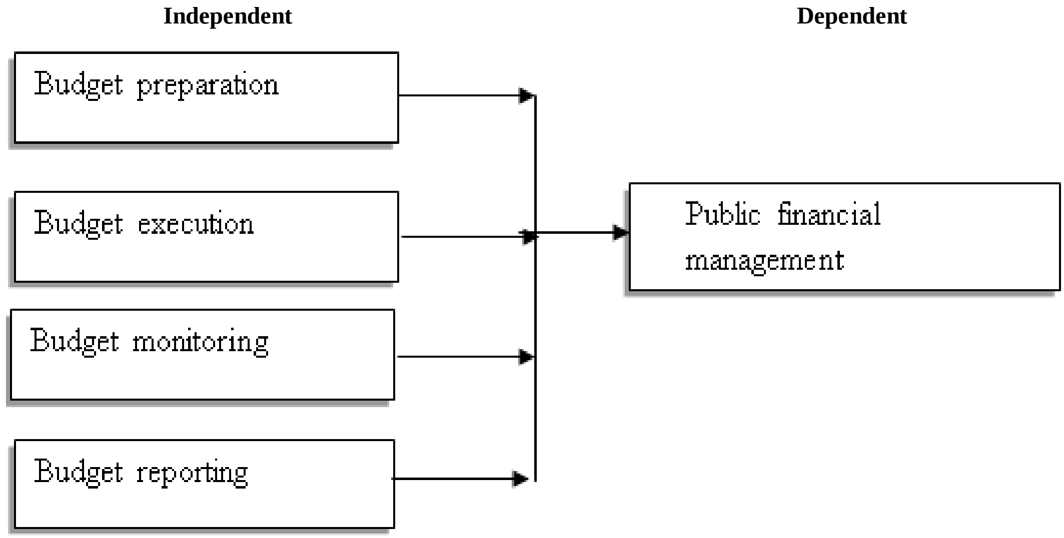

Figure 2.1 Conceptual Framework

2.4 Effects of:

2.4.1 Budget Preparation:

The preparation of the budget usually takes many months and involves all public institutions: A successful budget preparation process combines top-down direction and bottom-up planning. The overall budget envelope and sector/ministry spending ceilings are usually set by the Ministry of Finance and the Cabinet/executive in accordance with policy objectives. These are then communicated to the line ministries, which are responsible for preparing their respective sector budgets. Through an alternative Process of review, debate and bargaining, a consolidated budget is hammered out. A budget proposal is then presented to the legislature, where it is debated and negotiated with the executive and eventually passed into law. In past decades, there have been various innovations in budget formulation, with the aim of increasing the allocated and operational efficiency of budgets. These ideas and practices warrant special attention, as there is still a considerable debate among PFM specialists about whether, when and how implement them (Premchand,2007).

2.4.2 Budget Execution:

Once the legislature approves the budget, the government embarks on the challenging task of spending funds. Spending public funds effectively to meet stated policy objectives while ensuring value for money is often just as challenging than planning how to spend it. Several reviews of PFM performance in developing countries show that countries score significantly better on budget preparation than on budget execution indicators. (Andrews 2008).

2.4.3 Budget Monitoring:

Budget monitoring involves keeping track of indicators to consider what they are trying to achieve with their policies and how far they are progressing and to use the information to plan accordingly.

Your job to monitor the budget is to answer the following questions: How close did the business come to the budgeted figures? What adjustments, if any, should be made to the current year's budget? What adjustments, if any, should be made to budgets in future years? What changes, if any, should be implemented to improve performance? (Andrews 2008)

2.4.4 Budget Reporting:

A report detailing a company's planned expenditures and allowing comparison to what they actually were. The budget report contains two columns, one for budgeted outlays and one for actual. The budget report helps a company determine how closely its budget mirror reality and how well it manages its costs. The difference between the budgeted and actual amount is called the budget variance.(Lucey, 2002)

2.4.5 Public financial management:

Public financial management refers to the legal and institutional framework for supervising all phases of the budget cycle, including formulation and preparation of the budget, budget execution and expenditure management, internal controls and audit, procurement, monitoring and reporting arrangements, and external audit. The broad objectives of public financial management are to achieve overall fiscal discipline, allocation of resources to priority needs, and efficient and effective delivery of public services. A solid and strong PFM system is, thus, a tool to evade fiscal waste and to guarantee that taxpayers' money is used wisely. It encompasses the mobilization of revenue, the allocation of these funds to various activities, expenditure, and accounting for spent funds, it is vital important to understand how various functions fit into a broader system of rules and regulations that govern the management of public resources, and what these functions are ultimately intended to achieve Tommasi (2009).

2.6Critique of the Existing Literature Relevant to the Study:

The existing literature on budget process and public financial management has contributed to the development of this study. The existing literatures have shown that there is a relationship between budget process and effective public financial management but very few have looked into evaluating the effects of budget process in PFM. The main concern of public financial management is how to efficiently and effectively utilize public resources to meet the needs of the community in an equitable manner. An important part is the budgetary process. The key issues to be examined in assessing the quality of the budget process are degree of discipline, efficiency in revenue mobilization and extent of transparency, accountability and control in the tax system. To ensure budgetary discipline and budget deficits must be kept under control.(Andrews, 2008)

2.7 Summary:

In theory, the budgeting process is a good but challenging process to many organisations and those who embrace it fully reaps many benefits. Budgeting is used by managers to complement their work of planning, controlling, staffing, and Motivating. Budgeting process involves prediction of incomes and expenditures of an organisation, implementation of the plans, monitoring the same and the reporting mechanisms. A budget is therefore simply the financial portion of any organisation plans. It is a set of pro-forma financial statements projected over the time period covered by the plan.

A lot of existing literature on budget process and PFM is based on their objectives/what the budget process and PFM achieves and the relationship between the two but less on the effects of budget process on PFM.

3. METHODOLOGY

3.1 Introduction:

This chapter discusses the description of the procedures and methods the researcher to be adopted in conducting the research. The project was guided by the research questions laid down in chapter one. The chapter looked into consideration the research methodology that was applied in respect of the research design, study population, target population, sampling design, sampling method and techniques, data collection procedures and instruments.

3.2Research Design:

Research design is a set of decisions that make up the master plan specifying the methods and procedures for collecting and analyzing the needed information Gay (1994).The research design was oriented towards a descriptive survey that describes the state of affairs as it exists. Mugenda and Mugenda (2004) stated that descriptive design is a method of collecting information by interviewing or administering a questionnaire to a sample of individuals in order to determine the status of that population in respect to one or more variables. It is used when collecting information about people's attitudes, opinions, habits and social issues (Orando and Kombo, 2002).

3.3 Target Population:

The target population totaling 328for the study comprised the deputy vice chancellors, registrars, Deans, Directors, heads of departments and heads of sections.

3.4 Sample and Sampling Technique:

Mugenda and Mugenda (2003) recommend that a sample size of more than 30 or at least 10% is usually appropriate for social sciences. The study therefore took 30% of each of the strata population. The study had a sample of ninety nine (99) chosen using the frame below which was a representative sample as it is 30% of the total population.

3.5 Research Instruments:

Data was gathered from both primary and secondary sources. The study used the following for data collection

a) Questionnaires

The questionnaires were distributed to be filled in by those picked. The researcher administered the questionnaire personally to the respondents and picked them after a week.

3.6 Data Collection Procedure:

For the purpose of this research, the researcher used mainly primary data to form the basic foundation of this paper in an attempt to provide answers to the research questions .The researcher and the respondents got into contact with each other. Questionnaires were physically delivered to the respondents with a request to return after completing the same. The completed questionnaires were collected for analysis after a week.

3.7 Ethical Consideration:

Permission was sorted from the institution to carry out the study because of the sensitive nature of the study. All secondary sources of data were treated with utmost discretion and information from primary sources of data was protected.

4. DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 Introduction:

This chapter presents analysis and findings of the study as set out in the research methodology. It involves scrutinizing the acquired information from the survey and making inferences. The study findings are presented to establish the effect of budgeting process on public finance management, a survey of public universities in Kenya .These are presented in the form of tables and others graphs showing frequencies and percentages. The results are then discussed in relation to the existing literature on findings of the related studies.

The data was gathered exclusively from the questionnaire as the research instrument. The questionnaire was designed in line with the objectives of the study.

5. SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction:

The chapter provides the summary of the findings from chapter four, and it also gives the conclusions and recommendations of the study based on the objectives of the study. The objectives of this study were to investigate the effect of the budget process on public financial management: a survey of public universities in Kenya.

5.2 Summary of Findings:

The research study sought to investigate the effect of the budget process on public financial management: a survey of public universities in Kenya, specifically the study explored the research objectives provided in chapter one.

The study employed descriptive data analysis. The sample under study comprised 99 respondents. The study used primary and secondary data that was collected using questionnaire that was served on the respondents and findings presented using tables and figures.

5.3 Conclusions:

In conclusion it is apparent that budget process is a vital area on PFM . If correctly administered it can improve PFM. A lot of caution needs to be taken into account when preparing, executing, monitoring and reporting as much as possible.

5.4 Recommendations:

Based on the findings realized during the research the following recommendations should be considered as the institution work towards meeting its institutional objectives.

a) Reference:

There is need to prepare the budgets with reference to the organization annual plans, strategic plan and overall goal.

b) Use of technology:

The institution needs to embrace higher levels of technology when preparing the budget to be able to come up with accurate information which will enhance good public financial management. With technology they can be able to make reference to the old budget and come up with better budgets.

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