

**EFFECTIVENESS OF CASH BUDGETING IN PUBLIC
INSTITUTIONS: A CASE STUDY OF TELKOM KENYA LTD**

BY:

NDIRITU GEORGE MURIUKI

REG No. D61/P/8079/02

SUPERVISOR :

V. O KAMASARA

IN FULLFILLMENT OF THE REQUIREMENTS

Date: 21st August ,2007

A research paper submitted for partial fulfillment of the award of the degree of
Master of Business Administration, Faculty of Commerce,
University of Nairobi

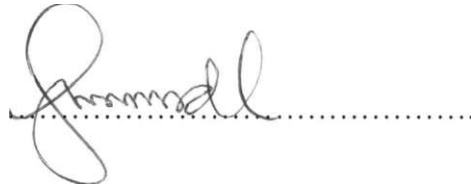
Dedication

*To my late parents
Mr. and Mrs. Ndiritu*

Declaration

This project is my original work and has not been submitted for a degree course in any other university

Signed.



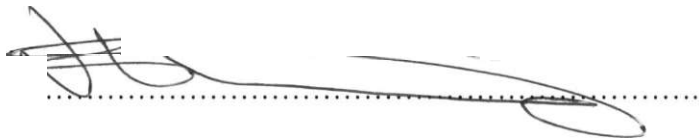
Ndiritu M. George

Date.

3/1

This project has been submitted for examination with my approval as the University supervisor

Signed.



Mr. V. Kamasara

Lecturer, Department of Finance and Accounts

Date:.....L . A L . ^ O r f ^ r .

Acknowledgement

I would like to express my most sincere gratitude to all those who in one way or another contributed to the successful completion of my studies.

Firstly, I am greatly indebted to my project supervisor Mr. V. Kamasara for his patience, guidance and support throughout my research work and for his incisive comments, criticism and insights, which kept me focused on the project. He was always available and ready to assist.

To my colleagues in TKL who assisted me in the data collection process and offered insight in the process and use of cash budget in the organization.

To my classmates, I am grateful for the moral support and encouragement during those stressing moments.

Abbreviation

ACH -Automated Clearing House

CHIPS - Clearing House Interbank Payment Systems

DTC - Depository Transfer Cheque

ECQ - Economic Conversion Quantity

GDP - Gross Domestic Product

GOK - Government of Kenya

KPTC - Kenya Post and Telecommunication Corporation

NACHA - National Automated Clearing House association

SCL - Safaricom Kenya Limited

SWIFT - Society of World- wide Interbank Financial Telecommunication

TKL - Telkom Kenya Limited

CPO - Central Payment Office

ASAO - Assistant Senior Accountant Officer

SAO - Senior Accountant Officer

CDMA - Code-Division Multiple Access

Abstract

This study involved understanding the cash budget process and its effectiveness in Telkom Kenya Limited. The firm under study is wholly owned by the government and has been in existence for over six years. Cash budget is an indispensable tool which assists organizations to manage their cash flows over a given period of time. The study therefore attempted to evaluate how the firm has employed a cash budget as a management tool. It involved understanding the cash budgeting process and its effectiveness in improving the management of cash. It also involved appreciating the role of liquidity management in the firm by ensuring sustenance of enough cash for operations while investing excess cash profitably. The study also assessed the weaknesses the firm faces in management of cash and how this management tool can be implemented as a strategy to alleviate the same.

The study was done through interviewing the relevant staff using an interview guide to understand how the cash budget is prepared and used in decision making in the organization. The data collected was analyzed using descriptive statistics and historical information used as benchmark. Information relating to how the cash budget helped in forecasting cash flows and its flexibility in accommodating unbudgeted transactions assisted to evaluate cash budget effectiveness. The relevant literature was used as the benchmark to evaluate effectiveness.

The study revealed that the firm ends up losing huge cash amounts due to lack of established and operationalised mechanisms and strategies to harmonize cash collection and expenditure. There were many pitfalls with loose controls which ensured that the cash budget does not capture the total cash movement in the organization. There was also cash planning mismatch due to poor coordination between the various operationally related departments vested with management of cash. For example actualization of projects by engineers took longer than foreseen but is usually cash budgeted for. Operational expenditure also took the larger chunk of the cash generated instead of capital expenditure thus leading to dwindling cash sources in the future.

To ensure the cash budget is valuable and effective, the firm needs to strive and achieve set standards. As a prerequisite also, the firm's operations when managing cash need to be coordinated and harmonized to ensure that the cash budget objectives are achievable.

TABLE OF CONTENT

	Pages
Dedication.....	ii
Declaration.....	iii
Acknowledgement.....	iv
Abbreviation.....	v
Abstract.....	vi
Table of Content.....	vii
Tables.....	ix

CHAPTER ONE

1.0 INTRODUCTION.....	1
1.1 Background of the study.....	1
1.2 Background on Telkom Kenya Ltd.....	3
1.3 Statement of the problem.....	5
1.4 Objectives of the study.....	6
1.5 Importance of the study.....	6

CHAPTER TWO

2.0 LITERATURE REVIEW.....	8
2.1 Introduction.....	8
2.2 Cash Planning.....	11
2.3 Cash Budgeting.....	12
2.3.1 Methodology of cash budgeting.....	13
2.3.1.1 Action Prompted by Cash Budget.....	13
2.3.2 An Effective Cash Budget.....	14
2.3.3 Preparation of Cash Budgets.....	20
2.3.3.1 Cash Receipts and Disbursement Approach.....	20
2.3.3.2 Financial Accounting Approach.....	21
2.3.4 Use Cash Balances Models in Cash Budgeting.....	21
2.3.5 Comment in the Models.....	24
2.3.6. Cash Collection and Disbursements in Cash Budgeting.....	25
2.3.7 Collection Procedures.....	25
2.3.7.1 How to Slow Down Disbursements.....	26
2.3.8. Forecasting During Cash Budget.....	28
2.3.8.1 Forecasting Range.....	29
2.3.8.2 Overcoming Uncertainty in Cash.....	30
2.3.8.3 Uses of Cash Budgets.....	31
2.3.9 Limitation of a Cash Budget.....	34

CHAPTER THREE

3.0 RESEARCH METHODOLOGY	35
3.0 Introduction.....	35
3.1 Research Designs.....	35
3.3 Sample.....	36
3.4 Data Analysis.....	37

CHAPTER FOUR

4.1 Data Analysis Research Finding and Interpretation.....	38
4.2 Introduction.....	38
4.3 Research Experience.....	38
4.3 Overview of Management of Cash Flow in the Firm.....	39
4.4 Cash Budgeting in TKL.....	42
4.5 Effectiveness of Cash Budget in TKL.....	45

CHAPTER FIVE

5.0 Research Summary, Conclusions, and Recommendations.....	53
5.1 Research Summary and Conclusions.....	53
5.2 Limitation of the Study.....	54
5.3 Suggestion for Further Reading.....	54
5.4 Recommendation for Policy and Practice.....	55
References.....	56
Appendix 1.....	59
Appendix 11.....	60

Tables

Table 1: Cash position and appropriate management action	13
Table 2: Levels and limits of payment authorization.....	40
Table 3: Centralization versus decentralization of Cash budgeting in the firm.....	41
Table 4: Cash Sources Analysis.....	43
Table 5: Objective achievement in TKL.....	45
Table 6: Cut off period expenditure.....	47
Table7: Benchmark application analysis.....	49
Table8: Management action when faced with cash shortages.....	50

Chapter One

1.0 Introduction

1.1 Background to the study

Management of public sector institutions in Kenya has become a contentious issue in the wake of liberalization. Private sector and other international bodies have argued that government should keep off doing business. Partnering with private investors and inclusion of the public in share holding in these institutions are seen to be some of the solutions of management weaknesses in them. Management of cash flow has specifically been alarming with some of these institutions relying on the exchequer for grants to meet their normal operations (GOK Budget, 2005). This has led to the government intervention to restructure the organizations not only to make them competitive but for sustenance of the crucial role they play in the economy. At Kenya Railways' Corporation for example, staff members had gone for several months without salaries. A restructuring exercise was undertaken which resulted in to thousands of staff members being retrenched from service. The government has also concluded a strategic plan to partner with a South African firm to manage the corporation to return it to positive cash flows (Strategic Paper for the Ministry of Information and Telecommunication, 2005).

The Nairobi City Council is another example where cash flow problems have persisted and the staff has severally gone on strike demanding their monthly dues (Strategic Paper for the Ministry of Local Government, 2004). However if strict management of cash flow measures are introduced in these firm's financial systems, the cash crisis could be reduced to manageable levels thus ensuring smooth operational processes. Firms with good cash management practices in place for example British American Tobacco and Kenya Breweries Limited are able to predict and control cash crisis thus ensuring effective operations.

The two primary functions of any manager of an entity are planning and controlling operations. Cash, as an asset is instrumental for operational survival for any organization and if not well managed, it may lead to failure in meeting both short term and long term financial obligations. Cash assumes greater importance than any other assets because it's the most significant and least productive asset a firm holds. It's also vital to manage cash flows since cash constitutes the smallest portion of the current assets yet management's considerable time is devoted in managing it (Weston, 1992).

However, there are various instances where firms have had difficulties in meeting their normal cash requirements. This leads to delays in payment to suppliers and other major creditors, failure to pay * staff salaries and sometimes diminishing the firm's capital base leading to liquidation. In Kenya for instance, many insurance firms and banks have been put under statutory management due to cash flow crisis for example Lake Star Insurance Company and Daima Bank (Strategic Paper for the Ministry of Finance, 2000-2005).

Cash budget is an effective way to plan and control the cash flows, assess cash needs and effectively put to use excess cash. The primary objective is to plan for the liquidity position of a firm as a basis for determining future borrowings and investments (Thomas et al, 1982). A cash budget shows planned cash inflows, outflows and ending position at interim periods for a specific time span. It includes the planned cash receipts and disbursements. Planning the cash inflows and outflows will indicate the need for financing probable cash deficits and need for investment to put excess cash to profitable use. Cash budget is directly related to other plans such as sales, accounts receivable, production and expenses and capital expenditure budget. Cash budget focuses exclusively on the amount and timing of cash inflows and outflows over a given period (Kamath et al, 1979).

The frequency with which a firm prepares a cash budget depends on its area of operation. Monthly cash budgets are mainly prepared by firms whose businesses are affected by seasonal variations while daily or weekly cash budgets are prepared to determine cash requirements if cash flows show extreme fluctuations. Preparation of cash budgets involves forecasting the future cash needs and sources and following them up to ensure minor or no deviations. Forecasting may be done for long or short term according to firm's cash position and future requirements (Kochanek et al, 1978). Cash budget as a decision making tool involves a flexible preparation process and should be done to suit the firm's requirement in making relevant decisions. Unlike cash budget, profit and loss account during an accounting period does not reflect its cash flow position for among other reasons that not all receipts affect profit and loss account and not all cash payments affect profit and loss account. Further, some costs in the profit and loss accounts such as profit or loss on sale of fixed assets or depreciation are not cash items but are derived from accounting conventions (Gentry, 1988). Moreover, the timing of cash receipts and payments may not coincide with the recording of profit and loss account transactions (Gentry, 1988).

For example dividend may be declared in 2003 and shown in profit and loss account for that year but; the payment can be made in 2004 (Gentry ,1988). Thus it's evident therefore that management cannot wholly rely on profit and loss account to make a sound decision on the firm cash flow position. A Management decision tool like cash budget thus becomes critical to ensure successful cash decisions are made (Rusell, 1979).

1.2 Background on Telkom Kenya Limited

Telkom Kenya (TKL) was formed in 1999 when the defunct Kenya Post Telecommunication Corporation was split by an Act of Parliament into three firms which are Telkom Kenya Limited, Postal Corporation of Kenya and the regulator Communication Commission of Kenya. It's tasked to offer telecommunication services nationally and internationally. Prior to 1977 , during the East Africa Corporation, the telecommunication firm was run by a UK firm, Cables and Wireless, which was later nationalized after the corporation broke up (Ministry of Information and Communication Policy Statement, 1997). Introduction of other operators in telecommunication industry especially the mobile phone operators for example Safaricom Limited and Celtel Limited and other communication methods such as data services marked the end of TKL monopoly in June 2004(Ministry of Transport and Communication Report, 1998). In fact, the government has recently announced a bid to attract another operator in the market. The new operator is expected to offer the same services as TKL thus ensuring complete opening up of telecommunications industry. This thus calls for adoption of strategic steps, which among them include proper cash management strategies which will ensure cash availability as and when required.

The organization is structured in such a manner that there are eleven level of employees known as scales. The Managing Director being one while the support staff occupying the scale eleven. In the headquarters, the organization is divided into Departments headed by the Chiefs, Branches headed by Managers and Sections headed by Assistant Managers. The Regions/ Divisions are however headed by Region Managers or Divisional Managers respectively. The finance functions are bestowed on Regional /Divisional accountants who though reporting to the respective managers administratively, they report to Chief Finance Manager functionally.

TKL has an arrangement where preparation of cash budgets starts from the seventeen regions countrywide. The regions are required to submit their cash budget proposals to the head quarters by September of every year. In case of any assistance on the relevant information required in the preparation of the cash budget, the senior budgeting section staffs in the headquarter visit these regions. Once the information is received from all the regions, the cash budget is then prepared by Management Accounting branch and must be ready by 31st December for board approval. The cash budget is then distributed to the various user departments and the control section under Treasury Management branch for implementation. The user departments control their expenditure heads to ensure they operate within their cash budget limits.

However, in the course of the budget period, the Management Accounting branch makes weekly and monthly budgets which assist the management in making timely periodical decisions. This is done in liaison with the Treasury Management branch. Treasury branch also makes daily cash budgets which help them to forecast cash collection and plan on payments (Master Plan 2000 - 2015). Over the six years of its existence, TKL has been unable to meet its cash flow requirements due to numerous challenges. The liberalization of the telecommunication industry has been suggested by TKL management to have led to dwindling cash inflows, begging for proper cash management and budgetary control. Since its incorporation, TKL had operated for six years without an exigent competitor. This has been proposed by Government and other stakeholders as a leading factor to operational weaknesses due to management negligence. Cash management processes has not been spared of the gross weaknesses in the system leading to among others, poor cash budgeting. Other suggested reasons as to why the firm is going through leaner cash flow periods are sluggishness in modernization of its infrastructure and bureaucratic systems (TKL Master Plan 2000 - 2015). Cash flow crisis has led to various suggestions such as laying off over twelve thousand members of staff, divesture from non core businesses, sale of various subsidiaries and such other restructuring strategies as remedies. This study therefore attempts to evaluate the various challenges TKL faces in cash management and seek to assess how a cash budget as a cash management tool could minimize and alleviate those challenges.

1.3 Statement of the problem

Liquidity forms the backbone for operational effectiveness in most firms without which they may fail to meet their short term and long term financial obligations (Lawrence, 2000). As an asset, cash is prone to theft due to its easy portability, flexibility in conversion and tempting nature. For a given firm, it's vital to evaluate the cash requirements, their sources and uses, so that management can come up with a policy on the right cash balance to maintain and meet their obligations as and when they arise. It's also vital to make a decision as to how much to invest in period of excess cash. The firm must also determine other internal controls which will ensure that proper cash budgeting methods are in place and are being followed (Emery, 1981). However, having been a monopoly until June 2004, it has been a major obstacle for TKL to implement and manage strong internal controls within the system (TKL Master Plan, 2000-2015).

In line with the global trend of opening the markets up, there is an urgent need to understand how management strikes a balance to ensure that the right cash balances are maintained securely while excess cash is invested appropriately. The firm has to devise ways to facilitate cash collection to meet certain cash targets at a particular time while slowing down on payments. Huge cash payments should also be foreseen and appropriately planned for to eliminate cash crisis (Lawrence, 2000). Once cash budget is prepared, it provides signals to the firm to determine how to act with its cash surpluses and deficits accordingly. Faced with a deficit, the firm is obliged to manage available cash efficiently or plan in advance for an affordable source of extra cash required while it seeks to invest surpluses in institutions offering competitive returns (Weston 1992). This case study will therefore evaluate how a cash budget can in effect be used at TKL as a signaling tool when cash transactions get out of control.

TKL, the firm under study, faces various cash management problems and the study will evaluate how proper implementation of a cash budget can mitigate the situation. Every end month TKL salaries are usually delayed and paid after month end. Majority of invoices especially those for major suppliers are paid when long overdue and at times the firm has been threatened with court cases. Cash collection has subsided by over 50% over the last four years thus the need for analyzing the trend to identify weaknesses while putting in place sustainable cash collection strategies. Excess cash needs to be determined and invested in areas where it can earn reasonable returns.

Expenditure incurred on cash collected need to be harmonized to streamline cash outflow and to monitor and eliminate or reduce unnecessary expenses (TKL Master Plan 2000 - 2015).In fact the Auditor General's Office has for the last three years consecutively queried huge payments which appear not to have been budgeted for.(TKL Management Accounts Report 2003-2005).

Thus, as the firm embraces competitiveness in the liberalized Telecommunication environment, the study is timely to assess the various challenges it faces in cash budgeting to ensure improvement on obsolete infrastructure, payments of suppliers in time and such other requirements to avoid discomfiture. Further, the study aims to fill the gap by identifying and assessing the various cash budgeting limitations and proposing a well coordinated implementation of a cash budget as a solution to most of cash flow management problems.

1.4 Objectives of the study

1. Determine cash budgeting process at Telkom Kenya Limited.
2. Evaluate effectiveness of the cash budget in the firm.
3. Determine necessary strategies to improve on firm's cash budgeting process.

1.5 Importance of the study

1. Management

The Management can gain through the various ways in which they can improve on the cash budgeting techniques to ensure that they raise more cash, control on expenditure and improve on their investment. They will also gain through exploration on modern cash budgeting techniques and how they can be entrenched in the existing set up of the organization.

2. Government

Through the study, the government may advice the various parastatals being privatized on the best cash budgeting practices to ensure self sustainability and reduce reliance on the Treasury. The same information can be made use of in the institutions still under government control to enhance cash control.

3. Strategic Partners

The study will help the strategic partner to evaluate the practices of cash budgeting in these institutions before purchase. Once they buy these institutions it will also be possible to know how to improve various techniques and methods of cash budgeting in place.

4. Researchers

Researchers who would wish to undertake further studies in this area will find the research more useful by gaining valuable background on management of cash in public institutions.

Chapter Two

2.0 Literature Review

2.1 Introduction

Cash flow management has a number of specific areas which are worth noting. These include cash budgeting and cash planning both for short and long term requirements. The others are administration of cash balances, investment of cash in near cash assets, determining when and which financing methods to be used in investing excess cash and establishing internal controls over cash (Lawrence, 2000). The division of cash management into above areas is artificial since there is none which is independent to the other nor is there any clear dividing line between them. Firms hold cash for various reasons which among others include transaction purposes, precautionary purposes, speculative purposes and compensating balance requirements (Weston, 1992).

Organizations hold cash for transaction motives to meet ordinary business undertakings and payments whose timing is not perfectly matched with cash receipts for example taxes, dividends, salaries. When firms hold cash to meet contingencies in future, the motive is said to be precautionary. Under this motive the amounts held is said to depend on predictability of firms cash inflows and its ability to borrow at short notice when need arises. For convenience, cash is better held in high liquid and low risk marketable securities and less in real cash form. In some instances firms hold cash for investing in profit making opportunities which arise unexpectedly. Under such situations the motives are said to be speculative. However, under rare circumstances would a firm be holding cash with speculative motives. To ensure that a firm has the right amount of cash to meet its various needs cash budgeting is therefore indispensable (Kallberg et al, 1930). Though firms hold given cash balances at any particular time to meet any unexpected incidences, the amount of cash balance held and the method of storage vary with the normal or daily firms operation.

It should be obvious that the profit or loss made by an organization during an accounting period does not reflect its cash flow position since not all cash receipts affect profit and loss account income and not all cash payments affect profit and loss account expenditure. The Management has to balance between the liquidity and profitability aspects of cash balances held.

At TKL, cash budgeting is centralized at the headquarters with little budgetary controls being done, at the regional levels. In fact a huge bulk of what is paid out in the eleven regions and six divisions are medical refunds to staff and other staff related expenses. The Regional Accountants then submit their expenditure analysis overtime for confirmation and accounting purposes to the headquarter (TKL Master Plan, 2000 - 2015).

The cash to the regions is distributed on a weekly interval unless there is an emergency in which case, other arrangements are made for submission of required cash to regions in shorter intervals. Procurement of materials and other consumables is also centralized at the headquarters. Only a few items are purchased at the region level when necessary and in such cases, the authority must be approved from the headquarters. All cash collections at the regional levels are done in a collection* account for onward transmission to the headquarter main account. In some cases, the organization _ makes use of other firms to facilitate cash collection such as Postal Corporation of Kenya (TKL f Master Plan, 2000 - 2015). The Regional Accountants and their staff submit their cash requirements over a given period to the relevant branches in the headquarters to facilitate cash budgeting process. Once the cash budget is ready, it's approved by the Board and subsequently sent to the respective- regions to ensure they control various cash heads such as staff costs. Though there are Regional s Accountants in various regions, the task of preparation and implementation of the cash budget is done at the headquarters. <

Whereas the master cash budget is prepared by the Management Accounting branch, the monthly and weekly cash budgets are prepared by the Treasury Management branch in liaison with the Management Accounting branch. (TKL Master Plan, 2000 - 2015). In case there is need for review^ of the annual budget, it's done with close consultation with the Management and the Chief Finance' Officer. However, such circumstances are rare and the cash budget is often followed to the letter. In case a huge unbudgeted expenditure arises, approval must be made by the Tender Board Committee due to the limitations on payments that has been put on various officers of the organization. Cash' budget ensures that a firm is able to forecast on new sources of cash and facilitating cash collection from the existing sources while ensuring prompt controls in the usage (Stone et al, 1981). For example TKL has initiated a system whereby they operate prepaid scratch card services as opposed to post paid services they offered before to ensure that they receive their cash before offering services. However, this strategy has not borne fruit.

This has been due to reluctance of the customers as to shift to prepaid service, little knowledge of service availability due to uncoordinated marketing and frequent stock outs. The analogue based infrastructure is also being done away with and is being replaced by digital based infrastructure. This is expected to help in prompt billing and collection.

Cash includes among others, cheques held by the firm, balances in bank accounts, marketable securities, and bank time deposits (Ouma, 2001). As most firms maintain several accounts and maintain some cash in hand, the cash account in the general ledger is often used as a controlling' account. Some restricted cash, not available to meet the normal operating needs of the company for example a bank account maintained for payment of non current liabilities such as bond payables, should be presented in the balance sheet as investment and funds (William et al, 2002). Compensating balance though included as cash in the balance sheet should be disclosed in the notes accompanying the financial statements. Cash balances that the firm holds involves a trade off between liquidity and profitability. The uncertainty of cash inflow and outflow gives rise to the problem of meeting shortages (William et al, 2002). Most of the firms that follow proper cash budgeting like banks ensure that they maintain adequate control over cash position to keep them sufficiently liquid and to invest excess cash in some profitable way.

Cash inflows are difficult to predict due to market uncertainties and there's no perfect coincidence between inflows and outflows thus the importance of cash budgeting. Firms would therefore escape unnecessary costs if they held adequate cash which can only be made a reality through proper cash budgeting (William et al, 2002). Currently, TKL is undergoing restructuring to ensure that it reduces its routine cash outflow through staff rationalization. The staff capacity is expected to be reduced by twelve thousand staff members through retiring those working in none core and support branches. This is expected to save the company a substantial amount of cash outflow through savings in salaries and other benefits awarded to staff. Introduction of communication system using optic fibre cables as supplement to the existing satellite system of communication is also expected to reduce the expenditure in infrastructure maintenance while increasing cash inflows by ensuring that communication network is widened and improved (Ministry of Transport Report (Kenya), 2005).

Other measures being taken to stabilize cash balance in the organization include checking on cash' outflows through ensuring that the firms operations are housed in the firm's premises country wide • and not in rented premises. Customer service has also improved through prompt delivery and installation of telephone services to improve customer base thus improving on cash inflows. Though * the above measures once implemented will assist the firm a great deal in improving its cash balances, implementation of practical cash management tools such as Cash Budget and improvement of follow up mechanisms will be the only solution to manage cash crisis in the long run and thus the need for this study(TKL Master Plan 2000 - 2015).

2.2 Cash Planning

Cash flow uncertainties and lack of harmonization between cash receipts and payments can be overcome by firms evolving strategies regarding cash planning (Davies, 1987). The characteristic and importance of the continuous inflow and outflow of cash in a business indicate that cash', planning and control should involve three different horizons. These are:-

- i) Long-term:- This horizon should be consistent with the time dimensions of the strategic profit plan and capital expenditure plans(Yair,1970)
- ii) Short term: - This is usually consistent with the tactical profit plan. It requires detailed plans on cash inflows and outflows that are directly related to the annual profit plan.
- iii) The immediate time horizon is used primarily to assess, control and manage cash inflows and outflows on a continuing daily basis to ensure that cash shortages and excessive cash balances don't occur. It minimizes the opportunity cost of excess balances by allowing' timely investment of excess cash (Yair, 1970).

Cash planning involves strategizing cash inflow and outflow to project surplus or deficit by use of cash budgets (Merry, 1988). It also involves managing the cash flow where by the firm accelerates cash inflows and decelerates cash outflows, maintaining optimum cash levels through matching the cost of excess cash and dangers of cash deficiency. Excess cash is invested in the best possible options for example bank deposits or marketable securities (Merry, 1988). Firms do cash planning in anticipation of future cash flow to reduce idle cash and cash deficit. The duration and frequency of cash planning generally depend upon the size of the firm and philosophy of management. Long term financial plans (strategies) are planned financial action and the anticipated financial impact of those, actions over a period of two to ten years.

Short term financial plans (operating) are planned short term financial actions and anticipated impact of those actions for a period of less than one year (Kallberg, 1930). Cash planning is indispensable for a firm to ensure that it remains afloat and meets their cash requirement on time to escape mortification and dissatisfaction especially from suppliers when the payments fall due. The study will thus endeavor to understand the cash planning process in TKL and its appropriateness under the prevailing circumstances.

2.3 Cash Budgeting

Cash budget is the most significant device to plan and control cash receipts and payments. It gives information on the timing and magnitude of expected cash flows and balances over a projected period. This helps management to determine the future cash needs of the firm, plan for the financing, of various cash needs and exercise control over the cash and liquidity of the firm (Weston, 1992). Firms monitor cash collection and disbursement through cash budget which ensures accountability to the cent. Cash budget is a detailed analysis of cash inflows and outflows incorporating both revenue and capital items. A cash budget is thus a statement in which estimated, future cash receipts and payments are tabulated in such a way as to show the forecasted cash balance of a business at defined intervals. The cash budget is one of the most important planning tools for control of cash receipts and payments that an organization can use (Kallberg, 1930).

It shows the cash effect of all plans made within the budgetary process and hence its preparation can lead to a modification of plans if it shows that there are insufficient cash resources to finance the planned operations. It can also give management an indication of the potential problems that could arise and allows them the opportunity to take action to avoid such problems (Russell, 1979). Cash budget helps the firm's management to know the timing and amount of expected cash inflows and outflows over a period in question thus making it possible for them to determine the future cash needs of the firm, plan for the financing of these needs and exercise control over the cash and liquidity of the firm (Van Home, 1997). It encompasses all aspects of the firm's operations over the planning horizon adjusted for any modifications by variations in factors outside the firm's control^ for example economic variables. The time horizon for cash budget differs according to the operating environment of the firm. For example, monthly cash budgets are good for firms affected by seasonal variations.

Daily or weekly cash budgets are prepared for determining cash requirements if cash flow shows extreme fluctuations while cash budgets for a longer interval are good for firms with stable cash* flows (Davies, 1985). A firm expecting a cash surplus can plan short term investment (marketable', securities) whereas a firm expecting shortages in cash must arrange for short term financing such as notes payable (Lawrence, 1974).

Generally cash budget helps in coordinating cash with the total working capital, sale revenue,- expenses, investment and liability and also establishes a sound basis for continuous monitoring of cash position (Rusell et al 1979). Other uses include scheduling timing of cash flows to make' efficient use of cash, analyze solvency and forecast financial requirements (Rusell et al, 1979). Management should therefore insist on clear and up to date cash budget for their routine operations. This will ensure management understands their firm's short term and long-term cash flow direction in terms of envisaged shortages and excesses and necessary remedial action to be taken for both cases within reasonable time to eliminate cases of cash crisis.

2.3.1 Methodology of Preparing Cash Budget

It involves procedures for identifying the nature and timing of all cash inflows for example inflows from financing from bank loans, capital infusions, and proceeds from sale of fixed assets, investment income collections, and collections from sales. The next step involves sales forecasts and collections schedules. The useful tools when forecasting sales includes management estimates, historical sales-patterns, industry and competitor's sales trends (Kamath, 1985).The other step involves identifying the nature and timing of all cash outflows including, cash operating expenditures, capital expenditures, financial commitments and equity reductions. Then subtract outflows from inflows to get net cash flows for the period (either a surplus or deficit) (Kamath 1985). Finally add (subtract)' cash flow for the period to the ending balance in cash from the previous period to get new ending balance (Kamath, 1985).

2.3.1.1 Action Prompted by Cash Budget

A cash budget as a statement in which estimated future cash receipts and payments are tabulated shows the forecasted cash balance of a business at defined intervals (Rusell et al, 1979). The cash budget is thus one of the most important planning tools that an organization can use.

It shows the cash effect of all plans made within the budgetary process and hence its preparation can lead to a modification of budgets if it shows that there are insufficient cash resources to finance the planned operations.

It can also give management an indication of the potential problems that could arise and allows them the opportunity to take action to avoid such problems. A cash budget can show four positions as shown below. Management will need to take appropriate action depending on the financial position (Rusell et al, 1979).

CASH POSITION AND APPROPRIATE MANAGEMENT ACTION

Cash Position	Appropriate management action
Short term surplus	Pay creditors early to obtain discount, Attempt to increase sales by increasing debtors and stocks, Make short term investments.
Short term deficits	Increase creditors, Reduce debtors, Arrange an overdraft.
Long term surplus	Make long term investments, Expand operations, Diversify, Replace / update fixed assets.
Long term deficit	Raise long term finance that is issue shares, Consider shut down or disinvestment opportunities.

Table 1: (Source: Rusell et al, 1979)

2.3.2 An effective cash budget

Effectiveness is accomplishment of predetermined objectives or capability of producing an intended result (Lowestetter, 2004). An effective cash budget enables an organization to achieve stated objectives within the stated time period. This is ensured through creation of opportunity for managers to among others ensure that they remain within control and alert senior management to shifts in demand for services or other cost drivers. Further it aids in maximized use of funds so that they are fully expended for stated purposes and opportunities to meet emerging needs, reallocate resources within a current year to meet unanticipated needs and a means of assessing departments, unit and individual performance (DeFraco et al, 2002). To ensure effective management of the cash budget, there is need, as a prerequisite, to establish benchmarks which will form the platform from which all activities relating to cash flow* management will operate within.

The firm must establish adequate and operational cash management infrastructure which will facilitate preparation and implementation of a cash budget. This means that the firm has to ensure that all cash budget related areas are operating efficiently (Sartoris et al, 1997).

These areas will include sections on administration of cash balances, investment of cash, determining when and which financing methods to be used and establishing internal controls over cash. These functions are better done under efficient accounts and finance branch which is thus a prerequisite. When these areas work efficiently, they ensure that they feed the cash budget with accurate and up-to-date data and information while the output from the cash budget can be utilized for relevant decision making thus making it an effective tool (Sartoris et al, 1997).

Cash budgeting may fail in an organization where no adequate and efficiently operating cash management frameworks are in place. As cash budget is part and parcel of cash management, it's critical therefore to harmonize all necessary elements that contribute to effective operation of cash budget to ensure its success (Sartoris et al, 1997). However in most government institutions, in line, with job creation objectives, these tasks are fragmented and unharmonised leading to complication in cash tracking and controls due to bureaucratic and slow decision making process (World Bank Report on Kenya on Kenya, 1994). But with various structural adjustment programmes undertaken by the government and its related institutions in the recent past, there has been improvement in realignment of various tasks thus prompting efficiency and saving on cash outflows (World Bank Report on Kenya, 1994). Each branch can not be allowed to manage its cash individually since this may lead to huge losses as it creates loop hole for pilferage due to fragmentation of the same task (World Bank Report on Kenya, 1994). It's therefore critical for any firm to establish a Management Accounting, Treasury Management and any other related branch. This would assist in preparation of comprehensive and universal rather than a fragmented cash budget which may result to suboptimal allocation of cash. Such branches can also establish firm's expenditure priority (Sartoris et al, et, al, 1997). The branches bestowed with implementation must ensure consistent cash budget discipline. That is, the cash budget should always be referred to as a guiding principle to ensure enforcement and organized management of cash resources (World Bank Report on Kenya, 1994). This will ensure effective utilization of firm's resources for the planned purposes to attain stated objectives within the required time for instance projects would be completed on time with available resources.

However in majority of government institutions, this has been a mirage due to misuse of powers by the various personnel bestowed with cash budgetary responsibilities. This has lead to stalling of the intended projects while huge amounts of cash have either ended in people's pockets or being used for the unintended purposes. An ineffective cash budget discipline results in lack of generation of performance feed back that would help to improve outcomes (World Bank Report on Kenya, 1994).

Relevant personnel must have a cautious stand on revenue forecasts and expenditure outlays and,"
ir
follow the same within cash budget period. The implementing branch must ensure future cash flow now while planning for capital expenditure adequately (Sartoris et al, 1997).

The firm must also ensure explicit calendar for cash budget preparation and reporting. That is, there should be clearly communicated period within which the cash budget is expected to be in use and operational. There should be clearly stated cutoff dates which should be communicated well in
v
advance to the relevant cash budget users and implementers to ensure less confusion at the end of the budget period. A clear system on the way to deal with cash receipts and payments coming at the cutoff period need to be clear while management of cash balances at the end of the cash budget; period need to be known. There should also be proper planning for the cash budget preparation," approval, reporting and implementation subsequently. This brings the much needed stability and predictability to the cash budget process. It also promotes order to those bestowed with managing' cash flows. This also ensures that the cash budget operates within a certain period and subsequent results may be evaluated accordingly (World Bank Report on Kenya, 1994).

Once cash budget is prepared and finalized, it requires to be checked and confirmed by an individual of higher rank who will authenticate it for its implementation. There is also the need for the firm to establish a review team within the branches where implementation role is vested to evaluate on the; practicality and operationalisation of the cash budget (Sartoris et al, 1997). For example in TKL, the Management Accounting branch is vested with the responsibility of leading implementation and~ review of the cash budget. Another indispensable factor for an effective cash budget process includes its ability to prioritize firm's expenditure to meet stated objectives. This is the judgmental ability of those preparing the cash budget to know how essential an undertaking would be to the firm within among others the available resources or technological changes. Under normal circumstances, resources are limiting factor and hence prioritization becomes indispensable (Gentry, 1988).

Effectiveness is accomplishment of predetermined or stated objectives. A cash budget becomes effective when it has the prioritization capability since it reflects on the firm's direction in terms of its major areas of investment and promotes decision making (Sartoris et al, 1997). In most government institutions there is lack of an explicit statement of priority in budgetary policies (World Bank Report on Kenya, 1994). However, this is essential since it would rationalize cash budget decisions and facilitate difficult budgetary policy issues involving cash expenditure such as unbudgeted expenses.

Cash budget prioritization is also vital since it can check on cost and promote confidence from related parties to the firm for example banks and ensure attainment of objectives (World Bank Report on Kenya, 1994).

The cash budgetary process must also have a strong forecasting capability to be able to forecast future cash flow effectively. This involves the firm employing statistical or other tools on historical information to form a model that could be able to match future cash inflow with the planned cash expenditure in the future (Sartoris et al, 1997). Failure to have such capabilities will lead to uncollectible cash due to poor tracking systems which should be able to identify outstanding debtors. This may lead to losses of budgeted cash thus leaving uncompleted projects. Both human and technical capability of the firm plays a vital role in ensuring accomplishment of this task. With computerization for instance, forecasting capabilities is half solved.

There is also need to equip the process with competent staff that are able to employ the skills* knowledge and expertise available to come up with a cash budget that can stand the test of time. The staff must be those who have attained a minimum level of qualification that meets the requirements < of the firm's cash budgeting level. Their main role would be to analyze the firm's current cash inflow and outflow position and be able to come up with models which can be implemented to facilitate cash collection while planning for cash expenditure. This would involve evaluating the various cash sources for the firm and advice on those viable. It would also engross either doing away with those which are uneconomical while still coming up with new sources which involve business innovation (Lawrence, 2000). The firm must also be able to retain and motivate such staff to ensure consistency (Sartoris et al, 1997). The role of the cash budget as to monitor and evaluate performance becomes vital in ensuring its effectiveness.

This involves the capability of the cash budget to act as a control on various firm undertaking and alert the management on any corrective action necessary to keep operation on track (Sartoris et al, 1997). For the cash budget to be effective, performance indicators must be clearly stated and communicated accordingly. For example, if monthly and quarterly cash budget targets are met, this should give a pointer to management as to the ability of the firm to sustain progressing projects or need for borrowing.

Cash budget as a monitoring and evaluation tool aid in ensuring there is effective delivery on the stated objectives. This would also ensure that action is taken when there are failures and management* improves in terms of being pro-active and accountable by taking prompt action (World Bank Report on Kenya, 2005). Focusing on performance can also be an effective public sector management tool, informing resource allocation decisions and monitoring of whether initiatives are achieving expected results (Kusek et al, 2000). Cash budget monitoring and performance evaluation can be easily-manipulated for politically motivated ends. One must, therefore, take caution over those out to subvert organizations and programs critical to the firm's development agenda from falling victims to unscrupulous elements (World Bank Report on Kenya, 2005).

Cash budget must assist in ensuring prompt production of evaluation reports which would promote decision making. Management makes use of these reports to ensure that the firm remains on the right path while assisting in taking action which if delayed may lead to high losses (Sartoris et al, 1997). The cash budget is able to produce among other reports, those relating to receipts and payments for a given period, forecasted amounts and various future undertakings. Management should also ensure that these reports are reconciled with the accounting reports to match consistencies and raise queries, where appropriate. Cash budget evaluation is an important management tool, but in order for it to play its role, there needs to be careful consideration of evaluation recommendations reports as a basis for management decisions (World Bank Report on Kenya, 2005). For a cash budget to be effective in an organization it has to operate within the following fundamental principles:

- **Iterative process**— Cash budget preparation is an iterative process just like any organization process. The various organization branches interrelate and have natural feedback loops. With the cash budget, there are strong dependencies on organizational policies and on the scheduled development process.
As a result, it usually takes several interactions to fully develop a cash budget and to get it operational (Lowestetter, 2004).
- **Total lifecycle**— The cash budget should address the total organization cash flow process; This ensures that the sources are interlinked with the uses and investments are directed to future cash flow sources. It also reduces oversight and subjectivity (Lerner, 1968

- **Time-phased**— As a rule, cash budget need to be tailored to a given period of time. This¹ ensures that the desired objectives are achieved over that time and any unforeseeable future." can be predicted with relative certainty since variable factors can be determined with assurance. Expenditure also needs to be properly planned for to be budgeted accordingly to minimize cash flow crisis.
- **Comprehensive**— The cash budget should account for all organization costs. There is a tendency to only account for obvious resources needed for the organization for example new equipment. This leads to a comparative which does not reflect the actual relationship between; cash inflows and outflows. When all the receipts and expenditure are accounted for , the information becomes reliable for decision making and ensures that the cash budget is complete and realistic (Williamson, 2006).
- **Include a buffer**— A buffer, normally referred to as management reserve, should be allocated to the cash budget. The management reserve is primarily there to deal with known risks as risk response, estimating uncertainty factor, and the overall planning uncertainty factor. In addition, if an organization has a long-term project, it may need a buffer for monetary factors such as inflation and exchange rates. Of course, these should be noted as risks in these situations (Williamson, 2006).
- **Document assumptions**— Cash budget assumptions should be documented appropriately, Any assumption made as part of the cash budgeting process should be documented and clearly communicated to the users (Lerner, 1968).

i

2.3.3 Preparation of cash budget

The principle purposes of cash budget is to determine the timing and magnitude of prospective financing needs so that the most appropriate method of financing can be arranged (Van Home, 1997). Cash budgets consist of, but not limited, to the following subheadings:-

- 1 Cash receipts: - these include all of a firm's inflows of cash in a given financial period such as cash sales, collections of accounts receivable.

- 2 Cash disbursements: - these are all outlays of cash by the firm during a given financial period for example cash purchases, wages and salaries, taxes paid. (Kim et al, 1978). ❄
- 3 Net Cash flow: - this is the mathematical difference between the firm's cash receipts and its cash disbursement in each period.
- 4 Ending cash: - it's the sum of the firm's beginning cash and its net cash flow for the period (Kim et al, 1978). p

The amount required by the firm if the ending cash for the period is less than the desired minimum cash balance, is the required total financing which is essentially the notes payable. Whereas the amounts available for investment by the firm when the ending cash is greater than the desired minimum cash balance is the excess cash balance and will essentially be invested in marketable securities (Lawrence, 1974). Many large firms have developed elaborate "corporate models" for cash budgets which allow their computers to do much of their work (Pogue et al, 1970). A clear heading for the cash budget component is important to ensure understandability by relevant personnel who will make use of the budget. Evaluation of cash sources and uses and other required analysis also becomes easier. There are two main methods of preparing a cash budget:-

2.3.3.1 Cash Receipts and disbursement Approach (also called Direct or Cash

Account method

This method is based on a detailed analysis of the increases and decreases in the budgeted cash; account that would reflect all cash inflows and outflows from such budgets as sales, expenses and capital expenditure. It's simple to develop and appropriate when a detailed profit plan is used.

It's often used for short term cash planning as part of the annual profit plan. It's not appropriate for more general long-term profit plan since historical information may not be representative of the future (Kamath, 1985).

Cash inflows arise from transactions such as cash sales, collection of accounts, notes receivable, interest receivable on investments, sale of capital assets and other miscellaneous income sources. In case of credit sales, the lag between the point of sale and realization of cash causes a problem.

The primary approach to the problem is based on the past collection experience and the person responsible for credit and collection would regularly determine the efficiency of collection (Maier et al, 1981).

2.3.3.2 Financial Accounting Approach (Indirect or Income Statement Approach)

Under this method the planned net income shown on the budgeted income statement is converted from an accrual basis to cash basis. Other cash sources and requirements are then identified and included. The process requires less supporting details and provides fewer details about the cash inflows and outflows. It's useful for making long-term cash projections (Kamath 1985). However given a common set of underlying plans, both approaches will derive the same cash flow results that differ only with respect to the amounts of details provided. The study will therefore explore the approach TKL uses in preparation of cash budget and how the said approach helps in improving the efficiency of the budget as a decision making tool. Under normal circumstances however, firms prepare their cash budgets without giving much attention to the specifications in the above approaches (Maier et al, 1981).

2.3.4 Uses of Cash Balances Models in Cash Budgeting.

After determining how much cash is available or need to be sought, a firm must resolve the amount to hold or invest. This calls for employment of various models as they suit their respective needs. In choosing among alternatives investment for excess cash, management should consider safety, maturity and marketability of their investments (Ouma, 2001). The models thus balance the cost and benefit of the conversion as briefly discussed below. Baumol's model provides for cost efficient transitional cash balance. It assumed that the security for cash can be predicted with certainty and determines the economic conversion quantity (ECQ) (Baumol, 1952). Conversion cost includes the fixed cost of planning and receiving an order for cash in the ECQ.

It also includes the cost of communicating the necessity to transfer fund to and from cash account, associated paper cost, brokerage fee and any follow up action. It's stated in dollar per conversion (Baumol, 1952). However such cash flows behavior is more applicable to individual than to business firms where the inflow may not be in bulk while outflows may not be smooth and may follow an irregular pattern (Baumol, 1952).

According to Miller Orr Model (1966) for cash balances, firms face a lot of uncertainty about future cash flow and cannot therefore predict the same with certainty. This model provides for cost efficient transactional cash balance.

It assumes uncertainty in cash flow and determines an upper limit and return point for cash balance (Miller and Orr, 1966). Return point represent the level at which the cash balance is set either whei* cash is converted to marketable securities or vice versa. Cash balances are allowed to fluctuate, between the upper and zero balance (Ouma, 2001). This model's performances depend on how well the conditional predictions conform to reality as well as how the parameters are estimated (Miller and Orr, 1966).

This model was aimed at optimal allocation of available funds between the cash balance and marketable securities. His approach differed from Baumol's in that he includes a probability distribution for expected cash inflow and a cost function for the loss of cash discount and deterioration of credit rating when the firm is caught short of cash (Ouma, 2001). The model suffers from some setbacks in that Beranek model (1973) for cash balances didn't explain whether the critical minimum could be taken as the optimum cash he made balance. Also he made the assumption that cash inflows are partly stochastic and partly deterministic but the uncertain transactions would pose a problem in determining the optimal cash balance (Mian et al, 1992). Lockyers, 1973, further developed Baumol's Model by incorporating the ideal of overdraft facility which most Kenyan firms[^] use in financing their demand for cash. Thus besides determining the optimal opening balance, it determines the timing of overdraft and short term financing (Lockyers, 1973). However this model can be criticized as it assumes availability of overdraft which in reality is not always obvious and a company has no control over whether they will be allowed the facility or not (Ouma, 2001). The model also assumes that disbursement are spread over the whole control period while receipts are lumpy and concentrated at the beginning of each period which may not always be the case (Lockyers,' 1973

Next, in 1956 Stephen R. Archer criticized the Baumol's model in what came to be called the Archers Model. He intended to determine the transaction demand for money and didn't consider" uncertainties in the real world that need to be provided for by precautionary balances. However, he didn't provide balance for speculative purposes as he argued that a firm is ill advised to attempt to profit by speculative activities unless it's in the business where speculation is part of its business for example banks (Archer, 1956).Archer argued that planning for liquidity stock at a point in time for transactions and precautionary purposes involves a study of cash inflow and out How. Archer advised that a firm can choose to arrange a line of credit with a commercial bank and then afford a greater risk of stock out.

It would thus be necessary to compare all costs related to the line of credit versus the capital cost of the precautionary balance shared through use of the credit to determine the optimum (Archer, 1956), Archer's model is superior in that he gives an approach which could be incorporated in a simulation model to give fairly realistic results. The model also recognizes the cyclical nature of the net cash flow of many firms. The technique of simulation using a planning period that follows the firm's unique cash flow cycle seems to be promising way of solving the cash management problem of a particular firm. Having based his model upon Baumol's Model it suffers from the Baumol's Model-weakness as discussed above (Ouma, 2001).

Gibbs model proposes that the determination of optimal cash balances involves a combination of investment and financial decisions. The determination of the buffer money to hold is seen as investment decision such that an increase in the balance reduces the risk of cash insolvency (Gibbs, 1976). These increases are done at the cost of the additional finance required. In order to develop a simulation model Gibbs studied the cash flow pattern of an English firm. He took the planning period as four weeks since the cash balance pattern tended to be four works. His investigation was intended to minimize the cost of holding the desired balance. The model provides management with the cost/risk of various strategies. It also gives a solution to the problem of allocation of resources between money balance and other productive assets as well as the mix of money balance held. However, it ignored the cost of holding a balance resulting from price level increases. Gibbs arrived at conclusion based on the findings from one firm and this may not be generally applied to other firms which are different from the firm used (Ouma, 2001).

2.3.5 Comments on the models

Though each of the discussed models have some weakness, when various propagated ideal are applied ,a company may get a near optimal solution in respect to appropriate balances to hold and the mix of balance that could be held at the lowest cost. Managers must therefore be decisive on the right information to incorporate in model to come up with applicable solutions which can solve cash balances problems in their firms or industries. However, even the most successful firms in Kenyan business environment do not employ these models while managing cash since they are costly to employ and some times they may give unrealistic results (Ouma, 2001).

Other reasons advanced for minimal usage of these models in the Kenyan environment are lack of trained manpower in the field of operational research and that most of them evolved in developed countries and are inappropriate in developing countries due to the differences in the historical background of the two worlds (Waweru, 1999).

Further, it's argued that lack of commitment, poor user understanding and high organization resistance to change as hindrances to application of these models in developing countries (Waweru, 1999). A Case Study on Nairobi City Council health services inventory Management found that other reasons for little application of inventory management models was due to lack of proper records to give data , lack of computers , lack of awareness in how best to implement the models and frustration by ordering systems (Gathumbi, 1997). Private and family based organizations which are very common in our environments use little of research models due to the feeling that the cost of their use would exceed the accruing benefits and that decision need to conform to the expectations of the managers / owners (Waweru, 1999). Studies on the relevance and application of these models in the business world are not conclusive and none of the models can give optimum results. The study will therefore seek to understand how TKL determines their cash balances, limiting factors to usage of these models within the working -environment and how the applicability of these models if actualized in the institution as a way forward can aid in effectively managing cash flows.

2.3.6 Cash collections and disbursements in cash budgeting

Firms have devised various ways to ensure that they perk up on the cash flow saving through delayed payment while they improve on cash collection. Floats are among the main techniques employed by firm's management to ensure enhancement in cash flow saving. This is done by ensuring that funds dispatched by a payer are not yet in a form that can be spent by the payee. However with the entry of electronic payment systems these floats are threatened (Stone et al, 1983). There are various kinds of floats which a firm may take advantage of in cash management as hence explained. Collection floats are delays between the time when payer deduct a payment from checking account ledger and the time when the payee actually receives the funds in a spendable form.

Disbursement float is the lapse between the time when a firm deduct a payment from its checking account ledger and the time when funds are actually withdrawn from its account (Lawrence, 2000). Mail floats involves delay between the time when a payer places payment in the mail and the time when it is received by the payee. Processing float is the delay between the receipt of a cheque by the payee and the deposit of it in the firms account.

Clearing float concerns the delay between the deposit of a check by the payee and the actual availability of funds that is, the time required for a cheque to clear in the banking system (Lawrence, 2000). A firm may take advantage of either of the above floats for cash management process.

2.3.7 Collection procedures

Firms use various techniques to speed up collection of cash thus reducing collection floats. The main ones include the concentration banking which is a collection procedure in which payments are made to regionally dispersed collection centers, then deposited in local banks for quick clearing (Lawrence, 1974). This ensures reduction of collection float by shortening the mail and clearing float components. Mail float is also reduced because regionally dispersed collection centers bring the collection point closer to the point from which the cheque is sent. Clearing float is also reduced because the payee's regional bank is likely to be in the same federal reserve district or save city as the bank on which the cheque is drawn or even in the same bank (Lawrence, 1974).'

Lockbox system on the other hand is a collection procedure in which payers send their payment to a nearby post office box that is emptied by the firm's bank several times daily. The bank deposits the payment check in the firm's account. This reduces collection float by shortening processing float as well as mail clearing float. It is superior to concentration banking because it reduces processing float as well as mail and clearing float. Additional reduction in mail float results, because payment is not delivered but picked up by the bank at post office. Since receipts are deposited immediately in the firm's account, processing occurs after rather than before funds are deposited in the firm's accounts thus, use of funds almost immediately for disbursing payment is possible (Stone et al, 1981). Direct send as a collection procedure involves payee presenting cheque for payment directly to the bank on which they are drawn. This reduces clearing float and ensures that the funds are available quickly to the drawer.

2.3.7. 1 How to Slow Down Disbursements.

Firm's main objective is to maximize disbursement float to ensure that it retains a lot of cash for investment in the short term. They may employ various techniques as hence explained. Controlled Disbursing involves a strategic use of mailing points and bank accounts to lengthen mail float and clearing float respectively. The wide spread availability of computer and data on cheque clearing-time allows firm to develop disbursement schemes that maximize clearing float on their payment. The data can also be obtained from firms selling them or from major banks cash management service Branchs (Lawrence, 1974).

Playing the Float is another method that call for consciously anticipating the resulting float, or delay, associated with the payment process and using it to keep funds in an interest earning form for as long as possible. However if this method is not well managed it can result to bouncing cheques.

Staggered Funding as a way to play the float, concerns depositing a certain proportion of a payroll or payment into the firm's checking account on several successive days following the actual issuance of a group of cheques. Normally however, to protect itself against any irregularities, a firm will place slightly more money in its account than is needed to cover the expected withdrawals. Payable - Through Draft is a draft drawn on the payer's checking accounts payable to a given payee but not payable on demand. The approval of the draft by the payer is required prior to the bank paying the, draft. It's similar to a cheque in that it's drawn to the payers checking account and is payable to a given payee. However it's not payable on demand unlike a cheque (Stone et al, 1981).

Though the bank may charge a modest fee for processing the draft, this technique enables the firm to keep its money more fully invested for a longer period of time. Overdraft System is a system of automatic coverage by the bank of all cheques presented against the firm's account, regardless of the account balance. The bank charges the firm interest on the funds lent and will also limit the amount of overdraft coverage. This is one of the important arrangements for business that actively plays the float. Zero Balance Accounts is a checking account in which a zero balance is maintained and the firm is required to deposit funds to cover cheques drawn on the account only as they are presented for payment. The transfer is usually from a master account or through liquidation of a portion of its marketable securities and is offered at a fee. ACH (Automated Clearing House) Credits involve depositing of payroll directly into the payee accounts. Though this arrangement may sacrifice disbursements float, it actually generates goodwill for the employer by promoting convenience (Lawrence, 1974). The study will seek to comprehend the various disbursement float strategies at TKL to establish their effectiveness in slowing down cash payments.

However, technology continues to pose a challenge in this field of cash management and other methods and techniques have evolved to facilitate cash inflows and outflows. Preauthorized cheque (PAC) is an arrangement where a cheque is written by the payee against a customer's checking account for a previously agreed upon amount. Because of prior legal authorization the cheque does not require the customer's signature. It's common by firms that collect a fixed amount from customers on regular basis for instance insurance firms.

Under Depository Transfer Cheque system an unsigned cheque is drawn on one of the firm's bank accounts and deposited into its account at a concentration or major disbursement bank thereby speeding up the transfer of funds. It's common for firms with multiple collection points to speed up the transfer of funds. Through electronic fund transfers, floats are eliminated and the benefits are transferred to the customer. However, it's a capital intensive process.

Wire transfers involves a telegraphic communication via bookkeeping entries where funds are: removed from the payers bank and deposited into the payees bank thereby reducing collection float. They are sometimes used instead of DTC's to move funds into key disbursing accounts although a wire transfer is more expensive than a DTC. ACH Debits is a pre authorized electronic withdrawals from the payee's account that are then transferred to the payees account via a settlement among banks by automated clearing house. They clear in one day, thereby reducing mail processing and clearing float. This is a paperless transfer where individual depositor's accounts are settled by respective bank balance adjustments. This is facilitated through such facilities as CHIPS - (New York), SWIFT and NACHA- which is suited for high volume batch transfers (Van Home 1997). The study will thus determine how TKL attempts to facilitate cash collection with the current advancement in technology in the business environment. It will also evaluate its relation with other firms as it promotes cash collection.

2.3.8 Forecasting during Cash Budgeting

Cash forecasts are needed to prepare more accurate cash budgets. Forecast of relevant variables is required in preparation through internal and external analysis (Morris, 1983). An external forecast is a sale forecast based on the relationship observed between the firm's sales and certain key external economic indicators for example G.D.P. The rationale for this approach is because the firm's sales are often closely related to some aspect of overall national economic activity. The forecast of economic activity provide insight into future sales. Internal forecasts are sale forecast based on a build - up or consensus of forecast through the firm's own sales channels (Glautier, 2001). The sales manager may adjust their figures according to his knowledge of specific markets or sales persons forecast ability. He may also adjust the figures to the knowledge of interna! factors such as production capabilities (Lawrence, 1974).

Use of internal and external forecast data is worthwhile for a firm since as the internal data provides the insight into sales expectations, the external data provides a means of adjusting these expectations to take into account general economic factors. The nature of the firm's production however must also be put into consideration since it affects the mix and type of forecasting methods to be used (Lawrence, 1974).

Analysis of internal and external data is achieved, for instance, by undertaking regression analysis to estimate the association between industry /firm variable and external variables for example the economy. After analyzing various receipts and payments the firm then combine them to obtain the net cash inflow outflow (cash balance) (Glautier, 2001). Future is not certain and management should be extra cautious while factoring forecast estimates in cash budget to make their analysis realistic and achievable. The Cash budget should thus be able to accommodate future uncertainties.

2.3.8.1 Forecasting Range

Short term forecast are mainly developed for determining operating cash requirements, anticipated short term financing and managing investment of surplus cash (Morris, 1983). This is a vital function since it assisted the management to know how much cash is to be kept in hand, what extent bank financing will be depended on and whether surplus funds would be available to invest in marketable securities. Management is also able to negotiate short term financing arrangement with the bank who are the major source of momentary financing needs. Short term financing is critical in managing the investment of surplus cash in marketable securities by selecting securities with appropriate maturities and reasonable risks, avoiding over or under investing and maximizing profits by investing idle money (Mian et al, 1992). Other firms have used short term forecasts for among other reasons to coordinate the flow of funds between various divisions for multidivisional firms, planning reduction of short term and long term debts, scheduling payments in connection with capital expenditure programs, planning forward purchases of inventories, checking accuracy of long range cash forecasts, taking advantage of cash discounts offered by suppliers and guiding credit policies (Morris, 1983). Short term forecast may be done in various ways as explained thus. Receipt and disbursement method is used for a limited period of time such as a week or a month.

The main sources of cash flow are operating, non -operating for example sale of old vehicles and other financial sources. Where the firm does cash forecast for a long period such as a year, this method is known as the adjusted net income method.

This is common with small firms (Solomon et al, 1977). Often a time the firm may wish to have an insight about the variability of cash flow for instance optimistic, pessimistic or probable. This ensures that the firm's management is in tune with any likely outcome and has a plan in place in case the actual outcome deviates from the expected (Mian et al, 1992).

Long term cash forecast, on the other hand, are not as detailed as the short term forecast and mainly are used to indicate the future financial needs of the organization such as the working capital requirements. They help to evaluate proposed capital projects by pinpointing the cash requirements to finance those projects, as well as, cash generated by the company to support them. Long term cash forecasts are also used to help in improving corporate planning by assisting in future planning and formulating projects carefully. Long term cash forecasting reflects the impact of growth, expansion or acquisition. It also indicates financing problems arising from these developments (Solomon et al., 1977). The range of forecast should depend on the business environment and the industry a given firm operates on. Historical information and trends are very vital in determining the forecast range.

2.3.8.2 Overcoming uncertainty in cash forecasting during cash budgeting

Forecasting is associated with a lot of uncertainties since the future can not be predicted with complete confidence. However, there are various measures which can be taken to reduce the uncertainty. The budget can be prepared using several scenarios (sensitivity analysis) such as* pessimistic, most likely and optimistic forecasts. This helps the firm to prepare for contingency plans' in case the expected is not realizable. Thus "what -if' approach is used to analyze cash flow under a variety of possible circumstances (Mian et al, 1992). However, many firms may find it costly to prepare a budget using the three scenario analysis since it may be costly and they may not have the necessary tools. Other ways in which uncertainty can be reduced is through simulating the occurrence of sales and other uncertain events and then develop a probability distribution of its ending cash flow for each of the month which can then be used by decision makers to determine the amount of financing necessary to provide a desired degree of protection against cash shortage (Mian et al, 1992).The management should however be cautious since they are required to monitor cash flow on a daily basis especially where there are greater variability (Mian et al, 1992).

Most firms find forecasting a costly undertaking. In fact, few firms have adopted computerization as a solution to most analytical difficulties thus hampering chances of undertaking various complex analyses. Forecasting is also hindered given the uncertainty of our business environment.

The study will thus attempt to assess whether forecasts in the cash budget at TKL are actualized and explore on how to improve on it. However rarely are public institutions known to actualize cash budget due to operational ineffectiveness.

2.3.8.3 Uses of cash budgets

Cash budget can be used for various reasons by Management and other Stakeholders. It provides the firms with information indicating whether a cash shortage or surplus is expected to result in each of the period covered by the budget (Weston, 1955). It also provides the Management with the standard against which subsequent performance can be judged. In business, cash budgets help you determine how much money you have and how you will use it, and help you decide whether you have enough money to achieve your financial goals. Cash budget shows how cash flows in and out of business. It's also used in planning for short-term credit needs. In today's financial world, its vital in most financial institutions to prepare cash budgets before making capital expenditures for new assets as well as for expenditures associated with any planned expansion (John, et al 1997). The cash budget determines future ability to pay debts as well as expenses. For example, preliminary budget estimates may reveal that disbursements are lumped together and that, with more careful planning, one can spread payments to creditors more evenly throughout the entire year (Kamath, 1985).

As a result, less bank credit is needed and interest costs become lower. Banks and other credit-granting institutions are more inclined to grant loans under favorable terms if loan requested is supported by a methodical cash plan. Similarly, businesses that operate on a casual day-to-day basis are more likely to borrow funds at inopportune times and in excessive amounts. Without planning, there is no certainty that one will be able to repay loans on schedule (Solomon et al, 1977). However, once one has carefully mapped out a cash budget, he/she will be able to compare it to the actual cash inflows and outflows of the business and this comparison will go a long way in assisting during future cash budget preparation. Also, a monthly cash budget helps pinpoint estimated cash balances at the end of each month which may foresee short-term cash shortfalls (Solomon et al, 1977). Cash budget, as a management decision making tool, makes it possible for long term decisions to be foreseen and planned for in the short run.

As part of a Business plan, a cash budget can help convince a loan officer that you know your business and have anticipated its needs (Weston, 1955). A budget will indicate the cash required for necessary labour and/or materials, total start-up costs, day-to-day maintenance costs, revenues needed to support business operations and expected profit. If your budget indicates that you need more revenue than you can earn, adjust your plans by among others reducing expenditures,, expand sales, lowering profit expectations. Every business should create a budget before investing money in new equipment or other assets and before signing leases. To ensure your goals can be reached, first put all the numbers down on paper so you can adjust and rework them as many times as necessary (Weston, 1955).

To the potential Creditors, it provides information concerning what their money is going to be used for, and how and when they will get their loan paid back. It also enables Management to arrange well in advance the amount they may be required to borrow because of any uncertainties of the ending cash values which are derived from various forecasts (Weston, 1955). A cash budget sets motivating targets for everyone to work towards achievement. Since Cash budgets are flexible they take in to account changing circumstances can be revised in the course of time. It provides a means of measuring performance such that the budgeted figure is the desired performance. A favorable variance shows that we are exceeding performance targets while adverse variance shows poor performance. It gives Managers greater control. They can make decisions based on variance analysis. For example, if they spot unfavorable variances they can take actions such as cutting out waste or change supplier if the cost are too high, increase advertising, promotion and sales effort if sales are too low and look to remove bottlenecks and labour efficiency if production is too low. It enables forward planning and the setting of targets to work towards. These targets can be set for the various components for example Branchs of an organization.

The importance of cash budget in any given organization can't be underscored and it's up to the Management to ensure that Cash budgeting is adhered and implemented to improve on overall performance. In the early 1990s, facing runaway inflation and budget discipline problems, the Zambian government introduced cash budget, in which government domestic spending was limited to domestic revenue, leaving no room for excess spending. This study focused on Zambia's experience over ten years, focusing on the impact of the cash budget on poverty reduction.

The conclusion was that after some initial success in reducing hyperinflation, the cash budget largely failed to keep inflation at low levels, created a false sense of fiscal security, and distracted policymaker's from addressing the fundamental issue of fiscal discipline(Dinh et al, 2002).

More importantly, it had deep pernicious effect on the quality of service delivery to the poor. Features inherent to the cash budgeting system facilitated a substantial redirection of resources away from the intended targets, such as agencies or ministries that provide social and economic services. • The cash budget also eliminated the predictability of cash releases, making effective planning by line ministries difficult ((Dinh et al, 2002). As a way forward therefore, Zambia was advised to adopt measures that over time would restore the commitment to budget discipline and shelter budget execution decisions from the pressures of purely short-term exigencies (Dinh et al, 2002).In another study done in hotel and lodging industry in United States of America, majority of the hotels surveyed showed that, cash budgets are used to monitor cash flows (Schmidgall et al, 2002). The second most often stated purpose of cash budgets was to plan operations and acquisitions. The most common length of cash budgets was one year, followed by other monthly supplementaries. Financial managers at the hotel level were the number one user of cash budgets.

In addition to controllers, owners and corporate managers were also big users of these financial*' projections. Though nearly three of ten General Managers used the cash budget, their concentration:' generally was on operations, and the operating budgets were much more important to them than the' cash budgets. Nearly six out of every ten respondents indicated cash budgets were prepared in their hotels (Schmidgall et al, 2002). Several of the controllers who indicated no cash budget were prepared were contacted and they gave a variety of reasons for not using a cash budget. In all cases, cash was tracked on a short-term basis, generally daily and moved to a corporate office, or to the owner. For one hotel operating results were used as a surrogate for cash flows (Schmidgall et al, 2002).

2.3.9 Limitation of Cash Budget

Cash budget has many advantages when properly implemented in an organization. However, at times if not well coordinated, it may lead to detrimental results. The planning roles may sometimes conflict, with the motivating roles. Planned goals may be difficult to achieve thus leading to demotivated employees (Drury, 2004).

Other times the planned goals may be unattainable leading to poor performance evaluation on the part of the staff. This will overly have a negative impact on the organization.

Once cash budgets have been prepared, there are some tendencies for them to be followed strictly, leading to rigidity thus hindrance to firms operation. A cash budget should therefore be continuous and dynamic to facilitate achievement of the organization overall goals (Drury, 2004).Cash budget, may sometimes lead to goal incongruence, whereby the Branchal goal may conflict with other branch goals. The firm's management must thus attempt to harmonize the overall goals of the organization with the branch goals to ensure compatibility and smooth operations.

The next chapter presents research methodologies used in undertaking the cash budget study in TKL.:* This will involve application of research design and analytical tools used in the study to help deduce-, applicable conclusions that can be implemented to assist the organization under study.

Chapter Three

3.0 Research Methodology

3.1 Introduction

The case study was based on Telkom Kenya Limited, a public institution offering telecommunication services nationally with its headquarters in Nairobi. The study aimed in coming up with conclusions applicable not only to the institution under study but also other public institutions operating under the same paradigm.

3.2 Research Designs

As a case study, TKL formed an appropriate representation of the cash budgeting operations of most public enterprises being among the largest with nation wide operations. Since the Government wholly owns and manages the organization, it provided the structural design of the cash management systems which can be replicated by such other organizations. Therefore, any observation and improvement on identified limitations can easily be adopted by such other organizations. Previously, a survey carried out on cash management for firms quoted in Nairobi stock exchange failed to deeply analyze the weakness found in those firms and gave a generalized conclusion (Ouma, 2001) thus a strong case for a case study. Further more, the paradigm under which the studied firms operate, fast decision making is encouraged with little bureaucratic tendencies, which is totally different from public institutions operations.

During the study, the government was in the process of privatizing the institution after a long period of loss making and therefore effective cash flow management was indispensable *to ensure that the firm becomes ready for self sustenance without reliance on the Treasury. Cash budgeting, as one of the core areas of cash flow management thus formed the prime area of focus in the study. It also formed a good case study since the main duties of preparation of cash budget are done in the head quarters while implementation and controls are coordinated from the same. Therefore interaction with the officers involved for detailed information on how cash budgeting is done in TKL was enhanced.

Prior to the study, the firm had experienced cash flow problems due to reduced cash collection and therefore the study formed good case study to unearth measures which if undertaken could reverse the trend .The study also intended to come up with innovative ways to ensure that cash inflows are improved for smooth running of the organization, sustainability of operations and reduce queries on the firm's going concern matters.

3.3 Sample

The cash budgeting process was evaluated and analyzed for six years, the period which the TKL was' in operation. However, this was not a limitation and the conclusion would be similar for whichever period. One of the main tasks the firm has initiated since incorporation was the preparation of cash budget. Two key branches of Management Accounting and Treasury Management were created to ensure effective management of cash. A sample of twenty staff was interviewed. They included two! Managers in Treasury and Management Accounting branches, eight Assistants Managers from each section directly involved with cash budget preparation and implementation process and five Senior Accountants attached to the said two sections. Other respondents included five staff members, mainly Regional Accountants, from live out of seventeen regions nationally. 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. An interview guide of thirty four questions required to be filled by all the participating members. This ensured all the necessary data and information was received from different perspectives and guaranteed consistency in conclusions.

The information was collected using an interview guide which was structured into two sections. Section (A) attempted to assist in understanding the cash budgetary process in the organization under study. It included thirteen open and closed ended questions with some requiring specific answers. Section (B) attempted to seek how effective the cash budget was utilized in improving operational efficiency. It consisted of thirty four open ended questions which required the respondent to detail all the relevant information per the question. The information was collected through interaction and interview between the staff members and the interviewee.

3.3 Data Analysis

Before processing the responses, the completed interview guides were edited for completeness and consistency across respondents and to locate omissions. Content analysis was used to analyze the open ended questions. This involved evaluating the consistency in response to the open-ended questions and attempting to deduce tangible conclusion. For the closed ended questions, descriptive statistics were used. This comprised of frequencies, percentages and tables. The descriptive statistics helped analyze how often the cash budget was prepared and how often it was put to use as a control tool. Relevant computer package for example Excel were also greatly utilized to analyze the data to come up with comparative tables.

The data collected from the staff involved in preparation of the budget such as how often they, prepare the cash budget and who they report to, assisted in determining the cash budgetary process/ Authorization of payments, limits in payment levels and approval of unbudgeted -payments helped in evaluating cash controls in place in the organization.

Information relating to how the cash budget has been used in the past to help in forecasting cash flows and its flexibility in accommodating unbudgeted transactions assisted to evaluate cash budget-effectiveness. From previous studies undertaken in this area of cash budgeting, certain benchmarks have been established to ensure effectiveness of a cash budget. Among them include establishment of adequate and operational cash management infrastructure, consistent cash budget discipline, explicit calendar for cash budget preparation and reporting, prioritization of expenditure, strong forecasting capability, monitoring and evaluating performance and production of prompt evaluation reports. The study therefore sought how these yardsticks has been operationalised in the organization and evaluates how effective they had been in ensuring that the cash budget objectives are achieved accordingly. This was done through a detailed two part interview guide which assisted in coming up with a concrete conclusion. On average, over 50 % positive evaluation of application and implementation of the above bench marks was considered as effective in the organization (World Bank Report on Kenya , 2003).Descriptive statistical helped evaluate the operationalisation of the yardsticks according to the respondents.

Chapter Four

4.0 Data Analysis, Research Findings and Interpretations

4.1 Introduction

This section concentrated on data analysis and interpretation of research findings on cash budgeting practices as a cash flow management tool in the largest telecommunication player in Kenya, TKL. During the initial stages of the research undertaking, there was high resistance to information disclosure due to among others bureaucratic procedures, staff members fear of their senior's reaction and lack of appreciation of the need for the study. However as the research progressed and after insistence, much more information become forth coming over and above the questions on the interview guide thus assisting a great deal in furtherance of the study. The research was undertaken smoothly and the researcher was able to acquire as much information from the twenty targeted respondents and other relevant information from related parties to assist in making logical conclusions.

4.2 Research experience

During data and information collection, some of the staff having worked in one section over a long time, (some over twenty years) didn't bother to understand what happens in other areas but just concentrated on only what they do. This formed a major hindrance in acquisition of information since some of the staff interviewed failed to show appreciation not only of the information they hold but also what usage it was for. Many sections and branches in the organization operated as though they are independent of each other thus failing to appreciate the responsibilities of each other. Thus, it required devoting much time in understanding the systems and process of cash budgeting.

As the research progressed, there was a lot of staff apathy due to organization restructuring that was being undertaken which involved among others staff downsizing. Majority of the senior employees felt threatened by virtue of their age and level of education. Thus they tended to be resistant to avail information until pressed to do so. In line with the restructuring there was rampant staff redeployment within the various departments to ensure systems continuity. This played a major setback in seeking information and required follow-up with former officers for some clarification. Due to bureaucratic procedures in operation and sensitivity of information sought, it required seeking authority and approval from the managers wherever visiting any sections / officers below them.

This slowed down the interview process. Other times, even with the manager's authority, some staff members felt that higher authority was necessary especially where figure work was concerned.

This necessitated frequent movements which at times could not be productive due to absence of some parties when required. However, on obtaining authority, the researcher would deal with the available members of staff for required information and thus it didn't limit the scope of the study. Having concentrated data collection in the headquarters and the three major Nairobi regions however, ample, time was available to obtain as much information as possible from the staff interviewed which helped to make a conclusion which was fairly objective and accurate. The planning for information collection was convenient while accessibility and interaction with the staff was adequate.

4.3 Overview of management of cash flows in the firm

The cash budget preparation processes had not been given keen attention according to the Manager in charge of Management Accounting. Cash collection had especially been a huge hindering factor to cash inflow management with over twenty two billion outstanding by the end of 2005/2006 financial year. The firm has had to disconnect several customers from accessing their services but with other players in the market, the customers had opted for alternative service providers. However, notwithstanding the industry liberalisation, TKL services remained popular especially within the business circles due to lower costs (tariff), long history with the customers and to some extent monopoly in provision of some telecommunication services like data services. To increase cash collection, the firm had expanded its services provision to the public through introduction of (C.D.M.A. - Code-Division Multiple Access) Telkom Wireless a service similar to the mobile phone services. The subscription had seen tremendous growth and it was expected that once the service was rolled out country wide, the customer base would increase, thus increasing revenue. The firm had also hired private debt collector's country wide that were expected to liaise with the debt collection branch in analyzing and determining the amounts collectable. Expenditure in the firm had been problematic due to among other reasons pressure from the management to exceed cash budget limits without relevant board approval as required. The Manager Treasury found it difficult to resist pressure to make payments since proper authority was often granted without due consideration of cash availability. At times, this had led to cash outflow which could not match the cash collection leading to delays in meeting operational expenditures such as salary.

This had gone a long way in limiting the firm's capability in maintaining quality service due to reliance on an already strained network system with little improvement and maintenance. Another major source of conflict in management of cash budget in the firm was lack of appreciation that the cash budget was a planning tool which acts like a guide on expenditure.

Some officers assumed that once a cash budget had allocated a certain amount, the monies were,- available for expenditure which actually was not the case. This led to several cash budget reviews* over the year.

The duties relating to cash budgeting process, management and implementation in TKL revolves' between Treasury and Management Accounting Branches both headed by Managers with assistance from several staff members and the Regional / Divisional Accountants in the seventeen regions" countrywide. According to the staff interviewed, TKL prepared a summary of cash receipts and payments - cash budget. This was done on a weekly and monthly basis by Treasury Management in collaboration with Management accounting team for regular and prompt cash decision making. The annual cash budget was specifically prepared by the Management accounting team and acted as the guiding policy for management of cash over the budget period. This was done through comparison of the expected cash inflows and expected cash outflows and determining cash surpluses or deficits. Cash was collected in the seventeen collection accounts country wide and then transferred to the main account at the headquarters at the end of each day or early the following day. The Regional Accountants confirmed that they submitted the cash collection reports to the Bank Reconciliation Section headed by an Assistant Manager - Treasury branch - at the headquarter on daily basis.

Over 90% of the respondents were in agreement that the main cash collection strategies employed by the firm to facilitate cash collection were concentration banking and use of agents like Postal Corporation of Kenya. This showed that the firm had not diversified cash collection by utilizing the exiting technology. The Inspectorate Section also headed by an Assistant Manager prepared the summary of cash collection report from all the regions on a daily basis and submitted the same to Management and Treasury' Branches who reconcile them with the reports received from the regions. Sampled sectional heads confirmed they prepared their expenditure analysis and respective payment vouchers which they submitted to the Central Payment Office (CPO) - a section of Treasury Management Branch headed by an Assistant Manager - for authorization.

According to the Assistant Managers and Senior Accountants in those sections, control oil expenditure was ensured by restricting the level of authorization which was in two tiers. The first tier was where an Assistant Senior Accountant Officer (ASAO) can only approve Kshs 100,000.00, an Assistant Manager up to Kshs 1,000,000.00 while the Manager and above can approve any amount above that as shown below.

LEVELS AND LIMITS OF PAYMENT AUTHORIZATION

Organization Members	Level of Authorization
Board of Directors	N/A
Managing Director	No Limit
Chief Finance Officer	No Limit
Manager	Up to 5 million
Assistant Manager	Up to 1 million
SAO	Up to 100,000.00
ASAO	Up to 100,000.00

Table 2- (Source: Treasury Management Branch, TKL)

As an additional control, the respondents also confirmed the requirement that an amount above five million shilling which sometimes may not have been foreseen must pass through the Tender Committee and Board approval before being passed to CPO for authorization and payment subsequently. Once a payment was authorized, it was passed on to CPO headed by an Assistant Manager- Treasury Branch for actual audit and then to Payment Office headed by Assistant Manager- Treasury Branch for actual payment. After cheque writing for actual payment, there was further requirement (2nd tier) that an ASAO could only sign for a cheque up to Kshs 500,000.00 while from an Assistant Manager to the Managing Director they could sign for amounts above that. Before payment, a cheque would bear two signatures while only up to twenty thousand shillings could be paid in cash. As an additional control, only the payment office maintains a cash balance of up to three million which was managed on imprest system basis and it was determined through historical information whereby the trends of expenditure overtime are evaluated. For example the last time the current cash balance was reviewed was in the financial year 2003/2004 after it was realized there was an increase in medical and subsistence allowance claims.

When Treasury Management and Management Accounting branches received the cash budget summaries, they then embarked on preparation of relevant decision making reports like the cash receipts reports, cash payment reports and cash budget. The Regional Accountants interviewed confirmed that they only settled staff expenses and other associated amounts. Huge expenditures and those expenditures which may be contentious are forwarded to headquarters for settlement.

4.4 Cash budgeting in TKL

Though all the respondents were in agreement that the guiding cash budget is prepared annually, there was no consensus as to how often the cash budget target and achievement reports within the budget period were prepared. According to the Assistant Manager (Payment Section), the main cash budget covers a twelve month period from July 1 to June 30 with several other cash budgets reports being prepared within the period for planning and decision making purposes. The task of preparation of the annual cash budget was vested to a team composed of Manager, Assistant Managers and Senior Accountants in the organization. The staff interviewed explained that the main tasks in cash budgeting preparation in the firm are done in the headquarters with little participation from the regions. The respondent interviewed confirmed that the following cash budget responsibilities are done in headquarters or both in the headquarters and the regions as thus:

CENTRALISA TION VERSUS DECENTRALISA TION OF CASH BUDGETING IN THE FIRM

Task	HEADQUARTERS		BOTH (HQS & REGION)	
	Positive Respondents Response (Frequency)	Rate of response in percentage	Positive Respondents Response (Frequency)	Rate of response in percentage
Administration(Management) of cash	12	60		
Investment of cash	12	60		
Cash Internal control checks			13	65
Cash budget preparation process	16	80		
Credit control and debt collection			12	60

Table3 - ((Source: Respondent reports, TKL)

The cash budget circulars are sent to the departmental heads and all the Regional Accountant by July of every year to fill out their cash requirement estimate for the year ahead with the related expected" expenditure. The requests are then submitted to the headquarter by September of the budget period but in case of clarification, the relevant headquarter staff visited the regions within the period to provide clarity.

The cash budget prepared was made of expected cash inflow over the next one year forecasted using historical information and expected cash expenditure over the same period. It also factored in cash sources which had been utilized in previous cash budget incase of cash deficits such as overdraft to finance deficit. The budget was then submitted to the Board for approval by December. After approval, the cash budget was then distributed to the various cost centers for information and to the specific sections tasked with implementation.

The main challenges the firm faced in factoring in cash inflow was planning for cash inflows. This included ensuring prompt cash collection from various services it offered. Unscrupulous staff had been involved in pilferage of cash from the telephone booths while some members of public have often interfered with the operational mechanisms of the infrastructure to ensure they are not charged accordingly. Vandalism of the copper wire which had a ready Juakali market was also quite rampant rendering the services out of reach for long durations as witnessed in Embakasi division in Nairobi then (The Telkom Weekly, April 2007). Another major source of cash loss the respondents allude to was the presence of illegal gateways in the country's telecommunication network that had not been licensed by C.C.K. This had eaten into the international calls cash collection while little had been done to police on the same. However of great concern was the entry of competitors from the mobile operators and expected future entry of other operators in the same line of business as TKL. The cash collection had drastically reduced by more than 60% according to the respondents and unless the restructuring that the Government had initiated was completed within time, the going concern of the firm had been compromised.

These challenges had lead to huge cash losses and there had been an urgent need to seal off the loopholes involved to ensure efficient and effective cash collection. Senior Officers in Payment-Section also asserted that the firm had also incurred a lot of expenditure which at times led to' gratuitous cash outflows.

For example, the firm incurred 8.5 % of its total expenditure in rent for private rented premises in 2004-2005 financial year whereas it owned chunks of land countrywide with established premises where its operations could be housed. Over the years, the firm had also failed to keep updating its telecommunication infrastructure thus incurring colossal cash expenses to maintain and rehabilitate the same.

The main sources of cash in percentage are as shown below:-

CASH SOURCES ANALYSIS

Analysis of Revenue sources	Percentage
Domestic Revenue	45
International Revenue	25
Interconnection Revenue	20
Data Services Revenue	20
Other Revenue	2
Total	100

Table 4- (Source: Management Accounting Branch, TKL)

Though the total fixed network capacity as at 30th June 2006 was 516,993 the connections were only 293,364 lines thus leaving a utilization capacity of 43.3%. This was due to bureaucratic connection procedures and poor customer care response. However, this was the area where the firm derives most of its cash inflows thus contributing to serious cash inflow risks. Expenditure mainly consisted of staff cost which took the giant share of over 60 % in any given month collection. In fact over 90 % of the respondent confirmed that the operational expenditure was given priority during cash budgeting since failure to cater for salaries of over 17,000 members of staff was bound to lead to a serious labour crisis. This left little amount for capital expenditure which was contrary to an effective cash budget allocation where the ratio of expenditure between the capital and operational expenses should be 3:2 (Sartoris et al, 1997). It also limited the sustainability of future cash inflows and the going concern of the firm in the long run (Drury, 2004).

These cash flow summaries - cash budget- have assisted the firm in making necessary cash decision? and make forecast on future cash collection and disbursements. According to the Manager- Management Accounting branch, the cash budget prepared on annual basis and approved by the., Board formed the bases upon which other entire cash budget reports prepared in the course of the cash budget period. The annul cash budget allocated cash on quarterly basis during the year to all the branches,, and any payment done by the implementing branch - Treasury branch -was guided by the cash balance in; their records. Any unbudgeted payments are paid if and only if they could not be avoided, may lead to legal battle or invoke penalties otherwise it was delayed until the beginning of a new budget period.

However, before payment, an overwhelming number of respondents (over 80%) confirmed that it had either to be approved by the Chief Finance Officer or the Tender Committee. Though this may imply, the seriousness in which unbudgeted expenditure are tackled, sometimes some cases should still have been rejected since the budget period is well communicated on time while others such payments have ended in courts. Unbudgeted receipts, which are mainly recorded as miscellaneous receipts, are mainly utilized in clearing outstanding payments.

4.5 Effectiveness of cash budget in TKL

Effective cash budgeting involves designing of a desired future and coming up with appropriate and effective ways of bringing it about. Establishment of objectives forms the essential prerequisite for any budgetary process. Therefore it's indispensable for any firm, as a first step, to state its objectives clearly to ensure pursuance and accomplishment subsequently. Manager in charge of Strategic Management in the firm was clear that the main company objectives are set out in the fifteen years strategic plan running from 2000-2015. In addition, to ensure that those overall strategies are achieved, the head of branches and the management staff in their respective sections teamed up and signed a contract on the sub-objectives they aimed to attain within a particular period. However, the Treasury and Management Accounting branches played a critical role in attainment of cash related objectives, and coordinated the same in the entire organization. According to the Assistant Manager Payment Section, the firm had an elaborate cash infrastructural framework which covers all areas of cash management. This included well established branches of Treasury Management and Management Accounting and related sections, several controls on cash receipts and expenditure, proper documentation and clearly defined reporting systems.

The respondent interviewed confirmed that the cash budget had assisted in achievement of stated objectives in the percentages as shown below:

OBJECTIVE ACHIEVEMENT IN TKL

Objectives	Frequency	Percentage
Control on cash collection	10	50
Control on cash disbursement	12	60
Establishment of cash balance for the firm	9	45
Allocate cash to various firm's projects	13	65
Make arrangement for loan repayments	14	70
Decision making in matters relating to cash	11	55
Monitor and evaluate performance	12	60

Table 5 - (Source: Interviewee responses)

Thus, from the above response, it was clear that despite the cash budget being able to assist the management in achievement of the above objectives the subsequent action after the achievement of objectives may not be for the benefit of the firm. With the exception of the establishment of the cash balance which the cash budget has not assisted much as shown by 45% response, the cash budget appeared to have been key and effective in achievement of the firm objectives thus leaving queries as to what the management has done once the set objectives had been achieved. One was left with little but to speculate that there may be some shortcoming in the composition of those in the management. There was the expectation that with certain targeted objectives being achieved, the firm should had stable and more improved cash flows thus reducing crisis cash flows management.

Some of the notable controls the firm had put in place to improve cash collection include providing, services on prepaid bases where the customer had to pay for the service before usage. This had, assisted in minimizing debt accumulation and also cost involved in debt management. They had also, made it possible for faster access of bills for the post paid customers through the internet. This promoted prompt payment of bills thus facilitating cash inflows. They also had collection accounts strategically located country wide to improve cash collection. Other measures included restructuring and hiring of private debt collectors who collaborated with the debt collection section in pursuing defaulters.

According to Manager in charge of Management Accounting, the firm had also several projects which were intended to facilitate cash inflow to improve on the firm's cash budget. They included; among others, installations of new technology in the network for example upgrading its infrastructure, from analogue to digital. Further the firm had embarked on improving on delivery of new and existing products including, introducing new products such as CDMA, Kenstream Wireless among others and restructuring its overall operation through concentration on its core business while, outsourcing the non core and divesting from others. The Government as the sole shareholder had also intervened through its intended sale of part of its share holding in Safaricom Ltd and injected cash in the firm to ensure its continued operation.

However, there are mismatches between cash inflows and cash outflows due to poor coordination by the various branches and departments for example actualization of projects by engineers may take longer than foreseen whereas expected cash inflows had been included in the cash budget. Cash budget as a tool of controls on cash disbursement ensured, through various strategies such as internal * checks, that there are enough cash balances in the bank to maintain normal operations. For example a majority of respondents (over 90%) confirmed that with the establishment of CPO a section in the Treasury Management branch in the year 2004, controls in cash expenditure was ensured. However, the CPO functions have been severally duplicated in all the regions leading to high potential of loophole of pilferage and was cost ineffective. This was true since unscrupulous staff colluded with the paying office (Treasury) to facilitate unjustifiable payments. In other cases, the Regional Accountant interviewed confirmed that they made same cash budget reports more than once as they report to various Managers in the head quarters. Other controls on disbursements in the firm' included those on requirement for two different signatory for any cheque payment and restriction to cash payment of up to Shs20, 000 to any staff member.

Cash discipline formed the largest challenge in the firm. Rules relating to cash budget are flouted with little control. Infact over 85% of the respondents confirmed that one of the major reasons for cash budget revision had been pressure from management. This was due to failure to stick to" departmental cash budget allocation thus confirming lack of cash discipline.

According to staff interviewed, one had really to be very strict with the staff members in the management level since, though they are the ones who come up with the regulations, they also happen to be the same pushing for their contravention. Payments are done without strict follow-up of the cash budget while at times for unbudgeted items. This had actually led to previous Managing Directors and other management staff members of the firm being prosecuted by the government for having been found to have engaged in unprocedural practices. Sometime such extravagant expenditures lead to sub optimal investments such as the satellite dish in Kericho which the firm earns little cash inflows from.

The cut off period after the cash budget calendar period though communicated appropriately was never strictly followed. The table '6' below shows the respondents response as to whether they agreed with the various issues on the cut off period. It clearly showed that overlap after budget^ period was rampant thus defeating the role of the cash budget in the first place.

CUT OFF PERIOD EXPENDITRURE

Action at Cut off point	Frequency	Percentage
Awaits the next cash budget period	12	60
Paid with no consideration with the cash budget	nil	.
Ensure cutoff period is communicated	14	70
There is no cutoff period overlap	13	65

Table 6 - (Source: Interviewee responses)

Senior accountants dealing with cash budget confirmed that at times payments are postponed until the next financial year budget to cater for those cases which accumulated the last minute. Other times cash was transferred to other cost centers to ensure expenditure for personal egos among some senior management staff. Whereas cash budgeting expenditure planning was supposed to be followed on quarterly basis, payments overlap over the quarters leading to exemption of most cost centre to the quarter expenditure rule.

However, with the cash budget operating on an online system, from June 2006, various branches could monitor their allocations with much ease and thus limited their expenditure within their budgeted cash.

Prioritization of cash planning and thus expenditure was one of the greatest challenges for the firm. Over 70% of the respondents confirmed that priority was given to operational expenditure over, , capital expenditure in the firm. With over seventeen thousand staff members, and a salary budget of over Shs 600 million every month, one would appreciate why this was the case. Only after a few months to liberalized market, having been a monopoly in Kenya since incorporation, it was hard to believe that the firm would currently be facing cash crunch. Other reasons that contribute to poor prioritization in the organization are political interference and bureaucratic practices which at times took centre stage and overruled the laid down expenditure procedures. For example, huge' expenditure was channeled to advertisement while in actual sense there was little to advertise for. This had brought about difficulties in strictly following the cash budget leading to intermittent cash crisis.

For any firm to sustain cash inflow to meet the current and future expenditure, according to the firm's Manager in charge of Treasury Management branch, it had to have a clear and elaborate forecasting capability. However, over 75 % of the respondents attested that this had not been : achieved due to lack of the necessary prerequisites such as computerized system and associated softwares, poor coordination within the branches and proper personnel to undertake the task. For example some confirmed that the firm has had employment freeze for over ten years since 1994 to 2004. Infact, knowledge gap may be created between the incoming and outgoing staff whereby the incoming may not have the advantage of learning from the retiring staff. This was due to the fact that the human resource function had not been functioning well and there had been a freeze on employment since 1994. Another challenge was poor implementation of the technology to provide new products to keep pace with the existing technology. At times, the technology was obsolete and thus unsuitable for the latest technology for example the instafon product was being replaced by* CDMA (Code-Division Multiple Access) as the previous one didn't take off well. Delayed and •p bureaucratic decision making mechanisms also hindered forecasting capability since the firm was unable to get rid of unprofitable products such as payphones and embrace new ones.

To ensure that a cash budget is was effective, it had to be able to monitor and evaluate the performance and be able to show either a positive or negative performance. In the firm the Manager Management Accounting revealed that reports such as expected cash inflows, expected cash outflows, reports on outstanding debtors and such others are produced and distributed to the relevant officers. However, the task to act on them was vested on those reported to and sometimes these, reports are not acted upon and if they are, it was often too late, when they may not had an impact tec the firm. If such reports were acted upon on time, according to the Manager in charge of Treasury Management section, the firm would be saved huge cash losses, and at the same time unnecessary- expenditure controlled. The table below depicts how the various officers interviewed expressed their reservation on the magnitude of application of the said benchmarks in the firm.

BENCHMARK APPLICA TION ANAL YSIS

Number of Benchmarks	Staff who believe they are in use(Frequency)	Percentage
Cash infrastructural framework	12	60
Cash discipline	8	40
Budget period	6	30
Prioritization	9	45
Forecasting capability	5	25
Monitoring and Evaluation of performance	7	35

Table 7 — (Source: Interviewee responses)

Table '7' above shows the response of the twenty staff in respect of usage of the various benchmarks under analysis in the firm. The results showed that the effectiveness of the cash budget in the organization has been poor at an average of 40 % which was far below the required 50 % (World Bank Report on Kenya, 2003). There was many reasons propagated as to the little existence of the above benchmarks in the organization at an average of 40%. Among the main reasons promulgated included lack of qualified staff and little employment of computerization in the organization systems. Majority felt that if the benchmarks were implemented and followed to the letter, cash flow tracking and management would be improved hence enhancing the firm's performance.

The respondents further revealed that, though the firm does not have optional minimum and maximum cash balances, on average it budgets for a cash balance of 3 million for about 3-4 days at the headquarters. The Assistant Manager Bank Reconciliation Section confirmed that all the cash collections country wide are deposited and the cash balance of 3 million, which was run on imprest basis, was withdrawn from the bank when need arises. This amount is normally used for payment of staff expenses and related operational expenses. The cash balance of 3 Million that the firm holds was determined based on any model or scientific approach but on historical information. During cash crunch the firm had resulted to among others slow payments to creditors, seeking external funds such as overdraft and liquidation of investments as shown on table '8' below.

MANAGEMENT ACTION WHEN FACED WITH CASH SHORTAGES

Resultant Action	Frequency	Percentage
Slow payments	18	90
Seek external Sources	8	40
Liquidate Investment	2	10

Table 8- (Source: Treasury Management Accounting Branch, TKL)

The firm resulted to liquidation of any investment which are easily convertible to cash before seeking external source which it invested in short term deposits, when it had excess cash. However, this had reduced in the recent years since cash collection had been dwindling while expenditure had been going up steadily. The other common strategy was to seek for overdraft and when cash crisis persisted for a time it resulted to delayed payment. These strategies nevertheless had their weakness since there was a limit up to which the firm can use them. For instance the firm cannot exceed the bank overdraft beyond Kshs 300 Million at any one given time. To facilitate cash collection, the firm had maintained over 100 collection accounts nationally. These however led to incurrence of high expenses in related costs and commissions and were recently reduced to 17 only. These collection points are reconciled in liaison with the Regional Accountants and the Bank Reconciliation Section.. To slow down payment, the firm practices controlled disbursement where cheques, even when ready, are retained until enough cash is available. This strategy was quite common especially with salary cheques which accounted for the highest percentage of disbursement monthly.

Revision of cash budget was done often especially due to forecasting uncertainty. Funds are usually transferred from various related cost heads to top up others when need arose. This had been facilitated by computerization of the process which had been online since June 2006. In fact, revision, of cash budget according to Drury should be continuous to be effective to the situation on the ground due to realization of uncertainties (Drury, 2004).

The Assistant Manager in charge of Payment Section confirmed that the firm employs the cash, budget for various uses. It was used to check on overdraft limit which had recently become a common phenomenon in the firm's books. It also assists in checking trends on cash inflows and advice the management accordingly. For example various services offered by the firm in the past had, been evaluated and found to have become redundant and they are being replaced by more cost effective and technology compliant ones. Among those outdated services include Telegram, Telex and Telegraph among others. Once huge deficits are foreseen, plans are put in place for adequate and affordable cash sources which would compensate and alleviate cash crisis. The firm also made arrangement with its creditors on the best scheme to settle outstanding debts. For example they are in agreement with Kenya Revenue Authority on how to settle huge outstanding tax liabilities running to over 30 billion. Through the cash budget, the firm had also been able to save costs through restructuring on its cash sources. For example, the conversion of overdraft amounting to eight hundred million shillings to loan in financial year 2004/2005 saved the firm huge costs in terms of related interest and other bank charges.

The cash budget had also been used in ensuring completion of various projects the firm undertakes by envisaging the related expenditures and scheduling them accordingly. For example the firm is currently undertaking to a wireless telephone project (CDMA) which was expected to be fully operational by the financial year 2006/ 2007 and would cost over five hundred million which was internally generated. This project was expected to boost the cash inflow significantly since it would employ the cheaper CDMA technology as compared to the then existing GSM technology which was dear. It was also expected to reduce the telephony costs in terms of calling charge and increase the firm's customer base. Over 90% of staff interviewed were in agreement that due to huge cash movement in the firm, cash budget as a decision making tool needed to be improved to ensure effectiveness and efficient tracking of cash.

Chapter Five

5.0 Research Summary, Conclusions and Recommendation

5.1 Research Summary and Conclusions

TKL monthly cash collection was estimated to be Kshs 1.2 billion and this by no mean was a huge amount requiring a well coordinated tool to manage. However, after the study in the firm concerned, it had been found various loopholes which if not sealed may lead to high cash losses for the firm. An elaborate cash budget was therefore indispensable to ensure that cash collections and disbursements are well monitored and controlled to minimize losses. It would also ensure that different cash sources are monitored and diverse changes or variances explained accordingly. Controls on cash expenditures should be ensured while payments procedures scrutinized scrupulously.

There are many bureaucratic procedures which are likely to yield to theft of the firms cash. The duties of the various Branches were undefined and unharmonized leading to duplication of tasks. Cash budget was not adhered to whenever necessary to ensure that excess expenditure was checked and cash was used for intended purposes only. Any unbudgeted expenditure need to be strictly scrutinized before payment to reduce malpractices.

Of major concern is the Government participation in the business which has overtime been put to scrutiny and found to be wanting. In TKL, the Government have 100% stake rendering delivery of services, accountability and transparency a major blow. In fact, cash budget have failed due to complex procedures and rules directed to the firm by the Government. Procurement procedures tend to be complicated while they play a direct role in ensuring success of the cash budget in the firm. There are no clear targets to be achieved and where they are, there is little to show for it since there are no compensations provided for motivation.

Due to the complication in the cash budget processes, the firm has failed to reap the benefits of the cash budget. Decision making using outdated data on the cash summaries prepared lead to suboptimal results thus leading to loss making for the firm.

5.2 Limitation of the study

As a case study this project concentrated only on one firm, TKL. The firm may however not have been the optimal representation to evaluate cash budgeting in public sector. Other firms in public sector may be practicing organized cash budgeting processes which are effective. However being a large parastatal with a national operation and wholly owned by the Government it offered a representative position.

In any business undertaking, industrial benchmarks forms corner stone in which any firm involved is able to compare itself with. However in case of this study, there is limitation of such data since the firm has been a monopoly over a long time. The firm which has been its main competitor (Safaricom Ltd) has in fact been its subsidiary offering its alternative product. Further more, the benchmarks set by the parent firm (TKL), the firm understudy are almost incomparable to its subsidiary since the paradigms under which both firms operate are parallel. The bench marks set by other public institutions overtime can also be comparable since they have not been optimal and consistent.

5.3 Suggestion for Further Study

Cash budgeting, like any other area in cash management, is an area which has seen drastic changes with advancement in technology. The impact of technology therefore is an area that need to be explored further to discover how the firm can employs the relevant technology to facilitate cash budgeting and by extension cash management. Online cash budgeting have gained popularity in the" recent past especially with the private sector firms and how t can be effected in public institutions would be an area of interest.

Another area that would be of interest would be to understand how the appointments of the management of the public institutions have impacted negatively in realization of their goals. From; this study, though the set objectives to be attained by the cash budget in TKL were achieved, there seem to be some disconnect in term of the actual utilization of the realized resources (Cash). In such a case then, it becomes very difficult not to pass the bulk to those in charge to elaborate how the resources are put to use. Further exploration would be of interest to unearth how appointment due to political expediency and with little consideration to professional qualification and experience would result to suboptimal achievement by cash budget.

5.4 Recommendation for Policy and Practice

Cash budget as a tool for decision making is indispensable in any organization and thus public institutions are not an exemption. TKL, as any other public institution, should strive to implement and follow up cash budgeting procedures which will ensure minimal cash losses and effectively assist in concrete decision making. Cash budgeting procedures should also be reviewed often to ensure they remain relevant.

It's also important to establish benchmarks which will form corner stone and guide the whole process of cash budgeting. This can only be achieved by ensuring that there qualified personnel who are hired" and placed in their respective areas and also armed with relevant tools to ensure they accomplish the set goals and objectives. This also ensures that systems are put in place and make it easy to follow through processes for any intended purpose.

References:

- Archers S., (1956), "**A Model for the Determination of Firms cash balances**", The Journal of Financial and Quantitative Analysis.
- Baumol W.J., "**The Transactions Demand for cash: An Inventory Theoretical Approach**" Quarterly Journal of Economics, 1952, pp546-556.
- Cirz, Raymond T. and Micheal S. Sorich, (1986) "**Developing a Better cash flow Projection**", Appraisal Journal, p2.
- Colin Drury, (2004), "**Management and Cost Accounting**", 6th Ed.
- Davis, Henry A., (1987) "**Changing priorities in Corporate Cash Management**", Financial Executive Magazine, p 18
- Davis, Joseph M, (1985) "**Cash flow Model Analysis: Buy the assumption not the Investments**" Appraisal Journal, p228
- Davis L. Shafer, (1987), "**Cash Management : A Cost Effective Approach**", Journal of Accountancy, pp 114-117.
- DeFraco L. Agnes and Raymond S. Schmidgall, (2002) "**The Cash Budget and its uses in the Lodging Industry**", Finance article
- Duncan Williamson, (2006), "**Introduction to Management Accounting, Transfer Pricing and Labour Turnover**" Finance Journal.
- Colin Drury, (2004), "**Management and Cost Accounting**" 5th Ed, Thomson Learning Publishers
- Gathumbi S.N., (1997) "**Application of Inventory Models in Drugs Inventory Management**", The case for the Nairobi City Council Health Services, unpublished MBA Project, University of Nairobi.
- Gentry, J.A., (1988), "**State of the Art of Short-Run Financial Management**", Financial Management, Vol. 17, No 2, pp. 41-57.
- Gibbs N.C.W. (1976), "**The demand for money by firms, A Review and a buffer Stock simulation model**", Journal of Finance, pp 290-340.
- Glenn A. Welsh, Ronaldo W. Hilton, Paul N. Gordon, (2001), "**Budgeting Profit Planning and Control**", 5th Ed, Prentice Hall of India.
- GOK Budget, 2005
- Emery, Gary, (1981), "**Some Empirical Evidence on the Properties of Daily Cash flow**", Financial Management, pp 21-28
- Hinh T. Dinh, Abebe Adugna, and Bernard Myers, (2002) "**The impact of cash budget on poverty reduction in Zambia: Case Study of the conflict between well intentioned Macroeconomic policy and Service delivery to the poor**", World Bank policy Research working Paper, 2941.
- James C. Vanhorne, (1997) "**Financial Management and Policy**" 10th Edition, Prentice Hall of India.
- J. Fred Weston, Thomas E. Copeland, (1992), "**Managerial Finance**", 9th Edition, The Dryden Press.
- John M. Wachowicz Jr. and VanHorne J.C, (1997), "**Fundamentals of Financial Management**", 9th Edition.

- Sartoris et al, et,al Martinez, (1997)'s **Estonia: Fiscal Management and the Budget Process**, Washington D.C., Finance Journal.
- Kallberg J. and Parkinson K., (1930), "**Corporate Liquidity: Management and Measurement**"/ Irwin.
- Kamath, R.R., Khaksari, S. Meier H.H. and J. Winklepleck, (1985), "**Management of Excess Cash: : Practices and Developments**", Financial Management, Vol. 14, No 3, pp. 70-77.
- Keynes, J.M. (1936), "**The General Theory of Employment, Interest and Money**" Newyork.
- Kim, Y.H. and Atkins, J.C. (1978) "**Evaluating Investments in Accounts Receivable: A Wealth Maximizing Framework**", Journal of Finance, pp. 403-412.
- Kochanek, Richard and Corine T. Norgaard, (1987) "**Why the Focus has Charged from Working Capital to Cash flow**", Financial Executive Magazines, p27
- Kusek, Jody Zall, and Ray C. Rist. (2000), "**Making Monitoring &Evaluation Matter—Get the Foundation Right.**" Evaluation insights Journal
- Lanny M. Solomon, Richard J. Vargo, Richard G. Schroeder, (1981), "**Accounting Principles**", Harper & Row.
- Lawrence J. Gitman, (2000), "**Principles of Management Finance**", 9th edition, Addison- Wisley Longman Inc.
- Lerner, Eugene M.,(1968), "**Simulating a Cash Budget,**" California Management Review, Vol. II), pp. 79-86.
- Leung, Lawrence C. and J.M.A. Tanchoco, (1986), "**Alternative Method of Cash Flow Modeling**", Engineering Economist, p303
- Lockyer K.G. (1973), "**Cash as an item of stock**" Journal of Business Finance, Vol No.1.
- Lumbasyo L.O., (1976), "**Cash Balance Management for Firms**", unpublished MBA Project, University of Nairobi.
- M.W.E. Glautier and B. Underdown, (2001), "**Accounting Theory and Practice**", 7th Edition.
- Maier, Steven F., and James H. Vander Weide (1981), "**Theory and Application of an Optimizing Procedure for Lockbox Location Analysis**", Management Science, pp 855-65
- Micheal W. Lowestetter, (2004), "**Principles for Effective Cash Flow Management**" Journal of business Finance
- Miller M.H. and Orr D. (1966), "**A Model of the demand for Money by Firms**", Quarterly Journal of economics No. 80 pp 413-435.
- Ministry of Information and Communication Policy Statement, 1997.
- Moore, Laurence J., and David F. Scott, Jr., "**A Simulation Model for Cash Budget Planning,**" **Proceedings of the Fourth Annual Meeting of the American Institute for Decision Sciences**, New Orleans, Nov. 1-4, 1972, 645-652.
- Morris, J.R., (1983), "**The Role of Cash Balance in Firm Valuation**", Journal of Financial and Quantitative Analysis, Vol. 18, No 4, pp. 534-545

Ouma S.O. "A Survey of Cash Management approaches employed by Companies Quoted at the Nairobi Stock exchange" (2001), unpublished MBA Project, UNO.

Paul J. Beehler, (1979), "Contemporary Cash Management: Principles, Practices, Perspectives" Journal of Money, Credit and Banking, Vol. 11, No. 3, pp. 371-373.

Pogue, G.A., Faucett, R.B, and Bussard, R.N., (1970), "Cash Management: A System Approach", Industrial Management Review, 1970, pp 55-74

Richard A. Brealey and Stewart C. Myers, (1988), "Principles of Corporate Finance", 3rd Edition, McGraw - Hill Book Co.

Russell D. Morris and Paul J. Beehler (1979) "Contemporary Cash Management: Principles, Practices, and Perspectives", Journal of Money, Credit and Banking, Vol. 11, No. 3, pp. 371-373

Sartoris et al, et,al, William L. and Ned C. Hill, (1983), "Generalized Cash Flow Approach to Short Term Financial Decision", Journal of Finance, pp 349-60

Solomon E. and Pringle J.J., (1977) "An Introduction to Financial management", Prentice - Hall-India, pp182.

Stone, Bernell K., (1981), "Design of a Receivable Collection System", Management Science, pp 866-80

TKL, **Master Plan** 2000 - 2015, June 1999.

Strategic Paper for the Ministry of Information and Telecommunication, 2000 - 2005

Strategic Paper for the Ministry of Local Government, 2004

Strategic Paper for the Ministry of Finance, 2000-2005

W.E. Merry," (1988), **Corporate Finance: Principles and Practice**", Addison Wesley Longman Inc.

Waweru N. M., (1999), "A Survey of Management Accounting Practices by publicly Quoted Companies in Kenya", unpublished MBA Project, UNO.

William Jan R, Haka Susan F, Bettner Mark S., Meigs Robert F, (2002), "Financial and Managerial Accounting", 12th Edition, McGraw Hill.

World Bank (1994), **Estonia: Public Expenditure Review**, Report No. 1287 - EE, Washington D.C.

World Bank Report on Kenya, 2002 - 2005

Yair E. Orgler (1970), "Cash Management: Methods and Models", Journal of Finance, Vol. 25, No. 4, pp. 971-973

Letter of Introduction

Date:

Dear Sir/Madam

RE: REQUEST FOR YOUR PARTICIPATION IN MY RESEARCH WORK:

I am a post graduate student at the Faculty of Commerce, University of Nairobi pursuing a Master of Business Administration (MBA) degree. In order to fulfil the degree requirements, I am currently undertaking a Management Research on *"Effectiveness of Cash Budget in Public institution: A Case A Study of Telkom Kenya Ltd"*

I would greatly appreciate if you could spare sometime for a discussion and filling up of the interview guide.

Please be assured that the information you will provide is strictly for academic purposes. I will however be happy to avail to you a copy of the results to you once the study is complete. - *

Yours faithfully,

G. Ndiritu.
Researcher

Interview Guide:

The following questions will be the key guide in interviewing the respondents on the topic: - Effectiveness of Cash Budgeting in Public Institutions: A Case Study of Telkom Kenya Ltd

Section (A) -Cash Budget Preparation Process

1. Does your firm prepare a Cash Budget?

- Yes
- No

2. If the answer above is yes, how often.

- Daily
- Weekly.
- Monthly
- Semiannually
- Annually

3. Who approve the Cash Budget prepared if your answer in question 1 above was yes?

Please explain.

- Manager
- Ass. Manager
- Senior Accountant

4. How do you prepare your Cash Budget? Please explain.

5. How often are Cash Monitoring tasks and reports done in your firm?

- Daily
- Weekly
- Monthly
- Semiannually
- Annually

6. Who approves the reports in question 5 above?

- Managing Director
- Chief Finance Officer
- Manager

7. What payment levels are the following staff members allowed to authorize?

Please explain

- Board of Directors
- Managing Director
- Chief Finance Officer
- Manager
- Senior Accountant
- Assistant Senior Accountant

8. How does the firm deal with unbudgeted payments arising during the cash budget period?
9. How does the firm deal with unbudgeted cash receipts arising during the cash budget period?
10. Who does Cash Management reports in the firm?
Treasury Department.
Management Accounting Department
11. Who approves the reports done in question 10 above? Please explain.
Board of Directors
Management Committee
Chief Finance Officer
Manager
12. Kindly explain how the cash budget is used as:-
As a control
To forecast cash collection
To forecast cash expenditure
As a planning tool
To determine surpluses and deficits,
Others
v None of the above
13. Is cash budget preparation based on cash flow planning?
Yes
No

Section (B) - Cash Budget Effectiveness

1. Is cash budget used to achieve the following objectives?

Control on cash collection
Control on cash disbursements
Establish cash balance for the firm
Allocate cash to various firm's projects
Make arrangement for loan repayments
Decision making in matters relating to cash
Monitor and evaluate performance
Others
Please explain.

2. How does the preparation and implementation of cash budget ensure
Enough funds are allocated to the various departments
Funds allocated to various departments are monitored
That projects expected to earn cash in future are considered
Please explain.

3. Are the following activities centrally managed in the firm or done per region?
Administration of cash
Investment of cash
Cash internal control checks
Cash budgeting preparation process
Credit control and debt collection task

4. How does the firm deal with cases where cash allocated to various departments is exhausted before the cash budget period?
Seek funds from other cash budget heads
Ignore expenditure until the next cash budget period
Seek cash externally
Please explain

5. How strictly has the cash budget period been adhered to?

- Very strictly
- Relatively strictly
- Never strictly

Please explain

6. How has the cutoff period expenditure been processed?

- Awaits the next cash budget period
- Paid with no consideration with the cash budget
- The firm ensures that the cutoff period is clearly communicated and there is no overlap

Please explain

7. Are the expenditures prioritized according to the firm's immediate need?

- Yes
- No

If the answer above is yes which of the following expenditure are given first priority and why?

- Capital Expenditure
- Operational Expenditure

Please explain.

8. How long in to the future does the cash budget forecast?

- Days
- Weeks
- Months
- Quarters

9. How does the forecast relate to the actual results?

- Actual relates to forecast
- Actual relates to forecast up to 80%
- Actual relates to forecast up to 60%
- ^k Actual relates to forecast up to 40%
- Actual relates to forecast up to 20%
- Actual never relates to forecast

10. How successful has the cash budget been in monitoring and evaluation of cash movement

- Most successful
- Moderately successful
- Least successful

Please explain.

11. How successful has the cash budget been in monitoring and evaluation staff concerned?

- Most successful
- Moderately successful
- Least successful

12. Has the following cash budget reports been utilized in the firms decision making?

- Expected Cash receipts Reports
- Expected expenditure Reports
- Cash balances Reports
- Reports on outstanding expenditure/undertakings/ projects
- Reports unexpected receipts and expenditures

13. Does the firm have established required cash balance at any time? Please explain.

14. How is the Optimal Cash Balance above determined?

15. When was the Optimal Cash Balance last reviewed in the firm? Please explain.

16. What is your firm's Minimum Cash Balance? Please explain.

17. How is the Minimum Cash Balance determined in the firm?

18. When was the Minimum Cash Balance last reviewed in the firm? Please explain.

19. To what extent are the following factors considered in establishing minimum cash balances?

Historical information
Average daily firm expenditure
Average daily cash collection
Others (please Specify)

20. What is your firm Maximum Cash Balance?

21. How is the Maximum Cash Balance determined in the firm?

22. When was the Maximum Cash Balance last reviewed in the firm? Please explain.

23. To what extent are the following factors considered in establishing minimum cash balances?

Historical information
Average daily firm expenditure
Average daily cash collection
Others (please Specify)

24. To what extent does the firm invest surplus cash resulting from cash budgeting as:-

Fixed Deposit
Current Account Deposit
Financial Instruments
Ploughback to the firm
Others
None of the above

25. Please explain how investment alternatives are evaluated in question 24 above if any.

26. To what extent does the firm result to the following action if faced with a cash budget deficit?
- Slow payments
 - Seek external sources
 - Liquidate investments
 - Others
 - None of the above
27. Please explain how the cash sources in question 26 above are evaluated if any.
28. To what extent does the firm employ the following basis in determination of cash balance to retain before investing surpluses? Please explain.
- Cash Balance Models
 - Historical Information
 - Others
 - None of the above
29. To what extent does the firm employ the following cash collection strategies to facilitate cash collection in a given period? Please explain how it works if any.
- Concentration banking
 - Lockbox system
 - Direct send
 - Others
 - None of the above
30. To what extent does the firm employ any of the following cash disbursement strategies to delay payments? Please explain how it works if any.
- Controlled Disbursing
 - Playing the Float
 - Staggered Funding
 - Payable - Through Draft
 - Overdraft System
 - Zero Balance Accounts
 - Automated Clearing House
 - Others
 - None of the above
31. To what extent does the firm result into the following while dealing with forecasting uncertainty? Please explain.
- Revise the Cash Budget
 - Resulting to unbudgeted borrowing
 - Resulting to unbudgeted investment
 - Others
 - None of the above

32. How often is Cash Budget revised?

Frequently

Often

Occasionally

Rarely

33. What are the reasons behind its revision?

Cost head reallocation

Pressure from Management

Unforeseen developments

Poor forecasting capability

Other reasons (please specify)

34. To what extent is the Cash Budget used to make the following decisions:-

Reconcile the cash accounts in the books

Prepare a scheduled plan for example for repayment of a bank loan

As a necessary tool while sourcing for funds

Make comparison with firms cash flows

32. How often is Cash Budget revised?

- Frequently
- Often
- Occasionally
- Rarely

33. What are the reasons behind its revision?

- Cost head reallocation
- Pressure from Management
- Unforeseen developments
- Poor forecasting capability
- Other reasons (please specify)

34. To what extent is the Cash Budget used to make the following decisions:-

- Reconcile the cash accounts in the books
- Prepare a scheduled plan for example for repayment of a bank loan
- As a necessary tool while sourcing for funds
- Make comparison with firms cash flows