CHALLENGES OF BUDGET IMPLEMENTATION IN LOCAL AUTHORITIES IN KENYA:
(A CASE STUDY OF MUNICIPAL COUNCIL OF THIKA)

BY

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DECLARATION

I, the undersigned, declare that this project is my original work and has not been presented for any award of degree or any other academic credit in any other university or college.

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This project has been submitted for examination with my approval as university of Nairobi supervisor.

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DEDICATION
My study is dedicated to the following: my supervisor for his support and patience during the entire period of my study.

Further, my father who took every opportunity to stress that the world is a jungle and the only weapon, for attack and defense, is education. He invested all that he had in weapon. my mother who encouraged me and continued prayers towards successful completion of this course.

Finally I pay glowing gratitude and tribute to my employer and colleagues for understanding me during the entire period of study.

Thank you and God bless you abundantly.
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I would like to express my deepest gratitude to my family members for being very understanding and supportive during the entire study duration. The patience of my dear wife Goulder is greatly appreciated: her endless support, love and care throughout the study was invaluable. I would like to thank my brothers and sister for their patience and understanding during the study.

Lastly but my no means least, Joseph Kimutai, David Njenga, Winnie Maundu, Mirsi and Moses Mincill deserves mention for their help and encouragement throughout the study.
ABSTRACT

The budget is a standard against which the actual performance can be compared and measured. Budgets are used to communicate top management’s expectations to managers and employees. The budgets process provides for coordinated planning among different functional areas. The study investigates the challenges in budget implementation in local authorities in Kenya with focus on the municipal council of Thika. To determine if budgets are fully implemented in local authorities in Kenya and give recommendations based on the finding of the study.

The target respondent was 50 employees in managerial positions spread across the entire departments. Data collection instrument was the questionnaire distributed to the respondents. The data provided information that formed the basis for discussions and interpretation of the results. Content analysis was used to analysis the respondent’s view about the challenges of budget implementation, the data was coded to enable the responses to be grouped into categories. Finally descriptive statistics was used to mainly to summarize the data, this included percentages and frequencies.

The finding lead to call for more stringent budget management practices in the sector, there is needed to utilize different expertise in preparation monitoring and evaluation. The Kenya government also need to move fast to enact stringent anti-corruption laws to help control the national culture of corruption.
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<td>CILOR</td>
<td>Contribution in Lieu of Rates.</td>
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<td>IFMS</td>
<td>Integrated Financial Management System.</td>
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<td>KLGRP</td>
<td>Kenya Local Government Reform Programme.</td>
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<td>LA</td>
<td>Local Authority.</td>
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<td>LASDAP</td>
<td>Local Authority Service Delivery Action Plan.</td>
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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Study

Budgets are financial blueprints that quantify a firm’s plans for a future period. A budget is a detailed plan outlining the acquisition and use of financial and other resources over some given time period. Budget is a standard against which the actual performance can be compared and measured; it stipulates which activities and programmes should be actively pursued. Management whether in private or public sector is required to specify expected revenues and expenditure. Budgets in an organization acts as a mechanism for effective planning and controlling (Flamholtz, 1983). The main purpose of a budgets in any organizations is for planning and controlling in order to achieve organizational goals and objectives (Schick, 1999).

Budgeting in public sector is used as a planning document. Institutions use it as a guiding tool in the implementation of activities. The annual budget is commonly referred to as the “master budget” and it has three principal parts namely the operating budget, cash budget and the capital budget. Budgets are driven by the revenue forecasts of the previous financial year (Horngren, et al, 2003). Budgets is used by institution in setting priorities by allocating scarce resources to those activities the officials deem to be the most important and rationaning it to those areasdeem less vital.(Goldstein, 2005).

Premchand (2000), states that budget implementation is a company policy and determine the manner in which resources’ are managed. The financial task in budget implementation includes spending money specified, maximizing saving and avoiding over expenditures during the end of the financial year.

Frucot and shearon (2001) state that implementation of the budgets requires an advance program of action evolved within the parameters of the end of the budget and means available. Effectively budget implementation is usually assessed by addressing various variances between the actual budget and budgeted performance (Horngren et al, 2003). Public sector institutions is concern
with the provision of public goods to members inform of services thus every organization should plan well to execute its services to the citizen (Premchand, 1994).

Budgetary task is usually rendered operational through the administrative process in an organization, continuing budget pressure in organization is forcing management to re-think their current service delivery and develop initiatives that reduce cost and increase efficiency. According to Atkinson (1993), who states that, one of the most visible and highly publicized economic challenges facing the implementation of operational budget is the decline in the purchasing power of an organization.

Budgeting clarifies its competitive priority advantage and strategic for the future employing cost forecast and demand limit to quantities. Budget does measures the possibility of capital expansion. An operational budget is one that embraces the impacts of operating decisions. It contains forecasts of sales, net income, costs of goods sold, selling and administrative expenses, and other expenses. The cornerstone of an operational budget is forecasted sales. Typically, budgets are used to filter and analyze information throughout the organization, not necessarily to create more information for dissemination. (Kenya, controller and auditor General Annual report 2001).

McKinney (1986), states that, organizations which are not for profit making operates in a different political and economic environment. Thus, governmental accounting standard are developed differently to those of business enterprise standards. Despite this, there are many common practices that make public sector and private sector business accounting standard more alike than different. Many of these principles and concepts are applicable in both private and public sectors. Budgets as a tool in an institution, provides useful information and control mechanisms to directors, leaders, management and investors.

In any organization budget implementation officials determine the portion of the organization's resources that the manager of each unit will be authorized to spend. Budgets often establish organization performance goals for the unit in terms of costs, revenues, and production. A budget helps the firm to predict the movement of their short and future performance. If institutions like
local authorities fail to provide fairly accurate predictions in operations and capital projects then doubts is cast on the performance of that authority (Premchand, 2000)

Budget in public sector is hierarchical process which starts from sub-unit level to apex. The lower cadre is the one that prepares the estimates. According to Lewis (2005), the reason for using the lower cadre is that higher officials do not have time and enough information. Budgetary control is necessary for comparison of actual performance with the budgeted results to ensure action as per the plan and any deviation to provide for review (Bremser, 1988).

1.1.1 Budgeting in Local Authorities in Kenya

The Kenyan local governance system is composed of four tiers of Local Authorities (LAs), namely: Cities, Municipalities, Towns and County Councils. These councils are corporate entities that are established under the Local Government Act Chapter 265, which is currently under review. In addition to the Act, the LAs draw their legal powers from the Constitution of Kenya, other Acts of Parliament, Ministerial Orders and By-Laws. Currently there are 175 LAs in Kenya (appendix 1), which include City Councils, Municipal Councils, Town Councils and County Councils with Ministry of Local Government as the overall overseer of their operations (Waema, 2005).

Kenya has no decentralization policy that rationalizes power sharing, responsibilities, and resources between the central government ministries, district development committees, LAs and the private sector. This has been a problem at the operational level, with most of the institutions and organizations lacking synergy. Although the position of LAs remains uncertain with the counties being formed after the adoption the New Constitution, LAs have an advantage since they already have a participatory framework and are in touch with the locals in their jurisdiction (Waema, 2005).

Kenya local government reform programme began with financial reforms aimed at enhancing inter-governmental fiscal transfers, improving financial management, debt resolution, streamlining budgeting system and service provision capacity building for LAs. A key instrument in this process was the enactment of the Local Authority Transfer Fund (LATF) Act
in 1998. The act provides five percent of national income tax to LAs in line with population, resource base and financial performance. In order for a council to access LATF, LAs are administratively required to develop a Local Authority Service Delivery Action Plan (LASDAP) using a participatory approach in identifying of projects by council managements and the local and incorporating the projects in the budgets. All local authority budgets usually went through a formal approval process through the full council’s adoption. Furthermore, budget in local authorities is public document and is read to the public in a budget day each year set by the minister of local government (Mitullah, 2005).

The objective of any local authority is to satisfy its citizen through service delivery. Thus it should have proper financial resources, technical competence, regulatory framework and managerial style which will determine the success or failure a council. Proper budget implementation through continuing monitoring of the budget serves as a statement of the decisions and responsibilities that translate into specific programs and activities. As a management tool, a properly designed budget can help to achieve administrative efficiency, development of the economy, allocation of financial resources and honesty through management responsibility and accountability (Guthrie, 1999).

1.1.2 Challenges of Budget Implementation Process in Local Authorities

Proper Budgeting is a key success factor for most businesses, but it is a painful process that takes too much time and effort. Two key factors influence budgeting process are the level of revenues collected and the availability of external resources to bridge the gap occasioned by shortfall in revenues. When revenues fall short of the projected level then budget implementation is affected to the extent that the expenditures have to be reduced either in capital or operating project hence affecting service delivery (Heller, 2005).

External resources in the form of loans and grants factored into the budget following commitment by donors also bring shortfall if not honoured. The government may fail to release funds or released fund late in the financial year thus affects take off of projects. In addition, the budgeted amount may be affected economics factors, lack of budget accuracy, lack of resources, lack of monitoring and evaluation thus affecting service delivery in local authority (Pollitt 2004).
Costs may increase due to inflation, unexpected changes in the economy, political instability, insufficient initial study of capital projects, and budget overruns are some of the challenges of operational budgetary process. Budgeting being an historical in nature and overruns are sometimes caused by non-compliance of budget managers with the spending limits defined in the budget. Since cash allocated to spending units for appropriated expenditures is generally controlled, these overruns turn into arrears in councils. Overruns are often as a result of off budget spending mechanisms (Lerner, 1968).

Budgets votes are sometimes under spent; this does not necessarily mean that a local authority is good in planning, under spending is often related to insufficiencies in project preparation and lack of accuracy. Effective financial management through the use of local authority integrated financial management system can help councils in transforming their local areas of jurisdiction. (MCT, LASDAP Manual, 2009).

In every ward the community should be involved in selection of their projects, proper monitoring and evaluation of the project ensures that council deliver services to its citizen. This is a great responsibility as municipalities are responsible for managing the council’s money and delivering services that affect people's lives every day. Councillors, committee members and officials all have a duty to ensure that council’s funds are managed carefully, transparently and honestly (Jones, 2005).

1.1.3 History of Municipal Council of Thika

The origin of Thika comes from a Kikuyu word “Guthika”, meaning to bury. During a great drought, the Maasai ventured outside of their normal territories looking for water for their huge herds of cattle. Two rivers pass through Kikuyu land, River Thika and Chania, both providing water for the Agriculture Kikuyu. With this water in contention, and both tribes desperate for survival, they fought a bloody battle that left few survivors. Towards the end of the 19th century, outsiders began to settle in this outpost, a convenient resting spot between Nairobi and upcountry for British settlers. Europeans and Asians began to stop and remain at Thika, the started setting up farms, and later setting up shops (MCT, Municipal council strategic Plan 2008).
The town was gazette as town in 1924 and elevated to a second class municipality in 1963. The council has eight elected councilors and one public officer, headed by His worship the mayor. All policies are formulated through committees which are mandated to make policy guidelines to be implemented by the relevant functional departments headed by the town clerk (MCT, Municipal council strategic plan, 2008).

Being an industrial town, Thika is a rapidly expanding town been home to small and medium size entrepreneurs attracting a significant level of social economic growth and development that is increasingly becoming a major challenge to the council in allocating of funds to its projects (MCT, Municipal Council Strategic Plan, 2008).

The economic activities of the town include agriculture, particularly in the horticulture (exports mainly to Europe) and coffee industry (exports mainly to the USA and Europe). Other industries include textile (cotton), mining (building stones), floriculture (mainly exports to Europe) food processing (pineapples, macadamia nuts, and wheat), real estate, tannery, motor vehicle assemblies, and cigarette manufacturing (MCT, Municipal council strategic Plan 2008).

With its strategic site along Thika super highway which is under construction the town is experiencing a high influx of investments hence forcing the council to plan both in the short term and long term plans set out in the strategic plan.

1.2 Statement of the problem

According to Johnston (1998), service excellence is demanded of any of today’s firms since customers are increasingly demanding in their service requirements through the projects they undertake. Local authorities being not for profit making, this offer a unique challenge in the implementation of budgets since their emphasis is on balancing the demand for their services and limited resources. Firms must therefore ensure that the management of budget is efficient and effective Managed. With today’s economic difficulties in Kenya and all over the world; budget implementation must be carefully reviewed to ensure that there is proper utilization of the scarce resources. Implementation of budgets requires advanced programs of actions and highest quality of service (Premchand, 1994). Despite the important of budget implementation and its links in the organization structure there is little on how local authorities’ budget implementation is
monitored. With the increased decentralized framework of governance, most of the budgets focus in private firms and less in public sector in particular local authority.

Budget implementation is a worldwide problem. In Kenya, empirical studies have been carried out in Non-governmental organization, Telecommunication and higher learning institution respectively. Murrison (2001) carried out a survey of budgeting practices among the major British non-governmental organizations in Kenya and the extent to which budgets are used as tool of management control he concluded that 100% of the relief projects over estimate their income budgets. Ndiritu (2007) carried a case study on the effective of cash budgeting at Telkom Kenya which was a public institution; the focus was on cash management in the budgeting process as a tool of planning and controlling his conclusion was that there are loopholes which if not sealed lead to losses of cash. Muthinji (2009) did a case study on the challenges of budget of budget implementation at commission of higher education the conclusion was that budget is important in communication and there is increasing trend toward decentralization. So far studies done do not focus on budget implementation in local authorities in Kenya were a lot of resources are utilized in the undertaking of projects.

The current situation is that, all local authorities main purpose is to give services to the citizen in their jurisdiction through project implementation factored in the budget, where at the end of any financial year many of these projects are not done or partially done. This situation has been driven by factors that affect the implementation of the budget, thus this study explores the challenges of budget implementation at Municipal council of Thika to fill the gap which has not been done. These finding may have a potential to inform our understanding to all local authorities in Kenya for they offer similar services to the resident.

1.3 Objective of the Study

To determine the challenges of budget implementation in Municipal Council Thika.
1.4 Importance of the Study

Budget form an important part of the organization’s plan. It is for this primary reason that utmost care must be taken to ensure efficient and effective budget implementation. This study may be a useful tool to the following:

Management
The results of this study are important in that it may enlighten local authority management on the efficiency and effectiveness of budget implementation and recommend measures for improvement. The study may also help them in planning and controlling in the implementation of projects and ensure efficient utilization of resources.

Academicians and Scholars
The study may provide useful basis upon which further studies on budgeting in the local authorities could be conducted, the study may also add to the body of knowledge in the finance discipline.

Government
Through the study, the government may advice the various local authorities on the best way on budget implementation to ensure self sustainability in making sound and financing and investment decision to local Authorities within Kenya. The findings may also be useful to the Ministry of Local Government in the accounting of money given to local authorities through LATF.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of literature. The chapter discusses the budget, the budget process, challenges of budget implementation, the empirical studies in budgets and a conclusion.

2.2 Budget

A budget is a detailed plan outlining the acquisition and use of financial and other resources over some given time period. Budget determines the direction of the organization and its future success. Budget requires management to specify expected revenues and expenditure and provide a mechanism for effective planning and control in organizations. Budgets are used to communicate top management’s expectations to managers and employees. Amey, (1979) reveals that, budgets serve dual purposes of planning and controlling.

Shields and Young (1993) found that participative budgeting is used more frequently to communicate between lower level managers and top management additionally, budget participation is more in large size firms than smaller firms, participation in budgeting process increases acceptance and motivation as well as it makes the budget to a greater extent feel responsible for the organization goals.

According to Garrison (1988), there are several advantages of budgeting in organization it helps in providing guidelines in the form of a road map to proceed in the right direction, in improving managerial decision making for its emphasis is on future events and associated opportunities, in encouraging delegation of responsibility and enables managers to focus more on the specifics of their plans and how realistic the plans are, and how such plans may be effectively achieved, in providing better management to subordinates, in helping management in becoming aware of the problems faced by lower levels within the organization, allows for thinking on how to make operations and resources more productive, efficient competitive, and profitable.
Budget serve multiple objectives and functions, it may serve as a formal authorization to a manager to spend given amounts of money on specific activities; a tool to forecasting and planning, to judge and control performance, and a motivation device for managers (Joshi, 1999).

Budgeting systems force firms to plan, which is a major benefit. The sales budget and related marketing plan set the overall level of activity. Communication and coordination are needed if the firm is to achieve the profit goal. Budgets should, in the first instance be used to aid planning, Coordinate all activities and produce one master budget with all activities in departments, sections. When revenues fall short of the projected level then budget implementation is affected to the extent that the expenditures have to be reduced and some projects and programmes postponed altogether (Pollit, 2004).

2.3 Budget Process

Budget is a process, not an event. Over the course of the fiscal year the organization is reviewing, re-forecasting, and reallocating financial resources. According to Black (1993), outlines the following stages in the budget process.

Develop a timeline: The first step in the process is to prepare a timeline, set up a budget committee. The committee should work from the end result backward. Know when each step must be completed, starting with when you have to submit your final proposal of the budget.

Obtain guidelines and insights: The budget committee should encourage and participate in pre-budget meetings with the finance department and all other administrative departments with similar budgetary responsibilities.

Collect vendor data: Before beginning to prepare the budget, the budget committee should contact all of the major vendors and ask them about anticipated price increases. Often the information that they give the committee should be for 12-month period that coincide with the organization fiscal year, so as to set the anticipated percentage increases.

Review, reforecast and re-evaluate: As the committee prepares the draft, attention should be put to last year's budgeted verses the actual figures. The committee should not exceeded the guidelines from the previous year, also one should consider re-evaluating with an eye toward moving to less expensive alternatives.
Program goals and priorities: The committee should articulate the priorities and key issues facing the organization in the coming year. Provide sufficient facts and analyses to validate the requests. Methodology: The committee should explain how to gather their data, the source of the data, and the formulae and calculations you used to arrive at the budget figures. The data should show historical information reflecting increased prices from last year to the current year. The proposed budgets: In addition to providing this year's figures and the request for next year, one should include a table showing multi-year expenditures and forecasts.

2.4 Budget Implementation

Premchand (1994) observed that, budget implementation is a company policy and determines the manner in which resources' are managed. The financial task in budget implementation includes spending money specified, maximizing saving and avoiding over expenditures during the end of the financial year.

The benefits of monitoring either incomes or expenditures at the verification stage or the payments stage are sometimes debated. Actually, information is needed at each stage of the income or the expenditure cycle. Adequate recording of appropriations, revisions in appropriations, transfers between appropriation apportionment, etc. is a prerequisite for good management (Abernethy and Stoelwinder, 1991).

In several developing countries, it is difficult to know exactly which budget is being implemented, because decisions concerning allocations and reallocations of appropriations are contained in various circulars and are not gathered into a single document. The budget implementation plan should be updated regularly to take into account decisions concerning appropriations (Anderson, 1993.)

Accounting commitments is essential in keeping budget implementation under control. They provide the basis for budget revisions. Decisions to increase or decrease appropriations and the preparation of cash plans must take into account commitments already made. In most organizations aggregate revenues tends to be below projection on which budget is observed and controlled (kadondi, 2002).

2.4.1 Budget Participation and Rewards

There are conflicting findings on the significance of budgetary participation. According to Cherrington and Cherrington (1973) reported negative relationship between budget participation
and performance. Rewards are productivity-boosting techniques that are intended to provide positive motivation. This is based on the idea that a behavior leading to a positive consequence (reward) tends to be repeated. By providing the right rewards one can change a person's behavior. Participation of employees in the process of budget preparation also motivates them to achieve budget goals.

2.4.2 Performance and evaluation
Feedback is an important role of budgeting for attaining the expected quality and standards in planning, controlling, leadership and staffing. Feedback is generally positively associated with budget performance. Feedback focuses on the extent to which employees have achieved expected levels of work during a specified time period. Budgets being a standard for performance are used to evaluate managerial performance (Srinivasan, 1987).

Similarly, Douglas (1994) used a case study approach and found that budgeting places a high importance on the budget-to-actual comparison for performance evaluation purposes both at the corporate and the subsidiary levels he found that only 14% of companies in USA use fully integrated planning process that combines long term and operational planning, performance measures and reporting.

2.5 Challenges of Budget implementation
Implementation of budget is an activity that takes place throughout the financial year and is a critical point for any institution to perform for it cuts across all departments in an organization. Budget implementation is public expenditure policy and therefore in which the manner public expenditure is managed would impinge on the implementation of budget. The following are the challenges of budget implementation:

2.5.1 Lack of Budget Planning and Control
There has been some evidence that companies have been showing considerable interest in preparing long-range plans. In a survey of 500 companies in the USA Srinivasan, (1987), concluded that formal strategic planning contributed to decisions that were important, risky, global, and involved divestments. Similarly, in another study, Capon et al. (1994) found that a majority of firms employed sophisticated corporate planning and corporate financial plans in their budgeting system. (Powell, 1992) found that strategic planning was important in the US
companies but depended on the type of industry. Failure to plan and control of projects ended up not implementing what was budgeted.

2.5.2 High rate of Corruption
Corruption poses one of the most lethal threats to local authorities' future economic development and political stability. Illicit activities such as bribery kickbacks, theft, and misspending of public funds cost brings down service delivery. Corruption also undermines the legitimacy of the current administration and the political side, fuels social unrest, contribute directly to the rise in socioeconomic inequality, and undermine Kenya's environmental security. The prevalence of corruption in Kenya is rooted in the country's economy local authority being ranked secondly. Corruption in local authorities has spill over effects beyond its borders. Management had failed to implement its projects. The pervasiveness of such corruption can be seen in the downfall of many local officials in charge of theft, fall of non-authorized building, acquisition and transfer of land (Chathukulam, 2000)

2.5.3 Lack of staff motivation
Lack of Participation of employees in the process of budget preparation de-motivates them to achieve budget goals. According to (Ramsey, 1985) he observed that budgets should be used to motivate subordinates to increase their output and efficiency by encouraging their participation during budget preparation.

According to Cook, (1968), in his study found that bonus and promotion or new assignments are positively correlated with budget performance. Shields and Young (1993) found that participative budgeting is used more frequently when lower level management and senior management within an organization are linked to budget preparation and implementation.

2.5.4 Lack of Monitoring and Review
Evaluation and monitoring go hand in hand. Monitoring provides the raw data to answer questions. But in itself, it is a useless and expensive exercise. Evaluation put those data to use and thus giving them value. Evaluation is where the learning occurs, questions answered, recommendations made, and improvements suggested (Bremser, 1988)
Without monitoring, evaluation in council would have no foundation, there would no raw material to work with, and be limited to the realm of speculation. As the old song says, "you can't have one without the other." A monitoring program should not be designed without clearly knowing how the data and information will be evaluated and put to use. Monitoring and review technique among numerous alternative sanctions proposed in the 1980s and 1990s emerged and remains a popular and increasingly used measure today (Armstrong, 1996).

Council need to review the processes, the overall picture is that local authorities review is not favourable as many projects are not completed due to lack of monitoring and review leading to delays in the implementation of budgets systems. Irrelevant, poor-quality information produced through monitoring as it focuses only on physical and financial aspects and ignores factors such as project outreach, effect and impact (Douglas, 1994.)

2.5.5 Limited Financial Resources
The budget process constitutes an important tool for governments to mobilize adequate resources for local authorities, translate policies into pro-poor investments and provide equitable and efficient quality health services. It also sets the targets for which governments can be held accountable. In many countries institutions are weak, budget processes are undemocratic and public participation opportunities are limited. Resources risk being diverted from the country’s key social priorities at the very early stage of the budget formulation and resource allocation towards more politically or financially “profitable” sectors.

Local authorities allocate resources through various layers of national and local government’s institutions. Financial accountability using monitoring, auditing and accounting mechanisms defined by the country legal and institutional framework is a prerequisite to ensure that allocated funds are used for the intended purposes. In many developing countries, governments do not have the financial and technical capacity to effectively exercise such oversight and control functions, track and report on allocation, disbursement and use of financial resources year (MCT, Treasurers manual, 2007).
2.5.6 Lack of Budget Accuracy

Centralized budgets have been associated with the problems of either overestimation or underestimation (Kopp, 2004). According to Garrison (2008) a budget is part of a master budget in which management establishes goals throughout the organization that result in a budget for cash, a budgeted income statement, and a budgeted balance sheet. He stated that participative budgets have several advantages over imposed budgets, such as, motivation and commitment from participants and increased accuracy.

Decentralized budgeting is thought to reduce variations between budgeted and actual expenditure (i.e. increase budget accuracy), by placing responsibility for budgeting in the hands of those who are best able to forecast expenditure requirements. Research has consistently found that accuracy is one of the most important objective companies have for their budgeting and planning process yet it poses a lot of challenges to meet. Budget accuracy is important to a company's financial and operational performance, both in the short run and over the long term. At the very least, there must be appropriate financial controls in place to be profitable and ensure there is adequate cash to meet obligations. Firms should allocate the right resources to the activities that will produce the highest returns (Jones, 2006).

Accuracy is critical to the effectiveness of Performance Management. Assessments of how well objectives are met depend on how realistic these objectives were from the start. Organizations that spend too much time ensuring calculations and formulas are correct, as well as addressing the mechanical details of rolling up and consolidating departmental and business unit budgets to ensure that the budget is consistent with their strategic objectives (Anderson, 1993).

2.5.7 Corporate Governance.

Corporate governance is the system by which local authorities direct and control their functions and relate to their communities. Despite these considerable steps in creating a corporate governance framework in Kenya, Kenya, controller and auditor general (2008) report in finance points out that it is doubtful whether Kenya "can achieve good corporate governance with the current state of its law and a code that is designed without sufficient consideration of its market conditions". Consequently, the Minister of MOLG recommends that the laws and codes affecting
corporate governance in Kenya be reviewed to reflect "the market conditions in Kenya today by implementing their projects year (MCT, Treasurers manual, 2007).

2.6 Empirical Review

Budgeting systems are universal and have been considered an essential tool for financial planning. These systems are meant to organize and encourage the performance of organizations (Abernethy and Brownell, 1999). Traditionally, budgets were seen as the primary planning document. Budgets can be used as a control mechanism to regulate the behavior by specifying the means to produce a unit of output.

For companies aiming to achieve recognition for world-class performance, it may be necessary to move away from a purely reactive approach to benchmarking, which identifies what other groups or companies have already achieved, and move on to essentially a proactive approach by identifying and defining the highest standards achievable. In this way they will be recognized as market leaders operating through innovative.

A study by Weisenfeld and Tyson (1990), in a sample of 68 US managers from two companies, found that budgeting and variance analysis can be positive tools, if the accounting information, communication process is functioning appropriately. A total of 90 percent of the respondents indicated that variances were a good way to measure their performance. All of them agreed that variance reports positively influenced them to improve performance and increase their bonuses.

A study by Blansfield (2002) of 250 respondents in the US, found that only 14 percent of companies have a fully integrated planning process that combines long term and operational planning, performance measures and reporting. The survey further underscored the fact that financial executives still struggle with the need to synthesize financial and non-financial data and performance measurements in a single system in which they can also perform planning, budgeting, forecasting, financial consolidation, reporting and analysis in real time.

Peter (2001) carried a study on budgetary controls in NGOs in Kenya. The study was to furnish a conceptual basis for evaluating the effectiveness of budgeting practices. The objective was how accurately budget anticipates the level and direction of actual results, what factors influence
budget accuracy. The population of the study was all relief project spread all over the country data was collected using primary and secondary data. It was concluded that budget controls practices in NGOs vary significantly between relief projects and development projects.

Murrayson (2001) carried out a survey of budgeting practices among the major British non-governmental organizations in Kenya, he focused on budgeting practiced used in British Non-governmental organizations in Kenya and the extent to which budget are used as a management control. Data was collected from thirty relief projects of world vision were surveyed all over the country the objective of the study was to determine how accurate budgets anticipate the level and direction of results at the end of the research it was found that 100% of the Relief projects over estimates their income budgets

Ndiritu (2007) did a case study on the effective of cash budgeting at Telkom Kenya which was a public institution he focused on cash management budgeting process as an important tool of planning and controlling. A sample of twenty staff was interviewed directly involved with cash budget preparation and implementation process. The information sought included the cash budgetary process in the organization, and how the cash budget had been utilized as an effective cash management tool in the organization. The information was collected using an interview guide which was structured into two sections. However, after the study in the firm concerned, it has been found various loopholes which if not sealed may lead to high cash losses for the firm.

Muthinji (2009), did a study on the challenges of budget implementation at the commission of higher education the objective of the study was identify the challenges of budget implementation and its effectiveness at the commission data was collected from all department descriptive statistics was used to summarize the data was concluded that budget is important for communication and there is increasing trend toward decentralization.

2.7 Conclusion

Budget implementation in local authorities is an important aspect for they ensure the planned project is implemented. As they are prepared in advance they give a detail activity of what the organization will undertake there is need to take into account when an organization is doing its
budgeting by estimating what the costs or value will be when the expenditure is made or the income received. If there is likely to be an increase in costs then, there is need to make sure that the budgeting committee also estimate for an increase in what the organization will charge in fees for services or in sales of products.

This study concludes that the relationship between budget emphasis and attitudes towards the budgetary process, it increases motivation, and proper control. There is also need to keep the budget calculations for the organization budget because some stakeholders may be willing to provide a supplementary revenue if the management can show clearly that the budget calculations were based on a smaller rate of inflation than actually proved to be the case (Gupta, 2006).
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the methodology that was used in gathering the data, analyzing the data and reporting the results. Here the researcher aimed at explaining the methods and tools used in data collection and analysis. The researcher tested for reliability and validity of data in order get proper and maximum information related to the subject under study.

3.2 Research Design

This research was conducted through a case study. This design was valuable for detailed analysis as Schlesselman (1982) concurs that a case study often provides focused and valuable insights to phenomena that may vaguely known and less understood. The study undertook an in-depth understanding of the challenges of budget implementation at Municipal Council of Thika.

Kothari (1990), who acknowledge that a case study is a powerful form of qualitative analysis that involves a careful and complete observation of a social unit, irrespective of what type of unit is under study. Its drills down, rather than cast wide. The case study provided the researcher with in depth information, which assisted in meeting the objectives of the study. The subject was being observed in a completely natural and unchanged environment. The main focus of this study was quantitative. However some qualitative approach was used in order to gain a better understanding and possibly enable a better and more insightful interpretation of the results from the quantitative study.

3.3 Data Collection procedure and Instrumentations

The target of study consisted of all the employees’ at managerial level in MCT (appendix ii), the respondents constituted the Town clerk , the eight chief officers, twenty nine section heads of departments, the budget committee comprising eight staff officers involved in the budget and for accountants involved in the implementation of the budget. The study used both primary and secondary method of data collection and the questionnaire was structured as the main data
collection instrument. The questionnaire was designed in two parts, the first part included the general information of the respondent, and the second part was devoted to the identification of the challenges of budget implementation. In order to identify the challenges self-administered drop and pick structured questionnaires were distributed among targeted employees at MCT. The questionnaires had both open and close-ended questions.

Primary data was collected using questionnaires face-to-face interview, where all the issues on the questionnaire were addressed. The open ended question were used to measure are all "yes" and "No" respondent that were counted so that statistical interference is drawn. The close-ended questions provided more structured responses to facilitate tangible recommendations. The Secondary data sources were employed through the use of previous budgets, treasurer’s manuals and financial reporting tabulates to supplement the data received from questionnaires.

3.4 Data Analysis and presentation.

Before processing the responses, the completed questionnaires were edited for accuracy, completeness and consistency. The data was coded to enable the researcher group into various categories. Data in this study were both qualitative and quantitative data.

Descriptive statistics tool was used to rank the challenges of budget implementation. Tables and other graphical presentations as appropriate were used to present the data collected for ease of understanding and analysis. The statistical package for social sciences (SPSS) version 17 was used to analyze the data. The analyzed data was used to generate tables, frequencies and graphical presentation. Recommendations and suggestions were made from the collected information. This enabled the researcher to arrive at reliable conclusions.

3.5 Data reliability and validity

Reliability is defined as the extent to which a questionnaire, test, observation or any measurement procedure produces the same results on repeated trials (Allen & Yen, 1979). The researcher ensured the data was sufficiently free to in convincing for its purpose and context for it evidence. Data was logical, and a sense of relationship in finding its supports.
Validity is defined as the extent to which the instrument measures what it purports to measure (Allen & Yen, 1979). For example, a test that is used to screen for a job is valid if its scores are directly related to future job performance. Content validity pertains to the degree which the instrument fully assesses or measure the construct of interest. Materials which have last for long period of time and being reviewed, updated by the writer were considered as outdated data and were considered irrelevant to the study. The data represents what was measured in the area of study to ensure validity.
4.0 DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter presents the results obtained from the study on the challenges of budget implementation in local authorities in Kenya. The chapter is presented in two parts that is Part A and Part B. Part A is the fact finding sheet which looks at the demographic information of the respondents that is the departments they are in, designation, work experience, duration with council and budget preparation. Part B of the questionnaire looks at the challenges of budget implementation. The data collected was analyzed using SPSS and the output presented in form of tables, charts and bar graphs with the use of frequencies and percentages. The responses were analyzed using descriptive statistics. Out of 50 questionnaires which had been administered to the interviewees, 45 of them were returned for data analysis. This translates to 90.0% percent return rate of the respondents. Overall, the return rate can be considered to have been very high.

4.2 Demographic information of the respondents

Since the study focused on all local authorities, the researcher found it necessary to analyze the background information as employees are diverse. This part comprised of open and closed-ended questions on socio-demographic information of the respondents.

<table>
<thead>
<tr>
<th>DEPARTMENT</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education</td>
<td>4</td>
<td>7.9</td>
</tr>
<tr>
<td>Treasury</td>
<td>12</td>
<td>28.9</td>
</tr>
<tr>
<td>Town clerks</td>
<td>13</td>
<td>31.6</td>
</tr>
<tr>
<td>Audit unit</td>
<td>2</td>
<td>2.6</td>
</tr>
<tr>
<td>Accounts</td>
<td>3</td>
<td>5.3</td>
</tr>
<tr>
<td>Planning</td>
<td>3</td>
<td>5.3</td>
</tr>
<tr>
<td>Health</td>
<td>7</td>
<td>15.8</td>
</tr>
<tr>
<td>Social service</td>
<td>1</td>
<td>2.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>45</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Researcher (2010)
Table 4.1 reveals that majority of the respondents were from town clerks department (31%). The findings further reveal that the study had respondents from treasury department (28%), health (15%), education (7%), accounts and planning (5%) and the minority 2% cumulatively from audit unit and social services departments. This could suggest that the study sought response across departments.

The researcher sought to find out the designations of the respondents. The findings are shown in table 4.2

<table>
<thead>
<tr>
<th>Designation</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Town Clerk</td>
<td>1</td>
<td>2.2</td>
</tr>
<tr>
<td>Accountants</td>
<td>10</td>
<td>22.3</td>
</tr>
<tr>
<td>Chief Officers</td>
<td>7</td>
<td>15.5</td>
</tr>
<tr>
<td>Auditors</td>
<td>2</td>
<td>4.4</td>
</tr>
<tr>
<td>Deputy chief public Health</td>
<td>1</td>
<td>2.2</td>
</tr>
<tr>
<td>Superintendents</td>
<td>3</td>
<td>6.7</td>
</tr>
<tr>
<td>Administrative officers</td>
<td>3</td>
<td>6.7</td>
</tr>
<tr>
<td>Account Clerks</td>
<td>8</td>
<td>17.9</td>
</tr>
<tr>
<td>Principal staffing officers</td>
<td>2</td>
<td>4.4</td>
</tr>
<tr>
<td>Foreman</td>
<td>1</td>
<td>2.2</td>
</tr>
<tr>
<td>Deputy Town planner</td>
<td>1</td>
<td>2.2</td>
</tr>
<tr>
<td>Administrative officers</td>
<td>3</td>
<td>6.7</td>
</tr>
<tr>
<td>Deputy Town Clerk</td>
<td>1</td>
<td>2.2</td>
</tr>
<tr>
<td>Deputy Director Social Services &amp; Housing</td>
<td>1</td>
<td>2.2</td>
</tr>
<tr>
<td>No response</td>
<td>1</td>
<td>2.2</td>
</tr>
</tbody>
</table>

Source: Researcher (2010)

From table 4.2, it is clear that majority of the respondents who participated in the study were Accountants (22%), Account clerk (17%), chief officers (15%), system Administrators (7%), administrative officers (7%), superintendents (7%) Auditors, and principal staffing officers (4%) while 2% the minority were Town clerk, Deputy chief public officer, Deputy town clerk Foreman, Deputy planning officers, deputy directors and social services had (2%) Although a relatively small proportion of the respondents 2% did not respond to the question. This could imply that the study sought to seek response across departments on challenges of budget implementation.
The researcher found it necessary to find out how the total work experience of the respondent since he/she begun working. The findings are shown in the figure below:

Figure 4.1: Work experience in years

![Bar chart showing work experience in years](image)

Source: Researcher (2010)

Figure one above depicts that majority of the respondents (31%) have a total work experience of less than 5 years, 21% have experience for 6-10 years, 18% have experience for 16-20 years, 13% for 26-30 years, 7% for 21-25 years, 2% the minority for 31 years and above. The findings suggest that majority of the employees at the council have been recruited recently and the council could be their first place of work, although we there is a larger proportion who have been working for a long period of time.
The researcher found it necessary to find out the length of time the respondent has been with the council. The findings are shown in the figure below:

From figure 4.2 above, we can see majority of the respondents (42%) indicated they have been with the council for a period of 0-5 years, 26% have been serving for more than 20 years, 18% for 15-20 years, 7% for 5-10 years while the minority 5% have served for 10-15 years. The findings could give an implication that the council has a strategy of running its daily business by maintaining a relatively large proportion that have been in the council long enough to probably train/guide the incoming employees while maintaining the council’s vision.
The researcher found it necessary to find out how often the respondents prepare budgets. The findings are presented in the figure below;

From figure 4.3 above it is seen that majority (81%) indicated that they do budget preparation annually, a small percentage however responded to quarterly (11%), biannually (5%) and 3% the minority indicated monthly. This could suggest that the council has set plans and goals to achieve and they do early preparations to achieve their targets.

**Figure 4.4: Length of time period the budget covers**

From figure 4.3 above it is seen that majority (81%) indicated that they do budget preparation annually, a small percentage however responded to quarterly (11%), biannually (5%) and 3% the minority indicated monthly. This could suggest that the council has set plans and goals to achieve and they do early preparations to achieve their targets.

**Figure 4.4: Length of time period the budget covers**
From figure 4.4 above it is seen that majority (81%) indicated that their budget covers annual duration, a relatively large proportion (8%) indicated their budget covers for quarter and biannual duration while the minority 2% indicated their budget covers monthly duration. This could suggest that the council prepares budget to fit annual periods but to some departments they prepare for small durations in the year depending on the needs arising.

**Figure 4.5: How often the budgets are revised**

The researcher found it necessary to find out how often budgets are revised.

![Graph showing budget revisions](image)

Source: Researcher (2010)

Figure 4.5 above depicts that majority 40% revise their budgets annually. 26% revise quarterly, 10% biannually, 13% when need arises and the minority 3% revise monthly. However a proportion of the respondents 8% did not respond to the question. The findings could give an indication that the council is keen in monitoring its expenditure and reviews its budgets often.
4.3 Challenges of budget implementation

Figure 4.6: Whether the respondent departments participate in budgetary planning
The researcher found it necessary to find out if the respondents’ department participates in budgetary planning. The findings are presented in the figure below;

Source: Researcher (2010)

The findings depict that almost all the respondents (92%) agreed to their department participating in budgetary planning. A small proportion 8% disagreed to the statement. This could imply that budgetary planning is a thing for all the departments to participate so as to cater for all organizational issues and that the council of Thika is in line with this principle.

Table 4.3: Purposes of a budget

<table>
<thead>
<tr>
<th>Purpose of a Budget</th>
<th>Strongly Agree (%)</th>
<th>Agree (%)</th>
<th>Neutral (%)</th>
<th>Disagree (%)</th>
<th>Strongly Disagree (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>To forecast the future</td>
<td>50.0</td>
<td>39.5</td>
<td>7.9</td>
<td>0.0</td>
<td>2.6</td>
</tr>
<tr>
<td>Assist in control</td>
<td>55.3</td>
<td>36.8</td>
<td>2.6</td>
<td>0.0</td>
<td>2.6</td>
</tr>
<tr>
<td>As a means management communicates to other levels of department</td>
<td>15.8</td>
<td>52.6</td>
<td>21.1</td>
<td>7.9</td>
<td>2.6</td>
</tr>
<tr>
<td>As a means of performance appraisal</td>
<td>26.3</td>
<td>44.7</td>
<td>13.2</td>
<td>10.5</td>
<td>2.6</td>
</tr>
<tr>
<td>To motivate employees to do better</td>
<td>10.5</td>
<td>36.8</td>
<td>21.1</td>
<td>15.8</td>
<td>13.2</td>
</tr>
</tbody>
</table>

Source: Researcher (2010)
From table 4.3 above we can see that majority of the respondents strongly agreed that a budget is used to forecast the future (50%) and assist in control (55%). A large proportion of the respondents agreed that a budget is used as a means by which management communicates to other levels of department (52%), as a means of performance appraisal tool (44%) and 36% agreed to a budget is used to motivate employees to do better. The findings from the table conforms to Shields and Young (1993) who found that a budget is used as a communication channel between lower level managers and top management and the used of a budget in planning and controlling purposes.

Table 4.4: Challenges of budget implementation

<table>
<thead>
<tr>
<th></th>
<th>Strongly Agree (%)</th>
<th>Agree (%)</th>
<th>Neutral (%)</th>
<th>Disagree (%)</th>
<th>Strongly Disagree (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planning and controlling</td>
<td>18.4</td>
<td>40.0</td>
<td>20.5</td>
<td>10.5</td>
<td>5.3</td>
</tr>
<tr>
<td>Lack of staff motivation</td>
<td>13.2</td>
<td>36.8</td>
<td>21.1</td>
<td>15.8</td>
<td>2.6</td>
</tr>
<tr>
<td>Corporate Governance</td>
<td>13.2</td>
<td>18.4</td>
<td>26.3</td>
<td>21.1</td>
<td>10.5</td>
</tr>
<tr>
<td>Corruption</td>
<td>15.8</td>
<td>46.3</td>
<td>13.4</td>
<td>13.7</td>
<td>5.5</td>
</tr>
<tr>
<td>Lack of monitoring and controls</td>
<td>5.3</td>
<td>18.4</td>
<td>21.1</td>
<td>36.8</td>
<td>10.5</td>
</tr>
<tr>
<td>Lack of financial resources</td>
<td>13.2</td>
<td>10.5</td>
<td>31.6</td>
<td>21.1</td>
<td>15.8</td>
</tr>
<tr>
<td>Poor budget accuracy</td>
<td>10.5</td>
<td>13.2</td>
<td>31.6</td>
<td>26.3</td>
<td>10.5</td>
</tr>
</tbody>
</table>

Source: Researcher (2010)

From table 4.4 it is seen that majority of the respondents agreed to corruption (46%), lack of planning and controlling (40%), and lack of staff motivation (36%) to be challenges faced in budget implementation at the Thika municipal council during the financial year. A big number disagreed to lack of monitoring and controls (36%) and poor budget accuracy (26%) to be among the challenges. However another relatively large proportion was neutral on lack of financial resources (31%) and corporate governance influence (26%). The findings could imply that the challenge of lack of budget plan and control as stated by (Powell, 1992), high rate of corruption (Chathukulam, 2000) and lack of staff motivation (Ramsey, 1985) to be major common challenges organizations face in budget implementation as is case for Thika municipal council.
Table 4.5: Budget participation and rewards challenges

<table>
<thead>
<tr>
<th></th>
<th>Strongly Agree (%)</th>
<th>Agree (%)</th>
<th>Neutral (%)</th>
<th>Disagree (%)</th>
<th>Strongly Disagree (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Participation of all the stakeholders makes the budgetary process to be too lengthy and time consuming</td>
<td>13.2</td>
<td>36.8</td>
<td>15.8</td>
<td>21.1</td>
<td>7.9</td>
</tr>
<tr>
<td>Association of extrinsic rewards with budgetary achievement as a means to motivate managers does not really help in budget implementation</td>
<td>10.5</td>
<td>15.8</td>
<td>26.3</td>
<td>28.9</td>
<td>13.2</td>
</tr>
<tr>
<td>Bonus and promotion or new assignments are not correlated with budget performance</td>
<td>7.9</td>
<td>28.9</td>
<td>31.6</td>
<td>21.1</td>
<td>7.9</td>
</tr>
<tr>
<td>Low level management do not have a significant role in both the initial and revision stages of budget preparation</td>
<td>13.2</td>
<td>31.6</td>
<td>10.5</td>
<td>28.9</td>
<td>10.5</td>
</tr>
<tr>
<td>Lower level management and senior management within council are not linked to budget preparation and implementation</td>
<td>10.5</td>
<td>10.5</td>
<td>7.9</td>
<td>50.0</td>
<td>15.8</td>
</tr>
</tbody>
</table>

Source: Researcher (2010)

From table 4.5 above we can see that majority of the respondents agreed to participation of all the stakeholders makes the budgetary process to be too lengthy and time consuming (36%) and low level management not having a significant role in both the initial and revision stages of budget preparation to be participation and rewards challenges at MCT. A proportion of the respondents disagreed to association of extrinsic rewards with budgetary achievement as a means to motivate managers does not really help in budget implementation (28%) and lower level management and senior management within council are not linked to budget preparation and implementation (50%) while 31% were neutral on bonus and promotions or new assignments are
not correlated with budget performance. The findings suggest that participation of all the stakeholders makes the budgetary process to be too lengthy and time consuming and low level management don’t have a significant role in both the initial and revision stages of budget preparation to be participation and rewards challenges in organizations.

Table 4.6: Challenges of budget implementation in regard to performance evaluation.

<table>
<thead>
<tr>
<th>Challenges</th>
<th>Very Great extent (%)</th>
<th>Great extent (%)</th>
<th>Neutral (%)</th>
<th>No extent (%)</th>
<th>Not at all (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>There is poor feedback in the budgeting process for attainment of the expected quality and standards in planning, control &amp; leadership</td>
<td>15.8</td>
<td>23.7</td>
<td>21.1</td>
<td>23.7</td>
<td>13.2</td>
</tr>
<tr>
<td>The feedback does not critically focus on the extent to which employees have achieved expected levels of work.</td>
<td>10.5</td>
<td>26.3</td>
<td>34.2</td>
<td>18.4</td>
<td>7.9</td>
</tr>
<tr>
<td>Budgets being a standard for performance are not used to evaluate the organizational performance</td>
<td>7.9</td>
<td>18.4</td>
<td>13.2</td>
<td>28.9</td>
<td>28.9</td>
</tr>
<tr>
<td>Budgeting at council does not place a high importance on the budgeting-to-actual comparison for performance</td>
<td>5.3</td>
<td>18.4</td>
<td>26.3</td>
<td>26.3</td>
<td>21.1</td>
</tr>
</tbody>
</table>

Source: Researcher (2010)

Table 4.6 above reveals that regarding performance evaluation, to a great extent there is poor feedback in the budgeting process for attainment of the expected quality and standards in planning, control & leadership (24%) and feedback does not critically focus on the extent to which employees have achieved expected levels of work during a specified time period (24%). Majority also indicated to no extent budgets being a standard for performance are not used to evaluate the organizational performance (28%) and budgeting at council does not place a high
importance on the budgeting-to actual comparison for performance evaluation purposes (26%) as among the challenges at MCT.

Figure 4.7: Management able to overcome challenges of budget implementation in council

The researcher sought to find out if the respondent thinks that the management can be able to overcome the challenges of budget implementation in the council. The findings are presented in the figure below;

Source: Researcher (2010)

Majority of the respondents 60% agreed to the management being able to overcome the challenges of budget implementation the council. A relatively large proportion (34%) of the respondents however strongly agreed to the statement. This could give an implication that management can be able to overcome the challenges in organizations if they want to.

Table 4.7: Possible solutions to challenges facing budget implementation

<table>
<thead>
<tr>
<th>Possible Solutions</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Involve Stakeholders In Process</td>
<td>5</td>
<td>13.2</td>
</tr>
<tr>
<td>Involving Low Management In Preparation Of Budgets</td>
<td>10</td>
<td>23.7</td>
</tr>
<tr>
<td>Expenditure Control</td>
<td>4</td>
<td>7.9</td>
</tr>
<tr>
<td>Improved Communication Channels</td>
<td>4</td>
<td>7.9</td>
</tr>
</tbody>
</table>
From table 4.7 it is evident that majority of respondents indicated that involving low management in preparation of budgets (23%), involving stakeholders in process (13%), transparency in budget implementation (15%), expenditure control (7%), improved communication channels (7%) and budgeting feedback for performance evaluation (2%) to be possible solutions to the major challenges in budget implementation at MCT.

Table 4.8: Analysis of Variance (ANOVA) Test.

<table>
<thead>
<tr>
<th></th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Planning And Controlling</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Between Groups</td>
<td>3.844</td>
<td>4</td>
<td>.961</td>
<td>.788</td>
<td>.542</td>
</tr>
<tr>
<td>Within Groups</td>
<td>37.795</td>
<td>31</td>
<td>1.219</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>41.639</td>
<td>35</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Lack Of Staff Motivation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Between Groups</td>
<td>3.685</td>
<td>4</td>
<td>.921</td>
<td>.815</td>
<td>.526</td>
</tr>
<tr>
<td>Within Groups</td>
<td>32.786</td>
<td>29</td>
<td>1.131</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>36.471</td>
<td>33</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Government Influence</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Between Groups</td>
<td>4.685</td>
<td>4</td>
<td>1.171</td>
<td>.734</td>
<td>.576</td>
</tr>
<tr>
<td>Within Groups</td>
<td>46.286</td>
<td>29</td>
<td>1.596</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>50.971</td>
<td>33</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Corruption</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Between Groups</td>
<td>6.967</td>
<td>4</td>
<td>1.742</td>
<td>1.052</td>
<td>.397</td>
</tr>
<tr>
<td>Within Groups</td>
<td>51.338</td>
<td>31</td>
<td>1.656</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>58.306</td>
<td>35</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Lack Of Monitoring And Controls</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Between Groups</td>
<td>3.519</td>
<td>4</td>
<td>.880</td>
<td>.694</td>
<td>.602</td>
</tr>
<tr>
<td>Within Groups</td>
<td>38.024</td>
<td>30</td>
<td>1.267</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Table 4.8 above reveals that there is no significant difference between the duration the respondents has served in the council and the challenges faced in budget implementation shown by the value p>0.05 represented by the right end column on the table whose values are >p value of 0.05.

Table 4.9: Descriptive for budget participation and rewards challenges

<table>
<thead>
<tr>
<th>Challenge</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Participation of all stakeholders makes budgetary too lengthy.</td>
<td>36</td>
<td>2.72</td>
<td>1.210</td>
</tr>
<tr>
<td>Association of extrinsic rewards with budgetary achievement as means</td>
<td>36</td>
<td>3.19</td>
<td>1.215</td>
</tr>
<tr>
<td>motivate managers does not help budget implementation.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bonus and promotions not correlated with budget performance.</td>
<td>37</td>
<td>2.92</td>
<td>1.090</td>
</tr>
<tr>
<td>Low level management no significant role in budget preparation.</td>
<td>36</td>
<td>2.92</td>
<td>1.296</td>
</tr>
<tr>
<td>Lower level and senior management within council not linked to budget</td>
<td>36</td>
<td>3.53</td>
<td>1.230</td>
</tr>
<tr>
<td>preparation and implementation.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Researcher (2010)

The findings on table 4.9 suggest that lower level and senior management within council are not linked to budget preparation and implementation given by a mean score of 3.53. Association of extrinsic rewards with budgetary achievement as means to motivate managers does not help in
budget implementation given by a mean score of 3.19. The participation of all the stakeholders makes the budgetary process to be too lengthy and time consuming (2.72) and low level management don't have a significant role in both the initial and revision stages of budget preparation (2.92) are shown to be participation and rewards challenges in MCT.
CHAPTER FIVE

5.0 SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION

5.1 Introduction

The basic purpose of this chapter is to give the summary, conclusions and recommendation of the study. This was based on the research findings that is presented and discussed in the previous chapters.

5.2 Summary of Findings

The task of the study was to determine the challenges of budget implementation in municipal council of Thika. The researcher reviewed previous studies with a view to establish academic gaps which the present study sought to bridge. This was done through library research. The procedure included: reading, evaluating the methodology employed in terms of design choice, target respondents, data collection procedures, data analysis, testing for validity and reliability findings and recommendations. The researcher benefited so much from the literature review for it guided the present study by pointing to areas that need to be investigated.

This study employed quantitative research as the main approach to guide the study. The target respondents included all the employees' at managerial level in municipal council of Thika with a size of 50 respondents.

The research instrument used in data collection was a structured questionnaire. To ensure validity of the instruments, expert opinion was sought. Data analysis was started immediately after the field. Data was summarized into frequencies and percentages and presented in graphs, pie charts and tables.

The findings of the study were summarized as follows:

Part A- Demographic Information

The findings revealed that majority of the respondents who participated in the study were accountants with (22%), from town clerks department (31%) who had a total work experience of less than 5 years and 42% have been with the council for a period of 0-5 years.
The findings further reveal that majority of the respondents indicated that they do budget preparation annually (81%) which covers annual duration and the budget is revised annually with (40%).

**PART B: Challenges of budget implementation**

The findings depict that majority (92%) agreed to their department participating in budgetary planning. The findings show that majority of the respondents strongly agreed that a budget is used to forecast the future (50%) and assist in control (55%) while others agreeing that a budget is used as a means by which management communicates to other levels of department (52%), as a means of performance appraisal tool (44%) and to motivate employees to do better (36%).

The findings also show that majority agreed to corruption (46%) lack of planning and controlling (40%), lack of staff motivation (36%) to be challenges faced in budget implementation at the council during the financial year.

The study findings reveal that majority of the respondents agreed to participation of all the stakeholders makes the budgetary process to be too lengthy and time consuming (36%) and low level management not having a significant role in both the initial and revision stages of budget preparation to be participation and rewards challenges at the municipal council of Thika.

The study reveals that regarding performance evaluation, to a great extent there is poor feedback in the budgeting process for attainment of the expected quality and standards in planning, control & leadership (24%) and feedback does not critically focus on the extent to which employees have achieved expected levels of work during a specified time period (24%). The findings further reveal that to no extent, budgets being a standard for performance are not used to evaluate the organizational performance (28%) and budgeting at council does not place a high importance on the budgeting-to actual comparison for performance evaluation purposes (26%) to be among the challenges at MCT in budget implementation.
The findings depict that 60% agreed to the management being able to overcome the challenges of budget implementation the council while (34%) strongly agreed to the statement. It is evident from the findings that majority indicated that involving low management in preparation of budgets (23%), involving stakeholders in process (13%), transparency in budget implementation (15%), expenditure control (7%), improved communication channels (7%) and budgeting feedback for performance evaluation (2%) to be possible solutions to the major challenges in budget implementation at MCT.

5.3 Conclusions

Based on the findings of the study, the following main conclusions were made concerning the challenges of budget implementation in MCT. The municipal council of Thika operates well with a well experienced team who has served for the council in a long time blended together with young newly experienced team. This maintains that the set goals, vision and mission of the council are met while geared to the objectives. The council prepares annual budget which covers a year’s duration and is revised annually. The council also has budgets for different departments which are revised biannually or quarterly to suit the relevant upcoming needs. The council allows each department to participate in budgetary planning. A budget has a number of purposes which include forecasting for the future, assisting in control process, a means by which management communicates to other levels of department, means of performance appraisal and tool to motivate employees to do better.

Challenges of budget implementation include corruption, lack of proper planning and control, and lack of staff motivation. Participation of all the stakeholders makes the budgetary process to be too lengthy and time consuming while low level management does not have a significant role in both the initial and revision stages of budget preparation as participation and rewards challenges of budget implementation. In performance evaluation in the budgetary process, there is poor feedback in the budgeting process for attainment of the expected quality and standards in planning, control & leadership while feedback does not critically focus on the extent to which employees achieve expected levels of work during a specified time period. The study also shows that management can overcome challenges associated with budget implementation.
From these conclusions, it can be observed that the budgeting process of the council is not fully effective and may be improved continuously.

5.4 Recommendations

On the basis of the above, conclusions, the following recommendations were made for challenges of budget implementation in MCT:

The management of municipal council of Thika needs to find ways to address corruption and ways of motivating staff perhaps through better benefit schemes and improve on planning and control process. The management also requires result-based approach to budgeting process.

The employees need to be enlightened on the budgetary process since many know the use but can define the process. The council needs to identify different departmental need so as to cater for each department to ensure maximum participation of all departments in the budget process and implementation.

The government should look into ways of providing better terms through the relevant ministry of local government to better terms of service to motivate the council employees countrywide. The management of the municipal council of Thika need to work extra hard and find ways of overcoming the challenges that come with the budget implementation and the same applies to all councils countrywide.

5.5 Suggestions for Further Studies

This study focused on the challenges of budget implementation in local authorities in Kenya with focus on the municipal council of Thika. The study noted that there is a major concern in the area of budgeting in the local authorities. The following are suggestions on areas of further studies:

A further study is requires to be done in order to establish the effectiveness of the budgets in the local authorities.

A further study is requires to be done in order to establish the role of the budgets as a performance appraisal tool in local authorities.
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130-45.


APPENDICES

Appendix 1: Categories of Local Authorities in Kenya.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>City Councils</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Municipal Councils</td>
<td>11</td>
<td>20</td>
<td>20</td>
<td>47</td>
<td>42</td>
</tr>
<tr>
<td>Town Councils</td>
<td>11</td>
<td>23</td>
<td>23</td>
<td>66</td>
<td>62</td>
</tr>
<tr>
<td>County Councils</td>
<td>40</td>
<td>40</td>
<td>40</td>
<td>60</td>
<td>68</td>
</tr>
<tr>
<td>Urban (phased out in 1997)</td>
<td>20</td>
<td>27</td>
<td>27</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>83</td>
<td>111</td>
<td>138</td>
<td>174</td>
<td>175</td>
</tr>
</tbody>
</table>

Appendix II: Category of department in Thika Municipal Council

TOWN CLERK AND CHIEF EXECUTIVE OFFICER

CHIEF OFFICERS & HEADS OF DEPARTMENTS

IPAL
TON
ER

CHIEF PUBLIC HEALTH OFFICER

PUBLIC HEALTH & ENVIRONMENT

TOWN TREASURER

TOWN ENGINEER

TOWN PLANNER

DIRECTOR OF SOCIAL SERVICES

TON
ENT

DEPUTY TOWN CLERK

TOWN PLANNING DEPARTMENT

SOCIAL SERVICES HOUSING DEPARTMENT

TOWN CLERKS DEPARTMENT

TOWN ENGINEERS DEPARTMENT

Source strategic plan (2008)
Appendix III: Letter of Introduction to Respondents.

University of Nairobi  
School of Business  
P.O. BOX 30197  
Nairobi.

Dear Respondent,

REF: RE COLLECTION OF DATA.

I am master’s program student at university of Nairobi School of Business.

In order to fulfils the master’s program requirements, I am undertaking a Finance research project on “challenges of budget implementation in local authorities in Kenya”

Your organization has been selected for this study, therefore, I kindly request you to assist me to collect the data by filling the Attached questionnaire. Please do complete the questionnaire to the best on your ability.

The information provided will be used exclusively for academic purposes and will be treated with confidentiality.

Your co-operations will be highly appreciated.

Thanking you in advance.

Yours faithfully,

Obadiah. M. Mbinyo.

.........................

Student

M.K.ODIPO

............... 

supervisor
Appendix IV: Questionnaire
This questionnaire is designed to collect data on challenges of budget implementation in local authorities in Kenya. Collected data shall be used for academic purposes only, and thus shall be treated with strict confidence.

Your participation in facilitating this study is highly appreciated.

Part A: Demographic information
1. Department: ____________________________________________________
2. What is your designation? __________________________________________
3. What is your total work experience in years?
   ...................................................................................
4. What is your length of time in the council?
   0-5 years
   5-10 years
   10-15 years
   15-20 years
   Above 20 years
5. How often do you prepare budget?
   Monthly [ ]
   Quarterly [ ]
   Biannual [ ]
   Annual [ ]
   Any other-------------------------------------------------------------
6. What is the length of time period your budget cover?
   Monthly [ ]
   Quarterly [ ]
   Biannual [ ]
   Annual [ ]
   More than a year------------------------------------------------------
7. How often are budget revised?
   Monthly [ ]
   Quarterly [ ]
   Biannual [ ]
   Annual [ ]
   Any other-------------------------------------------------------------
PART B: CHALLENGES OF BUDGET IMPLEMENTATION

7. Does your department participate in budgetary planning?
   [ ] Yes  [ ] No

8. Budgets have a number of purposes; indicate how important you think that each of the following purpose is relevant for your department.

   Using a Rating scale of 1 to 5 please indicate the importance of the statement on the purposes of budget.

<table>
<thead>
<tr>
<th>Strongly agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Factors</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>To forecast the future</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assist in control</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>As a means by which management communicates to other levels of department</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>As a means of performance appraisal</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>To motivate employees to do better</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other (specify)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

9. To what extent are the following challenges of budget implementation faced at the Thika municipal council during the financial year?

<table>
<thead>
<tr>
<th>Strongly agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Challenges</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planning and controlling</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lack of staff motivation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government influence</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corruption</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lack of monitoring and controls</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lack of financial resources</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Poor budget accuracy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
10. What is your level of agreement with the following statements that relate to Budget Participation and Rewards challenges of budget implementation at MCT?

<table>
<thead>
<tr>
<th>Strongly agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>

Statement | 1 | 2 | 3 | 4 | 5
---|---|---|---|---|---
Participation of all the stakeholders makes the budgetary process to be too length and time consuming
Association of extrinsic rewards with budgetary achievement as a means to motivate managers does not really help in budget implementation
Bonus and promotion or new assignments are not correlated with budget performance
Low level management do not have a significant role in both the initial and revision stages of budget preparation.
Lower level management and senior management within council are not linked to budget preparation and implementation.

9. One of the major challenging stage in the budgetary process is the Performance Evaluation” To what extent do the following contribute to the challenges at MCT. Use a rating of 1-5 where 1=very great extent and 5=not at all.

<table>
<thead>
<tr>
<th>Challenges of Budget implementation</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>There is poor feedback in the budgeting process for attainment of the expected quality and standards in planning, control &amp;leadership</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Feedback does not critically focus on the extent to which employees have achieved expected levels of work during a specified time period</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Budgets being a standard for performance are not used to evaluate the organizational performance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Budgeting at council does not place a high importance on the budget-to-actual comparison for performance evaluation purposes</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
11. The management can be able to overcome the challenges of budget implementation in your council. Do you agree to this statement?
   a. Strongly agree [ ]
   b. Agree [ ]
   c. Neutral [ ]
   d. Disagree [ ]
   e. Strongly disagree [ ]

10. What are the possible solutions to the major challenge in budget implementation facing your council?

   ........................................................................................................................................
   ........................................................................................................................................
   ........................................................................................................................................
   ........................................................................................................................................
   ........................................................................................................................................
   ........................................................................................................................................
   ........................................................................................................................................
   ........................................................................................................................................
   ........................................................................................................................................
   ........................................................................................................................................

THANK YOU FOR YOUR COOPERATION.