

The Effect of Budgeting and Budgetary Control in Local Government Administration of Nigeria

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Abstract

The process of allocating resource to meet demand, as well as converting rhetoric to reality in the political system is termed budgeting. That process should link the past, the present and the future in standard and orderly way. Before the beginning of every financial year, Government at all level (federal, state, local government) announces their budget for the New Year. They state the objectives they anticipate in attaining through the period, and the plan of actions necessary. This study in tends to examine the effectiveness of budget and budgetary control in the local government system in Nigeria. This studied being a theoretical analysis, secondary data were used. As such, Available literatures on budgeting and budgetary control as they applicable to local governments in Nigeria were exhaustively used, relevant materials sourced from text books, Journal, newspapers and other official documents were taken into consideration to discover how local government can make use of a prepared budget to achieve effective and efficient results. It was observed that, local governments in Nigeria were confronting some challenges which includes; corruption and mismanagement, skilled manpower, state government interference and finance. This study recommends that, all the activities of the various departments of the local government should be planned and coordinated very well to ensure all departments are in harmony so that the effective budget will be realized.

Keywords: Budgeting, budgetary control, Local government, Finance.

INTRODUCTION

The development and execution of fiscal action plan, is a major public resource allocation process, reflecting the image of the state in terms of social value and priorities. This is the process of allocating resource to meet demand, as well as converting rhetoric to reality in the political system. That process should tie the past, present and the future in orderly and ordered way. Before the beginning of every financial year, Government at level announces their budget for the Year. They state the objectives they anticipate to follow over the period, and the plan of action through which to attain the objectives. The budget statement is consequently followed by the reactions of interested members of the public indicating their support or criticism of the budget, usually interested members of the public reacts to the budget for some days after which the government is left to settle down and make the implementation and execution of its budget.

The failure or otherwise of local government budgeting has attracted the attention to many citizens as well as scholars to conclude that local government as an exercise is ineffectuality, this kind of position will not help the situation. Budget of every level of government is seen as a tool that assists in calculating and meeting the cost associated with social amenities. The problem of budget and budgetary control at local government level need urgent solutions, in as much as the same budgeting system worked at other levels. This study intends to examine the effectiveness of budget and budgetary control in the local government system in Nigeria.

STATEMENT OF THE PROBLEMS

The question whether budgeting in the local government is a formality or a reality has attracted the attention to many scholars and researchers. This study is an attempt to investigate the effectiveness of budgeting and budgetary control in the local government system. It intends to determine how local government can make use of a prepared budget to achieve effective and efficient results. The study will precisely attempt to answer the following questions;

1. What are the causes of failure of the local government budgeting system?
2. Which budgetary techniques can give efficient result?
3. How can effective budgetary control bring about efficiency in the local government system in Nigeria?
4. What effect can the poor application of budgeting and budgetary control be to local government system?

OBJECTIVES OF THE STUDY

The primary objectives of this study are to determine how budgeting and budgetary control enables government more to plan, control, coordinate and evaluate it activities. The secondary objectives include the following:

1. To know how effective budgeting and budgetary control can bring about efficiency in the local government system in Nigeria.
2. To know the effect of poor application of budgeting and budgetary control to local government system in Nigeria.
3. To know whether poor application of budgeting and budgetary control is the cause of failure in the local government system in Nigeria.

RESEARCH QUESTIONS

1. How can effective budgeting and budgetary control bring about efficiency in the local government system of Nigeria?
2. What are the effects of poor application of budgeting and budgetary control to the local government system in Nigeria?
3. How does poor application of budgeting and budgetary control cause failure in the local government system in Nigeria?

LITERATURE REVIEW

INTRODUCTION

The Nigeria accountants official journal of ICAN (Jan//march 2005) vol. 38 No.1 by Olabode - Define budgeting as an act of preparing or formulating a budget. In Nigerian context, budgeting could be described as the annual statement of income and expenditure of the Federal, state and local government. It can be considered as a process of taking deliberate measures aimed at moving the relevant economic system from its current state towards a specified desired state. Abdullah, (2006) stated that, budget is a device intended to provide greater effectiveness in achieving organizational efficiency, the budget set for priorities as well as levels of spending, ways of financing and spending and a plan for managing the funds.

Management accountants defined budgeting as a plan quantified in monetary terms, prepared and approved prior to a definite period of time, which usually show the planned income to be generated and/or expenditures to be incurred during the period and the capital to be employed to attain a given objectives.

To management accountants, budgeting is also an expression of management plans in quantitative and financial terms. Economist on their own idea defines budgeting as an official document showing the expected revenue and the expenditure for a given fiscal year. Osibote, (2005) in the journal of ANAN urged that budgetary control is the budget or budgets to control activities of the organization. It is an accounting tools for planning and controlling Functions of the management in an organization, once the appropriate set of budgets has been applied, the will be used as a means of allocating responsibilities, the use of statement and reports for controlling performance and cost of the management.

Budgeting and budgetary control is also a technique for the establishment of budget, relating the responsibilities of executives to the requirement of a policy; it is a management function, which is essential if control is to be established over the different section of the business. It used planning and forecasting in order to achieve the objectives of the business and seeks to maintain effective performance by coordinating the various departments..

CONDITIONS FOR EFFECTIVE BUDGETARY PROGRAMME.

Kiabel, (2000) stated that, management must make hard decision about the company's future if profits are to be expected. The best way to prepare for changing conditions is to provide frame works that contain a specific, but sufficiently flexible plan to accommodate unanticipated changes and the entire process of providing this frame work is known as budgeting. Budgeting also helps management in planning, coordinating and controlling operations. If management will consider the most important one, it must create an environment accessible to a fully implemented budget program; this made us to understand that most attempts on budgeting even small ones will prove helpful.

Before an effective budgetary programme will be in good condition, it must involve the following items:

1. A resilient/healthy business organization.
2. A complete or comprehensive accounting system.
3. A search program's
4. A plan for administering the budget.
5. The ideas of directors and employees.

PREPARATION OF BUDGET.

The Nigeria accountant's journal of ANAN (2000) when analyzing the preparation of budgeting, pointed out that, the budget development process and the degree of details of individual budgets varies among companies. In small companies, one person may prepare the entire budgets. In the big business, many peoples put their talents and inputs i.e. ideas from another place will be put together in preparing to budget. Eyisi, (2003) stated that, the preparation of a budget follows a steady sequence of preparing individual operating budgets. The sequence may include sales, production, direct materials usage and purchases, direct hours, factory overhead budget etc. This sequence must be gathered together and used in the preparation of the master budget involving the budgeted profit and loss account and balance sheet. The author's further discussed about two major problems that stand out first in the preparation of budget. Firstly, the budget administration which involves setting a clearly defined organizational structures of operational departments showing hours of responsibilities, setting guideline and

assisting technically in budget conflict of interests and ideas. Secondly, the limiting factor in every organization preparing and agreeing budget is limited factors such as consumers demand, production capacity, shortage of labour and materials etc. These forms determine the activity level upon which the budgets are prepared.

FUNCTIONS OF BUDGETING

There are various functions of budgeting which includes;

1. **Planning Annual Operations:** Every organization must see that the annual operation of their organization is planned very well to meet the organization goals and for the effectiveness of the business, because without planning for annual operation, the organization may collapse.
2. **Co-ordination:** The activities of the various departments of the organization should be coordinated very well to ensure that all the departments are in harmony with each other.
3. **Communication:** Budget communicates plans to the managers or departments responsible for carrying them out, without communication the sub-unit would not be aware about the budget planning.
4. **Motivation:** Budget always intends to motivate managers/employees to perform in line with the organizational goals.
5. **Controlling:** Budget helps managers to control the activities of the organization so as to achieve the objective set during budgeting period.
6. **Evaluation:** The performance of management and organizational units should be evaluated. The ways in which performance is evaluated will be a dominating influence on how a manager behaves in the future.

BUDGETARY CONTROL TECHNIQUES

Monday, (2003) defined budgetary control as a means of control in which the actual state of affairs is compared with the standard planned, so that appropriate action may be taken with a regard to any deviation. Budgetary control techniques are continuing comparison of actual results from operations. In addition, budget estimates need scrutiny and revising when necessary. Successful budget control requires careful analysis of both actual result and budget estimates of the business organization. Budget control technique represents the mechanism adopted in budget preparation among these techniques are:

Zero base budgeting (ZBB);

This is a technique of budget preparation where all activities of the business are re-evaluated each time a budget is prepared. It assumes that, references are not made to the past or previous data. In a zero budgeting everything starts newly, meaning that nothing of the past activity exists. This can be seen in a new established industry.

Planning Programming Budgeting System (PPBS);

This is a technique of budget preparation that is strongly emphasizes on a particular program to be executed for the period before the actual budget preparation. Adams (2002) identifies the following as basic elements of planning programming budgeting;

- Identification and assessment of goals and objectives in each major area of government activities.
- Analysis of the output of a given program in terms of its goals.
- Measurement of total program cost not just for one but for at least several years.
- Formulation of objectives and program extending beyond the single year of reaching basic program objectives.
- Establishment of these analytical procedures as systematic part of budget review.

Traditional Budgeting;

This is the most common method or techniques used in budget preparation. This technique makes reference from past data or an activity that believes that previous data it becomes a basis for the next budget preparation.

Performance Budgeting;

This method lays emphasis on the performance of particular periods before embarking on a new budget for example a firm budgeted for a profit plan of N8m with expenditure proposal of N4.5m. If this is achieved he can now decide to improve on the performances by budgeting for N12m. This techniques emphasis that budgets are prepared based on the previous performance.

Expenditure budgeting: This technique is about the objectives of expenditure to be included in the budget. Any activity to be budgeted for, must serve as useful purpose/objectives towards the achievement of organizational goals.

ORGANIZATIONAL ADMINISTRATION OF BUDGETING

According to the Nigeria accountant's journal of ICAN (2000) by Bariyima, Budget organization and administration as the ways of management techniques which lays emphasis on management's plans regarding the economic resources to be responsible for compilation of the budget, a budget committee with representative from all sections of the business should be appointed to plan and coordinate the budgets while in large organizations a budget officer is appointed to carry out the policy decisions of the budget committee. In organizing and

administering a budget system, the following characteristic may applied:

1. Budget Centre: This unit responsible for the preparation of budget. A budget center may include several cost centers.
2. Budget committee: This comprises the senior members of the organization i.e. Head of departments and executives (with the managing director as chairman). All departments in the organization should be represented on the committee, so there should be a representative from sales, production, marketing and others.

PURPOSE OF BUDGETING

According to Drary, (2000) Budgeting is a detailed plan, expressed in a quantitative terms, that specifies how an organization will acquire and use resource during a particular period of time. The procedure used to develop a budget constitutes a budgeting system. Budget system has five primary purposes, which are:

Planning: The most recognizable purpose of a budget is to quantify a plan of action. The budgeting processes force the individuals that constitute an organization to plan ahead for the well performance of an organization.

Facilitating Communication and Coordination: For an organization to be effective, each manager in the organization must be aware of the plans made by other managers.

Allocating Resource: Naturally, an organizations resource is limited and budgets provide one means of allocating resource among competing users.

Managing Financial and Operational Performance: A budget is a plan, and plans are subject to change. Therefore a budget serves as a useful bench mark in which actual results can be compared.

Evaluating Performance and Providing Incentives: Comparing actual results with budgeted results also help managers to evaluate the performance of individuals, departments, divisions or entire company since budget are used to evaluate performance, they can be used to provide incentives for people to perform well.

CHARACTERISTICS OF A GOOD BUDGET.

A good budget is characterized with the following:

- Participation: Involves as many peoples as possible in drawing up a budget.
- Comprehensiveness: Encircle the whole organization
- Standards: Base on its established standard of performance
- Flexibility: Allow for changing situation.

CLASSIFICATION OF BUDGETS FOR PLANNING AND CONTROL

Budget has been classified in various ways to help in planning and controlling activities of the organization. Such as;

1. Capital Budget: This is the aspect of the plan that indicates objectives to be achieved on the creation and development of fixed assets, the expenditure outlay on assets and means of financing them. It is the process of planning and evaluating long term investment proposals.
2. Re-Current Budget: This aspect of plan indicates the operating expenditure of the various organs of the government to guarantee the stability of government service such as; maintaining peace and order, provision of health services and education facilities. It includes expenditure on salaries of civil servants, Judges, policemen and military person as well as working materials.
3. Fixed Budget: These are those in which appropriation are for a specific fixed and may not be exceeded because of change in demand for government goods or services.
4. Flexible Budget: This is structural to change with any fluctuations in output or other factors upon which a budget is established. The authorization of expenditure under flexible budget is fixed but are variable or changing in total according to demand for delivery of services to the government.

BUDGET IMPLEMENTATION AND CONTROL

Soibote, (2006) Deliberated about the implementation of budget which he stated that, Mr. President, will sign the appropriation bill into the appropriate act, when appropriate act was passed by national assembly, they will allow federal agencies to acquire obligations and make payment from the treasury for specified purposes. Then the appropriation act now become the approved budget, the annual approved budget of the federal government is printed in book form and it contains the following contents

1. The president's budget address.
2. Press briefing by the minister of finance
3. Revenue heads
4. Recurrent expenditure
5. Personal emolument
6. Over heads
7. Consolidate revenue charges

8. Capital expenditure

BUDGET CONTROL

Budget control is a review of planned estimate against actual result to achieve performance evaluation. It also ensures that actual results are positively in accordance with the overall financial and policy objectives of an establishment.

It involves the following steps;

- i. Adoption of actually agreed target of achievement to serve as a milestone.
- ii. Identification of responsibility centers in the organization to execute specific activities forms part of the budget.
- iii. Careful comparison of the actual performance and outcomes with the corresponding parts of the plan.
- iv. Assessment of deviations and variances in actual performance and activities in relation to the plan and identification of causes of such deviation.

METHODOLOGY

This study being a theoretical analysis, the secondary data were used. Available literatures on budgeting and budgetary control as they applicable to local governments in Nigeria were exhaustively used, relevant materials sourced from text books, Journal, newspaper and other official documents were taken into consideration.

RESEARCH FINDINGS

Many problems have bedeviled the local government budgeting and budgetary control system in Nigeria. Some of these problems are;

1. Corruption and mismanagement

Corruption is one of the major problem facing the local government budgeting system in Nigeria. In fact, a measly mention of the local government exudes corruption. The popular myth propagated by the council's officials is that the councils are always short of funds. No doubt, the heavy funding that runs into billions of Naira as seen from the tables may not be enough because of the high levels of corruption in the councils. It has also been observed that most local government councils do not harmonize adequate record regard for the budgeting process. The fall out of this situation is the indiscriminating and unplanned execution of projects. The state government which would have served as a check is not free from this problem. Evidently, there is contract scams or fiddle in all local government councils in Nigeria. These contracts are inflated and worse still/static, the projects are not executed and thereby defeating the essence of budgets.

2. Skilled Manpower

Majority of local governments today is managed by officials who did not possess the required leadership and managerial skills to deliver the gains of democracy to the people. Section 7(4) of the 1999 constitution makes provision that the qualification for election for the office of the Chairman and Councilors shall be the same as that of the election for the Houses of Assembly of a state. The constitution sets the minimum educational qualification for the election into the House of Assembly of a state as school certificate. However, this principle has not been followed and as such, made the councils the dumping ground for illiterates or a starting point of political toddlers.

3. State Government's Interference

The 1999 Constitution confers powers that relegate the local governments to both the federal and state governments. Obviously, this has created friction leading to the neglect of local bodies. The councils are not given the necessary independence as practice in a true federal structure. In addition, elections for the councils in most states have not taken place more than a year after they were dissolved. It shows that democracy in Nigeria today is not practice at the local government level.

4. Finance

Finance is another problem or area of concern. Most of the local council sources of revenue have been taken over by the state government. Some of these councils are too small in size and thus, have little or no resource from which to generate revenue internally. The internally generated revenue of some these councils are too small to pay the wages and salaries of their junior staffs not to talk of embarking on any meaningful projects. Moreover, the 10% of the internally generated revenues of the state that is supposed to be given to local council is not forthcoming. Worse still, the federal government statutory allocations does not usually come to the local councils regularly and the state governments at times divert the allocation to satisfy other areas. In fact, it is in line with this situation that, the 774 local governments under the aegis of the National Union of Local Government Employees (NULGE) demanded for succor during President Olusegun Obasanjo's administration. The union was assured for an existing constitutional backing of its quest for fiscal and administrative autonomy.

CONCLUSION

A budget can be extremely important and effective tools for management in piloting the affairs of an organization.

However, to prepare a meaningful budget an organization must know where it is heading to and its goals and objectives. Priorities changes and this means that many peoples should be involved in the budget preparation and approval process to ensure that resulting budget is fully supported. Once prepare, the budget must be compared to actual result from a timely basis throughout the year to ensure that management knows where deviation is accruing for corrective action to be taken when necessary.

Budgeting is a tool of management, not a substitute for management. A good budget can do very little to itself, good management and a good budget can do much together. Therefore, effective budget and budgetary control is indispensable in the local government system in Nigeria.

RECOMMENDATIONS

Based on the above findings, the researchers recommend that;

1. The activities of the various departments of the local government should be planned and coordinated very well to ensure that, the departments are in harmony so that the effective budget will be achieved.
2. Orientation, seminar and workshops on budgeting and budgetary system should be adequately emphasized to those involved in the budget preparation.
3. Budget committees should function very well to make sure that the proper budget is applied and in effective way.
4. Since budgets and budgetary control is an accounting tool and also a useful benchmark with which actual result can be compared, the researchers therefore, recommended that government should encourage it so that it will be applied effectively.
5. Poor budget implementation due to inability to comply with the process should be discouraged.

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