

Budgets and Budgetary Control as a Management Tool for Ghana Metropolitan Assemblies

Edmund Kyei¹, Collins Owusu Kwaning^{2,*}, Donkor Francis¹

¹Department of Accountancy and Accounting Information Systems, Kumasi Polytechnic, Kumasi, Ghana

²School of Business and Management studies, Accra Polytechnic, Accra, Ghana

Email address:

Collioggie2009@yahoo.com (C. O. Kwaning)

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Abstract: The study examined the budgeting and budgetary control as a management tool in Ghanaian Metropolitan Assemblies with the view to find out the importance attached by metropolitan, municipal and district assemblies in Ghana to how budgets are prepared and implemented, benefits and problems associated with budgeting and the extent at which budget variance reports are used as a performance measure. The survey instrument was questionnaire. Statistical Package for Social Sciences (SPSS 16) software was used to analyze the data. The findings of the study revealed that, metropolitan assemblies prepare budgets and plans to guide their activities and operations and that there is generally a high level of budget participation. The major conclusion was that metropolitan assemblies use a rigorous budgetary control practices in its operations and attaches much importance to budgets and budgetary control as vital tool to aid them in effective and efficient management of their operations. It is recommended, among other things, that appropriate measures should be put in place to enable all the assemblies in Ghana prepare plans and budgets since the practices lead to effective utilization of state resources.

Keywords: Budget, Budgetary Control, Management Tool

1. Introduction

According to Amoako-Gyampah and Acquah, (2008) [1], results are important for Ghanaian local governmental organizations. Nowadays Ghanaian metropolis, municipalities and districts often underline the importance of specific, measurable and accountable organizational results. Examples of the importance of results are easily found. Many Ghanaian cities are currently involved in programs to increase the focus of the organization on results, and are increasingly using results in contracts or formal agreements with other governments, and are referring to results in their communication with the press.

The use of budget and budgetary control measures by Ghanaian local government is certainly not just of recent date. Governments have always used budget and budgetary control measures to plan and control its activities or its intended results. These early governmental organizations, established to ensure some level of collective protection against human and natural disasters, are not of course comparable with our modern metropolis, municipalities and districts. Governments then were in essence boards of executives, with the authority

to collect taxes and to temporarily recruit inhabitants for performing specific tasks. Nowadays, metropolis and municipalities are often large organizations, with a wide variety of tasks, providing a large number of products and services both to the general public and to specific citizens,” in reference [1].

Hence, the reason for this research work which is to investigate the question; “what is the budgeting practice in Ghanaian Metropolitan Assemblies (GMAs)?” The motivation for this study also comes from the work of Herath and Indriani (2007) [2] who investigated on the “Roles of Budgetary Control System (BCS) as a component of the Management Control System (MCS) in creating and sustaining competitive advantage” and came up with a positive conclusion. They concluded that though BCS could play a leading role in establishing an efficient MCS for creating a sustainable competitive advantage, budgeting will not function in isolation. “Instead, it can be used more effectively by strategically joining it with emerging strategic oriented knowledge enterprise” “as in [2]”.

Locating the study outside the profit organizational context fills a void pointed out by prior researchers (Chenhall, 2003 [3]). Previous studies on the roles of accounting information

and budgetary control measures have been more focused on profit organizations (Davilla, 2000 [4], or on health care organizations (Abernethy and Brownell, 1997 [5]). Studying local governmental organizations can address some specific characteristics of government and their possible impact on budget and budgetary control measure use. Frequently recalled characteristics specific to local government are, for instance: the more ambiguous objectives, its openness, its politically uncertain environment, and the lack of a “bottom line.” (Pollitt and Bouckaert, 2000 [6]; Boven, 2001).

According to Bradstreet reports (2004) [7] on budget and budgetary control, and business failure aptly summarizes that failure of many businesses these days emerges from the fact that budgeting and budgetary control that is the bedrock of any vibrant and successful business or organization is weak or absent.

In the light of these gloomy pictures, the researchers deem it prudent to research into the problems at stake as whether the existing metropolitan, municipal and district assemblies in Ghana can achieve their objectives with or without effective budgeting and budgetary control systems and, moreover, find out the reasons for budget failure in organizations where budgetary control is practiced.

2. Literature Review

2.1. Preparation (Process) of Budget and Budgetary Control

The process of budgeting generally involves an iterative cycle which moves between target of desirable performance and estimates of feasible performance until there is, hopefully, convergence to a plan which is both feasible and acceptable (Emmanuel, Otley and Merchant, 1990 [8]). Alternatively, if it is looked beyond many details and iterations of the usual budgeting process, for effective budget preparation and implementation, the following have been suggested by (Finney, 1994);

Budget forms and instructions are distributed to all managers.

- The budget forms are filled out and submitted.
- The individual budgets are transformed into appropriate budgeting/ accounting terms and consolidated into one overall organizational budget.
- The budget is reviewed, modified as necessary and approved.

The final budget is then used throughout the year to control and measure the organization.

Welch, Hilton, Gordon (1998) [9] have defined the budgeting process as profit planning and control process and in that way not only have identified the two most important functions of budgets in organizations, but have also presented budgeting process in a wider context than it is usually depicted. The budgeting process is more than just a process of combining quantitative financial plans. It is a tool with which top management cascades strategy goals to operating levels. Budgets are ideal for this purpose since they are in essence the detailed quantification of targets for short – term choices of

actions.

It is important that suitable administration procedures be introduced to ensure that the budget and budgetary control process works effectively. In practice, the procedures should be tailor-made to the requirements of the organisation, but as a general rule a firm should ensure that procedures are established for approving the budgets and that the appropriate staff support is available for assisting managers in preparing and monitoring their budgets and performance to achieve targets.

2.2. Benefits of Budget and Budgetary Control

It is claimed that today as many as 99 percent of governmental organizations are using budgets and budgetary control and have no intention of abandoning them, ‘in [7]’. However, 60 percent of those organizations claim that they are not completely satisfied with their current budgeting systems and are continuously trying to improve them (Ibid, 2000 [10]). From this evidence, it is obvious that budgets and budgetary control carry with them many benefits.

The budget brings about improvement and efficiency in the working conditions of the organisation by setting out target of the organizations and providing resources to all departments to work towards achieving these targets. Thus, everybody knows what they are working for and given the necessary resources, they will ensure efficiency (Kaplan and Norton, 1992 [11]).

The budget serves as a means of motivating managers to attain stated goals of the organisation. It helps in communicating organizational plans to the various units or departments in the organisation by creating divisional, departmental, and sectional budgets and correctly defined responsibilities. The budget also serves as a yardstick or benchmark for controlling on-going operations. It assists in building team spirit where participation in budgeting is encouraged (Blocker and Weltmer, 1980 [12]). This helps in reducing wastes and losses by revealing them in time for corrective action. Budget acts as benchmark for evaluating the performance of managers and serves as a means of educating them.

Blocher and Chen (2002) [13], also argue that budgets help to allocate resources, coordinate operations and provide a means for performance measurement. Hilton *et al*, (2000) [14], note that the budget is the most widely used technique for planning and control purposes.

A further review of literature on budgeting reveals that budgets serve dual purposes of planning and control (Douglas, 1994) [15]. Budgets are used to communicate top management’s expectations to managers and employees. The budgets process provides for coordinated planning among different functional areas (Abernethy and Stoelwinder, 1995) [16].

2.3. Challenges Associated with Budgeting and Budgetary Control

Whilst budgets may be an essential part of any

organisation's operations, they do have a number of disadvantages particularly in perception terms. Carter *et al.*, (1997) [17] identifies a number of problems that could arise from budgeting. The budget could be seen as pressure devices imposed by management, thus resulting in bad labour relations and inaccurate record-keeping. It could also lead to departmental conflicts arising from disputes over resource allocation and departments blaming each other when targets are not met. It is also difficult to reconcile personal and corporate goals. Waste may also arise as managers adopt the view, "we had better spend or we will lose it". This is often coupled with "empire building" in order to enhance the prestige of a department 'as in [17]'. There is also the issue of responsibility versus controlling, i.e. some costs are under the influence of more than one person, e.g. power costs. Managers may overestimate costs so that they will not be blamed in the future should they overspend 'as in [17]'.

Prendergast (2000) [18], identifies three main problems associated with budgeting. First, a lot of guesswork is involved in the budgeting process. Second, budgets are increasingly inaccurate as a result of shorter product life cycles and rapidly changing business environment. Finally, there is also the extent of budget gamesmanship. He argues that over the years, budgets have resulted in a conflict between top management and their subordinates. While top management attempts to 'get the most out of their staff', subordinates on the other hand, work to build slack in their budgets in an effort to make budget numbers easier to attain. This could lead to budgetary slack.

Another major criticism of budgets is the over-emphasis on short-term profits at the expense of continuous long-term improvements such as new product development and customer satisfaction (Hayes and Abernathy, 1980) [19]. McNally (2002) [20] is also very critical of the traditional budget. He argues that "the days of traditional budgeting and planning are numbered". Some of the criticisms that 'as in [20]' has levelled against budgeting are that, budgeting process consume too much time and incur very high costs. Consequently, when the budget is authorized, it may no longer be accurate and this causes problems for governmental organizations in "today's unpredictable and fast-paced business climate" 'as in [20]'.

Thomas (1998) [21] notes that the success of budgetary control systems depend, to a large extent, on the accuracy with which estimates are made: budget plans are based on estimates. Despite the fact that numerous statistical and other techniques may give satisfactory results, forecasting cannot be an exact science. It must also be adopted continuously to fit changing circumstances requiring that old methods must be discarded and replaced with new ones. It therefore takes a long period to adapt to a particular system of budgetary control 'as in [21]'.

Furthermore, one of the biggest problems with budgeting and budgetary control is that, it tends to promote an inward-looking, short-term culture that focuses on achieving a budget figure, rather than an implementing business

strategy and creating shareholder value over the medium to long term. For all these reasons, it is believed that these weaknesses lead collectively towards business under performance and should therefore be dealt with 'as in [14]'.

In spite of the numerous beneficial functions budgets play in the management of organizations budgeting and budgetary control practices could prove to be stumbling block in many organizations and hinder them from reaching goals or attaining what they budgeted. Budgeting is, therefore, not a follow proof tool.

The above challenges facing the budgeting and budgetary control system have been present since the first day of their implementation in large multidivisional organizations such as metropolitan and municipal assemblies in Ghana at the beginning of last century. It was the job of managerial accountants in those and all other organizations to devise systems that would maximize utilization of budget and budgetary control benefits and minimize their negative influences. A subsequent review of budgeting theory shows that academicians have been identifying budgeting and budgetary control problems and suggesting solutions for them since 1950's and the new budgeting techniques developed in 1980's and 1990's can be viewed as practitioners' attempt to incorporate some of their advice into practice.

3. Methodology

3.1. Data Sources and Methods of Collection

In order to get relevant and necessary information to achieve this study aim, the researchers focused on getting information through public and institutional libraries with regards to literature sources. The researchers were able to browse the internet for academic articles, electronic books and other information sources.

The study employed the quantitative survey approach in the gathering and analysis of the field data which was analysed using quantitative techniques to produce tables with their accompanying interpretations. This assesses the essence of budget and budgetary control in the corporate organization with special reference to Kumasi Metropolitan Assembly (KMA).

In conducting the study, the researchers focused on the Kumasi Metropolitan Assembly (KMA), situated at Adum (Prempeh II Street), Kumasi in the Ashanti Region. To balance the desire of large representation, a sample size of one hundred (100) representing the population was drawn from the various departments in the assembly. Five (5) respondents were selected from the sixteen (16) departments of the assembly, ten (10) each were selected from the finance and planning departments respectively. These were chosen in such a manner that each department will have an equal probability of being selected.

3.2. Research Design and Instruments

Questionnaires were used for the collection of data. The

questions tailored in the questionnaire were structured in closed-ended and open-ended. The closed-ended questions elicited quick responses from respondents while the open-ended type allowed for flexibility and offered the respondents the opportunity to provide answers to questions for which possible answers could not be easily stated. In this case, the process, benefits, problems, etc. of budget and budgetary control were covered, the forty (40) standardized questions were given to the respondents to generate responses.

4. Results and Discussions

The analysis and discussions of the data are presented in the following structure: Analysis of Background Information, Budget Planning and Preparation, Benefits/Roles of Budgets and Budgets and Budgetary Control Problems.

In this study, one hundred (100) respondents were selected. Among these 35% were heads of department, 12% being budget officers, account officers also constituted 41% while 2% were planning officers and others covered 10%.

4.1. Budget Planning and Preparation

About 97% of the respondents indicated that the metropolitan assembly has a long range plan while 3% of the population left the question unanswered. It was discovered that the metropolitan assembly has a long range plan which covers a period of 5 years and it is reviewed annually.

Table 1. Types of Budgets Prepared by KMA.

Types of Budgets	No.	Percentage
Cash, Labour, Capital and Budgeted Income Statement	72	72
Cash, Capital	8	8
Cash, Labour, Budgeted Income Statement	16	16
Cash	4	4
TOTAL	100	100.00

Table 1 indicates that 72% of the respondents said budgets prepared by KMA include cash, labour, capital and budgeted income statement. 8% also said only cash and capital budgets are prepared. 16% and 4% said cash, labour and budgeted income statement and cash budgets respectively are prepared by KMA. From the above analysis it was found out that the metropolitan assemblies prepare master budget in that it set specific targets for the various functions of the institutions. The metropolitan assembly's budget was made up of a number of separate but interdependent budgets because the estimates of one budget affect the other.

It was discovered that the cash budget is prepared to cater for the cash inflows and outflows. Labour budget is prepared to cater for remuneration of personnel while the capital budget is prepared to plan for projects to be undertaken. Furthermore KMA prepares budgeted income statement to summarize all the functional budgets relating to income and expenditure into a single budget (Master Budget) as well as

budgeted balance sheet to sum up all the functional budgets consisting of assets, liability and capital.

Table 2. Flow of Information.

Scale	Frequency	Percentage
Strongly Agree	16	16
Agree	23	23
Neutral	-	0
Strongly Disagree	34	34
Disagree	27	27
TOTAL	100	100

However, in table 2 39% agreed to the statement that, good information flow is available for budgeting exercise as against 61% of the respondents disagreed to the statement.

4.2. Benefits/Role of Budgets

Table 3. Budgets and Budgetary Control Showing Efficiency of Management.

Scale	Frequency	Percentage
Strongly agree	43	43
Agree	27	27
Strongly Disagree	17	17
Disagree	13	13
TOTAL	100	100

The table 3 above shows that about 70% of the respondents agreed to the fact that budgets can be relied on for the purpose of measuring the efficiency of a manager while 30% disagreed to the statement.

To the minority budgets are only estimated values expressed in monetary terms and may sometimes not be a reliable means of testing the efficiency of a manager due to unstable economic and political conditions.

In addition just as (53%) of the respondents said it is extremely important to use the budget to forecast the future, the remaining 47% also said it is important for budget to be used as a tool to predict future. The study revealed that the metropolitan assemblies use their budgets as a managerial tool to plan for their future activities. This is evidenced 'in [14]' who argued that budgets are prepared to plan towards the future.

4.3. Budgets and Budgetary Control Problems

It was unanimously indicated that the Assembly encounters problems during the implementation of the budgets. Some of the problems may include; occurrence of variances, budgets may be inappropriate for current conditions, etc. According to the respondents, the commonest among these problems is the occurrence of negative variances. For instance, as at the end of the year 2008, the Assembly's actual income was GHC11, 062,557.66 as against a budget estimate of GHC11, 264,926.70, a budget deficit (negative variance) of GHC202, 369.04. On the other hand, during the same period under review, it recorded an actual expenditure of GHC11, 518,356.30 as against a budget estimate of GHC7, 358,322.65, a negative variance of GHC4, 160,033.65.

It was revealed by the study that irrespective of its

numerous advantages, the metropolitan assembly encounters a number of problems during the preparation, implementation and monitoring of the budget. KMA during the preparation stage of the budget faces challenges such as lack of resources, poor co-ordination and time consuming process.

During the implementation such challenges that may arise include; operational difficulty, lack of intensive monitoring process which is as a result of inability to interlink the cost centres with ICT. These eventually have negative effect on the budget thereby rendering it unreliable as it incurs negative variances. This supports 'reference [17]' who was of the view that budgets may be an essential part of an organization's operations, they do have a number of disadvantages particularly in perception terms.

5. Recommendations

Based on the findings of the study, the following recommendations as well as how to achieve them are made:

Firstly, budget committee members and heads of departments who are directly responsible for the preparation and implementation of budgets should have good appreciation of the rationales for budgeting as well as the basic principles in the preparation and implementation of budgets.

Secondly, to further promote budget success, adequate information should be gathered and critically examined using all possible parameters before arriving at budget decisions. In other words a thorough feasibility study must be done in all market centres and other jurisdictions so as to obtain adequate and reliable data.

Also, the necessary regulatory and legislative frameworks should be provided to ensure that all District, Municipal and Metropolitan Assemblies in Ghana prepare and implement plans and budgets to ensure growth and development in their operations.

Not all, the studies on budgets and budgetary control from the literature were mainly confined to advance countries. Budgeting within the developing countries has been a particularly neglected research domain.

6. Conclusions

Budgeting is one of the fundamental decision-making processes in organizations as they serve numerous useful purposes in those organizations. The findings in Kumasi Metropolitan Assembly 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 is determined by proper monitoring, adequate

information, regulatory and legislative framework and information technology. It could therefore be concluded that district, municipal and metropolitan assemblies generally do attach much importance to budgets and budgetary control as vital tools to aid them in effective and efficient management of their operations.

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