BUDGET AND BUDGETARY CONTROL

Nyabuto, W.

The Strategic JOURNAL of Business & Change MANAGEMENT
ISSN: 2312-9492 www.strategicjournals.com
Vol. 10, Iss.1, pp 736 – 753. March 16, 2023. www.strategicjournals.com, ©Strategic Journals

BUDGET AND BUDGETARY CONTROL

Nyabuto, W.

Senior Lecturer in the Department of public finance in Kenya School of Government, Embu Campus, Kenya

Accepted: March 3, 2023

ABSTRACT

Budgeting and budgetary control entail the establishment of goals by the management of an organization and designing a process that serves as a framework within which an organization effectively articulates overall planned activities. The quantification of these planned activities in financial terms is known as budgeting, while the establishment of an effective mechanism to guarantee desired results is known as budgetary control. This study, therefore, sought to undertake a systematic review of budgeting and budgetary control in Government owned organizations and given the importance of the foregoing, attention. All relevant stakeholders must be involved in the budget process, from preparation to implementation, in order to guarantee overall goal attainment. Budgeting is a key policy instrument for public management and administration of the firm; it is a familiar activity to many as it is practiced in our private lives as well as in businesses, government and voluntary groups. The use of budgets in government circles long preceded its application in enterprises or the business sector.

Keywords: *Budgeting, Budgetary Control, Effective, Efficient, Management, Performance.*

CITATION: Nyabuto, W. (2023). Budget and budgetary control. *The Strategic Journal of Business & Change Management,* 10 (1), 736 – 753.

INTRODUCTION

Budgetary control is the process of developing a spending plan and periodically comparing actual expenditures against that plan to determine if it or the spending patterns need adjustment to stay on track. This process is necessary to control spending and meet various financial goals. Organizations rely heavily on budgetary control to manage their spending activities, and this technique is also used by the public and the private sector as well as private individuals, such as heads of households who want to make sure they live within their means. Budgetary control is a system of management control in which the actual income and spending are compared with planned income and spending so that the firm can make decisions if plans that are being followed and if those plans need to be changed in order to make a profit. Budgetary control is the one of best technique of controlling, management and finance in which every department's budget is made with estimated data. Then, the management conducts a comparative study of the estimated data with original data and fix the responsibility of employee if variance will not be favorable. Organizations can use budgetary control in forecasting techniques in order to make plan and budget for the future. The management of the organizations implements budgetary control to prevent losses resulting from theft, fraud and technological malfunction. These instructions also help management to ensure that expenses remain within budgetary limits. The importance of budgetary control is that it can be implemented by three departments in an organization to enhance effectiveness. These departments are accounting department, statistical department and management department. Accounting department provides old data. Statistical department provides the tools and techniques of forecasting like probability, time series other sampling methods. Management department uses both department services to estimate the expenditures and revenue of business under the normal conditions of business.

What is A Budget?

The budget can be defined as a „financial plan that includes calculating the revenues and expenses of the state, a social or economic organization for a determined period of time. The budget is the quantitative expression of the plan framed by the administration for a spec specified period of support for the coordination of the necessary activities in implementing that plan. A Budget reflects both financial and non-financial issues concerning the plan and represents a „schedule" regarding the forthcoming period.

A budget that includes financial aspects quantifies the administration's predictions regarding the profit, treasury's cash flows, and financial statement of the entity. The financial statements for the forthcoming period can be drawn up the same way as those for the former periods. Non-financial budgets can be drawn up in addition to these financial budgets such as those regarding the number of products, the number of employees, or the number of new products introduced on the market.

The budget may become an instrument for the amortization and optimization of the relationship between revenues and expenses within an entity whereas costs budgeting may become a systematic economical practice that demands carrying out a formal process by which financial resources are distributed in order to achieve the time objectives for the forthcoming periods

Practically, the budget can be viewed as a list, a document that includes the predictable revenues and expenses of an entity, regardless of its size, within a certain period of time. This budget represents the underlying activity of the economical agents. The budget reflects the economical unit's revenues and expenses, financial results, proper funds including the employees' contribution to the profit, bank loans and their reimbursement, payments to the treasury, and information regarding the main indicators of its activity.

The budget contributes to maintaining a permanent balance between receivables and payments and also ensures a continuous capacity for payment. The budget of an enterprise reflects the potential of achieving its revenues, the expenses' limit as well as its final results. The unit's financial balance must permanently reflect the match between the monetary resources and the actual needs, according to the requirements of a lucrative economical-financial activity. In the context of economic competition, where the companies' activity must be lucrative, the budget contributes to increasing the profit and decreasing expenses, therefore the budget represents a leading instrument. The budget is an instrument used by any entity, financially ensuring the dimension of the objectives, revenues, expenses, and results at the management level and finally evaluating the economic efficiency by comparing the results with those budgeted for.

The elaboration, monitoring, and controlling of the budgets are mandatory for the purpose of acknowledging the results and delivering private information necessary for decision-making. If the budget is designed to present all the predictable figures of the enterprise, it is questioned whether autonomous subsystems called expenses centers (places) aimed at optimizing the use of resources and making a profit should be created within. The expenses center is a recognizable function or a part of the enterprise for which the expenses can be identified. In the case of the profit center, both the expenses and revenues can be identified. The budget center represents a sector of an entity that can be controlled and budgeted. A budget center may be an expenses center, an assembly of expenses centers, or may coincide with a profit center. Depending on its size, a common profit center may consist of several budget centers which may independently consist of either a single expenses center or an assembly of interconnected expenses centers.

The budgeting process is characterized by the following features:

- Planning and coordination The budgeting process is based on some more general long-term objectives with the purpose of elaborating thorough operational plans for different sectors or executive links of the enterprise. Planning is the key to success in any business and it is encouraged by the allotment of budgetary resources.
- Planning is reflected in the master budget that includes all the secondary budgets, a fact that determines the managers to consider the relation among the function of the budgets and the various departments of the enterprise and to analyze the way in which they contribute to achieving the objectives.
- Authority and responsibility. The budgeting process assumes that the entity is organized in responsibility or budgetary centers and follows clear instructions regarding the responsibilities of each manager that has a budget as well. Adopting a budget includes the authorization of all its activity plans, allowing exceptional management which means that a subordinate is given a specified role and also the authority and necessary resources to carry out the assigned part of the plan but if the activities do not follow the plan, the variations are reported to the superior authority.
- Communication the budgeting process involves all the managerial levels and constitutes an important means of communication between the superior and middle management regarding the targeted objectives and their achievement. When the budgeting process ends, the approved plans are communicated to the entire involved personnel.
- Control. This element of budgeting is the least expected by employees. The process of comparing the current results with the planned or budgeted results and reporting the comparison's results, which is in fact the budgetary control, establishes a

guideline for carrying out the plans within these limits for the expenses') Performance evaluation. The performance of the managers is partially evaluated according to their ability to implement the budgets. The data regarding the manager's budget and his ability to achieve the budget objectives is an important factor whenever a manager is evaluated to be promoted, to be given a raise, or in any other kind of assessment. The budgets used as objectives may assist the manager in monitoring his own performance.

The budget objectives are:-

- provide the basic information, the cost for elaborating the development plans;-
- indicate the conditions under which the patrimonial unit must work to achieve the targeted objectives (e.g. the number of sales that ensure the predicted profit until the end of the trimester);-
- Represents an instrument for coordinating the activity within the patrimonial unit encouraging information circuit regarding the costs and increasing the awareness among the individuals responsible for the expenses centers;-
- Increases the capacity to anticipate the consequences of the decision made or that is about to be made since the budgets are a referential image directed by the decision-makers.

The budgeting procedure can be divided into the following stages:

- Setting of the company's objectives for the following year (operational plan) by the general administration communicating them together with the information regarding the business environment to the management centers;
- Elaboration of the provisional budgets (prejudges) by each individual responsible for the designated centers within the enterprise and the selection of one desirable version;
- The assessment of budgetary coherence according to which the provisional budgets of each responsibility center are regrouped at the level of general administration so that the coherence among the different components of the budget is evaluated. The management centers and the budget committee organize a debate on the objectives and resources allotted for their achievement, negotiating the objectives and assigned resources for each budget. The management controller has a very important role in this stage because he analyzes the credibility of the initial hypothesis and objectives, evaluates the sensitivity of the results in relation to the most uncertain variables, and ensures the existence of a reserve fund at the level of general administration that can be used throughout budgets' execution in the case of unfavorable turnoff events or an unexpected management situation at the level of budgeted entities.
- The elaboration of definitive budgets and their delivery to the responsibility centers;
- Monitoring the budgets' execution and their update depending on the evolution of the business environment achievement of the objectives

The budgetary management is based on the following principles:

- The integrity principle, which entails that all the activities of a patrimonial unit should be characterized by perfect coordination between the various functional and operational services;
- The principle of superposition of the budgetary system over the authority system from the patrimonial unit, which means that the budget must be identified with a responsible individual and its accounting authority description;-

- The principle of maintaining solidarity among departments and congruence with the strategic objectives of the patrimonial unit;-
- the versatility principle, which means adjusting the budgets to the changes in the economic variables;-
- The principle of personnel policy coupling to determine the motivation and adhesion of the personnel to the targeted strategic objectives;-
- The principle of updating the budgetary prediction budgetary management has the following characteristics:-
- is a result of the strategy and predictions;- is an element of coordination among several levels of activity, since the budgets are inter-correlated;-
- Has some limitations such as being too theoretical, expensive, and sometimes unusable. The effectiveness the budgetary management depends on the quality of predictions button the on the corrective measures taken.

The elaboration of an organization's budget is important to its success for three reasons. First of all, the elaboration of the budget requires the management to analyze future activity and plan objectives and events in the short run as well as in the long run. Second, the entire managerial team must collaborate in setting and following these plans. Third, performance analysis at each managerial level is possible by comparing the budgets with the actual results. The budgetary system of an entity is one of the most practical management control procedures, precisely organizing the tasks for enhancing the enterprise's performance and correcting potential errors. It indicates the way in which profit is obtained, allowing the decision-makers to understand the factors that generate profit and to operate upon the controllable variables that influence the achievement of foreground objectives. Moreover, the budgetary system directly contributes to the elaboration of provisional synthesis documents: provisional balance sheet, provisional income accounts, treasury, and financing plans.

In order to achieve its objectives, the budgetary system must meet the following conditions:-

- Implication and support from the top management;-
- Implication of all department managers throughout all aspects of the budgeting procedure;- clearly defining the long-term objectives;-
- A realistic organizational structure, with clearly defined responsibilities;- the account information national system must be adequate;-
- The regular revision of the budgets and the objectives;-
- The administration of the budgets in the most flexible way

A major component of managerial control, the effectiveness of the budgeting process is reflected in the fact that: requires strategic planning and implementing the plans, offers a frame of reference for performance evaluation, contributes to personnel motivation, and encourages coordination and communication.

1. Strategic planning and implementing the plans Budgeting is effective if it is part of a company's strategic analysis, which means that long-term planning is used in the elaboration of long-term budgets whereas short-term planning is used in the elaboration of short-term budgets.

Figure 1: Budget Strategic Planning

2. The budget, a frame of reference for performance evaluation A company's performance can be evaluated through its reference to the elaborated budgets for those plans, which contributes to the elimination of some difficulties concerning the use of past results in analyzing the current results such as: - the past results include the activity's failures, the substandard performance within the previous period; - the activity's conditions can differ in the future as compared to those in the past. The evaluation of individual professional performance represents the set of processes and procedures implemented annually through the application of performance criteria for the degree of accomplishing the professional objectives based on the job description. The individual objectives must meet the following requirements: - the activities must be specific and in accordance with the requirements listed in the job description- to be measurable, and have a concrete form of achievement; - including deadlines
   - Set realistic expectations that can be accomplished within the specified deadlines and with the allotted resources; - are flexible in the sense that they can be revised depending on the encountered modifications and priorities. The evaluation of individual professional performance is based on special legal regulations for each personnel group, requiring a different approach to these issues. The score for achieving the objectives is obtained by calculating the arithmetic average of the grades given for the achievement of each objective, including the individual revised objectives in the case a revision was necessary during the evaluation period. The score for achieving the performance criteria is obtained by calculating the arithmetic average of the grades given for achieving each criterion.

- The final score of the annual evaluation is obtained by calculating the arithmetic average of the individual objectives and performance criteria grades. The evaluation procedure consists of three stages as follows: - drafting the evaluation report by the evaluator; - the interview;- registering the evaluation report
- The budget, a motivational factor for achieving the objectives Research studies report that "bold" budgets contribute to improved results since the incapacity to accomplish the predicted levels budgeted for is perceived as a failure. The majority of the employees are motivated by the desire to avoid failure and succeed; as soon as they get closer to achieving an objective, they intensify their efforts to attain it. For these reasons, setting high but achievable objectives is important. Training is a difficult task for the foranagement, entailing decisions that determine the personnel to participate in the process of targeting and achieving the objectives, taking into consideration the motivational factors. Therefore, I estimate that the chief of departments should try to get to know each subordinate personality and more importantly their professional interests and their predispositions with regard to a certain working activity. From the point of view of the instrumentality of personnel motivation, the manager of each organizational link may intervene in the following ways:- through positive motivational factors, offering the subordinate employees the possibility to attain their professional goals, to

publicly recognize their achievements, to facilitate their promotion, to facilitate their personal development;- through diminishing the effects of negative motivational factors (hygiene factors), the supervision strategies, promoting interpersonal relations, ensuring an adequate working environment, organizational culture.

- The budget, is an instrument for promoting the coordination and communication among the institutional structures Coordination represents the deployment and trimming of all production or service factors formal economical functions, and departments in the most effective way to allow the company to achieve its objectives.641Communication assumes that the personnel from all organizational subunits understands and accepts these objectives.

Budgetary and Control

Budgetary control is a system in which income and spending are compared with a company's budget to make sure the plans are being followed. It allows companies to adjust their spending as necessary to make a profit. Every company has a budget, and at times, that budget needs to be revised to account for spending and an increase or decrease in income. In essence, budgetary control compares actual results with budgets. If discrepancies are found, key players within a company have two choices. They can either control the spending of the company or revise the original budgets. Budgetary control helps to coordinate and organize a company's financial activities.

Budgeting is part of the overall process of planning and control. A budget is a plan which will assist in achieving objectives

A system must be controlled to keep it steady or enable it to change safely. Control is required because unpredictable disturbances arise and enter the system so that actual results/ (outputs) deviate from expected results. Examples of disturbances from the environment that would impact a business system would be as follows:

- The rise in the cost of raw materials
- Changes in demand levels
- Price war

A control system must ensure that the business is capable of surviving the disturbances. The components of a controlled system are-:

- A meaningful target or standard
- method of gathering information from a system (sensor)
- A method of comparing information to a standard (comparator)
- The means to initiate control action (effector)

This flow of information through a system is known as the 'feedback loop'

A 'single feedback' loop is confined to information coming from within the organization and refers to a fixed budget. For example, if sales targets are not reached, control action will be taken to ensure that targets will be reached soon.

This can be compared to a 'double feedback' loop, in which the external environment is monitored and action may be taken to modify the control system itself (for example, the budget may be amended to reflect an expected downturn in sales).

Objectives of Budgetary Control:

- Target setting – Identify the overall aims and objectives of the business and determine targets of performance for each section or department of the business.
- Responsibilities of executives – Laying down the responsibilities of each of the executives and other personnel so that everyone knows what is expected of him and how he will be evaluated. Budgetary control is one of the few ways in which an objective assessment of executives and departments is possible.

- Basis for comparison and investigation of variations – Providing a basis for the comparison of actual performance with predetermined targets and investigation of variations, if any, between the budgeted targets and the actual. This helps in adopting corrective measures.
- Best use of resources – Ensuring the best use of all available resources to maximize profit or production, subject to limiting factors. Since proper preparation of budgets requires consideration of all aspects, there is usually good coordination when a system coordination control exists.
- Coordination of various activities – Co-coordinating the various activities of the business, centralizing control, and yet enabling management to decentralize responsibility and delegate authority in the overall interest of the business.
- Forethought – Creating a spirit of careful forethought, assessment of what is possible, and an attempt to achieve it.
- Basis for revision of future plans – Providing a basis for revision of current and future policies.
- Drawing long-range plans – Drawing long-range plans with a fair measure of accuracy.

Controllable VS Uncontrollable Costs

A controllable cost is a cost that can be influenced by the budget holder. There may well be costs that cannot be changed by the budget holder or by management within a given time period. These are uncontrollable costs. Responsibility accounting associates costs and revenues with the managers that can control them. It, therefore, distinguishes between controllable and uncontrollable costs.

Feedback control

A feedback system operates by comparing actual (historical) results against a standard or plan, and taking control action where differences between actual and plan have occurred. Events in the past are used to take corrective action for the future.

Positive feedback indicates that the results were better than planned. The control action may be taken to encourage the deviation from what was originally expected.

Negative feedback indicates worse results than planned. Control action aims to get back to the original plan.

Feedforward Control

A feedforward system operates by comparing planned results against a current (revised) forecast of what results will be (unless corrective measures are taken). The Control action is triggered by differences between anticipated and planned results.

Budgetary Control Types

- Operational Control-It covers the revenue and operating expenses, which are essential to running a day-to-day business. The actual numbers to a budget are compared monthly in most cases. It helps achieve control over EBITDA – Earnings before interest, taxes, depreciation, and amortization.
- Cash Flow Control- This is an important budget that controls the working capital requirement and cash management. Therefore, cash crunches could be detrimental to everyday functioning, which is an important aspect
- Capital expenditures Control-It covers capital expenditures, like buying machinery or constructing a building. Because it involves a huge amount of money, the control here helps eliminate waste and reduce costs

Fundamental Principles of Budgeting control:

So as to ensure that budget serves as an effective technique of managerial decision-making, certain cardinal principles must be kept in view.

- Management Support: Top management's support and cooperation are essential for the successful implementation of the budget. It should take interest not only in setting the targets and finalizing the budgets but also in constantly monitoring the actual performance to find out the deviations if any and take curative steps, motivate the personnel, and reward the good performers.

- Employee Involvement: The budget should be established on the highest possible level of motivation. All levels of management should participate in setting targets and preparing the budget. This will result in defining realistic targets. Participation of employees in the budgeting process will not only make them carefully think about the likely development in the forthcoming period and prepare the budget accordingly but will also motivate them to strive hard to achieve budget levels of efficiency and activity
- Statement of Organizational Goal: The organizational goal should be quantified and clearly stated. These goals should be set within the framework of corporate objectives and strategies. A well-defined corporate policy and strategy is a prerequisite for budgeting.
- Responsibility Accounting: Individual employees should be informed about the expectations of the management. Only those costs over which an individual has predominant control should be used in evaluating the performance of that individual. Responsibility reports often contain the budget to actual comparisons.
- Organizational Structure: There should be a well-planned organizational structure with clearly defined authority and responsibility of different levels of management. Role and responsibilities the of Budget Committee and its President must be made known to the people in the organization.
- Flexibility: If the basic assumptions underlying the budget change during the year, the budget should be restated. This will enable the management to compare the actual level of operations with the expected performance at that level.
- Communication of Results: Proper communications systems should be established for management reporting and information service so that information pertaining to actual performance is presented to the concerned manager timely and accurate so that remedial action is taken wherever necessary.
- Sound Accounting System: Organizations should have a good accounting system so as to generate precise, accurate, reliable, and prompt information which is essential for the successful implementation of the budget system.

Advantages of Budgetary control:

- It defines the goals, plans, and policies of the enterprise. If there is no definite aim then the efforts will be wasted on achieving some other aims.
- Budgetary control fixes targets. Each and every department is forced to work efficiently to reach the target. Thus, it is an effective method of controlling the activities of various departments of a business unit.
- It secures better coordination among various departments.
- In case the performance is below expectation, budgetary control helps the management in finding up the responsibility.

- It helps in reducing the cost of production by eliminating wasteful expenditure.
- By promoting cost consciousness among the employees, budgetary control brings in efficiency and economy.
- Budgetary control facilitates centralized control with decentralized activity.
- As everything is planned and provided in advance, it helps in the smooth running of a business enterprise.
- It tells the management where action is required for solving problems without delay.

Disadvantages of Budgetary control:

- It is really difficult to prepare budgets accurately under inflationary conditions.
- Budget involves a heavy expenditure that small business concerns cannot afford.
- Budgets are prepared for the future period which is always uncertain. In the future, conditions may change which will upset the budgets. Thus, future uncertainties minimize the utility of the budgetary control system.
- Budgetary control is only a management tool. It cannot replace management in decision-making because it is not a substitute for management.
- The success of budgetary control depends upon the support of the top management. If there is a lack of support from top management, then this will fail.

Limitations of Budgetary control:

- The future is unpredictable, so a budget always does not guarantee a smooth future for an organization.
- Mostly usage of past recorded numbers
- Ignores demographics and many other economic factors
- Government policies and tax reforms are not always predictable
- Natural events like rain, monsoon, drought, and other uncontrollable factors affect an organization's actual performance, which cannot be considered for the budget.

Behavioral aspects of budgeting

General considerations

Accountants must consider the impact of their budgeting systems on human behavior Budget pressure unites employees against management Pressure may lead to negative results Workers form protective groups Accounting personnel equate success with finding fault in workers feel victimized – loss of confidence and motivation results in Supervisors use budgets as an expression of their position of superiority

A good system of control must influence employees in the direction of the company's best interests.

Motivation and Budget Setting

Best performance is usually achieved when a budget is perceived as challenging but achievable.

Hofstede's analysis suggested targets should be set at 'almost achievable' levels for maximum motivation and performance.

It is vital that the goals of management are in line with the goals of the organization as a whole. This is known as goal congruence.

Management accountants should therefore try to ensure that management and employees have positive attitudes toward setting and implementing budgets, and feedback on results.

Hofstede's Cultural Dimensions

Cultures around the world are getting more and more interconnected and the business world is becoming increasingly global. For managers, this means that they should be able to work with a large variety of people from different countries and cultural backgrounds. However, since most people are so strongly immersed in their own culture, they often fail to see how it affects their patterns of thinking or their behavior.

Figure 2: Hofstede's Cultural Dimensions

Power Distance

This dimension expresses the degree to which the less powerful members of a society accept and expect that power is distributed unequally: beliefs about the appropriate distribution of power in society. The fundamental issue here is how a society handles inequalities among people. People in societies exhibiting a large degree of Power Distance accept a hierarchical order in which everybody has a place and which needs no further justification. In societies with low Power Distance, people strive to equalize the distribution of power and demand justification for inequalities of power. China and Saudi Arabia are countries with a high Power Distance index.

Individualism

The Individualism/Collectivism dimension is about the relative importance of individual versus group interests. The high side of this dimension, called individualism, can be defined as a preference for a loosely-knit social framework in which individuals are expected to take care of only themselves and their immediate families. Its opposite, collectivism, represents a preference for a tightly-knit framework in society in which individuals can expect their relatives or members of a particular in-group to look after them in exchange for unquestioning loyalty. A society's position on this dimension is reflected in whether people's self-image is defined in terms of "I" or "we." The USA is considered as one of the most individualistic countries in the world.

Masculinity

The Masculinity/Femininity dimension is about what values are considered more important in a society. The Masculine side of this dimension represents a preference in society for achievement, heroism, assertiveness, and material rewards for success. Society at large is more competitive. Its opposite, femininity, stands for a preference for cooperation, modesty, caring for the weak, and quality of life. Society at large is more consensus-oriented. In the business context, Masculinity versus Femininity is sometimes also related to "tough versus tender" cultures. Japan is considered to be a very masculine country, whereas Scandinavian countries such as Norway and Sweden are considered highly feminine.

Uncertainty Avoidance

The Uncertainty Avoidance dimension expresses the degree to which the members of a society feel uncomfortable with uncertainty and ambiguity. In addition, its impact on rule-making is taken into account. The fundamental issue here is how a society deals with the fact that the future can never be known: should we try to control the future or just let it happen? Countries exhibiting a high Uncertainty Avoidance maintain rigid codes of belief and behavior and are intolerant of unorthodox behavior and ideas. These countries often need many rules to constrain uncertainty. Countries with a low Uncertainty Avoidance index maintain a more relaxed attitude in which practice counts more than principles, tolerance for ambiguity is accepted and the need for rules to constrain uncertainty is minimal. South American countries such as Chile, Peru, and Argentina are highly uncertainty-avoiding countries.

Time Orientation

Every society has to maintain some links with its own past while dealing with the challenges of the present and the future. Societies prioritize these two existential goals differently. Countries that score low on this dimension, for example, prefer to maintain time-honored traditions and norms while viewing societal change with suspicion. They are past and present-oriented and value traditions and social obligations. Countries with cultures that score high on this dimension on the other hand take a more pragmatic approach: they are future-oriented and encourage thrift and efforts in modern education as a way to prepare for the future. Asian countries such as China and Japan are known for their long-term orientation. Morocco is a short-term-oriented country.

Indulgence

The Indulgence dimension is a relatively new dimension to the model. This dimension is defined as the extent to which people try to control their desires and impulses, based on the way they were raised. Relatively weak control is called Indulgence and relatively strong control is called Restraint. Cultures can, therefore, be described as Indulgent or Restrained. Indulgence stands for a society that allows relatively free gratification of basic and natural human drives related to enjoying life and having fun. Restraint stands for a society that suppresses gratification of needs and regulates it by means of strict social norms.

Participation in budgeting

In a top-down system, budgets are imposed on individuals by their managers. In a bottom-up system, the budget holder is invited to have input at the budget-setting stage. In between these two extremes is negotiated budgeting. Regardless of the initial approach taken the final budget is likely to be arrived at after much negotiation between senior and junior management and so in reality budgeting is actually a bargaining process.

Advantages of top-down (imposed) budgeting systems include:

- Likely to be quicker
- Avoid budgetary slack and budget bias
- Utilize senior management awareness of total resource availability

Advantages of bottom-up budgeting systems include:

- More detailed information used in budget-setting processes
- Morale and motivation are improved
- Increased likelihood of achievement

Budget Systems

Fixed budgets

A fixed budget is one that is not adjusted regardless of the level of activity attained in a period. The fixed budget is the master budget prepared before the beginning of the budget period. It is based on budgeted volumes and costs/revenues and as such is often unrealistic as the actual level of activity will be almost certainly different from the level of activity originally planned.

Flexible budgets

A flexible budget is a budget that is designed to change as the volume of activity changes.

This can be done by recognizing the behavior of different costs (fixed, variable, semi-variable, etc). Useful at the planning stage to show different results from various possible activity levels (what-if analysis) allowing better planning for uncertainty in the future.

Flexed budgets

Used at the control stage budgets need to be flexed to reflect the actual activity level achieved in a given period before the budget can meaningfully be compared with actual results and variance analysis performed.

Purpose of flexible / flexed budgets

- Designed to cope with different activity levels to keep the budget meaningful and hence preserve the relevance of variances for effective control.
- Useful at the planning stage to show different results from possible activity levels.
- Necessary as a control device because we can meaningfully compare actual results with a relevant flexible budget, i.e. budgetary control.

Incremental budgeting

Incremental budgeting is where the budget is based on the current year's budget (or results) plus an extra amount for estimated growth or inflation. Incremental budgeting may be appropriate for certain costs. For example in a stable environment, it may be sufficient to budget salary costs by taking current the year plus wage inflation. However, if the headcount was larger than necessary this approach would keep building in unnecessary costs which would never get stripped out. Traditionally this type of budgeting would have been very evident in the public sector. This would often result in departments becoming locked into public expenditure.

Zero-based budgeting

Zero-based budgeting (ZBB) is a budgeting technique in which all expenses must be justified for a new period or year starting from zero, versus starting with the previous budget and adjusting it as needed. The process of zero-based budgeting starts from a "zero base," and every function within an organization is analyzed for its needs and costs. The budgets are then built around what is needed for the upcoming period, regardless of whether each budget is higher or lower than the previous one.

Performance Budgeting

A performance budget may be defined as a budget based on functions, activities, and projects. Performance budgeting may be described as a budgeting system, where under-input costs are related to the end results, i.e., performance. According to the National Institute of Bank Management, Mumbai, the PB is the process of analyzing, identifying, simplifying, and crystallizing specific performance objectives of a job to be completed over a period, in the framework of the organizational objectives, the purpose, and objectives of the job.

Rolling budgets

The rolling budget is continually updated to add a new budget period as the most recent budget period is completed. Thus, the rolling budget involves the incremental extension of the existing budget model. By doing so, a business always has a budget that extends one year into the future. A rolling budget calls for considerably more management attention than is the case when a company produces a one-year static budget since some budget updating activities must now be repeated every month. In addition, if a company uses participative budgeting to create its budgets on a rolling basis, the total employee time used over the course of a year is substantial. Consequently, it is best to adopt a leaner approach to a rolling budget, with fewer people involved in the process.

Line Item Budget

A line-item budget is one in which the individual financial statement items are grouped by category. It shows the comparison between the financial data for the past accounting or budgeting periods and estimated figures for the current or future period. A line item budget separates a business's expenses into categories and represents these in columns. It also allows each of these categories to be compared to that expense in the previous year. A business could have expenses, such as advertising, office materials, or employee compensation.

Program-Based Budgeting

Program-Based Budgeting is a budgeting tool where all budgetary information is organized around the programs and services. The budget will show the costs of the program, and the revenues that the program generates, as well as show a way to evaluate the program's effectiveness and outputs through performance metrics. Organizing the information in this way, rather than at the department and division level, provides a clearer picture of how much money is being spent on each program, the services that the program delivers to Philadelphians, as well as how well the program is performing.

IMPORTANCE OF THE GOVERNMENT BUDGET

Every country aims to improve the standard of living of its people and eradicate issues like poverty, illiteracy, unemployment, income inequality, etc. Budget measures help the government in meeting these goals. A budget gives an overview of the fiscal policy of the government.

A well-planned Budget is of utmost importance for any government to ensure economic stability and growth, economic resilience, and expansion of a country. Thus, governments need to project whether they will have enough money to complete their program for the benefit of the country.

Any political party which forms government at the Centre has certain social, political, and economic responsibilities. In countries with deep cultural, religious, and economic diversity such as KENYA, it is extremely important for the government to allocate resources wisely. Various factors such as uplifting underprivileged sections of society, facilitating financial inclusion, mitigating regional disparity, upgrading defense capabilities, providing proper educational facilities, and much more need to be focused on. Therefore, a well-planned budget is of utmost importance for any government to ensure economic stability and growth.

Proper resource pool allocation

When it comes to budgeting, identifying areas of weakness helps the government to allocate resources in a useful and sustainable manner. This is one of the most fundamental objectives behind framing a government budget. It's important for the government to ensure that funds reach where it's required the most. Therefore, using past data to identify sections of the society in need of economic welfare policies and implementing those policies helps the government demonstrate efficient governance and achieve economic stability in the country.

Ensuring economic growth

A budget allows the government to regulate the imposition of taxes in various sectors. Investment and expenditure are some of the most prominent factors contributing to the growth of a nation's economy. The government can encourage people to emphasize more on savings and investments more by providing tax rebates and subsidies.

Growth of business and trading

Businesses and enterprises look forward to the government budget as resources being allocated to various sectors are revealed. The government can encourage business owners to revise their policies accordingly and contribute to the country's economic prosperity.

Mitigating economic divide

Economic disparity and inequality are imminent threats to any country's economy. The government can address these kinds of threats by introducing public and economic welfare policies for the underprivileged sections of society through the budget.

Administering the Operation of PSUs

Industries operating in the public sector contribute immensely to the country's economy by providing employment to a lot of people and generating revenues. A budget helps the government focus appropriately on companies in the public sector by introducing policies to aid their growth.

Types of Government Budgets in Kenya

The three types of government budgets in Kenya are the deficit budget, surplus budget, and balanced budget.

Budget Deficit

A deficit here refers to the amount by which the budget falls short. Therefore, a government budget is said to be a deficit budget when the proposed expenditure exceeds the expected revenues in a particular financial year.

When a deficit in the budget occurs, the government has several ways to mitigate the deficit. For example, it can increase the tax revenue, cut down on certain spending areas to reduce the deficit, or it can borrow to fund the deficit.

Most governments borrow money to fund the deficit.

The budget deficits for a country are referred to collectively as the National Debt (or Public Debt). Public debt refers to the money the government owes its lenders both domestically (e.g. commercial banks) and externally (e.g other countries, multinational corporations like World Bank and IMF, etc.).

While the deficit represents the difference between revenue and expenditure over a period of time, debt represents the total amount of money owed at a point in time.

The national government budget in Kenya has to a large extent always been operating on a deficit. This leads the government to borrow money both domestically and externally. Because of this, the public debt has grown significantly.

Many county governments inherited debts from the former local authorities (like city councils, municipal councils, etc.) which include money owed to suppliers. But in general, most counties also operate on a deficit.

However, budget absorption is a big challenge for most counties hence the underspending helps in a way to reduce the deficit at the end of the financial year.

A budget deficit in some cases is an indication that a government is mismanaged and the economy is worse.

Here's a video for the arguments about the advantages and disadvantages of a budget deficit.

Budget Surplus

Surplus means an excess of something. Therefore, a surplus budget is the opposite of a deficit budget. A government budget is said to be a surplus budget when the expected revenues exceed the expected expenditure in a particular financial year.

When there is a budget surplus, it means the government is collecting enough money from taxes that exceed the amount it spends to provide public goods and services. Therefore, the surplus acts as a form of government "savings".

A surplus can occur if the government increases its revenues. However, a surplus can also occur if the government lowers its expenses below the expected revenues (e.g. by cutting down on expenditure costs).

A surplus budget means that the excess funds can be utilized elsewhere. For example, the funds can be saved for the future (for when a deficit occurs) and can be used to pay off government debts or to finance new ventures (e.g. new government plans in health, agriculture, education, defense, etc.).

A surplus budget is an indication that a country is managed effectively or has a healthy economy. However, not having a surplus in the budget does not necessarily mean a country is poorly governed since it is not necessary for a government to maintain a budget surplus.

Balanced Budget

A government budget is said to be balanced when the expected revenues are equal to or greater than the proposed expenditure in a particular financial year. Therefore, there is neither a budget deficit nor a budget surplus (hence the accounts "balance").

A balanced budget has no deficit but can be a possibility of a budget surplus. For a budget to be a surplus, revenue must exceed the expenditure and not the opposite.

A balanced budget indicates that, after all the revenue has been collected and all expenditures have been paid, the government has no revenue left over. It does not have surplus (extra) cash but also does not have a deficit where it owes extra money at the end of the financial year. Therefore, revenues equal expenditures.

The balanced budget can, therefore, serve the purpose of ensuring there is no budget deficit by keeping spending from growing beyond the means of the government.

Theoretically, it's easy to balance the estimated expenditure and expected revenue but when it comes to practical implementation, such balance is hard to achieve.

Budgeting system in Kenya

Program Based Budgeting is a result-oriented budgetary process adopted as a government budgetary policy. The ministry of interior and coordination of national government uses this budgetary policy to prepare budgets every fiscal year that are meant to be affordable, sustainable, and comprehensive and on implementation should deliver on broad Policy objectives. However, the performance of program-based budgeting has remained debatable as the criteria for setting up performance measurements is dynamic and still developing. Program-based budgeting is a budget based on programs that bring together expenditures with a shared objective which, for most programs, refers to the outcome that the program aims to achieve. It uses performance criteria as a basis for budget allocations. (Republic of Kenya, 2011). It was introduced in the civil service in the year 2007, being a continuation of several reform programs the government of Kenya has been undertaking since the year 2000 in an effort towards achieving efficiency and effectiveness in the delivery of public goods and services. Among other reforms agenda the government had initiated was the introduction of a medium-term expenditure framework (MTEF) in the year 2000, performance contracting in the year 2005, and e-Government that saw the introduction of an integrated financial information system (IFMIS) and integrated (IPPD). The adoption of a Programme based budget (PBB) follows the realization that investment outlays do not necessarily translate into desired outcomes hence 4 was the need to shift emphasis to outcomes by establishing a mechanism to measure the results of all the programmes. Translating the Budget into programmes is useful in providing the stakeholders with a basis for tracking and interrogating budgetary allocations and budget implementation by various Government ministries and agencies. Dissemination of PBB reports to many users is anticipated to further strengthen the citizen's rights to information, by putting crucial data and information on expected outcomes in the public domain and ensuring value for money through public scrutiny. Program-based budgeting (PBB) in government is a budget formulated on the basis of outcomes that focus on tangible outputs and outcomes of all public programs as opposed to input based budget. It is result oriented and aims at improving transparency, accountability, and efficiency in the allocation of resources with the overall purpose of ensuring that citizens derive maximum value from public spending.

Budget Process

The **formulation** and preparation of the Budget involve the development and submission of key documents for approval by the Cabinet and Parliament. The process is guided by the budget calendar which stipulates timelines for a number of key activities to be undertaken in order to finalize the Budget and submit it for approval by 30th April of each financial Year. The budget calendar is usually contained in the Treasury circular issued in accordance to Section 36 of the Public Finance

The Strategic Journal of Business & Change Management. **ISSN** 2312-9492 (Online) 2414-8970 (Print). www.strategicjournals.com

Management Act, 2012, providing guidelines on the processes and procedures for preparing the subsequent financial year and the Medium-Term Budget.

The Cabinet Secretary, the Parliamentary Service Commission (PSC), and the Chief Registrar of the Judiciary are required to submit the respective budget estimates to the National Assembly by 30th April. It should be noted that the accounting officers of the PSC and the Chief Registrar of the Judiciary are required to ensure public participation in the preparation of the estimates and proposed appropriations for submission to the National Assembly and may in this regard make and publish rules to be complied with by persons who wish to participate in the process.

Upon submission of the estimates to the National Assembly, the Budget and Appropriations Committee of the National Assembly will discuss and review the estimates and make recommendations to the National Assembly. In doing this, the committee will seek representations from the public and take them into account when making recommendations. The Cabinet Secretary is required to submit to the National Assembly any comments made by the National Treasury on the budgets proposed by the PSC and the Chief Registrar for the Judiciary. Following submission of the budget estimates and other documents to the National Assembly, the same shall be publicized by the Cabinet Secretary

Approval

The approval stage falls under Parliament and the County Assemblies. Parliament handles the approval at the national level. The County Assemblies handle the approval stage at the county level.

- As a basis for future deliberations,
  - Parliament adopts the Budget Policy Statement; and
  - Each County Assembly adopts its respective County Fiscal Strategy Paper.
- Amending and approving the budget estimates after–
  - The National Executive tables them before Parliament; or
  - The County Executive tables them before the County Assembly.
- Enacting the–
  - Appropriation Bill, and
  - Any other Bills required to carry out the budgetary proposals.

The budget documents below belong in the approval stage at both levels of government–

- The Appropriation Bills (also known as the Approved Budgets), and
- The Finance Acts.

Implementation

The implementation stage involves executing the budget proposals passed at the approval stage.
The Executive at the national and the county level is in charge of the implementation stage.
(Parliamentary) Oversight also takes place at this stage. It involves:

- evaluating and accounting for the budgeted revenues and expenditures for–
  - the national government, and
  - The county governments.
- Reviewing and reporting on budgeted revenues and expenditures every three months.

The budget documents that belong to this stage are–

- The quarterly budget implementation review reports by the Controller of Budget.
- The quarterly budget implementation reports by the national and county governments.

The national government budget implementation reports are on the National Treasury's website.

The county government's budget implementation reports should be on their websites. Yet, counties are notorious for not uploading these quarterly reports.

Audit and Evaluation

This is usually the last stage of the budget process and it follows the implementation stage.

The Office of the Auditor-General is in charge of the audit. It audits and reports on the financial accounts of–

- the national government, and
- The county governments.

The audit reports should confirm whether the expenditure of public funds was prudent.

The Auditor-General should table the reports before Parliament or the relevant county assembly. Parliament or the County Assemblies should debate and consider the reports. They should thereafter take appropriate action.

The debate and consideration should occur within three months of tabling the reports.

The Office of the Controller of Budget is in charge of the evaluation. It reviews the budget expenditure for the previous fiscal year for–

- the national government, and
- the county governments

The documents that belong in this stage are:

- the Auditor General's reports for both levels of government; and
- The 'review' section of the Budget Review and Outlook Paper (BROP and CBROP). The review section forms the basis for evaluation.

The Controller of Budget should table the quarterly budget implementation reports to–

- Parliament (National Assembly and Senate), and
- The County Assemblies.

CONCLUSION

Budgeting is one of the fundamental decision-making processes in organizations as they serve numerous useful purposes in those organizations. It reveals a practical use of budgets and rigorous budgetary control practices in its operations in spite of a few challenges. But effective budget and budgetary control are determined by proper monitoring, adequate information, regulatory and legislative framework, and information technology. It was therefore concluded that budgets and budgetary control generally do attach much importance and play vital tools to aid them in the effective and efficient management of their operations.

REFERENCES

Cost Accounting, Dr. Arvind A. Dhond., Vipul Publication.

Cost and Management Accounting- Dr. Ainapure, Manan Prakashan.

Cost Accounting, Dr. Varsha Ainapure, Manan Prakashan.

Management Accounting, Dr. Arvind .A. Dhond., Vipul Publication.