CHAPTER ONE

1:0 Background of the study

According to the local government and accounting manual 2007 budget can be defined as an annual plan of a local government income from the revenue collected, Government grants and all other revenue source and how such local revenue will be spent in accordance with their objectives, needs and priorities. And this is mainly concerned with both the central government and local governments.

The chartered institute of management Accountant (CIMA) of England define a budget as a plan quantified in monetary items prepared and approved prior to a defined period of time usually showing planned income to be generated and expenditure to be incurred during that period and the capital to be employed to attain a given objective and this definition of (CIMA) covers budgeting activities largely in the private sector enterprises.

The major objective of budgeting in both the public and private sector is to ensure efficient and effective utilization of funds and for the realization of the objectives of the organization or any local government. However the absence of budgeting in both the local government and lower local government will result into the poor operation of this government system as there may be no goals and objective to be achieved hence leading into poor financial management.

According to the constitution of the Republic of Uganda article 190 page 126, the District Council shall prepare a comprehensive and integrated development plans and incorporates the plan of the lower local government for submission to the National planning Authority. The constitution emphasizes the effective process of budgeting In terms of planning and financial management in the local government so as to ensure effective operations.

This process of budgeting in the public sector according to the local government financial and according manual 2007 stretches from the consultation with the central government through the National budget conference to budget preparation through budget approval to the budget implementation and all these are undertaken by both the technocrats as well as the District
Council who are mainly entrusted with the last process that is budget implementation where they under take monitoring of the activities as much of other budget work is done by the technocrats. However the legal institution and policy frame work governing budgeting in Uganda is got from the 1998 constitution of the Republic of Uganda the local government Act chapter 243 Sections77 and other relevant Acts to the parliament in order to formulate effective budgets for the local government to ensure good financial management.

1:1 Statement of the problem
Budgeting as a tool for effective operation of the local government especially in relation to the financial management, many organization and the local governments do not actively follow their budgets. As many local government officers may not frequently refer to their formulated budgets when carrying out their various tasks leading to the poor operation due to ineffective or poor financial management. Both in the local government and the lower local government units much as the local government Act grants the district council the rights and obligations to formulate, prepare, approve and implement their budgets. Provided their budgets are balanced, effective budgeting control is still poor since what is approved as revenue and expenditure estimates within a financial year in the local government and lower local government units are not normally realized or even received late hence efficient implementation in relation to the financial management is still very poor.

OVERVIEW OF THE REVENUE PERFORMANCE

<table>
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<th>Sources</th>
<th>2008/2009</th>
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<td>Budget</td>
<td>Realized</td>
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<td>Local revenue</td>
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<td>Government grant</td>
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1.2 Purpose of the study
The purpose of the study is to evaluate budgeting as a tool for effective financial management in the local government and the lower local government unit like Metu sub-county in Moyo District.

1.3 Study objectives
To evaluate the roles of budgeting as a tool for effective financial management in the local government effective implementation of the annual plane of the local government.

To establish the constitution of budgeting in relation to financial management in local government

To examine the factors that affects financial management in the local government as a result of poor attitudes towards budget implementation.

1.4 Research question
What are the roles of budgeting in local government financial management?
How does this factor influence financial management in the local government?
What are the constitutions of budgeting control systems in the local government?

1.5 Scope of the study
The scope of the study includes the study scope and the geographical scope

1.6 Study scope
This is the subject matter of the study which looks at the roles of budgeting in the financial management in the local government a case study of Moyo district local government and this is done through the comparison of actual results ‘against the budget estimates and access whether budgeting plays a significant role in the financial management in the local government.
1.7 Geographical study
This study was to be carried out in Moyo district local government with the case study in Metu sub-county local government which is one of the seven (7) sub-counties of Moyo district.

1.8 Significance of the study
The study was to be carried out to enable the researcher have a comprehensive knowledge about the budgeting process and role it plays especially in analysis whether it was an effective tool for the financial management.
CHAPTER TWO

LITERATURE REVIEW

2:0 Introduction
The literature review was that point which involves a critical review of the existing work on the variables under the study and this also helps to answer the research questions and the membership between the variables as well as what the researcher left out during the study.

2:1 Concept of the study
This looks at budgeting and its operations of organizations that was financial management and problems to be investigated so as to ascertain the magnitude of the study. The researcher will be geared towards getting the meaning of budgeting, types of budgets, approaches of budgeting, roles to be played by budgeting towards the effective financial management, budgeting verses financial management as an effective tool for efficient financial management especially in the local government.

2:2 Types of Budgeting
Thilgan M.L, principle of economics of 1998 discusses the various types of budgets as:

2:2:1 Departmental and ministerial budgets
These were prepared upon the ministry, its departments, its functions and the types of transaction being performed. These departmental budgets were being consolidated into the budget and the ministry budget and then all these were being consolidated into the main budget which was presented to the parliament of the country every year for example the railway budget in India.

2:2:2 Union and state budgets
In the federal country like India, there were main state government and a central government and both sets of government require money for the fulfillment and their respective needs. This was because they tap different sources for obtaining revenue
2:2:3 Revenue and capital budgets
This was divided into two, that is revenue budget which includes tax revenue and non tax revenue receipt and the capital budget and the expenditure met out of them. The tax revenue include the receipts from various type and taxes levied by the government whereas the non tax revenue consists of receipts from property and enterprises, income from general service like public work, supplier and disposed. Capital budget includes market borrowing, foreign debts, net small savings, and other unfunded debts, sell of treasury bills, payment for loans from states, miscellaneous capital receipts on the receipts sides. On the expenditure side the capital expenditure includes expenditure an buildings and other construction, machinery and equipments, investment in shares, loans for capital formation to states, local government and others.

2:2:4 Plan and non – plan budgets
The plan budget shows the budgetary provisions related to the annual plan for the year. The plan budgets includes the financial provisions of the government related to different sectors like agriculture and allied sector, industries and mines, transport and communication, power and social service. It also includes central assistance for state plans, while the non-plan budgets relates to other activities other than the plan expenditure.

2:2:5 Administering and cash budgets
The Administrative budget shows the revenue and expenditure on actual basis, it excludes those funds which were owned by the government. On the other hand cash budgets shows revenue and expenditure on actual payment basis although it includes funds which do not belong to the government.

2:2:6 Main budget and supplementary budget
The main budget was that which presents budgets for the entire fiscal year. It was an annual financial statement of estimated receipts and expenditure of the government. Supplementary budget was presented to the parliament of the country to meet extra expenditure on emergencies like war, earthquakes, floods and to increases tax and non – tax revenues for the purpose.
However there were no fixed times or period for a supplementary budget or its presented any time when emergency arises.

2:2:7 Legislatives and executive budget
There are budgets prepared by the various committees appointed by the legislature (parliament) from among its members and there after passed by the legislatures. An executive budget is the one that involves estimates for revenue and expenditures which are prepared by the different ministries and department which are later forwarded to the ministry of finance. All this estimates are consolidated into the main budget which is presented to the legislature for adoption.
According to Saleemi N.A cost Accounting for 1990 page 288 other types and budgets include the following

2:2:8 Flexible
Flexible budget was the one designed to adjust the cost according to actual level and activity attained or it’s to adjust the cost levels to suit the level for activity usually attained. These were general funds, which represents amounts which were expendable at the discretion to the council in furtherance of the objectives of charity such funds especially helped to finance working capital or capital investment. Therefore to recognize different cost behaviour this type of budget was designed to change as the volume of output changes.

2:2:9 Purchase budget
These include purchases of raw materials and other items required for the production of goods. In the case of local government they purchase items like office equipments and vehicles

2:2:10 Sales budget
(Kamukama Nikon 2008). The sales budget indicates the amount and sales in units and value the company intended to sales in the fourth coming period and this must be prepared before any other budget was prepared and this budget forms the foundation of all other budgets. In the case of local government it may look at the construction for health centres and roads.
2.2.11 Master budget
(Jian and Narany 2002) definition of the master budget given by Chattered Institute of Management Accountant (CIMA) of England as the summary budget incorporating its components functional budget and which was fully approved adopted and employed. This summarizes the entire department budget.

2.3 System of budgeting

2.3.1 Zero based budgeting
Peter Rhyr has defined zero based budgeting as a “planning to justify the entire budget request in details from scratch (hence zero based) each manager states why he should spend any money at all”. This approach requires that all activities be identified as decision packages, which will be evaluated by a system of systematic analysis ranked in order of importance. It was also defined on a “system whereby each budget item regardless of whether its new or existing must be justified in its entirely each time a new budget was prepared and quoted by (M.N. Arora 1999).

2.3.2 Incremental budgeting
This type of budgeting provides that the current level of operating activity and budgeted allowance for existing activities were the standing point for the preparation of an annual budget. The base was then adjusted for changes expected to occur during the period. It was called incremental budgeting because it was concerned with increments in operations and expenditure that will occur during the budget period. The short coming with this type of budgeting was that it perpetually incorporates past inefficiencies.

2.3.3 Fixed budgeting
The institute of cost and management accountants (UK) defines a fixed budget as the budget which was designed to remain unchanged irrespective of the level of activity actually attained. It was based on the single level of activity. A fixed budget performance report compares data from actual operations with the single level of activity, in the budget. Fixed budgets do not change when the production level change. This was in Jawahur Lal (2002).
2:3:4 Performance budgeting

(Jain and Narranq 2002) performance budgeting had its origin in USA after the Second World War. It tries to rectify some of the short comings in the traditional budgets. In the traditional budget amounts were earmark for the object of expenditure such as salaries, travels, office expenses, grant and aid. In such a system of budgeting the money concept was given more prominence that was estimating or projecting rupee values for the various accounting heads or classification or revenue and cost.

Performance oriented budgets were established in such a manner that each item of expenditure relates to a specific responsibility centre was closely linked to performance of that centre. The basic issue involved in the fixation of performance budget was that of developing work programs and performance expectation by assigning responsibilities necessary for the attainment of goals and objectives of the enterprise, it involves establishing each centre a program of target performance in physical units, forecasting the amount of expenditure required to meet the physical plan laid down and evaluation of performance revenues, donor funds etc.

2:4 Approaches to budget

Saleemi N.A, cost accounting (1990) page 286, states that a budget manual should be prepared inform of a rule book with all the laid down procedures, organizational structure, designations of responsibilities and budget time table. A budget period should be prepared for specific period which may be informed of continuous budgets. A period budget covers a fixed period of time than these budgets may be divided into shorter periods. These short periods were also known as central periods for purposes of budgetary control.” The budget periods depends upon the type of the business and the control aspects.

Chartered institute of management accountants, England define a budget manual as “a document scheduled or booklet which sets out interalia the responsibilities of the person’s engagement in the routine of the forms and records required for budgetary control” this was in (Jain and Narranq 2002).

Okello Kalist, intermediate accounting 2003 page 232 looks at approaches to budget as procedures of budgeting process, budget formulation consist of various procedures which among others include;
2:4:1 Establishment and budget related responsibilities of the expenditures; this was done through assigning tasks to different executive so as to accomplish the targeted activities in time in a realistic way efficiently and effectively.

2:4:2 Communication of budget policy and underlying assumption; these were done through informing all the budget committees about the required policies and assumptions for budget preparation to achieve the intended target within the specific period of time frame.

2:4:3 Determination of the limiting factors/challenges; this clearly points out the various obstacles or challenges that may affect effective preparation and operations.

2:4:4 Preparation of budgets; it involves the actual formation of budgets that should include all the targeted activities to be accomplished within a specified period of time say one year for the case of local government.

2:4:5 Budget negotiation; it consists of prioritizing activities according to their importance and urgency for effective financial management and operations and this was mainly done by the heads of departments, budget clerk as well as the district executive committee of the local government.

2:4:6 Coordination and review of activities; this was done through linking up all the activities to be accomplished within the specific period of time and evaluating those activities for efficient flow and operation.

2:4:7 Acceptance and adoption; it was the actual implementation or execution of all the budgeted activities to be accomplished within a specified period of time.
2:4:8 Continuous review of the budget; it involves continuous monitoring and evaluation of all the budget to ensure that what has been budgeted was achieved as expected and in case of any deviation, corrective measures should be instituted for effective operations and financial management.

2:5 RELATIONSHIP BETWEEN BUDGETING AND FINANCIAL MANAGEMENT IN LOCAL GOVERNMENT

Local government Act 2007 define budget as an annual plan of a local governemnt’s income from councils revenue, government grants and all other revenue sources and how such total revenue will be spent in accordance with with objectives, needs and priorities and this has been in accordance with local government Act, Section 77(1) which states that no appropriation of funds by a local government can be made unless approved in a budget by its council (the local government Act, Section 82, sub section 1). Thus, the local government budget including explanation notes constitute the decisive financial management to as it forms the legal and operational basic for the implementation of the policies set by council.

(Thingan M.L. principles of economics 1998 and pages 935 and 936) “Budget played the roles of correlation, comparisons and coordination of financial departments and it acts as an effective tool for financial management. It was through the budget that legislature’s exercises an effective control over the executive since the absence of budget, every ministry and department collect and spend money in an arbitrary manner. The presence of budget enforces effective financial control and management in an organization. The budget not only from the government but also was a statement of economic policies for the coming year”. Budget was the most important fiscal document relating to the socio-economic problems and programmes which outlines the purposes, measures of the government for their solution and implementation or execution. It reflects the entire economic and fiscal programmes and policies of the government for the coming year.

Saleemi N.A cost accounting 1990 pages 384 and 385 “budget was a way of compelled planning and in the presence of it, a firm has clear guidelines to ensure that financial and human resource
were fully utilized to achieve some specific targets of the organization for effective financial management.”.

(Welsh G. budgeting, profit planning and control 1976) state the firms’ expectation or goals, communicating expectations to all concerns, provision of detailed plan of action for reducing uncertainties and for proper direction, coordinating activities and efforts as well as measuring and controlling the performance of individuals and units to supply information on the basis of which the necessary corrective action can be taken.

Welsh further observes that an organization usually establish broad, long range objectives and long run objectives and pursued in successive, short run steps in the future period of time. A budget was a means of achieving goals to be achieved in short informal terms. It establishes harmony between the short run goals and the long run objectives of the firm. The targets of expected performance are laid down when a budget is prepared. There budgets were directional and motivational in nature. They direct individual and group efforts and operations towards a common goal. They help to cherish the assumptions underlying future goals.

(Pandey I.M essentials of financial management 1995) indicate how assignment of authority and responsibility were done successfully by saying that, “a sound organizational structure was essential for the success of the budgeting system because authorities and responsibilities of each manager should be clearly identified and established”. The type of organizational structure for an organization depends upon the leadership style of top management. Assignment of authority and responsibility centre makes it possible for top management to measure the performance of individual’s managers against the set budget, and on such it enables the improvement on the performance of the organization. The creation of responsibility centres was necessary for effective control of all activities. Large firms were supposed to divide into meaningful segments, departments and divisions. The controllable costs for each responsibility centre should be separation shown for planning and controlling purposes.
2:6 Budgeting process in local government

According to the local government Act chapter 243 of 1997 page 628 section 77(Article 77 sub section 1) local governments shall have the right and obligation to formulate, approve and execute their budgets and plans provided the budgets shall be balanced.

77(2), local governments shall always accord for national priority programmes areas preferential budget outlays.

77(3), if the local government finance commission becomes aware that the local government council budget significantly detracts from priority programs areas, the commission shall inform the council, and the president through the minister for appropriate action.

77(4), the local government budget shall reflect all revenues to be collected or recorded by the local government and to be appropriate for each year.

77(5), a local government budget for the ensuing financial year shall always take into account the approved three year development plan of that local government

According to the constitution of the Republic of Uganda (1995), page 126, article 190 which focuses at the local government planning process which states that, the district councils shall prepare a comprehensive and integrated development plans incorporating the plan of lower level local governments for submission to the national planning committee.

(Welsh, 1976) budget, planning and control. Budget was the only comprehensive approach for financial management when utilized with sophistication and good adjustment, it fully recognizes the dominant rate of the manager and provides a framework of executing such fundamental aspects of scientific management by objectives, effective communication, participate management, dynamic control, continuous feedback, responsibility accounting, management by exception and managerial flexibility.
CHAPTER THREE

RESEARCH METHODOLOGY

3:0 Introduction
This helps to outline the methods that were being followed in the study. It describes the research design, sample design or sample size, research instruments and procedures of research, data analysis techniques and interpretation.

3:1 Research design
In the study, explanatory research design was used in the study. This was used to explain the phenomena by associating with the statement and facts on the ground as they were aimed at explaining why the situation has happened since it’s concerned at answering how and why questions. This gives a high degree of honest and integrity in reporting his findings. Both qualitative and quantitative approach will be used but the researcher will use the qualitative as it deals with observation on the ground.

3:2 Study Population
Here the researcher used a population size of 70 members of the local government and lower local government and these comprised of both the civil servants and the local politicians of the sub-county.

3:3 Sample Size.
The researcher used a sample size of 30 respondents both in the civil servants and the politicians of Metu sub-county local government who were selected and to whom questionnaires have been provided about budgeting in local government financial management more especially in Metu sub-county. However, the sample size consist of heads of department, sector and sub-sector heads, executive members and councilors of the lower local government as well the Finance department and many others.

3:4 Sampling Techniques
In the study, the researcher used a non probability and purposive sampling method in which questionnaires have been distributed to all the respondents in time about budgeting in relation to financial management in the local government. In these context, a non probability and multi-cluster sampling techniques where used in selecting the required the respondents who in turn provided the necessary information about Metu sub-county in Moyo district as a case study in the Topic ;Budgeting in local government finance management.

3:5 Sources of data
In research, there were mainly the sources of data collection methods namely primary and secondary data respectively. Primary source of data collection refers to the original sources that the researcher was expected to rely on when conducting the research work or study which will enable the researcher to produce the final report. It provides first hand information although personal interviews, observations and also questionnaires. While the secondary source of data on the other hand looks at where the researcher will rely upon as a supplement to the primary source through reading the relevant literature of other scholars or Authors.

3:6 Data collection techniques
The major data collection techniques various from the primary and secondary data. However, the major technique used was the primary technique which consists of the questionnaire, interview, and observation, use of documents or documentation.

3:6:1 Questionnaires method
This consist of structured questions which were to be formulated by the researcher and sent to the target respondents like the chairperson local council three(3)and his executives as well as sub county councilor, the sub-county chief and the sub-county officials. This technique was mostly used because its lower unit costs compared to other techniques and was more convenient to the target respondents.
3:6:2 Interview method
The researcher will use the interview technique which will involve conversation or face to face interaction between the researcher and the respondents like councilors, parish members as well as the entire sub-country staff. This techniques provides a greater information or in depth information from the respondents and was more flexible.

3:6:3 Observation method
Its more powerful tool for data collection since it involves interaction at various levels with the target population that will enable the researcher to get the required information and it was more reliable compared to other techniques to data collection. Here the researcher confirms the information’s provided to him/her through physical observation of the facts.

3:6:4 Documentation review
The researcher has gone to use relevant documents like magazines, newspapers and text book which supplement other techniques that provide relevant information for the research report. This was used because it provides ready data about the research problem under the study and it saves time and money.

3:7 Data analysis and interpretation
This was the ordering of data into consistent patterns in order to obtain answers to the problems under the study. The researcher will systematically collect the data, edit, code, classifies, compute percentages and tabulate accordingly which will provide him with easy analysis, interpretation and presentation of the research findings in a consistent manner.

3:8 Limitation of the study
There was an inadequate finance especially in facilitating data collection, printing of reports among others.

Difficulty in getting adequate information as many of those directly involved were reluctant in giving the required information.

Insufficient information was provided by the respondents because most of the local councilors were unable to interpret the budget efficiently.